Federal **Student Aid**

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Fiscal Year 2018 Annual Report

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

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United States Department of Education
Betsy DeVos
Secretary

Federal Student Aid
James F. Manning
Acting Chief Operating Officer

Finance Office
Alison L. Doone
Chief Financial Officer

November 15, 2018

This report is also available on the Federal Student Aid website at **StudentAid.gov/FY 2018 Annual Report**

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

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

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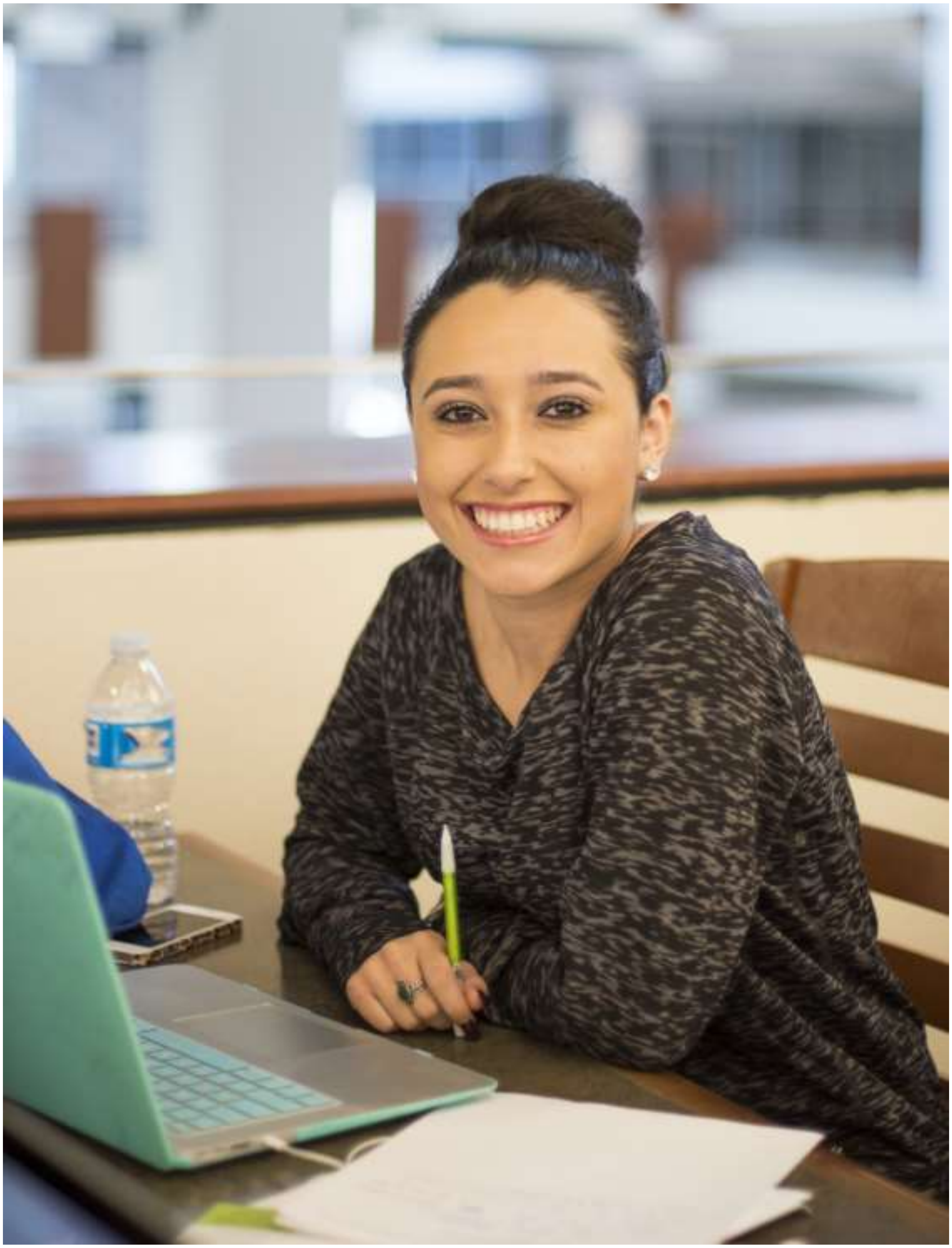

Letter From the Chief Operating Officer of Federal Student Aid

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Letter From the Chief Operating Officer

Dear Federal Student Aid Colleagues, Partners, and Customers:

I am deeply honored to have the opportunity to return to Federal Student Aid (FSA) as the acting chief operating officer. It is my privilege to present this annual report documenting the tremendous efforts and achievements of the FSA team.

James F. Manning
Acting Chief Operating Officer

FSA remains committed to providing the funding and technical assistance needed for making higher education accessible and affordable for millions of Americans. In Fiscal Year (FY) 2018, FSA provided more than $122.4 billion in federal grants, loans, and work-study funds to approximately 12.7 million students attending nearly 6,000 participating schools. However, providing federal financial aid is only one of many organizational accomplishments realized last year.

While the *FSA FY 2018 Annual Report* (*Annual Report*) offers a comprehensive record of organizational accomplishments and tracks progress towards goals, opportunities, and challenges, the *Annual Report* also offers a look at how FSA has launched recent efforts to transform the delivery of federal student aid.

At FSA's 2017 annual training conference for financial aid professionals, we announced that we will provide our 43 million customers a seamless, world-class experience through a bold initiative known as Next Gen FSA. In our announcement, we pledged to improve our customers' experience throughout the entire student aid life cycle, and we committed to modernizing capabilities related to the *Free Application for Federal Student Aid* (FAFSA®) and the servicing and repayment of customer loans.

Our important first steps to modernize and improve customers' overall experience include developing the United States (U.S.) Department of Education's first mobile app, myStudentAid. Through the mobile app, students and parents can fill out and submit a FAFSA, view their federal student loan history, compare information about schools, and link to other services. We redesigned the **fafsa.gov** website to make it responsive and easier to navigate on a mobile device. We also integrated the FAFSA site into **StudentAid.gov**, our primary portal for students, parents, and borrowers to provide a more seamless experience. We focused on providing students, parents, and borrowers the right message at the right time to help them meet critical deadlines related to applying for, receiving, and repaying federal student aid. In FY 2018, we sent more than 27 million messages to customers utilizing an enhanced digital communications tool. While these engagement-centric efforts illustrate how Next Gen FSA benefits students, parents, and borrowers; the initiative also will provide greater value to taxpayers by creating a more agile, flexible operating model that streamlines our existing operations.

We have improved the efficiency of our personnel security clearance process to pave the way for more efficient employee and contractor onboarding in the future. We enhanced our cybersecurity posture in a number of ways, including, migrating our business applications to the new, more secure Next Generation Data Center. Not only are our systems better protected, the migration also lowered operating costs and improved processes for financial aid administrators. Because safeguarding student data is a critical element in every program we manage, our work continues to help institutions improve the integrity of their data systems.

While we focused on protecting systems data, we took important steps to share more data and information about our programs with stakeholders. In FY 2018, we regularly updated our library of application, disbursement, portfolio, institutional outcome, and financial oversight reports on the **FSA Data Center**. We also published new reports, including information about characteristics of William D. Ford Federal Direct Loan borrowers, the Public Service Loan Forgiveness (PSLF) Program, and borrower defense to repayment. Our efforts to proactively post reports support open government initiatives that help ensure consistency, increase transparency, and establish self-service opportunities for our stakeholders.

While fall 2017 represented the first time borrowers could become eligible to apply for loan forgiveness under the PSLF Program, Congress created a new limited opportunity for borrowers denied loan forgiveness under PSLF to be reconsidered under specific criteria. Under tight time constraints, FSA implemented Temporary Expanded PSLF in FY 2018; we are committed to improving customer communications and operations related to this opportunity in FY 2019.

During the last fiscal year, we enhanced several customer platforms, including the borrower defense processing and tracking system to make the claims process easier for customers to navigate. We integrated FSA's customer Feedback and Ombudsman systems to better track and manage customers' disputes, concerns, and reports of suspicious activity. We partnered with the U. S. Department of Veterans Affairs to make it easier for disabled veterans to have their federal student loans discharged due to total and permanent disability.

We made progress in improving the accuracy of credit reporting for student borrowers and look forward to continuing this important work. FSA took steps to raise awareness among customers about how to avoid student debt scams and joined with the Federal Trade Commission and state law enforcement partners to crack down on companies targeting student loan borrowers. We remain resolute in our efforts to reduce improper payments and have implemented a new verification model that will more efficiently and effectively select applicants for verification. The new model also will reduce the burden associated with verification for students and institutions.

To ensure the integrity of the federal student aid programs, we oversee the work of approximately 6,000 participating schools, which includes providing technical assistance, training, and information and other resources. In FY 2019, we look forward to continuing our support to all schools, including minority-serving and under-resourced institutions.

We achieved a great deal in FY 2018, but our work on behalf of the customers we serve and American taxpayers continues. In FY 2019, we will award contracts that support major elements of Next Gen FSA and will continue to do so using a sequenced approach throughout 2019, when we expect to implement additional customer-facing milestones.

Further, we look forward to announcing the next significant Next Gen FSA initiative—the Next Generation Partnership Participation and Oversight (Next Gen PPO)—that will transform the way FSA interacts with the thousands of schools that participate in our programs. In FY 2019, we also will implement meaningful changes to the operations of the Teacher Education Assistance for College and Higher Education (TEACH) Grant Program.

We discuss our transformational Next Gen FSA initiative and our significant FY 2018 accomplishments in the following FY 2018 Federal Student Aid Highlights section.

Our goals are ambitious, but they pale in comparison to the dedication of the nearly 1,300 employees across FSA who work every day to make higher education possible for millions of Americans. It is our goal that FY 2019 will be our most-successful year yet.

Sincerely,

James F. Manning

James F. Manning
Acting Chief Operating Officer
Federal Student Aid
United States Department of Education
November 15, 2018

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Fiscal Year 2018 Federal Student Aid Highlights

Transforming Federal Student Aid: Next Gen FSA

About FSA
As the nation's largest provider of financial aid for education beyond high school, Federal Student Aid (FSA) delivers more than $122.4 billion in aid each year to students and their families. Through programs authorized under the *Higher Education Act of 1965*, as amended, FSA provides grants, loans, and work-study funds for colleges or career schools. FSA also oversees the approximately 6,000 postsecondary institutions that participate in the federal student aid programs. In every interaction with students and their families, FSA strives to be the most trusted and reliable source of student financial aid information and services in the nation.

The Vision
FSA has one of the largest consumer loan portfolios in the country at $1.4 trillion[1]. It is critical that we provide a customer experience that is on par with world-class financial services firms and establish our organization as one of the most trusted brands in the student aid industry. The Next Generation Financial Services Environment (Next Gen FSA) will enable FSA to realize this vision by modernizing the way we connect with our customers, while streamlining our student aid systems and processes. This broad effort will deliver an exceptional customer experience for millions of Americans across the entire student aid life cycle, from fostering greater awareness about the availability of financial aid to successfully repaying loans.

Today's Environment
In the current federal financial aid process, students and families must negotiate a complex and fragmented landscape, interacting with multiple systems, vendors, processes, and interfaces across a multitude of brands and user experiences. Too often, this poor customer experience creates confusion, resulting in borrowers failing to understand their repayment options and the financial implications of their student debt, borrower indifference, and, ultimately, higher loan delinquency and default rates. Additionally, operational complexities and inefficiencies result in higher administrative costs and hinder effective oversight.

Next Gen FSA Environment
Next Gen FSA will create an ideal customer experience. Multiple websites, mobile applications, contact centers, and other customer interfaces will be combined into a simplified, consistent, and engaging experience, which will be further enhanced by standardized training and tools across vendors and partners. With a focus on mobile engagement, Next Gen FSA will meet customers where they are, letting them connect with FSA on the device of their choice. Customers will access a modernized, online portal with personalized information that helps them quickly understand their options and make informed decisions throughout the financial aid life cycle, including borrowing and loan repayment. By establishing a closer and more effective relationship between the customer and their servicer earlier in the loan life cycle, FSA expects to reduce the number of borrowers who enter delinquency, and ultimately, default. While Next Gen FSA will cut through the information clutter and provide robust self-service, it will also seamlessly connect customers with additional support when needed.

In addition to an improved customer experience, Next Gen FSA will completely modernize FSA's back-end systems and infrastructure. This transformation will pave the way for improved processing and customer management at lower costs. Vendor and partner

[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.

performance standards as well as accountability measures will be built into Next Gen FSA to ensure customers receive world-class service while protecting taxpayer dollars. Next Gen FSA will integrate state-of-the-art cybersecurity protections across every aspect of the student aid experience.

Enterprise-wide data analytics will drive improved customer service, particularly for at-risk students and borrowers, while also enhancing our oversight of participating postsecondary schools and supporting vendors.

Solicitation and Procurement Process

The Next Gen FSA implementation plan is based, in part, on extensive market research with several industry leaders. This research-based approach enabled FSA to identify best-in-industry standards and technical benchmarks that continue to inform the procurement process. On February 20, 2018, FSA initiated a multi-stage procurement process designed to identify the vendors most capable of supporting the implementation of Next Gen FSA; FSA intends to select a pool of vendors to deliver the Next Gen FSA environment. Final awards will be made with the goal of new systems and processes coming online beginning in Fiscal Year (FY) 2019.

Significant Fiscal Year 2018 Federal Student Aid Accomplishments

In FY 2018, FSA completed a number of initiatives that laid the foundation for the next stages of Next Gen FSA. The most significant of these accomplishments are described below. A full discussion of FY 2018 FSA accomplishments is provided in the ***Annual Performance Report*** section of this document.

Mobile Engagement

FSA made significant progress in moving toward greater mobile engagement with its customers, highlighted by the launch of a redesigned **fafsa.gov** website and a new mobile app, myStudentAid.

During the past year, FSA redesigned **fafsa.gov** so the pages and forms fit the screen size and shape of any device, including desktop or laptop computers and mobile devices such as smartphones or tablets. Through the redesigned **fafsa.gov**, students and parents can now complete the *Free Application for Federal Student Aid* (FAFSA®) on a mobile device with the same ease as on a desktop or laptop computer.

In addition to the mobile-optimized **fafsa.gov**, students and parents can now complete the using the myStudentAid app. Students and parents may download the myStudentAid app in both the Apple App Store (iOS) and Google Play (Android). In addition to completing the FAFSA, the myStudentAid app will ultimately include several features and functions to assist students and parents in managing all aspects of the financial aid experience.

Next Generation Data Center

In FY 2018, FSA enhanced its cybersecurity posture in a number of ways, including, migrating its business applications to the new, more secure Next Generation Data Center. Because of the migration, FSA systems are better protected; operating costs are lower; and operational processes are improved for financial aid administrators.

Next Gen Vision and Procurement

Throughout FY 2018, FSA focused on the development of the Next Gen FSA strategy and vision. To create the vision, FSA conducted extensive market research and learned from over 50 world-class providers. FSA released the initial solicitation for the Next Gen Financial Services Environment and reviewed responses to identify the most promising potential solutions. The next phase of the solicitation was released on September 24, 2018, with awards anticipated in FY 2019.

In addition, FSA released a solicitation for the Enterprise-wide Digital and Customer Care Platforms and Services, with an award expected in early FY 2019. FSA also began work on enhancements to FSA ID, which is currently used by all FSA customers. Enhancements are scheduled to be rolled out in calendar year 2019 and will move toward a single sign-on for all student-facing applications.

The Public Service Loan Forgiveness Program and Temporary Expanded Public Service Loan Forgiveness

The Public Service Loan Forgiveness (PSLF) Program was created under the *College Cost Reduction and Access Act of 2007* by Congress to offer indebted professionals a path out of their federal student loan debt burden by working full-time in public service. The PSLF Program forgives the remaining balance on a borrower's William D. Ford Federal Direct Loan (Direct Loan) Program loans after the borrower has made 120 qualifying monthly payments under a qualifying repayment plan while working full-time for a qualifying employer. FSA began processing applications for loan forgiveness in 2018, the first year in which a borrower could complete the programs' 10-year repayment eligibility criteria.

The *Consolidated Appropriations Act, 2018* provided limited, additional conditions under which borrowers could become eligible for loan forgiveness if some or all of the borrower's Direct Loan Program payments were under a non-qualifying repayment plan for PSLF. FSA termed this reconsideration as the Temporary Expanded Public Service Loan Forgiveness (TEPSLF) opportunity. During FY 2018, FSA successfully launched a process for federal student loan borrowers to be reconsidered for loan forgiveness through TEPSLF on a first-come, first-served basis until the $350 million appropriated for TEPSLF has been allocated or other criteria are met.

Assisting Those Impacted By Natural Disasters
FSA provided ongoing support, information, technical assistance, and other resources to students, borrowers, and institutions impacted by a series of natural disasters across the southern United States, California, Hawaii, and the Caribbean. FSA proactively communicated with institutions before and after the disasters, as well as provided operational assistance, regulatory and administrative relief, and reporting flexibilities. FSA's disaster assistance supported the recovery efforts of nearly 1,700 institutions that enrolled more than two million students.

United States Department of Veterans Affairs Total and Permanent Disability Match
The data sharing agreement between FSA and the United States (U.S.) Department of Veterans Affairs (VA) was signed in November 2016. FSA and VA have an interagency agreement to conduct a matching process on a quarterly basis. The VA sends FSA a list of veterans who VA designates as having a service-connected disability that is 100 percent disabling or being totally disabled based on an individual employability rating. FSA then conducts a match against its student loan data system and makes contact with these veterans to inform them that they are eligible for Total and Permanent Disability (TPD) and guides them through the discharge process. Since the initial match in March 2018, FSA has discharged approximately 34,000 loans for more than 7,000 borrowers for a total amount of approximately $260 million.

Digital Communications Tool
The Digital Communications Tool was launched in March and greatly increases FSA's ability to provide direct-to-consumer outreach through email and text in an engaging and cost-effective manner. Since it was launched, FSA has sent over 28 million emails to its customers on a range of topics from aid application to TEPSLF to school closures. This tool will be foundational to FSA's future outreach efforts.

Program Transparency
FSA published a series of new and updated data sets, reports, and other information to the FSA Data Center during FY 2018. New reports highlighted the characteristics of all Direct Loan borrowers; Direct Loan borrowers in a 'Repayment' loan status; and borrowers enrolled in income-driven repayment plans. Additional new reports segmented federal student loan borrowers by two demographic levels. New reports also provided snapshots of the number of applications and resulting loan discharges processed because of the borrower defense to repayment and the PSLF Program

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Introduction

About This Report

FSA, a principal office of the U.S. Department of Education (the Department), is required by legislation to produce an *Annual Report*, which details the organization's financial and program performance. This *Federal Student Aid FY 2018 Annual Report (Annual Report)* is a comprehensive document that provides an analysis of FSA's financial and program performance results for FY 2018 and exhibits the organization's effectiveness in accomplishing its mission. The *Annual Report* enables the President of the United States, the U.S. Congress, and the public to assess the organization's performance relative to its mission, and determine whether FSA has demonstrated accountability for the resources entrusted to it.

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

- *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 Department produces the ***U.S. Department of Education FY 2018 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 *Annual Report.*

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

Federal Student Aid at a Glance

(As of September 30, 2018)

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

FY 2018 Administrative Budget

$1.5 billion

Regional Offices

10

Total Employees

1,257

Location

830 First Street, NE
Washington, DC 20002

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.

Total Applications Processed

18.6 million

Total Postsecondary Student Aid Recipients

12.7 million

Total Federal Student Aid Delivered

$122.4 billion

Website:

StudentAid.gov

Guide to Federal Student Aid Programs

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, but final Perkins Loan disbursements were permitted through June 30, 2018.

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 FAFSA. For more information on obtaining federal student aid, visit **StudentAid.gov.**

Overview of the Federal Student Aid Annual Report

The *Annual Report* is organized into five major sections.

Management's Discussion and Analysis

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

Annual Performance Report

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

Financial Section

This section provides a detailed view of FSA's stewardship and accountability for its resources. The Message from the Chief Financial Officer begins the section, 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.

Other Information

This section provides links to the ***U.S. Department of Education FY 2018 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 Appendix A, which provides the discontinued strategic goals and performance metrics; Appendix B, which lists the acronyms cited throughout the report; and Appendix C, which provides the information on the availability of the *Annual Report*.

Management's Discussion and Analysis (Unaudited)

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 *Federal Student Aid FY 2018 Annual Report (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 FSA, along with a discussion of its federal student aid programs. It also highlights the mission, vision, and values of FSA as presented in the *Federal Student Aid: Strategic Plan, FY 2015-19 (FSA FY 2015–19 Strategic Plan)*.

Performance Management

The Performance Management subsection presents an overview of FSA's strategic and performance-planning framework, an overview of the *FSA FY 2015–19 Strategic Plan*, and the results of the FY 2018 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 2018 Financial and Performance Highlights

Table 1: Operational Highlights

Item	FY 2018	FY 2017	Difference	Percentage Change
Total Student Aid Loan Portfolio[2]	$ 1,439 billion	$ 1,367 billion	$ 72 billion	5.3%
Total Borrowers with Federal Student Loans Outstanding	43 million	43 million	–	0.0%
Total Number of Postsecondary Education Institutions	5,856	5,963	(107)	(1.8%)
Audit Opinion	Unmodified	Unmodified	Not applicable	Not applicable

Table 2: Financial Highlights
(*Dollars in millions*)

Item	FY 2018	FY 2017	Difference	Percentage Change
Total Assets	$ 1,285,265	$ 1,221,694	$ 63,571	5.2%
Total Liabilities	$ 1,276,206	$ 1,198,486	$ 77,720	6.5%
Net Position	$ 9,059	$ 23,208	$ (14,149)	(61.0%)
Net Cost of Operations	$ 35,008	$ 37,946	$ (2,938)	(7.7%)
Total Budgetary Resources Available for Spending (Budgetary)	$ 61,035	$ 103,422	$ (42,387)	(41.0%)
Total Budgetary Resources Available for Spending (Non-Budgetary Credit Reform Financing Accounts)	$ 244,841	$ 245,720	$ (879)	(0.4%)
Agency Outlays, Net (Budgetary)	$ 18,597	$ 65,548	$ (46,951)	(71.6%)
Agency Outlays, Net (Non-Budgetary Credit Reform Financing Accounts)	$ 83,059	$ 40,490	$ 42,569	105.1%

Table 3: Performance Highlights

Performance Measures	FY 2018 Target	FY 2018 Actual	Performance Results
A.1: Percent of First-Time FAFSA Filers Among High School Seniors	66.4%–68.4%	67.4%	✓
B.1: Improper Payment Rate	4.97%	4.95%	✓
D.3: Collection Rate	$59.24	$62.15	✓

[2] 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

FSA, 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 (GAs) 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 the Federal Student Aid 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

Legislation	Purpose
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 U.S. Department of Health and Human Services to the Department.

FSA Stakeholders

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

Role of FSA and Participants in the Federal Student Aid System

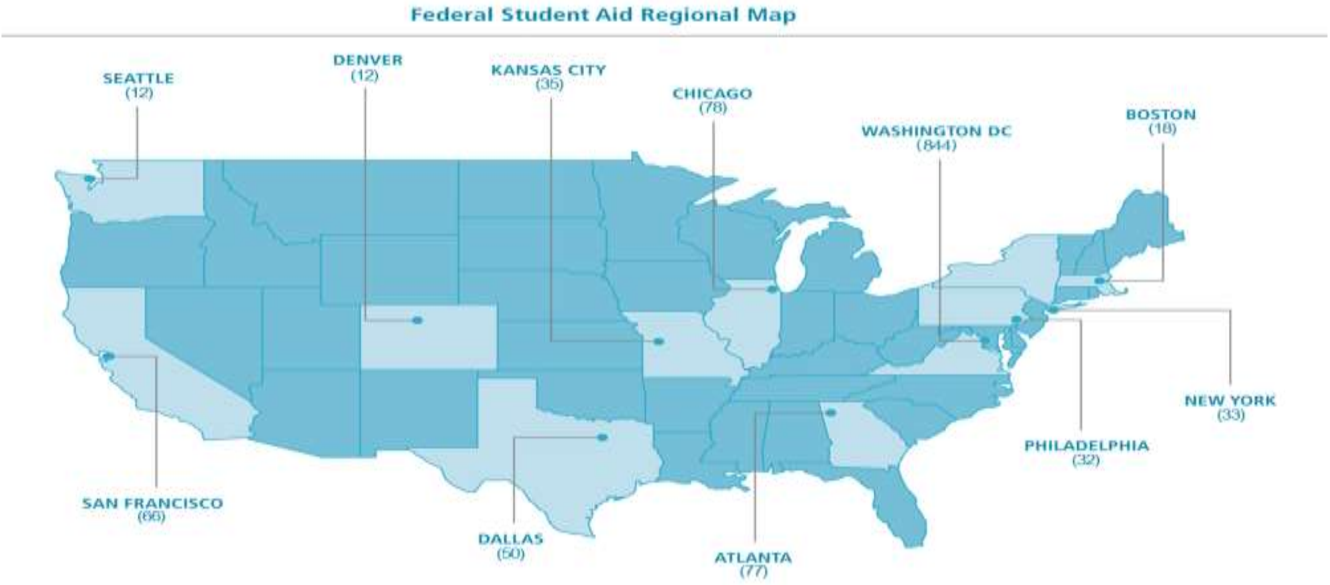
Participants	Participants' Role	FSA's Engagement with Participants
Guaranty Agencies	• Insure Federal Family Education Loan Program loans and service their defaulted loan portfolio.	• Monitoring compliance; • Assisting Guaranty Agencies in meeting requirements; • Providing education regarding policy;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

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. In January 2018, James F. Manning, the Acting Under Secretary of Education for the Department, was delegated the duties of the COO of FSA. The following graphic illustrates the functional organizations within FSA.

During Fiscal Year (FY) 2018, the organization operated on an annual administrative budget of approximately $1.5 billion. FSA is staffed by 1,257 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 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 2018, FSA processed more than 18.6 million *Free Applications for Federal Student Aid* (FAFSA®), resulting in the delivery of approximately $122.4 billion in Title IV aid to over 12.7 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 2018 and 2017[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[3]
(*Dollars in Millions*)

Programs	2018 Aid Disbursed to Students	2017 Aid Disbursed to Students	Difference	Percentage Change
Federal Loan Programs				
William D. Ford Federal Direct Loan Program	$ 91,485	$ 92,957	$ (1,472)	(1.6%)
Federal Perkins Loan Program	886	885	1	0.1
Subtotal Loan Programs	**$ 92,371**	**$ 93,842**	**$ (1,471)**	**(1.6%)**
Federal Grant Programs				
Federal Pell Grant Program	$ 28,250	$ 26,915	$ 1,335	5.0%
Federal Supplemental Educational Opportunity Grant Program	750	712	38	5.3
The Teacher Education Assistance for College and Higher Education Grant Program	84	85	(1)	(1.2)
Subtotal Grant Programs	**$ 29,084**	**$ 27,712**	**$ 1,372**	**5.0%**
Federal Work-Study Program				
Federal Work-Study Program	$ 983	$ 949	$ 34	3.6%
Grand Total	**$ 122,438**	**$ 122,503**	**$ (65)**	**(0.1%)**

[3] 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 data used to support the President's Budget. Recipient counts are based on award year.

Federal Loan Programs
In fulfilling its program responsibilities, FSA directly manages or oversees a loan portfolio of almost $1.4 trillion—representing more than 207 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 borrowings from the U.S. Department of the Treasury (Treasury), as well as an appropriation for subsidy costs. As of September 30, 2018, FSA's portfolio of Direct Loans included $1,115.1 billion in credit program receivables, net. In FY 2018, the Department made $91.5 billion[4] in net loans to 9.1 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 $281.8 billion, as of September 30, 2018. Of this portfolio, $92.9 billion represented FSA's credit program receivables, net. In FY 2018, FSA made gross payments of approximately $1.1 billion to lenders for interest and special allowance subsidies and $5.8 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, 2018, FSA-held FFEL credit program receivables, net totaled $92.9 billion, comprising $28.1 billion acquired under the "traditional" (Non-ECASLA) guaranteed loan program, and $64.8 billion in loans acquired under the ECASLA authorization.

[4] Excludes consolidation loans of $41.6 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 2018, 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. Under federal law, the authority for schools to make new Perkins Loans ended on Sept. 30, 2017, and final disbursements were permitted through June 30, 2018. As a result, students can no longer receive Perkins Loans. In FY 2018, approximately $886.3 million of funds previously provided by the Department were disbursed to eligible students through approximately 356,000 Perkins awards.

The **Health Education Assistance Loan (HEAL) Program** was transferred to the Department from the U.S. Department of Health and Human Services (HHS) 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, chiropracty, or programs in health administration and clinical psychology to obtain federally insured loans through participating lenders. Since September 30, 1998, no new loans have originated through this program; however, borrowers are still obligated to repay any outstanding loans obtained through the program.

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the loans. 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 $360.0 million for FY 2018.

Federal Grant Programs

In its responsibility for administering Title IV aid, FSA oversaw the disbursement of $29.1 billion in grants to 8.3 million recipients. The following provides a summary for each grant program, including aid disbursed for FY 2018.

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 2018, the Department disbursed $28.3 billion in Pell Grants averaging approximately $4,052 to more than 8.2 million students. The maximum Pell Grant award was $5,920 for the 2017–18 award year and increased to $6,095 for the 2018–19 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 2018, approximately $750.1 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, 2017, and before October 1, 2018, were reduced by 6.6 percent from the award amount for which a recipient would otherwise have been eligible. The maximum award of $4,000 was reduced by approximately $264, resulting in a maximum award amount of $3,736. If students fail to fulfill the service requirements specific to the program, 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 2018, the Department disbursed approximately 37,000 grants totaling $84.0 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, 2017 and before October 1, 2018 were reduced by 6.6 percent from the award amount for which a recipient would otherwise have been entitled. For example, the 2017–18 maximum award of $5,920 was reduced by approximately $391, resulting in a maximum award amount of $5,529. The Department disbursed approximately $351,000 to support fewer than 100 awards in FY 2018.

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 2018, approximately $983.3 million were disbursed through approximately 631,000 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 part of its vision, FSA strives to assist students and families in making better decisions about their postsecondary education funding options. The core values reflect a culture of integrity, excellence, and collaboration: key components in building a high-performing organization.

FSA Mission, Vision, and Core Values

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

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

Performance Management

The FSA *Annual Report* provides a detailed view of the past year's goals, challenges, and accomplishments in the context of the *FSA FY 2015–19 Strategic Plan*. 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 *Annual Report* provides a general overview of the performance management processes at FSA. It includes a summary of FSA's FY 2018 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 2018, FSA used three tools to establish goals and to communicate, measure, and report performance:

- *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 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 FY 2015–19 Strategic Plan*

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

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

Annual Performance Report

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

Annual Organizational Performance Review

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

Fiscal Year 2018 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. • Continuing growth of student debt and focus on delinquency and default. • Increasing pressure to improve student interaction within the aid system. • Increasing demand for accountability in the use of federal funds. • Increasing attention to availability and uses of data. • Continuing focus on data security.
The Department's Five-Year *Strategic Plan*	Requires FSA's support of the Department's strategic goals related to postsecondary education.

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 2018 include: • Improper Payments; • Information Technology Security; • Oversight and Monitoring; and • Data Quality and Reporting.
The Office of Inspector General and Government Accountability Office audits	Requires FSA senior management's consideration for establishing priorities to address findings and recommendations.
Federal financial management laws and regulations	Prescribes financial management requirements.
Federal performance reporting legislation and requirements	Prescribes performance and reporting requirements.
Federal budget deficits	Requires FSA to look for opportunities to reduce operating costs through improved efficiency.

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

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

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

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

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

Performance Result Indicator Legend

Performance Result	Indicator
Performance result met or exceeded the target.	**Met** ✓
Performance result did not meet the target.	**Not met** ✗
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, 2018) 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 2018 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 the performance metrics under this strategic goal.

Performance Summary for Strategic Goal A

Table 5: Performance Metric A.1*
Percent of First-Time FAFSA Filers Among High School Seniors

	2016	2017	2018	Reference page
Target	–	–	66.4%–68.4%	62
Actual	–	–	67.4%	
Result	N/A	N/A	✓	

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

Table 6: Performance Metric A.2
Persistence Among First-Time Filing Aid Recipients

	2016	2017	2018	Reference page
Target	78.5%–80.5%	78.7%–80.7%	81.6%–83.6%	64
Actual	79.7%	82.6%	82.5%	
Result	✓	✓	✓	

Table 7: Performance Metric A.3
Customer Visits to StudentAid.gov

	2016	2017	2018	Reference page
Target	>=43.4 million	>=43.3 million	>=43.3 million	65
Actual	47.2 million	44.3 million	44.5 million	
Result	✓	✓	✓	

Table 8: Performance Metric A.4
Social Media Channel Subscribership

	2016	2017	2018	Reference page
Target	>=454,000	>=500,000	>=590,000	66
Actual	528,251	584,241	607,241	
Result	✓	✓	✓	

Table 9: Performance Metric A.5*
ACSI Aid Life Cycle Surveys

	2016	2017	2018	Reference page
Target	–	68.9-70.9	69.4–71.4	67
Actual	–	70.6	69.9	
Result	N/A	✓	✓	

*Note: This performance metric was revised in FY 2017; prior-year data not available under revised method

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 2018 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met or exceeded the target for both performance metrics under this strategic goal.

Performance Summary for Strategic Goal B

Table 10: Performance Metric B.1
Improper Payment Rate

	2016	2017	2018	Reference page
Target	N/A[5]	4.85%	4.97%	68
Actual	4.85%	4.97%	4.95%	
Result	-	✗	✓	

Table 11: Performance Metric B.2
Percent of Borrowers > 90 Days Delinquent

	2016	2017	2018	Reference page
Target	9.9%	7.4%	8.2%	70
Actual	8.8%	8.3%	7.4%	
Result	✓	✗	✓	

[5] 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.

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 2018 target and actual performance levels, result (i.e., met, not met, etc.), and reference to supporting detail in the ***Annual Performance Report*** section of this document. In summary, FSA met or exceeded the target for both performance metrics under this strategic goal.

Performance Summary for Strategic Goal C

Table 12: Performance Metric C.1
Aid Delivery Costs Per Application

	2016	2017	2018	Reference page
Target	$13.11	$11.46	$12.16	71
Actual	$11.53	$10.68	$8.83	
Result	✓	✓	✓	

Table 13: Performance Metric C.2
Outstanding Direct Loan Portfolio in Current Repayment Status

	2016	2017	2018	Reference page
Target	85.3%	84.9%–85.9%	85.0%–86.0%	72
Actual	85.4%	85.7%	86.5%	
Result	✓	✓	✓	

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

As the nation's largest provider of federal student assistance, FSA's role requires the organization to provide careful oversight of taxpayer dollars. FSA annually disburses more than $122.4 billion in aid and administers a loan portfolio valued at over $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 2018 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 the performance metrics under this strategic goal.

Performance Summary for Strategic Goal D

Table 14: Performance Metric D.1
Ease of Doing Business with FSA

	2016	2017	2018	Reference page
Target	74.3–77.3	71.3–73.3	71.9–74.9	73
Actual	72.3	73.4	74.5	
Result	✗	✓	✓	

Table 15: Performance Metric D.2
Percentage of Contract Dollars Competed by FSA

	2016	2017	2018	Reference page
Target	89.3%-91.3%	89.3%-91.3%	89.3%–91.3%	74
Actual	92.9%	95.2%	96.8%	
Result	✓	✓	✓	

Table 16: Performance Metric D.3
Collection Rate

	2016	2017	2018	Reference page
Target	$51.79	$51.68	$59.24	75
Actual	$53.07	$59.69	$62.15	
Result	✓	✓	✓	

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

As the environment of postsecondary education and student aid continues to evolve, FSA must ensure that its workforce has the capabilities to adapt to changing business needs and priorities, which reflect the needs of FSA'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 2018 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 the performance metric under this strategic goal.

Performance Summary for Strategic Goal E

Table 17: Performance Metric E.1
Employee Engagement Index

	2016	2017	2018	Reference page
Target	66.9%–68.9%	65.4%–69.4%	68.7–70.7%	76
Actual	67.4%	69.7%	62.0%	
Result	✓	✓	✗	

Agency Priority Goal

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

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

For the 24 months commencing October 1, 2017, the Department established four APGs in support of its broader mission to promote student achievement and preparation for global competitiveness by fostering educational excellence and ensuring equal access. Of the four APGs, three were closely tied to FSA’s mission and were supported by FSA during FY 2018. They are:

- Improve Borrowers’ Access to Quality Customer Service;
- Improve Student Privacy and Data Security at Institutions of Higher Education through Outreach and Compliance Efforts; and
- Provide Regulatory Relief to Education Stakeholders

Each quarter, the Department analyzes the progress toward accomplishing the four Departmental APGs, with the objective of successfully accomplishing the current four APGs by September 30, 2019. The current APGs were established prior to the launch of FSA’s Next Generation Financial Services Environment (Next Gen FSA) and it is anticipated that the Next Gen FSA effort will have a profound impact on both the means to achieve the above APGs and the timing for doing so.

During FY 2019, FSA and the Department will examine the 24-month APG effort and publish the individual APG results. The results will be made available both on **Performance.gov** and in FSA’s *FY 2019 Annual Report*.

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.

Financial Analysis

Introduction
The Financial Analysis section provides an overview of FSA's financial results for FY 2018. 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 2018, FSA achieved an unmodified audit opinion on its financial statements for the seventeenth consecutive year.

FSA presents its financial statements and notes in the format required by the OMB Circular A-136, *Financial Reporting Requirements*. For the fiscal years, FY 2018 and FY 2017, the Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position were prepared on a consolidated basis, whereas the Statement of Budgetary Resources was prepared on a combined basis. These financial statements, along with the Independent Auditors' Report on these statements, can be found in the Financial Section of this *Annual Report*.

FSA has oversight responsibilities for over $1.4 trillion in federal student loans, of which it directly owns and manages nearly $1.3 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, and net borrowing costs, less any origination or other fees collected. If the net cost to the government is greater than zero, then the subsidy 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, 2018, FSA reported $1.2 trillion in Credit Program Receivables, Net including an allowance for subsidy cost of approximately $64.5 billion. FSA's portfolio of Credit Program Receivables, Net has seen significant growth, increasing by 5.6 percent over the FY 2017 net portfolio balance. 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 2018 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 2014. It also shows the percentage change between the prior and current fiscal years as of September 30, 2017 and 2018 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 18: FSA Financial Highlights
Condensed Balance Sheet
Fiscal Years 2014–18

(Dollars in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Percentage Change[6]
Fund Balance with Treasury	$ 61,506	$ 67,985	$ 60,358	$ 74,032	$ 73,405	(0.8%)
Credit Program Receivables, Net	922,418	1,016,425	1,075,227	1,145,406	1,209,495	5.6
Remaining Assets	1,596	1,648	1,334	2,256	2,365	4.8
Total Assets	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**$ 1,285,265**	**5.2%**
Debt	$ 965,362	$ 1,050,344	$ 1,126,345	$ 1,178,473	$ 1,258,481	6.8%
Subsidy due to Treasury General Fund[7]	5,958	8,237	2,642	7,013	7,528	7.3
Remaining Liabilities	7,530	7,169	9,614	13,000	10,197	(21.6)
Total Liabilities	**$ 978,850**	**$ 1,065,750**	**$ 1,138,601**	**$ 1,198,486**	**$ 1,276,206**	**6.5%**
Unexpended Appropriations	$ 30,485	$ 28,325	$ 26,531	$ 28,524	$ 32,487	13.9%
Cumulative Results of Operations	(23,815)	(8,017)	(28,213)	(5,316)	(23,428)	340.7
Net Position	**$ 6,670**	**$ 20,308**	**$ (1,682)**	**$ 23,208**	**$ 9,059**	**(61.0%)**
Total Liabilities & Net Position	**$ 985,520**	**$ 1,086,058**	**$ 1,136,919**	**$ 1,221,694**	**$ 1,285,265**	**5.2%**

Table 19: Statement of Net Cost Summary
Fiscal Years 2014–18

(Dollars in millions)	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	Percentage Change[5]
Gross Cost	$ 65,470	$ 59,500	$ 93,032	$ 73,771	$ 71,232	(3.4%)
Less: Earned Revenue	(28,979)	(31,547)	(34,260)	(35,825)	(36,224)	1.1
Net Cost of Operations	**$ 36,491**	**$ 27,953**	**$ 58,772**	**$ 37,946**	**$ 35,008**	**(7.7%)**

[6] Note that the percentage change is calculated as the difference between FY 2017 and FY 2018, divided by the FY 2017 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.

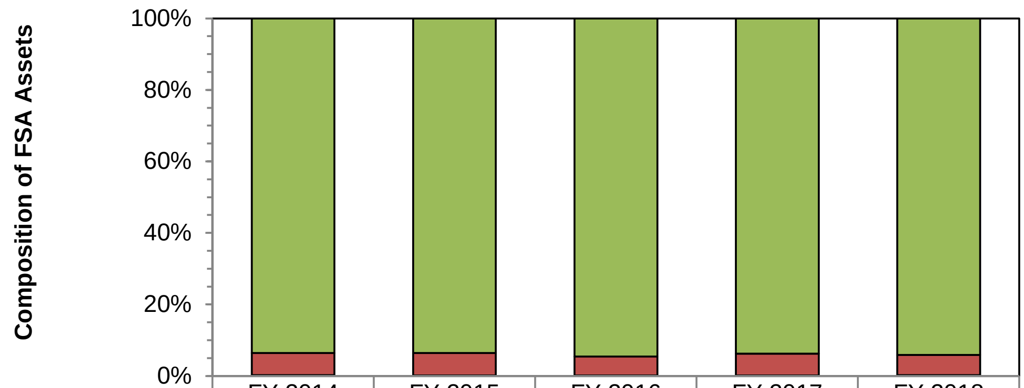
[7] Prior to FY 2016, *Subsidy due to Treasury General Fund* was included in the Condensed Balance Sheet line item, *Other Intragovernmental Liabilities*. Beginning in FY 2016, *Subsidy due to Treasury General Fund* is reported separately, while *Other Intragovernmental Liabilities* is now included in the category *Remaining Liabilities*. Data for the years FY 2014–15 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 $1,285.3 billion as of September 30, 2018, an increase of $63.6 billion, or 5.2 percent over the September 30, 2017 total assets balance of $1,221.7 billion. The difference resulted primarily from a 5.6 percent increase in net Credit Program Receivables ($64.1 billion), offset by a 0.8 percent reduction in Fund Balance with Treasury ($0.6 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for approximately 99.8 percent of Total Assets as of September 30, 2018, 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.

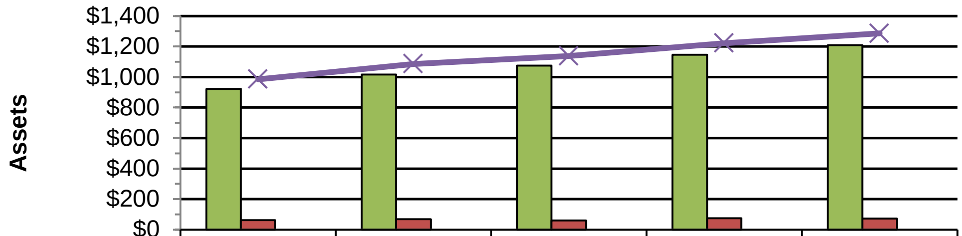
Chart 1: Composition of Federal Student Aid Assets*
Fiscal Years 2014–18



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Credit Program Receivables, Net	93.6%	93.6%	94.6%	93.8%	94.1%
Fund Balance with Treasury	6.2%	6.3%	5.3%	6.1%	5.7%
Remaining Assets	0.2%	0.1%	0.1%	0.1%	0.2%

*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 2014–18
(*Dollars in Billions*)

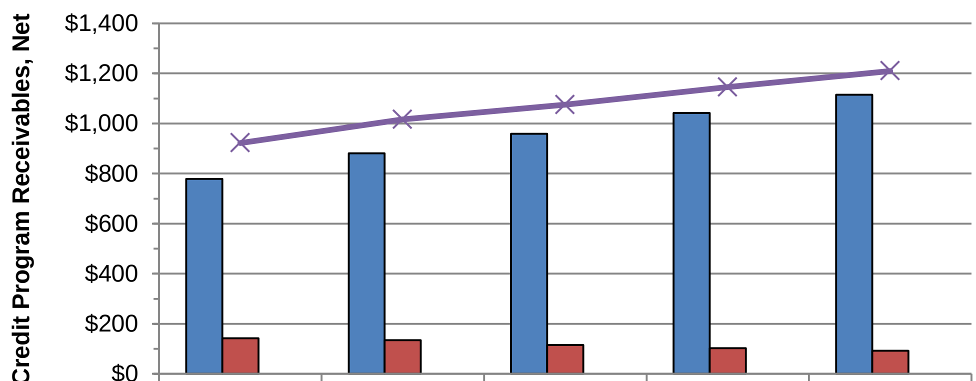


	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Credit Program Receivables, Net	$922.4	$1,016.4	$1,075.2	$1,145.4	$1,209.5
Fund Balance with Treasury	$61.5	$68.0	$60.4	$74.0	$73.4
Remaining Assets	$1.6	$1.7	$1.4	$2.3	$2.4
Total Assets	$985.5	$1,086.1	$1,137.0	$1,221.7	$1,285.3

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

Credit Program Receivables, Net. With a $1,209.5 billion balance as of September 30, 2018, Credit Program Receivables, Net represent FSA's most important asset category and accounted for over 94 percent of Total Assets. This balance included $1,274.0 billion in principal, interest, and fees, less an allowance for subsidy cost of approximately $64.5 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 2014–18
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Direct Loans	$778.5	$880.6	$958.9	$1,041.6	$1,115.1
FFEL	$142.9	$134.7	$114.9	$102.4	$92.9
Other Programs	$1.0	$1.1	$1.4	$1.4	$1.5
Total	$922.4	$1,016.4	$1,075.2	$1,145.4	$1,209.5

***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 2014–18, FSA's portfolio of Federal Student Aid net credit program receivables increased by $287.1 billion or 31.1 percent, with the Direct Loan program accounting for most of this change. In fact, the Direct Loan portfolio increased by $336.5 billion or 43.2 percent, but the increase was offset by the $49.9 billion (34.9 percent) reduction of the FFEL Portfolio over the same period.

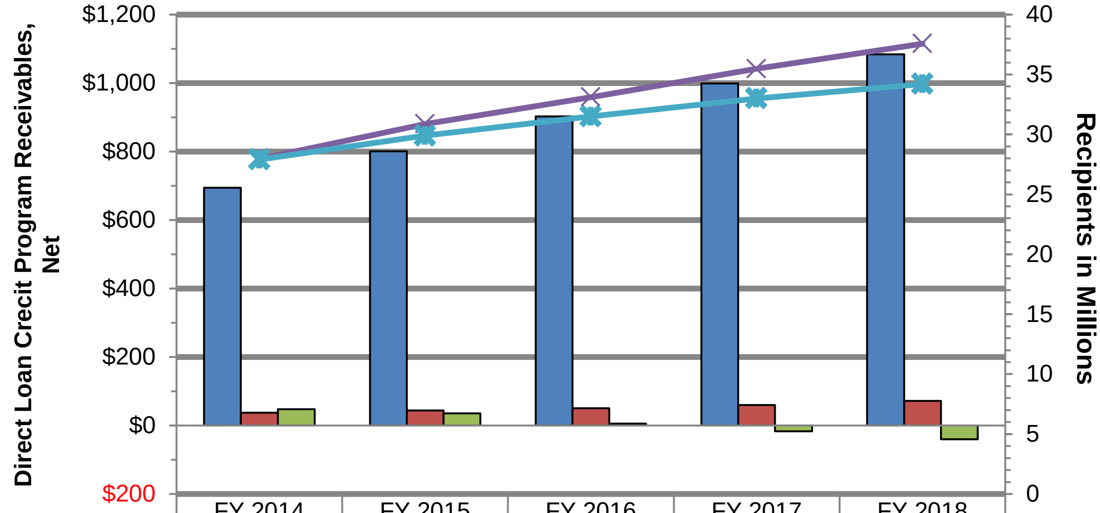
The changes observed in both the Direct Loan and FFEL portfolios are principally related to the impact of the *SAFRA Act*, which as of June 30, 2010, eliminated all new loan disbursements under the FFEL Program in favor of direct lending. Loan consolidation has also played a role. Consolidation is the 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 **studentaid.ed.gov/consolidation.**

Direct Loan Credit Program Receivables, Net. Direct Loan Credit Program receivables continue to be the major component of FSA's credit program receivable portfolio in FY 2018. As of September 30 the $1,115.1 billion Direct Loan portfolio ending balance comprises 92.2 percent of FSA's total credit program receivables net, compared to the prior year ending balance of $1,041.6 that represented only 90.9 percent. The FY 2018 Direct Loan ending balance total includes $1,155.7 billion in principal, interest, and fees, with an allowance for subsidy cost to the government of $40.7 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 $40.7 billion. This contrasts to the prior year where the subsidy costs were projected at only $16.8 billion on Direct Loan principal, interest and fees of $1,058.4 billion. The factors that contributed to the variance in subsidy cost at a time when the underlying loan balances increased by 9.2 percent are addressed in **Note 5**.

The FY 2018 $97.3 billion increase in Direct Loan Receivables (before subsidy costs) was mainly driven by the growth in the outstanding amount owed by borrowers, principally resulting from new loan originations ($91.5 billion), consolidation disbursements net of consolidation payoffs ($41.6 billion), interest capitalization ($18.5 billion) and the net increase in interest and fees payable ($12.5 billion). This was offset by reductions to principal due to loan payments by borrowers ($63.5 billion), loan discharge ($3.9 billion) and other adjustments.

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. Over the same period, Table 21 shows that accrued interest increased at a higher average annual rate than did principal outstanding (18.0 percent versus 11.8 percent), although, as illustrated by Table 20, accrued interest only increased from 4.8 percent to 6.5 percent of the net receivable amount, while principal outstanding increased from 89.1 percent to 97.2 percent of the total. By comparison, Table 20 indicates that as a result of increased subsidy costs, the allowance for subsidy as a percentage of the Direct Loan Credit Program Receivable net value, changed from a 6.1 percent "contribution" (i.e. the estimated interest rate and fees charged to borrowers exceeded the anticipated costs of the risk of default) of negative subsidy cost, to a 3.7 percent subsidy cost by the end of FY 2017. See **Note 5** for more details.

Chart 4: Components of Direct Loan Receivables, Net*
Fiscal Years 2014–18[8]
(*Dollars in billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Principal	$694.0	$800.8	$902.8	$998.8	$1,083.7
Accrued Interest*	$37.2	$44.3	$50.8	$59.6	$72.0
Subsidy	$47.3	$35.5	$5.3	$(16.8)	$(40.6)
Total Receivable	$778.5	$880.6	$958.9	$1,041.6	$1,115.1
Total Recipients	27.9	29.9	31.5	33.0	34.2

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

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 27.9 million to 34.2 million over the five-year period, reflecting, as reported in Table 21, an average annual increase of 5.2 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 28.9 percent during this time, from $26,206 to $33,793, the higher debt burden per student is likely an indication of increasing postsecondary education costs.

Table 20: Components of Direct Loan Credit Program Receivables, Net by Percentage*
Fiscal Years 2014–18

Direct Loan Component	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Principal*	89.1%	91.0%	94.1%	95.9%	97.2%
Accrued Interest	4.8%	5.0%	5.3%	5.7%	6.5%
Subsidy	6.1%	4.0%	0.6%	(1.6%)	(3.7%)
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 21: Increase in Principal, Interest and Subsidy Components of Direct Loan Credit Program Receivables, Net and Recipient Counts*

Direct Loan Component	FY 2014–15	FY 2015–16	FY 2016–17	FY 2017–18	FY 2014–18 Average Year-to-Year change
Principal	15.4%	12.7%	10.6%	8.5%	11.8%
Accrued Interest	19.1%	14.7%	17.7%	21.0%	18.0%
Subsidy	(24.9%)	(85.1%)	(415.1%)	(143.1%)	(95.5%)
Total Receivable	13.1%	8.9%	8.6%	7.1%	9.4%
Total Recipients	7.2%	5.4%	4.8%	3.6%	5.2%

***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 through the loan life cycle.

Repayment on most federal student loans is not required while the student recipient is "In School" unless they drop below half-time enrollment. However, PLUS loans enter repayment as soon as the loan is fully disbursed (paid out). Then, after the student graduates, leaves school, or drops below half-time enrollment, student borrowers are frequently entitled to a "Grace" period. During this period, repayment is not required to begin on the loan. Not all federal student loans have a grace period and for most loans, interest will accrue during the grace period. At the end of the grace period, the loan will enter "Repayment" status and regular monthly payments will be required according to an agreed 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"[8]. The status continues to be tracked through the life of the loan until the loan is paid in full or otherwise closed out.

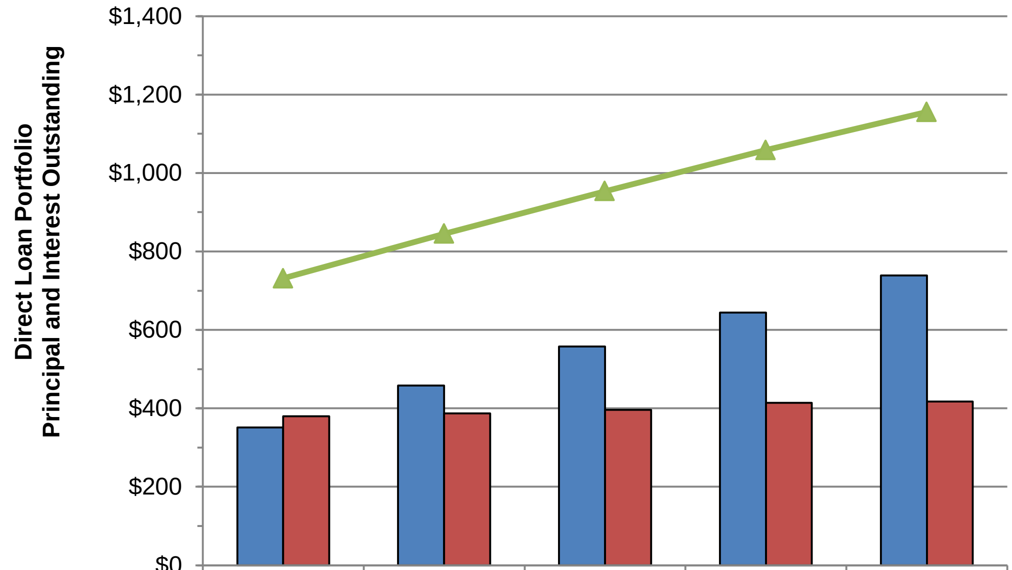
Chart 5[9] divides FSA's portfolio of direct loans into two main categories, based on whether or not payments have been temporarily suspended. The first of these, "not in repayment" includes not only loans "In School" or "In Grace", but also loans where a deferment or forbearance has been granted. The 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 because 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

[8] 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.

[9] FY 2014–17 based on data published by the FSA Data Center, **studentaid.ed.gov/portfolio**. FY 2018 data are taken directly from the National Student Loan Data System (NSLDS).

principal and interest balances owed by the borrower, and excludes any subsidy cost or allowance that would adjust the outstanding balance to its net present value.

Chart 5: Direct Loan Portfolio by Repayment Status*
Principal and Interest Only
Fiscal Years 2014–18
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
In Repayment Status*	$351.6	$457.8	$557.5	$644.2	$738.7
Not in Repayment	$379.6	$387.3	$396.1	$414.2	$417.0
Total Direct Loan Portfolio*	$731.2	$845.1	$953.6	$1,058.4	$1,155.7

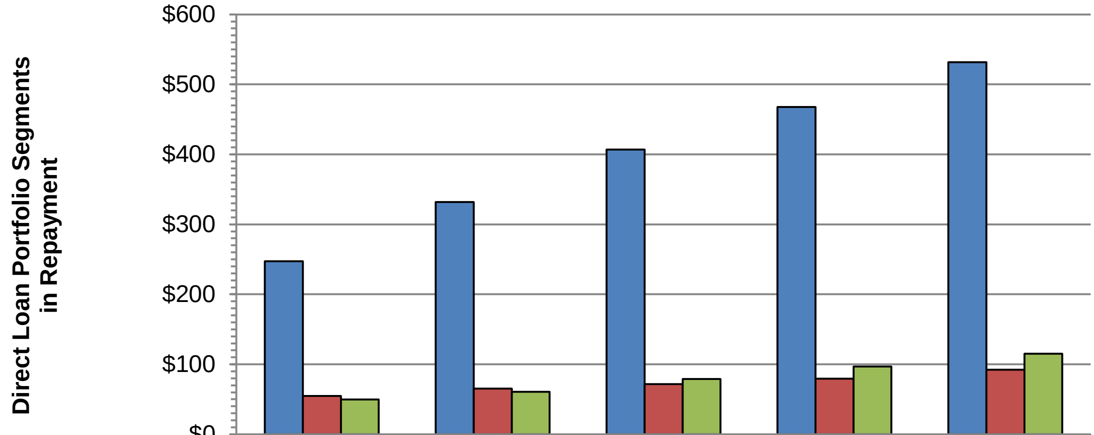
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

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 63.9 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 Charts 6A and 6B[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 charts reveal that, with a September 2018 balance of $531.5 billion, the current portion of the "In Repayment" segment is its largest component and has grown the fastest in dollar terms over the past five years, FY 2014–18. However, in percentage terms it declined slightly over the past three years from almost 73 percent of the segment at the end of FY 2016 to only 72 percent at the end of FY 2018. At the same time, while both the Delinquent and Default/Bankruptcy/Other segments also increased in dollar terms, there was a continuing trend of debt moving from the Delinquent to the Default/Bankruptcy/Other segment, with the latter increasing from 14.2 percent to 15.5 percent of the segment, a trend that FSA hopes to reverse with the customer-focused servicing innovations that will be introduced by the implementation of Next Gen FSA in the coming years.

[10] ibid.

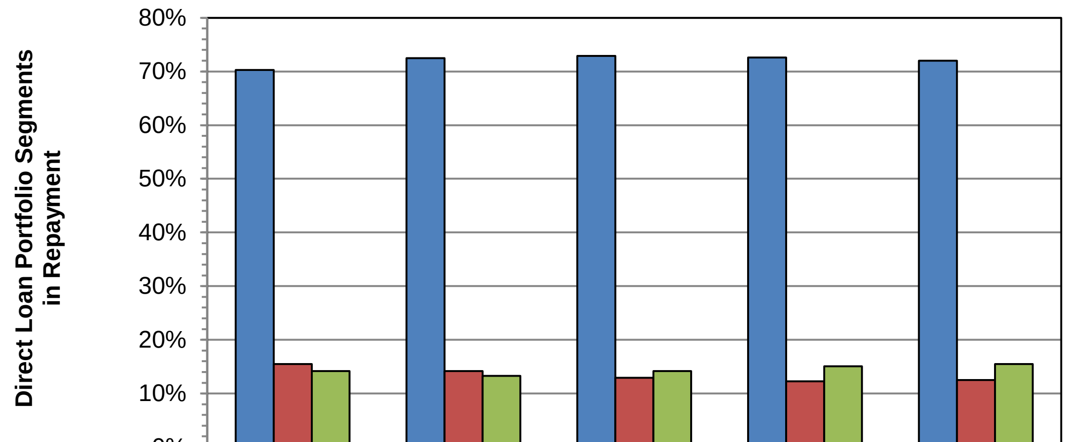
Chart 6A: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest only
Fiscal Years 2014–18
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Current	$247.2	$332.0	$406.8	$467.9	$531.5
Delinquent	$54.6	$65.1	$71.8	$79.5	$92.2
Default/Bankruptcy/Other*	$49.8	$60.7	$79.0	$96.8	$115.0

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

Chart 6B: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest only
Fiscal Years 2014–18
(Percentage of Total)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Current	70.3%	72.5%	72.9%	72.6%	72.0%
Delinquent	15.5%	14.2%	12.9%	12.3%	12.5%
Default/Bankruptcy/Other*	14.2%	13.3%	14.2%	15.1%	15.5%

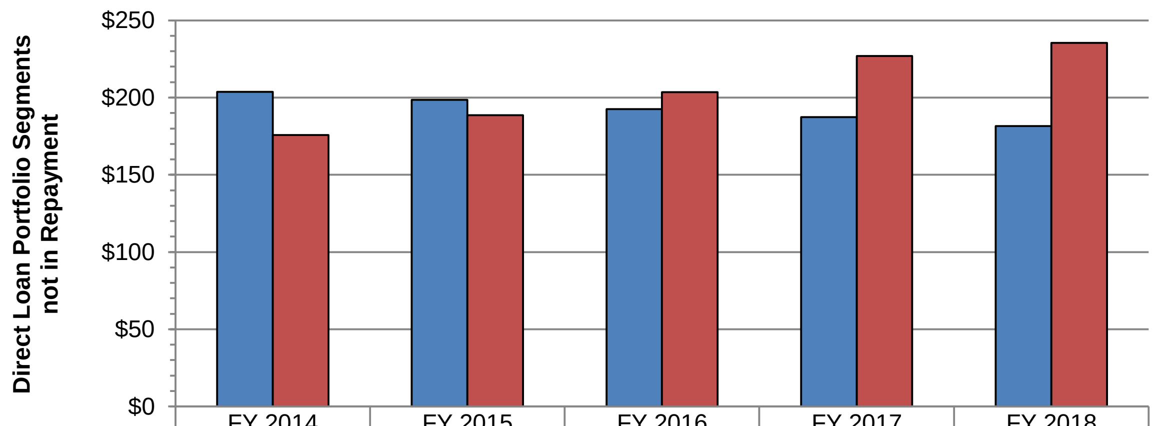
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

In addition, of the total $1,155.7 billion in Direct Loan principal and interest at the current fiscal year end, $84.9 billion (7.3 percent of total receivables) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $70.7 billion (6.7 percent of total receivables) as of September 30, 2017. For related performance information about the percentage of borrowers more than 90 days delinquent, please see **Performance Metric B.2** located in the *Annual Performance* section of this *Annual Report*.

The portfolio of Direct Loan principal and interest receivables "Not in Repayment" can also be further subdivided based on the reason why the debt is not currently subject to repayment. Charts 7A and 7B[11] subdivide this segment into two such categories, "In School/Grace" and "In Deferment/Forbearance", as defined earlier.

Chart 7A shows that the amount of Direct Loan principal and interest categorized as "In School/Grace" has declined steadily from $203.8 billion in FY 2014 to $181.6 billion at the end of the current year. This reflects both the decline in new Direct Loan disbursements over the period, and the aging of the Direct Loan portfolio of principal and interest receivable, as a greater proportion of debt moved from "In School/Grace" category to the "In Repayment" segment. Over the same five-year period, the "In Deferment/Forbearance" segment has grown from $175.8 billion to $235.4 billion, increasing from 46.3 percent to 56.5 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 actually declined from 24 percent to 20 percent.

Chart 7A: Direct Loan Portfolio Segment not in Repayment by Status*
Principal and Interest only
Fiscal Years 2014–18
(*Dollars in Billions*)

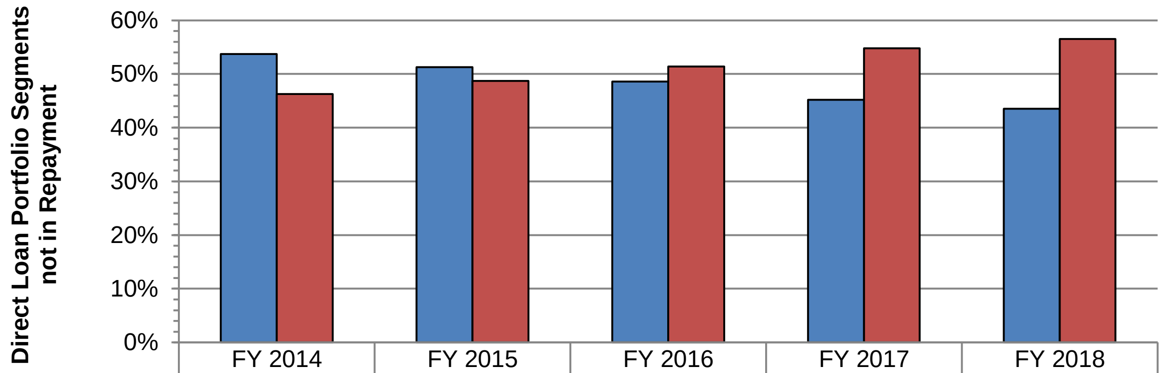


	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
In School/Grace	$203.8	$198.6	$192.6	$187.3	$181.6
In Deferment/ Forbearance	$175.8	$188.7	$203.5	$226.9	$235.4

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

[11] ibid.

Chart 7B: Direct Loan Portfolio Segment not in Repayment by Status
Principal and Interest only
Fiscal Years 2014–18
(*Percentage of Total*)

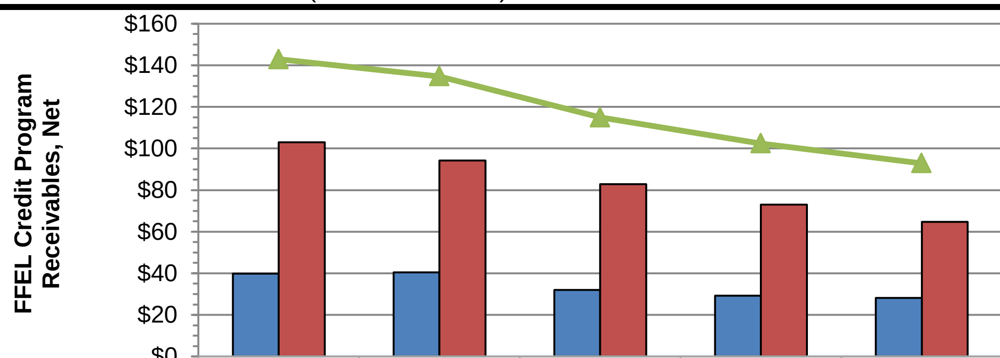


	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
In School/Grace	53.7%	51.3%	48.6%	45.2%	43.5%
In Deferment/ Forbearance	46.3%	48.7%	51.4%	54.8%	56.5%

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 2014–18
(*Dollars in Billions*)



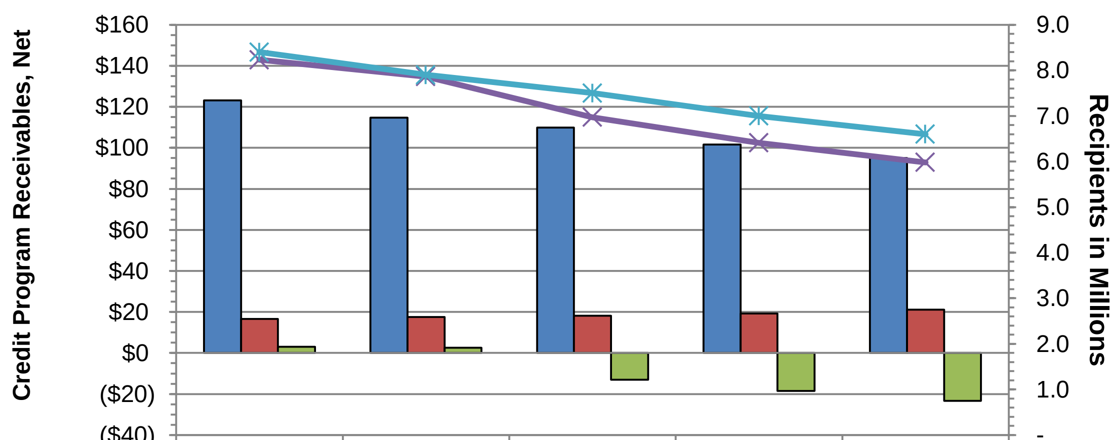
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
FFEL, Guaranteed*	$39.9	$40.5	$32.0	$29.3	$28.1
FFEL, ECASLA**	$103.0	$94.2	$82.9	$73.1	$64.8
Total FFEL	$142.9	$134.7	$114.9	$102.4	$92.9

*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 the ECASLA FFEL portfolio segment remains the major component of the FFEL portfolio of credit program receivables, net, but declined by 37.1 percent during the five-year period shown. This $38.2 billion decrease reduced the proportion of ECASLA FFEL loans from 72.1 percent to 69.7 percent of the total $92.9 billion of FFEL loans outstanding as of the current year-end. 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 $13.3 billion reduction in the net credit program receivable balance outstanding over the FY 2014 to FY 2018 period. The latter is discussed more fully in the Statement of Net Cost section, and in **Note 5.**

Over the same five-year period, the smaller FFEL Guaranteed portfolio segment first increased slightly from FY 2014 to FY 2015 and then declined over the next four years, resulting in an $11.8 billion reduction over the five years to $28.1 billion as of September 30, 2018. The overall decrease was mainly due the changes in subsidy cost estimates and the elimination the negative liability for Loan Guarantee that together reduced the net credit program receivable balance by $13.1 billion. This decrease was 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 2014–18 also demonstrates the impact of debt consolidations and refinancing on the outstanding portfolio balance.

Chart 9: Components of FFEL Receivables, Net
Fiscal Years 2014–18
(*Dollars in Billions*)



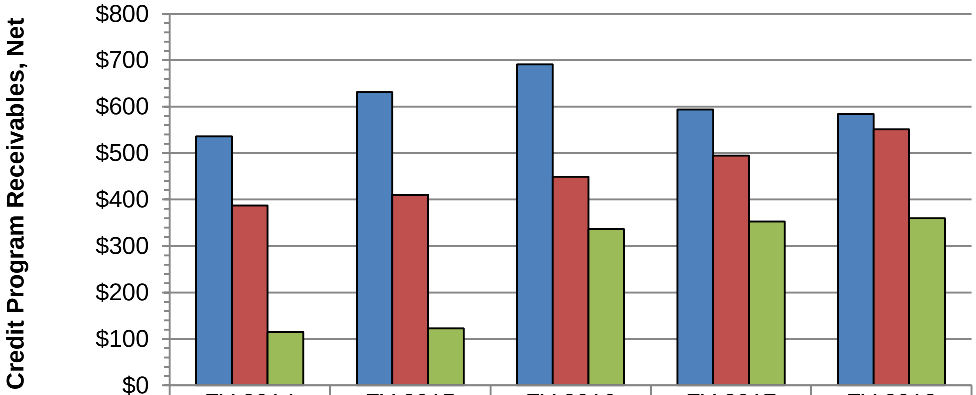
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Principal	$123.2	$114.7	$109.8	$101.6	$95.1
Accrued Interest	$16.6	$17.5	$18.2	$19.3	$21.1
Subsidy	$3.1	$2.5	$(13.1)	$(18.5)	$(23.3)
Total Receivable	$142.9	$134.7	$114.9	$102.4	$92.9
Total Recipients	8.4	7.9	7.5	7.0	6.6

*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: **studentaid.ed.gov/portfolio**. FY 2018 data are taken directly from NSLDS.

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 2014–18
(*Dollars in Millions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
TEACH Grant Program	$536	$631	$691	$594	$584
Perkins Loan Program	$387	$410	$449	$495	$551
HEAL	$115	$123	$336	$353	$360

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

This segment increased by 44.0 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 2018 with a balance of $1.5 billion, a $53 million increase compared to the prior year-end.

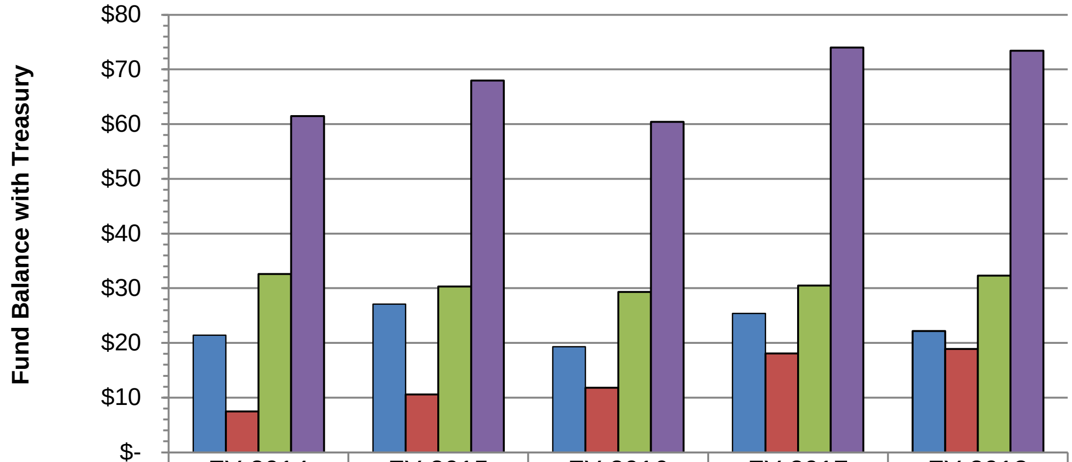
The TEACH program comprised $584 million of the "Other" loan portfolio, representing 39.1 percent of the September 2018 "Other" credit program receivables balance, a reduction of $10 million compared to the prior year end but still $48 million or 10.5 percent of the increase in the "Other" category over the past five years.

Offsetting the reduction in the TEACH portfolio, the Perkins credit receivables increased by $56 million in FY 2018 to account for $551 million or 36.9 percent of the September 2018 "Other" loan portfolio balance. The Perkins Loan program was responsible for 35.9 percent of the increase in the "Other" category over the FY 2014–18 period. Authority to make new Perkins Loans ended on September 30, 2017 and final disbursements on existing loans only were permitted through June 30, 2018. Although no new Perkins loan disbursements are permitted after June 30, 2018, 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 13**.

The HEAL program, transferred to the Department and FSA from HHS in FY 2014, reported a September 2018 ending balance of $360 million, $7 million or 2.0 percent above the prior year-end, and equal to about 24.1 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 shown in Chart 11, as of September 30, 2018, FSA reported a Fund Balance with Treasury amount of $73.4 billion, $0.6 billion below the prior fiscal year end amount.

Chart 11: Fund Balance with Treasury
Fiscal Year 2018
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
DL Program	$21.4	$27.1	$19.3	$25.4	$22.2
FFEL Program	$7.5	$10.6	$11.8	$18.1	$18.9
Other	$32.6	$30.3	$29.3	$30.5	$32.3
Total	$61.5	$68.0	$60.4	$74.0	$73.4

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

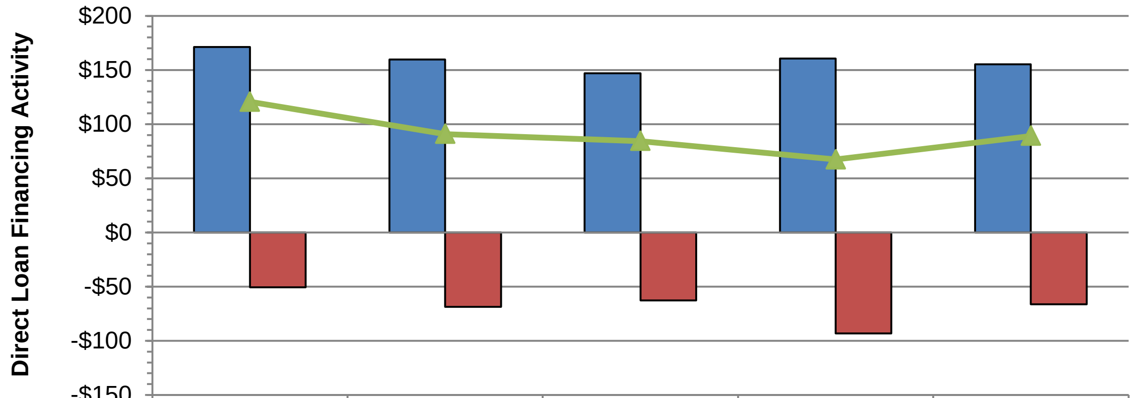
The relatively small net change (less than 1.0 percent) during FY 2018 was mainly attributable to a $3.2 billion decrease in Direct Loan activity, partly offset by a $1.8 billion increase in combined Perkins Loan and Grant program activity. Direct Loan activities that reduced Fund Balance with Treasury included reduced subsidy appropriations compared to the prior year ($31.9 billion), increased net interest payments to Treasury ($1.4 billion) and increased costs to maintain the Direct Loan program ($11.3 billion). These increased costs were offset by increased Treasury repayments net of new borrowings ($24.3 billion); decreased disbursements to borrowers ($8.1 billion); and increased collections ($2.9 billion). The account beginning balance was also higher by $6.1 billion, accounting for most of the remaining year-on-year variation.

The combined Perkins Loan and Grant-related activities that increased Fund Balance with Treasury included pending grant disbursements ($13.3 billion) and a special collections cash transfer ($10.0 million) offset by cancelled appropriations authority and transfers to the General Fund ($11.5 billion). A further $0.8 billion increase in Fund Balance with Treasury was attributable to FFEL Programs. 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, 2018, FSA had total liabilities of $1.3 trillion, an increase of $77.7 billion or 6.5 percent over the September 30, 2017 total, a higher rate of increase than the 5.2 percent growth in FSA's total assets.

Debt. With a September 30, 2018 balance of $1.2 trillion, FSA's debt is the primary component of its liabilities, accounting for 98.6 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, respectively.

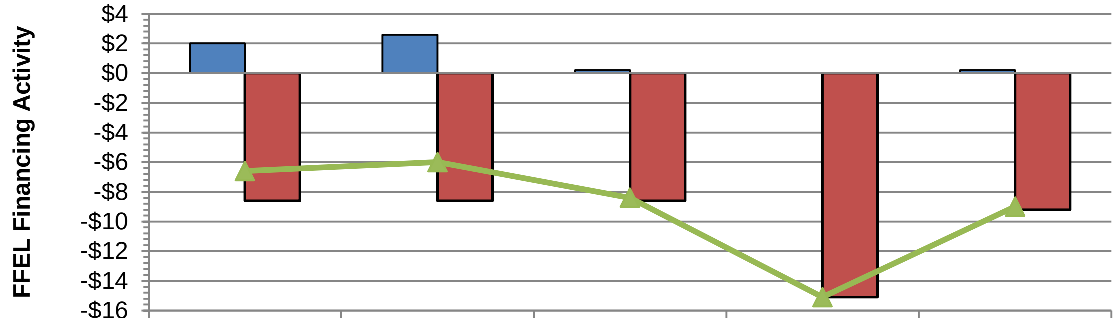
Chart 12: Direct Loan Program Net Financing Activity
Fiscal Years 2014–18
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Borrowing	$171.2	$159.7	$147.0	$160.5	$155.3
Repayments	$(50.6)	$(68.7)	$(62.6)	$(93.2)	$(66.2)
Net Change	$120.6	$90.9	$84.4	$67.3	$89.1

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

Chart 13: FFEL Loan Program Net Financing Activity
Fiscal Years 2014–18
(Dollars in Billions)

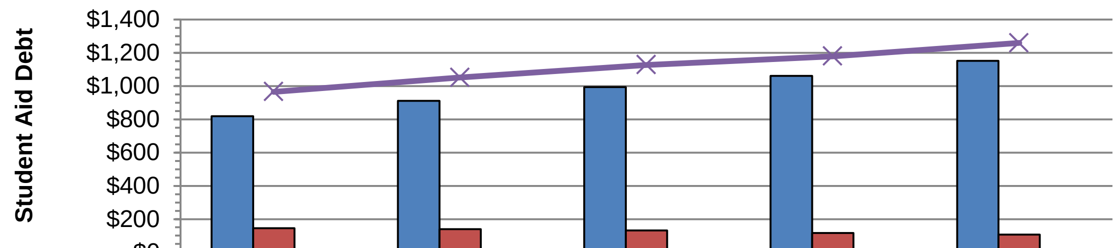


	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Borrowing	$2.0	$2.6	$0.2	$-	$0.2
Repayments	$(8.6)	$(8.6)	$(8.6)	$(15.1)	$(9.2)
Net Change	$(6.6)	$(6.0)	$(8.4)	$(15.1)	$(9.0)

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

FSA’s FY 2018 ending debt balance was 6.8 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 2014–18 period, and ended FY 2018 with a $1,150.6 billion balance, 8.4 percent above the prior-year amount, representing 91.4 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 2014–18 (Chart 14). 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 14: Comparison of Federal Student Aid Debt
Fiscal Years 2014–18
(*Dollars in Billions*)



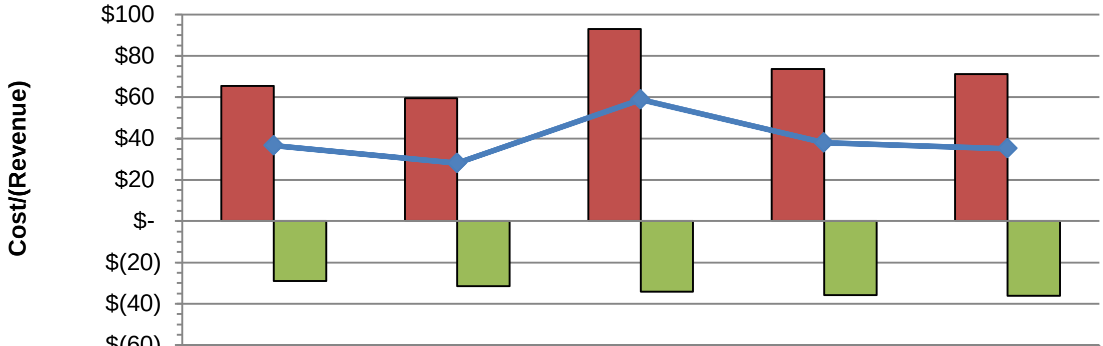
	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
DL Program	$819.0	$909.9	$994.3	$1,061.6	$1,150.6
FFEL Program	$145.8	$139.8	$131.3	$116.3	$107.3
Other (TEACH)	$0.6	$0.6	$0.7	$0.6	$0.6
Total Debt	$965.4	$1,050.3	$1,126.3	$1,178.5	$1,258.5

*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 2014–18
(*Dollars in Billions*)



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Gross Costs	$65.5	$59.5	$93.0	$73.7	$71.2
Earned Revenue	$(29.0)	$(31.5)	$(34.2)	$(35.8)	$(36.2)
Net Costs	$36.5	$28.0	$58.8	$37.9	$35.0

*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 2018 of $35.0 billion, compared to $37.9 billion for the twelve months ended September 30, FY 2017. In other words, FSA's total costs exceeded its earned revenues in both years, but the margin was smaller in FY 2018 by $2.9 billion.

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. For more details regarding the inherent difficulty of estimating the impact of these complex factors, please refer to **Note 5**.

Statement of Changes in Net Position

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

FSA's net position as of September 30, 2018 was $9.1 billion, a decrease of $14.1 billion compared to the previous September 30 net position of $23.2 billion. The difference reflects a decrease in the cumulative results of operations by the amount of $18.1 billion, from $(5.3) billion, to $(23.4) billion, of which $(16.4) billion related to the Direct Loan Program and a further $(1.7) billion was attributable to the FFEL program. In addition, unexpended appropriations also increased by $4.0 billion, of which $3.3 billion were 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, 2018, FSA had $305.9 billion in combined budgetary resources, of which $25.6 billion remained unobligated and not apportioned. This compared to $349.1 billion in budgetary resources twelve months earlier of which $25.0 billion were unobligated and not apportioned. The $43.3 billion reduction in budgetary resources represented a 12.4 percent decrease. The Direct Loan Program accounted for $34.0 billion of this decrease, mainly due to a $31.4 billion decrease in appropriation for upward subsidy re-estimates. There was also another $8.0 billion decrease attributable to the FFEL Programs.

FSA's Net Outlays after Distributed Offsetting Receipts as of September 30, 2018 were $101.7 billion, a decrease of $4.4 billion or 4.1 percent compared to the prior September 30 amount of $106.0 billion. The Direct Loan Program accounted for a $9.6 billion reduction, with offsetting increases of $4.2 billion and $1.1 billion attributable to the FFEL and to the combined Perkins Loan and Grants Programs respectively. Additional information is provided in **Note 11**.

Financial Management Risks

FSA must mitigate several financial management risks to protect borrower and taxpayer interests. The risks described below are overarching risks that are not directly reflected on the financial statements.

Administrative Budget. Many FSA 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, and subsequent variations in any of FSA's volumes can significantly impact its budget which could place 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. Over the next few years, FSA will be implementing Next Gen FSA, 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 risk to FSA operations. To mitigate risks of these large and complex implementations, FSA must:

- Ensure that FSA has sufficient staff and contractor resources to properly plan and implement Next Gen FSA, while successfully operating the current complex, integrated student aid delivery environment.
    - The current TIVAS and NFP indefinite-delivery, indefinite-quantity contracts are set to expire in June and September 2019, respectively. Should FSA require continued servicing support beyond these dates, in order to ensure continued servicing capabilities, there are multiple options it can pursue.
- Ensure that FSA staff have a common understanding of Next Gen FSA 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.

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 2018 outlays for these programs were as follows:

- Direct Loan Program: $94.1 billion
- Pell Grant Program: $28.3 billion

In FY 2018, FSA documented and assessed 343 improper payment related controls in its internal control framework and found that the risk of improper payments is effectively mitigated. The FY 2018 aggregate improper payment rate for the Direct Loan and Pell Grant programs is 4.95 percent, based on the OMB-approved non-statistical sampling methodology. In FY 2018, recipients of Federal money made approximately 96.8 percent of estimated improper payments.

FSA has plans to turn the non-statistically valid improper payment rate into one that is statistically valid in FY 2019. In addition, FSA is working to reduce the risk of incorrectly reported income on the FAFSA through improvements to the income verification process and through the implementation of an improved interface with the Internal Revenue Service, 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 2018 Agency Financial Report (AFR)***.

Debt Collection. As of September 30, 2018, the Department managed a Net Credit Program Receivable portfolio of approximately $1,209.5 billion, an increase of 5.6 percent from FY 2017. 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. FSA realizes that as the size of the loan portfolio grows so does the level of financial risk associated with the collections on these loans.

FSA manages maximizing collections, while minimizing negative borrower impacts. During FY 2018, FSA saw a slight decrease in the portfolio's three-year default rate, from 11.3 percent reported in FY 2016 and 11.5 percent reported in FY 2017, for the FY 2013 and FY 2014 three-year cohorts, respectively, to 10.8 percent reported in FY 2018 for the FY 2015 three-year cohort default rate. FSA continued to increase its collection rate from $59.69 to $62.15. This demonstrates the 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 and the collection rate, is provided in the ***Annual Performance Report*** section, in **Performance Metric D3**, of this *Annual Report*.

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, the potential legislation described above in the Payment Integrity section, also would allow FSA to automatically recertify income driven repayment loan borrowers. This change will reduce the number of borrowers who 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, 2018, the $217.0 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 8.1 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. There have been no losses of federal funds, and FSA is not aware of any lender claims being paid untimely or 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 published guidance on internal control and recognizes that internal control is an integral part of managing an organization. Internal control includes the plans, methods, and procedures used to meet the organization's missions, goals, and objectives. In carrying out these components of internal control, FSA supports an environment for performance-based management. Internal control also serves as the first line of defense in safeguarding assets, and preventing and detecting errors and fraud. Internal control helps government program managers achieve desired results through effective stewardship of public resources.

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

- Effective and efficient operations;
- Reliability of reporting for internal and external use; and
- Compliance with applicable laws and regulations.[13]

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

Based on the results of this year's assessment, FSA reported to the Department's management that its internal control over operations, including internal controls intended to prevent, detect and recover improper payments, and compliance with applicable laws and regulations, for the year ended September 30, 2018, was operating effectively, with the exception of two areas noted in the Legal Compliance section of the Department's ***AFR***. The two areas of non-compliance include the *Improper Payments Information Act of 2002* and the *Debt Collection Improvement Act of 1996*. More details about these two issues and the efforts being taken to remediate the non-compliance can be found in the Department's ***AFR***.

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

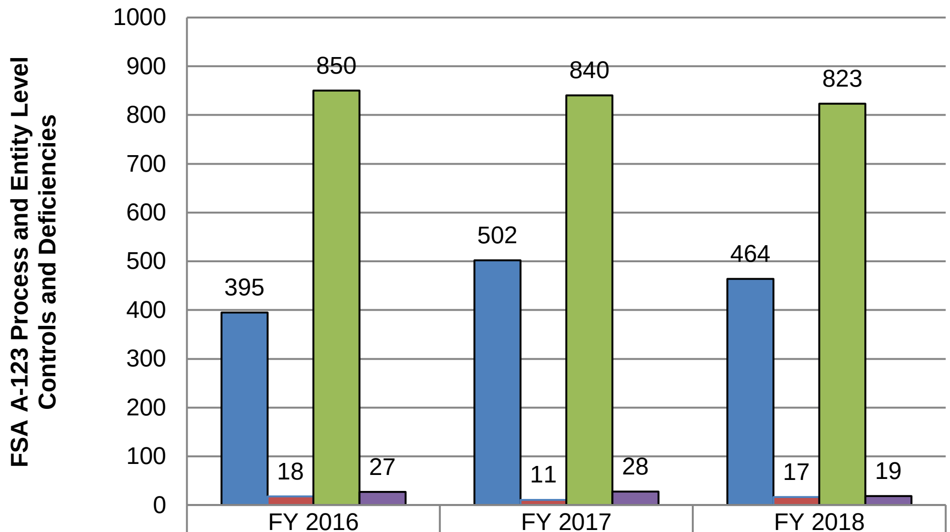
In addition, FSA, working with the Department's management, conducted its current year assessment of the effectiveness of internal control in accordance with the requirements of Appendix A of OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, updated on June 6, 2018. The scope of 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 (LaRS 799 and Monthly Consolidation Rebate Fees and GA Invoicing)
- Student Eligibility Service Group (Institutional Eligibility, Program Reviews, and Method of Payment)
- Financial Institution Oversight Service (Program Reviews)
- Direct Loan Origination
- Student Eligibility
- Grant Program Operations (Pell Grants)
- Campus Based Programs (Federal Supplemental Education Opportunity Grant and Federal Work Study)
- Financial Reporting (Journal Entries, Monthly Reconciliation, Year-End Close, and Preparation of the *FSA Annual Report*)
- Procurement Management (Contract Acquisition, Invoice Processing, and Purchase Cards)
- Human Resource Management (Personnel Transactions and Personnel Security Management)
- 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
- Health Education Assistance Loans Program
- Borrower Defense
- Public Sector Loan Forgiveness
- Entity-Level Controls
- Information Technology Controls over the following systems: Financial Management System, Central Processing System (CPS), National Student Loan Data System (NSLDS), Debt Management and Collections System (DMCS)*, Common Origination Disbursement*, the Virtual Data Center*, Next Generation Data Center, four TIVAS Servicing Systems*, five NFP Servicing Systems*, and the Federal Perkins Loan Servicing System*.

In FY 2018, 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 18, Reporting on Controls at a Service Organization. In the list above, an asterisk (*) indicates full or partial reliance on SSAE 18 Service Organization Control 1 (SOC1) reports for relevant process and IT controls.

Through reliance on SSAE 18 SOC1s and by direct testing, FSA assessed 1,287 process and entity level controls in 2018. As illustrated in Chart 21, the breakdown of this total number of key process controls assessed includes 823 controls covered by SSAE 18 SOC1s and 464 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, which allows a focused approach on high-risk areas, while ensuring all controls are covered over a three-year period. As such, there are fluctuations in the number of controls assessed from year to year. 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 2018 (36) includes deficiencies identified from both SSAE18 SOC1 reports (19) and A-123A testing (17). 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.

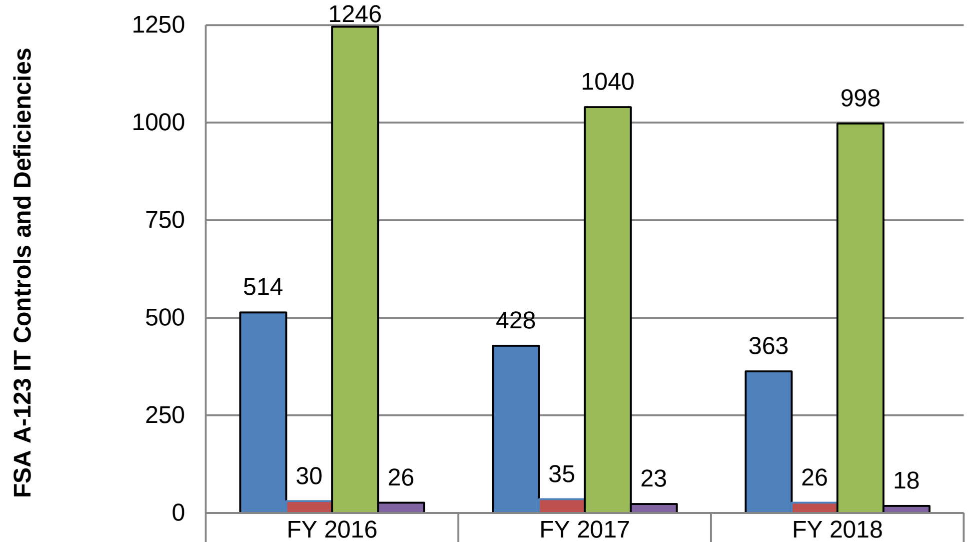
Chart 16: FSA A-123A Process and Entity Level Controls and Deficiencies Analysis Fiscal Years 2016–18



	FY 2016	FY 2017	FY 2018
Controls Tested by A-123A Team	395	502	464
A-123A Deficiencies Identified	18	11	17
Controls Tested by SSAE18 SOC1s	850	840	823
SSAE18 SOC1 Deficiencies	27	28	19

As illustrated in Chart 22, the total number of IT controls assessed was 1,361 that includes 998 controls covered by SSAE18 SOC1s and 363 tested by the FSA self-assessment team. The number of deficiencies depicted below for FY 2018 (44) includes deficiencies identified from both SSAE18 SOC1 reports (18) and A-123A testing (26). These deficiencies individually and taken together do not materially affect financial reporting. Appropriate actions are being taken to address risks.

Chart 17: FSA A-123A IT Controls and Deficiency Analysis
Fiscal Years 2016–18



	FY 2016	FY 2017	FY 2018
Controls Tested by A-123A Team	514	428	363
A-123A Deficiencies Identified	30	35	26
Controls Tested by SSAE18 SOC1s	1246	1040	998
SSAE18 SOC1 Deficiencies	26	23	18

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 2018 and FY 2017 pursuant to the requirements of Title 31 of the United States Code, Section 3515(b).

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

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

Annual Performance Report (Unaudited)

Overview of the Annual Performance Report

This section highlights information on FSA'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 progress in achieving the goals and objectives described in the *FSA FY 2015–19 Strategic Plan*. It includes subsections listed below.

Introduction to the Annual Performance Report
This subsection provides a summary of FSA 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 2018 Accomplishments of Federal Student Aid
This subsection describes additional accomplishments that were not measured by the performance metrics included in the strategic plan, but were the result of initiatives that FSA undertook to support the implementation of the strategic plan or legislative changes.

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

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

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

Fiscal Year 2018 Performance Summary

Table 22: Performance Metrics and Results

Performance Metrics	FY 2018 Target	FY 2018 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	66.4%–68.4%	67.4%	✓	62
A.2 Persistence Among First-Time Filing Aid Recipients	81.6%–83.6%	82.5%	✓	64
A.3 Customer Visits to StudentAid.gov	>=43.3 million	44.5 million	✓	65
A.4 Social Media Channel Subscribership	>=590,000	607,241	✓	66
A.5 ACSI Aid Life Cycle Surveys	68.9–70.9	70.6	✓	67
Strategic Goal B: ***Proactively manage the student aid portfolio to mitigate risk.***				
B.1 Improper Payment Rate	4.97%	4.95%	✓	68
B.2 Percent of Borrowers > 90 Days Delinquent	8.2%	7.4%	✓	70
Strategic Goal C: ***Improve operational efficiency and flexibility.***				
C.1 Aid Delivery Costs Per Application	$12.16	$8.83	✓	71
C.2 Outstanding Direct Loan Portfolio in Current Repayment Status	85.0%–86.0%	86.5%	✓	72
Strategic Goal D: ***Foster trust and collaboration among stakeholders.***				
D.1 Ease of Doing Business with FSA	71.9–74.9	74.5	✓	73
D.2 Percentage of Contract Dollars Competed by FSA	89.3%–91.3%	96.8%	✓	74
D.3 Collection Rate	$59.24	$62.15	✓	75
Strategic Goal E: ***Invest in expanded workforce capability.***				
E.1 Employee Engagement Index	68.7%–70.7%	62.0%	✗	76

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 2018 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 FSA's current 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 Goal A	**Objectives**
Improve quality of service for customers across the entire student aid life cycle.	**A.1**: Improve outreach and awareness efforts to support aid recipients and their families in making sound financial decisions.
	A.2: Optimize the borrower service model to improve the customer experience.
	A.3: Predict, identify, and understand existing and emerging customer trends and patterns.
	A.4: Enhance outreach, training and tools to improve institutional performance and help postsecondary institutions understand responsibilities and requirements under the Higher Education Act.
Strategic Goal B	**Objectives**
Proactively manage the student aid portfolio to mitigate risk.	**B.1:** Enhance analytical and research capabilities to proactively identify operational and reputational risk.
	B.2: Develop robust, data-driven processes to manage identified risks.
	B.3: Provide access to resources to protect students and families from unfair, deceptive or fraudulent practices in the student aid marketplace.
Strategic Goal C	**Objectives**
Improve operational efficiency and flexibility.	**C.1:** Link disparate data sources to improve cross-organizational information exchange.
	C.2: Refine acquisition management to ensure that services and products are consistent with business objectives.
	C.3: Enhance governance processes to support enterprise decision-making.
	C.4: Strengthen FSA's information technology (IT) systems' security.
Strategic Goal D	**Objectives**
Foster trust and collaboration among stakeholders.	**D.1:** Engage with stakeholders to be the most trusted and reliable source of information on federal student aid.
	D.2: Provide timely and proactive communication to promote accurate, consistent messaging on federal funding of postsecondary education.
	D.3: Promote transparency and accountability within FSA and across the higher education environment.
Strategic Goal E	**Objectives**
Invest in expanded workforce capability	**E.1:** Create an enterprise-wide workforce plan to attract, develop, and retain employees with the skills required to meet evolving business needs.
	E.2: Develop a succession planning strategy to identify and create opportunities for future leadership talent.

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

Table 23: Summary of Performance Results by Strategic Goal for FY 2014-18*

Strategic Goals	Performance Result	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Goal A: *Improve quality of service for customers across the entire student aid life cycle.*	Target Met/Exceeded	3	3	3	4	5
	Target Not Met	-	-	-	-	-
	Data Not Available	2*	2*	2*	1*	
Goal B: *Proactively manage the student aid portfolio to mitigate risk.*	Target Met/Exceeded	1	1	1	-	2
	Target Not Met	-	1	-	2	-
	Data Not Available	1*	-	1*	-	-
Goal C: *Improve operational efficiency and flexibility.*	Target Met/Exceeded	1	1	2	2	2
	Target Not Met	-	-	-	-	-
	Data Not Available	1*	1*	-	-	-
Goal D: *Foster trust and collaboration among stakeholders.*	Target Met/Exceeded	2	2	2	3	3
	Target Not Met	1	1	1	-	-
	Data Not Available	-	-	-	-	-
Goal E: *Invest in expanded workforce capability*	Target Met/Exceeded	1	1	1	1	-
	Target Not Met	-	-	-	-	1
	Data Not Available	-	-	-	-	-
Total	Target Met/Exceeded	8	8	9	10	12
	Target Not Met	1	2	1	2	1
	Data Not Available	4*	3*	3*	1*	-
	Total Measures	13	13	13	13	13

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

Performance Results by Strategic Goal

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

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

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

Performance Result Indicator Legend

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

  The performance metric results reported are as of fiscal year-end (i.e., September 30, 2018) 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 24
Performance Metric A.1
Percent of First-Time FAFSA Filers Among High School Seniors

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	66.4%–68.4%	67.4%	✓	Met
FY 2017	Performance metric revised in FY 2018. Prior-year data not available under revised method.			Met
FY 2016				Not met
FY 2015				Met
FY 2014				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.

The methodology for calculating this metric changed in FY 2018 to account for the fact that many high school seniors are 19 years of age. In the previous methodology, FSA was undercounting high school seniors, which was calculated based on high school seniors who were 18 years of age.

Analysis of Progress:
FSA met its target for this metric with a result of 67.4 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 this 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. In FY 2018, FSA efforts were supplemented by a nationwide FAFSA Completion Contest sponsored by the National College Access Network and the Kresge Foundation and significant FAFSA completion efforts in populous states such as Florida and Texas.

In FY 2018, FSA discovered that its previous definition of high school senior was outdated, causing the calculation of this metric to be flawed. FSA changed its methodology used to calculate this metric; however, for comparative purposes only, FSA simulated target would be 60.2 percent and its simulated result, 60.8 percent using the previous methodology.

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 19 or less as of June 30 of the first year of the application cycle; reporting high school diploma attainment; and attended a high school in the 50 states or Washington, DC. Applicants are identified using several criteria to reflect likely high school seniors (first-time filing, entering college freshmen with high school diploma, who are no older than 19 years of age). Completed applications are a subset of submitted applications and represent all submitted applications that were not rejected. Data are based on last transaction on file as of September 30, 2018. Data include all applications submitted listing high schools in the 50 US states and DC. Applications from seniors at Department of Defense Education Activity schools in other geographic areas are excluded."

Table 25
Performance Metric A.2
Persistence Among First-Time Filing Aid Recipients

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	81.6%–83.6%	82.5%	✓	**Met**
FY 2017	78.7%–80.7%	82.6%	✓	**Met**
FY 2016	78.5%–80.5%	79.7%	✓	**Met**
FY 2015	78.6%–80.6%	79.5%	✓	**Met**
FY 2014	77.5%–79.5%	79.6%	✓	**Met**

Target Context:
This metric helps track performance across one of the desired outcomes of federal student aid and its impact on program completion. By following first-time filing aid recipients—such as college freshmen or 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 82.5 percent.

Each year, FSA is concerned that students who have help filing the FAFSA as a high school senior will not receive the same assistance when they are college freshman and as a result, will not file the FAFSA. The fact that over 80 percent of students who filed a FAFSA for freshman year filed a FAFSA again the following year is a strong indication that FAFSA filers are receiving the message clearly that the FAFSA must be filed on an annual basis and that the vast majority of first-year filers are returning to the FAFSA to receive federal aid for their sophomore 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 2016–17 return applicants (by September 30 of the first year of the application cycle) that were identified in the denominator.

Table 26
Performance Metric A.3
Customer Visits to StudentAid.gov

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	>=43.3 million	44.5 million	✓	**Met**
FY 2017	>=43.3 million	44.3 million	✓	**Met**
FY 2016	>=43.4 million	47.2 million	✓	**Met**
FY 2015	>=32.7 million	43.3 million	✓	**Met**
FY 2014	>=30.7 million	32.7 million	✓	**Met**

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

Analysis of Progress:
FSA met its target for this metric with a result of 44.5 million.

FSA continued to exceed its target on this metric once again in FY 2018 with a result of 44.5 million customer visits. FSA's performance on this metric is a testament to the success of its effort on promoting the site as a trusted source and driving improvements to the student experience. Since its launch in 2012, StudentAid.gov has evolved into FSA's primary information interface for federal student aid tools, resources, and services.

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

Table 27
Performance Metric A.4
Social Media Channel Subscribership

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	>=590,000	607,241	✓	Met
FY 2017	>=500,000	584,241	✓	Met
FY 2016	>=454,000	528,251	✓	Met
FY 2015	>=368,000	454,066	✓	Met
FY 2014	>=296,000	368,042	✓	Met

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 for this metric with a result of 607,241 subscribers.

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

Data Quality and Limitations:
The 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 that the subscribership result is captured, the total could be different.

Table 28
Performance Metric A.5
ACSI Aid Life Cycle Surveys

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	68.9-70.9	70.6	✓	Met
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

Target Context:
This 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.

Analysis of Progress:
FSA met its target for this metric with a result of 70.6.

The FY 2018 score of 70.6 is higher than the FY 2017 score of 69.9 and indicates small improvements across three groups of borrowers that span the student aid lifecycle. The most heavily weighted of these measures is borrowers who are currently having their loans serviced – this is the largest segment of the population served by FSA (FSA has over 42 million borrowers) and therefore accounts for 70 percent of the measure. Nearly 25 percent of this metric is made up of scores collected by FAFSA applicants (roughly 18 million FAFSAs are filed each year) and the smallest component of the metric is the 5 percent of the measure that accounts for students still in school who are receiving Title IV funds. Together, the three measures span the three major parts of the student aid lifecycle.

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

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

Table 29
Performance Metric B.1
Improper Payment Rate

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	4.97%	4.95%	✓	Met
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

Target Context:
FSA develops and reports annually in the Department's ***AFR*** improper payment estimates for programs determined to be susceptible to significant improper payments. For FY 2015–2018, FSA's risk-susceptible programs are the Pell Grant and Direct Loan programs. The Improper Payment Rate metric presented here is a single 'blended' rate for these two programs that divides aggregated estimated improper payments for both programs by aggregated estimated program outlays.

Analysis of Progress:
FSA met its target for this metric with a result of 4.95 percent.

As noted below, the underlying improper payment estimates were calculated using a non-statistical estimation methodology and the decline in the FY 2018 estimate may not be statistically significant. FSA continues to enhance its internal control framework to prevent and detect improper payments. For more information on FSA's improper payment program, including improper payment related internal controls for the Pell Grant and Direct Loan programs, please see the Payment Integrity section of the Department's ***AFR***.

Data Quality and Limitations:
The OMB-approved FY 2018 improper payment estimation methodology is a non-statistical methodology. Accordingly, the estimates may lack the precision of other estimates developed using random, statistical methodologies. The non-statistical methodology is based on an analysis of data primarily obtained from program reviews conducted at schools identified through a risk-based (i.e., non-random) selection process.

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[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.

Over the past several years, FSA made several updates to the non-statistical 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. 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. The Department is implementing a statistically valid methodology in FY 2019.

Table 30
Performance Metric B.2
Percent of Borrowers >90 Days Delinquent

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	8.2%	7.4%	✓	Met
FY 2017	7.4%	8.3%	✗	Not met
FY 2016	9.9%	8.8%	✓	Met
FY 2015	10.4%	9.8%	✓	Met
FY 2014	Performance metric revised in FY 2015. Prior-year data not available under revised method.			N/A

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

Analysis of Progress:
FSA met its target for this metric with a result of 7.4 percent.

During FY 2018, FSA launched the Next Gen FSA. The vision of Next Gen FSA is to transform FSA to provide a world-class student aid customer experience, using industry best-in-class financial services technologies, to provide better outcomes for student and greater value to taxpayers. Borrowers, in particular, will benefit from fully designed, single contact center platform allowing them to easily contact FSA by phone, chat, and other channels, in order to receive accurate and consistent information that addresses their needs. Through direct engagement, seamless customer connections, single contact capability, and uniform data management, it is anticipated that fewer borrowers will experience periods of delinquency.

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 31
Performance Metric C.1
Aid Delivery Costs Per Application

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	$12.16	$8.83	✓	Met
FY 2017	$11.46	$10.68	✓	Met
FY 2016	$13.11	$11.53	✓	Met
FY 2015	$12.28	$10.73	✓	Met
FY 2014	$11.94	$11.43	✓	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 2018 target expected FY 2018 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 the target for this metric with a result of $8.83.

FSA continues to focus on reducing costs and increasing efficiencies within the federal student aid process. During FY 2018, aid delivery cost per application was approximately 27 percent lower than the FY 2018 target, and approximately 17 percent below the FY 2017 result.

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 CPS, FSA’s system for processing student aid applications.

Table 32
Performance Metric C.2
Outstanding Direct Loan Portfolio in Current Repayment Status

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	85.0%-86.0%	86.5%	✓	Met
FY 2017	84.9%–85.9%	85.7%	✓	Met
FY 2016	85.3%	85.4%	✓	Met
FY 2015	Performance metric revised in FY 2016 Prior-year data not available under revised method			N/A
FY 2014				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 86.5 percent.

FSA continues to reap benefits from the migration of borrowers from traditional repayment plans to income driven repayment (IDR) plans. The movement to IDR plans has been facilitated by extensive outreach conducted by both FSA and its partners. Borrowers in repayment status are less costly to service then borrowers in adverse repayment status categories like delinquency or default.

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

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

Table 33
Performance Metric D.1
Ease of Doing Business with FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	71.9-74.9	74.5	✓	Met
FY 2017	71.3–73.3	73.4	✓	Met
FY 2016	74.3–77.3	72.3	✗	Not met
FY 2015	75.9–77.9	75.8	✗	Not met
FY 2014	73–75	77	✓	Met

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

Analysis of Progress:
FSA met its target for this metric with a result of 74.5.

The fiscal year 2018 score for the "Ease of Doing Business" item on the Schools Partners survey was 74.5, the upper end of the target range (71.9–74.9) for this score. The School Partners Survey reaches out to Financial Aid Administrators across the nation who work and interact with FSA. This score comes from the August 2018 survey of Financial Aid Administrators and was the sole measurement for FY 2018. FSA feels that the increased score is indicative of improvements that it continues to make at its call centers, improvements and greater awareness of the Financial Aid Toolkit, which allows a growing number of Financial Aid Administrators to "self-serve" through accessing the many resources available in the toolkit, and use of our updated websites, including **StudentAid.gov**.

Data Quality and Limitations:
A survey of 10 to 12 questions, regarding the ease of doing business with FSA, is sent to schools quarterly. The questions focus on the ease of use of FSA's major delivery and information systems. The score is based on 1,548 responses, which resulted from 5,468 invitations sent (a 28.3 percent response rate), a very high response rate for an on-line survey.

Table 34
Performance Metric D.2
Percentage of Contract Dollars Competed by FSA

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	89.3%–91.3%	96.8%	✓	Met
FY 2017	89.3%–91.3%	95.2%	✓	Met
FY 2016	89.3%–91.3%	92.9%	✓	Met
FY 2015	87.7%–89.7%	90.3%	✓	Met
FY 2014	85.3%–87.3%	88.7%	✓	Met

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

Analysis of Progress:
FSA met its target for this metric with a result of 96.8 percent.

FSA exceeding the target for this performance metric in FY 2018 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 35
Performance Metric D.3
Collection Rate

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	$59.24	$62.15	✓	**Met**
FY 2017	$51.68	$59.69	✓	**Met**
FY 2016	$51.79	$53.07	✓	**Met**
FY 2015	$36.56	$51.58	✓	**Met**
FY 2014	$45.65	$35.90	✗	**Not 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 $62.15.

Four main components led to the increase in the FY 2018 Collection Rate Metric. Actual Loan Servicing costs are lower in part because the estimated $15.7 million in servicer recompete costs have not yet been realized. The Actual Default Collection costs are higher because a 3.5 percent decrease was realized instead of the estimated decrease of 9.2 percent. The Private Collection Agency (PCA) costs are lower than projected due to the new 'flat rate' pricing paid to PCAs being fully implemented in FY 2018 and Actual Collections were 6 percent lower than projected.

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

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

Table 36
Performance Metric E.1
Employee Engagement Index

Fiscal Year	Target	Actual	Target Achieved	Performance Result
FY 2018	68.7%-70.7%	62.0%	✗	Not Met
FY 2017	65.4%–69.4%	69.7%	✓	Met
FY 2016	66.9%–68.9%	67.4%	✓	Met
FY 2015	66.7%–68.7%	67.9%	✓	Met
FY 2014	>=64.2%	67.7%	✓	Met

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

Analysis of Progress:
FSA did not meet its target for this metric with a result of 62.0 percent.

FSA experienced significant shifts in management; restructuring of its workflow and business units; and significant policy changes to employees' work/life balance in FY 2018. FSA believes that these changes caused a dramatic decrease to its scores particularly under the Leaders Lead subsection of the Employee Engagement Index. The Leaders Lead subsection decreased from 59 percent in FY 2017 to 44 percent with a change differential of fifteen percentage points in FY 2018. These questions focused on employees' perception of senior leaders' integrity, honesty, and commitment to the workforce.

Even with the significant changes in leadership, FSA's employee engagement team coordinated with business units to deliver meaningful programs (under the FSA First Class initiative). These programs were 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 assisted to sustain the scores within the 60 percentile in positive responses associated with the EEI questions.

Data Quality and Limitations:
The EEI is calculated as the average of positive response percentages to a predetermined set of questions in the annual FEVS: 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 2018 FEVS results located at **fedview.opm.gov**.

Fiscal Year 2018 Accomplishments of Federal Student Aid

During FY 2018, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against the *FSA FY 2015–19 Strategic Plan*. Although not measured by FSA performance metrics, these accomplishments were the result of initiatives FSA undertook to support the implementation of the strategic plan or legislative changes. This section describes its additional accomplishments.

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

- FSA launched the Next Gen FSA. Next Gen FSA will create an improved, world-class customer experience for FSA's millions of customers, while creating a more agile, flexible model that will streamline FSA's existing operations. Next Gen FSA will also improve the integrity of the Title IV programs and transform how FSA works with and oversees institutions of higher education and other organizations that support the organization's shared mission.

- Throughout FY 2018, FSA focused on the development of the Next Gen FSA strategy and vision. To create the vision, FSA conducted extensive market research and learned from world-class providers. FSA currently has a diverse vendor landscape and customer interfaces are via multiple brands—this can create a less than optimal experience for FSA customers. Next Gen FSA goals include a world-class customer and partner experience, operational flexibility, operational efficiency, and improved customer outcomes.

- FSA released the initial solicitation for the Next Gen Financial Services Environment and reviewed responses to identify the most promising potential solutions. The next phase of the solicitation was released on September 24, 2018, with awards anticipated in FY 2019. In addition, FSA released a solicitation for the Enterprise-wide Digital and Customer Care Platforms and Services; the awarding of the contract is expected in early FY 2019. FSA also began work on enhancements to FSA ID, which is currently used by all FSA customers. Enhancements are scheduled be rolled out in early calendar year 2019 and will move toward a single-sign-on for all student facing applications. FSA began further visioning for the Next Gen Partner Participation and Oversight to create a world-class partner experience for all partner interactions.

- During FY 2018, FSA also established the infrastructure to realize this ambitious vision. A Next Gen Transformation Management Team (TMT) was established to track progress, centrally deploy project management and other support resources, and coordinate activities across the enterprise. The TMT is responsible for all Next Gen FSA processes, as well as for coordination amongst multiple work streams (i.e., work teams) that were created to accomplish specific Next Gen FSA goals and objectives. Leadership and initial staffing for the TMT and work streams were put in place and the process of bringing in additional federal and contract resources is under way.

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

- FSA designed and implemented a new dynamic, robust, forward-thinking Enterprise Risk Management System to significantly improve its capabilities to identify, assess, manage and monitor risks at multiple levels to help FSA pursue its mission and achieve its strategic goals. FSA's Enterprise Risk Management Office has initiated FSA's first-ever enterprise cyber risk and fraud portfolios connected to FSA's enterprise risk portfolio.

- FSA provided ongoing support, information, technical assistance, and other resources to students, institutions, and borrowers impacted by a wave of natural disasters across the southern United States, California, Hawaii, and the Caribbean, including proactive communications before the disasters struck and regular communications following the disaster; operational assistance; and regulatory and administrative relief and reporting flexibilities. More specifically, FSA issued over 4,000 emails to directly inform, and granted over 200 requests for regulatory, administrative or reporting relief and flexibilities to subsequently aid in the recovery efforts of nearly 1,700 institutions, enrolling over 2 million students, touched by Hurricanes Harvey, Irma, Maria, and the California Wildfires throughout the fall and early winter of 2017.

- FSA has led efforts to monitor the hundreds of institutions provisionally participating in Title IV programs that were impacted by the de-recognition of Accrediting Council for Independent Colleges and Schools (ACICS) as a federal accreditor. In March 2018, a decision from the U.S. District Court for the District of Columbia remanded the 2016 decision back to Secretary DeVos and the Secretary issued an Order restoring ACICS's status as an accrediting agency until a final decision is rendered on its original 2016 petition to retain accreditor status. Program Compliance worked quickly to communicate the outcomes of the Secretary's Order to more than 120 institutions (at that time) which either remained affiliated with ACICS as an accreditor or those that continued to seek alternative accreditation, and provided direction to those institutions on how they could continue to participate in Title IV programs upon the June 2018 expiration of their Provisional Program Participation Agreements.

- FSA successfully implemented a major software rewrite for EDExpress Releases 1, 2, 3, and Direct Loan Tools 18, which supported Title IV aid management by significantly increasing usability and security for participating schools. This change resolved a major organizational IT-related risk.

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

- In FY 2018, FSA conducted oversight for nearly 6,000 institutions participating in Title IV programs. Throughout FY 2018, the staff resolved over 2,300 deficient audits and flagged financial statements; issued over 470 Program Review Reports and Final Program Review Determinations (FPRD) to institutions subjected to a Program Review; and processed over 6,000 recertifications and other eligibility applications. Focused oversight resulted in over $165 million in assessed liabilities against institutions and third party servicers via the 199 FPRDs issued to those entities throughout FY 2018.

- FSA successfully transferred the HEAL Online Processing System from HHS.

- In FY 2018, the U.S. Department of Homeland Security (DHS) required FSA to discontinue the paper/manual process for the DHS three-step verification for those students who required it (approximately 30,000 per year). The DHS Systematic Alien Verification for Entitlements (SAVE) system allows Financial Aid Administrators to be able to upload required documentation for DHS to make their determination and provide the results needed for student aid eligibility determination. The result of this new electronic process is that schools can now get verification results in a matter of 2-3 days versus the 20-30 day manual process. This new program implementation included changes to the SAVE system; a pilot program with nine schools, and implemented changes based on the pilot program. The implemented changes included updating the CPS System of Records Notice to allow for the creation of 6,500 SAVE system User IDs to be sent to each school and the development of detailed user instructions published on Information for Financial Aid Professionals website.

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 2018. Data published included new portfolio reports highlighting the characteristics of: all Direct Loan borrowers, Direct Loan borrowers in a 'Repayment' loan status, and borrowers enrolled in income-driven repayment plans. Additional new reports segmented federal student loan borrowers by two demographic levels. These new portfolio reports can be found at **StudentAid.gov/student/portfolio**. Last, new reports were posted providing snapshots of the number of applications and resulting loan discharges processed due to **borrower defense to repayment** and the **Public Service Loan Forgiveness Program**. The new reports were posted along with a series of updates to the quarterly application, disbursement, and portfolio reports.

- FSA also published a series of new and updated data sets, reports, and other information regarding institutional outcomes and financial oversight including quarterly **Heightened Cash Monitoring reports**, the **Proprietary 90/10 Revenue Percentages Report**, **Financial Responsibility Composite Scores**, the **Foreign Schools Gifts and Contracts Report**, the **School Fines Report**, and the **Top 10 Program Review and Audit Findings Report**.

- FSA furthers a stronger economy and supports innovation and client customer service through the award of 34.9 percent of its contract dollars to small businesses, driving the Department's success in surpassing its small business goal of 24 percent.

- FSA offered the largest free training opportunity to financial aid professionals in the United States. During the 2017 FSA Training Conference for Financial Aid Professionals in Orlando, FL, almost 6,000 financial aid professionals were able to attend over 60 training sessions related to the administration of the federal student aid programs. FSA also offered 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. Nearly 2,100 unique institutions, representing 72.4 percent of all 2016-2017 Federal Student Aid funding, participated in the FSA Training Conference.

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

- During FY 2018, FSA created a new management development series of three interrelated workshops, based on research from the Harvard Business School and the Federal Executive Core Qualifications. This management series was fashioned to address the unique leadership needs identified as being developmentally beneficial for organizations during significant change. From this series, eight workshops were delivered to managers including the titles: *Decisiveness: Leading in an Environment of Change* and *Managing Creativity.*

- Workforce capability was also enhanced through the delivery of specialized training and education. A workshop delivered to the management team included, *An Inclusive Workplace That Values All,* which offered managers assistance in strengthening interagency collaborative relationships and improving overall communication.

- Additionally, FSA delivered to its new supervisors the managerial training titled, *Cornerstones of Supervision*, along with providing leadership coaching. The 36-hour development program is designed to increase new, or new to FSA, supervisors' capacity to lead high performing work units in support of FSA's vision and mission. Leadership coaching complements the organization's development programs; enhances managers' effectiveness; and builds the capacity to lead staff through organizational changes as a result of the Next Gen FSA transition.

- In addition to delivering training to the workforce, FSA also conducted training needs analysis for various organizational components to ascertain performance skill gap and development needs.

- Thirty-six FSA employees worked on disaster relief efforts to benefit Puerto Rico and the U.S. Virgin Islands in the aftermath of Hurricane Maria, contributing nearly 1,500 man-hours of effort to disaster assistance. There were three FSA employees mobilized via the Surge Capacity Force to assist the Federal Emergency Management Agency with the recovery efforts in Florida and Puerto Rico.

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:

- continuing 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 HEA, 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 2018. However, because FY 2018 performance results were not finalized at the time this report was prepared, the section discusses FY 2017 performance results.

At the end of FY 2018, there were 44 FSA senior managers and 7 Senior Executive Service members. The number of senior managers and Senior Executive Service members in FY 2018 differed from FY 2017 due to attrition. The FSA Executive Committee, previously titled the FSA Operating Committee, contained 18 of the 44 senior managers and 2 of the 7 Senior Executive Service members. As members of the FSA Executive Committee, these senior managers and Senior Executive Service staff reported directly to the COO or Executives in the COO office. The remaining 26 senior managers and 5 Senior Executive Service staff served in a variety of senior positions and capacities within FSA.

The following section discusses FY 2017 performance results.

For performance year 2017, the composition of ratings for the 47 senior managers who did not serve on the FSA Operating Committee last year were as follows: 17 senior managers achieved a performance rating of Exceptional Results; 13 achieved a performance rating of High Results; 10 achieved a performance rating of Results Achieved; and 7 were not eligible for a rating.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from $5,667 to $25,000 with a median award of $9,857. Award amounts for those achieving a High Results rating ranged from $2,346 to $7,359 with a median award of $6,836.

There were also 2017 performance ratings and awards for eight senior manager members of the FSA Operating Committee. The composition of those rated included: seven senior managers achieved a performance rating of Exceptional Results; one achieved a performance rating of High Results. One of the eight Senior Executive Service members is on the FSA Operating Committee and achieved a performance rating of Exceptional Results. The composition of ratings for the remaining seven Senior Executive Service members not on the FSA Operating Committee were as follows: four Senior Executive Service members achieved a performance rating of Exceptional; two achieved a performance rating of High Results; and one achieved a performance rating of Results Achieved.

Award amounts for the FSA Operating Committee ranged from approximately $15,000 to $35,000, depending on the performance rating of each individual. Only individuals with performance ratings of High Results Achieved or Exceptional Results achieved were eligible for performance-based awards.

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

Report of the Federal Student Aid Ombudsman

The FSA Ombudsman Group entered its nineteenth year of service to federal student aid recipients in FY 2018. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

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

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

The first Feedback System Annual Report was published in December 2017. During FY 2018, the Ombudsman Group combined the operations of the FSA Feedback System with the operations of the Ombudsman Case Tracking System (OCTS) to unify and provide a single point of entry for all feedback within a Feedback and Dispute Management System (FDMS). This report provides information about the volume and nature of all feedback and disputes FSA received, reviewed, and resolved during FY 2018.

Summary of All FDMS Customer Feedback Received during FY 2018

Demographic Profile of All FDMS Customers

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

Chart 18
FY 2018 Customer Demographic Profile for All FDMS Feedback

This chart profiles the most common attributes of a customer submitting feedback to FSA through FDMS. These attributes show that the customer:

- is between 25 and 49 years of age
- is not currently enrolled
- attended a public institution of higher education
- was not a first-time FAFSA filer
- was an independent student
- was eligible for Pell grants
- owes student loans greater than $40,000
- does not have an income-driven repayment plan
- has never defaulted on their student loans.

A review of past reports shows this information has remained relatively consistent.

All FDMS Feedback Classification and Categorization
Customers may submit FDMS feedback (cases[16]) about any type of federal student aid. All cases are assigned among two Lines of Business (LOBs): Feedback and Dispute. Cases pertaining to federally-held loans are researched and resolved through the Feedback LOB. Federally-owned loans include all Direct Loans, Federal Family Education Loans, and Perkins Loans owned by the Department. Cases pertaining to federal loans owned by commercial lenders or guaranty agencies—commonly referred to as commercially-held loans—are classified as Research cases and researched by the Ombudsman Group through the Dispute LOB.

This section of the report summarizes all feedback received through both LOBs.

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

- **General Inquiry[17]:** Cases involving general federal student aid questions;
- **Complaint:** Customer's dissatisfaction with the federal financial aid experience;
- **Suspicious Activity[18]:** Report or allegation of suspected fraud during the student aid process;
- **Positive Feedback:** Compliment about programs or FSA staff; or
- **Research:** Cases assigned to the Ombudsman Group through the Dispute LOB

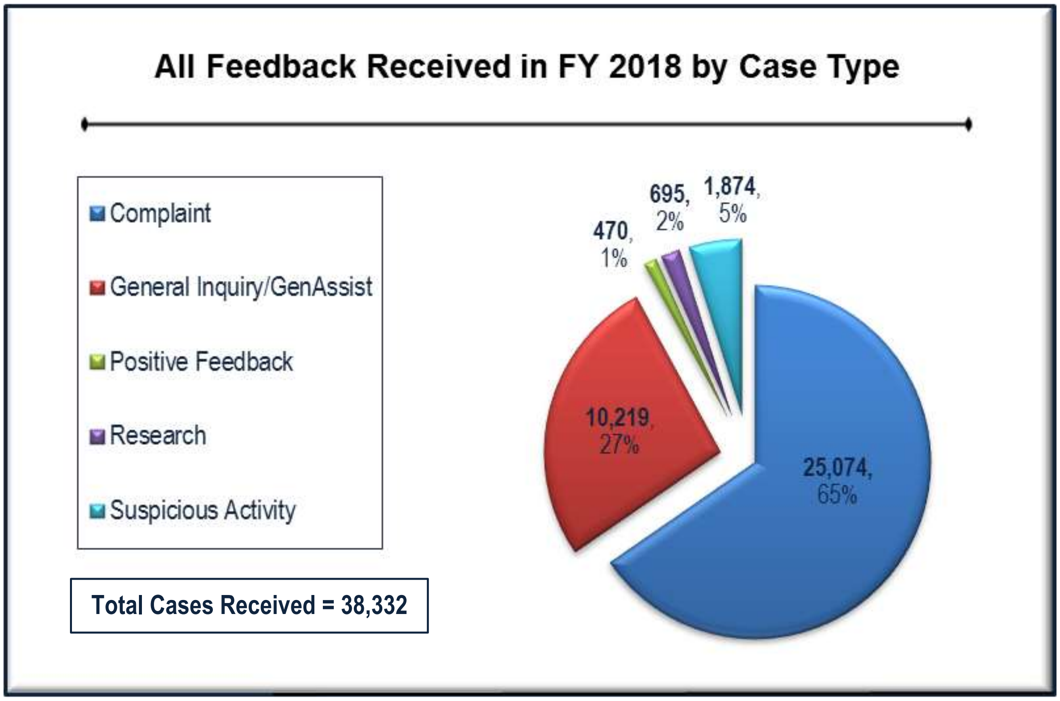
The activity in the system during FY 2018 equated to 38,332 cases received. These cases were comprised of General Inquiry 10,219; Complaints 25,074; (Allegations of) Suspicious Activity 1,874; Positive Feedback 470; and Research 695.

[16] The word "feedback" is the generic term used in this report to describe all submissions to the FSA Feedback System, and, in some instances, is interchangeable with the words "case" or "cases".

[17] Prior to February 2018, this category was found only in the Ombudsman Case Tracking System as General Assistance (GenAssist). These categories have been combined in this report as General Inquiry.

[18] A review of cases following the first year of operating the FSA Feedback System showed that customer's frequently incorrectly classified a case as "Suspicious Activity." Beginning February 2018, customers cannot choose "Suspicious Activity." FSA now determines if a case should be classified as "Suspicious Activity" based on objective criteria.

Chart 19
All FDMS Feedback Received
(By Case Type)
FY 2018



In addition to categorizing by case type, all cases are further categorized into subject categories based on the customer's description. Subcategories further refine the nature of the case. Using this taxonomy assists FSA in identifying the areas that need attention as it relates to identifying program and operational changes and improvements. The following table shows the top five most frequent categories and subcategories, for all FDMS feedback received across all case types (FDMS Top Five) in FY 2018.

Table 37
FDMS Top Five for All FDMS Feedback Received
FY 2018

Category	Subcategory	Volume	Percentage of All Feedback Received
Repaying Student Financial Aid	Loan Accuracy	3,767	9.8%
Repaying Student Financial Aid	Loan Discharge, Cancellation, or Forgiveness	3,259	8.5%
Repaying Student Financial Aid	Loan Repayment Plan	2,031	5.3%
Applying for Student Aid (FAFSA)	Completing the FAFSA	1,649	4.3%
Repaying Student Financial Aid	Loan Delinquency or Default	1,611	4.2%
Total		**12,317**	**32.1%**

The loan repayment phase of the student aid lifecycle is the reason for the majority of the feedback FSA received, representing 42.7 percent of all feedback received in FY 2018; thus the loan repayment phase of the student aid lifecycle dominates the top five categories. The application process—specifically completing the FAFSA—generated the fourth most common type of feedback received in the fiscal year.

Loan Accuracy includes all feedback in which the customer asserts the current balance of the loan, the interest rate, the loan amount disbursed, or the loan status is incorrect or misstated.

Customers who are seeking to have a loan discharged, cancelled, or forgiven under the various programs offered by the Department submit feedback that is categorized under Loan Discharge, Cancellation or Forgiveness, which includes, for example, Borrower Defense to Repayment, and TPD. PSLF uses a separate category to track more specific feedback about that program.

All feedback concerning selecting or qualifying for a specific repayment plan is captured under Loan Repayment Plan.

All feedback concerning completing the FAFSA, which pertains to any issue a customer may encounter when completing the application, is captured under Completing the FAFSA.

Feedback concerning loan delinquency or default, which includes resolution of the loan delinquency or removal of the loan from default is categorized under Loan Delinquency or Default.

How FSA Resolves Feedback

Feedback resolution must be executed within the boundaries established by law and regulation. Resolution Actions indicate the specific way in which the feedback was resolved. These actions are grouped under three common Resolution Types. Resolutions achieved on cases in FY 2018, by a vast margin, consisted of providing to the customer additional explanation or information about the action or circumstance that prompted the customer to submit feedback to FSA. These resolved cases are identified with a Resolution Action of "Communication/Process Clarified for Customer."

Table 38
Resolution Types and Actions for All FDMS Cases Closed
FY 2018

Resolution Type	Resolution Action	Volume	Percentage
Resolved	Action Taken	2,274	5.9%
	Communication/Process Clarified for Customer	14,184	36.8%
	No Response from Customer	64	0.2%
Referred	Referred to Accrediting Agency	802	2.1%
	Referred to FSA Contact Center	4,115	10.7%
	Referred to FSA Website	1,676	4.3%
	Referred to Other Government Entity	1,385	3.6%
	Referred to Outside Third-Party	1,349	3.5%
	Referred to School	2,874	7.5%
	Referred within the Department	4,898	12.7%
Submission Logged	Feedback Logged	3,150	8.2%
	No Response from Customer	1,668	4.3%
	Policy Suggestion Logged	96	0.2%
Total		38,535	100%

The Resolution Type, “Resolved”, designates feedback on which FSA has concluded all review and research activity. “Referred” is most commonly used with the case type of General Inquiry, but it also may be used to designate situations in which the customer is directed to another resource external to FSA because the nature of the feedback does not pertain to Title IV federal student aid programs or must be reported to another agency or entity. “Submission Logged” relates to feedback on which no assistance is provided, most commonly because the feedback was submitted anonymously, or contains specific direction to change Title IV law or regulation.

This method of recording the manner in which individual cases are resolved helps highlight areas of customer confusion versus problems with program implementation that may require legislative, regulatory or operational changes. It also enables FSA to show how specific categories and sub-categories of cases are resolved, and provides a more refined picture of the relative flexibility of FSA to meet and satisfy customer expectations as expressed within individual feedback submissions. Table 39 presents the most frequent Resolution Type and Actions achieved for each of the FDMS Top Five shown in Table 37.

Table 39
Frequent Resolution Types and Actions for Cases Closed
(Presented for each of the FDMS Top Five)
FY 2018

Category	Sub-Category	Resolution Type	Resolution Action	Volume
Repaying Student Financial Aid	Loan Accuracy	Resolved	Action Taken	346
			Communication Process Clarified	1,572
		Referred	Referred within the Department	759
		Submission Logged	Feedback Logged	247
Repaying Student Financial Aid	Loan Discharge, Cancellation, or Forgiveness	Resolved	Action Taken	210
			Communication Process Clarified	1,452
		Referred	Referred within the Department	525
		Submission Logged	Feedback Logged	168
Repaying Student Financial Aid	Loan Repayment Plan	Resolved	Action Taken	183
			Communication Process Clarified	913
		Referred	Referred within the Department	477
		Submission Logged	Feedback Logged	81
Applying for Student Aid (FAFSA)	Completing the FAFSA	Resolved	Action Taken	6
			Communication Process Clarified	284
		Referred	Referred to FSA Contact Center	989
		Submission Logged	Feedback Logged	170
Repaying Student Financial Aid	Loan Delinquency or Default	Resolved	Action Taken	74
			Communication Process Clarified	467
		Referred	Referred within the Department	577
		Submission Logged	Feedback Logged	60

Feedback LOB Cases Assigned to FSA Business Units
This section focuses on cases researched and resolved through the Feedback LOB. Cases in the Feedback LOB may be assigned to an FSA business unit or to an entity under contract to FSA (e.g., Loan Servicers or PCAs)[19].

All Feedback LOB submissions are classified into a category based on the customer’s description. The subcategory further refines the nature of the customer’s feedback for reporting

[19] General Inquiry/GenAssist cases are resolved at the initial point of submission and not assigned to a business unit.

purposes. The following table presents the five most frequent issue categories/subcategories federal financial aid recipients submitted, researched and resolved through the Feedback LOB.

Table 40
Top Five Categories/Subcategories of Feedback LOB Cases Received
FY 2018

Category	Subcategory	Volume
Repaying Student Financial Aid	Loan Accuracy	3,110
Repaying Student Financial Aid	Loan Discharge, Cancellation, or Forgiveness	2,921
Applying for Student Aid (FAFSA)	Completing the FAFSA®	1,651
Repaying Student Financial Aid	Loan Repayment Plan	1,569
Repaying Student Financial Aid	Loan Delinquency or Default	1,243
Total		**10,494**

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

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

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

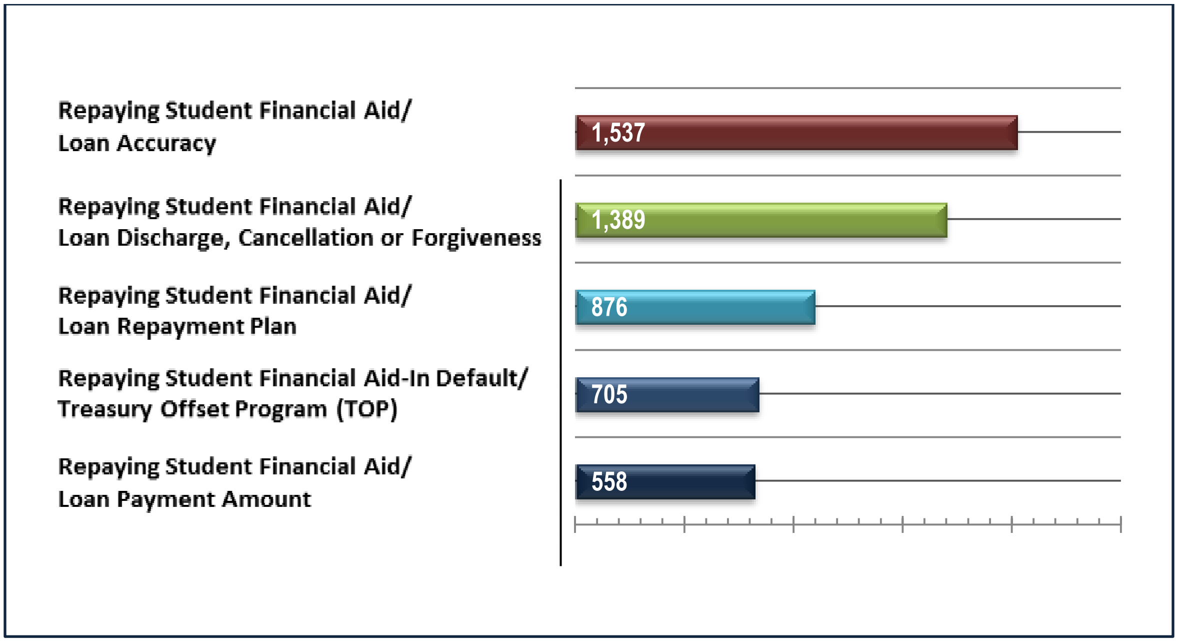
Repaying Student Financial Aid/Loan Repayment Plan pertains to customer's concerns about a loan servicer's administration or requirements of the available repayment plans. Examples include qualification for an income driven repayment plan; requirements for calculating the borrower's choice of repayment plan; and requests to change repayment plan.

Repaying Student Financial Aid/Loan Payment Amount pertains to any issue regarding the customer's scheduled payment amount. Examples include a customer's monthly loan payment amount is incorrect; a customer's federal loans are in default and are experiencing issues with a customer loan payment amount; a customer is disputing the loan repayment amount; or, a customer believes that a borrower's loans are not in default.

Resolution Action: Communication/Process Clarified for Customer
Table 38 highlights that over 36.8 percent of all cases were resolved with another explanation and/or more information about the circumstances that prompted the customer to submit feedback to FSA. As noted above, FSA must resolve complaints within the framework of existing law and regulation. This limitation means FSA often is constrained from offering a solution to the customer that directly and precisely resolves the matter in a way the customer most desires. For example, a customer may not like the interest rate on their loans. While this is certainly valid feedback, legislation mandates the interest rate on federal student loans.

Chart 20 below further highlights these occurrences. The chart presents the Feedback LOB cases that were closed in FY 2018 with the Resolution Action, Communication/Process Clarified for Customer and shows the frequency in which this Resolution Action occurs in cases with category/subcategory corresponding to one of the Top Five Feedback Categories/Subcategories:

Chart 20
Top Five Categories/Subcategories for Cases Closed by Resolution Action, Communication/Process Clarified for Customer
FY 2018



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

- Customers having difficulty with requirements associated with completing and submitting the FAFSA such as electronic signatures, completing the FAFSA, and required income information.
- Customers' difficulty understanding requirements and proving eligibility for loan program benefits such as income-driven repayment plans or loan discharge, cancellation, or forgiveness
- Unclear, hard-to-understand, or inconsistent information from FSA and its service providers
- Customer understanding and awareness of how loan balances are affected by interest accrual and/or capitalization, and reduced by monthly payments

Following are sample cases that are illustrative of these factors.

Loan Accuracy. The customer said that another person's loans were added to his loan account. The customer wants to pay only the loan he took. The issue also impacted his credit report. FSA researched its records and found that the borrower had two loans. Additional loans were transferred to the loan holder because of an incorrect Social Security Number. This issue caused the customer to receive billing notices for an increased loan balance. The records were updated, which restored the customer's account to the correct balance owed.

Loan Discharge, Cancellation, or Forgiveness. The customer completed five years of teaching in a Title 1 school and submitted the loan forgiveness application. The loan servicer rejected multiple applications for what the customer asserts were minor clerical errors. FSA reviewed the most recent Teacher Loan Forgiveness application and determined it was materially completed. The application was forwarded for approval. The customer received $5,000 of loan forgiveness based on teaching service in a Title 1 school.

Loan Repayment Plan. The customer asked for an Income-Driven Repayment Plan. Despite repeated applications, the loan servicer did not place the account in an Income-Driven Repayment Plan. FSA reviewed the borrower's account and found the customer was enrolled in school at least half time, so the loans were in deferment. After consulting with the customer, the loan servicer approved the payment plan request and removed the in-school deferment.

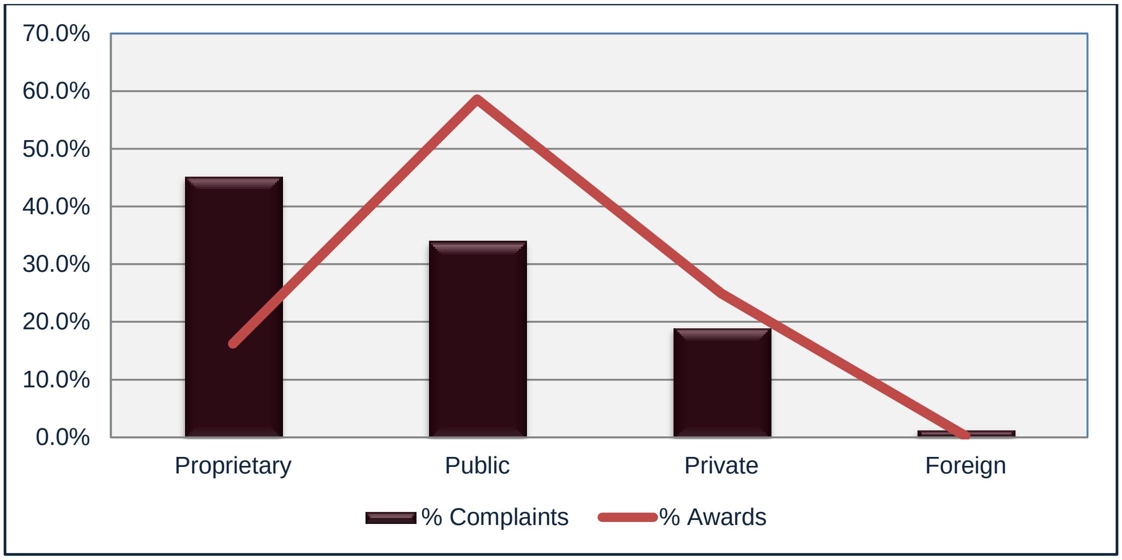
Treasury Offset Program. The customer said TOP payments totaling $13,000 were not applied to the defaulted loan account. If the TOP payments were applied, the borrower thought the loans would be paid in full. The Ombudsman reviewed the complaint and found that the borrower had two separate defaulted loan accounts. The Department held one account and a GA held the other account. All TOP payments were accounted for; however, because the payments were split between the loan holders, the loans were not paid in full.

Loan Payment Amount. The customer reported their loan payment increased from $283 to $529. The customer advised that a payment of $300-$350 would be affordable. The research showed the borrower was on an income-driven repayment plan. Following the required annual renewal, the borrower's payment amount, the customer's income increased and the new payment amount was calculated correctly. The borrower was offered the option to continue the new payment or request reduced-payment forbearance.

School-Related Feedback

The majority of feedback about schools is assigned to FSA's Program Compliance business unit for research and resolution. Customers provided feedback specifically related to 2,823 schools. Feedback in this category is described by school type, rather than school name, due to student privacy concerns associated with the small amount of feedback related to many schools. For school-related cases received by the Feedback LOB with case type "Complaint", the FY 2018 data shows that proprietary schools accounted for the largest percentage of cases.

Chart 21
School Related Complaints Received in the Feedback LOB
(By School Type)
FY 2018



As Chart 21 shows, proprietary schools disbursed 13.7 percent of all financial aid in Academic Year 2016-2017. Proprietary schools accounted for 45.3 percent of all school-related complaint submissions FSA received in FY 2018.

Table 41
Top Five School-Related Feedback Subcategories for Cases Received
FY 2018

Category	Subcategory	Volume
My School	Financial Allegations (Tuition and Fee Charges)	918
My School	School Quality of Education	736
My School	Delays Receiving Aid	528
My School	Administrative Capability	513
My School	School Owes Me Money	481
Total		3,176

The top five subcategories for school-related feedback (School Top Five) which were received in FY 2018 are identified in Table 41 above. These subcategories are defined as:

- **Financial Allegations (Tuition and Fee Charges)** is customer feedback concerning school tuition, fee charges, or a customer has a balance owed to the school. These are typically non-Title IV issues the customer describes in the feedback
- **School Quality of Education** relates to feedback about a school participating in the federal student aid programs, which are responsible for providing a quality of education with adequate resources to support an effective learning environment; subject to accrediting agency oversight.
- **Delays Receiving Aid** relates to feedback when a customer expresses that a school is unnecessarily or improperly delaying federal aid disbursement.

- **Administrative Capability** relates to a school's ability to administer the federal financial aid programs in accordance with law and regulation. Types of feedback would include insufficient number of financial aid staff, lack of financial aid related policies and procedures, or failure to follow school policies regarding financial aid awards.
- **School Owes Me Money (Credit Balance Refund)** is feedback about situations that occur whenever the amount of federal student aid funds credited to a student's account for a payment period exceeds the amount assessed the student for allowable charges associated with that payment period.

Program Compliance staff review the feedback and, as needed, contact the school and the customer for additional information. Program Compliance uses data from the school-related feedback received to inform its program review and school performance monitoring responsibilities. For optimal application of feedback data to these activities, it is necessary to examine also how most feedback gets resolved. Table 42 examines the most common Resolution Types and Resolution Actions for cases closed in FY 2018 that correspond to the School Top Five.

Table 42
Frequent Resolution Types and Actions for School Related Cases
(Presented for each of the School Top Five)
FY 2018

Category	Sub-Category	Resolution Type	Resolution Action	Volume
My School	Financial Allegations (Tuition and Fee Charges)	Resolved	Action Taken	8
			Communication Process Clarified	200
		Referred	Referred to School	294
		Submission Logged	No Response from Customer	54
My School	School Quality of Education	Resolved	Action Taken	5
			Communication Process Clarified	80
		Referred	Referred to Accrediting Agency	364
		Submission Logged	Feedback Logged	107
My School	Delays Receiving Aid	Resolved	Action Taken	2
			Communication Process Clarified	225
		Referred	Referred to School	66
		Submission Logged	No Response from Customer	43
My School	Administrative Capability	Resolved	Action Taken	8
			Communication Process Clarified	60
		Referred	Referred to School	99
		Submission Logged	Feedback Logged	42
My School	School Owes Me Money (Credit Balance Refund)	Resolved	Action Taken	7
			Communication Process Clarified	178
		Referred	Referred to School	92
		Submission Logged	Feedback Logged	38

Loan Servicing-Related Feedback

FSA contracts with ten[20] entities to manage the servicing of non-defaulted federal student loans. These entities are responsible for advising borrowers about resources and benefits to better manage their federal student loan obligations; respond to customer service inquiries; address

[20] One of these servicers, ECSI, services Perkins loans; it does not service loans made under the Direct or Federal Family Education Loan programs.

billing and collecting payments[21] on a loan; and perform other administrative tasks associated with maintaining a loan on behalf of the Department. The Default Division is an organization unit within FSA that manages the collection activities on the defaulted loan portfolio with the support of the contractor that maintains and operates the Debt Management and Collection System (DMCS) and contracted private collection agencies.

FSA contracts with ten[22] entities to manage the servicing of non-defaulted federal student loans. These entities are responsible for advising borrowers about resources and benefits to better manage their federal student loan obligations; respond to customer service inquiries; address billing and collecting payments[23] on a loan; and perform other administrative tasks associated with maintaining a loan on behalf of the Department. The default loan portfolio is serviced by the DMCS.

Table 43 shows the top three categories/subcategories for loan servicing-related cases (Loan Servicing Top Three) closed via the Feedback LOB in FY 2018.

Table 43
Top Three Categories/Subcategories of Loan Servicing-Related Feedback Closed
FY 2018

Category	Subcategory	Volume
Repaying Student Financial Aid	Loan Accuracy	2,170
Repaying Student Financial Aid	Loan Discharge, Cancellation, or Forgiveness	2,016
Repaying Student Financial Aid	Loan Repayment Plan	1,307
Total		5,493

Table 44
Frequent Resolution Types and Actions for Loan Servicing-Related Cases Closed
(Presented for each of the Loan Servicing Top 3)
FY 2018

<table>
<tr><th>Category</th><th>Sub-Category</th><th>Resolution Type</th><th>Resolution Action</th><th>Volume</th></tr>
<tr><td rowspan="4">Repaying Student Financial Aid</td><td rowspan="4">Loan Accuracy</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>221</td></tr>
<tr><td>Communication Process Clarified</td><td>1054</td></tr>
<tr><td>Referred</td><td>Referred within the Department</td><td>302</td></tr>
<tr><td>Submission Logged</td><td>No Response from Customer</td><td>78</td></tr>
<tr><td rowspan="4">Repaying Student Financial Aid</td><td rowspan="4">Loan Discharge, Cancellation, or Forgiveness</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>152</td></tr>
<tr><td>Communication Process Clarified</td><td>972</td></tr>
<tr><td>Referred</td><td>Referred to Accrediting Agency</td><td>286</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>59</td></tr>
<tr><td rowspan="4">Repaying Student Financial Aid</td><td rowspan="4">Loan Repayment Plan</td><td rowspan="2">Resolved</td><td>Action Taken</td><td>152</td></tr>
<tr><td>Communication Process Clarified</td><td>582</td></tr>
<tr><td>Referred</td><td>Referred to School</td><td>243</td></tr>
<tr><td>Submission Logged</td><td>Feedback Logged</td><td>24</td></tr>
</table>

[21] All payments on non-defaulted federal student loans the Department owns are remitted to the U.S. Department of the Treasury. That agency then reports payment information to the various servicers, which are then credited to the borrower’s account.
[22] One of these servicers, ECSI, services Perkins loans; it does not service loans made under the Direct or Federal Family Education Loan programs.

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

Reviewing the data shows that the top three servicing-related issues are consistent, except for the servicers that hold specific responsibilities. DMCS holds only defaulted loans; FedLoan Servicing is the designated servicer for all PSLF and TEACH grants; and, Nelnet processes all TPD discharge applications for federal student loans, regardless of which entity owns the loan.

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

For all feedback received in FY 2018, POE-identified customers submitted 1,386 feedback inquiries specifically related to their military status and/or educational benefits.

Table 45:
POE-Identified Top Five Case Category Feedback Submissions
FY 2018

POE-Identified Top 5 Case Category Feedback Received	Volume
Repaying Student Financial Aid	453
School	404
Student Eligibility	123
Allegation of Whistleblower	81
Public Service Loan Forgiveness (PSLF) Program	56

Dispute Cases Assigned to the Ombudsman Group
The implementation of the Feedback system in July 2016 and the merge of the Feedback system with the OCTS in February 2018 not only simplified the feedback submission process for federal student aid recipients, it also imposed a more formal structure around FSA’s complaint management and resolution process. Customers providing their feedback to FSA have access to a robust, multi-level approach to resolution that includes the primary service/program delivery partner (e.g., the loan servicer, PCA, school, or others), the FSA business unit responsible for oversight of those entities (e.g., FSA Program Compliance and Business Operations), and as an avenue of last resort, the Ombudsman Group. Because all feedback is documented within one system, it unifies the record of the efforts of multiple parties to resolve a matter.

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

During FY 2018, the Ombudsman Group received 695 cases for review and resolution. The Ombudsman Group closed 868 cases.

Table 46
Top Five Dispute Cases by Category/Subcategory Assigned to the Ombudsman Group
FY 2018

Repaying Student Financial Aid	Volume
Loan Accuracy	155
Loan Discharge, Cancellation, or Forgiveness	100
Loan Delinquency or Default	88
Loan Repayment Plan	36
Repaying Student Loans in Default	**Volume**
Treasury Offset Program (TOP)	34
Total	**413**

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

Example cases described below illustrate this activity.

Loan Accuracy. The customer disputed a loan she was being asked to repay, asserting it had been consolidated. Loan Servicer A maintained it still owned the debt; Loan Servicer B agreed with the customer's assertion.

Ombudsman Group research disclosed the loan in question was sold to the Department in 2009, based on legislation granting temporary authorization to do so, but the loan holder did not notify Loan Servicer A. Simultaneous with the loan sale, the customer filed bankruptcy, triggering a claim filing with the guarantor; and, the customer applied for a new Direct Consolidation loan intended to pay off the loan in question. The Consolidation loan was approved and later transferred to Loan Servicer B. The loan in question, however, was returned to Loan Servicer A after the conclusion of the bankruptcy.

Following joint review, research, and discussion, all parties agreed that the loan was sold to the Department in 2009 and was subsequently included in the Direct Consolidation loan held by Loan Servicer B.

Loan Discharge, Cancellation, or Forgiveness. The customer applied for False Certification discharge based on Disqualifying Status. The customer alleged that his disability impacted employment opportunities. Prior FSA responses denied the discharge because there was no state law that precluded employment in the customer's field of study.

Ombudsman Group research showed that the customer obtained two baccalaureate degrees, one in Political Science and one in Business Administration. Research also showed that the customer's condition was not disclosed at the time of enrollment and that there was no state law that precluded employment in the customer's field of study.

Following review of the documents and relevant regulation, the Ombudsman Group did not find information that would compel the loan holder to reconsider the discharge request. The customer was also provided options to manage the loan account going forward.

Loan Delinquency or Default. The customer stated the loan default was incorrect and he was not contacted about repayment. Ombudsman staff reviewed prior research and available information. Lender records showed multiple efforts to contact the customer about repayment. The lender had no record that the customer contacted them or remitted payment. The research confirmed that the lender performed appropriate due diligence and the default status was correct. The customer was provided options to resolve the default status.

Treasury Offset Program. The customer disputed the offset on loans that were taken 40 years ago. The customer thought that the offset was an error because their loans were previously paid and monies had been refunded to them. Research disclosed that the customer had defaulted loans with two different loan holders. The customer had made payment to settle loans owed to one entity, but the debt to the other entity remained unpaid.

The case was resolved as the Ombudsman Group provided the customer with information from both loan holders to show the separate accounts and the transactions related to each gave confidence that a balance remained unpaid. The customer was provided with options to request return of the offset and resolve the default status and resume repayment.

Wage Garnishment. The customer said she could not afford wage garnishment and wanted it stopped. Ombudsman Group staff reviewed previous research and responses, as well as loan holder records. Research confirmed the borrower had not made payment arrangements, proper notices were sent, and a wage garnishment hearing request was not received. The research confirmed that the loan holder followed appropriate steps before initiating wage garnishment. The customer was provided with her options to request a hearing to review the wage garnishment or otherwise resolve the default.

Table 47
All Dispute Cases Closed
(By Resolution Type)
FY 2018

All Dispute Cases Closed by Resolution Type	Volume
Resolved	524
Referred	178
Submission Logged	166
Total	**868**

Other Case Types

Suspicious Activity

Prior to February 2018, a customer could self-designate a submission as suspicious activity. The Ombudsman Group learned that the majority of such submissions were incorrectly categorized. Customers can no longer self-designate a submission as suspicious activity. The Ombudsman Group carefully reviews each customer submission to determine if there is a credible allegation of fraud or illegal activity associated with the federal financial aid programs.

Table 48 identifies all Suspicious Activity cases received by the Feedback LOB, by category during FY 2018.

Table 48:
All Suspicious Activity Cases Received
(By Category)
FY 2018

Category	Volume
Allegation of Whistleblower	765
Allegation of Misuse of Departmental Resources	366
Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation	322
Allegation of Identity Theft	299
Allegation of Misuse of FSA ID	136
Total	**1,888**

As with all other feedback, the manner in which they are resolved is tracked as cases closed by Resolution Type and Resolution Action.

Table 49
Frequent Resolution Types and Actions for All Suspicious Activity Cases Closed
(By category)
FY 2018

Category	Resolution Type	Resolution Action	Volume
Allegation of Whistleblower	Resolved	Action Taken	21
		Communication Process Clarified	260
	Referred	Referred to School	39
	Submission Logged	Feedback Logged	371
Allegation of Misuse of Departmental Resources	Resolved	Action Taken	11
		Communication Process Clarified	49
	Referred	Referred to Other Government Entity	276
	Submission Logged	Feedback Logged	37
Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation	Resolved	Action Taken	4
		Communication Process Clarified	6
	Referred	Referred to Other Government Entity	275
	Submission Logged	Feedback Logged	5
Allegation of Identity Theft	Resolved	Action Taken	28
		Communication Process Clarified	205
	Referred	Referred to Other Government Entity	40
	Submission Logged	Feedback Logged	35
Allegation of Misuse of FSA ID	Resolved	Action Taken	1
		Communication Process Clarified	29
	Referred	Referred to Other Government Entity	91
	Submission Logged	No Response from Customer	2

FSA shares enforcement authority over schools, loan servicers, and other participants in the federal student aid programs with the Department's OIG and other agencies at the federal and state level. All allegations of Suspicious Activity are shared with the Department's OIG and the Federal Trade Commission Consumer Sentinel database. Sharing the information with the

Sentinel data base renders individual, case-level information available to a broader network of federal and state law enforcement entities.

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

Table 50
All Positive Feedback Received by the Feedback LOB
(By category)
FY 2018

Category	Volume
U.S. Department of Education Web Site, Application or Service	325
My Customer Service Experience	94
My Servicer	37
My School	6
My Collection Agency	2
Total	**464**

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

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

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

During FY 2018, FSA received 1,641 cases related to PSLF. The primary reason for feedback about the PSLF program related to qualifying for the program, specifically from customers who have no loans from the Direct Loan program or were not on the correct repayment plan.

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

In response, the *Consolidated Appropriations Act, 2018* provided additional limited eligibility requirements, TEPSLF, which gives assistance to individuals who thought they were on the correct plan. TEPSLF is only for those customers who have made 120 payments since 2007 and have been denied PSLF on that basis. The TEPSLF opportunity was funded $350 million.

Table 51
Frequent Resolution Types and Actions for PSLF Cases Closed
FY 2018

Category	Sub-Category	Resolution Type	Resolution Action	Volume
Public Service Loan Forgiveness (PSLF) Program	Direct Loan Eligibility	Resolved	Action Taken	15
			Communication Process Clarified	103
		Referred	Referred within the Department	23
		Submission Logged	Feedback Logged	14
Public Service Loan Forgiveness (PSLF) Program	Employee Certification Form	Resolved	Action Taken	15
			Communication Process Clarified	19
		Referred	Referred within the Department	3
		Submission Logged	Feedback Logged	1
Public Service Loan Forgiveness (PSLF) Program	PSLF Applications	Resolved	Action Taken	27
			Communication Process Clarified	184
		Referred	Referred to FSA Contact Center	75
		Submission Logged	Feedback Logged	29
Public Service Loan Forgiveness (PSLF) Program	Qualifying Employment or Employer	Resolved	Action Taken	6
			Communication Process Clarified	23
		Referred	Referred to FSA Contact Center	5
		Submission Logged	Feedback Logged	3
Public Service Loan Forgiveness (PSLF) Program	Qualifying Monthly Payments	Resolved	Action Taken	284
			Communication Process Clarified	354
		Referred	Referred within the Department	42
		Submission Logged	Feedback Logged	15
Public Service Loan Forgiveness (PSLF) Program	Qualifying Repayment Plan	Resolved	Action Taken	50
			Communication Process Clarified	101
		Referred	Referred within the Department	26
		Submission Logged	Feedback Logged	2

Other Ombudsman Group Activity

Customer Satisfaction Survey Results

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

For all surveys completed in FY 2018, the ACSI score for the Ombudsman Group was 48. This is one point lower than FY 2017 and ten points higher than FY 2016. As noted in previous reports, the survey result is not as high as desired. Analysis of the numbers continues to show the Ombudsman Group’s ACSI scores are distributed in an inverted Bell curve, with the lowest and highest scores at the upper ends and lowest in the middle.

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

Student Loan Ombudsman Caucus
The Ombudsman Group hosted the annual meeting of the Student Loan Ombudsman Caucus in September 2018. The Caucus, chartered by the National Council of Higher Education Resources, is an informal group of individuals who serve as ombudsmen, or in an informal dispute resolution capacity at lenders, loan servicers, and guaranty agencies. The Caucus meets on a bi-monthly basis via conference call, and annually in a face-to-face session. During this year's annual meeting, attendees reviewed case studies for handling situations related to joint consolidation loans and credit reporting. Presentations touched on the FAFSA mobile application, collecting and resolving complaints and disputes, POE, and credit reporting.

Recommendations
The statute provides that the Ombudsman, as part of this annual report, make recommendations for policy changes based on feedback received from federal financial aid recipients.

Although the majority of feedback received is resolved with additional information offered or clarified for the customer, the root circumstances driving customers to provide feedback lie in the complexity of the requirements to qualify for aid and to secure benefits during loan repayment, such as IDR and loan discharge. This complexity not only frustrates customers, but also challenges FSA service providers to provide high-quality service.

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

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

Recommendation. IDR renewal should be "opt-out" through use of data retrieval from the Internal Revenue Service (IRS).

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

year repayment term. Expiration or a change in repayment plan also causes interest to capitalize.

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

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

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

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

Recommendation. Existing tax law should be changed to eliminate any tax liability that would otherwise result from the write-off of loan principal remaining after completion of any Income Driven Repayment plan.

Current tax law may result in a tax debt for borrowers whose loans are discharged or forgiven in certain circumstances. Income Contingent Repayment became available in 1994 with the creation of the Direct Loan Program. Beginning in 2019, borrowers who have not had sufficient income to fully repay their federal student loans will now potentially face a tax liability because the amount of the student loan debt written off may be considered income in the year that write-off occurs. Although the borrower is relieved of repaying the remaining balance of the student loan, they now have a debt owed to the IRS. This holds true for all income-driven repayment plans.

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

Feedback about TPD discharge of federal student loans has declined in recent years. This is due, in large part, to the data sharing agreement between the Social Security Administration and the Department. In 2018, the Department also entered a data sharing agreement with the VA. In calendar year 2017, the Department approved 7,665 TPD discharges for disabled veterans. In 2018, this new data match has allowed the Department to approve more than 15,000 TPD discharges for disabled veterans.

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

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

Financial Section

Overview of the Financial Section

This section provides a financial presentation of FSA's stewardship and accountability for its resources. The Message from the Chief Financial Officer 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 of FSA during the current fiscal year.

Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Stewardship Information (Unaudited)

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

Required Supplementary Information (Unaudited)

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

Independent Auditors' Report

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

Message from the Chief Financial Officer

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

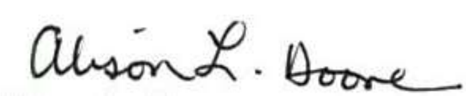
In fiscal year (FY) 2018, FSA spent $1.5 billion to deliver $122.4 billion of federal aid to more than 12.7 million postsecondary students and their families as well as to oversee a loan portfolio of 43 million borrowers with over $1.4 trillion in federal student loan debt. This is an enormous financial 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.

FSA manages its $1.5 billion administrative budget to deliver our mission at expected performance levels. This past year, we implemented a more secure Internal Revenue Service Data Retrieval Tool in the 2018-19 *Free Application for Federal Student Aid* (FAFSA®) 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.

As part of the internal control framework, FSA documented and tested 1,287 key process controls, including 1,036 Business Process and 251 entity level controls, and 1,361 information technology system internal controls across 38 business processes and sub-processes and 17 integrated Information Technology systems, respectively. In FY 2018, we assessed that 97 percent of the controls tested are designed and operating effectively. The other 3 percent are immaterial deficiencies for which we have established or are establishing corrective actions. We will continue to repeat this assessment process on a regular basis, constantly looking for opportunities to improve our operations. This strong underlying internal control 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 work with professionals throughout the Department who so enthusiastically meet our financial management challenges and achieve such distinguished results.

Sincerely,



Alison L. Doone
Chief Financial Officer
November 15, 2018

Financial Statements

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

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

Consolidated Balance Sheets:

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

Consolidated Statements of Net Cost:

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

Consolidated Statements of Changes in Net Position:

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

Combining Statements of Budgetary Resources:

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

Notes to the Financial Statements:

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

United States Department of Education
Federal Student Aid
Consolidated Balance Sheets
As of September 30, 2018 and 2017
(Dollars in Millions)

	FY 2018	FY 2017
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 73,405	$ 74,032
Other Intragovernmental Assets (Note 4)	19	7
Total Intragovernmental	73,424	74,039
Public:		
Credit Program Receivables, Net (Note 5)		
Direct Loan Program	1,115,053	1,041,554
FFEL Program	92,947	102,410
Other Credit Programs for Higher Education	1,495	1,442
Other Assets (Note 4)	2,346	2,249
Total Public	**1,211,841**	**1,147,655**
Total Assets (Note 2)	**$ 1,285,265**	**$ 1,221,694**
Liabilities:		
Intragovernmental:		
Debt (Note 7)		
Direct Loan Program	$ 1,150,610	$ 1,061,559
FFEL Program	107,261	116,290
Other Credit Programs for Higher Education	610	624
Subsidy Due to Treasury General Fund (Note 8)	7,528	7,013
Other Intragovernmental Liabilities (Note 9)	2,769	2,608
Total Intragovernmental	1,268,778	1,188,094
Other Liabilities (Note 9)	7,428	10,392
Total Liabilities (Note 6)	**$ 1,276,206**	**$ 1,198,486**
Commitments and Contingencies (Note 13)		
Net Position:		
Unexpended Appropriations	$ 32,487	$ 28,524
Cumulative Results of Operations	(23,428)	(5,316)
Total Net Position	**$ 9,059**	**$ 23,208**
Total Liabilities and Net Position	**$ 1,285,265**	**$ 1,221,694**

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 Year Ended September 30, 2018
(Dollars in Millions)

		FY 2018
Program Costs		
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Direct Loan Program		
Gross Costs	$	37,965
Earned Revenue		(32,329)
Net Cost of Direct Loan Program	$	5,636
FFEL Program		
Gross Costs	$	4,599
Earned Revenue		(3,336)
Net Cost of FFEL Program	$	1,263
Other Credit Programs for Higher Education		
Gross Costs	$	76
Earned Revenue		(559)
Net Cost of Other Credit Programs for Higher Education	$	(483)
Non-Credit Programs		
Gross Costs	$	28,592
Earned Revenue		-
Net Cost of Non-Credit Programs	$	28,592
Net Program Costs	**$**	**35,008**
Total Gross Costs	**$**	**71,232**
Total Earned Revenue		**(36,224)**
Net Cost of Operations (Notes 10 & 12)	**$**	**35,008**

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 Year Ended September 30, 2017
(Dollars in Millions)

		FY 2017
Program Costs:		
<u>**Increase College Access, Quality, and Completion**</u>		
Gross Costs	$	73,771
Earned Revenue		(35,825)
Net Program Costs	$	37,946
Net Cost of Operations (Notes 10 & 12)	$	**37,946**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2018 and 2017
(Dollars in Millions)

	FY 2018		FY 2017	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances:				
Beginning Balances	$ (5,316)	$ 28,524	$ (28,213)	$ 26,531
Budgetary Financing Sources:				
Appropriations Received	$ -	$ 49,784	$ -	$ 89,625
Appropriations Transferred – In/Out	-	-	-	(2)
Other Adjustments (Rescissions, etc.)	-	(1,224)	-	(1,437)
Appropriations Used	44,597	(44,597)	86,193	(86,193)
Nonexchange Revenue	(1)	-	-	-
Other Financing Sources:				
Imputed Financing from Costs Absorbed by Others	14	-	10	-
Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other	(27,714)	-	(25,360)	-
Total Financing Sources	**$ 16,896**	**$ 3,963**	**$ 60,843**	**$ 1,993**
Net Cost of Operations:	**$ (35,008)**	**$ -**	**$ (37,946)**	**$ -**
Net Change:	**$ (18,112)**	**$ 3,963**	**$ 22,897**	**$ 1,993**
Net Position	**$ (23,428)**	**$ 32,487**	**$ (5,316)**	**$ 28,524**

The accompanying notes are an integral part of these statements.

United States Department of Education
Federal Student Aid
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2018 and 2017
(Dollars in Millions)

	FY 2018		FY 2017	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources				
Unobligated Balance from Prior Year Budget Authority (Net)	$ 12,015	$ 15,859	$ 14,064	$ 10,389
Appropriations (Discretionary and Mandatory)	48,627	-	88,321	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,543	-	166,426
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	393	61,439	1,037	68,906
Total Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 103,422**	**$ 245,721**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct 1	901	(7,024)	3,680	(4,914)
Status of Budgetary Resources				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 46,002	$ 221,384	$ 92,308	$ 222,838
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	12,290	-	8,595	-
Unapportioned, Unexpired Accounts	2,168	23,457	2,093	22,883
Unexpired Unobligated Balance, End of year	**$ 14,458**	**$ 23,457**	**$ 10,688**	**$ 22,883**
Expired Unobligated Balance, End of Year	575	-	426	-
Unobligated Balance, End of Year (Total)	**$ 15,033**	**$ 23,457**	**$ 11,114**	**$ 22,883**
Total Status of Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 103,422**	**$ 245,721**
Outlays, Net (Discretionary and Mandatory)	45,918	83,059	84,986	40,490
Distributed Offsetting Receipts (-) (Note 11)	(27,321)	-	(19,438)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 18,597**	**$ 83,059**	**$ 65,548**	**$ 40,490**

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

Notes to the Financial Statements for the Years Ended, September 30, 2018 and 2017

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. (See Notes 5 and 10)

Grant Programs. FSA and the Department manage numerous grant programs, which provide financial aid, that in most cases does not need to be repaid, to students with financial need. The largest of these programs is the Federal Pell Grant (Pell Grant) program, which provides need-based grants to low-income undergraduate and certain post baccalaureate students that promotes access to postsecondary education. Other grant programs include Federal Work-Study Program, Federal Supplemental Educational Opportunity Grants (FSEOG), Teacher Education Assistance for College and Higher Education (TEACH) Grants, and Iraq and Afghanistan Service Grants. (See Note 10)

Basis of Accounting and Presentation

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

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

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

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

Accounting 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 funds) and interest paid to Treasury on borrowings.

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

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

FSA records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools’ receipt of aid applications. FSA advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to 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 7.8 percent of the amount obligated for new loan awards will not be disbursed.

When a loan is placed in deferment or forbearance, loan repayment is temporarily suspended with the length of postponement different for each 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 and new resources, which include appropriations, authority to borrow from Treasury, and spending authority from collections.

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

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

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

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

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

Entity and Non-Entity Assets

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

Fund Balance with Treasury

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

Accounts Receivable

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

Guaranty Agencies' Federal Funds

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

The balance in the Federal Fund represents consolidated reserve balances of the 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. 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 returned to Treasury's General Fund. (See Notes 2, 4, and 9)

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

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

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

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

Property and Equipment, Net and Leases

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

Liabilities

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

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

Debt

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

Subsidy Due To Treasury General Fund

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

Accounts Payable

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

Accrued Grant Liability

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

Personnel Compensation And Other Employee Benefits

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

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

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

Contributions for CSRS, FERS, and other retirement benefits are insufficient to fund the programs fully and are subsidized by the Office of Personnel Management (OPM). The Department imputes its share of the OPM subsidy, using cost factors provided by OPM, and reports the full cost of the programs related to its employees.

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

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

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

Net Cost

FSA expanded its FY 2018 Statement of Net Cost to improve the level of transparency of its costs and revenue. FSA elected to present its FY 2017 Statement of Net Cost in the more summarized format that was published in its previously audited financial statements.

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

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

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

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

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

Net Position

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

Taxes

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

Use of Estimates

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

Reclassifications

The following reclassifications were made to the prior year financial statements and notes to conform to the current year presentation. These changes had no effect on total assets, liabilities and net position, net cost of operations, or budgetary resources.

- The Combined Statements of Budgetary Resources were condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance to conform to FY 2018 changes in OMB Circular A-136.
- Note 6, Liabilities Not Covered by Budgetary Resources, was expanded to include the presentation of liabilities not requiring budgetary resources to conform to FY 2018 changes in OMB Circular A-136.

Note 2. Non-Entity Assets

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Non-Entity Assets				
Credit Program Receivables, Net	$ -	$ 551	$ -	$ 495
Other Assets				
Guaranty Agencies' Federal Funds	-	2,176	-	2,077
Accounts Receivable, Net	-	36	-	33
Total Non-Entity Assets	**-**	**2,763**	**-**	**2,605**
Entity Assets	73,424	1,209,078	74,039	1,145,050
Total Assets	**$ 73,424**	**$ 1,211,841**	**$ 74,039**	**$ 1,147,655**

FSA's FY 2018 assets are predominantly entity assets (99.4 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (78.8 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (19.9 percent), reported as credit program receivables, net. The corresponding liabilities for these non-entity assets are reflected in various accounts, including intragovernmental accounts payable, Guaranty Agencies' Federal Funds due to Treasury, and other liabilities. (See Note 9)

Note 3. Fund Balance with Treasury

(Dollars in Millions)

	2018	2017
Unobligated Balance		
Available	$ 12,290	$ 8,595
Unavailable	24,024	23,325
Obligated Balance, not Disbursed	99,484	100,544
Authority Temporarily Precluded from Obligation	1	1
Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11)	(62,394)	(58,433)
Total Fund Balance with Treasury	**$ 73,405**	**$ 74,032**

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 ($24,024 million) differs from unapportioned and expired amounts on the SBR ($26,200 million) due to the Guaranty Agencies' Federal Funds ($2,176 million).

Note 4. Other Assets

(Dollars in Millions)

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Guaranty Agencies' Federal Funds	$ -	$ 2,176	$ -	$ 2,077
Accounts Receivable, Net	-	125	-	137
Advances	19	14	7	1
Property and Equipment, Net	-	27	-	31
Other	-	4	-	3
Total Other Assets	**$ 19**	**$ 2,346**	**$ 7**	**$ 2,249**

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

Credit Program Receivables, Net

(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
Direct Loan Program	$ 1,083,735	$ 71,981	$ (40,663)	$ 1,115,053
FFEL Program	95,083	21,116	(23,252)	92,947
Other Credit Programs for Higher Education	1,617	420	(542)	1,495
Total Credit Receivables	**$ 1,180,435**	**$ 93,517**	**$ (64,457)**	**$ 1,209,495**
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**

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

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

Direct Loan program loan receivables include defaulted and nondefaulted loans owned and held by the Department. Of the $1,155.7 billion in gross loan receivables, as of September 30, 2018, $84.9 billion (7.3 percent) in loan principal was in default and had been transferred to the Department's defaulted loan servicer, compared to $70.7 billion (6.7 percent) as of September 30, 2017.

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

	2018	2017
Beginning Balance, Allowance for Subsidy	**$ 16,805**	**$ (5,292)**
Activity		
Fee Collections	1,696	1,694
Loan Cancellations	(7,521)	(7,689)
Subsidy Allowance Amortization	25,918	23,276
Other	(604)	(513)
Total Activity	**19,489**	**16,768**
Subsidy Expense for Direct Loans Disbursed in the Current Year by Component		
Interest Rate Differential	1,614	(13,045)
Defaults, Net of Recoveries	1,106	(133)
Fees	(1,747)	(1,968)
Other	(4,103)	12,541
Total of the Above Subsidy Expense Components	**(3,130)**	**(2,605)**
Components of Loan Modifications		
Loan Modification Costs	144	-
Modification Adjustment Transfers Gain	(8)	-
Loan Modifications	**136**	**-**
Components of Subsidy Re-estimates		
Interest Rate Re-estimates	(4,573)	(5,765)
Technical and Default Re-estimates	11,936	13,699
Upward Subsidy Re-estimates	**7,363**	**7,934**
Ending Balance, Allowance for Subsidy	**$ 40,663**	**$ 16,805**

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 and other accruals.

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

	2018	2017
Interest Expense on Treasury Borrowing	$ 32,329	$ 31,286
Total Interest Expense	**$ 32,329**	**$ 31,286**
Interest Revenue from the Public	$ 54,157	$ 50,142
Interest Revenue on Uninvested Funds	3,890	4,258
Administrative Fees	200	162
Amortization of Subsidy	(25,918)	(23,276)
Total Revenues	**$ 32,329**	**$ 31,286**

Direct Loan Program Subsidy Expense
(Dollars in Millions)

	2018	2017
Subsidy Expense for Direct Loans Disbursed in the Current Year		
Interest Rate Differential	$ 1,614	$ (13,045)
Defaults, Net of Recoveries	1,106	(133)
Fees	(1,747)	(1,968)
Other	(4,103)	12,541
Total Subsidy Expense for Direct Loans Disbursed in the Current Year	**(3,130)**	**(2,605)**
Loan Modifications	136	-
Upward Subsidy Re-estimates	7,363	7,934
Direct Loan Subsidy Expense	**$ 4,369**	**$ 5,329**

FY 2018 Direct Loan Program Modifications. The Department recognized net loan modifications totaling $136 million in FY 2018. The FY 2018 modifications include the cost associated with the policy change related to forgiving accrued interest on borrower defense claims that have been denied and pending for more than one year. In addition, the *Consolidated Appropriations Act, 2018* provided limited, additional conditions under which a borrower may become eligible for PSLF if some or all of the payments were made under a nonqualifying repayment plan. Finally, an $8 million upward modification was recorded based on the *Bipartisan Budget Act of 2018* which gives the Department broad authority to forgive Direct Loans received by students who did not complete the period for which they enrolled as a result of hurricanes Maria and Irma that disrupted Puerto Rico and the U.S. Virgin Islands in 2017.

Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. Direct Loan program re-estimated subsidy cost was adjusted upward by $7.4 billion in FY 2018. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2017. 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.

- **IDR Model Changes.** In 2018, the Department updated several assumptions within its IDR submodel and refined the logic for borrowers switching between IDR plans. These updates led to a net downward re-estimate of $4.1 billion.
- **Repayment Plan Selection.** The Department incorporated new repayment plan data that showed a continuing increase in IDR plan usage. The update also reflects changes in interpretation of repayment plan codes for Direct Loan consolidations. Much of the consolidation loan volume that was previously classified as standard (ten-year fixed) is now classified as extended. Also, the Department changed the methodology for assigning and forecasting plans from an origination cohort basis to an enter repayment cohort basis. Lastly, the Department placed limits on forecasted growth of IDR participation to reflect an anticipated saturation point. The combined effect of these changes was a net upward re-estimate of $2.1 billion.
- **Default Rates.** The Department made updates to the default rate model in FY 2018 which led to a net upward re-estimate of $14.8 billion.

With the increase in IDR participation, the Department also conducted sensitivities on incomes for students in IDR and PSLF plans. For example, a 5 percent upward increase in borrower incomes decreases costs by almost $1.3 billion for cohort 2017. A 5 percent increase in PSLF plan participation would increase costs by $0.4 billion for cohort 2017.

Direct Loan Subsidy Rates—Cohort 2018

	Interest Differential	Defaults	Fees	Other	Total
Stafford	-0.01%	1.84%	-1.07%	7.54%	8.30%
Unsubsidized Stafford	-19.55%	1.34%	-1.07%	9.56%	-9.72%
PLUS	-33.15%	0.89%	-4.26%	8.73%	-27.79%
Consolidation	3.96%	0.37%	0.00%	9.85%	14.18%
Weighted Average Total	-11.95%	0.86%	-1.20%	8.92%	-3.37%

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 2018 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 2020 President's Budget.

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

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

	2018	2017
Stafford	$ 20,343	$ 23,368
Unsubsidized Stafford	49,009	51,410
PLUS	23,117	18,695
Consolidation	41,625	48,999
Total Disbursements	**$ 134,094**	**$ 142,472**

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 $41.6 billion during FY 2018 and $49.0 billion during FY 2017. 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 authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled. As of September 30, 2018 and 2017, total principal balances outstanding of guaranteed loans held by lenders were approximately $157 billion and $176 billion, respectively. As of September 30, 2018 and September 30, 2017, the estimated maximum government exposure on outstanding guaranteed loans held by lenders was approximately $154 billion and $173 billion, respectively. Of the insured amount, the Department would pay a smaller amount to the guaranty agencies. The rates range from 75 to 100 percent of the loan value depending on when the loan was made and the guaranty agency's claim experience.

FFEL Program Loan Receivables
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
DEFAULTED FFEL GUARANTEED LOANS				
FFEL GSL Program (Pre-1992)	$ 3,917	$ 5,836	$ (8,077)	$ 1,676
FFEL GSL Program (Post-1991)	33,849	7,802	(15,186)	26,465
Total Defaulted FFEL Guaranteed Loans	37,766	13,638	(23,263)	28,141
ACQUIRED FFEL LOANS				
Loan Purchase Commitment	19,277	2,435	(21)	21,691
Loan Participation Purchase	36,475	4,713	458	41,646
ABCP Conduit	1,565	330	(426)	1,469
Total Acquired FFEL Loans	57,317	7,478	11	64,806
FFEL Program Loan Receivables	**$ 95,083**	**$ 21,116**	**$ (23,252)**	**$ 92,947**
2017				
DEFAULTED FFEL GUARANTEED 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**

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

	2018	2017
Beginning Balance, FFEL Financing Account Liability for Loan Guarantees	**$ 3,636**	**$ 1,417**
Activity		
Interest Supplement Payments	(1,052)	(810)
Claim Payments	(5,716)	(5,819)
Fee Collections	1,550	1,633
Interest on Subsidy Amortization	(1,099)	(1,263)
Other	6,476	7,459
Total Activity	**159**	**1,200**
Upward/(Downward) Subsidy Re-estimates	(1,204)	1,019
Ending Balance, FFEL Financing Account Liability for Loan Guarantees	**2,591**	**3,636**
FFEL Liquidating Account Liability for Loan Guarantees	1	23
FFEL Liabilities for Loan Guarantees	**$ 2,592**	**$ 3,659**

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

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

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

	Loan Purchase Commitment	Loan Participation Purchase	ABCP Conduit	Total
2018				
Beginning Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**
Activity				
Subsidy Allowance Amortization	550	903	48	1,501
Loan Cancellations	(168)	(314)	(16)	(498)
Direct Asset Activities	(44)	(68)	(6)	(118)
Total Activity	**338**	**521**	**26**	**885**
Upward Subsidy Re-estimates	1,339	1,093	-	2,432
Ending Balance, Allowance for Subsidy	**$ 21**	**$ (458)**	**$ 426**	**$ (11)**
2017				
Beginning Balance, Allowance for Subsidy	**$ (2,922)**	**$ (4,347)**	**$ 374**	**$ (6,895)**
Activity				
Subsidy Allowance Amortization	635	1,219	53	1,907
Loan Cancellations	(203)	(390)	(19)	(612)
Direct Asset Activities	(45)	(67)	(8)	(120)
Total Activity	**387**	**762**	**26**	**1,175**
Upward Subsidy Re-estimates	879	1,513	-	2,392
Ending Balance, Allowance for Subsidy	**$ (1,656)**	**$ (2,072)**	**$ 400**	**$ (3,328)**

FFEL Program Subsidy Expense
(Dollars in Millions)

	2018	2017
Upward/(Downward) Subsidy Re-estimates		
FFEL Loan Guarantee Program	$ (1,204)	$ 1,019
Loan Purchase Commitment	1,339	879
Loan Participation Purchase	1,093	1,513
FFEL Program Subsidy Expense	**$ 1,228**	**$ 3,411**

FFEL re-estimated subsidy cost was adjusted upward by $1.2 billion in FY 2018. The net upward re-estimates in these programs were due primarily to interest rates provided by OMB and updated prepayment rates.

Other Credit Programs for Higher Education
(Dollars in Millions)

	Principal	Accrued Interest	Allowance for Subsidy (Present Value)	Net
2018				
Federal Perkins Loans	$ 474	$ 297	$ (220)	$ 551
TEACH Program Loans	746	91	(253)	584
HEAL Program Loans	397	32	(69)	360
Total	**$ 1,617**	**$ 420**	**$ (542)**	**$ 1,495**
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**

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. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans.

TEACH Subsidy Rates—Cohort 2018

	Interest Differential	Defaults	Fees	Other	Total
Subsidy Rates	16.92%	0.25%	0.00%	5.89%	23.06%

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.

Note 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

	2018		2017	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Liabilities Not Covered By Budgetary Resources				
Other Liabilities				
Accrued Unfunded Annual Leave	$ -	$ 13	$ -	$ 14
FECA Liabilities	-	1	-	1
Total Liabilities Not Covered By Budgetary Resources	-	14	-	15
Liabilities Not Requiring Budgetary Resources				
Subsidy Due to Treasury General Fund	2,029	-	1,784	-
Federal Perkins Loan Program	538	-	482	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	52	-	46	-
Total Liabilities Not Requiring Budgetary Resources	2,619	-	2,312	-
Total Liabilities Covered By Budgetary Resources	1,266,159	7,414	1,185,782	10,377
Total Liabilities	$ 1,268,778	$ 7,428	$ 1,188,094	$ 10,392

Note 7. Debt

(Dollars in Millions)

	Beginning Balance	Borrowing	Repayments	Ending Balance
2018				
Direct Loan Program	$ 1,061,559	$ 155,257	$ (66,206)	$ 1,150,610
FFEL Program	116,290	227	(9,256)	107,261
Other Credit Programs for Higher Education	624	71	(85)	610
Total	**$ 1,178,473**	**$ 155,555**	**$ (75,547)**	**$ 1,258,481**
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**

FSA borrows from Treasury to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2018, debt increased 6.8 percent from $1,178.5 billion in the prior year to $1,258.5 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 91.4 percent of FSA's debt, as of September 30, 2018, 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 2018, TEACH net borrowing of $15.3 million was used for the advance of new grants and repayments of principal made to Treasury.

Note 8. Subsidy Due to Treasury General Fund

(Dollars in Millions)

	2018	2017
Credit Program Downward Subsidy Re-estimates		
Direct Loan Program	$ 2,484	$ 5,010
FFEL Program	3,015	219
Total Credit Program Downward Subsidy Re-estimates	**5,499**	**5,229**
Future Liquidating Account Collections		
FFEL Program	1,856	1,614
Other Credit Programs for Higher Education	173	170
Total Future Liquidating Account Collections	**2,029**	**1,784**
Total Subsidy Due to Treasury General Fund	**$ 7,528**	**$ 7,013**

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

Note 9. Other Liabilities

(Dollars in Millions)

	2018		2017	
	Intragovern-mental	With the Public	Intragovern-mental	With the Public
Accounts Payable	$ 1	$ 3,656	$ 1	$ 4,039
Accrued Grant Liability	-	932	-	2,452
Guaranty Agencies' Funds Due to Treasury	2,176	-	2,077	-
Loan Guarantee Liability	-	2,814	-	3,870
Federal Perkins Loan Program	538	-	482	-
Miscellaneous Receipt, Deposit Funds and Clearing Accounts	52	-	46	-
Advances from Others and Deferred Credits	-	4	-	10
Accrued Unfunded Annual Leave	-	13	-	14
FECA Liabilities	-	1	-	1
Accrued Payroll and Benefits	-	8	-	6
Employer Contributions and Payroll Taxes	2	-	2	-
Total Other Liabilities	**$ 2,769**	**$ 7,428**	**$ 2,608**	**$ 10,392**

Note 10. Net Cost of Operations

Gross Costs and Exchange Revenue by Program

(Dollars in Millions)

		2018
EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY		
Direct Loan Program		
Gross Cost		
Credit Program Interest Expense	$	32,329
Subsidy Expense		4,369
Administrative Expenses		1,267
Earned Revenue		
Interest & Administrative Fees		(58,247)
Subsidy Amortization		25,918
Other		-
Net Cost of Direct Loan Program		**5,636**
FFEL Program		
Gross Cost		
Credit Program Interest Expense		4,233
Subsidy Expense		1,228
Subsidy Amortization (Guaranteed Loans)		(1,099)
Guaranty Agencies		96
Administrative Expenses		141
Earned Revenue		
Interest & Administrative Fees		(4,635)
Subsidy Amortization (Acquired FFEL Loans)		1,501
Guaranty Agencies		(202)
Net Cost of FFEL Program		**1,263**
Other Credit Programs for Higher Education		
Gross Cost		
Credit Program Interest Expense		19
Subsidy Expense		56
Administrative Expenses		1
Earned Revenue		
Interest & Administrative Fees		(48)
Subsidy Amortization		29
Other		(540)
Net Cost of Other Credit Programs for Higher Education		**(483)**
Non-Credit Programs		
Gross Cost		
Grants		28,456
Other		136
Net Cost of Non-Credit Programs		**28,592**
Net Program Costs		**35,008**
Total Gross Costs		**71,232**
Total Earned Revenues		**(36,224)**
Net Cost of Operations	**$**	**35,008**

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

	2017
Increase College Access, Quality, and Completion	
Gross Cost	
Intragovernmental	$ 36,054
With the Public	37,717
Total Gross Program Costs	**73,771**
Earned Revenue	
Intragovernmental	(5,335)
With the Public	(30,490)
Total Program Earned Revenue	**(35,825)**
Net Cost of Operations	**$ 37,946**

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	
2018							
Direct Loan Program	$ 32,329	$ -	$ 32,329	$ 3,890	$ 54,357	$ (25,918)	$ 32,329
FFEL Program	4,233	(1,099)	3,134	1,032	3,603	(1,501)	3,134
Other Credit Programs for Higher Education	19	-	19	4	44	(29)	19
Total	**$ 36,581**	**$ (1,099)**	**$ 35,482**	**$ 4,926**	**$ 58,004**	**$ (27,448)**	**$ 35,482**
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**

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

Grant Expenses
(Dollars in Millions)

	2018
PELL Grants	$ 26,672
Federal Work-Study Program	1,015
Federal Supplemental Educational Opportunity Grants	769
Total Grant Costs	$ 28,456

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

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

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

Note 11. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2018, budgetary resources were $305.9 billion and net agency outlays were $101.7 billion. As of September 30, 2017, budgetary resources were $349.1 billion and net agency outlays were $106.0 billion.

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

	2018	2017
Direct:		
Category A	$ 1,705	$ 1,585
Category B	265,585	313,549
Exempt from Apportionment	96	12
New Obligations Incurred and Upward Adjustments	**$ 267,386**	**$ 315,146**

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
(Dollars in Millions)

	2018	2017
Beginning Balance, Unused Borrowing Authority	**$ 58,433**	**$ 60,730**
Current Year Borrowing Authority	167,543	166,426
Funds Drawn from Treasury	(155,555)	(160,595)
Borrowing Authority Withdrawn	(8,027)	(8,128)
Ending Balance, Unused Borrowing Authority	**$ 62,394**	**$ 58,433**

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

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

	2018		2017	
	Intragovernmental	With the Public	Intragovernmental	With the Public
Unpaid	$ 73	$ 95,736	$ 57	$ 94,997
Paid	19	206	7	215
Undelivered Orders	**$ 92**	**$ 95,942**	**$ 64**	**$ 95,212**

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

Distributed Offsetting Receipts
(Dollars in Millions)

	2018	2017
Negative Subsidies and Downward Re-estimates of Subsidies:		
Direct Loan Program	$ 26,539	$ 18,849
FFEL Program	236	370
HEAL Program	8	18
Total Negative Subsidies and Downward Re-estimates	26,783	19,237
Other	538	201
Distributed Offsetting Receipts	**$ 27,321**	**$ 19,438**

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

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

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

Note 12. Reconciliation of Net Cost of Operations to Budget

(Dollars in Millions)

	2018	2017
RESOURCES USED TO FINANCE ACTIVITIES:		
New Obligations Incurred and Upward Adjustments	$ 267,386	$ 315,146
Spending Authority from Offsetting Collections & Recoveries	(139,125)	(185,284)
Offsetting Receipts	(27,321)	(19,438)
Net Budgetary Resources Obligated	**100,940**	**110,424**
Imputed Financing From Costs Absorbed by Others	14	10
Other Financing Sources	(27,714)	(25,360)
Net Other Resources	**(27,700)**	**(25,350)**
Net Resources Used to Finance Activities	**73,240**	**85,074**
RESOURCES USED OR GENERATED FOR ITEMS NOT PART OF THE NET COST OF OPERATIONS:		
(Increase)/Decrease in Budgetary Resources Obligated but Not Yet Provided	(800)	(3,566)
Resources that Fund Subsidy Re-estimates Accrued in Prior Period	(134)	(28,006)
Credit Program Collections	97,424	141,750
Acquisition of Fixed Assets	-	(8)
Acquisition of Net Credit Program Assets or Liquidation of Liabilities for Loan Guarantees	(169,934)	(171,543)
Resources from Non-Entity Activity	27,705	25,352
Net Resources That Do Not Finance the Net Cost of Operations	**(45,739)**	**(36,021)**
Net Resources Used to Finance the Net Cost of Operations	**27,501**	**49,053**
COMPONENTS OF THE NET COST OF OPERATIONS THAT WILL NOT REQUIRE OR GENERATE RESOURCES IN THE CURENT PERIOD:		
Change in Depreciation	4	1
Subsidy Amortization and Interest on the Liability for Loan Guarantees	26,347	23,947
Other	(5)	2
Total Components Not Requiring or Generating Resources	**26,346**	**23,950**
Increase in Annual Leave Liability	(1)	2
Accrued Re-estimates of Credit Subsidy Expense	17,954	134
Increase in Exchange Revenue Receivable from the Public	(36,791)	(35,154)
Other	(1)	(39)
Total Components Requiring or Generating Resources in Future Periods	**(18,839)**	**(35,057)**
Total Components That Will Not Require or Generate Resources in the Current Period	**7,507**	**(11,107)**
Net Cost of Operations	**$ 35,008**	**$ 37,946**

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.

Note 13. Commitments and Contingencies

FSA discloses contingencies where any of the conditions for liability recognition are not met and there is at least a reasonable possibility that a loss or an additional loss may have been incurred in accordance with FASAB Standard No. 5, Accounting for Liabilities of the Federal Government. The following commitments are amounts for contractual arrangements that may require future financial obligations.

Future Minimum Lease Payments

(Dollars in Millions)

2018			2017		
FY	Amount		FY	Amount	
2019	$	13	2018	$	12
2020		13	2019		13
2021		14	2020		13
2022		14	2021		14
2023		15	2022		14
After 2023		15	After 2022		15
Total	**$**	**84**	**Total**	**$**	**81**

FSA leases two buildings from the General Services Administration. The table above presents the estimated future minimum lease payments for these buildings.

Guaranty Agencies

FSA may assist guaranty agencies experiencing financial difficulties. FSA has not done so in fiscal years 2018 or 2017 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 2018, the Department provided funding of 83.2 percent of the capital used to make loans to eligible students through participating schools at 5 percent interest. The schools provided the remaining 16.8 percent of program funding. For the latest academic year that ended June 30, 2018, approximately 356 thousand loans were made totaling $886.3 million at 1,272 institutions, making an average of $2,491 per loan. The Department’s equity interest was approximately $6.3 billion as of June 30, 2018.

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 effect on FSA’s financial position. The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2018. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2018, is not expected to have a material impact on these financial statements.

Other Matters

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

Required Supplementary Stewardship Information (Unaudited)

Human Capital investments are those expenses included in net cost for general public education and training programs that are intended to increase or maintain national economic productive capacity.

Year to date expenses incurred for human capital investments consisted of the following as of September 30, 2018 and the preceding four fiscal year ends:

Summary of Human Capital Expenses
(Dollars in Millions)

	2018	2017	2016	2015	2014
Federal Student Aid Expense					
Direct Loan Subsidy	$ 4,369	$ 5,329	$ 16,119	$ (892)	$ 8,126
FFEL Program Subsidy	1,228	3,411	10,235	(3,856)	(6,585)
Perkins Loans, Pell and Other Grant	28,512	28,770	30,671	31,400	33,098
Salaries and Administrative	246	224	308	242	206
Total	**$ 34,355**	**$ 37,734**	**$ 57,333**	**$ 26,894**	**$ 34,845**

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 (Unaudited)

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources (Unaudited)
For the Year Ended September 30, 2018

(Dollars in Millions)

	Combined		Health Education Assistance Loans	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 12,015	$ 15,859	$ -	$ 25
Appropriations (Discretionary and Mandatory)	48,627	-	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,543	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	393	61,439	6	8
Total Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 6**	**$ 33**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 901	$ (7,024)	$ (6)	$ -
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 46,002	$ 221,384	$ 1	$ 10
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	12,290	-	-	-
Unapportioned, Unexpired Accounts	2,168	23,457	5	23
Unexpired Unobligated Balance, End of year	**$ 14,458**	**$ 23,457**	**$ 5**	**$ 23**
Expired Unobligated Balance, End of Year	575	-	-	-
Unobligated Balance, End of Year (Total)	**$ 15,033**	**$ 23,457**	**$ 5**	**$ 23**
Total Status of Budgetary Resources	**$ 61,035**	**$ 244,841**	**$ 6**	**$ 33**
Outlays, Net (Discretionary and Mandatory)	45,918	83,059	(5)	2
Distributed Offsetting Receipts (-) (Note 11)	(27,321)	-	(8)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 18,597**	**$ 83,059**	**$ (13)**	**$ 2**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources (Unaudited)
For the Year Ended September 30, 2018

(Dollars in Millions)

	Direct Student Loan Program		Teach Program	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 276	$ 472	$ 4	$ -
Appropriations (Discretionary and Mandatory)	12,490	-	75	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	167,206	-	110
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	-	45,435	-	42
Total Budgetary Resources	**$ 12,766**	**$ 213,113**	**$ 79**	**$ 152**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 276	$ (5,786)	$ -	$ (2)
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 12,490	$ 207,845	$ 75	$ 150
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	-	-	-	-
Unapportioned, Unexpired Accounts	-	5,268	-	2
Unexpired Unobligated Balance, End of year	**$ -**	**$ 5,268**	**$ -**	**$ 2**
Expired Unobligated Balance, End of Year	276	-	4	-
Unobligated Balance, End of Year (Total)	**$ 276**	**$ 5,268**	**$ 4**	**$ 2**
Total Status of Budgetary Resources	**$ 12,766**	**$ 213,113**	**$ 79**	**$ 152**
Outlays, Net (Discretionary and Mandatory)	12,014	92,745	64	(11)
Distributed Offsetting Receipts (-) (Note 11)	(26,539)	-	-	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ (14,525)**	**$ 92,745**	**$ 64**	**$ (11)**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources (Unaudited)
For the Year Ended September 30, 2018
(Dollars in Millions)

	Federal Family Education Loan Program		Perkins Loans and Grants	Administrative Funds
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Budgetary
Budgetary Resources:				
Unobligated Balance from Prior Year Budget Authority, Net	$ 2,091	$ 15,362	$ 9,613	$ 31
Appropriations (Discretionary and Mandatory)	2,596	-	31,787	1,679
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	227	-	-
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	388	15,954	(1)	-
Total Budgetary Resources	**$ 5,075**	**$ 31,543**	**$ 41,399**	**$ 1,710**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ (85)	$ (1,236)	$ 728	$ (12)
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 2,678	$ 13,379	$ 29,053	$ 1,705
Unobligated Balance, End of Year:				
Apportioned, Unexpired Accounts	249	-	12,039	2
Unapportioned, Unexpired Accounts	2,148	18,164	15	-
Unexpired Unobligated Balance, End of year	**$ 2,397**	**$ 18,164**	**$ 12,054**	**$ 2**
Expired Unobligated Balance, End of Year	-	-	292	3
Unobligated Balance, End of Year (Total)	**$ 2,397**	**$ 18,164**	**$ 12,346**	**$ 5**
Total Status of Budgetary Resources	**$ 5,075**	**$ 31,543**	**$ 41,399**	**$ 1,710**
Outlays, Net (Discretionary and Mandatory)	2,275	(9,677)	29,985	1,585
Distributed Offsetting Receipts (-) (Note 11)	(236)	-	(538)	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 2,039**	**$ (9,677)**	**$ 29,447**	**1,585**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources (Unaudited)
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 from Prior Year Budget Authority, Net	$ 14,064	$ 10,389	$ 1	$ 38
Appropriations (Discretionary and Mandatory)	88,321	-	-	-
Borrowing Authority (Discretionary and Mandatory) (Note 11)	-	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**
Memorandum (non-add) entries:				
Net adjustments to unobligated balance brought forward, Oct. 1	$ 3,680	$ (4,914)	$ (5)	$ -
Status of Budgetary Resources:				
New Obligations Incurred and Upward Adjustments (Total) (Note 11)	$ 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**
Outlays, Net (Discretionary and Mandatory)	84,986	40,490	(5)	14
Distributed Offsetting Receipts (-) (Note 11)	(19,438)	-	**(18)**	-
Agency Outlays, Net (Discretionary and Mandatory) (Note 11)	**$ 65,548**	**$ 40,490**	**$ (23)**	**$ 14**

United States Department of Education
Federal Student Aid
Combining Statement of Budgetary Resources (Unaudited)
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 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**
Memorandum (non-add) entries:	$			
Net adjustments to unobligated balance brought forward, Oct. 1	$ -	$ (4,578)	$ -	$ (3)
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**
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 (Unaudited)
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 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**
Memorandum (non-add) entries:	$			
Net adjustments to unobligated balance brought forward, Oct. 1	$ (81)	$ (333)	$ (3,786)	$ (20)
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**
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**

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Independent Auditors' Report

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 15, 2018

James F. Manning
Acting, Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Manning:

The enclosed report presents the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal year 2018 to comply with the Higher Education Amendments of 1998. The report should be read in conjunction with FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP to audit the financial statements of FSA as of September 30, 2018, and for the year then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements.*

Results of the Independent Audit

KPMG found:

- The fiscal year 2018 financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America;
- One material weakness in internal control over financial reporting:
    - Controls over the Reliability of Information Used in the Modeling Activities Need Improvement;
- One significant deficiency in internal control over financial reporting:
    - Information Technology Controls Need Improvement; and
- One instance of reportable noncompliance with Federal law related to referring delinquent student loan debts to Treasury.

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

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

Independent Auditors' Report

Page 2 – James F. Manning

KPMG is responsible for the attached auditors' report dated November 15, 2018, and the conclusions expressed therein. We do not express opinions on FSA's financial statements or internal control over financial reporting, or conclusions on compliance and other matters.

We appreciate the cooperation given KPMG and my office during the audit. If you have any questions or would like to discuss the report, please contact me at (202) 245-6900, or your staff may contact Bryon S. Gordon, Assistant Inspector General for Audit, at (202) 245-6051 or through e-mail at Bryon.Gordon@ed.gov.

Sincerely,

Kathleen S. Tighe
Inspector General

Enclosure

Independent Auditors' Report

KPMG

KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

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 consolidated financial statements of the Federal Student Aid (FSA), a component of the United States Department of Education, which comprise the consolidated balance sheet as of September 30, 2018, and the related consolidated statements of net cost, and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Independent Auditors’ Report

KPMG

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Student Aid as of September 30, 2018, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Accompanying Prior Period Financial Statements

The accompanying consolidated financial statements of FSA as of September 30, 2017 and for the year then ended were audited by other auditors whose report thereon dated November 13, 2017, expressed an unmodified opinion on those financial statements, before the reclassifications described in Note 1 to the consolidated financial statements. As described in Note 1, to conform to fiscal year 2018 financial reporting requirements contained in OMB Circular A-136, *Financial Reporting Requirements*, FSA made the following reclassifications to the fiscal year 2017 consolidated financial statements and notes:

- The Combined Statement of Budgetary Resources was condensed to present budgetary resources, status of budgetary resources, and net outlays, while removing the presentation of the change in obligated balance.
- Note 6, Liabilities Not Covered by Budgetary Resources, was expanded to include the presentation of liabilities not requiring budgetary resources.

As part of our audit of the 2018 consolidated financial statements, we also audited the reclassifications described in Note 1 that were applied to reclassify the 2017 consolidated financial statements. In our opinion, such reclassifications are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the 2017 consolidated financial statements of FSA other than with respect to the reclassifications and, accordingly, we do not express an opinion or any other form of assurance on the 2017 consolidated financial statements as a whole.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Fiscal Year 2018 Annual Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management’s Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the

Independent Auditors' Report

KPMG

information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The Cover Letter, Letter from the Chief Operating Officer of Federal Student Aid, information on pages vii through xviii, Annual Performance Report, Overview of the Financial Section on page 104, Message from the Chief Financial Officer, Other Information Section, Appendices, and Acknowledgements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, 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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of FSA's internal control. Accordingly, we do not express an opinion on the effectiveness of FSA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying exhibits, we did identify certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in Exhibit A, *Controls over the Reliability of Information Used in the Modeling Activities Need Improvement*, to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Exhibit B, *Information Technology Controls Need Improvement*, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FSA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and which is described in Exhibit C, *Requirement for Referring Delinquent Student Loan Debts to Treasury*.

Independent Auditors' Report

FSA's Responses to Findings

FSA's responses to the findings identified in our audit are described in Exhibit D. FSA's responses were not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the responses.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of FSA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 15, 2018

Independent Auditors' Report

Exhibit A

Material Weakness

Controls over the Reliability of Information Used in the Modeling Activities Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), Federal Student Aid (FSA), an Office of the U.S. Department of Education (the Department) is required to perform periodic interest rate and technical re-estimates of the subsidy costs of its direct loan and guaranty programs. These re-estimates are calculated using an internally-developed cash flow model performed by the Department's Cost Estimation and Analysis Division (CEAD). The cash flow model utilizes assumptions based on sourced data elements from the National Student Loan Data System (NSLDS) that are updated at different intervals by third parties (servicers, guaranty agencies, etc.), and certain assumptions provided by the Office of Management and Budget (OMB). These future cash flow outputs generated from the Department's Student Loan Model (SLM) are then input into OMB's Credit Subsidy Calculator (CSC), as required by U.S. generally accepted accounting principles to generate subsidy re-estimates.

Conditions:

We noted that management's documentation detailing the models currently in use, including methodologies and/or considerations used to calculate the assumptions could be improved. Such improvements could provide sufficient details to enable an independent reviewer to effectively assess the reasonableness of key decisions made regarding critical elements of the re-estimate computations and the potential impact on the financial statements. We also noted that management analysis of the reestimate results identified material differences which are expected to reverse over time, however such analysis was not clearly documented to support management's consideration of the effect of such differences, if any, on the fair presentation of direct loans in accordance with accounting standards. We found the following areas where specific documentation could be improved:

- CEAD produces a model inventory which includes all model assumptions, however it does not specify which assumptions are key. The model inventory includes summarized information on inputs supporting the assumptions, however it does not identify the specific data elements related to each input;
- CEAD's sensitivity analysis should be expanded to include a documented evaluation of which assumptions are key to the estimation model; and
- CEAD's management review controls should be documented at a sufficient level of detail to demonstrate the level of precision used in management's analysis and the evaluation of estimation uncertainty on the fair presentation of the financial statements and related footnotes in accordance with accounting standards.

Controls over the Completeness and Accuracy of Data Elements used in the Student Loan Model

The assumptions used in SLM are developed by utilizing certain data elements of direct and guaranty loans extracted from the NSLDS such as loan identifier, loan type, origination date, net amount disbursed, and repayment plan type, among many others.

We noted that management's processes, procedures, and controls should be improved to provide sufficient detail over procedures and controls that specifically address the evaluation of the completeness and accuracy of data elements from NSLDS used to develop model assumptions.

NSLDS Oversight of Loan Guaranty Balances

Under the Federal Family Education Loan (FFEL) guaranty loan program, private lenders provide federally guaranteed student loans to parents and students. The FFEL program began in 1965 and ran until 2010.

Independent Auditors' Report

Student loan data from schools, guaranty agencies, the direct loan program, and other loan programs are stored in the NSLDS.

Financial institutions, servicers, and guaranty agencies have up to 90 days after year-end to report guaranteed loan data to NSLDS. Therefore, such information may not be updated until December 31 each year. To determine the balance of loan guarantees at the end of each fiscal year, the Department executes a query in NSLDS in October. The Department utilizes this information sourced from NSLDS to develop financial statement note disclosures related to the performing FFEL program guaranty loans, including the principal balance outstanding and maximum government exposure. In addition, the exposure information is used in the estimation methodology related to the liability for loan guarantees.

We noted that management did not design and implement effective controls to ensure that the NSLDS query extracts related to the total exposure amount for loan guarantees with private lenders were complete and accurate. For example, specific controls over the completeness and accuracy of these queries, including how timing differences are resolved, were not evidenced in management's internal control processes.

Cause/Effect:

Documentation was not at a sufficient level of detail to enable an independent reviewer to properly assess the reasonableness of management's reestimate modeling practices to include processes; specific controls; information used; and key judgments determined by management as part of the reestimate methodologies utilized for financial reporting purposes. We noted that while there are controls related to the accounting and reporting of loan programs, such controls are not designed at a sufficient level of precision to demonstrate the assessment and evaluation of the completeness and accuracy of data used in the SLM assumptions and relevant financial statement disclosures.

The reestimate processes and controls form an integral part of the financial reporting process, which impact the most significant estimates and related balances in the financial statements and related footnotes. As a result, weaknesses in processes, procedures, and controls in the areas described above impact management's ability to prevent, detect, and correct errors in the re-estimate process, which could lead to a material misstatement of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the material weakness presented in this exhibit:

- *Green Book* (GAO-14-704G – Federal Internal Control Standards), Section OV3.05, Section OV4.08, Principle 10.03, Section 12.03, Section 13.04
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 17, 20, 23, 27, 38 and 40
- SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, Paragraphs 22 and 23

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Independent Auditors' Report

Recommendations:

1. With respect to the SLM documentation and analysis, we recommend that the Department management:

   a. Coordinate among the various groups at the FSA and CEAD to determine, each year, what key assumptions and data elements will be used in the Credit Reform re-estimate calculations. These determinations should be fully documented to enable a reviewer to understand and re-perform procedures, as needed.

2. With respect to model estimation uncertainty, we recommend that the Department and FSA management:

   a. Ensure that sufficient documentation is maintained evidencing management's analysis and consideration of the effects of model estimation uncertainty on the fair presentation of the financial statements and related note disclosure reestimates in accordance with accounting standards.

3. With respect to the completeness and accuracy of the data elements used in the SLM, we recommend that the Department management:

   a. Work with FSA to validate that appropriate data elements are extracted from NSLDS.

4. We recommend that the FSA management:

   a. Enhance existing documentation and controls to demonstrate the relationship between the key data elements used in the estimation model assumptions and the controls over student loan transactions at FSA.

5. With respect to the NSLDS oversight of loan guaranty balances, we recommend the Department and FSA management:

   a. Develop, implement, and document controls to assess the reasonableness of the principal balance outstanding and maximum government exposure amounts presented in the financial statement footnotes and used in calculating the liability for loan guarantees.

   b. Enhance the query process documentation to demonstrate the completeness and accuracy of the NSLDS query for the performing FFEL loan principal balance outstanding and maximum government exposure.

   c. Develop, implement, and document a sensitivity analysis related to NSLDS queries of September 30 balances considering the potential timing differences in the data being used for financial reporting.

Independent Auditors' Report

Exhibit B

Significant Deficiency

Information Technology Controls Need Improvement

Condition:

During Fiscal year 2018, we noted information technology (IT) control deficiencies related to logical access in FSA and the Department's network and in one application system managed by the Department and access and change control in two application systems managed by the FSA, as follows:

- Weaknesses in IT controls related to the removal of separated users' access from the network and one of its applications;
- Weaknesses in IT controls related to the review and recertification of system access. Specifically, the access reviews did not cover all users for one of the FSA systems. Additionally, for two FSA systems, the access lists provided by the contractors to perform the periodic access reviews were not verified for completeness and accuracy; and
- Weaknesses in IT controls related to the segregation of duties. For example, in one FSA system, the developers retained greater than read-only access to the application in the production environment.

Additionally, we noted weaknesses related to program development, where evidence of data validation upon system migration to a new data center was not available.

Additionally, in FY 2017, the predecessor auditor reported a significant deficiency related to the Department and FSA internal control environments due to persistent unmitigated IT control deficiencies. During FY 2018, the Department and FSA management demonstrated progress addressing some of these long-standing deficiencies. However, management has not fully remediated prior year weaknesses related to logical access administration, user access removal, user access reviews, and recertification and system configuration management. Due to the nature of these control deficiencies, the Department and FSA management continue to implement corrective actions to remediate these control deficiencies. The continued existence of these deficiencies reduces managements' ability to effectively manage information system risks.

Cause/Effect:

These IT control deficiencies existed because (1) the Department and FSA did not consistently adhere to its documented agency-wide policies and procedures and NIST requirements consistently for systems hosted and managed by the Department and FSA or by service organizations; (2) certain Department and FSA policies and procedures did not require the documentation and maintenance of supporting control documentation and review of evidence; and (3) the Department and FSA did not fully implement their corrective actions to remediate prior-year conditions and associated causes. Furthermore, separated user access deficiencies resulted due to the lack of timely notification of user separations by internal departments.

Ineffective IT controls increases the risk of unauthorized use, disclosure, disruption, modification, or destruction of information and information systems that could impact the integrity and reliability of information processed in the associated applications which may lead to misstatements of the financial statements.

Criteria:

The following criteria were considered in the evaluation of the significant deficiency presented in this exhibit:

- The Departmental Directive OM 3-104, *Clearance of Personnel for Separation or Transfer*

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Independent Auditors' Report

- National Institute of Standards and Technology Special Publication 800-53 Revision 4, dated April 2013, *AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control*
- Federal Information Processing Standards 200, *Minimum Security Requirements for Federal Information and Information systems*
- The *Standards for Internal Control in the Federal Government,* issued by the Comptroller General of the United States, Principle No. 7, *Identify, Analyze, and Respond to Risks,* Principle No. 11, *Design Activities for the Information System,* and Principle No. 13, *Use Quality Information*
- Appendix III to OMB Circular No. A-130, Section 4, Specific Requirements, *I. Specific Safeguarding Measures to Reinforce the Protection of Federal Information and Information Systems*

Recommendations:

We recommend that the Department and FSA management:

1. Perform comprehensive user access reviews and re-certifications, and confirm the access lists received for review by designated management are complete and accurate prior to commencing the review.

2. Establish requirements for formal documentation of data validation following data migration for systems.

3. Prevent or limit developer access in the production environment to read-only.

We recommend that the Department:

4. Implement mechanisms and procedures to require timely notification of user separations and subsequent disabling of access.

Independent Auditors' Report

Exhibit C

Compliance Matter

Requirement for Referring Delinquent Student Loan Debts to Treasury

In 2014, Federal Law (31 U.S. Code Section 3716(c) (6)) was amended (Public Law 113-101 (*DATA Act*) Section 5) to require agencies to notify the Secretary of the Treasury of valid, delinquent nontax debts that are over 120 days delinquent – 60 days earlier than the previous 180 days requirement – for the purpose of administrative offset (i.e., collection through the reduction of future Federal payments). Due to the number of entities and systems involved in handling student loan debts and the decentralized nature of such processes, FSA is not yet capable of meeting this accelerated timeline. Accordingly, as of September 30, 2018, FSA is not in compliance with the requirement to refer student debt delinquent for 120 days to the Department of the Treasury.

To meet this requirement, the FSA obtained legal clarification of how certain specific requirements of the amended law apply to the Direct Loan Program and other FSA programs, and are improving delinquent debt reporting procedures, increasing the frequency of some debt referrals, and modifying its defaulted loan management system to accommodate this change. FSA is also evaluating the impact of defining defaulted loans earlier in schools' performance reporting and has developed a long-term project plan to incorporate the new referral requirements into various servicer contracts and guaranty agency agreements, so it can initiate the required system programming changes. FSA is also working with the Department in evaluating certain options for other requirements needed to achieve compliance.

Recommendation:

We recommend that the FSA continue to execute the corrective actions as outlined in FSA's project plan to comply with the timing requirement for the referral of delinquent non-tax debts.

Independent Auditors' Report

Management's Response **Exhibit D**

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

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November 14, 2018

MEMORANDUM

TO: Kathleen Tighe
Inspector General

FROM: Alison L. Doone
Chief Financial Officer
Federal Student Aid

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2018 and 2017 Financial Statements
Federal Student Aid
ED-OIG/A17S0002

With respect to the Fiscal Year 2018 Financial Statement Audit, Federal Student Aid (FSA) received the findings and recommendations as identified in the Report on Internal Control over Financial Reporting exhibits to the auditor's report.

FSA will address the recommendations directed to FSA through appropriate corrective action plans. We are dedicated to maintaining an unmodified opinion and will work to mitigate the reported deficiencies and the Debt Collection Improvement Act noncompliance cited in these reports. We thank the Office of Inspector General and KPMG for completion of the audit of Federal Student Aid's financial statements.

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Other Information (Unaudited)

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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***.

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Appendices

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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 2018, FSA reviewed its current strategic plan, the *FSA FY 2015–2019 Strategic Plan* and identified 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 one of its performance metrics to reflect better information. The revised metric provides a more accurate measure of FSA's performance.

In FY 2018, 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 52: 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.1	Percent of First-Time FAFSA Filers Among High School Seniors	**Improved information**

Table 53: Previous Results of Discontinued Performance Metric

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

Fiscal Year	Actual	Target Achieved	Performance Result
FY 2017	60.2%	✓	**Met**
FY 2016	57.5%	✗	**Not met**
FY 2015	60.5%	✓	**Met**
FY 2014	60.1%	✓	**Met**

Appendix B: Glossary of Acronyms and Terms

Acronym	Description
A	
ABCP Conduit	Asset-Backed Commercial Paper Conduit
ACICS	Accrediting Council for Independent Colleges and Schools
ACSI	American Customer Satisfaction Index
AFR	*U.S. Department of Education FY 2018 Agency Financial Report*
APG	Agency Priority Goal
Annual Report	*Federal Student Aid FY 2018 Annual Report*
AY	Award Year
C	
CPS	Central Processing System
Conduit	Asset-Backed Commercial Paper Conduit
COO	Chief Operating Officer
CSRS	Civil Service Retirement System
D	
the Department	U.S. Department of Education
DHS	U.S. Department of Homeland Security
Direct Loan	William D. Ford Federal Direct Loan
DMCS	Debt Management and Collection System
DOL	U.S. Department of Labor
E	
ECASLA	*Ensuring Continued Access to Student Loans Act of 2008*
EDWA	Enterprise Data Warehouse and Analytics
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*
Federal Funds	Federal Student Loan Reserve Funds
FERS	Federal Employees Retirement System

Acronym	Description
F	
FEVS	Federal Employee Viewpoint Survey
FDMS	Feedback and Dispute Management System
FDMS Top Five	Top five most frequent categories and subcategories of FDMS feedback
FFEL	Federal Family Education Loan
FMFIA	Federal Managers' Financial Integrity Act of 1982
FPRD	Final Program Review Determinations
FSA	Federal Student Aid
FSA FY 2015–19 Strategic Plan	*Federal Student Aid: Strategic Plan, FY 2015–19*
FSEOG	Federal Supplemental Educational Opportunity Grants
FY	Fiscal Year
G	
GA	Guaranty Agency
GAAP	Generally Accepted Accounting Principles
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
HHS	U.S. Department of Health and Human Services
I	
IDR	Income Driven Repayment
IRS	Internal Revenue Service
IT	Information Technology
L	
Loan Servicing Top Three	Top three categories/subcategories of loan servicing-related cases
LOB	Line of Business
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.
Next Gen FSA	Next Generation Financial Services Environment
Next Gen PPO	Next Generation Partnership Participation and Oversight
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
POE	Principles of Excellence
PSLF	Public Service Loan Forgiveness
Pub.L	Public Law
S	
SAFRA	Student Aid and Fiscal Responsibility Act
SAVE	Systematic Alien Verification for Entitlements
SBR	Statement of Budgetary Resources
School Top Five	Top five categories/subcategories for school-related feedback
Secretary	Secretary of Education
SSAE	Statement on Standards for Attestation Engagements
SOC1	Service Organization Control 1

Acronym	Description
T	
TEACH	Teacher Education Assistance for College and Higher Education Grant
TEPSLF	Temporarily Expanded Public Service Loan Forgiveness
Title IV	Title IV of *the Higher Education Act of 1965*, as amended
TIVAS	Title IV Additional Servicers
TMT	Transformation Management Team
TOP	Treasury Offset Program
TPD	Total and Permanent Disability
Treasury	U. S. Department of the Treasury
U	
U.S.	United States
V	
VA	United States Department of Veterans Affairs

Appendix C: Availability of the Federal Student Aid Annual Report

The *Federal Student Aid FY 2018 Annual Report* and the *Annual Reports* from prior years are available on the following websites:

FSA: StudentAid.gov/strategic-planning-reporting

The Department: http://www.ed.gov/about/reports/annual/index.html

The *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19* and the strategic plans from prior years are also available at **StudentAid.gov/strategic-planning-reporting**

Stay connected to Federal Student Aid through social media:

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

Acknowledgements

The FSA FY 2018 Annual Report was prepared with the energies and talents of many Federal Student Aid employees. To these dedicated individuals, the Chief Operating Officer and Chief Financial Officer would like to offer their sincere appreciation and recognition.

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

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

We also offer our sincerest thanks and acknowledgement to the staff of the following Department of Education offices 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 KPMG LLP for the professional manner in which they conducted the audit of the Fiscal Year 2018 Financial Statements.

The *Federal Student Aid FY 2018 Annual Report*

Federal Student Aid
A Principal Office of the U.S. Department of Education
Finance Office
November 2018

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