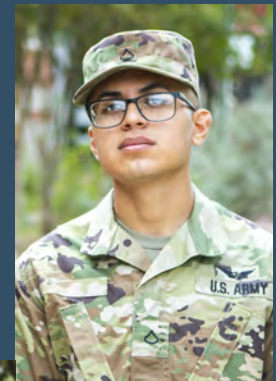


Federal Student Aid

An OFFICE of the
U.S. DEPARTMENT of EDUCATION



ANNUAL REPORT FY 2020

United States Department of Education

Betsy DeVos
Secretary

Federal Student Aid

Mark A. Brown
Chief Operating Officer

Finance Office

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Chief Financial Officer

November 16, 2020

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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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About This Report

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About This Report

Federal Student Aid (FSA), a principal office of the United States (U.S.) Department of Education (the Department), is required by legislation to produce an Annual Report, which details the organization's fiscal year financial and program performance. The *Federal Student Aid FY 2020 Annual Report (Annual Report)* is a comprehensive document that provides an analysis of FSA's financial and program performance results for Fiscal Year (FY) 2020 and exhibits the organization's effectiveness in accomplishing its mission. The *Annual Report* enables the President of the United States, the U.S. Congress (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 (PBO), its initiatives, accomplishments, and challenges, as required by the U.S. Office of Management and Budget (OMB) Circular A-11, *Preparation, Submission and Execution of the Budget, Part 6, Section 260*, and Circular A-136, *Financial Reporting Requirements*. The report also satisfies the requirements included in the following federal statutes:

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

The Department produces the [U.S. Department of Education FY 2020 Agency Financial Report \(AFR\)](#). That report provides a comprehensive view of the Department's stewardship over its resources and includes a summary of the information contained in the *Annual Report*.

The *Annual Report* is available at [StudentAid.gov/Annual Report](https://studentaid.gov/Annual-Report).

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Overview of the Federal Student Aid Annual Report

The *Annual Report* is organized into the following five sections:



Management's Discussion and Analysis

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



Annual Performance Report

The Annual Performance Report section presents the strategic goals included in the *Federal Student Aid Strategic Plan for Fiscal Years 2015–19 (FY 2015–19 Strategic Plan)* and the draft *Federal Student Aid Five-Year Strategic Plan for Fiscal Years 2020–24 (FY 2020–24 Strategic Plan)*. This section also includes a crosswalk between both strategic plans, and a discussion of the results of the performance metrics under each strategic goal. The section concludes with 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.



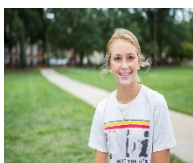
Financial Section

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



Other Information

Other Information includes a summary of the Financial Statement Audit, links to the Summary of Management Assurances, and FSA's Management Challenges included in the [AFR](#).



Appendices

The Appendices include 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 information on the availability of the *Annual Report*.

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Letter from the Chief Operating Officer of Federal Student Aid

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Letter from the Chief Operating Officer of Federal Student Aid

Dear Federal Student Aid Colleagues, Partners, and Customers:

I am pleased to present the Fiscal Year (FY) 2020 Annual Report that highlights the outstanding work and accomplishments of the entire Federal Student Aid (FSA) organization. This report tells the story of our substantial work to improve the quality of service to customers, foster collaboration among stakeholders, improve operational efficiency and flexibility, and invest in our internal and expanded workforce capability.

This report reflects the spirit of our mission—*Keeping the Promise: Funding America’s Future, One Student at a Time*—which is ingrained in the *Higher Education Act of 1965*, as amended. For 55 years, the ideals framing this law have guided the United States (U.S.) Department of Education in facilitating broad access to higher education and enabled FSA’s evolution to execute that critical task.



Mark A. Brown
Chief Operating Officer

While broadening access to higher education remains integral to our mission, we are cognizant of, and concerned about, the size of the federal student loan portfolio, which now exceeds \$1.5 trillion. Management of such a vast portfolio requires steady leadership, active stewardship, and transparency. Through internal portfolio analytics and feedback from our customers and other stakeholders, we recognize the need for improvement and are working to improve our programs, products, services, and operations.

During FY 2020, FSA provided more than \$115 billion in federal grants, loans, and work-study funds to approximately 10.8 million students at more than 5,600 participating postsecondary schools. We fulfilled our mission even as we addressed the challenges of the global Coronavirus Disease 2019 (COVID-19) emergency.

In FY 2020, our challenges became opportunities, especially as more than 1,400 FSA employees in 11 offices across the United States deftly transitioned to a 100 percent virtual work posture. Organizational productivity remained high over the past year as employees went from packing in crowded conference rooms to gathering in virtual meetings. PowerPoint slides on big screens suddenly transitioned to screensharing and virtual whiteboards, and FSA shifted resources and assistance online to serve students, families, and partner institutions.

Working closely with our federal student loan partners, we made sure student loan servicers were compliant with the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) student loan relief provisions that suspended loan payments and temporarily set the interest rate on all Department-held loans to zero percent. FSA notified employers to stop wage garnishments, and when some employers continued to garnish wages, we worked with the U.S. Department of Treasury to get those wages refunded quickly, expediting more than 2 million

Treasury Offset Program/Administrative Wage Garnishment refund payments. And, we developed resources, such as the [StudentAid.gov/coronavirus](https://studentaid.gov/coronavirus) webpage, that provided customers with vital information.

In FY 2020, FSA reached new heights in customer service, an improved user experience, proactive partner engagement, and streamlined organizational capabilities. This success was largely due to the innovative planning and work undertaken over the past decade by current and former FSA employees. We have long had in our sights the goals of transforming FSA's technology infrastructure and data processing environments, implementing a world-class user experience, strengthening our partnership with schools, and enhancing our oversight of vendors.

The Next Gen FSA initiative delivered intuitive, self-service tools for students, parents, and borrowers. The new [StudentAid.gov](https://studentaid.gov)—FSA's primary website for customers—consolidated the four most-visited websites into one and has steadily added information, tools, and resources that offer personalized guidance about federal student aid. These tools include the Annual Student Loan Acknowledgment, which is designed to help borrowers understand their debt balance—including their lifetime maximums—before borrowing more money. The tools will also help ensure borrowers understand common debt terms. Students who have received grants will also see how much they have received and how much eligibility they have left. In a little more than 5 months, more than 858,000 customers have completed the acknowledgment.

The Aid Summary dashboard gives customers personalized information about loans and grants they have received. For borrowers who have filed an Employment Certification Form to determine their eligibility for Public Service Loan Forgiveness, the Aid Summary dashboard provides them with a count of their qualifying payments. The Make a Payment pilot allows a subset of FSA customers—between five and seven million people—to make a payment on the [StudentAid.gov](https://studentaid.gov) website or through their mobile device. Part of the Next Gen FSA roadmap will eventually allow all federal student loan borrowers to do so.

Another tool on [StudentAid.gov](https://studentaid.gov), Loan Simulator, walks students and parents through a guided, easy-to-use wizard that allows them to “test-drive” and compare personalized scenarios, using their own student debt data. This tool helps students set repayment goals and develop informed financial strategies.

Customers can now access all our contact centers through one phone number: 1-800-4-FED-AID. This number includes a new interactive voice response functionality to direct our customers to the appropriate place so they can get help fast. FSA's virtual assistant—AidanSM—uses artificial intelligence to answer more than 3,000 variations of common questions about federal student aid. Available to a subset of FSA customers in the first year of its pilot rollout, Aidan responded to more than 1.3 million messages from nearly 546,000 customers.

Once FSA brings its online Business Process Operations (BPO) vendors, customers will benefit greatly from centralized contact center support. In FY 2020, FSA awarded Next Gen FSA contracts to five companies for services that include corresponding with customers and partners via phone, chat, social media, postal mail, and email, as well as supporting the back-office processing associated with those contacts. FSA will provide comprehensive contact center training and oversight, ensuring that BPO vendors have up-to-date knowledge about federal student aid programs to give customers the right answer in every interaction.

Letter from the Chief Operating Officer of Federal Student Aid

FSA strives to be the most-trusted source of information about federal student aid. That includes building trust and collaboration among stakeholders and partners by promoting transparency, accountability, and proactive assistance. FSA closed 96 percent of outstanding *Freedom of Information Act* requests in FY 2020 and adjudicated approximately 150,000 borrower defense applications.

FSA recognizes that by providing proactive technical assistance to postsecondary institutions, schools can administer the federal student aid programs more effectively. In FY 2020, we fulfilled our oversight responsibilities by resolving more than 3,000 deficient audits and flagged financial statements, evaluating more than 2,000 school financial responsibility notifications, and processing 5,500 eligibility-related actions, including recertification applications. Additionally, FSA has reduced the number of outstanding Program Reviews. In FY 2020, we issued more than 240 Program Review Reports and Final Program Review Determinations to institutions and third-party servicers subjected to a program review.

Through the Project Success program, FSA collaborated with guaranty agencies to improve retention, graduation, and cohort default rates at more than 160 minority-serving institutions. At no cost to participating schools, the program provides tools, programs, and other resources for students to increase their financial literacy and help them achieve their higher education goals. Project Success has been extended through September 2022.

During FY 2020, FSA developed a draft *FY 2020–24 Strategic Plan*, our organization’s road map for improving our programs, products, services, and operations. The draft plan fully reflects our work to support customers and partners in every possible way, aggressively advance the Next Gen journey, and meet new and existing requirements.

I invite you to look back on all that our organization achieved in FY 2020, and I encourage you to look ahead to the opportunities that await us for our nation’s students and their families.

Sincerely,



Mark A. Brown
Chief Operating Officer
Federal Student Aid
United States Department of Education
November 16, 2020



**Management's Discussion and Analysis
(Unaudited)**

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Overview of Management's Discussion and Analysis

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

- **Fiscal Year 2020 Organizational Highlights:** Fiscal Year 2020 Organizational Highlights presents Looking Forward at Federal Student Aid, which details the most important events and challenges that FSA faces and discusses the actions taken and progress made by FSA in addressing those challenges. This subsection also includes a presentation of FSA by the Numbers.
- **Mission and Organizational Structure:** Mission and Organizational Structure provides the history of FSA; its mission, vision, and core values; as well as its organizational structure. The section also includes a discussion of the federal student aid programs.
- **Performance Management:** Performance Management presents an overview of FSA's strategic and performance-planning framework, an overview of its draft *FY 2020–24 Strategic Plan*, the close-out details of its *FY 2015–19 Strategic Plan*, and a crosswalk between both strategic plans. This subsection concludes with a discussion of the annual priority goals and the quality of FSA's performance data.
- **Analysis of Financial Statements:** Analysis of Financial Statements provides an overview of FSA's financial data, an analysis of the financial data presented in the audited financial statements, and a discussion of FSA's financial management highlights.
- **Analysis of Systems, Controls, and Legal Compliance:** Analysis of Systems, Controls, and Legal Compliance provides FSA's management assessment in conjunction with the Department's assessment on FSA's internal controls related to the *Federal Manager's Financial Integrity Act of 1982* and its compliance with other laws and regulations related to the compliance of financial systems with federal requirements.

Fiscal Year 2020 Organizational Highlights

Looking Forward at Federal Student Aid

A major step forward for FSA in FY 2021 will be the publication of the *FY 2020–24 Strategic Plan*. The *FY 2020–24 Strategic Plan* will serve as the roadmap for FSA to meet existing and new requirements, operationalize the Next Generation Financial Services Environment (Next Gen FSA) initiative—the technical infrastructure designed to improve the customer and partner experience while streamlining FSA's existing operations—and support millions of customers in pursuit of their educational dreams. The goals and objectives within the plan will help FSA meet the deliverables it established to improve customer service and transform the loan servicing programs for students, parents, borrowers, institutions, and taxpayers.

FY 2020 has offered many lessons, and perhaps, the most important is that to effectively operate in the 21st century, FSA must be able to respond quickly to its customers' needs and adapt to major shifts in public policy. The Coronavirus Disease 2019 (COVID-19) global pandemic changed the landscape of higher education and heightened the need for FSA to be responsive to students, parents, borrowers, institutions, and other higher education stakeholders. In response to the pandemic, FSA increased its commitment to customer service, continued its Next Gen FSA journey to an improved digital environment, and worked to instill a stronger culture of accountability with student loan servicers.

To fulfill its commitment during the COVID-19 emergency, FSA collaborated with its student loan servicers and other vendors to quickly execute the student loan relief provisions found in the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). These provisions suspended payments on Department-held loans and temporarily set the interest rates for loans held by the Department to 0 percent. Although the CARES Act flexibilities expired at the end of FY 2020, presidential action extended the benefits through December 31, 2020. To this end, FSA is committed to safeguarding the careful implementation of all present and future COVID-19 emergency relief efforts for students and families.

In conjunction with executing the *FY 2020–24 Strategic Plan* and managing the extended COVID-19 student loan provisions, FSA will continue to advance the momentum gained in FY 2020. The focus for FY 2021 and beyond is to further deliver on the promise of Next Gen FSA. As discussed, Next Gen FSA already is transforming the experience of learning about, applying for, receiving, and repaying federal student aid for millions of students, parents, and borrowers. In FY 2021, Next Gen FSA will improve the experience of customers and partners—including more than 5,600 postsecondary institutions—by:

- expanding the availability of FSA's virtual assistant, AidanSM, which uses artificial intelligence and natural language processing to answer common questions from customers about federal student aid,
- enhancing the [StudentAid.gov](https://studentaid.gov) website inclusive of updates with new and existing features (Aid Summary, Loan Simulator, and Make a Payment Pilot), which provide personalized information and tools that help customers make more informed decisions and manage their loans,

- improving the Public Service Loan Forgiveness (PSLF) Help Tool to assist borrowers with updated information about qualifying employers,
- modernizing infrastructure systems and every aspect of how federal student aid is delivered and monitored,
- executing further enrichments to the myStudentAid mobile app which places financial aid information and services at the customers' fingertips,
- implementing planning for the Next Generation Partner Participation and Oversight (Next Gen PPO) program to transform the way FSA interacts with the thousands of schools, financial institutions, and other partners by creating a single portal, FSA Partner Connect, through which institutions can access FSA systems and processes, streamlining processes for submitting and reviewing program participation and other eligibility materials, and improving FSA workflow tools to support faster decision-making, and
- improving loan servicing throughout the student aid lifecycle by the appropriate solicitation and acquisition of contracts. Specifically, the contracts will perform the following:
 - Create a state-of-the-art, enterprise-wide core processing capability for new customers.
 - Provide a transitional core processing system to house the legacy portfolio of more than 35 million borrowers.
 - Identify multiple vendors to staff and operate call centers, and manage manual processing associated with customers transitioned to a new loan servicing platform.

As FSA works to modernize its organization through the acquisition of tools and services using contract vehicles, there are two areas on which it will not compromise. First, FSA will remain good stewards of taxpayer dollars and will not pay more than a fair price for services from any vendor. And second, because FSA will not provide customers with anything less than an exceptional experience and exceptional service, vendors' performance will be measured in an objective manner through service-level agreements. These agreements will hold vendors to high operational standards for their service to customers.

To assist in executing in all these areas, and in compliance with the *Further Consolidated Appropriations Act, 2020*, FSA also has developed a Next Gen FSA Strategic Plan. Although Next Gen FSA is embedded within the *FY 2020–24 Strategic Plan*, the Next Gen FSA Strategic Plan includes the subset of goals and objectives focused on the deliverables of this specific initiative. The Next Gen FSA Strategic Plan describes the FSA vision and introduces the Next Gen FSA Strategic Roadmap, which details how Next Gen FSA will work toward an interim servicing solution to continue to meet servicing needs at reasonable costs while also enabling Next Gen FSA capabilities.

Fiscal Year 2020 Organizational Highlights

But financial aid begins with FSA's flagship deliverable, and that is the Free Application for Federal Student Aid® (FAFSA®) form. For this reason, FSA will also continue to work toward improving not only access to the FAFSA form, but also the ease of completing the application. By focusing on increasing customer knowledge about the form and the associated application periods, the Department will better assist students and families with understanding and accurately filling it out. In addition, in FY 2021, FSA will support FAFSA form simplification through technological enhancements such as the Data Retrieval Tool and through flexibilities provided to FSA through the *Fostering Undergraduate Talent by Unlocking Resources for Education Act* (FUTURE Act).

The timeline for implementation of the FUTURE Act is an iterative process and an important measure of FSA performance because the potential outcome of the associated changes will be beneficial to borrowers and stakeholders, visible in both the FAFSA form and other FSA services. FSA will continue to build out and develop the base infrastructure design to ensure effective and timely implementation. High-level designs have been completed and will assist in navigating implementation decisions throughout the fiscal year.

Lastly, in the first half of 2020, FSA conducted a variety of exploratory research activities using different methods of data collection and customer-based research. As work in this area moves forward, FSA plans to use enhanced customer analytics and information learned through improved exit counseling to suggest repayment strategies based on customers' individualized goals, allowing customers to seamlessly enroll in repayment plans, easily establish recurring automatic payments, and feel confident in next steps toward successful repayment or loan forgiveness. FSA will proactively monitor borrower behavior in response to new borrower tools and resources, as well as environmental factors that may impact student loan repayment rates, then use predictive analysis to help guide students into and through loan repayment to reduce the number of delinquent or defaulted borrowers.

Federal Student Aid Fiscal Year 2020 by the Numbers

Figure 1: Federal Student Aid Net Outlays¹
Fiscal Years 2016–20

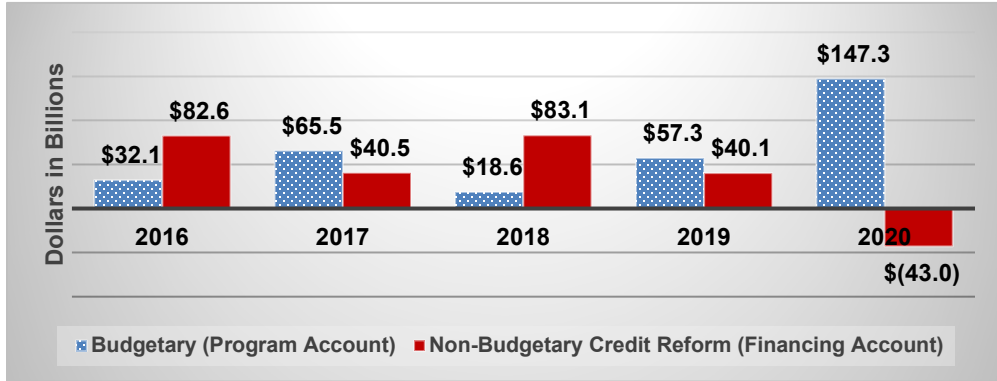


Figure 2: Federal Student Aid Administrative Budget²
Fiscal Years 2016–20

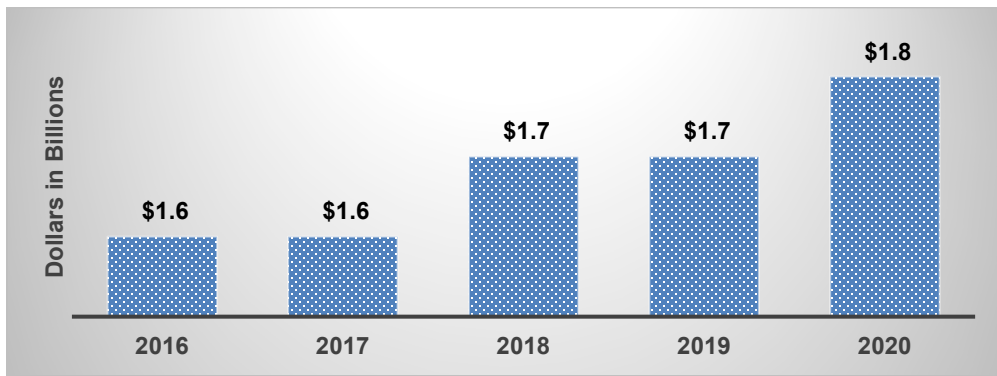
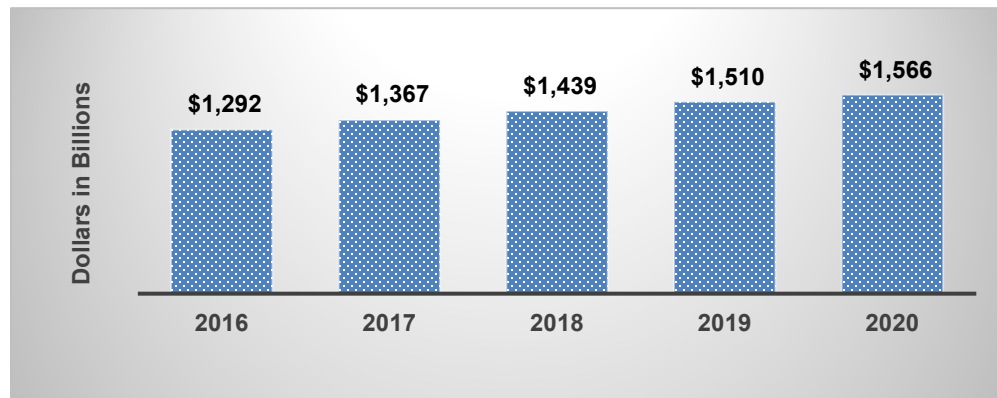


Figure 3: Federal Student Aid Student Loan Portfolio³
Fiscal Years 2016–20



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

² Fiscal Year 2018 amount corrected from \$1.5 to \$1.7.

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

Figure 4: Total FAFSA® Forms Processed and Total Students Receiving Aid Fiscal Years 2016–20

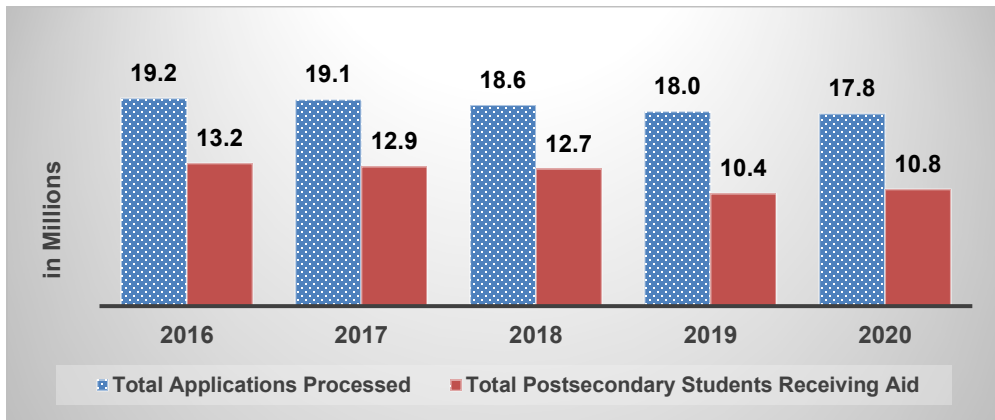


Figure 5: Total Federal Student Aid Delivered Fiscal Years 2016–20

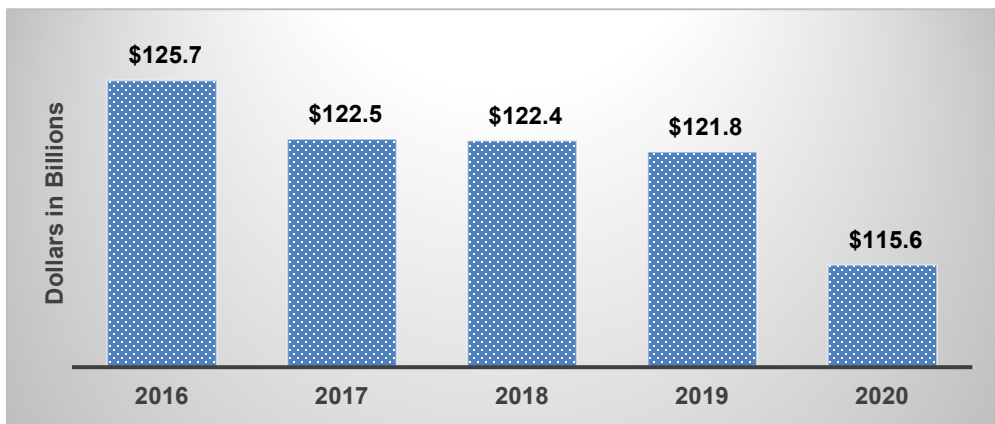
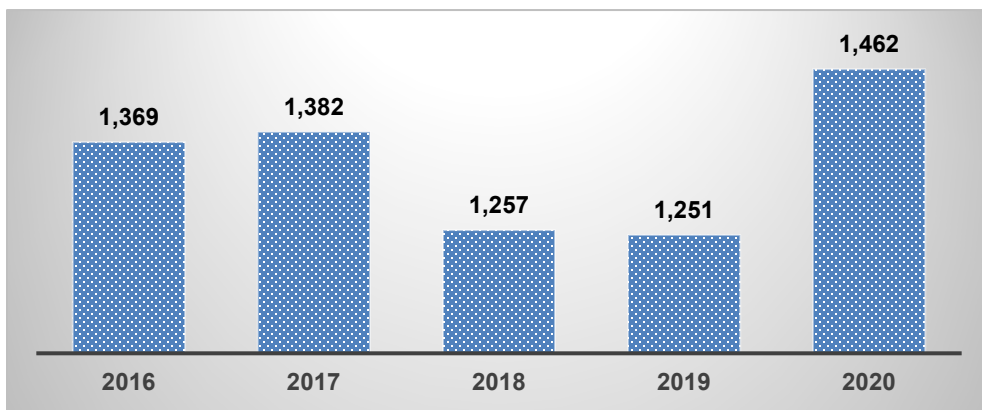


Figure 6: Federal Student Aid Federal Employees⁴ Fiscal Years 2016–20



⁴ Number of employees listed is as of September 30 of each fiscal year

Mission and Organizational Structure

FSA, a principal office of 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 federal student financial aid, FSA is responsible for implementing and managing federal student financial assistance programs authorized under the *Higher Education Act of 1965*, as amended (HEA). Specifically, Title IV of the HEA (Title IV) authorizes the federal student assistance programs for which FSA is responsible. These programs provide grants, loans, and work-study funds to students attending colleges or career and technical schools.

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

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

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

Mission, Vision, and Core Values

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

Table 1: FSA Mission, Vision, and Core Values

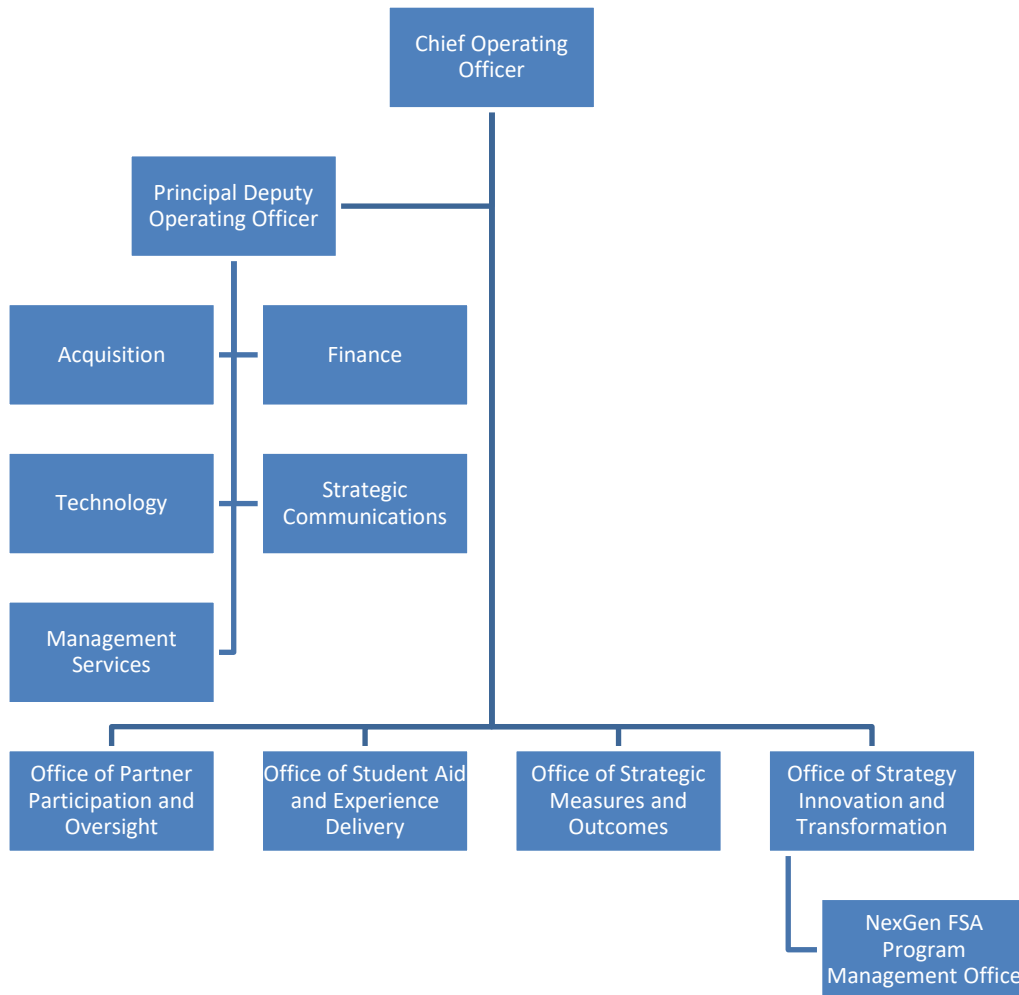
| MISSION | |
|-------------------------|---|
| Mission | <i>Keeping the Promise: Funding America’s Future, One Student at a Time</i> |
| VISION | |
| Vision | To be the most trusted and reliable source of student financial aid, information, and services in the nation. |
| CORE VALUES | |
| Integrity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

As discussed in detail in the Performance Management section and Annual Performance Report, 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.

FSA Organizational Structure

In FY 2020, FSA operated under a functional organizational structure that aligned the organization with its strategic drivers, business objectives, and mission goals. A Chief Operating Officer (COO) is appointed by the Secretary of Education (Secretary) to lead FSA. In March 2019, the Secretary appointed Mark A. Brown as the FSA COO. Figure 7 illustrates the functional organizations within FSA.

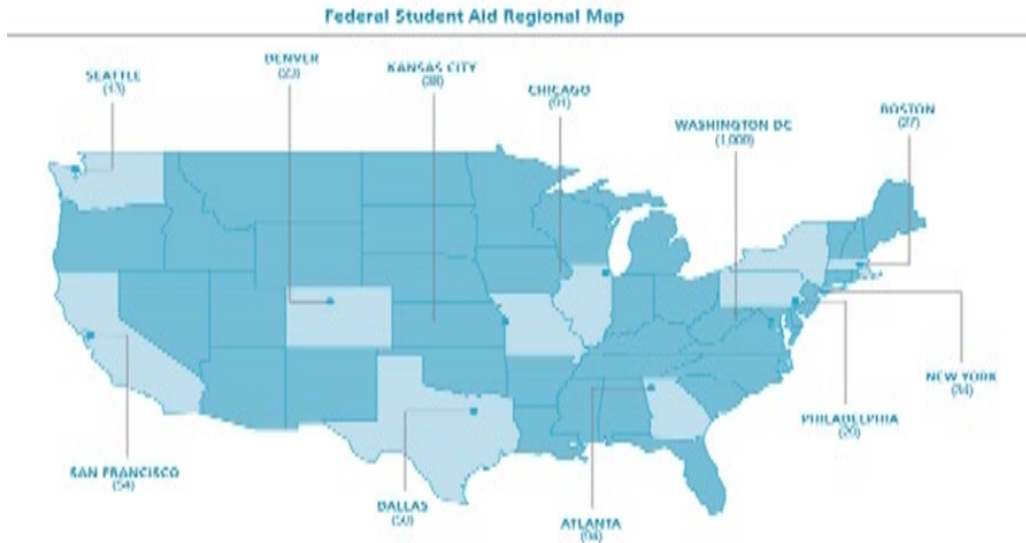
**Figure 7: Federal Student Aid Organizational Chart
Fiscal Year 2020**



Mission and Organizational Structure

During FY 2020, FSA operated on an annual administrative budget of approximately \$1.8 billion. As of September 30, 2020, FSA was staffed by 1,462 full-time employees and augmented by contractors who provide outsourced business operations. The workforce is primarily based in FSA's headquarters located in Washington, DC, with 10 regional offices located throughout the country as reflected in the following graphic (See Figure 8). The number of full-time employees at each location is shown in parentheses immediately following the location name.

**Figure 8: Federal Student Aid Regional Map
Fiscal Year 2020**



Significant Legislation that Directs the Federal Student Aid Mission

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

Table 2: Overview of Legislative Authority

| Legislation | Purpose |
|---|--|
| <i>Higher Education Act of 1965, as amended</i> | Created the federal student financial assistance programs known as Title IV programs. |
| <i>Student Loan Reform Act of 1993</i> | Authorized a multi-year phased implementation of the William D. Ford Federal Direct Loan Program. |
| <i>Higher Education Reconciliation Act of 2005</i> | Allowed graduate and professional students to use the Parent Loan for Undergraduate Studies Loan Program. |
| <i>College Cost Reduction and Access Act of 2007</i> | 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. |
| <i>Ensuring Continued Access to Student Loans Act of 2008</i> | Provided the Department with the authority to implement programs to ensure eligible students and parents were not denied access to federal student loans during the credit market disruptions of 2008. |
| <i>SAFRA Act of 2009</i> | Provided that, beginning July 1, 2010, no new loans would be originated under the Federal Family Education Loan Program. |
| <i>Bipartisan Student Loan Certainty Act of 2013</i> | 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. |
| <i>Consolidated Appropriations Act, 2014</i> | 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. |

Federal Student Aid Stakeholders

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

Table 3: Role of FSA and Participants in the Federal Student Aid System

| Participants | Participants' Role | FSA's Engagement with Participants |
|---|--|--|
| Students | <ul style="list-style-type: none"> Receive aid to finance postsecondary education and repay loans following completion or exit from school. | <ul style="list-style-type: none"> Explaining federal student aid opportunities and requirements, Providing products, services, and tools to help students pay for postsecondary education, Identifying students who are eligible for aid, and Protecting students and borrowers from unfair, deceptive, or fraudulent practices in the student aid marketplace. |
| Guaranty Agencies | <ul style="list-style-type: none"> Insure Federal Family Education Loan Program loans and service their defaulted loan portfolios. | <ul style="list-style-type: none"> Monitoring compliance, Assisting them in meeting regulatory requirements, Providing technical assistance, and Paying default claims. |
| Loan Holders | <ul style="list-style-type: none"> Hold and service outstanding Federal Family Education Loan Program loans to students. | <ul style="list-style-type: none"> Monitoring compliance, Assisting them in meeting requirements, Providing interest subsidies and Special Allowance Payments; and Educating them regarding policy. |
| FSA-Contracted Loan Servicers | <ul style="list-style-type: none"> 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 payments from defaulted borrowers. | <ul style="list-style-type: none"> Entering contractual agreements, Setting performance standards, and Overseeing operations. |
| Postsecondary Institutions | <ul style="list-style-type: none"> Determine students' aid packages and disburse funds. | <ul style="list-style-type: none"> Determining eligibility and disbursing aid, Monitoring compliance and regulatory requirements, and Providing technical assistance. |
| Congress | <ul style="list-style-type: none"> Sets statutory requirements for student loan programs as well as a myriad of borrower benefits and budget appropriations. | <ul style="list-style-type: none"> Providing data and information for decision making and Providing updates on operational performance. |
| The President, the Department, and others in the Executive Branch | <ul style="list-style-type: none"> Set regulatory standards and establish policy for the distribution of aid and collection of loan payments. | <ul style="list-style-type: none"> Providing data that informs policy decisions, Providing recommendations for implementation of new policies, and Sharing information regarding high risk compliance concerns. |

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

Federal Student Financial Aid Programs

Each year, FSA delivers more than \$115 billion in financial aid to students through the Title IV programs of the HEA. These programs collectively represent the nation's largest source of federal financial aid for postsecondary education students. This aid covers expenses such as tuition and fees, room and board, books and supplies, and transportation. Federal financial aid is mainly distributed to students through:

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

To obtain federal financial aid, prospective aid recipients must complete the FAFSA. In FY 2020, FSA processed more than 17.8 million FAFSA forms, resulting in the delivery of approximately \$115.6 billion in Title IV aid to more than 10.8 million postsecondary students and their families. These students attended more than 5,600 active institutions of postsecondary education that participate in federal student aid programs and which are accredited by agencies recognized by the Secretary.

The following table presents a comparison of the amounts of Title IV aid disbursed to students by program in FY 2020 and FY 2019. A summary discussion of each Title IV program is presented in the paragraphs after the table.

Table 4: Summary of Federal Aid Disbursed to Students by Program⁵
(Dollars in Millions)

| Programs | 2020 Aid Disbursed to Students | 2019 Aid Disbursed to Students | Difference | Percentage Change |
|---|--------------------------------|--------------------------------|--------------------|-------------------|
| Federal Loan Programs | | | | |
| William D. Ford Federal Direct Loan Program | \$86,129.4 | \$90,156.0 | \$(4,026.6) | (4.5)% |
| Federal Perkins Loan Program | 0.0 | 630.5 | (630.5) | (100.0) |
| Other Loan Programs | - | - | - | 0.0 |
| Subtotal Loan Programs | \$86,129.4 | \$90,786.5 | \$(4,657.1) | (5.1)% |
| Federal Grant Programs | | | | |
| Federal Pell Grant Program | \$27,466.5 | \$28,974.7 | \$(1,508.2) | (5.2)% |
| Federal Supplemental Educational Opportunity Grant Program | 820.5 | 853.5 | (33.0) | (3.9) |
| The Teacher Education Assistance for College and Higher Education Grant Program | 78.1 | 78.5 | (0.4) | (0.5) |
| Other Grant Programs | 0.5 | 0.4 | 0.1 | (25.0) |
| Subtotal Grant Programs | \$28,365.6 | \$29,907.1 | \$1,541.5 | (5.2)% |
| Federal Work-Study Program | | | | |
| Federal Work-Study Program | \$1,079.3 | \$1,078.5 | \$0.8 | 0.1% |
| Rounding | 0.1 | 0.1 | 0.0 | 0.0 |
| Grand Total | \$115,574.4 | \$121,772.2 | \$(6,197.8) | (5.1)% |

Federal Loan Programs

In fulfilling its program responsibilities, FSA directly manages or oversees a loan portfolio of more than \$1.5 trillion, representing approximately 212 million student loans to more than 45 million borrowers. These loans were made primarily through the first two federal student loan programs described below.

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

- **Direct Subsidized Loans:** Federal loans based on financial need made to undergraduate students for which the federal government generally does not charge

⁵ Aid disbursed to students as cited in the table above, and in the following sections concerning the Federal Loan Programs, the Federal Grant Programs, and the Federal Work-Study Program in the Management's Discussion and Analysis, excluding the Federal Perkins Loan Program amounts, are derived from amounts from FSA's and the Department's financial systems. All amounts are fiscal year amounts, except for the Federal Perkins Loan Program, which is reported as the prior award year amount (e.g., Award Year 2018–19 reported in FY 2020). The number of awards or recipients reported in the Management's Discussion and Analysis is derived from a variety of sources including FSA's Common Origination and Disbursement System and data used to support the President's Budget. Recipient counts are based on award year.

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interest while the borrower is in school, in grace, or in deferment status. If the interest is not paid during the grace period, the interest is added to the loan's principal balance.

- **Direct Unsubsidized Loans:** Federal loans made to undergraduate students and graduate students for which the borrower is fully responsible for paying the interest regardless of the loan status. Interest on unsubsidized loans accrues from the date of disbursement and continues throughout the life of the loan.
- **Direct Parent Loans for Undergraduate Students (PLUS) Loans:** Federal loans made to graduate or professional students and parents of dependent undergraduate students for which the borrower is fully responsible for paying the interest regardless of the loan status.
- **Direct Consolidation Loans:** Federal loans that allow the borrower to combine multiple existing federal student loans into one new loan. The borrower will only have to make one monthly payment on the consolidation loan, and the repayment term of the loan may be longer than the terms of the original loans, which may result in a lower monthly payment.

As of September 30, 2020, FSA's portfolio of Direct Loans included \$1,100.5 billion in credit program receivables, net. In FY 2020, the Department made \$86.1 billion⁶ in net loans to 7.9 million recipients.

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

The passage of the SAFRA Act, which was included in the *Health Care and Education Reconciliation Act of 2010* (HCERA) (Pub. L. 111-152), ended the origination of new FFEL Program loans as of July 1, 2010. Nevertheless, FSA, lenders, and guaranty agencies continue to service and collect outstanding FFEL Program loans. FSA, FFEL lenders, and guaranty agencies held a FFEL Program loan portfolio of approximately \$108.8 billion as of September 30, 2020. Of this portfolio, \$67.4 billion represented FSA's credit program receivables, net. In FY 2020, FSA made gross payments of approximately \$757.9 million to lenders for interest and special allowance subsidies and \$5.6 billion to guaranty agencies for reinsurance claims and fees paid for account maintenance, default aversion, and collection activities.

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

⁶ Excludes consolidation loans of \$30.4 billion.

As of September 30, 2020, FSA-held FFEL credit program receivables net totaled \$67.4 billion, comprising \$21.1 billion acquired under the "traditional" (Non-ECASLA) guaranteed loan program, and \$46.3 billion in loans acquired under the ECASLA authorization.

The **Federal Perkins Loan Program** is one of three campus-based student aid programs. These federal loans were made by schools to undergraduate and graduate students who demonstrate financial need. Historically, participating schools received a certain amount of funds each year from FSA for distribution under this program, which supplemented funds in a school's revolving fund, from which new disbursements were made. These funds enabled eligible institutions to offer low-interest loans to students based on financial need. Once the full amount of the school's funds had been awarded to students, no additional loans were to be made under this program for the year. In FY 2020, FSA reported Award Year 2018–19 disbursements of approximately \$0 million of funds, comprising 0 awards to eligible students. The *Federal Perkins Loan Program Extension Act of 2015* eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017 and ended all Perkins loan disbursements by June 30, 2018.

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

The Department assumed responsibility for the program and the authority to administer, service, collect, and enforce the loans. Credit program receivables, net of allowance for subsidy, were approximately \$386.0 million for FY 2020.

Federal Grant Programs

In fulfilling its responsibility for administering Title IV aid, FSA oversaw the disbursement of approximately \$28.4 billion in grants to 6.7 million recipients. The following provides a summary for each grant program, including aid disbursed in FY 2020.

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 2020, the Department disbursed \$27.5 billion in Pell Grants averaging approximately \$4,080 to approximately 6.7 million students. The maximum Pell Grant award was \$6,195 in the 2019–20 award year and increased to \$6,345 in the 2020–21 award year.

The **Federal Supplemental Educational Opportunity Grant Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer grants to students based on need. Federal grants distributed under this program are administered directly by the financial aid office at each participating school. Each participating school receives a certain amount of Federal Supplemental Educational Opportunity Grant funds each year from FSA.

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Once the full amount of the school's grant funds has been awarded to students, no additional awards can be made under this program for the year. This form of aid does not require repayment. In FY 2020, approximately \$820.5 million were disbursed through approximately 1.8 million campus-based awards.

The Teacher Education Assistance for College and Higher Education (TEACH) Grant Program provides individual awards up to \$4,000 per year to students agreeing to teach mathematics, science, or other specialized subjects in a high-poverty school for at least four years within eight years of their graduation. This grant program began in the 2008–09 school year, starting July 1, 2008. For any 2019–20 or 2020–21 TEACH Grant first disbursed on or after October 1, 2019, and before October 1, 2020, the maximum award is \$3,764. For any 2020-21 TEACH Grant first disbursed on or after October 1, 2020, and before October 1, 2021, the maximum award is \$3,772. If students fail to fulfill the service requirements specific to the program, their TEACH Grants convert to Direct Unsubsidized Loans, with interest accruing from the time of the award. In FY 2020, the Department disbursed more than 25,000 grants totaling \$78.1 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 because of military service after September 11, 2001. These grants are awarded to students who are not eligible for a Pell Grant based on financial need, but meet the remaining Pell Grant eligibility requirements, and:

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

For any 2020–21 Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2019, and before October 1, 2020, the maximum award is approximately \$5,971. For any 2020–21 Iraq and Afghanistan Service Grant first disbursed on or after October 1, 2020, and before October 1, 2021, the maximum award is approximately \$5,983. The Department disbursed approximately \$525,000 to support fewer than 100 awards in FY 2020.

Federal Work-Study Program

The **Federal Work-Study Program** is one of three campus-based programs through which the Department provides funds directly to eligible institutions. Funds provided through this program enable eligible institutions to offer part-time employment to undergraduate, graduate, and professional students based on financial need, allowing them to earn money to help pay education expenses. The program is available to full-time or part-time students and encourages community service work. The work is often related to the student's course of study. In FY 2020, approximately \$1.1 billion were disbursed through more than 731,000 campus-based awards.

Performance Management

The Performance Management section of the *Annual Report* provides a general overview of the performance management processes at FSA. The foundation of performance management within FSA is the five-year strategic plan. The key strategic drivers relevant to the strategic planning process within FSA are listed below.

Table 5: Key Strategic Drivers Relevant to FSA Strategic Planning

| Key Strategic Driver | Relevance to FSA's Strategic Planning Process |
|---|---|
| <i>The Higher Education Act of 1965</i> 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. <ul style="list-style-type: none"> • The size and performance of FSA's portfolio of loans has direct implications for taxpayers. • Students are making high impact financial decisions without the benefit of adequate financial knowledge. • Digital fluency and mobile ubiquity are driving new service expectations among customers. • Increased volume of student data has created new opportunities, obligations, and risks. |
| The Department's Five-Year Strategic Plan | Requires FSA's support of the Department's strategic goals related to postsecondary education. |
| Office of Inspector General's (OIG) Management Challenges | Requires the Department and FSA senior management's consideration for establishing priorities. OIG's Management Challenges for FY 2020 include: <ul style="list-style-type: none"> • Improper Payments, • Information Technology Security, • Oversight and Monitoring, and • Data Quality and Reporting. |
| OIG and GAO 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. |

Performance Management

The key strategic drivers inform the strategic planning process, aligning FSA with the PBO requirements outlined in the 1998 Amendments to the HEA while ensuring future consistency and accountability. In this way, the key strategic drivers influenced the development and implementation of FSA's strategic plan, as well as the development and tracking of performance measures. The Performance Management section illustrates the outcome of this effort by discussing the following:

- FSA's transition to a new *FY 2020–24 Strategic Plan*,
- FSA's performance management processes,
- FSA's FY 2020 strategic goals,
- FSA's alignment to the Department's *FY 2018–22 Strategic Plan*, and
- FSA's efforts to validate the quality of performance data reported.

The performance management framework outlined in this section provides the foundation for the presentation of both performance achievements and challenges experienced in FY 2020. The section also highlights the organizational emphasis to create a more robust culture of performance management through collaboration internally and with Department officials.

FSA's Transition to the *FY 2020–24 Strategic Plan*

In FY 2019, FSA initiated the development of an organizational five-year performance plan that aligned with its vision to create a more student-focused, agile, and transparent organization. The plan, *FY 2020–24 Strategic Plan*, establishes ambitious goals and objectives to ensure that FSA will continue to improve upon its mission while increasing accountability in all areas of organizational performance. As FSA also continues its implementation of the Next Gen FSA initiative, staged to transform nearly every aspect of the federal student aid programs, the draft *FY 2020–24 Strategic Plan* creates measurable outcomes consistent with the effort.

From an organizational performance standpoint, FSA managed the organization towards the strategic goals, objectives, and performance metrics established in the draft *FY 2020–24 Strategic Plan* throughout FY 2020. To maintain consistency with the previous *FY 2015–19 Strategic Plan*, FSA transitioned eight performance metrics into the draft *FY 2020–24 Strategic Plan*. FSA aligned the transitioned metrics under the appropriate goals and objectives to strengthen the range of measurement in key performance areas. FSA also discontinued the utilization of five performance metrics from the *FY 2015–19 Strategic Plan* and will no longer use these performance metrics to measure organizational progress.

To increase accountability, FSA introduced 36 new performance metrics in the draft *FY 2020–24 Strategic Plan*. Therefore, there are a total of 44 performance metrics within the new plan in comparison to 13 performance metrics outlined in the previous one. The significant increase in performance metrics associated with the draft *FY 2020–24 Strategic Plan* is illustrative of FSA's concerted effort to evaluate its progress across its five strategic goals through clear and measurable strategic objectives to reinforce accountability and transparency in operations. By assigning detailed performance metrics to each goal and objective throughout the plan, FSA broadened its scope to analyze organizational progress. In this way, both now and in the future, FSA can establish performance targets that are aligned with measurable outcomes of organizational success.

To review the performance metrics transitioned and discontinued from the *FY 2015–19 Strategic Plan*, please refer to the Crosswalk between FY 2015–19 and FY 2020–24 Strategic Plans (Table 6). For a more detailed discussion of the goals, objectives and performance metrics associated with the *FY 2020–24 Strategic Plan*, please refer to the *Annual Performance Report* section of this document.

Table 6: Crosswalk between FY 2015–19 and FY 2020–24 Strategic Plans

| Performance Metrics FY 2015–19 Plan | Disposition in FY 2020–24 Plan |
|--|---|
| A.1 Percent of First-Time FAFSA Filers Among High School Seniors | 2.1.B Percentage of high school seniors submitting the FAFSA. |
| A.2 Persistence Among First-Time Filing Aid Recipients | 5.1.E Persistence among first-time filing aid recipients. |
| A.3 Customer Visits to StudentAid.gov | 2.1.A Number of visits (sessions) demonstrating adoption of the updated StudentAid.gov site. |
| A.4 Social Media Channel Subscribership | Discontinued in FY 2020 |
| A.5 ACSI Aid Life Cycle Surveys | 2.2.G American Customer Satisfaction Index (ACSI) Aid Lifecycle Survey score. |
| B.1 Improper Payment Rate | Discontinued in FY 2020 |
| B.2 Percent of Borrowers > 90 Days Delinquent | 5.3.C Percent of Borrowers > 90 Days Delinquent. |
| C.1 Aid Delivery Costs Per Application | Discontinued in FY 2020 |
| C.2 Outstanding Direct Loan Portfolio in Current Repayment Status | 5.1.C Outstanding Direct Loan Portfolio in Current Repayment Status. |
| D.1 Ease of Doing Business with FSA | 3.2.D Ease of doing business with FSA. |
| D.2 Percentage of Contract Dollars Competed by FSA | Discontinued in FY 2020 |
| D.3 Collection Rate | Discontinued in FY 2020 |
| E.1 Employee Engagement Index | 1.1 Improve Federal Employee Viewpoint Survey score: Employee Engagement Index. FSA's scores will improve the first year and continue to increase 1–2% annually. |

Performance Management Processes at Federal Student Aid

During FY 2020, FSA used a tiered performance management framework to establish goals and communicate, measure, and report performance:

- *FSA FY 2020–24 Strategic Plan*
- Weekly Performance Accountability Meetings
- *Annual Performance Report*
- Department’s Quarterly and Annual Performance Reviews
- Agency Priority Goals (APGs)

FSA’s FY 2020–24 Strategic Plan

The *FY 2020–24 Strategic Plan* outlines goals, objectives, and performance metrics that provide a roadmap for how FSA will successfully operate, respond to change, and execute its mission moving forward. 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. To provide the framework to effectively achieve these outcomes the five-year strategic goals must be:

- appropriate to the mission of the organization,
- realistic and measurable,
- achievable in the time frame established and challenging in their targets, and
- understandable to the layperson with language that is unambiguous and terminology that is adequately defined.

As stated, 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 *FY 2020–24 Strategic Plan*.

Table 7: Key Components of the *FY 2020–24 Strategic Plan*

| Key Component | Description |
|----------------------------|--|
| Strategic Goals | Statements of long-term purpose outlined in the <i>FY2020–24 Strategic Plan</i> 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, if available, are expressed in quantifiable terms and are compared to the actual result to determine level of performance. |

FSA’s FY 2020–24 Strategic Plan – At a Glance

The *FY 2020–24 Strategic Plan* outlines strategic goals and objectives that will be used to track and evaluate FSA’s progress toward meeting its mission. The following table provides an abbreviated view of the *FY 2020–24 Strategic Plan*.

Table 8: Strategic Goals and Strategic Objectives for Fiscal Years 2020–24

| Strategic Goal 1 | Strategic Objectives |
|--|--|
| Empower a High Performing Organization | 1.1: Improve employee engagement and workplace inclusion to develop and retain talent, improve employee satisfaction, and engage in effective succession planning. |
| | 1.2: Expand employee skills and capabilities to support Next Gen FSA. |
| Strategic Goal 2 | Strategic Objectives |
| Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve | 2.1: Ensure that all students can easily access information on federal student aid, apply for federal student aid, and have information on repayment options. |
| | 2.2: Provide seamless, easy, personalized digital interactions equal with top financial institutions in the delivery of financial aid products and services. |
| | 2.3: Streamline contact center and back-office operations to improve our customers’ integrated experience. |
| | 2.4: Simplify the communication and processes associated with borrower repayment plans. |
| Strategic Goal 3 | Strategic Objectives |
| Increase Partner Engagement and Oversight Effectiveness | 3.1: Provide effective oversight of FSA’s partners utilizing a comprehensive suite of monitoring tools. |
| | 3.2: Strengthen partner engagement and provide effective outreach and assistance. |
| Strategic Goal 4 | Strategic Objectives |
| Strengthen Data Protection and Cybersecurity Safeguards. | 4.1: Implement business partner and vendor systems that house, manage, and provide systems supporting FSA business processes, outreach and awareness focused on oversight, enforcement, infrastructure, systems, and data. |
| | 4.2: Improve student privacy data and cybersecurity controls of Institutions of Higher Education (IHEs) through outreach and communication to mitigate future cyber-incidents and breaches. |
| | 4.3: Build an effective cybersecurity culture through employee awareness, training and accountability focused on protecting systems and data. |
| Strategic Goal 5 | Strategic Objectives |
| Enhance the Management and Transparency of the Portfolio | 5.1: Improve the management and transparency of FSA’s student loan portfolio performance. |
| | 5.2: Provide analytics and operational support for a customer-centric, data-driven, performance-based organization. |
| | 5.3: Leverage portfolio analytics to drive improved outcomes for customers and taxpayers. |
| | 5.4: Increase vendor performance through quality management activities centered on customer service and product delivery. |

Weekly Performance Accountability Meetings

Throughout FY 2020, FSA measured and analyzed performance based upon performance metric results outlined in the draft *FY 2020–24 Strategic Plan*, as well as various internal metrics used for operational management. The analysis of performance is a transparent process within

Performance Management

the organization, executed through weekly performance accountability meetings with the FSA leadership and management team.

Each week, the analysis of specified performance metrics is presented through various performance dashboards to the FSA leadership and management team by program managers responsible for outcomes. In the weekly meetings, progress of the designated performance metrics, both negative and positive, is discussed in an open forum. For any performance metrics not on track, the analysis must include identification of the root cause of the unexpected result and a recommendation of the appropriate corrective actions necessary to improve performance. Performance dashboards for the draft *FY 2020–24 Strategic Plan* and the performance metrics associated with the Department's Quarterly Performance Review were also developed in FY 2020 and utilized to discuss performance metric progress on a quarterly basis.

Annual Performance Report

To report progress on meeting the strategic goals, FSA prepares and publishes an *Annual Performance Report*, which is included in the *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.

Department of Education Quarterly and Annual Performance Reviews

The Quarterly and Annual Performance Review meetings and data calls are part of the Department-wide performance management system. The meetings, associated data collection, and reporting protocols operate at the principal office level and are 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 President and other principal offices, and legal requirements. The Quarterly Performance Review framework primarily focuses on process improvements and capacity building, providing principal offices an opportunity to establish specific milestones. FSA tracks the status of its Quarterly Performance Review metrics and reports on its progress to the Department on a quarterly and annual basis.

The Department's goals, objectives, and performance measures have been integrated seamlessly into FSA's draft *FY 2020–24 Strategic Plan*. Fourteen performance measures are shared between the plans, and others are built into the objectives. The decision to have shared performance metrics between the plans was made during the development of the strategic plan to ensure there was both consistency and alignment between the Department and FSA. This decision will improve customer service, partner collaboration, and oversight throughout FSA's ongoing efforts. Currently, FSA directly supports the following Department strategic goals:

- **Goal 2:** Expand postsecondary educational opportunities; improve outcomes to foster economic opportunity; and promote an informed, thoughtful, and productive citizenry.

- **Goal 3:** Strengthen the quality, accessibility, and use of education data through better management, increased privacy protections, and transparency.
- **Goal 4:** Reform the effectiveness, efficiency, and accountability of the Department through its focuses on vendor management, risk mitigation, and cybersecurity.

Agency Priority Goals

APGs are a performance accountability structure of the *Government Performance and Results Modernization Act of 2010* (Pub. L. 111-352) that provide agencies a mechanism to focus on leadership priorities, set outcomes, and measure results, bringing focus to mission areas where agencies need to drive significant progress and change. APG statements are outcome-oriented, ambitious, and measurable with specific targets set that reflect a near-term result or achievement agency leadership wants to accomplish within approximately 24 months.

In FY 2020, the Department identified five proposed APGs for FY 2020–21. These APGs were focused on an increase in educational choice, enhancing multiple pathways for student success in career and job ready skills, improving the customer service the Department provides, and improving student privacy protection and cybersecurity at institutions of higher education and provide regulatory relief and burden reduction to education stakeholders. Of the five APGs, two were closely tied to FSA's mission and were supported by FSA during FY 2020. They are:

- **Related to Goal 2.4 – APG:** The Next Generation Financial Services Environment (Next Gen FSA) will personalize and improve customers' experience when they engage with Federal Student Aid (FSA); and
- **Related to Goal 3.2 – APG:** Improve Student Privacy and Data Security at Institutions of Higher Education through Outreach and Compliance Efforts.

Each quarter, the Department analyzes the progress toward accomplishing the Departmental APGs, with the objective of successfully accomplishing the current APGs by September 30, 2021.

To achieve the success of the Goal 2.4 APG, FSA is responsible for improving the customers' experience throughout the entire student aid life cycle by continuing to modernize capabilities for the FAFSA application and the servicing and repayment of student loans. As noted in the APG, Next Gen FSA is the Department's transition to the digital future of FSA and aims to shift FSA to be a more customer-centric organization. It is the Department's expectation, articulated within the APG Achievement Statement, that FSA will build products and services that meet customers' expectations. The Department notes that this strategy is predominately used in private industry, and now several government agencies, including FSA, are following this customer-centric model. The FY 2020 approved Goal 2 APG statement is:

By September 30, 2021, FSA will transform its relationship with prospective and current customers through deployment of significant components of the Next Gen FSA that result in a personalized experience:

- The number of individuals submitting a Free Application for Federal Student Aid® (FAFSA®) through a mobile device will increase to 2.6 million.

- The overall customer satisfaction level throughout the student aid life cycle, as measured by the FSA Customer Satisfaction score⁷, will increase.

Therefore, the APG is aligned with the progress of Next Gen FSA and is measured by the following customer-centric metrics in FY 2020:

- Number of customers submitting the FAFSA forms via a mobile platform—either through the myStudentAid mobile app or mobile-optimized [FAFSA.gov](https://fafsa.gov)
- The overall customer satisfaction level throughout the student aid life cycle, as measured by the ASCI
- Number of customers checking loan balances via the myStudentAid mobile app
- Number of users adopting a virtual assistant that will answer questions about federal student aid
- Number of visits (sessions) to the redesigned [StudentAid.gov](https://studentaid.gov) website

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

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

By September 30, 2021, the Department will participate in 12 engagements with sector-related Non-Governmental Organizations (NGOs) to inform the development of five best practice programmatic improvements such as, by:

- 1) issuing guidance to IHEs to provide a definition of information security breach and when and how to report a breach;
- 2) establishing secure mechanisms for breach notification, including secure storage for such information; or
- 3) creating a process through which IHEs can validate compliance notifications and reporting requests.

As previously stated, this is also a two-year APG covering FY 2020 and FY 2021. FSA and the Department will achieve this APG through collaborative efforts involving training, outreach, monitoring, and reporting to include:

⁷ The Federal Student Aid Customer Satisfaction Score is an annual composite metric that measures the overall customer satisfaction level throughout the student aid life cycle FAFSA applicants (mobile and [FAFSA.gov](https://fafsa.gov)), Title IV aid recipients in school, and borrowers in repayment. The score is based on the American Customer Satisfaction Index surveys.

Performance Management

- Issuing best practice programmatic improvements documents to IHEs to provide a definition of information security breach and on when and how to report an information security breach.
- Establishing secure mechanisms for breach notification, including secure storage for such information.
- Creating a process through which IHEs can validate compliance notifications and reporting requests.
- Developing a collaborative IHE outreach strategy in compliance with the Gramm-Leach-Bliley Act (GLBA) and constructing an outreach timeline.
- Conducting ongoing outreach activities by FSA and the Privacy Technical Assistance Center within the Student Privacy Policy Office related to privacy and data security requirements.
- Tracking the timeliness of privacy and data security reports received by FSA as a result of FSA outreach activities.

For data validation purposes regarding the outreach metric, the activity records maintained by FSA and the Department's OCIO through the Department's Privacy Technical Assistance Center, are recorded on a SharePoint site. Based on actions by contractors, Department personnel, and FSA personnel, data accuracy is high, reliable, and consistent.

All APG metric results were also made available on [Performance.gov](https://www.performance.gov) each quarter for public view.

Quality of Performance Data

Ensuring the integrity of the data required to determine performance results is a critical step in reporting performance. For this step, FSA developed and implemented a Validation and Verification Matrix. Specifically, FSA uses this matrix as a tool to validate the completeness and reliability of the underlying data gathered and used to calculate each performance metric for the reporting period, including the performance results reported in this *Annual Report*. For each performance metric, this matrix is used to document the following: measurement definition and owner; data source, availability, security procedures, and known limitations; whether data are subject to FSA's OMB Circular A-123 Internal Control Review process; and procedures for accessing the data, calculating the performance metric, and validating and verifying the data gathered.

In FY 2020, FSA updated its approach to create the matrix using an online information collection tool. The information collection tool automated the process of information gathering across the organization. In addition, the information received by the tool was also used to establish the process of performance reporting and generate content for this report.

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

Analysis of Financial Statements

Introduction

The Analysis of Financial Statements section provides an overview of FSA's financial results for FY 2020. This section assists readers in understanding FSA's financial results, position, and condition as reflected in the financial statements and notes located in the Financial Section of this report. The financial analysis explains major changes in assets, liabilities, costs, and budgetary resources. It also includes comparisons of the current year to the four prior years and discusses the relevance of significant balances, amounts, and trends reflected in the financial statements and notes.

FSA is committed to providing sound management, financial systems, and controls to ensure students receive aid and repay loans according to applicable laws and regulations. FSA's financial statements are prepared in accordance with established federal accounting standards and reporting requirements. The financial statements are subject to an annual independent audit to determine whether FSA's financial statements present fairly FSA's financial position, net cost, changes in net position, and budgetary resources. In FY 2020, FSA achieved an unmodified audit opinion on its financial statements for the eighteenth consecutive year.

FSA presents its financial statements and notes in the format required by OMB Circular A-136, *Financial Reporting Requirements*. For FY 2020 and FY 2019, 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 more than \$1.5 trillion in federal student loans, of which it directly owns and manages approximately \$1.4 trillion. The remaining balance represents non-defaulted FFEL Guaranteed loans held by lenders and Federal Perkins loans held by schools, as detailed in Note 5. As described in Note 1 and Note 5, FSA reports its portfolio of federal student loans on its Balance Sheet, on the line item Credit Program Receivables, Net. This is the gross amount of loans and interest receivable less an allowance for the present value of amounts not expected to be recovered (Allowance for Subsidy). Subsidy Expense is a factor included in the Allowance for Subsidy and represents an estimate in present value terms of the cost to the government of direct loans and loan guarantees. Subsidy Expense is recorded in the year a loan is disbursed and updated annually through a re-estimation process. It includes default costs (net of recoveries), contractual payments paid to third-party private collection agencies (PCAs), and net borrowing costs, less any origination or other fees collected. If the net cost to the government is greater than zero, then the subsidy expense is said to be positive. However, the subsidy expense may also be zero (break-even), or it may be negative if the estimated cost of providing loans to borrowers is less than the value of collections received as interest and fees. As of September 30, 2020, FSA reported \$1.2 trillion in Credit Program Receivables, Net after deducting an Allowance for Subsidy of approximately \$258.3 billion. Credit Program Receivables, Net was 0.3 percent less than the prior-year amount which resulted from a 8.9 percent decrease in FSA's underlying portfolio of credit program receivables that was offset by adjustments that decreased the FY 2020 Allowance for Subsidy by approximately 38 percent from the FY 2019 amount. The reasons for the adjustment to the Allowance for Subsidy estimate are explained in Note 5.

The FY 2020 FSA Financial Highlights tables presented below provide a condensed summary of the significant balances in FSA’s Balance Sheets and Statements of Net Cost over a five-year period, beginning with FY 2016. The tables also show the percentage change between the prior and current fiscal years as of September 30, 2019 and 2020, respectively. The figures and tables presented in this section include rounding adjustments to ensure that the component line items sum to the corresponding total. As a result, there may be small discrepancies between the amounts shown in a particular figure or table when compared to similar items discussed in the text or presented in other areas of the Annual Report.

**Table 9: Federal Student Aid Financial Highlights
Condensed Balance Sheets
Fiscal Years 2016–20
(Dollars in millions)**

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | Percentage Change ⁸ |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|--------------------------------|
| Fund Balance with Treasury | \$ 60,358 | \$ 74,032 | \$ 73,405 | \$ 62,567 | \$ 70,266 | 12.3% |
| Credit Program Receivables, Net | 1,075,227 | 1,145,406 | 1,209,495 | 1,202,092 | 1,169,614 | (2.7) |
| Remaining Assets | 1,334 | 2,256 | 2,365 | 2,217 | 2,171 | (2.1) |
| Total Assets | \$ 1,136,919 | \$ 1,221,694 | \$ 1,285,265 | \$ 1,266,876 | \$ 1,242,051 | (2.0)% |
| Debt | \$ 1,126,345 | \$ 1,178,473 | \$ 1,258,481 | \$ 1,287,494 | \$ 1,249,807 | (2.9)% |
| Subsidy due to Treasury General Fund | 2,642 | 7,013 | 7,528 | 10,302 | 3,283 | (68.1) |
| Remaining Liabilities | 9,614 | 13,000 | 10,197 | 13,971 | 8,350 | (40.2) |
| Total Liabilities | \$ 1,138,601 | \$ 1,198,486 | \$ 1,276,206 | \$ 1,311,767 | \$ 1,261,440 | (3.8)% |
| Unexpended Appropriations | \$ 26,531 | \$ 28,524 | \$ 32,487 | \$ 31,400 | \$ 35,038 | 11.6% |
| Cumulative Results of Operations | (28,213) | (5,316) | (23,428) | (76,291) | (54,427) | (28.7) |
| Net Position | \$ (1,682) | \$ 23,208 | \$ 9,059 | \$ (44,891) | \$ (19,389) | (56.8) |
| Total Liabilities & Net Position | \$ 1,136,919 | \$ 1,221,694 | \$ 1,285,265 | \$ 1,266,876 | \$ 1,242,051 | (2.0)% |

**Table 10: Statements of Net Cost
(Summarized)
Fiscal Years 2016–20
(Dollars in millions)**

| | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | Percentage Change ⁹ |
|-------------------------------|------------------|------------------|------------------|-------------------|-------------------|--------------------------------|
| Gross Cost | \$ 93,032 | \$ 73,771 | \$ 71,232 | \$ 144,865 | \$ 171,245 | 18.2% |
| Less: Earned Revenue | (34,260) | (35,825) | (36,224) | (36,820) | (39,384) | 7.0 |
| Net Cost of Operations | \$ 58,772 | \$ 37,946 | \$ 35,008 | \$ 108,045 | \$ 131,861 | 22.0% |

⁸ The percentage change is calculated as the difference between FY 2019 and FY 2020, divided by the FY 2019 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.

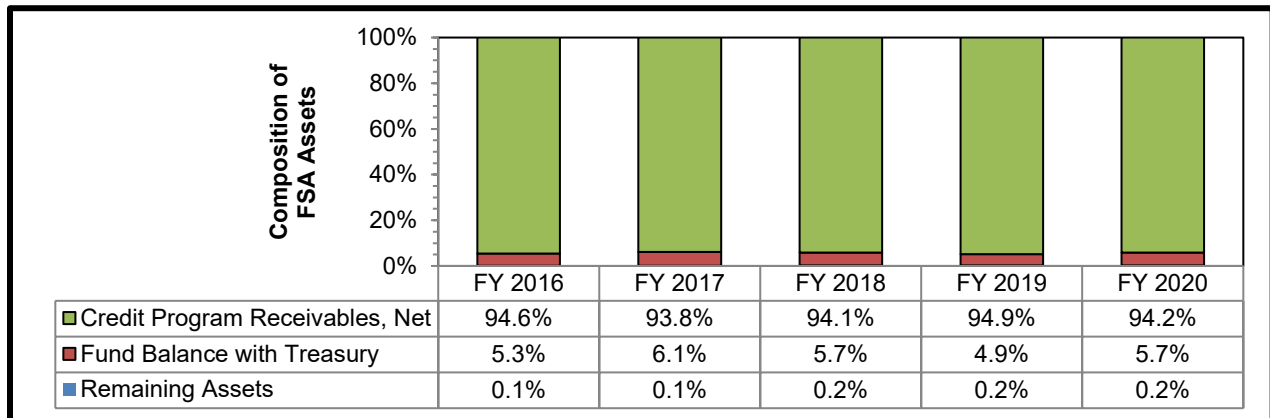
⁹ Refer to Footnote 6

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.

The consolidated Balance Sheet shows that FSA had total assets of \$1,242.1 billion as of September 30, 2020, a decrease of \$24.8 billion, or 2.0 percent under the September 30, 2019 total assets balance of \$1,266.9 billion. The difference resulted primarily from a 12.3 percent increase in Fund Balance with Treasury (\$7.7 billion), combined with a 2.0 percent decrease in net Credit Program Receivables (\$32.5 billion). Together, FSA's Fund Balance with Treasury and its net Credit Program Receivables accounted for approximately 99.9 percent of Total Assets as of September 30, 2020, as illustrated in the Composition of Assets chart (Figure 9). The Comparison of Assets chart (Figure 10) presents changes in these two principal Balance Sheet line items over the past five fiscal years.

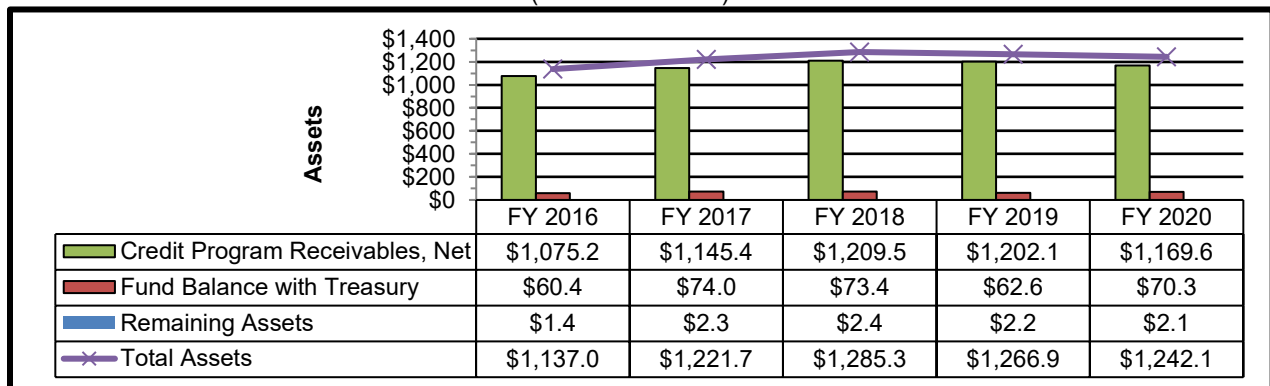
Figure 9: Composition of Federal Student Aid Assets*
Fiscal Years 2016–20



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

Figure 10: Comparison of Federal Student Aid Assets*
Fiscal Years 2016–20

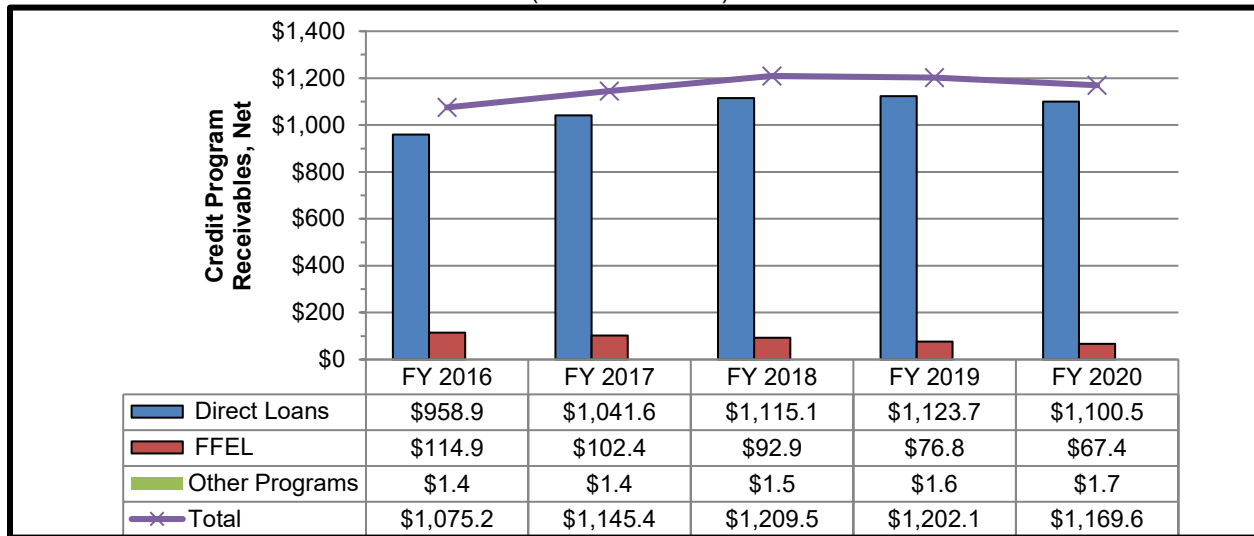
(Dollars in Billions)



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

Credit Program Receivables, Net. FSA’s Credit Program Receivables, Net balance of \$1,169.6 billion balance as of September 30, 2020, represents FSA’s most important asset category and accounted for almost 95 percent of Total Assets. This balance includes \$1,330.2 billion in principal, interest, and fees, less an allowance for subsidy cost of approximately \$160.6 billion that adjusted the loan portfolio to its estimated present value. FSA reports the total amount under the three major program categories Direct Loan, FFEL, and Other, as illustrated in Figure 11 below and discussed more fully in the following sections.

**Figure 11: Total Federal Student Aid Loan Portfolio*
Net of Allowance for Subsidy
Fiscal Years 2016–20**
(Dollars in Billions)



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

Figure 11 also shows that over the four-year period 2016–20, FSA’s portfolio of FSA net credit program receivables increased by \$94.4 billion or 8.8 percent. The Direct Loan program accounted for most of this change, increasing by \$141.6 billion (14.8 percent), offset by the \$47.5 billion (41.3 percent) reduction of the FFEL Portfolio over the same period. However, the overall upward trend reversed in FY 2020 when the \$9.4 billion (12.2 percent) net reduction in FFEL net credit program receivables coincided with the \$23.2 billion (2.1 percent) decrease in Direct Loan credit program receivables. The overall reduction in FSA’s net credit program receivables portfolio was \$32.5 billion or 2.7 percent.

The directional changes observed in the Direct Loan and FFEL portfolios are principally related to the impact of the SAFRA Act, which as of June 30, 2010, eliminated all new loan originations under the FFEL Program in favor of direct lending. Loan consolidation has also played a role. Consolidation is the process of combining one or more federal student loans into one loan. For more information about which federal loans may be eligible for consolidation and other requirements, please visit [StudentAid.gov/consolidation](https://studentaid.gov/consolidation). Another significant factor in FY 2020 was a decrease to the allowance for subsidy cost by \$97.7 billion (almost 38 percent). The reasons for the adjustment to the subsidy cost estimate are explained in Note 5.

Direct Loan Credit Program Receivables, Net. Direct Loan Credit Program receivables continue to be the major component of FSA’s credit program receivable portfolio in FY 2020. As of September 30, the \$1,100.5 billion Direct Loan portfolio ending balance comprises

Analysis of Financial Statements

94.2 percent of FSA's total credit program receivables net, compared to the prior year ending balance of \$1,123.7 that represented 94.9 percent. The FY 2020 Direct Loan ending balance total includes \$1,316.9 billion in principal, interest, and fees, with an allowance for subsidy cost to the government of \$216.4 billion. This amount contrasts to the prior year where the subsidy costs were projected at \$124.5 billion on Direct Loan principal, interest, and fees of \$1,248.2 billion. The factors that contributed to the variance in subsidy cost at a time when the underlying loan balances increased by 5.5 percent are addressed in Note 5.

The FY 2020 \$68.7 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 (\$86.1 billion), consolidation disbursements (\$30.4 billion), and the net increase in accrued interest and fees (\$8.8 billion). This was offset by reductions to principal due to loan payments by borrowers (\$53.1 billion), loan discharges (\$7.7 billion), and other adjustments.

The growth in principal outstanding has accounted for virtually all growth of the Direct Loan portfolio over the past five years in dollar terms, as seen in Figure 12. Over the same period, Table 12 shows that accrued interest increased at a higher average annual rate than did principal outstanding (8.9 percent versus 20.3 percent), although, as illustrated by Table 11, accrued interest only increased from 5.3 percent to 8.4 percent of the net receivable amount, while principal outstanding increased from 94.1 percent to 111.3 percent of the net amount. See Note 5 for more details.

Figure 12: Components of Direct Loan Receivables, Net*
Fiscal Years 2016–20¹⁰
(Dollars in Billions)

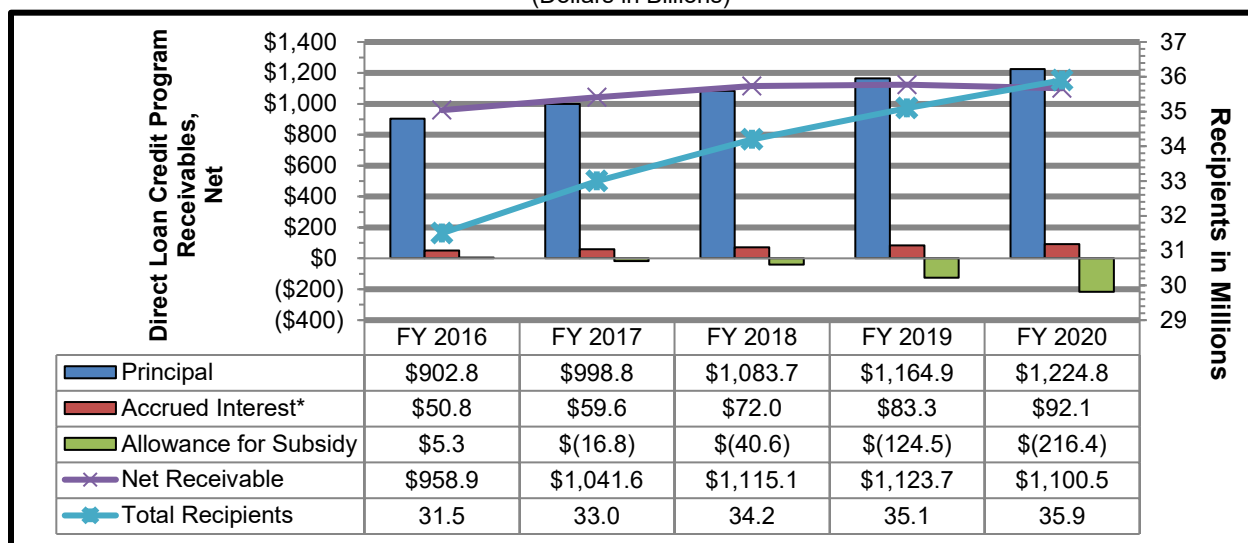


Figure 12 also includes the number of recipients corresponding to the outstanding loan portfolio at each fiscal year end. Recipients are students that benefit from the federal student loans. In most cases, a recipient is the borrower; but in the PLUS loans, the parent is the borrower, and the student is the recipient. The chart shows that Direct Loan recipients grew from 31.5 million

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

to 35.9 million over the five-year period, reflecting, as reported in Table 12, an average annual increase of 3.3 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 21.1 percent during this time, from \$30,273 to \$36,682; the higher debt burden per student is likely an indication of increasing postsecondary education costs.

Table 11: Components of Direct Loan Credit Program Receivables, Net by Percentage* Fiscal Years 2016–20

| Direct Loan Component | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 |
|-----------------------|---------|---------|---------|---------|---------|
| Principal* | 94.1% | 95.9% | 97.2% | 103.7% | 111.3% |
| Accrued Interest | 5.3% | 5.7% | 6.5% | 7.4% | 8.4% |
| Allowance for Subsidy | 0.6% | (1.6)% | (3.7)% | (11.1)% | (19.7)% |
| Net Receivable | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

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

Table 12: Increase in Principal, Interest and Subsidy Components of Direct Loan Credit Program Receivables, Net and Recipient Counts*

| Direct Loan Component | FY 2016–17 | FY 2017–18 | FY 2018–19 | FY 2019–20 | FY 2016–20 Average Year-to-Year Change |
|-----------------------|------------|------------|------------|------------|--|
| Principal | 10.6% | 8.5% | 7.5% | 5.1% | 7.9% |
| Accrued Interest | 17.7% | 21.0% | 15.7% | 10.6% | 16.1% |
| Allowance for Subsidy | (415.1)% | (143.1)% | (206.7)% | 73.8% | (172.8)% |
| Net Receivable | 8.6% | 7.1% | 0.8% | (2.1)% | 3.6% |
| Total Recipients | 4.8% | 3.6% | 2.6% | 2.3% | 3.3% |

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

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

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

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

full or otherwise closed out.

On March 20, 2020, the Secretary directed the FSA to provide the following relief on Department-held federal student loans: suspend loan payments; stop collections on defaulted loans; and set interest rates to 0 percent for a period of 60 days. This relief was provided retroactively to borrowers beginning on March 13, 2020. On March 27, 2020, Congress passed, and the President signed into law, the CARES Act, which extended the above described relief measures and provided additional relief measures through September 30, 2020. On August 8, 2020, the President directed the Secretary to continue to provide relief for Department-held loans until December 31, 2020. The Department has extended the relief provided to borrowers in the CARES Act through December 31, 2020. The relief provided to borrowers from March 13, 2020 through March 26, 2020, and from October 1, 2020 through December 31, 2020, was provided under the Secretary's authority in the *Higher Education Relief Opportunities for Students Act of 2003*.

Figure 13¹² divides FSA's portfolio of direct loans into two main categories, based on repayment status. For the purpose of this discussion,¹³ loans are classified as "In Repayment" if, under the terms of the promissory note, the loan is current, delinquent, defaulted, in non-defaulted bankruptcy, or in a disability status. Alternatively, loans are classified as "Not in Repayment" if the borrower is "In School", "In Grace", or has been granted a deferment or a forbearance. The loan status "Deferment" includes loans for which payments have been postponed due to certain circumstances, such as returning to school, military service, or economic hardship. Similarly, "Forbearance" includes loans for which payments have been temporarily suspended or reduced because of certain types of financial hardships. Figure 13 reports the portfolio balance as the sum of principal and interest balances (i.e., the gross amount) owed by the borrower and excludes any subsidy cost or allowance that would adjust the outstanding balance to its net present value.

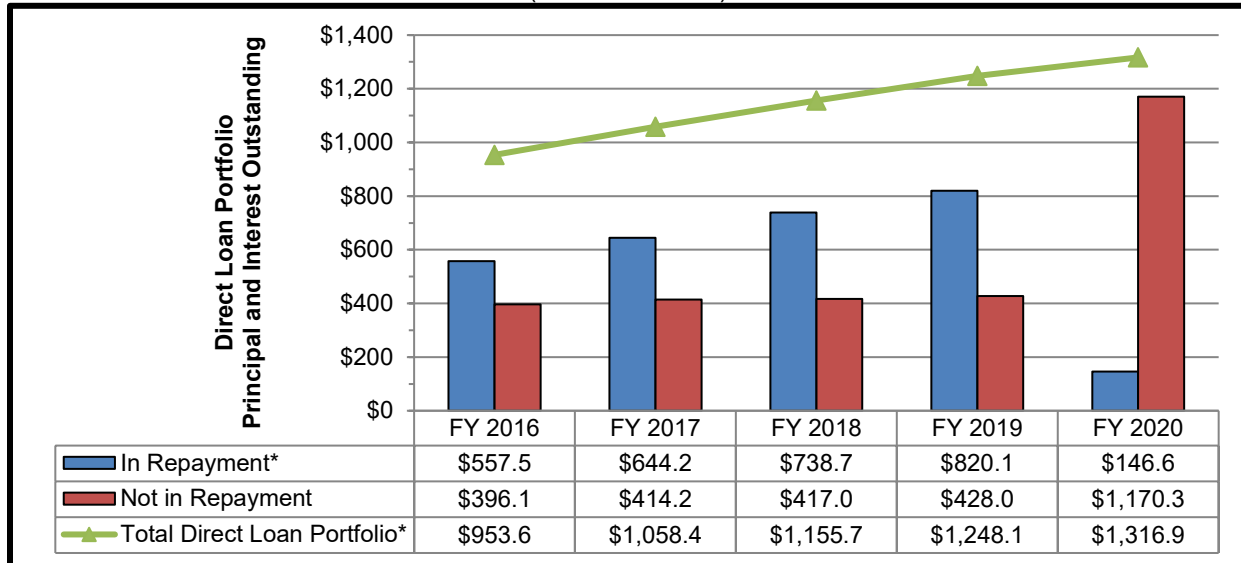
As can be seen in Figure 13, although both segments grew during the period FY2016–19, the "In Repayment" segment grew more rapidly to become the larger portfolio segment. During this period the "In Repayment" segment grew to represent 65.7 percent of the total principal and interest amount outstanding, increasing the need for FSA to facilitate the ability of Direct Loan borrowers to meet their repayment obligations timely.

The September 30, 2020 balance of loans in repayment of \$146.6 billion (11.1 percent of the total direct loan portfolio) is significantly less than the \$820.1 billion (65.7 percent) as of September 30, 2019. The dramatic decline in this segment reflects the impact of COVID-19 and the CARES Act which placed most borrowers into administrative forbearance through December 31, 2020.

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

¹³ The In Repayment/Not in Repayment classifications used for this discussion are slightly different from the definitions under 34 CFR §§ 685.207, 685.204, and 685.205 which specify that a borrower first enters repayment before receiving a deferment or forbearance. Under 34 CFR § 685.205(a), borrowers in forbearance may still make payments on their loans. In addition, under 34 CFR Part 668 Subpart N, borrowers in a deferment or forbearance are considered to be in repayment for purposes of calculating the cohort default rate for institutions.

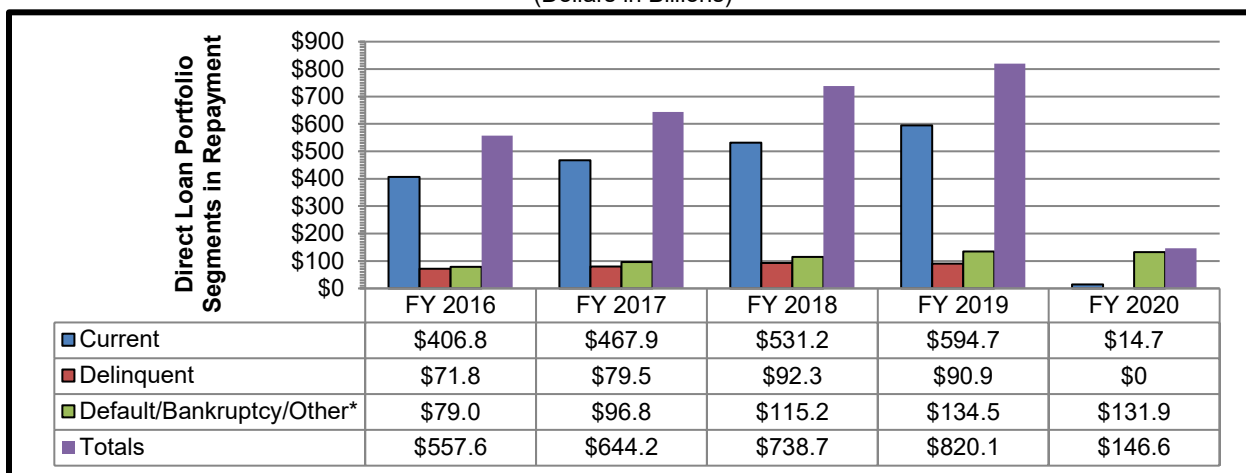
Figure 13: Direct Loan Portfolio by Repayment Status*
Principal and Interest Only
Fiscal Years 2016–20
 (Dollars in Billions)



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

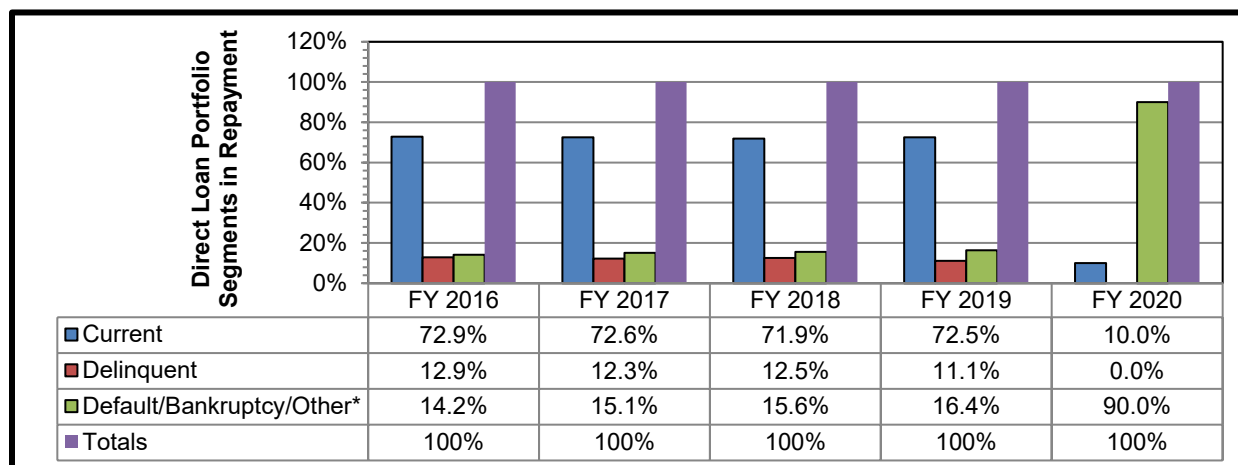
In the following Figures 14A and 14B, the Direct Loan portfolio of “In Repayment” principal and interest has been subdivided into three categories, “Current”, “Delinquent”, and “Default/Bankruptcy/Other”, as those terms are defined above.

Figure 14A: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest Only
Fiscal Years 2016–20
 (Dollars in Billions)



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

**Figure 14B: Direct Loan Portfolio Segment in Repayment by Status*
Principal and Interest Only
Fiscal Years 2016–20
(Percentage of Total)**



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

Regarding the “In Repayment” segment amounts as of September 30, 2020, \$0 in loan principal is in delinquent status (0 percent) as compared to \$90.9 (11.1 percent) as of September 30, 2019. Also, regarding the “In Repayment” segment amounts as of September 30, 2020, \$131.9 billion (90.0 percent) in loan principal was in default/bankruptcy/other status compared to \$134.5 billion (16.4 percent) as of September 30, 2019. The dramatic changes in these segments from 2019 to 2020 were due to the impact of the CARES Act and Presidential Directives which suspended borrower payments through December 31, 2020.

For related performance information about the percentage of borrowers more than 90 days delinquent, please see Performance Metric 5.3.C located in the *Annual Performance Report* section.

The portfolio of Direct Loan principal and interest receivables “Not in Repayment” can also be further subdivided based on the reason why the debt is not currently subject to repayment. Figures 15A and 15B¹⁴ subdivide this segment into two such categories, “In School, Grace Period, and Education Deferments” and “Forbearance/Noneducation Deferments”, as defined earlier.

Figure 15A shows that the amount of Direct Loan principal and interest categorized as “In School, Grace Period, and Education Deferments” has remained relatively consistent, \$289.5 billion in FY 2016 to \$282.8 billion at the end of the current year. This slight decrease reflects a 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 Period, and Education Deferments” category to the “In Repayment” segment.

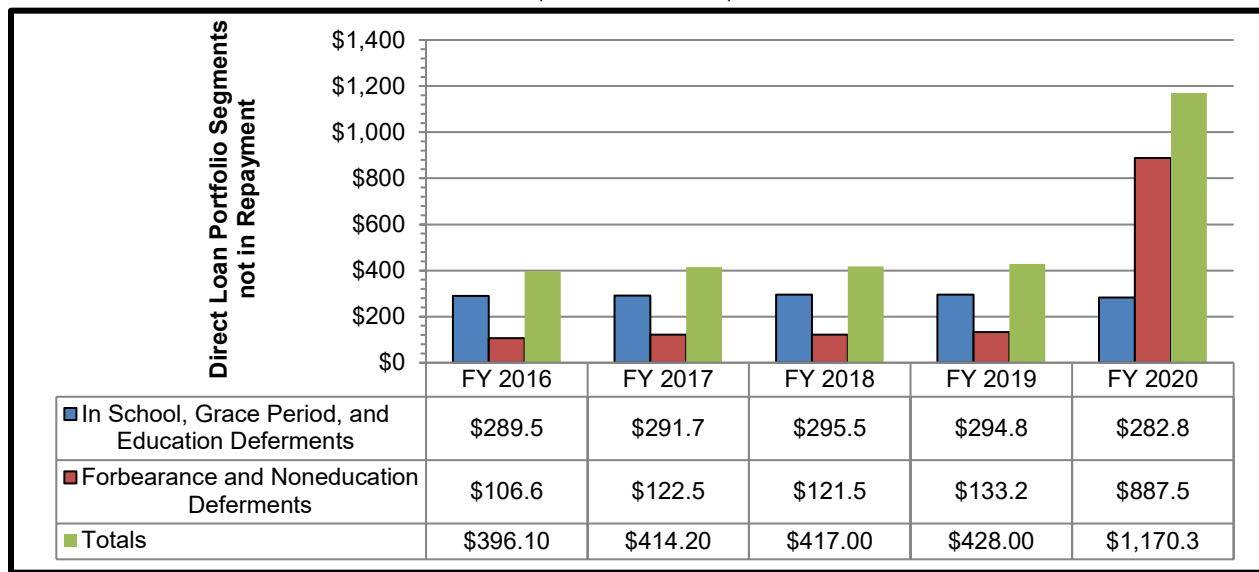
Figure 15B indicates that during the four-year period FY 2016–19, the “Forbearance and Noneducation Deferments” segment grew from \$106.6 billion to \$133.2 billion, increasing from

¹⁴ Please refer to footnotes 11 and 12.

26.9 percent to 31.1 percent of the “Not in Repayment” segment. However, during the FY 2016–19 period, as a percentage of the total portfolio of Direct Loan principal and interest receivables, the “In Deferment/Forbearance” portion has declined from 11.1 percent to 10.7 percent.

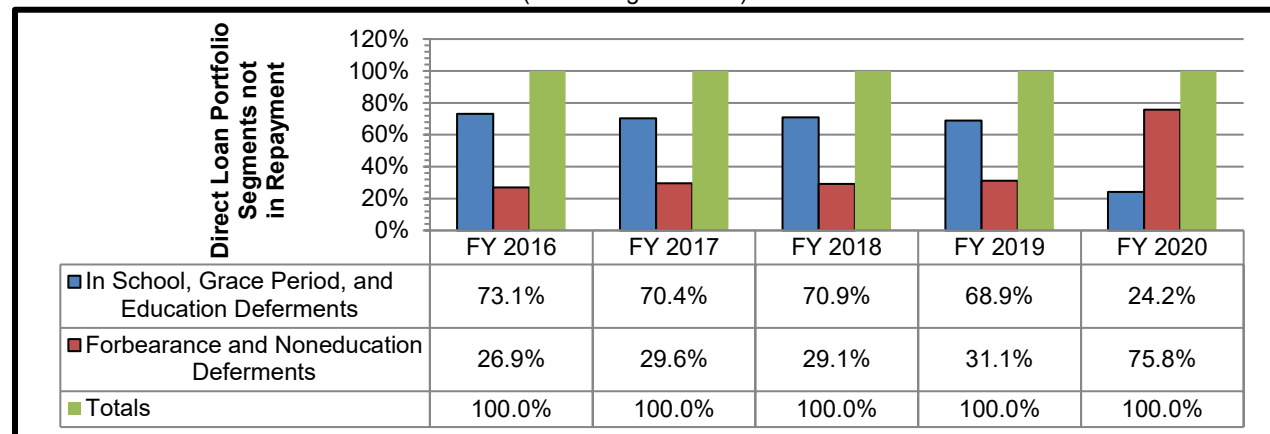
Figures 15A and 15B illustrate the dramatic impact of the CARES Act and Presidential Directives. “In School, Grace Period, and Education Deferments” amounts decreased from \$294.8 billion as of September 30, 2019 to \$282.8 billion as of September 30, 2020. However, the “Forbearance and Noneducation Deferments” amounts increased from \$133.2 billion as of September 30, 2019 to \$887.5 billion as of September 30, 2020.

**Figure 15A: Direct Loan Portfolio Segment not in Repayment by Status*
Principal and Interest Only
Fiscal Years 2016–20**
(Dollars in Billions)



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

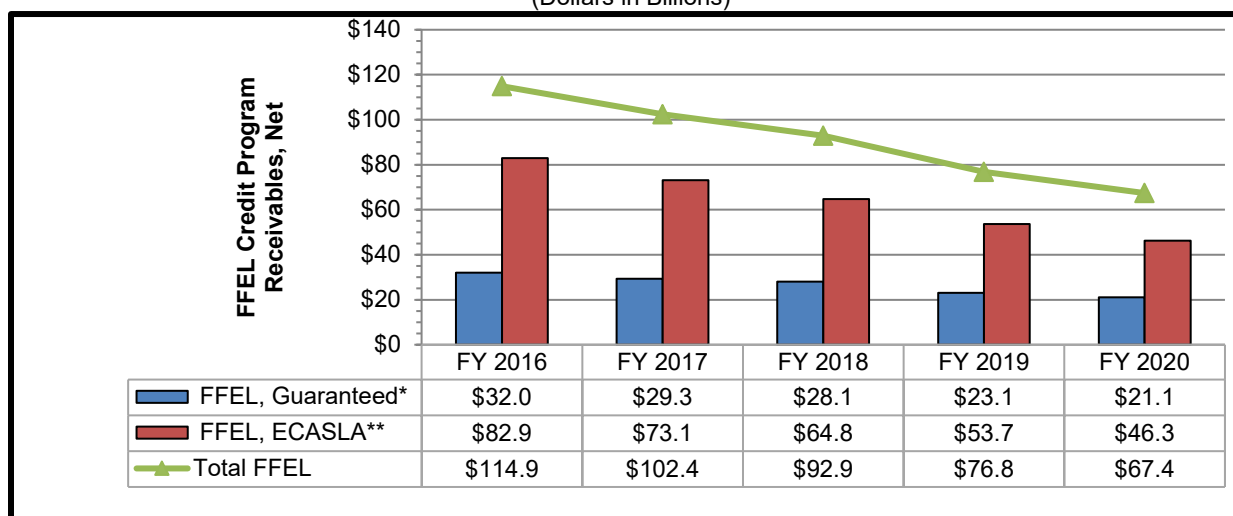
**Figure 15B: Direct Loan Portfolio Segment not in Repayment by Status*
Principal and Interest Only
Fiscal Years 2016–20**
(Percentage of Total)



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

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

Figure 16: Total Federal Student Aid FFEL Loan Portfolio***
Fiscal Years 2016–20
(Dollars in Billions)



*FFEL, Guaranteed (Non-ECASLA) Program

**FFEL, ECASLA Acquired Loan Program

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

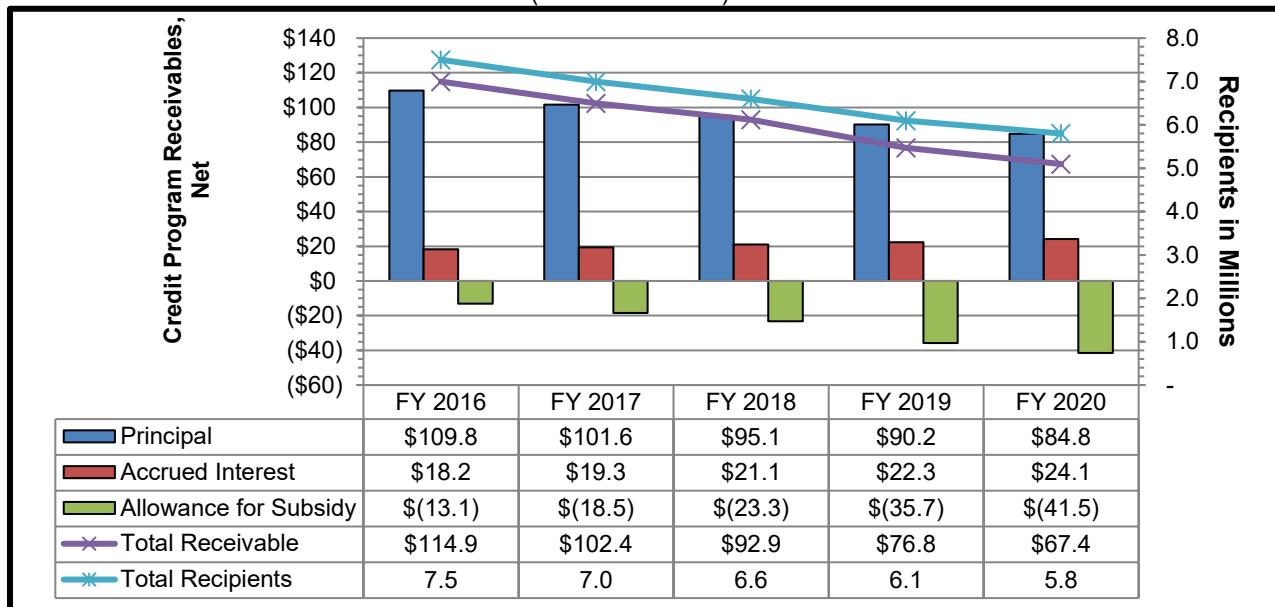
Figure 16 illustrates that with \$46.3 billion outstanding, the ECASLA FFEL portfolio segment remains the major component of the FFEL Guaranteed portfolio of net credit program receivables as of September 30, 2020 but declined by \$36.6 billion (44.1 percent) during the five-year period shown. This decrease was mainly the result of collections of principal and the impact of borrowers consolidating their loans under the Direct Loan Program, to take advantage of more favorable repayment options available in that program.

The ECASLA FFEL portfolio declined from \$53.7 billion as of September 30, 2019 to \$46.3 billion as of September 30, 2020 (\$7.4 billion). Outstanding principal declined \$4.6 billion to \$48.1 billion and the subsidy allowance increased by \$4.1 billion to \$11.0 billion. These amounts, which reduce the net receivable balance, were offset by an increase in the interest receivable of \$1.3 billion to \$9.2 billion. Despite this decrease, the proportion of ECASLA FFEL loans were approximately 70 percent of the total \$67.4 billion of FFEL loans outstanding as of the current year-end.

Over the same five-year period, the smaller FFEL Guaranteed portfolio declined from \$32.0 billion to \$21.1 billion. The FFEL Guaranteed portfolio declined from \$23.1 billion as of September 30, 2019 to \$21.1 billion as of September 30, 2020 (\$2.0 billion). Outstanding principal declined \$0.8 billion to \$36.7 billion and the subsidy allowance increased by \$1.7 billion to \$30.5 billion. These amounts, which reduce the net receivable balance, were offset by an increase in the interest receivable of \$0.5 billion to \$14.9 billion.

The overall impact of changes in the principal, accrued interest, and subsidy components of the FFEL portfolio are shown below in Figure 17.¹⁵ The reduction in FFEL recipients during the period FY 2016–20 also demonstrates the impact of debt consolidations and refinancing on the outstanding portfolio balance.

Figure 17: Components of Federal Student Aid FFEL Receivables, Net
Fiscal Years 2016–20
 (Dollars in Billions)

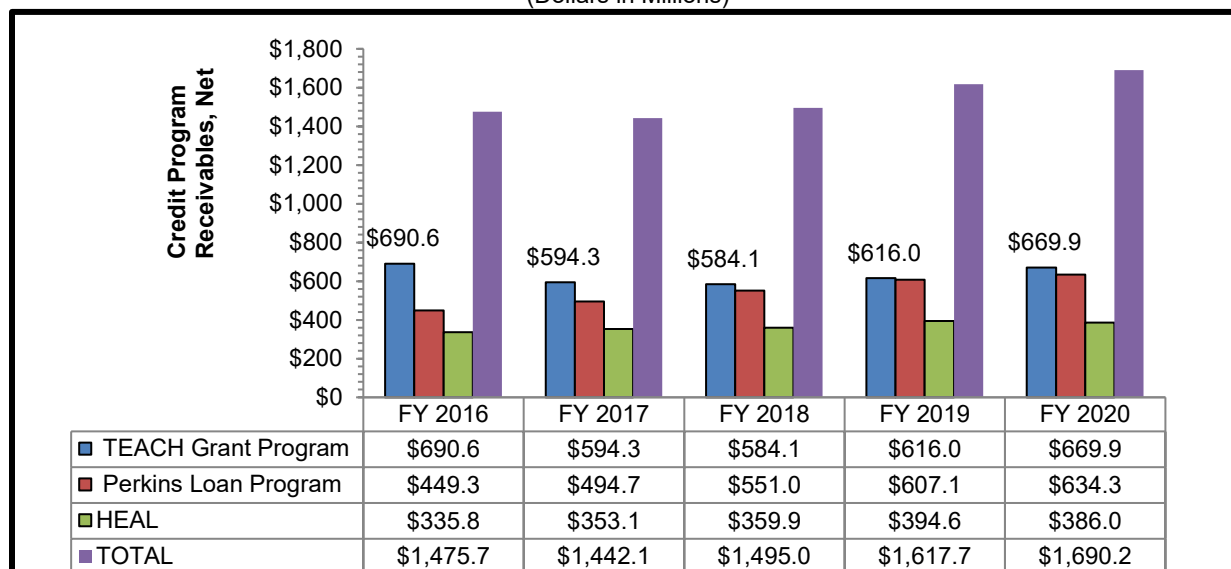


*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

¹⁵ Recipients in Millions for FY 2015–18 are based on data published by the FSA Data Center, at [StudentAid.gov/portfolio](https://studentaid.gov/portfolio). FY 2019 data are taken directly from NSLDS. Also, the FY 2018 data published in the *FY 2018 Annual Report*, taken directly from NSLDS, have been replaced with data subsequently published by the Data Center.

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

**Figure 18: Federal Student Aid Other Loan Portfolio
Fiscal Years 2016–20**
(Dollars in Millions)



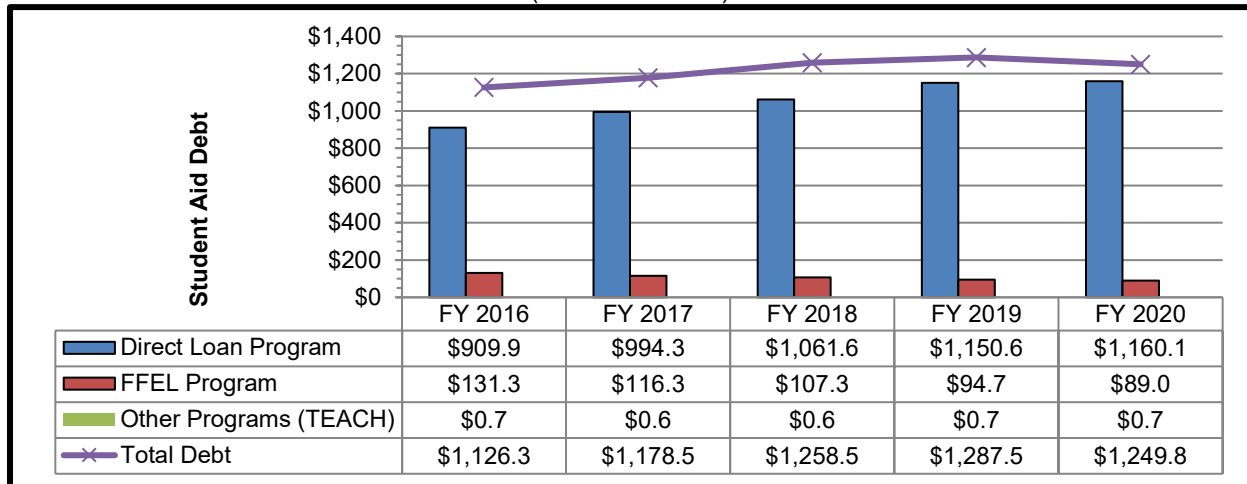
*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

This segment, known as Other Credit Program Receivables, Net, increased by 14.5 percent during the past five years, but still accounted for only 0.1 percent of FSA’s total loan portfolio throughout that period. Other Credit Program Receivables, net ended FY 2020 with a balance of \$1.7 billion, a \$214.5 million increase compared to the prior year-end.

Composition of FSA Liabilities. FSA’s liabilities represent probable and measurable future outflows of resources arising from past transactions or events. As of September 30, 2020, FSA had total liabilities of nearly \$1.3 trillion, a decrease of \$50.3 billion or 3.8 percent less than the September 30, 2019 total, in contrast to the 2.0 percent reduction in FSA’s total assets.

Debt. FSA’s debt is the primary component of its liabilities, accounting for 99.1 percent of the total. FSA’s debt balance of approximately \$1.3 trillion as of September 30, 2020 is 2.9 percent less than the prior-year amount. As shown in Figure 19, the Direct Loan Program was the principal debt component throughout the FY 2016–20 period and ended FY 2020 with a balance of nearly \$1.2 trillion, 0.8 percent above the prior-year amount, representing 92.8 percent of total debt.

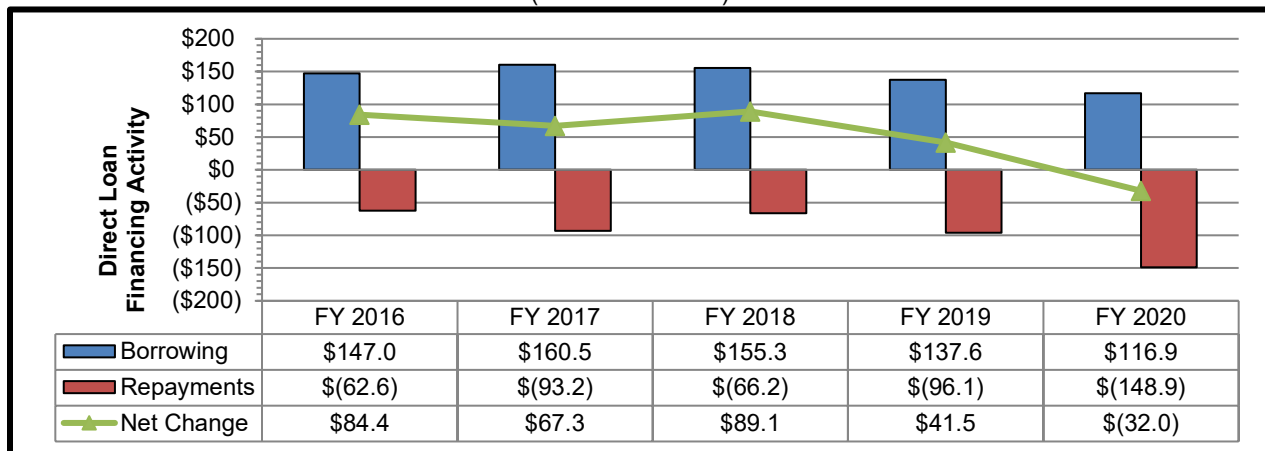
**Figure 19: Comparison of Federal Student Aid Debt
Fiscal Years 2016–20**
(Dollars in Billions)



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

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

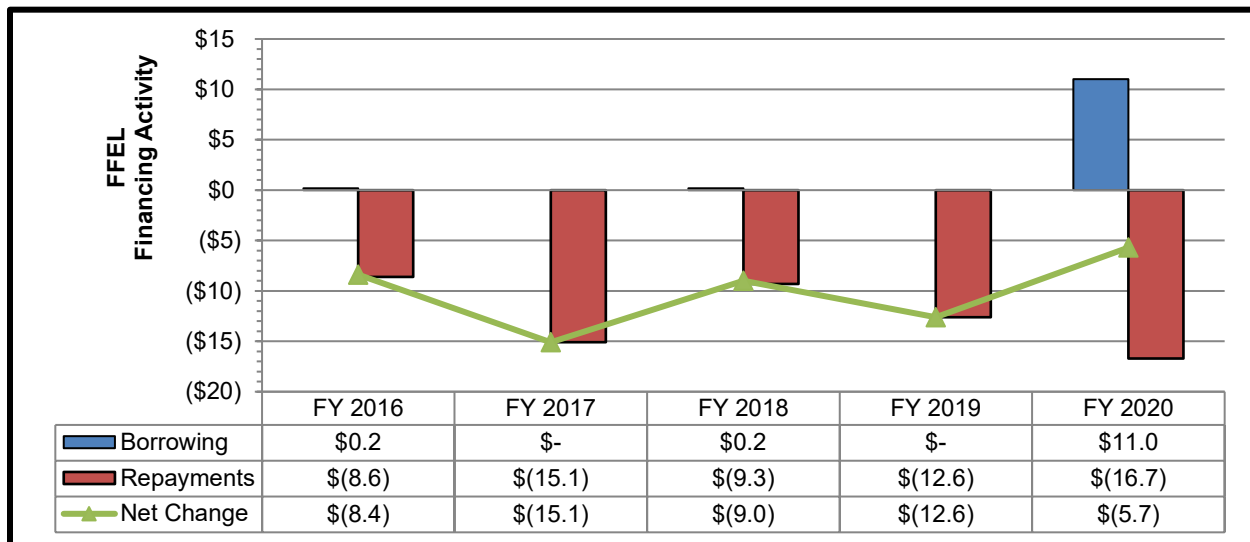
**Figure 20: Direct Loan Program Net Financing Activity
Fiscal Years 2016–20**
(Dollars in Billions)



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

Direct Loan net financing activity (Figure 20) also accounted for most of the overall increase in FSA’s outstanding debt level during the same five years. By comparison, in the absence of any borrowing for new loan disbursements (Figure 21), FFEL-related debt decreased consistently from FY 2016–20. These changes in net financing activity for Direct Loan and FFEL Programs reflect the impact of the SAFRA Act on disbursements, interest rate driven loan consolidations, and related changes in estimated subsidy costs.

**Figure 21: Federal Student Aid FFEL Loan Program Net Financing Activity
Fiscal Years 2016–20**
(Dollars in Billions)

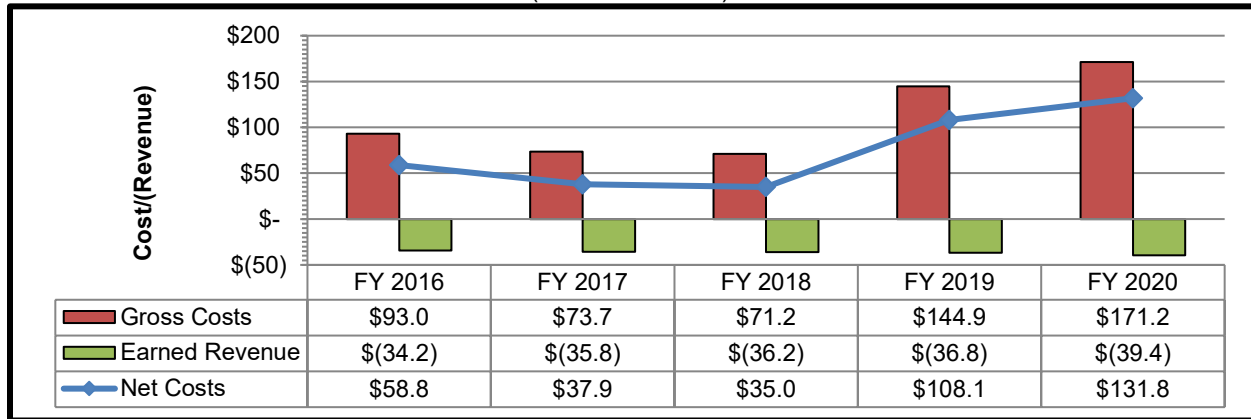


*Note: Line items may include rounding adjustments to reconcile to the total amount being reported.

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’s net cost is the gross cost incurred during its operations less any exchange (i.e., earned) revenues earned from its activities. Gross cost is composed of the cost of credit programs, grant programs, and operating costs. Exchange revenues are primarily interest earned on credit program loans.

**Figure 22: Composition of Federal Student Aid Net Cost
Fiscal Years 2016–20**
(Dollars in Billions)



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

As shown in Figure 22, FSA’s earned revenues (mainly interest and fee accruals net of subsidy amortization) increased from \$34.2 billion in FY 2016 to \$39.4 billion in FY 2020, an overall increase of 15.2 percent or about 3.8 percent annually on average. By comparison, FSA’s gross costs fluctuated much more widely over the same period, from \$93.0 billion in FY 2016 to \$171.2 billion in FY 2020, mainly as the result of subsidy-related transactions. As a result, net costs fluctuated also, most notably increasing 22.0 percent from \$108.1 billion reported in FY 2019 to \$131.8 billion in FY 2020. FSA’s total costs exceeded its earned revenues in both years, but the margin was greater in FY 2020 by \$23.7 billion, of which \$39.4 billion was attributable to the Direct Loan Program, largely offset by the \$10.6 billion decrease in FFEL net costs.

For the Direct Loan Program, the \$39.4 billion increase in net costs was primarily the result of an increase in subsidy transfer modifications (\$39.6 billion). Similarly, the \$10.6 billion decrease in FFEL Program net costs was mostly the result of a \$10.3 billion increase in gross costs.

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

Statement of Changes in Net Position

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

FSA's net position as of September 30, 2020, was negative \$19.4 billion, an increase of \$25.5 billion compared to the previous September 30 net position. The difference reflects an increase in the cumulative results of operations by the amount of \$21.9 billion, from \$(76.3) billion, to \$(54.4) billion, of which \$(8.0) billion of the increase related to the Direct Loan Program and \$(14.0) billion was attributable to the FFEL Program. In addition, unexpended appropriations increased by \$3.6 billion, of which \$2.9 billion were attributable to the combined Perkins Loan and Grants Programs, with the \$0.9 billion increase in Direct Loan Program unexpended appropriations accounting for most of the remaining difference.

Statement of Budgetary Resources

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

This statement shows that as of September 30, 2020, FSA had \$388.9 billion in combined budgetary resources, of which \$24.4 billion remained unobligated and not apportioned. This compared to \$306.1 billion in budgetary resources twelve months earlier of which \$20.1 billion were unobligated and not apportioned. Overall budgetary resources increased by only \$82.8 billion or 27.0 percent, primarily as the net result of increases in budgetary resources for the Direct Loan Program (\$60.2 billion) and the increase attributable to the FFEL Program (\$22.8 billion).

FSA's Net Outlays after Distributed Offsetting Receipts as of September 30, 2020, were \$104.4 billion, an increase of \$7.1 billion or 7.3 percent compared to the prior September 30 amount of \$97.3 billion. The Direct Loan Program accounted for a \$7.9 billion increase, with a FFEL increase of \$1.9 billion and a \$2.8 billion decrease attributable to the combined Perkins Loan and Grants Programs. FFEL Program activity was mainly due to an increase in net outlays (\$6.6 billion), together with an increase in distributed offsetting receipts (\$4.8 billion). Additional information is provided in Note 12.

Financial Management Highlights

Financial Impact of the Coronavirus Disease 2019 (COVID-19)

In response to the COVID-19 pandemic, Congress enacted the CARES Act on March 27, 2020. As part of the CARES Act, FSA received \$40 million to support efforts related to loan forbearance, default collection wage garnishment assistance for student loan borrowers, servicing system modifications, systems support of COVID-19 telework, and hiring of temporary employees. In FY 2020, FSA obligated \$13.9 million, committed approximately \$3.0 million, and the remaining balance will carry over into FY 2021.

The CARES Act provided emergency relief measures in the Direct Loan program that included suspending loan payments, halting collections on defaulted loans, and setting interest rates to 0 percent through September 30, 2020. In response, FSA stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default, and FSA paid approximately 2.3 million refunds of Treasury Offset Program (TOP) and Administrative Wage Garnishments (AWG) totaling \$2.5 billion. On August 8, 2020, the President directed the Secretary to continue these measures until December 31, 2020.

Limitations of Financial Statements

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Analysis of Systems, Controls, and Legal Compliance

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

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

- Effective and efficient operations,
- Reliability of reporting for internal and external use, and
- Compliance with applicable laws and regulations.¹⁶

FSA is responsible for establishing and maintaining effective internal control over reporting and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act of 1982* (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, Management of Reporting and Data Integrity Risk, to further align to the revised OMB Circular A-123 updated in 2016. FSA continues to coordinate with the Department and internally to execute these requirements.

Based on the results of this year's assessment, FSA reported to the Department's management that its internal control over operations, including internal controls intended to prevent, detect and recover improper payments, and compliance with applicable laws and regulations, as of September 30, 2020, was operating effectively, with one exception noted in the Legal Compliance section of the Department's AFR: *Debt Collection Improvement Act of 1996*. More details about this issue and the efforts being taken to remediate the non-compliance can be found in the Department's [AFR](#).

In addition, FSA, working with the Department, conducted its current year assessment of the effectiveness of internal control in accordance with the requirements of Appendix A of OMB Circular A-123, updated on June 6, 2018. OMB Circular A-123, Appendix A provides requirements to agencies for conducting management's assessment of internal control over reporting. The Department's evaluation for FY 2020 did not identify any material weaknesses in controls as of September 30, 2020. The scope of FSA's assessment focuses on new processes and processes with high-risk profiles that are tested every year. Processes with lower-risk

¹⁶ Government Accountability Office Standards for Internal Control in the Federal Government, GAO-14-704G, September 10, 2014, p.5.

profiles are reviewed and tested on a 3-year cycle. In FY 2020, FSA continued to rely on audits of external service providers conducted by independent public accountants in accordance with the Statement on Standards for Attestation Engagements Number 18, Reporting on Controls at a Service Organization.

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. 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.

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 FMFIA.

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, refer to the Financial Management Systems Strategy narrative found in the Management's Discussion and Analysis section of the Department's [AFR](#).

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Annual Performance Report (Unaudited)

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Overview of the Annual Performance Report

The *Annual Performance Report* section of the *Annual Report* provides detailed performance information on FSA's progress in achieving the goals and objectives described in the *FY 2015–19 Strategic Plan and the draft FY 2020–24 Strategic Plan*. This section also includes reports on other areas of performance that are required by the Higher Education Amendments of 1998. The subsections of the *Annual Performance Report* are listed and briefly discussed below:

- **Introduction to the Annual Performance Report:** The Introduction to the Annual Performance Report provides an overview of the Annual Performance Report and includes a high-level summary of the *FY 2020–24 Strategic Plan*.
- **Performance Results by Strategic Goal:** This subsection details the results of each overall strategic goal by performance metric. Each performance metric includes a table that presents five years of data results, where available, its current target and results. The performance metric section also includes a discussion of the metric's target context, analysis of progress, and data quality limitations.
- **Fiscal Year 2020 Accomplishments of Federal Student Aid:** This subsection describes additional accomplishments that were not measured by the performance metrics included in the strategic plan but were the result of initiatives that FSA undertook to support the implementation of the strategic plan or legislative changes.
- **Legislative and Regulatory Recommendations:** This subsection details legislative and regulatory recommendations that FSA provided to the Department in support of the Department's regulatory activities.
- **Annual Bonus Awards:** This subsection discusses executive compensation at FSA in compliance with the legislative requirements under the PBO legislation that created FSA.
- **Report of the Federal Student Aid Ombudsman:** The report discusses the FSA Ombudsman's activities in accomplishing its statutory mission of addressing complaints about Title IV financial aid programs.

Introduction to the Annual Performance Report

In FY 2019, FSA embarked on the journey to guide the organization towards more effectively achieving its vision “To be the most trusted and reliable source of student financial aid, information, and services in the nation.” This effort culminated into an organizational five-year performance plan that better aligned with the vision and established the framework to create a more student-focused, agile, and transparent organization. For the development of the *FY 2020–24 Strategic Plan*, FSA worked throughout the fiscal year to also coordinate the closing of FSA’s *FY 2015–19 Strategic Plan* on September 30, 2019. In compliance with the PBO legislation, FSA has offered a public comment period for external stakeholders, such as students, institutions of higher education, Congress, lenders, and other key parties. The public comment period for the draft plan ends on October 23, 2020. FSA will review and incorporate comments as appropriate and plans to publish the *FY 2020–24 Strategic Plan* by December of Calendar Year 2020.

In conjunction with this effort and to ensure a consistent transition with the previous *FY 2015–19 Strategic Plan*, FSA is utilizing eight existing performance metrics within the draft *FY 2020–24 Strategic Plan*. FSA also aligned these metrics with goals and objectives in a specific manner to reinforce the performance expectations in key areas. Due to these changes, FSA also discontinued the utilization of five performance metrics from the *FY 2015–19 Strategic Plan*. FSA will no longer use these performance metrics to measure organizational progress (refer to the Table 13: Crosswalk between *FY 2015-19* and *FY 2020-24 Strategic Plans*, for the discontinued performance metrics). Therefore, in FY 2020, FSA’s performance is measured against the strategic goals, objectives and performance metrics established in the *FY 2020–24 Strategic Plan*.

In the FY 2020 Annual Performance Report, FSA provides the results associated with both the 36 new performance metrics introduced in the draft *FY 2020–24 Strategic Plan*, as well as the 8 existing metrics discussed earlier. The performance framework established within the draft *FY 2020–24 Strategic Plan* encompasses all areas of business and offers a renewed focus on data-driven decisions that will enable positive outcomes for customers, other stakeholders, and taxpayers. By making advances in performance accountability, FSA is working to be a more transparent organization.

FSA is required, by the PBO-enabling legislation, to report annually its level of performance and the associated results. 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. To read more about FSA’s strategic plans, refer to [StudentAid.gov/strategicplan](https://studentaid.gov/strategicplan).

Fiscal Year 2020 Organizational Performance

To review the performance metrics transitioned and discontinued from the *FY 2015–19 Strategic Plan*, refer to the Crosswalk between *FY 2015–19* and *FY 2020–24 Strategic Plans*.

Table 13: Crosswalk between FY 2015–19 and FY 2020–24 Strategic Plans

| Performance Metrics FY 2015–19 Plan | Disposition in FY 2020–24 Plan |
|--|---|
| A.1 Percent of First-Time FAFSA® Filers Among High School Seniors | 2.1.B Percentage of high school seniors submitting the FAFSA®. |
| A.2 Persistence Among First-Time Filing Aid Recipients | 5.1.E Persistence among first-time filing aid recipients. |
| A.3 Customer Visits to StudentAid.gov | 2.1.A Number of visits (sessions) demonstrating adoption of the updated StudentAid.gov site. |
| A.4 Social Media Channel Subscribership | Discontinued in FY 2020 |
| A.5 ACSI Aid Life Cycle Surveys | 2.2.G American Customer Satisfaction Index (ACSI) Aid Lifecycle Survey score. |
| B.1 Improper Payment Rate | Discontinued in FY 2020 |
| B.2 Percent of Borrowers > 90 Days Delinquent | 5.3.C Percent of Borrowers > 90 Days Delinquent. |
| C.1 Aid Delivery Costs Per Application | Discontinued in FY 2020 |
| C.2 Outstanding Direct Loan Portfolio in Current Repayment Status | 5.1.C Outstanding Direct Loan Portfolio in Current Repayment Status. |
| D.1 Ease of Doing Business with FSA | 3.2.D Ease of doing business with FSA. |
| D.2 Percentage of Contract Dollars Competed by FSA | Discontinued in FY 2020 |
| D.3 Collection Rate | Discontinued in FY 2020 |
| E.1 Employee Engagement Index | 1.1 Improve Federal Employee Viewpoint Survey score: Employee Engagement Index. FSA's scores will improve the first year and continue to increase 1–2% annually. |

Federal Student Aid Strategic Goals, Performance Metrics, and Results

Table 14: Fiscal Year 2020 Strategic Goals, Performance Metrics, and Results

| Strategic Goal 1: Empower a High-Performing Organization | | | |
|--|-------------------------|-------------------------|----------------|
| Strategic Objective 1.1: Improve employee engagement and workplace inclusion to develop and retain talent, improve employee satisfaction, and engage in effective succession planning. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 1.1 Improve Federal Employee Viewpoint Survey score: Employee Engagement Index. FSA's scores will improve the first year and continue to increase 1–2% annually. | 62—63% | N/A | N/A |
| Strategic Objective 1.2 Expand employee skills and capabilities to support Next Gen FSA. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 1.2.A Identification, validation, assessment, and prioritization of skill competencies, required grades, and strategic alignment in accordance with the workforce requirements study results. | 50% | 58.2% | Met |
| 1.2.B Development of a multi-year, targeted, training and development plan. | Baseline | N/A | N/A |
| 1.2.C Perform a training analysis at each performance review period within the fiscal period. | Baseline | 27 | N/A |
| Strategic Goal 2: Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve | | | |
| Strategic Objective 2.1: Ensure that all students can easily access information on federal student aid, apply for federal student aid, and have information on repayment options. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 2.1.A Number of visits (sessions) demonstrating adoption of the updated StudentAid.gov site. | 190 million | 217 million | Met |
| 2.1.B Percentage of high school seniors submitting the FAFSA. | 66% | 63.8% | Not Met |
| 2.1.C Number of customers submitting the FAFSA via a mobile platform—the myStudentAid mobile app or fafsa.gov. | 2.4 million submissions | 2.5 million submissions | Met |

Fiscal Year 2020 Organizational Performance

| Strategic Objective 2.2: Provide seamless, easy, personalized digital interactions equal with top financial institutions in the delivery of financial aid products and services. | | | |
|--|--------------------|-----------------------------------|----------------|
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 2.2.A Number of customers checking loan balances via the myStudentAid mobile app. | 70,000 | 133,417 | Met |
| 2.2.B Number of borrowers who view their aid summary information on StudentAid.gov. | Baseline | 7.6 million | N/A |
| 2.2.C Number of users of "Aidan," the StudentAid.gov virtual assistant. | 25,000 | 545,763 | Met |
| 2.2.D Number of borrowers who complete their annual certification on time for the Annual Student Loan Acknowledgement (ASLA). | Baseline | 858,628 | N/A |
| 2.2.E Transactional email volume for outreach and communications to borrowers. | Baseline | 92.2 million | N/A |
| 2.2.F Recurring campaign email delivery volume for outreach and communications to borrowers. | Baseline | 32.2 million | N/A |
| 2.2.G American Customer Satisfaction Index (ACSI) Aid Lifecycle Survey score. | 72–74 | 73.5 | Met |
| 2.2.H Customer Satisfaction Survey(s) for StudentAid.gov site and associated tools. | Survey Development | No survey developed | Not Met |
| Strategic Objective 2.3: Streamline contact center and back-office operations to improve our customers' integrated experience. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 2.3.A Quality Standard for Average Speed to Answer (ASA) at all Call Centers. | 60 seconds or less | 59.0 seconds | Met |
| 2.3.B Quality Standard for Abandon Rate (AR) for Incoming Calls at all Call Centers. | 2% | 3.6% | Not Met |
| Strategic Objective 2.4: Simplify the communication and processes associated with borrower repayment plans. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 2.4.A Number of borrowers using Make a Payment feature to pay student loans. | Implement a pilot | Pilot implemented 12, 245 paid | Met |
| 2.4.B Percentage of borrowers using auto-debit. | Baseline | 24.8% | N/A |
| 2.4.C Percentage of Public Service Loan Forgiveness (PSLF) applicants who had used the PSLF Help Tool and who met the requirements for PSLF. | Baseline | N/A | N/A |

Fiscal Year 2020 Organizational Performance

| | | | |
|---|-----------------------|-----------------------|----------------|
| Strategic Goal 3: Increase Partner Engagement and Oversight Effectiveness | | | |
| Strategic Objective 3.1: Provide effective oversight of FSA’s partners utilizing a comprehensive suite of monitoring tools. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 3.1.A FSA will annually conduct an Institutional Review for its participating partners including schools, third-party servicers, and financial institutions. | 40% | 51% | Met |
| 3.1.B Number of Borrower Defense (BD) applications adjudicated (subject to existing BD regulations). | 150,000 | 160,000 | Met |
| Strategic Objective 3.2: Strengthen partner engagement and provide effective outreach and assistance. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 3.2.A FSA will provide comprehensive training and/or specialized technical assistance to its participating schools that receive <i>Title IV</i> Aid on behalf of students. | 35% | 70% | Met |
| 3.2.B FSA will measure Partner Participation rates in training programs. | Baseline | 70% | N/A |
| 3.2.C FSA will enhance the self-service training resource and informational platform to improve communication with participating partners, including schools, third-party servicers, and financial institutions. | Baseline | 62% | N/A |
| 3.2.D Ease of doing business with FSA. | 74–76% | 71% | Not Met |
| Strategic Goal 4: Strengthen Data Protection and Cybersecurity Safeguards. | | | |
| Strategic Objective 4.1: Implement business partner and vendor systems that house, manage, and provide systems supporting FSA business processes, outreach and awareness focused on oversight, enforcement, infrastructure, systems, and data. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 4.1 Increase partner/vendor cybersecurity effectiveness by reducing the total number of FSA system assessment findings by 20% per year. | 1,800 | 3,561 | Not Met |

Fiscal Year 2020 Organizational Performance

| | | | |
|---|---|-----------------------|----------------|
| Strategic Objective 4.2: Improve student privacy data and cybersecurity controls of Institutions of Higher Education (IHEs) through outreach and communication, to mitigate future cyber-incidents and breaches. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 4.2.A Increase Institutions of Higher Education cybersecurity effectiveness by reducing GLBA cybersecurity non-compliance by 20% per year. | Baseline | 177 | N/A |
| 4.2.B Reduce incident reporting time at Institutions of Higher Education. | Baseline | 87.5 days | N/A |
| Strategic Objective 4.3: Build an effective cybersecurity culture through employee awareness, training and accountability focused on protecting systems and data. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 4.3 Decrease the number of employee-related cybersecurity events associated with inappropriate use, distribution, or storage of Personally Identifiable Information (PII) and financial information by 20% a year. | 1,800 | 1,713 | Met |
| Strategic Goal 5: Enhance the Management and Transparency of the Portfolio | | | |
| Strategic Objective 5.1: Improve the management and transparency of FSA's student loan portfolio performance. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 5.1.A Initiate monthly reporting to the public through the FSA data center. | Establish specific number of public reports | 56 | Met |
| 5.1.B Timeliness of FSA's ability to respond to statutorily mandated reports. | 30 days or less | 30 days or less | Met |
| 5.1.C Outstanding Direct Loan Portfolio in Current Repayment Status. | Baseline | 93.7% | N/A |
| 5.1.D Percentage of borrowers who are in a positive repayment status within the first three years of student loan repayment. | Baseline | N/A | N/A |
| 5.1.E Persistence among first-time filing aid recipients. | 83–84% | 81.0% | Not Met |

Fiscal Year 2020 Organizational Performance

| Strategic Objective 5.2: Provide analytics and operational support for a customer-centric, data-driven, performance-based organization. | | | |
|--|---|--|----------------|
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 5.2.A Using the Enterprise Risk Management (ERM) Maturity Model, move the organization towards a “Risk Intelligent” position. The model defines organizational progress in the following way: <ul style="list-style-type: none"> • 1 = Initial; • 2 = Fragmented; • 3 = Integrated; • 4 = Risk Intelligent. | 1.5 | 1.6 | Met |
| 5.2.B Implementation timeline for FUTURE Act. | Establish a timeline | N/A | N/A |
| 5.2.C Error rate discovered through income verification activities for borrowers on an IDR plan. | Baseline | N/A | N/A |
| Strategic Objective 5.3: Leverage portfolio analytics to drive improved outcomes for customers and taxpayers. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 5.3.A Identify and provide intervention actions for customers at risk of default. | Development and testing of default intervention program | Developed, tested, and deployed two projects | Met |
| 5.3.B Default rate by borrower count. | Baseline | N/A | N/A |
| 5.3.C Percent of borrowers > 90 days delinquent. | Baseline | 4.8% | N/A |
| 5.3.D Percentage of borrowers who did not make the first three payments. | Baseline | N/A | N/A |
| 5.3.E Percentage of customers who borrow less than the maximum loan amount. | Baseline | N/A | N/A |
| Strategic Objective 5.4: Increase vendor performance through quality management activities centered on customer service and product delivery. | | | |
| Performance Metrics | FY 2020 Target | FY 2020 Actual | Result |
| 5.4 Percentage of quality assurance reviews for the external workforce (servicers) reviewed annually. | 25% | 11.1% | Not Met |

Performance Results by Strategic Goal

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

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.

- 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.

Table 15: 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: <ul style="list-style-type: none"> A target for the performance metric was not developed (i.e. baseline year) or The performance metric was not fully implemented, or The required data were not available in time for inclusion, or The performance metric is a new metric and prior year results are not available. | N/A |

The performance metric results reported are as of fiscal year-end, September 30, 2020, unless otherwise noted. If the required data are not available as of fiscal year-end in time for inclusion in this report, data as of the most recent period available are used. Data as of fiscal year-end may not be available in some instances, where the required data are obtained from external sources including state and private nonprofit guaranty agencies, lenders and loan servicers, and grant and loan recipients.

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

Strategic Goal 1: Empower a High-Performing Organization

FSA's employees are its greatest resource, and their knowledge, skills, and abilities are essential to building and sustaining a high-performing organization. To meet the expectations outlined in the draft *FY 2020-24 Strategic Plan*, it is essential that staff are trained, aligned, and equipped to provide best-in-class customer service while fulfilling the fiduciary responsibilities of the organization.

FSA will assess progress toward preparing its workforce using four related metrics under Strategic Goal 1. The first metric is designed to improve the Federal Employee Viewpoint Survey (FEVS) score, specifically in the Employee Engagement Index. The Index provides an assessment of the engagement potential of a work environment.

The second metric focuses on an organizational workforce requirements study that will provide FSA with the ability to better forecast human capital needs and inform planning for staff training, transfers, promotions, and talent acquisition. The workforce requirements study will also inform the third metric: the degree of alignment between the competencies needed for each position (as identified in the study), and the competencies of individuals in each job.

Lastly, FSA will measure the effectiveness of employee training through detailed analysis and evaluation. Over time, the analysis will help to measure performance growth, provide extant data to support developmental resources, and assess the quality and benefits of attended training to evaluate the return on investment for the employees and the organization.

Strategic Goal 1 includes the two strategic objectives listed below:

- **Strategic Objective 1.1**
Improve employee engagement and workplace inclusion to develop and retain talent, improve employee satisfaction, and engage in effective succession planning.
- **Strategic Objective 1.2:**
Expand employee skills and capabilities to support Next Gen FSA.

In FY 2020, FSA had two objectives under this goal. These objectives included four metrics. Of these four metrics, one metric met the target, two metrics were baselined, and one metric did not have the required data available to provide an actual result in FY 2020.

Strategic Objective 1.1: Improve employee engagement and workplace inclusion to develop and retain talent, improve employee satisfaction, and engage in effective succession planning.

Table 16: Performance Metric 1.1. Improve Federal Employee Viewpoint Survey score: Employee Engagement Index. FSA’s scores will improve the first year and continue to increase 1–2% annually.*

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|------------|------------|----------------|------------|------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 67.4% | 69.7% | 62.0% | 61.0% | 62–63% | N/A |
| Performance Result | Met | Met | Not Met | Met | N/A | |

*Note: Formerly E.1 in FSA FY 2019 Annual Report

Target Context:

The U.S. Office of Personnel Management (OPM) FEVS measures employees' perceptions of whether, and to what extent, conditions characteristic of successful organizations are present in their agencies. The FEVS serves as a tool for employees to share their perceptions in many critical areas including their work experiences, their agency, and leadership. The Engagement Index assesses the critical conditions conducive for employee engagement (e.g., effective leadership, work which provides meaning to employees, etc.). It is made up of three subfactors: Leaders Lead, Supervisors, and Intrinsic Work Experience.

Analysis of Progress:

There is no data currently available for this metric.

The FY 2020 data will be released after January 2021 due to a delay in survey administration by OPM. The FY 2020 FEVS began on September 23, 2020 and closed on November 4, 2020. FSA analyzed the results of the FY 2019 FEVS survey and focused on communication, fundamentals for success (recruiting, staffing, training, and resources), leadership, recognition and rewards, and work/life balance as key areas of focus in FY 2020. FSA conducted focus groups with 243 managers and staff to inform its Employee Engagement Action Plans developed by each organizational business unit.

Data Quality and Limitations:

OPM has been conducting FEVS since 2002 and maintains a 100 percent accuracy rate for employee security and data integrity. One limitation is that the survey results are provided in real time, and there is at least a one quarter delay in receipt by agencies. This may limit the true interpretation of the data, in that leadership changes, employee attrition and a shift in organizational priorities may impact the relevance of the data.

In addition, FSA continues operating at a near 100 percent virtual capacity, and the lack of direct employee interaction and communication may negatively impact survey participation for FY 2020. FSA will continue using focus group data to assist with employee engagement and other organizational improvements based on feedback. The data source for this performance metric is the FY 2020 FEVS survey.

Performance Results by Strategic Goal

Strategic Objective 1.2: Expand employee skills and capabilities to support Next Gen FSA.

Table 17: Performance Metric 1.2.A. Identification, validation, assessment, and prioritization of skill competencies, required grades, and strategic alignment in accordance with the workforce requirements study results.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|-------------------------------|---------------------------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 50% of organization completed | 58.2% of organization completed |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

FSA worked with a consultant to conduct a workforce requirements study of the process and drivers (input and output measures) that influence organizational staffing needs. Data were collected through questionnaires and follow-up interviews with managers and subject matter experts of various FSA processes.

Analysis of Progress:

FSA met its target for this metric with 58.2 percent of FSA offices and positions being analyzed.

Staffing requirements have been validated and documented for 58.2 percent of the FSA workforce for each of 85 organizational entities included in the study population. The entire workforce requirements study is anticipated to be completed and fully validated by January 2021.

Data Quality and Limitations:

To inform the workforce requirements study, data from FSA's internal personnel system was utilized. The data provided an organizational resource picture (i.e., the number of staff onboard by organization, occupation, grade, and/or other attributes). The required number of staff per organizational business unit, from which specific staffing needs can be computed, is generated from a staffing dashboard developed by FSA's contractor.

The needs, or staffing gap computation, utilizes current staffing onboard and the numbers derived as staffing required to produce a rationale percentage of staff needed. The study is also required to assist FSA with tools that will enable tracking of full-time equivalent staff and financial execution (i.e., average onboard staffing and aggregate salaries over the course of a fiscal year). This calculation, in conjunction with the staffing gap computation, will provide a more accurate picture of FSA's requirements and capabilities beyond the historical onboard staffing snapshots that have typically been produced.

The initial collection and analysis of workload driver data that will be utilized to determine staffing requirements is currently in progress, so full limitations have not yet been identified. The data sources for this performance metric are the U.S. Department of Interior Business Center Payroll/Personnel Data, in addition to qualitative interview and resource information from internal FSA sources.

Performance Results by Strategic Goal

Table 18: Performance Metric 1.2.B. Development of a multi-year, targeted, training and development plan.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

FSA began defining the methodology for the targeted training and development plan by identifying the key training programs to be included based on FY 2020 employee participation. In FY 2020, 1,118 employees participated in targeted trainings provided by the Workforce Development Division (WDD), Project Management training program, FSA Leadership Institute pilot program, leadership coaching, Executive Services leadership trainings, and Acquisitions Directorate.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric.

FSA established a working group to develop the framework for a multi-year training and development plan. The working group focused on mission critical competencies essential to the performance of FSA and the Next Gen FSA initiative. The working group identified and tracked several learning initiatives under the technical skills and leadership/management competencies to better understand how FSA is developing and tracking employees needing these skill sets. FSA completed three skill gap analyses to identify enterprise-wide skill needs and offer learning solutions to address gaps based on industry best practices.

The framework and metrics used to capture FSA's baseline projections for FY 2020 will be used to complete the full multi-year training plan in FY 2021. COVID-19 had an impact on training at FSA. Many training programs were converted from classroom-based to virtual instructor-led delivery. For FY 2021, FSA plans to develop and/or identify additional courses to provide additional learning opportunities with either a virtual instructor or self-paced training. FSA has also invested in increasing the number of employees with project management certifications to enhance the capabilities of staff in managing the complex projects associated with Next Gen FSA.

Data Quality and Limitations:

A combination of quantitative and qualitative data was collected to assess the effectiveness of the staff trainings. The Kirkpatrick Level evaluation was one of the major assessment instruments used to collect this data. There are four levels to Kirkpatrick Model: Reaction, Learning, Behavior, Results. To evaluate training effectiveness, course satisfaction evaluations (Kirkpatrick Level 1) were administered via paper or electronic format at the end of trainings.

An internal evaluation database was used to track and compare data across training courses to identify trends and areas of improvement. The data limitation at present is that only a Kirkpatrick Level 1 evaluation is performed post-training, which measures the degree to which participants find the training favorable, engaging, and relevant to their jobs. To advance effectiveness of effort in the future, a Kirkpatrick Level 2 or Level 3 will be needed.

Performance Results by Strategic Goal

Table 19: Performance Metric 1.2.C. Perform a training analysis at each performance review period within the fiscal period.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline year | 27 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

Sixteen trainings were provided by the WDD, aligned under the leadership/supervision and technical skills competencies and the FSA's Retirement Education learning series contract. An additional 11 trainings were provided by WDD leadership initiative pilot, and the Acquisitions Directorate.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric.

FSA used various assessment instruments and data sets such as formative and summative data collection mechanisms, Kirkpatrick Level evaluations, OPM and the Department competency models, participant anecdotal feedback, and after-action briefings/reports. Post-training evaluations were administered via paper or electronically to compare data across training initiatives to identify trends and areas of improvement to make real-time modifications within the current delivery or in future program/course iterations. For example, WDD developed an internal evaluation database to track, monitor, and identify evaluation trend data across programs. The Retirement Education learning series has been crucial for the overall improvement in the work/life balance of FSA employees' by providing more in-depth learning opportunities to understand retirement, savings, and investment options, such as the Thrift Savings Program. The goal of employee training is to not only train them for skill enhancement, but also to improve employee knowledge and welfare as it relates to their overall development.

Data Quality and Limitations:

FSA used an internal evaluation database to track and compare data across training iterations to identify various performance trends. WDD used various assessment instruments and data sets such as formative and summative data collection mechanisms, Kirkpatrick Level evaluations, OPM and Department competency models, participant anecdotal feedback, and after-action briefings/reports.

To gauge participant knowledge within these specified trainings and allow for application of learning to address real-life situations or leadership problems/challenges Kirkpatrick Level evaluations were administered during and/or post-training. For the managerial training directed at enhancing leadership competencies, action-based learning through individual activities and/or group capstone projects was utilized. The limitations of the data are that the analysis of results was administered to a subset of trainings offered in specialized areas in FY 2020. The analysis will need to broaden, to increase the results-based approach beyond knowledge acquisition to behavioral change to support the training investment across the enterprise.

Strategic Goal 2: Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve

FSA will modernize its systems and operations to deliver world-class customer and partner experiences. These efforts include a single point of connection to assist students and borrowers with federal student aid needs, readily available personalized customer information, and informed borrower tools for assistance. Based on enhanced customer analytics and customer feedback, FSA will continuously update these tools to make sure borrowers understand their rights and responsibilities. FSA's intention is to promote positive repayment behaviors and help borrowers understand how they can repay their loans more quickly or at lower cost. Additionally, FSA will enhance contact center operations and simplify and automate back-office operations to reduce errors and accelerate processing. By simplifying these customer-facing processes, engaging customers with innovative communication strategies, and providing self-service options through the mobile application, FSA will be able to quickly respond to the ever-changing financial aid environment and consistently be a trusted resource for students and families.

Strategic Goal 2 includes the four strategic objectives listed below:

- **Strategic Objective 2.1**
Ensure that all students can easily access information on federal student aid, apply for federal student aid, and have information on repayment options.
- **Strategic Objective 2.2:**
Provide seamless, easy, personalized digital interactions equal with top financial institutions in the delivery of financial aid products and services
- **Strategic Objective 2.3**
Streamline contact center and back-office operations to improve our customers' integrated experience.
- **Strategic Objective 2.4:**
Simplify the communication and processes associated with borrower repayment plans.

In FY 2020, FSA had four objectives under this goal. These objectives included 16 metrics. Of these 16 metrics, 7 were met or exceeded and 3 metrics were not met for this goal. Additionally, six metrics are baselined in FY 2020.

Performance Results by Strategic Goal

Strategic Objective 2.1: Ensure that all students can easily access information on federal student aid, apply for federal student aid, and have information on repayment options.

Table 20: Performance Metric 2.1.A. Number of visits (sessions) demonstrating adoption of the updated StudentAid.gov site.*

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|--------------|--------------|--------------|---------------|-------------|-------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 47.2 million | 44.3 million | 44.5 million | 183.7 million | 190 million | 217 million |
| Performance Result | Met | Met | Met | Met | Met | |

*Note: Formerly A.3 in FSA FY 2019 Annual Report.

Target Context:

StudentAid.gov is FSA's primary customer-facing digital front door for students, parents, and borrowers who need be informed about, apply for, and manage their federal student aid. By focusing on total customer visits, this performance metric helps gauge the success of FSA's efforts to become the most trusted and reliable source for accurate student aid information for Americans nationwide and engage customers in completing critical tasks related to federal student aid.

Analysis of Progress:

FSA met the target for this metric with more than 217 million visits in FY 2020.

In December 2019, a major redesign of [StudentAid.gov](https://studentaid.gov) was completed as part of Next Gen FSA which resulted in the integration of content and functionality from StudentLoans.gov, fsaid.gov, and NSLDS.gov. This effort significantly advanced the goal of providing customers with a single front door for information and key tasks related to federal student aid. Additional features—such as Aid Summary, Annual Student Loan Acknowledgment, Make a Payment pilot, and more—were launched on [StudentAid.gov](https://studentaid.gov) during FY 2020, and additional functionality and improvements are planned for FY 2021.

Data Quality and Limitations:

FSA operational systems have procedures in place to address potential data quality issues. The process for querying system data is consistent and disciplined. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data. The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data. The data is an absolute number so no calculation and methodology are performed. The metric value is based on the number of visits (as opposed to unique visitors or page views).

The source of the data is FSA's online platform analytics. The metric is a direct reflection of the data platform analytics and FSA constantly monitors the analytics platform to ensure the system is secure and the query results are consistent.

Table 21: Performance Metric 2.1.B. Percentage of high school seniors submitting the FAFSA.*

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | 67.4% | 65.9% | 66% | 63.8% |
| Performance Result | N/A | N/A | Met | Not Met | Not Met | |

*Note: Formerly A.1 in FSA FY 2019 Annual Report.

Target Context:

A primary goal of FSA is to encourage FAFSA completion among high school seniors.

Analysis of Progress:

FSA did not meet the target for this metric with only 63.8 percent of high school seniors submitting the FAFSA.

FY 2020 presented two major challenges on that front. For the first half of the FAFSA filing year, from October 1, 2019–March 15, 2020, there was near record low unemployment in the United States. In periods of low unemployment, FAFSA filing among high school seniors normally decreases as the job market offers better opportunities, greater pay, etc. This likely accounted for some of the decrease in FAFSA filing from 65.9 percent in FY 2019 to 63.8 percent in FY 2020. In March 2020, COVID-19 resulted in most high schools across the country moving to an on-line only model, which meant that students were not in the classroom or in school buildings with guidance counselors, teachers, coaches, and other cues that reminded them to file the FAFSA. Finally, COVID-19 resulted in many low-income families having a change in financial circumstances that may have prevented filing of the FAFSA in favor of work opportunities to help support the family unit. All these factors likely had an impact on lowering FAFSA completion among high school seniors.

Data Quality and Limitations:

FSA operational systems have procedures in place to address potential data quality issues. The process for querying system data is consistent and disciplined. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data. Queries and calculations are simultaneously conducted on data from previous years by FSA’s Business Intelligence Team to ensure technical definitions remain consistent. The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data and all calculations made with the data. The data is pulled from the FSA’s Central Processing System.

Finally, the Financial Reporting and Analysis Branch is responsible for ensuring that documentation is complete and archived. These calculations also restrict the application period to the first nine months of the application cycle (through the close of the fiscal year) rather than the entire 18 months. Since most applicants, including high school seniors, file their FAFSA prior to the start of the upcoming academic year (usually before fiscal year end), this decision better aligns the performance metric with the fiscal year where most of the performance occurred.

Performance Results by Strategic Goal

Table 22: Performance Metric 2.1.C. Number of customers submitting the FAFSA via a mobile platform—the myStudentAid mobile app or FAFSA.gov.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|-------------------------|-------------------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 2.4 million submissions | 2.5 million submissions |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

A goal of the Next Gen FSA effort is to provide customers with the ability to access federal student aid information and to complete key tasks on the device of their choosing. As such, FSA has focused on making digital products, such as the FAFSA form, mobile-responsive. The FAFSA form is also available on the myStudentAid app. This metric measures FAFSA submissions via a mobile device either through the FAFSA website or the mobile app to help determine customer interest and engagement in using mobile technology to complete online forms.

Analysis of Progress:

FSA met the target with more than 2.5 million FAFSA submissions completed on a mobile platform.

FY 2020 serves as a baseline year and FSA expects mobile adoption and usage to grow over time, especially as new features and personalization are added to the myStudentAid app in FY 2021.

Data Quality and Limitations:

FSA operational systems have procedures in place to address potential data quality issues. The process for querying system data is consistent and disciplined. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data. The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data. The data is an absolute number so no calculation and methodology are performed.

The source of the data is FSA's online platform analytics. The metric is a direct reflection of the data platform analytics and FSA constantly monitors the analytics platform to ensure the system is secure and the query results are consistent.

Strategic Objective 2.2: Provide seamless, easy, personalized digital interactions equal with top financial institutions in the delivery of financial aid products and services.

Table 23: Performance Metric 2.2.A. Number of customers checking loan balances via the myStudentAid mobile app.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---------|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 70,000 | 133,417 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

***Note: New performance metric for FY 2020. Prior-year data is not available under this metric.**

Target Context:

A goal of the Next Gen FSA effort is to provide customers with the ability to access federal student aid information and to complete key tasks on the device of their choosing. Customers can view the loan information via an in-app browser on the myStudentAid app. This metric gauges customer engagement in using the myStudentAid app to view their current aid information.

Analysis of Progress:

FSA met the target with 133,417 customers checking their loan balances through the myStudentAid app.

FY 2020 serves as a baseline year and FSA expects mobile adoption and usage to grow over time, especially as the Dashboard and Aid Summary features are added to the myStudentAid app in FY 2021.

Data Quality and Limitations:

FSA operational systems have procedures in place to address potential data quality issues. The process for querying system data is consistent and disciplined. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data. The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data.

The data is an absolute number as the number of customers checking their loan balances, so no calculation and methodology are performed. The data source is FSA’s online platform analytics. This metric is a direct reflection of the data platform analytics. FSA monitors to ensure the system is secure and the query results are consistent.

Performance Results by Strategic Goal

Table 24: Performance Metric 2.2.B. Number of borrowers who view their aid summary information on StudentAid.gov.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|-------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | 7.6 million |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

[StudentAid.gov](https://studentaid.gov) is FSA's primary customer-facing digital front door for students, parents, and borrowers who need be informed about, apply for, and manage their federal student aid. In February 2020, the Aid Summary feature was delivered on [StudentAid.gov](https://studentaid.gov) providing customers with access to summary and detailed aid information such as loan balances or Pell Grant dollars received. This metric gauges customer engagement in using [StudentAid.gov](https://studentaid.gov) to view their current aid information.

Analysis of Progress:

FY 2020 serves as a baseline year with more than 7.6 million customers viewing their aid summary information on [StudentAid.gov](https://studentaid.gov).

Since Aid Summary launched in February 2020, FSA expects this figure to increase in FY 2021.

Data Quality and Limitations:

The aid summary on the [Studentaid.gov](https://studentaid.gov) website was launched on February 23, 2020. Website data collection began on February 23, 2019. The data for this metric covers the timeframe of February 23, 2020–September 30, 2020.

FSA operational systems have procedures in place to address potential data quality issues. The process for querying system data is consistent and disciplined. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data. The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data.

The data is an absolute number as the value is based on the number of users (as opposed to sessions or page views), so no calculation and methodology are performed. The data source is FSA's online platform analytics. This metric is a direct reflection of the data platform analytics. FSA monitors to ensure the system is secure and the query results are consistent.

Table 25: Performance Metric 2.2.C. Number of users of “Aidan,” the StudentAid.gov virtual assistant.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 25,000 | 545,763 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

To provide increase self-service options for students, families, and borrowers, this metric helps tracks Aidan’s usage. Aidan is a virtual assistant that uses advanced technology—artificial intelligence and natural language processing—to answer the most common questions on federal student aid. Whether customers want to find out about their current loan account balances, learn more about grants, make a payment (pilot), or get help contacting their loan servicer, Aidan is available to help them find an answer.

Analysis of Progress:

FSA exceed its target for this metric with a result of 545,763 users.

In December 2019, FSA launched a beta version of Aidan, a virtual assistant that helps users get answers to their questions without contacting a call center. Aidan was launched as part of the Next Gen FSA effort to improve the way all of its customers—including students, parents, borrowers, schools, and partners—interact with and manage the programs administered by FSA.

Aidan was available to a group of pilot users during FY 2020 to better understand customer questions to ensure FSA is providing relevant and correct answers that meet its customers’ needs. Over time, FSA will analyze customer interactions with Aidan to improve its functionality.

During FY 2020, Aidan was able to augment FSA’s CARES Act/COVID-19 communications. All questions to Aidan related CARES Act/COVID-19 were redirected to the Coronavirus and Forbearance info for Students, Borrowers, and Parents on [Studentaid.gov](https://studentaid.gov) ensuring customers received the most recent and accurate information.

Data Quality and Limitations:

Under this performance metric, the total users are defined as individuals that interact with Aidan beyond the initial greeting button prompt provided to customers. An FSA contractor performs a two-step validation of the Aidan data in the Digital Customer Care (DCC) Tableau system prior to sharing with FSA. The source of the data is FSA’s online platform analytics. This metric is a direct reflection of the data platform analytics. FSA monitors to ensure the system is secure and the query results are consistent.

Performance Results by Strategic Goal

Table 26: Performance Metric 2.2.D. Number of borrowers who complete their annual certification on time for the Annual Student Loan Acknowledgement (ASLA).

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | Baseline | 858,628 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

[StudentAid.gov](https://studentaid.gov) is FSA's primary customer-facing digital front door for students, parents, and borrowers who need be informed about, apply for, and manage their federal student aid. In April 2020, the Annual Student Loan Acknowledgment feature was delivered on StudentAid.gov providing customers who are planning to accept a federal student loan with important information on borrowing and their responsibility to repay the loan. This metric gauges customer interest and engagement in the Annual Student Loan Acknowledgment (ASLA). In FY 2020, the ASLA was provided for informational/educational purposes but was not required.

Analysis of Progress:

FY 2020 serves as a baseline year with 858,628 customers completing the ASLA more than 1 million times.

Since the ASLA launched in April 2020, FSA expects this figure to increase in FY 2021. In addition, completion of the ASLA is currently optional, but FSA is planning to make it mandatory for all loan disbursements for the 2021–22 award year.

Data Quality and Limitations:

The performance metric result represents the number of unique users who completed the acknowledgment. Users can complete the acknowledgment multiple times and the total number of completed acknowledgments is provided in the Analysis of Progress section. A separate data analyst from a different office within FSA validates the accuracy of the query and the resulting data and validates any anomalous data.

The Customer Analytics Group is responsible for the primary calculation of the metric as well as the technical validation of the metric, which is done by reviewing for accuracy the query used to pull the data. The source of this data is the Common Origination and Disbursement (COD). There is no calculation necessary for this metric as the information is derived directly from COD.

Table 27: Performance Metric 2.2.E. Transactional email volume for outreach and communications to borrowers.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | 92.2 million |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric measures the transactional emails that are delivered through our internal communications tool. These emails are vital for students, parents, borrowers to understand updates and notifications regarding their FAFSA application and other important information that needs to be acted on. This metric helps to gauge the health of our email communications and platform in terms of volume and reach.

Analysis of Progress:

FY 2020 serves as a baseline year with approximately 92.2 million transactional emails going to customers. As part of DCC, FSA is onboarding transactional communications into a centralized system for a more consolidated and consistent customer experience.

During FY 2020, FSA has onboarded critical transactional communications for its borrowers. This includes FAFSA, COD, and FSA ID real time communications. FSA expects volume numbers to continue to increase as it maintains an ED.GOV email domain and brand authority, as well as onboarding additional communications.

Data Quality and Limitations:

There is no calculation necessary for this metric. It is reported by the COD system. Several data analysts pull the data and a data analyst validates the numbers. The source of the data is the Digital Communications Tool & Marketing Communications Platform (Comms platform).

Performance Results by Strategic Goal

Table 28: Performance Metric 2.2.F. Recurring campaign email delivery volume for outreach and communications to borrowers.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | 32.2 million |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric measures the recurring emails that are delivered through the internal communications tool. Recurring campaigns are defined as communications that FSA sends on a consistent cadence that are not tied to immediate transactional interactions, such as the Renewal campaign reminders. This metric helps to gauge the commitment to consistent and proactive communications.

Analysis of Progress:

FY 2020 serves as a baseline year for this metric with approximately 32.2 million recurring emails going to customers. As part of DCC, FSA is onboarding these recurring communications into a centralized system for a more consolidated and consistent customer experience.

FSA has looked at Renewal campaign data, as well as Auto Closed School Discharge and Temporary Expanded Public Service Loan Forgiveness (TEPSLF) data to get these metrics. These numbers will help to establish the baselines for future FAFSA renewal campaigns. As FSA continues to create and onboard new communications that are recurring, always-on, and not tied to transactional messaging, it will be added to this metric.

Data Quality and Limitations:

There is no calculation necessary for this metric. It is reported by the COD system. Several data analysts pull the data and a data analyst validates the numbers. The source of the data is the Comms Platform.

Table 29: Performance Metric 2.2.G. American Customer Satisfaction Index (ACSI) Aid Lifecycle Survey score.*

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|------------|------------|------------|------------|------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | 69.9 | 70.6 | 70.0 | 72–74 | 73.5 |
| Performance Result | N/A | Met | Met | Met | Met | |

*Note: Formerly A.5 in FSA FY 2019 Annual Report

Target Context:

This metric provides a measure of the customer experience across the student aid lifecycle, by accessing customer satisfaction scores from FAFSA filers, from financial aid administrators, and from borrowers repaying their loans.

Analysis of Progress:

FSA met its target range for this metric with a result of 73.5.

The FY 2020 score of 73.5 is higher than the FY 2019 score of 70.0 and the FY 2018 score of 70.6. The score consists of three groups of borrowers that span the financial 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 more than 32 million borrowers) and therefore accounts for almost 72 percent of the measure. Nearly 24 percent of this metric is made up of scores collected by FAFSA applicants (roughly 18 million FAFSA forms are filed each year) and the smallest component of the metric is the 5 percent of the measure that accounts for students (10 million) still in school who are receiving Title IV funds. Together, the three measures span the three major parts of the financial 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.

This metric is calculated by using weighted customer satisfaction scores from the Multiple Servicer Survey, [FAFSA.gov](https://fafsa.gov) and the In-School customer satisfaction survey. Several data analysts pull the data, and a data analyst validates the numbers. The data source for this metric is the Multiple Servicer Survey, [FAFSA.gov](https://fafsa.gov), and (federal student aid recipients) In-School customer satisfaction survey. This metric is a direct reflection of the data collected through the ACSI Aid Life Cycle Survey. FSA monitors to ensure the system is secure and the query results are consistent.

Performance Results by Strategic Goal

Table 30: Performance Metric 2.2.H. Customer Satisfaction Survey(s) for StudentAid.gov site and associated tools.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------------------------------------|---------------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Survey development and implementation | No survey developed |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Not Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric intends to measure customer satisfaction with the [StudentAid.gov](https://studentaid.gov) website, including the applications, tools, and processes available on the site. The measurement of customer satisfaction would encompass activities such as completing entrance and exit counseling, or the usage of the repayment calculator that assist customers in selecting a repayment plan that best fits their needs. Customer satisfaction surveys will assist FSA in developing additional tools and offering website improvements based on their feedback.

Analysis of Progress:

FSA did not meet its target for this metric as no surveys were developed for [StudentAid.gov](https://studentaid.gov) in FY 2020.

FSA is evaluating Voice of the Customer technologies that would allow the utilization of survey customers on [StudentAid.gov](https://studentaid.gov) at a regular cadence, the ability for staff to analyze results of structured and unstructured feedback. Surveys would generally follow the guidance given by OMB as part of OMB Circular A-11, Section 280. FSA expects to have surveys implemented across [StudentAid.gov](https://studentaid.gov) in FY 2022.

Data Quality and Limitations:

N/A.

Strategic Objective 2.3: Streamline contact center and back-office operations to improve our customers’ integrated experience.

Table 31: Performance Metric 2.3.A. Quality Standard for Average Speed to Answer (ASA) at all Call Centers.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------------------------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Equal to or less than 60 seconds | 59.0 |
| Performance Result | N/A | N/A | N/A | N/A | Met | |

*Notes: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The goal of this metric is to ensure FSA’s loan servicing vendors (Not-For-Profits (NFPs) and Title IV Additional Servicers (TIVAS)) are providing the best customer service to FSA’s borrowers. One way that this is measured is through the Average Speed to Answer rate. This is the average number of seconds it takes a borrower to speak with a customer service representative from the moment a borrower calls to the time a customer service representative answers the call. A higher ASA indicates a longer wait time and may result in a higher call abandon rate or increased call frustration.

Analysis of Progress:

FSA met its target for this metric with an ASA of 59.0 seconds.

The ASA rate target was achieved in FY2020 for FSA’s NFPs and TIVAS. This was predominately a result of the CARES Act forbearance period that began in March 2020 and remained in place until the end of the fiscal year. Before this period, the ASA averaged 102 seconds (October–March) and then became 16 seconds (April–September). Entering FY 2021, the ASA rate remains low due to the extension of the CARES Act forbearance period through December 31, 2020, and related call volumes being more than 50 percent below normal. If the benefits are not extended, FSA expects that the ASA rate will increase in January 2021 as borrowers resume making payments and servicers adjust staffing to reach the right equilibrium. If benefits are extended, then it can be expected that the ASA rate will remain low throughout FY 2021.

Data Quality and Limitations:

The source of data for this performance metric is the Federal servicers’ quarterly reports. The verification and validation of performance by the nondefault federal student loan servicers is conducted by FSA and includes (but is not be limited to): (1) review and validation of federal servicer reports; (2) ongoing/recurring quality assurance discussion with federal servicers; (3) site visits to federal servicer call center sites; and (4) documented on-phone (“mystery caller”) evaluations of services.

Performance Results by Strategic Goal

Because the agency directive is succinct and builds on current contractor operational capabilities, FSA does not anticipate anomalous data or issues with implementation. However, in cases where verification and validation detect anomalies that suggest less-than-complete information, FSA will address any deficiencies through direct contact with federal servicers, requests for information, audits, site visits, and/or other assessment measures of performance, as applicable.

Table 32: Performance Metric 2.3.B. Quality Standard for Abandon Rate (AR) for Incoming Calls at all Call Centers.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|--------------------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Equal to or less than 2% | 3.6% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Not Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The goal of this metric is to ensure the loan servicing vendors (NFPs and TIVAs) are providing the best customer service to our borrowers. One way that this is measured is through the Abandon Rate (AR). This is the average number of calls in which a borrower hangs up (abandons) the call before they speak with a customer service representative. The higher the rate the more borrowers are abandoning a call and likely not getting the information/answers they need.

Analysis of Progress:

FSA did not meet its target for this metric with an AR of 3.6 percent.

The AR target was not achieved in FY 2020 for the NFPs and TIVAs, but servicers achieved significant progress in improving their AR throughout the year. This was predominately a result of the CARES Act forbearance period that began in March 2020 and remained in place until the end of the fiscal year. Before this period, the AR averaged 6.1 percent (October–March) and then became 1.0 percent (April–September). Entering FY 2021, the AR remains low due to the extension of the CARES Act forbearance period through December 31, 2020, and related call volumes being more than 50 percent below normal. If the benefits are not extended, FSA can expect the AR to increase in January 2021 as borrowers resume making payments and servicers adjust staffing to reach the right equilibrium. If benefits are extended, then it can be expected that the AR will remain low throughout FY 2021.

Data Quality and Limitations:

The source of data for this performance metric is the Federal servicers’ quarterly reports. The verification and validation of performance by the nondefault federal student loan servicers is conducted by FSA and includes (but is not be limited to): (1) review and validation of federal servicer reports; (2) ongoing/recurring quality assurance discussion with federal servicers; (3) site visits to federal servicer call center sites; and (4) documented on-phone (“mystery caller”) evaluations of services.

Because the agency directive is succinct and builds on current contractor operational capabilities, FSA does not anticipate anomalous data or issues with implementation. However, in cases where verification and validation detect anomalies that suggest less-than-complete information, FSA will address any deficiencies through direct contact with federal servicers, requests for information, audits, site visits, and/or other assessment measures of performance, as applicable.

Performance Results by Strategic Goal

Strategic Objective 2.4: Simplify the communication and processes associated with borrower repayment plans.

Table 33: Performance Metric 2.4.A. Number of borrowers using Make a Payment feature to pay student loans.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|--|-----------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Implement pilot for Make a Payment feature | 12,245 payments |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

[StudentAid.gov](https://studentaid.gov) is FSA's primary customer-facing digital front door for students, parents, and borrowers who need be informed about, apply for, and manage their federal student aid. In February 2020, the Make a Payment pilot was delivered on [StudentAid.gov](https://studentaid.gov) providing customers with loans serviced by Great Lakes or Nelnet (both FSA loan servicers) with the ability to make a standard loan payment on [StudentAid.gov](https://studentaid.gov). This metric gauges customer interest and engagement in using [StudentAid.gov](https://studentaid.gov) to make a student loan payment.

Analysis of Progress:

FY 2020 serves as a baseline year with customers making more than 12,245 student loan payments on [StudentAid.gov](https://studentaid.gov). Since the Make a Payment pilot launched in February 2020, FSA expects this figure to increase in FY 2021. The FY 2020 payments were also impacted by COVID-19 and the suspension of loan payments through December 31, 2020.

Data Quality and Limitations:

This figure represents the number of student loan payments made on [StudentAid.gov](https://studentaid.gov). FSA is unable to provide the unique number of customers who made payments. A separate data analyst pulls the data and then a different analyst pulls the data independently to validate the accuracy of the information and any anomalous data.

The source of the data is the DCC Web Logs. No calculation is necessary as the data is an absolute number reported to FSA from the DCC Web Logs.

Table 34: Performance Metric 2.4.B. Percentage of borrowers using auto-debit.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | 24.8% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric measures the volume of borrowers that are enrolled in auto-debit. Auto-debit allows borrowers to pay their student loan payments without any effort since the payment is extracted from the borrower's financial institution each time a payment is due, allowing borrowers to make payments in full and on time with minimal effort required. Borrowers who enroll in auto-debit are given a 0.25 percent reduction on their interest rate.

Analysis of Progress:

FY 2020 will be the baseline year for measuring the percentage of borrowers using auto-debit. Auto-debit percentage will be calculated using the number of borrowers in the National Student Loan Data System (NSLDS) that are reported as enrolled in auto-debit in comparison to the total number of borrowers in repayment (not in school or in grace status). FSA anticipates improvement to the percentage of borrowers using auto-debit as the ease of enrollment and knowledge of the benefits of auto-debit are publicized during the implementation of Next Gen FSA.

COVID-19 and other economic impacts may result in overall reductions in the ability of borrowers to make student loan payments and this may impact any improvements to the auto debit percentages until economic impacts of COVID-19 improve.

Data Quality and Limitations:

Enrollment in auto debit is reported by federal loan servicers to NSLDS. Accuracy of that data is validated by FSA using NSLDS monitoring techniques. NSLDS queries will provide the volume of borrowers enrolled in Automatic Direct Debit (auto debit) and the total volume of borrowers in repayment. The auto debit volume will be divided by the total borrowers in repayment volume and rounded to 1/10th percent to calculate auto debit percentage. NSLDS queries and calculations are validated by FSA's Data Review Team for accuracy. The source of the data is the NSLDS.

Performance Results by Strategic Goal

Table 35: Performance Metric 2.4.C. Percentage of Public Service Loan Forgiveness (PSLF) applicants who had used the PSLF Help Tool and who met the requirements for PSLF.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The metric tracks the percentage of users who complete the PSLF Help Tool. Upon completing the PSLF Help Tool, it generates a PSLF form for users to fill out.

Analysis of Progress:

FY 2020 serves as a baseline year for this metric, but the methodology to accurately track the performance of the PSLF Help Tool is incomplete. The baseline study will continue into FY 2021.

In FY 2020, FSA updated the PSLF Help Tool to include an employer eligibility database for borrowers to learn early in the process whether their employer is an eligible employer for PSLF purposes. FSA can now compare PSLF Help Tool usage from its inception in December 2018 to present, to see the number of borrowers completing the tool and generating the correct form.

However, PSLF Help Tool usage was impacted as borrowers entered the CARES Act administrative forbearance. Initially, there was noticeable PSLF Help Tool usage decline, but usage increased with the release of the employer eligibility database. A policy determination shifted the timeframe associated with employment certification, which also impacted FSA's ability to assess customer usage of the tool in an effective way. In FY 2021, FSA is on track to delivering an improved PSLF Help Tool with a combined form, so that a borrower is considered for TEPSLF in addition to PSLF.

Data Quality and Limitations:

The source of the data is on the COD Portal and provided by an FSA contract resource. The contractor assists with the monitoring of PSLF Help Tool usage and which form is generated based on customer interaction with the PSLF Help Tool.

Strategic Goal 3: Increase Partner Engagement and Oversight Effectiveness

Strategic Goal 3 is focused on how FSA will assist schools, third-party servicers, and financial institutions to deliver federal student aid, collect borrower payments seamlessly, and safeguard data integrity through oversight and monitoring. FSA will also ensure schools understand and comply with Title IV requirements.

FSA will gauge its performance using six metrics. FSA will utilize a more comprehensive suite of monitoring tools to ensure IHEs appropriately administer Title IV aid. To measure the effectiveness of its oversight, FSA will annually conduct institutional reviews that will include comprehensive compliance reviews, institutional assessment reviews, and general or focused program compliance assessment reviews. These reviews will assess compliance with requirements for aid delivery, return to Title IV and student loan repayment.

Additionally, FSA is committed to continued enhancements in oversight and improving the borrower experience by reducing institutional fraud. An outcome of this effort is demonstrated by the tactical approach for application processing FSA has taken in the area of Borrower Defense (BD) which will afford significant progress in resolving the outstanding applications.

Under Goal 3, FSA is also pursuing opportunities in the Next Gen PPO platform to provide high quality training and encourage partner participation. It is necessary for the organization to provide comprehensive training and specialized technical assistance to participating schools that receive Title IV aid as well as create pathways for institutional feedback that will allow FSA to continuously improve its interactions with partners in the delivery of aid to students and borrowers.

Strategic Goal 3 includes the two strategic objectives listed below:

- **Strategic Objective 3.1**
Provide effective oversight of FSA's partners utilizing a comprehensive suite of monitoring tools.
- **Strategic Objective 3.2:**
Strengthen partner engagement and provide effective outreach and assistance.

In FY 2020, FSA had two objectives under Goal 3 that include six metrics. Of these six metrics, three were met and one metric was not met for this goal. Additionally, two metrics were baselined in FY 2020.

Performance Results by Strategic Goal

Strategic Objective 3.1: Provide effective oversight of FSA’s partners utilizing a comprehensive suite of monitoring tools.

Table 36: Performance Metric 3.1.A. FSA will annually conduct an Institutional Review for its participating partners including schools, third-party servicers, and financial institutions.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|--|--------------------------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Conduct Institutional Reviews for at least 40% of partners | 51% of partners reviewed |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric measures the performance of holistic comprehensive compliance reviews of institutions relating to certification actions, deficient audit resolutions, flagged financial statements, program reviews, method of payment actions, and technical assistance.

Analysis of Progress:

FSA met its target for this metric with a result of 51 percent of partners reviewed.

In FY 2020, FSA conducted oversight reviews for 2,878 unique institutions of higher education relating to certification, deficient audit resolutions, flagged financial statements, program reviews, method of payment, and technical assistance. FSA completed 1,078 recertifications and 4,410 other institutional eligibility related applications, evaluated more than 2,000 school financial responsibility notifications, processed more than 3,000 deficient audits, and flagged financial statements, and issued 143 Final Program Review Determinations or other close-out actions with a total of approximately \$146.7 million in liabilities. FSA accomplished this work while also issuing 211 Automatic Closed School Discharge letters asserting approximately \$59.1 million in associated liabilities. FSA also conducted oversight of lenders, lender servicers, and guaranty agencies. FSA conducted 16 program reviews and identified untimely reinsurance requests for more than 38,000 loans impacting approximately \$319.2 million.

Data Quality and Limitations:

Next Gen PPO’s data for the metric measurement and sub-measurements are highly reliable and retained in the Postsecondary Education Participants System (PEPS) and in the eZ-Audit system. Metric calculations are based on data extracts from the data systems. The data extracts are subject to quality checks and validation. After data are compiled, a staff member reviews the queries and formulas to ensure proper functioning and correct counting reviews/schools. Since Next Gen PPO may perform more than one compliance review of an institution during a fiscal year, the data are de-duplicated to ensure an institution is counted only once. The count of unduplicated institutions for whom Next Gen PPO performed a compliance review is compared with an unduplicated count of participating institutions to calculate the actual percentage for this performance metric.

Table 37: Performance Metric 3.1.B. Number of Borrower Defense (BD) applications adjudicated (subject to existing BD regulations).

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------|---------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 150,000 | 160,000 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

BD to repayment is a type of federal student loan forgiveness where borrowers may be eligible for forgiveness of their federal student loans if the relevant school attended misled the borrower or engaged in other misconduct in violation of certain laws. During the first two months of this fiscal year, FSA adjudicated¹⁷ more than 12,000 applications that remained pending further processing without an approved relief methodology. On December 10, 2019, the Secretary announced the approval of the new tiered relief methodology (2019 relief methodology) which allowed FSA to process applications for relief and progress toward elimination of the backlog of more than 175,000 claims awaiting adjudication. Following approval of the methodology, FSA targeted to build capacity to adjudicate 5,000 applications per week with an ultimate objective of less than 5,000 claims on hand by late Fall 2020.

Analysis of Progress:

FSA met its target for this metric with a result of 160,000 BD applications adjudicated.

While receiving an average of more than 750 new applications per week from June through September 2020, FSA continued to build production capacity by hiring more than 52 term attorneys. This capacity helped contribute to adjudicating more than 148,000 applications since December 2019, a reduction of more than 84 percent of the backlog of more than 175,000 cases awaiting adjudication at the time.

Data Quality and Limitations:

Weekly production data is derived from the BD case management platform which tracks progress and status of BD applications through intake, adjudication, borrower notification, and loan servicer documentation on effectuated loan relief, where applicable. Weekly data verification reviews are coordinated among the business unit and FSA’s enterprise data office. This production data is reported in weekly performance metrics evaluated by FSA and Department Senior Leadership. The source of data for this performance metric is the Customer Engagement Management System.

¹⁷ Adjudication refers to the Department’s evaluation, and decision on the individual merits, of any given borrower defense application in accordance with applicable rules and regulations. It is an individual process that depends on the information submitted by the borrower as well as any relevant evidence in the Department’s possession.

Performance Results by Strategic Goal

Strategic Objective 3.2: Strengthen partner engagement and provide effective outreach and assistance.

Table 38: Performance Metric 3.2.A. FSA will provide comprehensive training and/or specialized technical assistance to its participating schools that receive *Title IV* Aid on behalf of students.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | At least 35% of schools will receive comprehensive training and/or specialized technical assistance | 70% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

Training and technical assistance for this metric is provided and tracked at the individual learner level at participating schools. As a target, professionals (individual learners) in at least 35 percent of all participating schools will receive outreach and assistance, through such means as congressionally mandated training, the annual FSA Training Conference, state and regional professional association conferences and a large portfolio of web-delivered self-service courses, webinars, Ask-a-Fed queries for individualized technical assistance, and systems-oriented job aids. The training is delivered in person as well as via FSA's Learning Management System (LMS) and webinars. School participation in training offerings and technical assistance is almost entirely voluntary.

Analysis of Progress:

FSA met its target for this metric by providing comprehensive training and/or specialized technical assistance to 70 percent of participating Title IV eligible schools.

FSA provided 5,471 instances of comprehensive training and/or technical support to individual professionals from 3,955 institutions (70 percent) during FY 2020. Of these total instances, 3,955 instances of support were provided and tracked via LMS; 3,300 instances were provided via Ask-a-Fed query assistance and direct outreach support to meet the unique needs of Minority Serving Institutions (MSIs); and at least 89 instances were provided via mandatory training. All in-person training events were cancelled. The Fundamentals of Title IV course was moved to an all virtual environment. A 4.5 day in-person Fundamentals training session required for participation in the Title IV programs was revamped for Live on-line delivery. Five revised sessions have been delivered. Additional new training and technical assistance/assessment products have been developed, for virtual delivery leveraging lessons learned from re-platforming Fundamentals training.

Because this is a new baseline metric, FSA did not previously track schools associated with individual professionals receiving training or assistance via Ask-a-Fed query and response

support. FSA has identified additional data collection requirements to associate queries and individual support to professionals with their associated institution. This more robust data tracking will allow FSA to capture the extent of training and technical assistance more fully for individuals across all participating institutions. Next Gen PPO School Portal capability is necessary to fully capture alignment of training and technical assistance saturation among professionals against associated institutions.

Data Quality and Limitations:

The activity is mostly a manual count (e.g., manual inbox count of Ask-a-Fed email inquiries), but FSA does remove duplicate Office of Postsecondary Education Identifications (OPEIDs) to ensure its participation rate is non-duplicative. OPEID is self-reported by users of the training system. Reports run in the LMS (fsatraining.gov) identify users of the site. The report is exported to Excel and manipulated to remove users without an OPEID and duplicate OPEIDs. The Federal Student Aid Training Center registrant data is also received from the conference team. Data is pulled from CVENT for registrants at state and regional association conferences where Training and Information Services Group staff presented. This data is merged with the LMS data to produce a list of OPEIDs who have received training. To minimize errors, the assessment process consists of batch loading the performance data in excel spreadsheets from the source databases into the Salesforce assessment tool.

The quality of the data is impacted because not all instances of technical assistance and support have been tracked historically by FSA. Data collection from multiple systems using differing demographic points (e.g., user reported school name variances, branch campus OPEID v Main Campus) and manual counts of user emails can affect the consistency of the information used for analysis. The sources of data for this metric are the following: FSA LMS, PEPS, eZ-Audit, PCnet, FSA Data Center, and NSLDS.

Performance Results by Strategic Goal

Table 39: Performance Metric 3.2.B. FSA will measure Partner Participation rates in training programs.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline school and partner participation using all documented contacts with the training and technical assistance | 70% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

FSA measured training participation of 3,955 unduplicated schools out of a total eligible school population of more than 5,600, representing a 70 percent achievement. The participation rate includes individuals participating in person or a webinar delivered state, regional and national professional association conferences as well as the efforts of the Minority Serving and Under-resourced Schools Division (MSURSD). Training was delivered in-person, via live webinars, or via FSA's LMS. In a typical fiscal year, only certain schools (less than 200) are required to attend training, primarily the congressional mandated "Fundamentals of Title IV." Training participation by all other Title IV participating schools is voluntary.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric and the current baseline of a 70 percent partner participation rate will be further analyzed in FY 2021.

FSA transformed its outreach and assistance efforts into dynamic virtual capabilities for institutions and financial aid partners. FSA redesigned its 4-day in-person Title IV Fundamentals training session into a real-time online format for 5 successful sessions with 89 school partners; fielded a new Virtual Technical Assistance tool aimed at MSIs and a virtual Training product for newly approved Title IV schools; and identified 72 MSIs that had not previously used the FSA LMS to virtually instruct on the availability and effective use on on-line learning resources.

Additionally, FSA streamlined its outreach and on-boarding processes for Project Success, a program focused on pairing MSIs with guaranty agencies to address risk factors affecting graduation, retention, and cohort default rates. Specialized technical assistance included webinars, Ask-a-Fed queries for individualized technical assistance, MSURSD consulting to address the specific needs of their school partners for Default Management and Compliance assistance, and school staff training.

Due to the voluntary nature of training, FSA will continue to expand outreach and ensure that products continue to reflect the needs of the schools. All FSA Training events, self-service modules, and annual courses (such as Fundamentals in Title IV) are communicated via Electronic Announcements to Information for Financial Aid Professionals (IFAP) and FSA utilizes a “push notification” system to announce the availability of LMS-based courses. Due to COVID-19, all live training was cancelled from March 2020 through the end of the fiscal year and beyond. Virtual solutions developed and implemented for all required training programs and additional webinar support provided to our institutional partners.

Data Quality and Limitations:

The metric is calculated as a numerical count of activities, but duplicate OPEIDs are removed to ensure the participation rate is non-duplicative. OPEID is self-reported by users of the training system. Reports run in the LMS identify users of the site. The report is exported to Excel and manipulated to remove users without an OPEID and duplicate OPEIDs. FSA Training Center registrant data is also received the CVENT registration system from the conference team. Additional conference data is pulled from CVENT for registrants at state and regional association conferences where Training and Information Services Group staff presented. Additional training data is obtained from the Salesforce system used by MSURSD.

This data is merged with the LMS data to produce a list of OPEIDs who have received training. The data is collected from multiple systems using differing demographic collection points (user reported school name variances, branch campus OPEID versus Main Campus, etc.) and manual counts of user emails. The data sources are as follow: FSA LMS, Salesforce, CVENT, PEPS, eZ-Audit, PCnet, FSA DATA Center, NSLDS, and Case Management Information System.

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Table 40: Performance Metric 3.2.C. FSA will enhance the self-service training resource and informational platform to improve communication with participating partners, including schools, third-party servicers, and financial institutions.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | Baseline | 62% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric represents enhancements to the FSA LMS—specifically, courses created or revised in FY 2020. It is not only a percentage of self-service courses available—it includes revisions, deletions, new courses added. During FY 2020, FSA created or revised 167 LMS courses which reflects 62 percent of the available 271 courses in FY 2019. This includes revising the learning tracks for new, intermediate, and expert level financial aid administrators. The courses focus on the proper administration of Title IV programs with offerings for new financial aid office to institutional presidents and chief executive officers.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric with 62 percent of the course offered within the LMS being either newly created or revised based on customer needs.

FSA’s training platform, the FSA LMS provides on-demand self-service training to registered users. The number of FSA LMS users has increased 22 percent from 44,662 registered users in FY 2018 to 57,487 users in FY 2020. This population represents 3,955 Title IV participating institutions, as well as third party servicers, auditors, and FSA Staff.

FSA continues to innovate and partner with our institutions to support their own internal staff training. LMS now has upgraded functionality that allows Title IV participating schools to create training programs for their own staff and track their progress to a particular goal. The feature been transitioned from a testing phase to full rollout to all interested users. FSA is in the process of integrating the LMS into the Phase Three roll-out of the Next Gen PPO. There are also efforts underway to implement a training referral process for offices within FSA to be able to suggest particular training for Title IV participating institutions or technical assistance resources, as needed.

Data Quality and Limitations:

This performance metric is a numerical count of changes within a defined electronic training environment. FSA has a baseline of 260 courses deployed on the training system. The Next Gen PPO team tracks additions, modifications, and removals. The data source for this metric is the FSA LMS.

Table 41: Performance Metric 3.2.D. Ease of doing business with FSA.*

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|----------------|------------|------------|------------|----------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 72.3 | 73.4 | 74.5 | 74.0 | 74–76% | 71% |
| Performance Result | Not Met | Met | Met | Met | Not Met | |

*Note: Formerly D.1 in FSA FY 2019 Annual Report.

Target Context:

FSA conducts an annual “Ease of Doing Business” survey with its Title IV eligible school partners. The survey is conducted by CFI Group, an independent third-party survey company, and results are provided to the Department and FSA. The FY 2020 Ease of Doing Business Score is an overall measure of post-secondary educational institution financial aid administrators’ assessment of their recent experience interacting with FSA (and its contractors) including telephone/email/chat/fax communication regarding FSA’s systems and products, policy group, training, and compliance staff.

Analysis of Progress:

FSA did not meet its target for this metric with a result of 71 percent.

Many areas remained on trend including compliance issues being resolved fairly and technical assistance requests continuing a modest upward trend. Regular bright spots, such as the training conference, knowledge by FSA trainers, and quality of assistance from FSA and training related metrics, remained high at 83 percent, 81 percent, and 80 percent, respectively. Additionally, some comments of appreciation were provided for FSA’s efforts to guide financial aid administrators through the fluid landscape of FY 2020.

The “Overall ease of doing business” score dropped 3 points this fiscal year to 71. From providing guidance for new support programs to determining how to apply old rules in a changed environment, FSA was challenged by the enormity of communicating, training, and implementing clear policies and programs during the COVID-19 national emergency. Further reinforcing these observations and related comments, scores for the “extent policy changes impacted ease of doing business” increased two points (68). One-third of financial aid administrators who responded to the survey expressed issues, changes, and uncertainty related to COVID-19, the CARES Act, and the Higher Education Emergency Relief Fund as circumstances that have made it more challenging. The Ease of Doing Business score is also likely impacted by the reduction in the “usefulness of training scores” in the FY 2020 survey. Survey participants expressed a desire for additional training and guidance related to the COVID-19 pandemic.

Many financial aid administrators commented about the ease of finding information including the ease of searching IFAP, information searches in general, or the ease of finding things in the FSA Handbook. FSA recognizes a clear opportunity for our efforts to better meet customer needs going forward with the execution of Next Gen PPO phased releases, IFAP integration improvements, and site access point integration. The one-stop digital platform will centralize communication, training, and knowledge management for our partner community of schools, third-party servicers, lenders, and guarantors in efforts to further automate functionality and improve workflows.

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Data Quality and Limitations:

This performance metric is based on calculations from CFI Group, and the FSA project officer verifies the FY 2020 School Partners survey scores for the *Ease of Doing Business* with FSA metric and coordinated validation through FSA Data Review Team. The source of the data is the FY 2020 Schools Partners Survey. The survey collects this data and calculates the results and presents findings and conclusions to FSA.

Strategic Goal 4: Strengthen Data Protection and Cybersecurity Safeguards

FSA has a responsibility to protect student and borrower data integrity and confidentiality. Risk management and mitigation—especially regarding data protection and cybersecurity—remains a top priority within the scope of the *FY 2020-24 Strategic Plan* as it has in past years. Additionally, FSA and its third-party vendors must maintain and enforce rigorous cybersecurity standards in accordance with federal requirements to enable the organization to successfully pursue its mission. The Next Gen FSA effort makes it critical for FSA to integrate state-of-the-art cybersecurity protection across the federal student aid lifecycle. These efforts, as outlined under Goal 4, will include increased support for partner institutions and coordination with vendors to provide improved cybersecurity services.

Goal 4 also focuses on improving the protection of Title IV data through increased collaboration with all Title IV participating institutions and third-party servicers, inclusive of sharing best practices and threat information to ensure institutions take the actions needed to protect student data and student privacy. However, success in data protection begins with FSA, and therefore Goal 4 highlights the necessity to ensure that all employees and contractors understand and integrate effective cybersecurity practices and considerations in their daily work and recognize that cybersecurity risk management is everyone's responsibility. This organization-wide emphasis on cybersecurity culture will create a greater focus to gather insights, identify risks, and make well-informed decisions regarding cybersecurity, technology, and data management.

Strategic Goal 4 includes the three strategic objectives listed below:

- **Strategic Objective 4.1**
Implement business partner and vendor systems that house, manage, and provide systems supporting FSA business processes, outreach and awareness focused on oversight, enforcement, infrastructure, systems, and data.
- **Strategic Objective 4.2:**
Improve student privacy data and cybersecurity controls of Institutions of Higher Education (IHEs) through outreach and communication, to mitigate future cyber-incidents and breaches.
- **Strategic Objective 4.3**
Build an effective cybersecurity culture through employee awareness, training and accountability focused on protecting systems and data.

In FY 2020, FSA had three objectives under this goal. These objectives included four metrics. Of these four metrics, two metrics were not met for this goal. Additionally, two metrics were baselined in FY 2020.

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Strategic Objective 4.1: Implement business partner and vendor systems that house, manage, and provide systems supporting FSA business processes, outreach and awareness focused on oversight, enforcement, infrastructure, systems, and data

Table 42: Performance Metric 4.1 Increase partner/vendor cybersecurity effectiveness by reducing the total number of FSA system assessment findings by 20% per year.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 1,800 | 3,561 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Not Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The FY 2020 metric is a measurement of the number of findings discovered during independent assessments or continuous diagnostics and monitoring efforts that are indicative of potential cyber security issues leading to a breach of privacy information or the potential compromise of an information system.

Analysis of Progress:

FSA did not meet its target for this metric with a result of 3,561 FSA system assessment findings.

During FY 2020, additional systems were added to the ongoing security authorization program to allow timely assessments and identification of cyber security vulnerabilities. This increased oversight has resulted in earlier discovery of vulnerabilities allowing early correction before they have had an opportunity to be exploited.

The FY 2019 measurements, used to establish the preliminary target for FY 2020, failed to account for increased federal requirements for more frequent assessments, quarterly versus triannual. The increased assessment activity resulted in a significant increase in the number of actual findings over the target number.

The challenge was the introduction of significant modernization efforts, through the Next Gen FSA project, in the form of new and untested capabilities, features, and technologies presenting significant cyber security issues and findings. The introduction of new information systems into a quarterly ongoing security assessment program identified a significant number of findings that were previously not discovered or reported directly impacting the actual number of findings for the year. This is anticipated to continue into FY 2021. For future improvement, FSA will research the availability and applicability automation technologies to rapidly identify, discover, and resolve issues before they become findings.

Data Quality and Limitations:

The data for this performance metric is provided by the assessments conducted and utilized by the OCIO for the Department's monthly cybersecurity scorecard. Data is verified through the assessment process as defined by the National Institute of Standards and Technology, the Department, and FSA guidance. The plan of action and milestone is a description of the

vulnerability findings using the National Vulnerability Database. The source of the data is the following: FSA Enterprise Cybersecurity Group; Department Cybersecurity Assessment and Management Shared Service.

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Strategic Objective 4.2: Improve student privacy data and cybersecurity controls of Institutions of Higher Education (IHEs) through outreach and communication, to mitigate future cyber-incidents and breaches.

Table 43: Performance Metric 4.2.A. Increase Institutions of Higher Education cybersecurity effectiveness by reducing GLBA cybersecurity non-compliance by 20% per year.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | 177 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This performance metric measures FSA's effectiveness in reducing GLBA cybersecurity non-compliance at IHEs. FY 2020 was the first year that IHEs were required to comply with cybersecurity metrics as part of GLBA annual audits of institutions.

Analysis of Progress:

FSA implemented the major processes and procedures necessary to manage the program and work with IHEs to ensure compliance with GLBA. The baseline scores are a measurement of an institution's ability to meet three cyber security requirements indicative of a basic cybersecurity program designed to protect student data. Due to COVID-19, the lack of comprehensive audit results will skew the baseline year resulting in inaccurate targets for the remaining years. A significant challenge is the lack of institutional processes that clearly identify roles, responsibilities, and requirements to maintain a comprehensive cyber security program. Additional guidance is being developed to assist the institutions in creating and maintaining an effective program. For future improvement, FSA has established a Task Force to develop a comprehensive implementation plan to assist institutions with achieving effective cyber security compliance.

Departmental COVID-19 restrictions placed the FSA response process on hold for the last six months of the fiscal year and created a challenge for FSA during FY 2020. Overall, COVID-19 significantly delayed the annual audits for IHEs resulting in fewer audits being conducted and presented to FSA for analysis.

Data Quality and Limitations:

The performance metric is a numerical count of the cybersecurity related audit findings. The finding count is provided by the Next Gen PPO staff and verified against the findings posted in eZ-Audit by the Technology Directorate. The data source is the record of GLBA Audits managed by Next Gen PPO.

Table 44: Performance Metric 4.2.B. Reduce incident reporting time at Institutions of Higher Education.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|-------------------------|-----------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline set in FY 2021 | 87.5 days |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The target is an indicator of a school's ability to discover potential privacy breaches or cybersecurity incidents, which may impact Title IV student or financial information, and report them as required per their agreements.

Analysis of Progress:

FY 2021 will be the baseline year for this measurement. Average incident reporting time was 87.5 days in FY 2020.

FSA integrated the institutions of higher education into the existing incident response process and automated case management system allowing accurate tracking of incidents and development of associated metrics.

Significant challenges exist with the institutions of higher education’s ability to properly identify and report on privacy breaches and potential compromises of information systems. Part of the challenge is associated with a lack of authoritative reporting standards and enforcement mechanisms. As an FY 2021 deliverable, FSA is addressing this with a task force that is developing implementation guidance and requirements for the institutions.

Throughout FY 2020, it has been noticed that institutions continually fail to report on privacy breaches and information system compromises. Often the incidents are discovered through FSA proactive cyber monitoring efforts or are reported through the news media. To address this metric, FSA is developing communication plans to increase schools’ awareness of the requirements and more specifically the need to report incidents as they occur. Briefings at the FSA annual conference is an example of this communication outreach effort.

In addressing COVID-19’s need to rapidly transition to remote education delivery environment many cybersecurity requirements and protections were initially overlooked requiring a significant investment in resources to properly protect information systems and student data.

Data Quality and Limitations:

The calculation of this performance metric is from the date, hour, and minute that the school detected the event to the time that FSA receives the report. In the event the school does not provide the information, the time is calculated from the time FSA discovers the cybersecurity incident and the time that FSA is able to contact the appropriate school point of contact at the institution. The data source for cybersecurity incidents at institutions is self-reports from the

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schools, discovery through media reports, and information derived from internet research activities. The data is verified through a manual audit process comparing the security event report received from the school and the data discovered through incident response process with the data within Security Operations (SecOps).

Strategic Objective 4.3: Build an effective cybersecurity culture through employee awareness, training, and accountability focused on protecting systems and data.

Table 45: Performance Metric 4.3 Decrease the number of employee-related cybersecurity events associated with inappropriate use, distribution, or storage of Personally Identifiable Information (PII) and financial information by 20% a year.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | 1,800 | 1,713 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

***Note:** New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The target is an indicator of employees’ ability to properly oversee, store and distribute sensitive privacy and financial information.

Analysis of Progress:

FSA met its target for this metric with a result of 1,713 employee-related cybersecurity events in FY 2020.

This is a new performance metric for FY 2020 that was defined prior to the full implementation of the Department’s data loss prevention email capabilities.

In FY 2020, the Department implemented an email monitoring system that automatically detects, blocks, and notifies the employee of inappropriate transmission of sensitive data reducing the potential for a breach to occur. The capability identified previously undetected behaviors that may be potential breaches.

FSA relies upon self-reporting for those third parties. As part of continuous monitoring FSA is developing automated integration with the third parties for real time data visibility. The proactive blocking of privacy information transmitted through email has reduced the number of email related breaches while increasing employee awareness of their actions through automated notifications.

To address this metric, the expansion of continuous monitoring capabilities and data aggregation using cloud technologies will enhance the ability to rapidly identify and respond to inappropriate use, distribution, or storage of PII or financial information. Additional desktop computer data loss prevention technologies will automate the protection of sensitive data and alert users to potential inappropriate handling.

Data Quality and Limitations:

The performance metric is a numerical count of events-based exercise results and actual incident reports over time. The data source FSA SecOps, email reports, exercise results, and OCIO Data Loss Prevention metrics. The data is validated through a manual review of automated reports from SecOps, which provide the test results for the cybersecurity exercises administer to employees.

Strategic Goal 5: Enhance the Management and Transparency of the Portfolio

Portfolio management and organizational transparency are two of the most important activities required under FSA's PBO legislation. But equally important, as FSA works to become a more customer-centric and outcome-based organization, is the need for FSA to measure its success based on the success of its customers in making improved borrowing decisions that lessen the burden of debt associated with their education. These efforts, as captured in Goal 5 of the *FY 2020-24 Strategic Plan*, will require enhanced analytic, risk management, performance management, and quality management capabilities to provide better outcomes for students and greater value to taxpayers. Insights from this work will help FSA guide operational interventions and inform policymakers and taxpayers about the risks and opportunities in the portfolio.

FSA will also use these insights to allocate resources, guide customer-centric decisions, and inform legislative or regulatory changes that would allow for better overall portfolio performance. Goal 5 also outlines the necessity to maintain FSA's commitment to transparency through the FSA data center and better management of the loan portfolio by performing analyses to help identify risks. Beyond the work to improve service to borrowers and customers, support responsible borrowing, and encourage repayment, FSA also recognizes the need for enhanced analytical performance management and risk management capabilities.

The strategic objectives under Goal 5 focus on providing data-driven analytics to support borrower decision-making and targeted engagement when interventions become necessary. A final key to success in building a 21st Century organization, particularly with the long-term execution of the Next Gen initiative, is FSA's adoption of an outcome-based approach in its vendor acquisition strategy. The enhanced approach to vendor performance and quality management will improve transparency and collaboration and contribute to better outcomes for students and taxpayers.

Strategic Goal 5 includes the four strategic objectives listed below:

- **Strategic Objective 5.1**
Improve the management and transparency of FSA's student loan portfolio performance.
- **Strategic Objective 5.2:**
Provide analytics and operational support for a customer-centric, data-driven, performance-based organization.
- **Strategic Objective 5.3**
Leverage portfolio analytics to drive improved outcomes for customers and taxpayers.
- **Strategic Objective 5.4**
Increase vendor performance through quality management activities centered on customer service and product delivery.

In FY 2020, FSA had four objectives under this goal. These objectives included 14 metrics. Of these 14 metrics, 4 were met or exceeded, 2 metrics were not met for this goal, and 1 metric did not have sufficient data. Additionally, seven metrics are baselined in FY 2020.

Strategic Objective 5.1: Improve the management and transparency of FSA’s student loan portfolio performance.

Table 46: Performance Metric 5.1.A. Initiate monthly reporting to the public through the FSA data center.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Establish specific number of public reports | 56 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

FSA’s FY 2020 target related to Performance Metric 5.1.A. was to establish a specific number of published FSA Data Center reports suitable for monthly reporting.

Analysis of Progress:

FSA met its target for this metric by establishing 56 specific reports to be published monthly.

In FY 2020, FSA’s Enterprise Data Directorate assessed the reports published on its FSA Data Center website to determine feasibility for monthly reporting. Published reports span the student aid lifecycle from application through repayment. In determining the reports most suitable for monthly reporting, FSA considered how likely the data was to change in each month, privacy implications if the data were to be published monthly, and potential benefit to customers.

Most published reports are tied to a specific award year data or represent a snapshot of the outstanding portfolio as of a specific point in time. Award year disbursement data is currently provided quarterly to allow customers to monitor progress throughout an award year. Further segmentation would make it difficult to track comparisons over time and increase the likelihood of a privacy disclosure. Due to the size of FSA’s portfolio, most portfolio snapshots do not significantly change from month to month. As a result, FSA focused its efforts on production-based reports, particularly those related to application volume.

Through this analysis, FSA identified a total of 56 reports for monthly reporting, including the FAFSA by High School state-level reports (54), the PSLF Report, and the BD Report. These reports have been published at least monthly on the FSA Data Center website ([Studentaid.gov/data-center](https://studentaid.gov/data-center)) since January 2020.

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Data Quality and Limitations:

FSA leverages a data request process to ensure queries are written by one subject matter expert and validated separately by a second subject matter expert to help ensure consistency and accuracy. Queries used to produce FSA Data Center reports are required to go through this data request process. Subject matter experts also review results prior to publication to help identify any potential areas of concern.

Table 47: Performance Metric 5.1.B. Timeliness of FSA’s ability to respond to statutorily mandated reports.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------------------------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Average of no more than 30 days | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The methodology associated with the Target Context for the performance metric has not been established. No measurable data is available at this time.

Analysis of Progress:

FSA is working to define the methodology associated with the specific reports to be included within the performance metric. In FY 2021, FSA will define the statutorily mandated reports, as well as the source to be utilized to manage the submission of the reports to the Department within 30 days or less. There is no measurable data to be provided for FY 2020.

Data Quality and Limitations:

N/A.

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Table 48: Performance Metric 5.1.C. Outstanding Direct Loan Portfolio in Current Repayment Status.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|------------|------------|------------|------------|-----------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 85.4% | 85.7% | 86.5% | 86.7% | Baseline | 93.7% |
| Performance Result | Met | Met | Met | Met | Baseline | |

*Note: Formerly C.2 in FSA FY 2019 Annual Report.

Target Context:

This metric demonstrates an increase or decrease in the percentage of FSA loan portfolio dollars in a current repayment status. Current Repayment 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 are 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 TPD 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:

FY 2020 is a baseline year for this performance metric due to the changes in borrower repayment as a response to COVID-19 and FSA’s implementation of the CARES Act legislation.

Through FY 2020, the four-quarter average rate is 93.7 percent. This includes the 100 percent rate for Quarter 4.

Per the CARES Act, Direct Loan servicers cured existing delinquencies and generally also cured the delinquencies of borrowers who “opted out” of the CARES Act forbearance yet did not make payments. Although the CARES Act was first implemented during late March and early April, Quarter 3 (which ended on June 30, 2020) did not have a 100 percent repayment rate because changes in borrower status that occurred within the quarter, which influenced the calculation. However, FSA will not manually adjust Quarter 3 reporting.

The rates for FY 2014 through FY 2019, respectively, are 82.7 percent, 83.9 percent, 85.4 percent, 85.7 percent, 86.5 percent, and 86.7 percent. Performance has improved in recent years primarily due to lower enrollment/loan origination at higher-risk schools over the past decade.

CARES Act related accomplishments include curing loans delinquent as of March 13 and then curing delinquencies which occurred during the CARES Act, such as borrowers who “opted out” of the forbearance but then realized they were not ready to make payments. CARES Act related challenges include setting a baseline—in light of uncertainty about not only the pandemic itself but also how long the borrower benefits will continue and ramping up communications and default aversion efforts after a long period of time when most borrowers were not required to make payments.

With executive action extending CARES Act benefits through December 2020, FSA and servicers will face a heavy burden in “converting” millions of borrowers to active repayment at the same time, with a certain proportion becoming delinquent, at least initially. (According to FSA operations, the first due date after December 2020 would be during February 2021 for most borrowers.) Thus, this metric will remain at 100 percent, or just below, for one or more additional quarters.

Data Quality and Limitations:

The data source is NSLDS database. The calculation uses the rounded results appearing in the FSA Data Center’s Direct Loan Delinquency report. The fiscal year metric is a moving average of the four quarters. 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 (September 30, 2020). This allows FSA to account for changes relating to seasonality and indirect factors that could be false indicators of change. FSA also continues to monitor overall performance of the federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed.

The CARES Act requirement for the FSA loan servicers to cure delinquencies highlights small, anomalous data and thus facilitated better understanding, as well as targeted data quality analyses. For example, with so few loans in delinquency, an examination of those loans revealed that most of the remaining loans greater than 360 days delinquent were not actually on their way from the servicer to Debt Management and Collections System (DMCS) but rather are rehabilitations which recently transferred from DMCS to the servicer, with the “days delinquent” reflecting the loan’s condition from years ago, prior to the transfer to DMCS. A much-smaller group represents loans transferred to current servicers years ago from decommissioned servicers where reporting is manual.

Thus, while the point-in-time repayment rate for Quarter 4 rounds to 100 percent, Quarter 3 (June-end) was 97.3 percent because the 2.7 percent represented the stale late-state delinquencies discussed above. FSA does not plan to go back and adjust the data for these anomalies and instead the adjustments begin with Quarter 4.

Performance Results by Strategic Goal

Table 49: Performance Metric 5.1.D. Percentage of borrowers who are in a positive repayment status within the first three years of student loan repayment.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This new metric will track the percentage of Direct Loan borrowers whose loans are in a positive repayment status within the first three years after their loans entered repayment (maturity). FSA will use fiscal year maturity cohorts. Similar to College Scorecard and other repayment rate metrics, the universe will exclude military deferments, in-school deferments, and non-defaulted open bankruptcy status, as these are loan statuses wherein borrowers are not billed and not expected to pay. FSA will employ EDWA consolidation linking framework in case there are consolidations during a grace period (which are permitted) or during the early years of repayment, so that those borrowers do not “fall out” of the cohort.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric, but the methodology for the calculation has not been approved. At present, no data is currently available, and the baseline study will continue into FY 2021.

This is a new metric and FSA has developed a preliminary methodology/logic for the queries. The Enterprise Data Team will be looking at examples of results from various timeframes during October 2020. Anticipated challenges include analyzing trends on a comparable basis across fiscal year repayment cohorts and determining whether, for a typical fiscal year ending the previous September 30, the results will be representative by September 30 for annual reporting. This data exploration work will enable FSA to establish a baseline and set a target in FY 2021.

To produce comparable results across time, the methodology, similarly to the cohort default rate, will check for “success” at the end of the third fiscal year. A loan which was in a positive repayment status for 18 months but was not in a positive repayment status at the end of the third fiscal year will not be counted as in a positive repayment status.

Additional challenges to be considered related to the CARES Act include setting a baseline—in light of uncertainty about not only the pandemic itself but also how long the borrower benefits will continue and ramping up communications and due diligence (delinquency resolution) efforts after a long period of time when most borrowers were not required to make payments. With executive action extending CARES Act benefits through December 2020, FSA and servicers will face a heavy burden in “converting” millions of borrowers to active repayment at the same time, with a certain proportion forecasted to initially become delinquent.

For the universe of this metric, the date entered for repayment occurs six months after the borrower graduates, drops out, or drops below half-time. The pandemic may impact the consistency of these lifecycle transitions.

Data Quality and Limitations:

The source is the EDWA servicing data. EDWA receives data from the Direct Loan servicers over the Student Aid Internet Gateway connection/interface. Each Direct Loan servicer reports weekly, and not all on the same day. The Direct Loan servicers report on different days of the week in order to manage FSA's operational burden. FSA monitors overall performance of the federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed.

Performance Results by Strategic Goal

Table 50: Performance Metric 5.1.E. Persistence among first-time filing aid recipients.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|------------|------------|------------|------------|----------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 79.7% | 82.6% | 82.5% | 82.8% | 83-84% | 81.0% |
| Performance Result | Met | Met | Met | Met | Not Met | |

*Note: Formerly A.2 in FSA FY 2019 Annual Report.

Target Context:

FAFSA application persistence among first-time filing aid recipients is likely lower this year due to the COVID-19 pandemic and the uncertainty about fall enrollment for many returning students.

Analysis of Progress:

FSA did not meet its target for this performance metric with persistence among first-time filing aid recipients measuring 81.0 percent.

In May 2020, an email campaign specifically focused on returning FAFSA filers resulted in an increase in FAFSA filing by returning applicants this summer, which helped to prevent the decline in this metric from being worse, and witnessed FAFSA filing rebounding for this group from an all-time low for the year in March 2020, likely the result of the COVID-19 pandemic and students being sent home.

In March 2020, COVID-19 resulted in most colleges and universities across the country moving to an on-line only model, which meant that students were not in the classroom or on-campus seeing cues to remind them to file the FAFSA. During this time of national emergency, it is likely that some percentage of students hesitated or delayed filing a FAFSA for the sophomore year. In addition, a result of COVID-19 was that many low-income families had a change in financial circumstances and this may have prevented some students from returning to school because the gap between Title IV aid and the cost of attendance was too large for a student or family to fill given their compromised financial situation due to loss of employment.

Once more Americans return to work or find new employment, FSA expects this metric to increase in FY 2021 as more Americans will have the ability to pay for postsecondary education.

Data Quality and Limitations:

Data results are ascertained through standardized system queries. These queries are used to rerun and match calculations for earlier cycles as part of the verification and validity assessment. The data source is EDWA and CPS Strategic.

Strategic Objective 5.2: Provide analytics and operational support for a customer-centric, data-driven, performance-based organization.

Table 51: Performance Metric 5.2.A. Using the Enterprise Risk Management (ERM) Maturity Model, move the organization towards a “Risk Intelligent” position. The model defines organizational progress in the following way:

- 1 = Initial;
- 2 = Fragmented;
- 3 = Integrated;
- 4 = Risk Intelligent.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | 1.5 | 1.6 |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The overall target for FY 2021 is to move the organization from Fragmented to a more Integrated organization where leadership understands the importance of risk management and considers it in decision making. In addition, the metric will move in a positive direction as risk discussions are more structured and occur at varying degrees relating to strategy setting. In an Integrated organization, most risks are aligned to strategies and risk appetite is formally defined and is discussed as part of daily decision making by senior leadership.

FSA’s goal is to eventually move the organization to be Risk Intelligent where leadership continually demonstrates a strong commitment to risk management with a strong tone at the top and a formal governance structure is in place with monthly meeting cadence. Additionally, a Risk Intelligent organization has a formal risk appetite which has been communicated and risk assessment methodologies, tools, and templates are standardized, understood, and used throughout the organization and performance is measured against strategic goals and linked to key risk indicators.

Analysis of Progress:

FSA met its target for this performance metric by attaining a 1.6 on the Enterprise Risk Management (ERM) Maturity Model.

During FY 2020, Risk Management created risk dashboards, developed risk products for evaluation of risk earlier in the planning/decision-making process, continued promulgation of risk products and created and conducted enterprise-level training. The office continues to build out risk focus areas and work closely with project/program teams to penetrate lower altitudes. The challenge a reliance on survey results and the response rate from key stakeholders.

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Data Quality and Limitations:

The Risk Maturity Matrix is directly linked to the Committee of Sponsoring Organizations of the Treadway Commission ERM Framework, *Enterprise Risk Management: Integrating with Strategy and Performance*. The data is derived from surveys to stakeholders throughout the organization and is compiled and assessed against the ERM Maturity Matrix. The evaluation and validation of data is subjective within guidelines established by the model.

Table 52: Performance Metric 5.2.B. Implementation timeline for FUTURE Act.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|--|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Establish specific timeline and collaborative agreement with IRS | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | N/A | |

***Note:** New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

The FUTURE Act was enacted on December 19, 2019. This law allows the Internal Revenue Service (IRS) to disclose certain federal tax information to the Department for the purposes of providing recertification of income for income-contingent or income-based repayments of student loans; determining discharges of loans based on TPD; and determining the amount of student financial aid under the HEA.

The implementation of the FUTURE Act requires numerous systems changes and security upgrades in FSA to comply with both IRS security requirements and the provisions of the Act itself. FSA is working closely with more than 100 stakeholders and 15 offices from the Department, the IRS, and Treasury to implement the FUTURE Act.

Analysis of Progress:

FSA moved forward with specific activities to achieve the target identified within the *FY 2020–24 Strategic Plan*. However, the establishment of a timeline and collaborative agreement with the IRS is beyond FSA’s independent authority to achieve and therefore the results are not currently available. The efforts made by the FSA team have laid the groundwork for meeting the target in FY 2021, barring any unforeseen changes.

Since the FUTURE Act was enacted, the Department has completed more than 210 working sessions with more than 130 stakeholders and prepared more than 28 briefings to executive stakeholders and congressional committees. FSA has also been able to accomplish milestones in implementing the law, including but not limited to:

- submitting the mandatory 90-day joint FUTURE Act report to Congress,
- finalizing the FY 2020 Interagency Agreement with the IRS,
- finalizing the schedule and activities for enabling the FUTURE Act Direct Data Exchange with the IRS,
- working with external partners such as the National College Access Network and the National Association of Financial Aid Administrators to enable the FUTURE Act, and

Performance Results by Strategic Goal

- implementing the FAFSA and TPD simulators, which will allow FSA to gather feedback from students and borrowers on the impacts of the FUTURE Act to the FAFSA and TPD processes. The TPD simulator has been implemented. The FAFSA simulator is not scheduled to be implemented until December 2020.

FSA has established a notional implementation schedule. The following critical dependencies need clarification to ensure that the notional implementation timeline can be finalized:

- The implementation of the FUTURE Act requires numerous systems changes and security upgrades within FSA to comply with both IRS security requirements and the provisions of the Act itself. The timeline of implementing these system changes and upgrades depend on funding available to dedicate towards these activities.
- The Department and the IRS are closely tracking potential changes to the FUTURE Act, which impacts how the FUTURE Act FAFSA solution is implemented by schools, state agencies, scholarship organizations, and their respective third-party contractors.
- The Department is closely coordinating the implementation of the FUTURE Act with several critical Next Gen FSA initiatives to ensure the mitigation of any potential duplication and redundancy in developing the solution for the TPD, Income Driven Repayment (IDR), and FAFSA programs. Any delays or risks associated with implementing the Next Gen FSA initiatives may impact the FUTURE Act development and implementation timeline.

Data Quality and Limitations:

As mentioned above, the FUTURE Act team continues to work closely with other offices within the Department, the IRS, and Treasury to establish a FUTURE Act implementation schedule. While the team has established a notional implementation schedule, all offices continue to work on critical dependencies to finalize the implementation schedule. Variances to the schedule caused by these dependences will impact the quality of the implementation timeline. The FUTURE Act team also works closely with the ERM Office to monitor any risks and limitations.

Table 53: Performance Metric 5.2.C. Error rate discovered through income verification activities for borrowers on an IDR plan.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric tracks error rate discovered through income verification activities for borrowers on an IDR plan.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric, but the pilot program initiated in FY 2020 to measure this error rate was discontinued due to the changes made by the CARES Act. When borrower payments begin again, and applications for IDR restart, FSA will resume the pilot program. At present, no data is currently available, and the baseline study period will extend into FY 2021.

Data Quality and Limitations:

N/A.

Performance Results by Strategic Goal

Strategic Objective 5.3: Leverage portfolio analytics to drive improved outcomes for customers and taxpayers.

Table 54: Performance Metric 5.3.A. Identify and provide intervention actions for customers at risk of default.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---|--|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Development and testing of default intervention program | Developed, tested, and deployed two projects |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric will track the development, testing, implementation, evaluation, monitoring and updates to Statistical and Machine Learning Models, methodologies, experimental designs, and interventions used in reducing customer risk of negative outcomes such as default. There will be multiple projects wherein models will be developed and deployed for assessing which customers would benefit most from receiving certain interventions such as specific emails, phone calls, skip tracing, and other actions. Benefit shall be measured on a project by project basis but will typically consider default related outcomes as well as costs of performing interventions. This metric will track how many projects exist and what phase of the development lifecycle they are in. Each project will have its own method of measuring its effectiveness once deployed with consideration to its experimental design and goals.

Analysis of Progress:

FSA met its target for this performance metric by developing, testing, and deploying two projects in support of the default intervention program. The projects are the applicant risk model and the TPDR (third-party debt relief) company fraud model.

FSA has developed statistical models to measure individual customer and transaction-level risks at different points in the student aid lifecycle. Risk scores are then used to drive action. Development on the first of these types of projects that uses modeling to reduce negative customer outcomes started in calendar year 2018 with a fraud modeling pilot. It has expanded to be the first of FSA's projects in this area, called the TPDR model. To ensure FSA systems and taxpayer funds are protected, FSA has developed models and analysis to support identification of fraudulent activity, conducting outreach to customers at high risk of being harmed by bad actors and assisting them in resolving issues associated with their accounts.

Models are used to support customers by providing targeted, personalized communications, directing customers to self-service tools FSA has made available to support planning and decision making. During FY 2019–20, FSA sent approximately 962,000 emails to customers identified as having high default risk at time of FAFSA submission and 716,000 emails to high risk customers at time of loan disbursement. The efficacy of this second project is yet to be

determined because it will time for borrowers to leave school, enter repayment, and move through the lifecycle, so FSA can perform statistical analyses of the results.

Communications to customers at different points in the student aid lifecycle need to be coordinated to avoid confusing customers. Limited ability to coordinate FSA communications to customers with servicer communications has caused FSA to focus on areas of the lifecycle where servicers do less outreach. With the expectation of increased customer service associated with Next Gen FSA and the COVID-19 related forbearances, FSA now expects a greater opportunity to push these projects into parts of the lifecycle where servicer communications are prevalent.

Data Quality and Limitations:

The projects within the default prevention definition are expected to use new interventions and actions to reduce customer risks, therefore it is necessary to first collect data on customer outcomes given they have received the new interventions and actions to support Contextual Bandits model training. Different methodologies for initially collecting data have been designed and implemented in a reusable fashion. Contextual Bandits models have been designed to further collect required model training data, incorporating experimental design into the model development process. Data collected from projects for use in creating and updating models has a high probability of bias due to impacts from COVID-19, especially when analyzing outcomes of default, based on the CARES Act forbearance.

This performance metric will leverage high-level project data as its source: the project plans FSA uses for each individual intervention project, and possibly project specific measures to be determined on a project-by-project basis. Current Information Technology infrastructure makes model development, deployment, and maintenance difficult, complex, and costly. FSA has performed market research on tools that would help with tools the organization would like to acquire in FY 2021 to advance this effort.

Performance Results by Strategic Goal

Table 55: Performance Metric 5.3.B. Default Rate by borrower count.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This new metric provides the rate of Direct Loan borrowers entering default. It is a quarterly metric and similar to other repayment metrics, uses a four-quarter rolling average to address seasonal variations that are common in the loan program.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric due to the changes in borrower repayment as a response to COVID-19 and FSA’s implementation of the CARES Act legislation.

FSA has several years of historical results but did not highlight FY 2020 as a baseline because of the CARES Act. Due to the implementation of the CARES Act, there are close-to-zero new defaults after March 2020. For this reason, FSA did not identify the FY 2020 actual result as the appropriate target or baseline for the performance metric. Developing a baseline will require additional analysis across the Department, FSA operations, and the servicer monitoring team.

Through June 2020 (Quarter 3), the four-quarter average rate is 1.1 percent. This includes the 0 percent default rate in Quarter 3. As required by the CARES Act, Direct Loan servicers cured existing delinquencies and generally also cured the delinquencies of borrowers who “opted out” of the CARES Act forbearance yet did not make payments.

The corresponding four-quarter average for Quarter 3 of the fiscal years 2019, 2018, 2017, and 2016, respectively, are 1.6 percent, 1.6 percent, 1.7 percent, and 1.9 percent. This metric shows a long-term downward trend, interrupted briefly during mid-2019 by the impacts of the 2017 and 2018 natural disasters, particularly three historic hurricanes. Performance has improved in recent years primarily due to lower enrollment/loan origination at higher-risk schools over the past decade.

Defaults, like originations and disbursements, are a flow measure/event, in contrast to loan status, delinquency, and repayment plan, which are point-in-time data elements. For this reason, the data are not available until approximately the middle of the following month. Thus, new defaults in Quarter 4 are not available by the data collection deadline for annual reporting.

Data Quality and Limitations:

The metric leverages a report that is used for several other purposes, including the public-facing FSA Data Center. The report methodology was validated through FSA’s Data Retrieval Tool in 2015. Because the nature of this metric is to compare to same quarter of earlier years and to calculate rolling four-quarter averages, this helps facilitate spotting anomalies. FSA also continues to monitor overall performance of the federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed. By design, the data directorate is separated from the servicers’ staff and systems, so there is

currently no systematic way to verify servicer reporting. For this reason, the data directorate worked with the servicer monitoring team during FY 2020 to address reporting issues identified.

Performance Results by Strategic Goal

Table 56: Performance Metric 5.3.C. Percent of Borrowers > 90 days delinquent.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|------------|----------------|------------|------------|-----------------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | 11.2% | 10.9% | 10.1% | 9.8% | Baseline | 4.8% |
| Performance Result | Met | Not Met | Met | Met | Baseline | |

*Note: Formerly B.2 in FSA FY 2019 Annual Report.

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.

The calculation is the count of Direct Loan recipients with loans 91–360 days delinquent divided by the count of Direct Loan recipients with delinquencies 0–360 days. In other words, the denominator includes current repayment as well as delinquency. The calculation uses recipient counts, rather than borrower counts, because borrower counts would approximately double system demands. Delinquency rates by recipient count are slightly higher than by borrower count.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric due to the changes in borrower repayment as a response to COVID-19 and FSA’s implementation of the CARES Act legislation.

Through FY 2020, the four-quarter average rate is 4.8 percent. This includes the 0 percent rate for Quarter 4. Per the CARES Act, Direct Loan servicers cured existing delinquencies and generally also cured the delinquencies of borrowers who “opted out” of the CARES Act forbearance yet did not make payments. Although the CARES Act was first implemented during late March and early April, Quarter 3 (June-end) didn’t have a 0 percent rate because, as detailed in Data Quality and Limitations below, most of apparently the “late-stage delinquencies” in Quarter 3 turned out to be in current repayment or forbearance. However, FSA will not go back and manually adjust Quarter 3 reporting.

The rates for FY 2014 through FY 2019, respectively, are 14.0 percent, 13.0 percent, 11.2 percent, 10.9 percent, 10.1 percent, and 9.8 percent. Performance has improved in recent years primarily due to lower enrollment/loan origination at higher-risk schools over the past decade.

The challenges in calculating this performance metric as related to CARES/COVID-19 include setting a baseline—in light of uncertainty about not only the pandemic itself but also how long the borrower benefits will continue and ramping up communications and default aversion efforts after a long period of time when most borrowers were not required to make payments. With executive action extending CARES Act benefits through December 2020, FSA and servicers will face a heavy burden in “converting” millions of borrowers to active repayment at the same time, with a certain proportion becoming delinquent, at least initially. (According to FSA operations, the first due date after December 2020 would be during February 2021 for most borrowers.) Thus, this metric will remain at 0 percent, or just above it, for one or more additional quarters.

Data Quality and Limitations:

The data source is the NSLDS. The calculation uses the rounded results appearing in the FSA Data Center's Direct Loan Delinquency report. The fiscal year metric is a moving average of the four quarters. This allows FSA to account for changes relating to seasonality and indirect factors that could be false indicators of change. FSA also continues to monitor overall performance of the federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed.

The CARES Act's requirement for the FSA loan servicers to cure delinquencies highlights small anomalous data and thus facilitated better understanding, as well as targeted data quality analyses. For example, with so few loans in delinquency, an examination of those loans revealed that most of the remaining loans greater than 360 days delinquent were not actually on their way from the servicer to DMCS but rather are rehabilitations which recently transferred from DMCS to the servicer, with the "days delinquent" reflecting the loan's condition from years ago, prior to the transfer to DMCS. A much-smaller group represents loans transferred to current servicers years ago from decommissioned servicers where reporting is manual.

Therefore, while the point-in-time rate for Quarter 4 rounds to 0 percent, Quarter 3 (June-end) was 3.2 percent, because the 3.2 percent represented the stale late-state delinquencies discussed above. FSA does not plan to go back and adjust for these anomalies and instead the adjustments begin with Quarter 4.

Performance Results by Strategic Goal

Table 57: Performance Metric 5.3.D. Percentage of borrowers who did not make the first three payments.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This new metric will track the percentage of Direct Loan borrowers who make the first three payments after entering repayment (maturity). FSA will use fiscal year maturity cohorts. Similar to College Scorecard and other repayment rate metrics, the universe will exclude military deferments, in-school deferments, and non-defaulted open bankruptcy status, as these are loan statuses where borrowers are not billed and not expected to pay. FSA will employ EDWA’s consolidation linking framework in case there are consolidations during a grace period (which are permitted) or early in repayment, so that those borrowers do not “fall out” of the cohort.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric, but the methodology for the calculation has not been approved. At present, no data is currently available, and the baseline study will continue into FY 2021.

This is a new metric and FSA has developed a preliminary methodology/logic for the queries. The Enterprise Data Team will be looking at examples of results from various timeframes during October 2020. Anticipated challenges include analyzing trends on a comparable basis across fiscal year repayment cohorts and determining whether, for a typical fiscal year ending the previous September 30, the results will be representative by September 30 for annual reporting. This data exploration work will enable FSA to establish a baseline and set a target in FY 2021.

Additional challenges to be considered related to CARES Act include setting a baseline—in light of uncertainty about not only the pandemic itself but also how long the borrower benefits will continue; and ramping up communications and due diligence (delinquency resolution) efforts after a long period of time when most borrowers were not required to make payments. With executive action extending CARES Act benefits through December 2020, FSA and servicers will face a heavy burden in “converting” millions of borrowers to active repayment at the same time, with a certain proportion forecasted to initially become delinquent.

For the universe of this metric, the date entered for repayment occurs six months after the borrower graduates, drops out, or drops below half-time. The pandemic may impact the consistency of these lifecycle transitions.

Data Quality and Limitations:

The source is the EDWA servicing data. EDWA receives data from the Direct Loan servicers over the Student Aid Internet Gateway connection/interface. Each Direct Loan servicer reports weekly, and not all on the same day. The Direct Loan servicers report on different days of the week in order to manage FSA’s operational burden. FSA monitors overall performance of the

federal loan servicers to identify any areas where errors have occurred and notifies servicers of results and corrective actions as needed.

Performance Results by Strategic Goal

Table 58: Performance Metric 5.3.E. Percentage of customers who borrow less than the maximum loan amount.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|--------------------|---------|---------|---------|---------|----------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | - | - | - | - | Baseline | N/A |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Baseline | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This new metric will track the percentage of borrowers who borrow less than the maximum amount during a particular academic year. This metric will focus on undergraduate student borrowers because there are no maximum borrowing amounts for graduate/professional students. Unlike National Center for Educational Statistics, which collects similar data every four years, FSA will not be able to track non-borrowers and non-Title IV recipients. FSA generally only receives data on its customers.

Analysis of Progress:

FY 2020 is a baseline year for this performance metric, but the methodology for the calculation has not been approved. At present, no data is currently available, and the baseline study will continue into FY 2021.

This is a new metric and FSA has developed a preliminary methodology/logic for the queries. The Enterprise Data Team will be looking at examples of results from various timeframes during October 2020. Challenges will include looking at trends on a comparable basis across recent award years and determining whether, for a typical award year ending June 30, the results will be stable/representative by September 30 of each year. This data exploration work will enable FSA to establish a baseline and set a target.

Because the maximum permitted loan amount varies depending on the student's year in school and dependency status, FSA will examine trial results to select the most-consistent, representative results over time for this metric. FSA will use a weighted average of dependent and independent student borrowers. While many students are part-time, FSA will need to accept as correct the reporting of the student's academic level, which determines the maximum amount the student is permitted to borrow. Another challenge will be that a small percentage of undergraduate students have access to much-higher borrowing amounts than normal—students in certain undergraduate health professions programs, such as pharmacy. Without having the access to the actual registrar office data (as National Center for Educational Statistics does), FSA will need to study trial results and work to mitigate these outliers.

During times of regulatory change (the 2000s) or economic stress (the great recession), the pattern of loan origination and disbursement activity tends to change, due to shifts in the types of students and schools driving the disbursement activity. COVID-19 serves as the major unknown here.

Data Quality and Limitations:

The source of the data is the origination and disbursement data stored in EDWA. EDWA receives nightly feeds of these loan origination and disbursement data from COD. FSA has found this data stream to be reliable and of high quality, as the data are replicated from COD to EDWA. The EDWA vendor has been running FSA's COD system for nearly two decades and monitors nightly for errors related to production and internal processes.

Data limitations include the time it takes for an award year's results to "settle." As of the end of an award year (June 30), not all the disbursement activity has been reported to FSA. Even after all the disbursement activity has been reported, schools and other data providers continue to submit adjustments, edits, and cancellations for a substantial period. One way to mitigate having to wait too long for settled data would be to use the same approach of the Department's budget office and the agency's financial auditors—pull the data at the same time each year. This method provides comparable results over time.

Performance Results by Strategic Goal

Strategic Objective 5.4: Increase vendor performance through quality management activities centered on customer service and product delivery.

Table 59: Performance Metric 5.4 Percentage of quality assurance reviews for the external workforce (servicers) reviewed annually.

| Fiscal Year | FY 2016 | FY 2017 | FY 2018 | FY 2019 | FY 2020 | |
|---------------------------|---------|---------|---------|---------|---------|--------|
| | Actual | Actual | Actual | Actual | Target | Actual |
| Performance | – | – | – | – | 25% | 11.1% |
| Performance Result | N/A* | N/A* | N/A* | N/A* | Not Met | |

*Note: New performance metric for FY 2020. Prior-year data is not available under this metric.

Target Context:

This metric tracks the number of quality assurance reviews conducted by Operational Improvement and Oversight (OIO) to measure the performance of loan servicers. The objective is to continuously enhance FSA’s oversight and management of loan servicers by evaluating the efficiency and effectiveness of loan servicers’ compliance with contractual terms and statutory requirements.

Analysis of Progress:

FSA did not meet its target for this metric with a result of 11.1 percent.

In FY 2020, many of the personnel initially assigned to OIO were not experienced in conducting “performance-based” quality assurance reviews. Although these personnel have audit experience, the review and assessment of performance and compliance proved to be a significant challenge. Additionally, the lack of familiarity with the many programs and processes executed by the loan servicers contributed to OIO not meeting the target.

To overcome these challenges and meet the performance metric established, OIO has developed a framework and charter which outlines its purpose, authority, and responsibilities. Additionally, training has been provided to strengthen the performance-based audit capability of assigned staff. Lastly, review plans will be developed prior to all quality assurance reviews to ensure staff’s quality assurance review activities focus on performance and compliance.

Data Quality and Limitations:

The performance metric is calculated by the number of completed QA reviews for all loan servicers. The source of the data is internal OIO reports, based on number of completed QA reviews.

Fiscal Year 2020 Accomplishments of Federal Student Aid

During FY 2020, FSA realized additional accomplishments that were not measured specifically by the performance metrics implemented to measure performance against the *FY 2020–24 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 1: Empower a High-Performing Organization.

- FSA established FSA Regional Representatives (RR). Members are senior representatives for their Regional Office, responsible for collaborating with internal and external parties to ensure the health, safety, and welfare of FSA regional staff and day-to-day administrative functions of the region. The RR team meets monthly with the COO to discuss matters, both employee and business-related, that are important to Regional staff.
- The Human Resources Office within FSA launched the FSA Human Capital Working Group (HCWG) comprised of representatives from across the organization. The purpose of the HCWG was to increase the human capital capability throughout FSA, while incorporating best practices in hiring and recruitment to establish FSA as a model PBO and employer of choice. Actions taken by HCWG in FY 2020 include:
 - Developed a staffing position priority process to manage the execution of priority hiring in FY 2020, which allowed for hiring in critical areas to ease workload distribution in the organization. The process was utilized to successfully increase hiring numbers in excess of FY 2019 baseline numbers.
 - Formed three committees to address: processes and systems around preboarding/onboarding and post-boarding of new hires; strategic workforce planning; and employee engagement and morale.
 - Utilized client feedback from FY 2019 and FY 2020 to develop new onboarding framework. Successfully onboarded more than 400 new hires in FY 2020; tripling the number onboarded in FY 2019. In conjunction, the team implemented the Onboarding Contingency Plan for new hires at all FSA locations to continue progress during the COVID-19 global pandemic.
- FSA established a Working Group of key stakeholders across FSA and the Department to conduct a comprehensive study of core competencies for FSA's mission critical positions. Utilized the study to examine FSA's statutory hiring flexibilities in comparison to similar federal financial-related agencies.
- FSA executed the first virtual instructor-led Foundations of Leadership Program, an intensive competency-based development program geared to high-performing General Schedule (GS) 11–13 or equivalent non-supervisory employees.

Fiscal Year 2020 Accomplishments of Federal Student Aid

- FSA established a multifaceted Senior Executive Service Master Class which held a 62 percent average participation rate among eligible participants. The Master Class was inclusive of the following specialized content to strengthen the FSA leadership cadre:
 - Executive Core Qualification: Consultation and Review
 - Executive Core Qualification: Part II
 - Next Jump Leadership Academy sessions in alignment with the established Executive Learning Plan requirement
- FSA collaborated with OCIO through technology support and process documentation that enabled the Department to achieve an A+ on the *Federal Information Technology Acquisition Reform Act* scorecard. FSA's cost savings and cost avoidance contribution were 41 percent of the overall Department score. The systems contributing to the A+ score is Next Generation Data Center, COD investment, Financial Management System investment and Enterprise Business Collaboration investment reported. The results of FSA's effort totaled \$96.8 million across the entire Departmental Information Technology Portfolio.
- In response to COVID-19, the Facilities, Security, and Emergency Management Team established a working group and expeditiously created an FSA Business Continuity Plan to ensure that mission essential functions could proceed, either virtually or within Headquarters and Regional locations. The Business Continuity Plan was inclusive of organizational efforts for processing student aid applications and determining eligibility, as well as ensuring staff could access mechanisms to support the delivery of funds to participating postsecondary institutions and the oversight of loan servicers.

FSA realized the following additional accomplishments in support of Strategic Goal 2:
Provide World-Class Customer Experience to the Students, Parents, and Borrowers We Serve.

- FSA ensured the timely implementation of, and compliance with, CARES Act provisions to ensure that students, parents, and borrowers received the CARES Act benefits to which they were entitled. It was also necessary for FSA to effectively manage the CARES Act funding in accordance with the statute. FSA's execution of the actions is outlined below:
 - Under the CARES Act, approximately 41 million borrowers had their interest rate adjusted to 0 percent and their payments suspended.
 - Ensured all CARES Act refunds were processed timely, within one week of receipt for manual processing. This ensured that borrowers that were still subject to AWG or TOP were promptly refunded as FSA worked to turn off these garnishments (with employers) or offsets (with Treasury).
 - Created a solution to allow pre-default borrowers the opportunity to suspend payments yet still yield the benefits associated with a variety of student loan programs or to opt out of the forbearance. To date, approximately 23.8 million borrowers are taking advantage of the payment suspension period while

approximately 4.6 million borrowers have opted to continue making regular monthly payments.

- Developed a CARES Act \$40 million spending plan to ensure execution and tracking of the \$40 million provided for requirements to implement statutory provisions, including making changes to servicer systems/operations that support more than 40 million borrowers; moving more than 31 million borrowers into forbearance/stopped collections to suspend loan payments; expediting \$2.5 billion in 2.3 million TOP/AWG refund payments; sending notifications to borrowers; and implementing a communications campaign to inform more than 40 million borrowers about the CARES Act provisions.
- FSA saw robust borrower engagement on emails, which had open rates of nearly 60 percent, two times higher than industry average for this type of communication engagement. Additionally, it provided opportunities for FSA to update email addresses on file for borrowers, thus increasing the reach of FSA to its entire portfolio. For the series of emails that were sent, FSA achieved a 96 percent delivery rate.
- Based upon the July Forbearance/0 percent interest email sent to multiple borrower audiences in July, FSA saw a correlated 88 percent increase in web traffic to [StudentAid.gov](https://studentaid.gov) websites, which was likely due in part to the email communication and the fact that borrowers were following the email's call to action.

FSA realized the following additional accomplishments in support of Strategic Goal 3: Increase Partner Engagement and Oversight Effectiveness.

- FSA published a series of updated data sets, reports, and other information regarding institutional outcomes and financial oversight including quarterly Heightened Cash Monitoring reports, Financial Responsibility Standards Requiring a Letter of Credit Report, Proprietary 90/10 Revenue Percentages Report, Financial Responsibility Composite Scores, Foreign Schools Gifts and Contracts Report, School Fines Report, and the Top 10 Program Review and Audit Findings Report. Starting in FY 2020, FSA also published information regarding Proprietary Institution Conversions in a first-ever disclosure on the FSA Data Center to provide increased transparency on the Department's decisions regarding institutions' nonprofit conversion requests.
- FSA issued more than 5,600 emails to directly inform, and granted requests for regulatory, administrative, or reporting relief and flexibilities to subsequently aid in the recovery efforts of, nearly 3,000 institutions, enrolling more than 2.3 million students touched by disasters such as hurricanes, earthquakes, and wildfires.
- FSA successfully calculated and released the FY 2017 Draft and Official Cohort Default Rates (CDRs) in September 2020 for more than 5,600 schools, guaranty agencies, and lenders. CDRs serve as a valuable compliance tool for FSA to assess school participation in the Direct Loan and Federal Pell Grant Programs. Publication of the CDRs further allows schools to submit appeals for various factors and adjustments to their CDRs, for which FSA also successfully adjudicated more than 140 CDR appeals this fiscal year.

Fiscal Year 2020 Accomplishments of Federal Student Aid

- During the COVID national emergency, FSA transformed its outreach and assistance efforts into dynamic virtual capabilities for institutions and financial aid partners. FSA redesigned a four-day in-person Title IV Fundamentals training session into a real-time online format for five successful sessions; fielded a new Virtual Technical Assistance tool aimed at MSIs and a virtual Training product for newly approved Title IV schools; and identified 72 MSIs that had not previously used the FSA LMS to virtually instruct on the availability and effective use on on-line learning resources. Additionally, FSA streamlined its outreach and on-boarding processes for Project Success, a program focused on pairing MSIs with guaranty agencies to address risk factors affecting graduation, retention, and CDRs.
- FSA managed the flood of borrower, school partner, and systems communications related the COVID-19/CARES Act legislation. Employing time-sensitive communications, often around the clock, FSA coordinated with Department-wide officials and stakeholders to execute the publication of more than 20 CARES Act Electronic Announcements to the IFAP website from March through September 2020. FSA overcame extraordinary conditions to disseminate these critical updates and guidance on emergency relief measures, system updates, and flexibilities for school and other partners while not jeopardizing the timely dissemination of more than 100 total Electronic Announcements published to IFAP during the fiscal year.
- Next Gen PPO staff managed the successful implementation of CARES Act provisions assisting students who could not complete the spring term due to the pandemic. These changes, which involved often complex system upgrades done under extreme time pressure, included systematically cancelling \$49.6 million in repayment obligations for 11,451 withdrawing students on Direct Loans disbursed during the spring term as well as adjusting student subsidized loan usage limits and Pell Grant lifetime eligibility levels to remove aid disbursed to withdrawing students. Staff also successfully implemented other CARES Act flexibilities allowing schools to adjust Return of Title IV aid calculations and certain elements of the Campus-Based programs to minimize the impact of the pandemic.
- FSA made tremendous progress reviewing and resolving numerous Title IV compliance complaints received in the FSA Feedback Center and concerning institutions that participate in the Title IV programs. FSA began FY 2020 with 3,301 open compliance complaint cases that carried over from previous years, of which 2,742 had aged past 60 days and were in a “backlog” state. Through the course of the year, FSA received an additional 3,837 cases, for a total volume of 7,138 cases. FSA experts reviewed and closed a total of 6,830 cases, leaving only 308 cases remaining open and carried into FY 2021. This represents a 91 percent decrease in the amount of cases that will need to be carried into the next fiscal year; a significant accomplishment that had not been achieved by the business unit since the creation of the FSA Feedback Center in July 2016.
- FSA successfully developed processes to identify and monitor daily BD Refunds to ensure immediate assignment and completion based on requirements to ensure that the standard for refunds is met (two days) and that BD refunds are completed in one day. There are 8,319 BD borrowers who have had 1 or more refunds completed. Of those, 20 refunds were not processed timely. This is less than 1 percent (0.2 percent) untimely refunds processed, with 99.8 percent timely.

Fiscal Year 2020 Accomplishments of Federal Student Aid

- FSA expedited 25,538 BD refund payments totaling \$8.5 million to 3,914 borrowers. This effort ensured the Department's compliance with a judicial mandate to make refund payments within established time frames.

FSA realized the following additional accomplishments in support of Strategic Goal 4: *Strengthen Data Protection and Cybersecurity Safeguards.*

- FSA's transition to the Amazon Web Service Cloud expanded the Next Generation Data Center boundary to include an Amazon Web Services Cloud component. The cloud environment provides a more efficient, available, resilient, agile, and secure posture, providing the opportunity to apply stricter configuration controls reducing the opportunities for attackers to compromise information systems.

FSA realized the following additional accomplishments in support of Strategic Goal 5: *Enhance the Management and Transparency of the Portfolio.*

- In FY 2020, FSA refined its statistically valid methodology to estimate improper payments for the Pell Grant and Direct Loan Programs. These refinements included obtaining additional sample data and using sustained questioned costs.
- In collaboration with the IRS, FSA initiated changes to its programs to help ensure the accuracy of income information used for determining Pell Grant eligibility, which are now possible as a result of the FUTURE Act which was signed into law in December 2019. Implementation of the FUTURE Act will allow FSA to receive income tax data directly from the IRS, thereby simplifying and improving the accuracy of FAFSA filing by prepopulating certain fields.
- FSA increased the transparency and responsiveness of *The Freedom of Information Act* requests with customers and external stakeholders. The *Freedom of Information Act* team began the fiscal year with a backlog of 173 and 432 new requests during FY 2020. By the close of FY 2020, the team successfully closed 569 requests, resulting in a reduction of 96 percent in outstanding requests.
- The Acquisitions directorate executed 1,198 contract actions totaling \$2.2 billion in FY 2020. Their effort delivered on FSA's vision with enhancing customer experience through their actions support for Aidan and Loan Simulator updates, partner portal for schools, and new contact centers for Next Gen FSA. In addition, the contract actions also provided the necessary capability for the Department's Cybersecurity Task Force through the awarding of a \$14 million bridge contract supporting all cybersecurity requirements which averted a break in service.
 - The three areas reflecting the largest fund investments included are:
 1. Debt Collection via PCAs,
 2. Loan Servicing through the TIVAS, and
 3. NFPs and Title IV Aid Origination and Disbursement.

Legislative and Regulatory Recommendations

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

- developing guidance and providing regulatory flexibility and relief for the purpose of assisting students, borrowers, institutions of higher education, and others affected by natural disasters, including the COVID-19 pandemic and the CARES Act;
- assisting in the development of regulations that clarify and simplify requirements for distance education;
- supporting revisions of TEACH Grant requirements to minimize the number of TEACH Grants that are converted to Federal Direct Unsubsidized Loans;
- ending the prohibition on Pell Grants for students incarcerated in Federal and State penal institutions;
- developing proposals for further amendments to Section 6103 of the tax code to allow data sharing for more accurate and timely filing of the FAFSA, before and after the enactment of the FUTURE Act; and
- developing legislative proposals regarding the simplification of the needs analysis formula and student loan repayment options.

Annual Bonus Awards

As required by the 1998 amendments to the HEA, the Annual Report includes performance ratings and related awards for FSA senior managers and Senior Executive Service (SES) staff. Included in this section are the number of senior managers and SES on board as of the end of FY 2020. However, because FY 2020 performance results were not finalized at the time this report was prepared, the section discusses FY 2019 performance results.

At the end of FY 2020, there were 102 FSA senior managers and 5 SES members. The number of senior managers in FY 2020 differed from FY 2019 due to increased hiring and internal promotions. The FSA Executive Committee contained 5 of the 102 senior managers. As members of the FSA Executive Committee, these senior managers reported directly to the COO. The number of FSA Executive Committee members significantly decreased because of the reorganization. The remaining 97 senior managers and 5 SES staff served in a variety of senior positions and capacities within FSA.

The following section discusses FY 2019 performance results.

For performance year 2019, the composition of ratings for the 60 senior managers who did not serve on the FSA Executive Committee last year were as follows: 25 senior managers achieved a performance rating of Exceptional Results; 14 achieved a performance rating of High Results; and 21 achieved a performance rating of Results Achieved.

Award amounts for those senior managers achieving an Exceptional Results rating ranged from \$7,052 to \$12,000 with a median award of \$9,000. Award amounts for those achieving a High Results rating ranged from \$3,500 to \$10,000 with a median award of \$7,035.

There were also 2019 performance ratings and awards for 17 senior manager members of the FSA Executive Committee. The composition of those rated included: six senior managers achieved a performance rating of Exceptional Results; seven achieved a performance rating of High Results; and four achieved a performance rating of Results Achieved. One of the six SES members were on the FSA Executive Committee and achieved a performance rating of Results Achieved. One SES member retired and was not rated. One SES member converted to an Administratively Determined (AD) senior manager. The composition of ratings for the remaining three SES members not on the FSA Executive Committee were as follows: one SES member achieved a performance rating of Exceptional and one achieved a performance rating of High Results and one achieved a performance rating of Results Achieved.

Award amounts for the FSA Executive Committee ranged from approximately \$6,000 to \$25,000, 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 21st year of service to federal student aid recipients in FY 2020. Established by the 1998 amendments to the HEA, the Ombudsman began operations on September 30, 1999.

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

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

The Feedback and Dispute Management System (FDMS) is the single point of entry for all federal student financial aid recipients to provide feedback, complaints, and disputes regarding the programs FSA administers. While simplifying the feedback submission process for federal student aid recipients, the FDMS 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, and as an avenue of last resort, the Ombudsman Group. And because all feedback is documented within one system, it unifies the record of the efforts of multiple parties to resolve a matter.

This report provides information about the volume and nature of all feedback FSA received, reviewed, and resolved during FY 2020.

Summary of All Feedback Received in Fiscal Year 2020

All Feedback Classification and Categorization

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

Report of the Federal Student Aid Ombudsman

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

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

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

Activity in the system during FY 2020 equated to 48,638 feedback (cases) received. Those cases were comprised of:

| | |
|---|--------|
| General Inquiry | 1,677 |
| Complaints | 44,152 |
| [Allegations of] Suspicious Activity | 2,068 |
| Positive Feedback | 347 |
| Research | 394 |

Report of the Federal Student Aid Ombudsman

Table 60: All Feedback Received by Case Type by Category in Fiscal Year 2020

| Subcategory (All Cases Received) | Volume |
|--|---------------|
| General Inquiry | |
| Applying for Student Aid (FAFSA) | 259 |
| Credit Reporting | 4 |
| Disbursing Student Financial Aid | 125 |
| Public Service Loan Forgiveness (PSLF) Program | 29 |
| Repaying Student Financial Aid | 850 |
| Repaying Student Financial Aid – In Default | 173 |
| School | 72 |
| Student Eligibility | 70 |
| Department Customer Support | 95 |
| Total General Inquiry Volume | 1,677 |
| Complaint | |
| Applying for Student Aid (FAFSA) | 7,564 |
| Credit Reporting | 1,195 |
| Disbursing Student Financial Aid | 2,004 |
| Public Service Loan Forgiveness (PSLF) Program | 1,269 |
| Repaying Student Financial Aid | 18,103 |
| Repaying Student Financial Aid – In Default | 2,072 |
| School | 7,066 |
| Student Eligibility | 1,864 |
| Department Customer Support | 3,015 |
| Total Complaint Volume | 44,152 |
| (Allegations of) Suspicious Activity | |
| Allegation of Identity Theft | 138 |
| Allegation of Misuse of Departmental Resources | 368 |
| Allegation of Misuse of FSA ID | 141 |
| Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliate | 1,287 |
| Allegation of a Whistleblower | 134 |
| Total Suspicious Activity Volume | 2,068 |
| Positive Feedback | |
| My Collection Agency | 4 |
| My Customer Service Experience | 165 |
| My School | 51 |
| My Servicer | 14 |
| Department Website, Application, or Service | 113 |
| Total Positive Feedback Volume | 347 |
| Research | |
| Credit Reporting | 23 |
| Public Service Loan Forgiveness (PSLF) Program | 13 |
| Repaying Student Financial Aid | 292 |
| Repaying Student Financial Aid – In Default | 38 |
| School | 8 |
| Student Eligibility | 14 |
| Department Customer Support | 6 |
| Total Research Volume | 394 |
| Grand Total | 48,638 |

In addition to categorizing by case type, all feedback submitted is further categorized into subcategories based on the customer’s description. Nearly 100 subcategories further refine the feedback submitted. The breakdown of cases received by Top 5 Category/Subcategory is discussed later in this report.

How FSA Resolves Feedback

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

Resolution Actions indicate the specific way in which the feedback was resolved. Resolution Actions achieved on cases resolved by FSA (not Referred) in FY 2020, most commonly consisted of providing to the customer additional explanation or information about the action or circumstance that prompted the customer to submit feedback to FSA. These are identified with a Resolution Action of “Communication/Process Clarified for Customer.”

Table 61: Resolution Type and Action for All Cases Closed in Fiscal Year 2020

| Resolution Type | Resolution Action | Volume | Percentage |
|-------------------|--|---------------|-------------|
| Resolved | Action Taken | 2,298 | 4.2% |
| | Communication/Process Clarified for Customer | 12,228 | 22.2% |
| Referred | Referred to Accrediting Agency | 529 | 1.0% |
| | Referred to FSA Contact Center | 9,585 | 17.4% |
| | Referred to FSA Website | 1,437 | 2.6% |
| | Referred to Other Government Entity | 1,747 | 3.2% |
| | Referred to Outside Third-Party | 3,077 | 5.6% |
| | Referred to School | 6,746 | 12.3% |
| | Referred within the Department of Education | 9,125 | 16.6% |
| Submission Logged | Feedback Logged | 6,276 | 11.4% |
| | No Response from Customer | 1,979 | 3.6% |
| | Policy Suggestion Logged | 33 | 0.1% |
| Total | | 55,060 | 100% |

Table 61 highlights that 22.2 percent of all cases are resolved with another explanation and/or more information about the circumstances that prompted the customer to submit feedback to FSA. As noted above, FSA must resolve complaints within the framework of existing law and regulation. This 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

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customer may not like the interest rate on their loans. While this is certainly valid feedback, legislation mandates the interest rate on federal student loans.

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

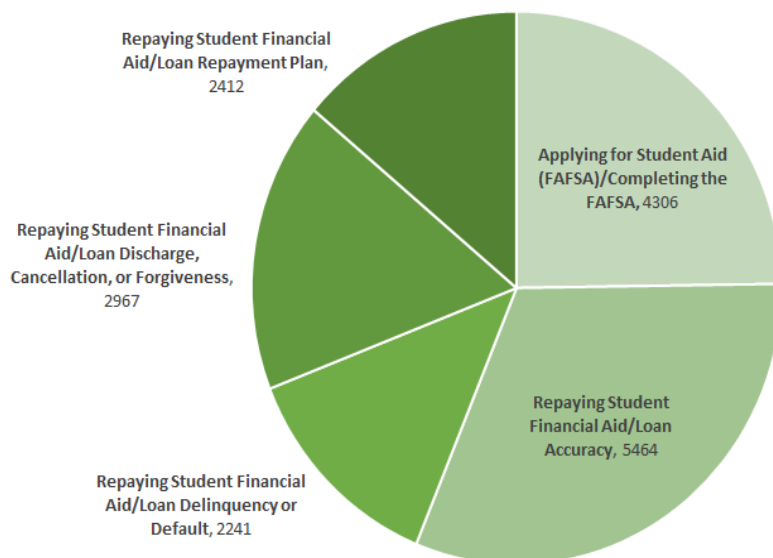
- Customer understanding and awareness of how loan balances are affected by interest accrual and/or capitalization, and reduced by monthly payments
- Customers' difficulty understanding requirements and proving eligibility for loan program benefits such as income-driven repayment plans or loan discharge, cancellation, or forgiveness
- Customers having difficulty with requirements associated with completing and submitting the FAFSA such as electronic signatures, completing the FAFSA, required income information, and the requirements for obtaining and maintaining a valid FSA ID
- Unclear, hard-to-understand, or inconsistent information from FSA and its service providers about repayment plan eligibility requirements
- Customers may not access their online accounts to review servicer notifications or provide updated contact information, leaving them unaware of the loan status
- Customers needing assistance with and clarification of provisions of the CARES Act and its impact on their federal financial aid

This method of recording the way individual cases are resolved helps highlight areas of customer confusion versus problems with program implementation that may require legislative, regulatory, or operational changes. It also enables FSA to show how specific categories and subcategories of cases are resolved and provides a more refined picture of the relative flexibility of FSA to meet and satisfy customer expectations as expressed within individual feedback submissions.

Feedback Cases Assigned to FSA Business Units

The Top 5 categories of feedback received in this line of business are reflected in Figure 23.

Figure 23: Top 5 Feedback Cases Received by Category/Subcategory in Fiscal Year 2020



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

Case Example 1: Customer wanted to dispute loan disbursements due to the fact that she withdrew from her school within the three- day time period. She stated she was also told that she accepted loans, but she said she filled out a Master Promissory Note and completed entrance counseling, but never accepted loans.

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.

Case Example 2: Customer is trying to complete her FAFSA utilizing her 2018 taxes. She was not married at that time. She would like to know if she needs to add her husband’s tax information to the application. I asked the customer if she was completing the FAFSA for the 2019–20 school year. She stated she was filling out the 2020–21 FAFSA.

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

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Case Example 3: The customer obtained federal student loans and attended college without obtaining a high school diploma. She’s requesting to have the loans discharged through the Ability to Benefit provision.

Repaying Student Financial Aid/Loan Repayment Plan pertains to any issue wherein a customer raises concern about their monthly payment amount.

Case Example 4: “I re-applied for an IDR plan on 03/05/20, in which I received a formal letter in my inbox confirming that my IDR continuation was approved. I received two emails on 08/22/20 at 5:40 a.m. stating that my IDR plan lapsed because you required additional information that I did not supply, and the deadline of 90 days had passed. These emails are errors, and in trying to remedy this situation, I have been met with convoluted automated phone systems and website links in trying to find the form I supposedly need to fill out to remove this error. I need this IDR plan as I am currently unemployed and my wife and I have absolutely no means to make payments on my loans, certainly not the standard monthly payments.”

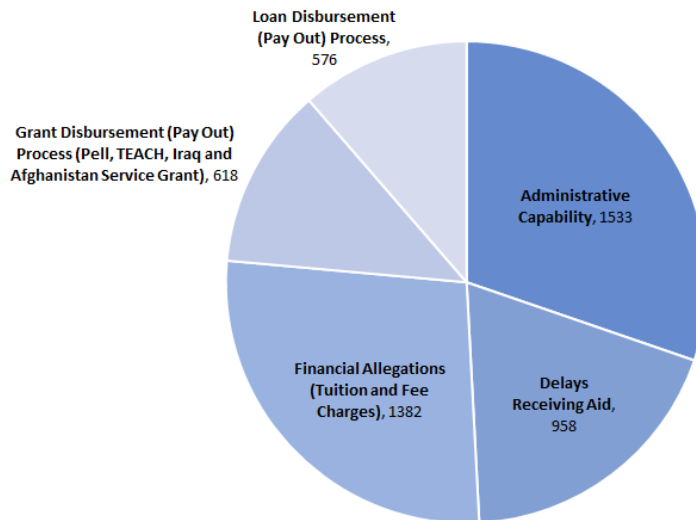
Repaying Student Financial Aid/Loan Delinquency or Default pertains to any issue related to a delinquent or defaulted loan.

Case Example 5: Customer says he has never received a bill or correspondence from anyone. Customer is desperate to get his loans out of default because he received no notice.

School-Related Feedback

The majority of feedback about schools is assigned to the FSA Partner Participation and Oversight office (FSA PPO) for research and resolution. Customers submitted a total of 7,138 school-related feedback, or 14.7 percent of the total volume received.

Figure 24: Top 5 School-Related Feedback in Fiscal Year 2020



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The school-related feedback identified above is defined as:

- **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.
- **Financial Allegations (Tuition and Fee Charges)** is customer feedback concerning school tuition, fee charges, or if a customer has a balance owed to the school. These are typically non-Title IV issues the customer describes in the feedback.
- **Delays Receiving Aid** relates to feedback when a customer expresses that a school is unnecessarily or improperly delaying federal aid disbursement.
- **Grant Disbursement (pay out) Process (Pell Grant, TEACH Grant, and Iraq and Afghanistan Service Grant)** is regarding the process on how a school pays out funds received in a federal grant to students.
- **Loan Disbursement (pay out) Process** is regarding the process that either the student or the school must complete to receive a federal loan fund.

FSA PPO staff review the feedback and as needed, contact the school and the customer for additional information. FSA PPO uses data from the school-related feedback 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 62 examines the most common Resolution Type and Resolution Action for the Top 5 School-Related Feedback.

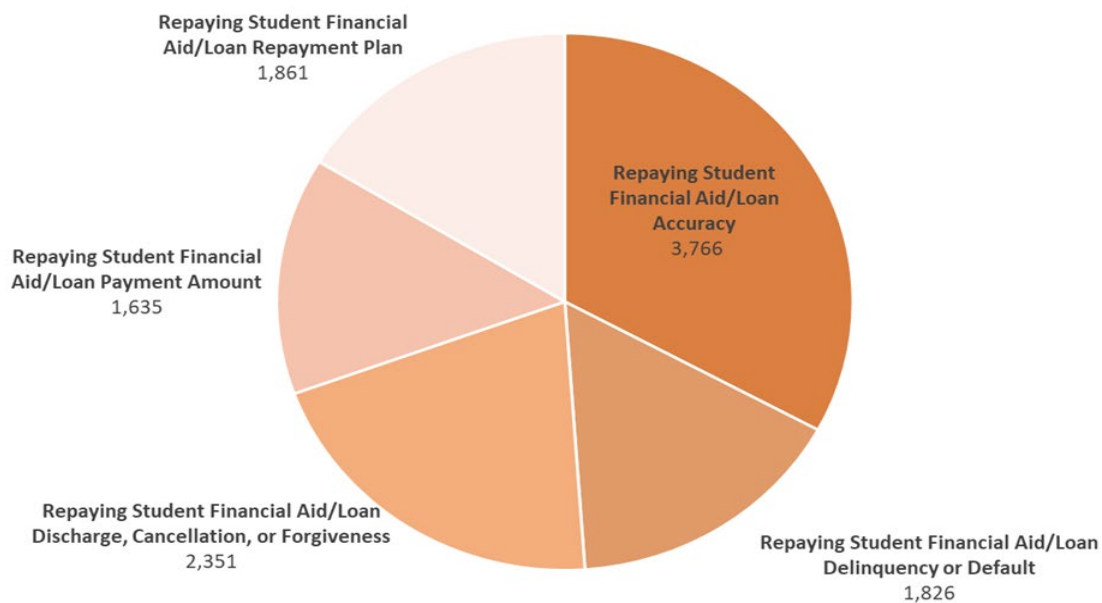
Table 62: Top 5 School-Related Feedback by Resolution Type/Resolution Action in Fiscal Year 2020

| School-Related Feedback Subcategory | Resolution Type | Resolution Action | Volume |
|--|-------------------|--|--------------|
| Financial Allegations (Tuition and Fee Charges) | Referred | Referred to School | 967 |
| | Resolved | Communication/Process Clarified for Customer | 440 |
| | Submission Logged | No Response from Customer | 147 |
| Administrative Capability | Referred | Referred to School | 607 |
| | Resolved | Communication/Process Clarified for Customer | 452 |
| | Submission Logged | Feedback Logged | 182 |
| Delays Receiving Aid | Referred | Referred to School | 459 |
| | Resolved | Communication/Process Clarified for Customer | 552 |
| | Submission Logged | Feedback Logged | 90 |
| Grant Disbursement (pay out) Process (Pell Grant, TEACH Grant, and Iraq and Afghanistan Service Grant) | Referred | Referred to School | 303 |
| | Resolved | Communication/Process Clarified for Customer | 405 |
| | Submission Logged | Feedback Logged | 40 |
| Loan Disbursement (pay out) Process | Referred | Referred to School | 264 |
| | Resolved | Communication/Process Clarified for Customer | 444 |
| | Submission Logged | No Response from Customer | 32 |
| Total | | | 5,384 |

Loan Servicing-Related Feedback

FSA contracts with 10¹⁸ 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 payments¹⁹ on a loan; and perform other administrative tasks associated with maintaining a loan on behalf of the Department. Collection activities on defaulted loans assigned to the Department are overseen by FSA's Default Resolution Group (DRG) as reflected on the DMCS.

Figure 25: Top 5 Loan Servicing-Related Feedback in Fiscal Year 2020



¹⁸ One of these servicers, ECSI, services Perkins loans; it does not service loans made under the Direct Loan or FFEL programs.

¹⁹ All payments on non-defaulted federal student loans the Department owns are remitted to Treasury. That agency then reports payment information to the various servicers, which are then credited to the borrower's account.

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Table 63 shows the manner in which these most common cases were closed.

**Table 63: Top 5 Loan Servicing-Related Feedback by Resolution Type/Resolution Action
Fiscal Year 2020**

| Subcategory | Resolution Type | Resolution Action | Volume |
|--|-----------------|--|---------------|
| Loan Accuracy | Referred | Referred within the Department | 1,663 |
| | Resolved | Communication/Process Clarified for Customer | 1,364 |
| | Referred | Referred to Outside Third-Party | 712 |
| Loan Discharge, Cancellation, or Forgiveness | Referred | Referred within the Department | 792 |
| | Resolved | Communication/Process Clarified for Customer | 764 |
| | Referred | Referred to FSA Contact Center | 430 |
| Loan Repayment Plan | Referred | Referred within the Department | 1,111 |
| | Resolved | Communication/Process Clarified for Customer | 249 |
| | Referred | Referred to FSA Contact Center | 554 |
| Loan Delinquency or Default | Referred | Referred within the Department | 1,189 |
| | Resolved | Communication/Process Clarified for Customer | 305 |
| | Referred | Referred to Outside Third-Party | 364 |
| Loan Payment Amount | Referred | Referred within the Department | 1,193 |
| | Resolved | Communication/Process Clarified for Customer | 290 |
| | Referred | Referred to Outside Third-Party | 160 |
| Total | | | 11,140 |

Table 64 shows the volume of Feedback cases categorized as servicing-related, broken down for each servicer contracted to perform servicing activities on behalf of the Department. It should be noted that the volume of cases assigned to a specific servicer is often affected by the nature of the accounts assigned to the servicer. For example, DMCS services only defaulted loans and FedLoan Servicing is the designated servicer for all PSLF and TEACH grants. ED-ACS is no longer an active servicer under contract to the Department. FSA personnel resolve these cases in which the feedback received may be related to the former servicer's activities.

**Table 64: Feedback by Department Servicer Volume and Borrower Count
Fiscal Year 2020**

| Servicer | Feedback Volume | Percent of Servicer Feedback | Number of Borrowers | Percent of Portfolio |
|--|-----------------|------------------------------|---------------------|----------------------|
| Debt Management and Collection System/(DMCS/DRG) | 5,958 | 25.96% | 7,731,817 | 18.86% |
| ED-ACS | 23 | 0.10% | 7,784 | 0.02% |
| ED-Cornerstone | 386 | 1.68% | 1,078,498 | 2.63% |
| ED-ECSI Perkins Loan Servicer | 96 | 0.42% | 67,439 | 0.16% |
| ED-FedLoan Servicing (PHEAA) | 4,409 | 19.21% | 7,271,445 | 17.74% |
| ED-Granite State (GSMR) | 401 | 1.75% | 1,144,059 | 2.79% |
| ED-Great Lakes | 2,143 | 9.34% | 7,446,803 | 18.17% |
| ED-HESC/EdFinancial | 696 | 3.03% | 1,762,235 | 4.30% |
| ED-MOHELA | 776 | 3.38% | 2,555,066 | 6.23% |
| ED-Navient | 2,355 | 10.26% | 5,618,684 | 13.70% |
| ED-Nelnet | 5,389 | 23.48% | 5,532,720 | 13.50% |
| ED-OSLA | 320 | 1.39% | 777,950 | 1.90% |
| Total Volume | 22,952 | 100% | 40,994,500 | 100% |

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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 2020, POE-identified customers submitted 877 feedback cases specifically related to their military status and/or educational benefits.

Dispute Cases Assigned to the Ombudsman Group

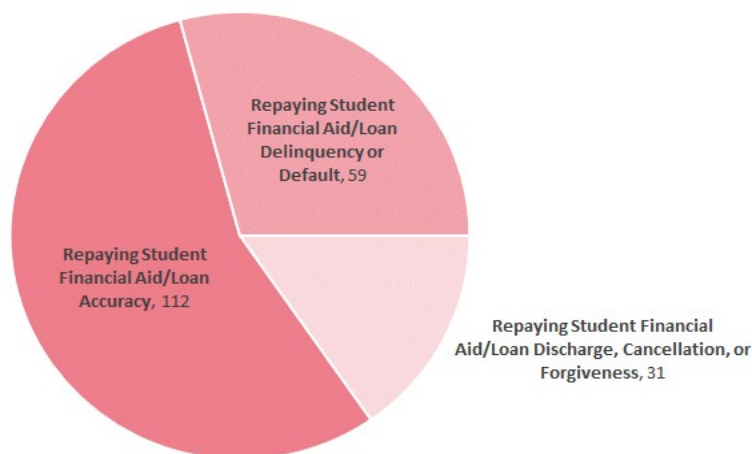
The Ombudsman Group researches and resolves all cases within the Dispute line of business. Customers who dispute the outcome of a case previously responded to by an FSA business unit or one of FSA's contracted servicers or PCAs may elect to have their issue reviewed by the Ombudsman Group. Cases pertaining 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 2020, the Ombudsman Group received 394 cases for review and resolution. During FY 2020, the Ombudsman Group closed 598 cases.

Table 65: All Dispute Cases Received in Fiscal Year 2020

| Dispute Category | Volume |
|--|------------|
| Credit Reporting | 23 |
| Public Service Loan Forgiveness (PSLF) Program | 13 |
| Repaying Student Financial Aid | 292 |
| Repaying Student Financial Aid – In Default | 38 |
| School | 8 |
| Student Eligibility | 14 |
| Department Customer Support | 6 |
| Total | 394 |

Figure 26: Top 3 Dispute Cases Category/Subcategory Assigned to the Ombudsman Group in Fiscal Year 2020



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.

Case Example 6: Loan Accuracy: Customer contacted our office regarding her Chapter 7 Bankruptcy. She asserted that she had a portion of her \$200,000 FFEL Consolidation loan discharged and only has to repay \$30,000. She asserted that the guarantor had not corrected her loan balance. The customer asserted that they are not applying the 0 percent interest rate from the CARES Act and she is entitled to a 0.25 percent reduction with automatic payments.

Outcome: Customer has one FFEL Consolidation loan. In accordance with the customer’s adversary order, the remaining amount owed on her FFEL Consolidation after the bankruptcy discharge was \$30,000 with a 3.25 percent interest rate. Guarantor corrected records to reflect the balance the court ordered and that payments were made by the borrower and posted to her account. Another payment was returned to her as the account had been repurchased by the loan servicer. A 0.25 percent interest reduction for automatic payments is not offered by the lender. The customer is not eligible for the 0 percent interest rate from the CARES Act; only Department-held loans are eligible.

Case Example 7: Loan Delinquency or Default: Customer is calling about her student loans from 2001 that in 2007 were consolidated. The guarantor refuses to take payments and sent her to collections and wage garnishment since 2019. The customer stated that her student loans went from \$23,900.00 up to \$249,344.00. She wants to know what she can do at this time. She stated that all the fees should be taken off the account. I explained that with defaulted loans, fees are added to the account.

Outcome: The borrower was advised that the account has been properly serviced, the default was valid, and collection fees are authorized. The customer has the option to pay

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the loan in full, re-consolidate the FFEL Consolidation or compromise a settlement on the account, in addition to making voluntary monthly payments.

Case Example 8: Loan Discharge, Cancellation, or Forgiveness: I have been a nurse since completing school in 2013 and I am not showing a zero balance. I was in the understanding that every year that I submit my proof of work that my tuition was being forgiven.

Outcome: The research showed that the customer submitted cancellation applications in prior years and a portion of the loan was forgiven. However, the customer did not submit the cancellation request for the final year of service performed. The customer was advised that she needs to submit the final paperwork to receive the remaining 30 percent of Perkins Loan Cancellation.

Table 66: All Dispute Cases Closed in Fiscal Year 2020 by Resolution Type

| Category | Volume |
|-------------------|------------|
| Resolved | 532 |
| Referred | 30 |
| Submission Logged | 36 |
| Total | 598 |

Other Case Types

Suspicious Activity

FSA carefully reviews each customer submission to determine if there is a credible allegation of fraud or illegal activity associated with the federal financial aid programs. Table 67 identifies all Suspicious Activity cases by category.

Table 67: All Suspicious Activity Cases by Category in Fiscal Year 2020

| Suspicious Activity Category | Volume |
|--|--------------|
| Allegation of Identity Theft | 138 |
| Allegation of Misuse of Departmental Resources | 368 |
| Allegation of Misuse of FSA ID | 141 |
| Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation | 1,287 |
| Allegation of Whistleblower | 134 |
| Total | 2,068 |

Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliation.

This is a broad category that that many resolution types fall under. This can refer to any individual who falsely claims he or she is employed by or affiliated with the Department. The most frequent issue in this category are third-party companies that falsely claim an affiliation with the Department. Their purpose is to entice borrowers to purchase offered services on which that company does not deliver.

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

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

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

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

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

**Table 68: All Suspicious Activity by Resolution Type/Resolution Action
Fiscal Year 2020**

| Category | Resolution Type | Resolution Action | Volume |
|--|-------------------|--|--------------|
| Allegation of Identity Theft | Resolved | Communication/Process Clarified for Customer | 92 |
| | Referred | Referred to Outside Third-Party | 10 |
| | Resolved | Action Taken | 10 |
| | Submission Logged | Feedback Logged | 22 |
| Allegation of Misuse of Department Resources | Resolved | Communication/Process Clarified for Customer | 71 |
| | Referred | Referred to Other Government Entity | 13 |
| | Submission Logged | Feedback Logged | 285 |
| Allegation of Misuse of FSA ID | Resolved | Communication/Process Clarified for Customer | 112 |
| | Referred | Referred to Other Government Entity | 18 |
| | Submission Logged | Feedback Logged | 8 |
| Allegation of Misuse of FSA Intellectual Property or Claim of a Departmental Affiliation | Resolved | Communication/Process Clarified for Customer | 15 |
| | Referred | Referred to Other Government Entity | 1,255 |
| | Submission Logged | Feedback Logged | 33 |
| Allegation of Whistleblower | Resolved | Communication/Process Clarified for Customer | 56 |
| | Referred | Referred to Accreditation Agency | 7 |
| | Submission Logged | Feedback Logged | 176 |
| Total | | | 2,183 |

FSA shares investigation and 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 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.

Based on increased activity of such scams, FSA has tasked the Fraud Risk Group with taking steps to review, track, and act upon allegations of fraudulent actions third party debt relief companies take. The Fraud Risk Group has also taken additional steps such as implementing a tactical plan, enhanced collaboration with federal enforcement agencies and offices, completed

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borrower awareness projects, assisted with investigations, and negotiated cease and desist letters that are sent to third party debt relief companies.

Positive Feedback

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

Case Example 9: “As a military spouse, my family’s income is ALWAYS fluctuating since every move means a new period of joblessness before finding work. Just before COVID-19 hit, I had to take off of work to support the kid during my husband’s deployment. COVID-19 arrived before he returned, and I was therefore unable to collect unemployment. While I tried to apply for a different repayment amount, I don’t think that I did it correctly. Luckily, one of the service members was there.

The Government Bureaucracy can seem impenetrable, and I am especially grateful to your representative for her kind hand-holding, despite all my questions and cluelessness. Thank you. Please pretend that the ‘thank you’ had an exclamation mark after it, but it is disallowed in this form. Still, I wanted to convey gratitude with an exclamation mark.”

For FY 2020, the Ombudsman Group received 347 positive feedback comments from FDMS customers.

Using Feedback to Improve the Federal Student Aid Programs

Feedback system data is shared in FSA’s EDWA. Data concerning the Suspicious Activity case type is shared with the OIG, and information about the Complaint and Suspicious Activity case types is shared with the Federal Trade Commission’s Consumer Sentinel data base. 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.

A more specific example of how FSA is using feedback data is connected to the PSLF program. PSLF allows government and non-profit entity employees to have their loans forgiven after 120 qualifying payments, which is generally 10 years.

During FY 2020, the Ombudsman Group received 1,311 cases related to PSLF. This represents a slight decrease from the 1,500 PSLF cases received in FY 2019. The primary reason for feedback about PSLF during FY 2020 related to questions about qualifying for the program from customers who were not on the correct repayment plan.

Congress passed legislation that created the TEPSLF to assist individuals who thought they were on the correct payment plan. TEPSLF is only for those customers who have made 120 payments since 2007 and have been denied PSLF on the basis that they were not on the correct repayment plan. However, the legislation places a restriction on qualifying payments

during the final year of qualifying for PSLF. The law requires that borrower's remit payments under a qualifying repayment plan for the final 12 monthly payments.

FSA implemented further improvements to the PSLF/TEPSLF process during FY 2020, including:

- **Employer Eligibility Database:** In June 2020, FSA delivered its first enhancement to the PSLF Help Tool by providing borrowers with information about employer eligibility in real time through an Employer Database. FSA added an Employer Search Feature where borrowers can use their employer's Federal Employer Identification Number and their dates of employment to search the Employer Database for specific eligibility information.
- **Lump Sum Payments/Prepayments:** In August 2020, FSA worked with the servicer to make an operational improvement by updating the process to qualify a monthly payment, regardless of when or by whom it was made, so long as the payment due was made in full and no later than 15 days after the payment due date.
 - Borrowers may now make prepayments or lump sum payments for up to twelve months or the next time their income-driven repayment plan is due for certification, whichever comes first.
 - Additionally, FSA worked with the PSLF servicer to update borrower communications and account information to clearly display the distinction between "eligible" vs "qualifying" payments.

Case Example 10: I have been in a qualifying public service job for 18 years and have been making payments on my student loans the whole time. I believe I have more than the 120 qualifying payments given the flexibility associated with this new fund, and I would like to find out if, in fact, that is true. My servicer has been difficult in dealing with to get this information.

Outcome: The customer had a joint consolidation loan and the challenge was determining that portion of the loan that was eligible for PSLF. Working with the servicer, the Ombudsman Group was able to determine the correct balance eligible for PSLF and the customer received additional forgiveness of \$3,908.86.

Anonymous Cases

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

While feedback is welcomed from any and all customers, it should be noted that when a customer files anonymously, the Ombudsman is unable to further review and resolve their situation because the office does not have the personally identifying information. Anonymous cases can range from something as minor as a comment regarding the website to something more serious as a report of a suspicious activity. In FY 2020, 1,453 cases were submitted anonymously.

Policy Suggestion Logged

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

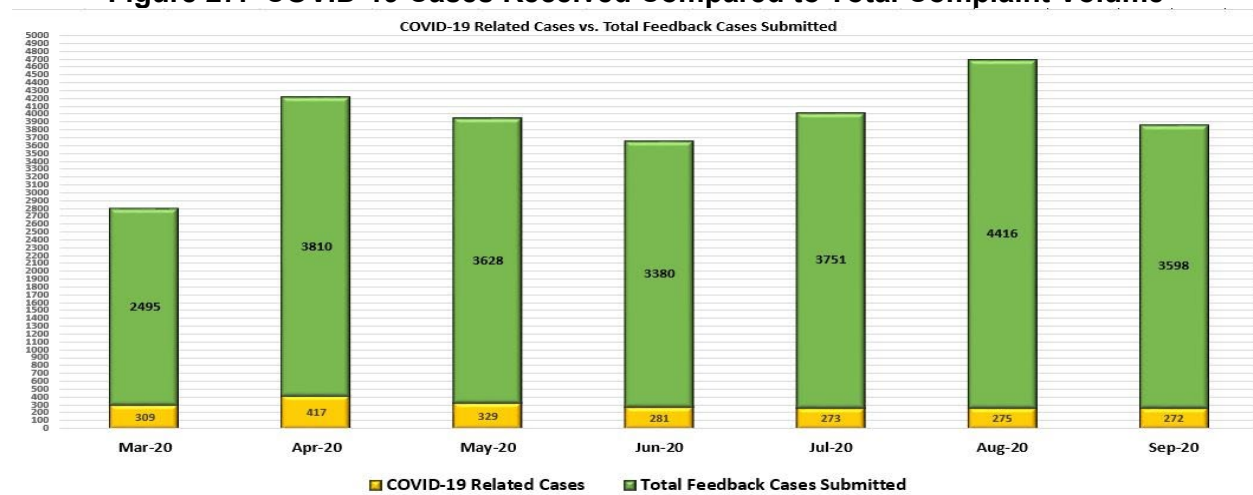
Case Example 11: Right now, the student is a dependent, and the parents' financial information is considered completely, except for when it comes to household size and how many students are in that household. I can claim my daughter and myself on MY Student FASFA, but I can't claim her and myself on her FASFA when it's MY financials that are being reviewed. This is illogical and unfair. If you are going to look at my financials than please look at the household and number of students from my perspective. Otherwise it is an incomplete picture.

Case Example 12: My issue is students not being able to be declared independent or having to meet strict requirements to be declared independent.

COVID-19 and FSA

As one measure of the impact of the COVID-19 pandemic on federal student aid recipients, shortly after passage of the CARES Act, FSA began keyword searches to identify issues customers perceived as occurring because of the pandemic. These cases are tracked using keywords such as, COVID-19, virus, unemployed, out-of-work, laid off, furloughed, forbearance, deferment, CARES Act, closed school, and credit reporting.

Figure 27: COVID-19 Cases Received Compared to Total Complaint Volume



From March through September 2020, the Ombudsman received 25,078 complaints. Of this number, the Ombudsman Group received 2,156 complaints related to the pandemic, or 8.6 percent of the total received during the period.

Third-Party Debt Relief

Businesses who offer debt relief services to loan borrowers are referred to as TPDR companies. A frequent complaint received via FSA's FDMS involves third-party companies convincing borrowers to use and pay for their services. Such services include submitting applications for forbearance, deferment, payment plan change, or loan consolidation. Assistance with such

applications may be obtained for free from FSA's federal loan servicers. While some companies do perform services as agreed, many do not. Other proposals offered by TPDR companies include lowering the borrower's monthly payments and/or arranging loan forgiveness, typically with an impossible promise of total loan forgiveness within two to three years. These cases are categorized as Suspicious Activity/Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliation.

To be effective in inducing borrowers to pay for their services, TPDR companies often attempt to convince borrowers that they are Department/FSA employees, are affiliated with, or somehow represent the Department. Companies make use of the Department seal, FSA logo, or the Department's name in their solicitations and contracts to further persuade borrowers. They make these claims in advertising, during telephone conversations, in emails, and text messages. Believing they are working with the Department/FSA or Ombudsman agents, makes borrowers particularly vulnerable to TPDR scams. FDMS TPDR cases are categorized under Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliation. During FY 2020, FDMS received 1,287 inquiries categorized as Allegation of Misuse of FSA Intellectual Property or Claim of a Department Affiliation.

In 2020, FSA created the Fraud Risk Division (FRD) to investigate TPDR complaints and hold these companies accountable for defrauding student loan borrowers. The Ombudsman Group has partnered with the FRD to identify FDMS cases where these companies have infringed on the Department's intellectual property, misled, or deceived borrowers, and violated the Telemarketing Sales Rule. The Ombudsman Group Feedback Operations Team has provided FRD with training, TPDR contract examples, correspondence between borrowers and representatives, conducted case searches, and responded to other FRD inquiries.

This ongoing collaboration has enabled FRD to furnish actionable information to the Department's OIG and state attorneys general in support of criminal investigations. Providing examples of TPDR infringement on FSA intellectual property, the Ombudsman Group worked with one of Department's attorneys to explore the use of cease and desist letters. With a goal of putting violators on notice as a first step toward stopping fraudulent activity, a legal opinion paper was provided to FRD for their consideration. Once cease and desist letters begin going out, the Ombudsman Group will monitor FDMS complaints for continued infractions and promptly notify FRD.

Other Ombudsman Group Activity

Supporting the Resolution of School-Related Complaints

During FY 2020, the Ombudsman Group's Feedback Operations division partnered with FSA PPO to provide additional case management and resolution support to resolve school-related customer complaints.

During FY 2020 Quarter 3, the Ombudsman Group's Feedback Operations team initiated a pilot program in collaboration with FSA PPO. The pilot program engaged contractor resources to reach out to schools, customers, and other parties to obtain information and documents needed to resolve these cases. Contractor staff initiated, followed up on, and obtained needed documentation that allowed Program Compliance staff to resolve cases. At the start of the pilot, Program Compliance had 1,962 cases that were open for more than 60 days. With support from contractor resources, Program Compliance had a total of 493 cases that were opened for more

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than 60 days. The pilot program resulted in the closure of 1,469 (75 percent) of cases that were open for more than 60 days.

The outcome of the pilot resulted in the permanent implementation of the process as it significantly improves FSA's ability to provide more timely responses to customers seeking resolution of their complaints.

Customer Satisfaction Survey Results

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

For all surveys completed in FY 2020, the ACSI score for the FDMS was 49, which shows a one-point increase from FY 2019. Analysis of the numbers continues to show the FDMS' ACSI scores are distributed in an inverted Bell curve, with the lowest and highest scores at the upper ends and fewest responses in the middle. This continues to suggest that FDMS customers evaluate the *outcome* of their inquiry and not the *quality of service* provided.

Student Loan Ombudsman Caucus

The Ombudsman Group hosted the annual meeting of the Student Loan Ombudsman Caucus (Caucus) in September 2020. 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. This year's caucus meeting was conducted virtually.

In the past year, the Caucus has added to its membership those who have been appointed by state governments in an ombudsman capacity. A panel discussion led by three of those state officials was featured during the annual meeting in September.

Coordination with the Consumer Financial Protection Bureau

In January 2020, the Consumer Financial Protection Bureau (CFPB) Private Loan Ombudsman, Robert Cameron, and the FSA Ombudsman, Joyce DeMoss, signed a Memorandum of Understanding (MOU) in which the two agencies agree to share complaint data from complaints filed by student loan borrowers.

Ombudsman Group and CFPB staff collaborated to provide FSA personnel within, and external to, the Ombudsman Group, access to CFPB's data system. Each week, the Ombudsman Group uploads to CFPB's data system inquiries pertaining to private student loans. Conversely, the Ombudsman Group downloads referrals from CFPB to FSA. Referrals from CFPB are recorded in FDMS and the appropriate actions are taken. Since signing the MOU, FSA has directly referred 46 private loan inquiries to CFPB. In turn, FSA received 45 referrals of federal student loan inquiries from CFPB.

In accordance with the MOU, CFPB and FSA personnel met two times to go over how each of the agencies intake and analyze the data collected on complaints about student loans that each

agency receives. The signing of the MOU also cleared the way for more frequent, informal discussions and information-sharing between agency officials about student loan servicing activities of interest to both agencies.

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 it challenges FSA service providers to provide high-quality service.

In each of the two previous annual reports, the Ombudsman recommended statutory changes to allow FSA to match IRS data for borrowers in IDR plans and those completing the monitoring period following TPD discharge of federal student loans. The Ombudsman acknowledges the inclusion of these recommendations in the FUTURE Act signed into law in December 2019 and looks forward to full implementation of this law.

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: 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: IDR plans should be opt-out rather than opt-in.

Student loan borrowers are required to renew their IDR plan annually. Inquiries from customers regularly describe challenges receiving communications about renewal or providing the necessary renewal documentation. When a borrower does not renew their IDR plan, the loan is placed in standard repayment, which is usually substantially higher than the IDR plan, and all outstanding interest is capitalized. These actions frequently result in delinquency and/or default

of the loan. Moving to an opt-out strategy that includes automatic data matching with the IRS will help borrowers to effectively manage loan repayment.

Recommendation: Borrowers who consolidated jointly with a spouse should have the opportunity to separate the joint consolidation loan.

In instances of PSLF (for Direct Loan borrowers), TPD, and Death Discharges the dollar portion of the loan attributable to the effected party is separated out and processed accordingly. This same principle should be applied to the separation of the Joint Consolidation in cases of divorce. In the case of divorce, it is often difficult for one party to get the cooperation of the other party to complete loan servicing actions (i.e., documentation for IDR Plan, forbearances, deferments) or to even make payments on the loan. The borrowers should have the option to separate the loan into two new Direct Consolidation Loans. An uncooperative spouse should be compelled by statute to agree to the new, separate consolidation loan. There are enough outstanding joint consolidations to warrant review of this recommendation.

Recommendation: Use of Two-factor authentication when signing into an FSA website.

Using their FSA ID number, FSA customers can access certain private information contained in FSA's records. The data show customers can be easily duped into providing that information to third-party debt relief entities. Implementing two-factor authentication can help reduce the resulting difficulties addressed earlier in this report because the FSA customer would receive a notification when any changes are made to their FSA ID or someone attempts to access their private data.



Financial Section

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Overview of the Financial Section

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

- **Financial Statements:** The Financial Statements consist of the following comparative statements: 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 financial statement line items. The Notes also include information that supports the computation of the various financial statement activities.
- **Required Supplementary Information (Unaudited):** The unaudited Required Supplementary Information presents the Combining Statements of Budgetary Resources by Program.
- **Independent Auditors' Report:** The Independent Auditors' Report presents the combined audit report issued by the Independent Auditors. Included in the combined audit report are the Report on the Financial Statements, the Report on Internal Control, and the Report on Compliance and Other Matters. The subsection also includes the Office of Inspector General Audit Transmittal Letter, Management's Response to the Audit, and the Auditors' Response to Management's Response.

Financial Statements

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

Below is a brief description of the principal financial statements included in this section:

- **Consolidated Balance Sheets:** The Consolidated Balance Sheets present, as of a specific time, the amount of resources FSA has to use or distribute (assets), the amounts owed by FSA (liabilities) and the difference between the two (net position).
- **Consolidated Statements of Net Cost:** The Consolidated Statements of Net Cost present the annual cost of agency operations. The gross cost less any offsetting revenue is used to determine the net cost.
- **Consolidated Statements of Changes in Net Position:** The Consolidated Statements of Changes in Net Position report the accounting activities, including changes to Cumulative Results of Operations and Unexpended Appropriations that caused the change in net position during the reporting period.
- **Combining Statements of Budgetary Resources:** The Combining Statements of Budgetary Resources report the budgetary resources that were made available to FSA, the status of those resources at fiscal year-end, along with the outlays of budgetary resources.

Consolidated Balance Sheet

United States Department of Education
Federal Student Aid
Consolidated Balance Sheets
As of September 30, 2020 and 2019
(Dollars in Millions)

| | FY 2020 | FY 2019 |
|---|---------------------|---------------------|
| Assets: | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | \$ 70,266 | \$ 62,567 |
| Other Intragovernmental Assets (Note 4) | 1 | 7 |
| Total Intragovernmental | 70,267 | 62,574 |
| Public: | | |
| Credit Program Receivables, Net (Note 5) | | |
| Direct Loan Program | 1,100,544 | 1,123,707 |
| FFEL Program | 67,380 | 76,767 |
| Other Credit Programs for Higher Education | 1,690 | 1,618 |
| Other Assets (Note 4) | 2,170 | 2,210 |
| Total Public | 1,171,784 | 1,204,302 |
| Total Assets (Note 2) | \$ 1,242,051 | \$ 1,266,876 |
| Liabilities: | | |
| Intragovernmental: | | |
| Debt (Note 7) | | |
| Direct Loan Program | \$ 1,160,099 | \$ 1,192,138 |
| FFEL Program | 88,986 | 94,671 |
| Other Credit Programs for Higher Education | 722 | 685 |
| Subsidy Due to Treasury General Fund (Note 8) | 3,283 | 10,302 |
| Other Intragovernmental Liabilities (Note 9) | 2,584 | 2,606 |
| Total Intragovernmental | 1,255,674 | 1,300,402 |
| Public: | | |
| Other Liabilities (Note 9) | 5,766 | 11,365 |
| Total Liabilities (Note 6) | \$ 1,261,440 | \$ 1,311,767 |
| Commitments and Contingencies | | |
| Net Position: | | |
| Unexpended Appropriations | \$ 35,038 | \$ 31,400 |
| Cumulative Results of Operations | (54,427) | (76,291) |
| Total Net Position | \$ (19,389) | \$ (44,891) |
| Total Liabilities and Net Position | \$ 1,242,051 | \$ 1,266,876 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Net Cost

United States Department of Education
Federal Student Aid
Consolidated Statements of Net Cost
For the Years Ended September 30, 2020 and 2019
 (Dollars in Millions)

| | FY 2020 | FY 2019 |
|--|-------------------|-------------------|
| Program Costs | | |
| EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY | | |
| Direct Loan Program | | |
| Gross Costs | \$ 137,303 | \$ 96,696 |
| Earned Revenue | (34,970) | (33,817) |
| Net Cost of Direct Loan Program | \$ 102,333 | \$ 62,879 |
| FFEL Program | | |
| Gross Costs | \$ 5,419 | \$ 15,759 |
| Earned Revenue | (3,108) | (2,870) |
| Net Cost of FFEL Program | \$ 2,311 | \$ 12,889 |
| Other Credit Programs for Higher Education | | |
| Gross Costs | \$ 53 | \$ 20 |
| Earned Revenue | (1,306) | (133) |
| Net Cost of Other Credit Programs for Higher Education | \$ (1,253) | \$ (113) |
| Non-Credit Programs | | |
| Gross Costs | \$ 28,470 | \$ 32,390 |
| Earned Revenue | - | - |
| Net Cost of Non-Credit Programs | \$ 28,470 | \$ 32,390 |
| Net Program Costs | \$ 131,861 | \$ 108,045 |
| Total Program Gross Costs | \$ 171,245 | \$ 144,865 |
| Total Program Earned Revenue | (39,384) | (36,820) |
| Net Cost of Operations (Notes 10 & 13) | \$ 131,861 | \$ 108,045 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Changes in Net Position

United States Department of Education
Federal Student Aid
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2020 and 2019
(Dollars in Millions)

| | FY 2020 | | FY 2019 | |
|---|--|------------------------------|--|------------------------------|
| | Cumulative Results of Operations | Unexpended Appropriations | Cumulative Results of Operations | Unexpended Appropriations |
| Beginning Balances: | | | | |
| Beginning Balances | \$ (76,291) | \$ 31,400 | \$ (23,428) | \$ 32,487 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received | \$ - | \$ 164,215 | \$ - | \$ 73,109 |
| Other Adjustments (Rescissions, etc.) | - | (576) | - | (3,393) |
| Appropriations Used | 160,001 | (160,001) | 70,803 | (70,803) |
| Nonexchange Revenue | - | - | - | - |
| Other Financing Sources: | | | | |
| Imputed Financing from Costs Absorbed by Others | 12 | - | 14 | - |
| Negative Subsidy Transfers, Downward Subsidy Re-Estimates, and Other | (6,288) | - | (15,635) | - |
| Total Financing Sources | \$ 153,725 | \$ 3,638 | \$ 55,182 | \$ (1,087) |
| Net Cost of Operations: | \$ (131,861) | \$ - | \$ (108,045) | \$ - |
| Net Change: | \$ 21,864 | \$ 3,638 | \$ (52,863) | \$ (1,087) |
| Net Position | \$ (54,427) | \$ 35,038 | \$ (76,291) | \$ 31,400 |

The accompanying notes are an integral part of these statements.

Combined Statements of Budgetary Resources

United States Department of Education
Federal Student Aid
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2020 and September 30, 2019
(Dollars in Millions)

| | FY 2020 | | FY 2019 | |
|--|-------------------|--|------------------|--|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| BUDGETARY RESOURCES | | | | |
| Unobligated Balance from Prior Year Budget Authority (Net) (Note 12) | \$ 14,938 | \$ 8,939 | \$ 15,378 | \$ 14,858 |
| Appropriations (Discretionary and Mandatory) | 163,672 | 349 | 69,804 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 135,300 | - | 148,272 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 232 | 65,625 | 409 | 57,418 |
| Total Budgetary Resources | \$ 178,842 | \$ 210,213 | \$ 85,591 | \$ 220,548 |
| STATUS OF BUDGETARY RESOURCES | | | | |
| New Obligations and Upward Adjustments (Total) | \$ 162,465 | \$ 187,667 | \$ 71,433 | \$ 202,405 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 13,386 | - | 11,361 | - |
| Unapportioned, Unexpired Accounts | 1,819 | 22,546 | 1,935 | 18,143 |
| Unexpired Unobligated Balance, End of Year | \$ 15,205 | \$ 22,546 | \$ 13,296 | \$ 18,143 |
| Expired Unobligated Balance, End of Year | 1,172 | - | 862 | - |
| Unobligated Balance, End of Year (Total) | \$ 16,377 | \$ 22,546 | \$ 14,158 | \$ 18,143 |
| Total Status of Budgetary Resources | \$ 178,842 | \$ 210,213 | \$ 85,591 | \$ 220,548 |
| OUTLAYS, NET, AND DISBURSEMENTS, NET | | | | |
| Outlays, Net (Discretionary and Mandatory) | \$ 160,912 | | \$ 69,396 | |
| Distributed Offsetting Receipts (-) (Note 12) | (13,606) | | (12,145) | |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ 147,306 | | \$ 57,251 | |
| Disbursements, Net (Total) (Mandatory) | | \$ (42,956) | | \$ 40,085 |

The accompanying notes are an integral part of these statements.

Notes to the Financial Statements

- **Note 1:** Summary of Significant Accounting Policies
- **Note 2:** Non-entity Assets
- **Note 3:** Fund Balance with Treasury
- **Note 4:** Other Assets
- **Note 5:** Credit Programs for Higher Education: Credit Program Receivables, Net and Liabilities for Loan Guarantees
- **Note 6:** Liabilities Not Covered by Budgetary Resources
- **Note 7:** Debt
- **Note 8:** Subsidy Due to Treasury General Fund
- **Note 9:** Other Liabilities
- **Note 10:** Net Cost of Operations
- **Note 11:** COVID-19 Activity (See Note 5)
- **Note 12:** Statements of Budgetary Resources
- **Note 13:** Reconciliation of Net Cost to Net Outlays
- **Note 14:** Commitments and Contingencies

Notes to the Financial Statements for the Years Ended, September 30, 2020 and 2019

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.

FSA is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by FSA may be eliminated for Government-wide reporting. These financial statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

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

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

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

COVID-19. Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act providing support for student loan borrowers primarily by suspending nearly all federal loan payments until September 30, interest free. FSA also extended certain provisions of the student loan deferrals not covered by the *CARES Act* to defaulted guaranteed loans held by FSA. The Administration subsequently issued a Presidential Memorandum which extended the student loan deferrals for an additional three months through December 31, 2020. FSA also stopped all federal wage garnishments and collection actions for borrowers with federally held loans in default. Funding for the student debt provisions of the CARES Act and the Presidential Memorandum are provided through indefinite appropriations. (See Notes 5 and 11).

Other regulatory flexibilities and incentives provided in the CARES Act to help students through COVID-19 include:

- Federal Supplemental Educational Opportunity Grants to provide emergency aid to students.
- Work-study payments, which will continue even if students can no longer work on-site.
- Pell Grants, financial aid, and loans originated for this term, which students who have had to leave college campuses will not have to pay back. Moreover, none of this aid will count against students' financial aid lifetime limits.
- Waiving Satisfactory Academic Progress requirements will help to ensure that students do not lose academic standing and the ability to receive federal financial student aid.
- Tax credits that incentivize employers to help pay for student loans.

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.

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.

Notes to the Financial Statements

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

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

Accounting for Federal Credit Programs

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

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

Subsidy cost is an estimate of the present value cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. FSA estimates subsidy expense using a set of econometric and financial models, as well as cash flow models.

FSA estimates subsidy costs annually for new loans disbursed in the current year; updates to the previous cost estimates for outstanding loans disbursed in prior years (subsidy re-estimates); and updates to previous cost estimates based on new legislation or other government actions that change the terms of existing loans (loan modifications) which alter the estimated subsidy cost and the present value of outstanding loans. Loan modifications can also include modification adjustment gains and losses to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest.

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

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

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

- Financing accounts borrow funds from Treasury, make direct loan disbursements, collect fees from lenders and borrowers, pay claims on guaranteed loans, collect principal and interest from borrowers, earn interest from Treasury on any uninvested funds, and transfer excess subsidy to Treasury General Fund receipt accounts. Financing accounts are presented separately in the combined statements of budgetary resources (SBR) as non-budgetary credit reform accounts to allow for a clear distinction from all other budgetary accounts. This facilitates reconciliation of the SBR to the Budget of the United States Government.
- Program accounts receive and obligate appropriations to cover the positive subsidy cost of a direct loan or loan guarantee when the loan is approved and disburses the subsidy cost to the financing account when the loan is issued. Program accounts also receive appropriations for administrative expenses.
- Treasury General Fund receipt accounts receive amounts paid from financing accounts when there are negative subsidies for new loan disbursements or downward re-estimates of the subsidy cost of existing loans. (See Notes 12 and 13)

FSA records an obligation each year for direct loan awards to be made in a fiscal year based on estimates of schools' receipt of aid applications. FSA advances funds to schools based on these estimates. Promissory notes are signed when schools reach individual agreements with borrowers and the schools subsequently report each disbursement of advanced funds to FSA. A new promissory note is usually not required for students in the second or later year of study. Half of all loan awards are issued in the fourth quarter of the fiscal year. Loans awarded are typically disbursed in multiple installments over an academic period. As a result, loans may be disbursed over multiple fiscal years. Loan awards may not be fully disbursed due to students leaving or transferring to other schools. FSA's obligation estimate may also not reflect the actual amount of awards made. Based on historical averages, FSA expects approximately 8.2 percent of the amount obligated for new loan awards will not be disbursed.

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

Budgetary Resources

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

Notes to the Financial Statements

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, Federal Family Education Loan Program, and D, Federal Direct Student Loan, of the HEA pertain to the existence, purpose, and availability of permanent indefinite budget authority for these programs.

Reauthorization of Legislation. Funds for most FSA programs are authorized, by statute, to be appropriated for a specified number of years, with an automatic one-year extension available under Section 422 of the General Education Provisions Act. Congress may continue to appropriate funds after the expiration of the statutory authorization period, effectively reauthorizing the program through the appropriations process. The current Budget of the United States Government presumes all programs continue per congressional budgeting rules. (See Note 12)

Entity and Non-Entity Assets

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

Fund Balance with Treasury

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

Accounts Receivable

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

Guaranty Agencies' Federal Funds

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

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

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

Credit Program Receivables, Net and Liabilities for Loan Guarantees

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

Notes to the Financial Statements

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

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

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

Property and Equipment, Net and Leases

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

Liabilities

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

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

Debt

FSA borrows from Treasury to provide funding for the Direct Loan, FFEL, and other credit programs for higher education. The liability to Treasury from borrowings represents unpaid principal at year-end. FSA repays the principal based on available fund balances. Interest rates are based on the corresponding rate for 10-year Treasury securities and are set for those

borrowings supporting each cohort of loans once the loans for that cohort are substantially disbursed. Interest is paid to Treasury on September 30th. (See Note 7)

Subsidy Due To Treasury General Fund

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

Accounts Payable

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

Accrued Grant Liability

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

Personnel Compensation And Other Employee Benefits

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

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

FERS consists of Social Security, a basic annuity plan, and the Thrift Savings Plan. FSA and the employee contribute to Social Security and the basic annuity plan at rates prescribed by law. In addition, FSA 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, FSA also contributes the employer's share of Medicare.

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

Notes to the Financial Statements

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 U.S. Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from FSA 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 FSA. FSA 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 FSA. As a result, FSA recognizes an intragovernmental liability, not covered by budgetary resources, for the claims paid by DOL that will be reimbursed by FSA.

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 30th, 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)

Imputed Costs

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

Net Cost of Operations

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

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

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

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

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

Net Position

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

Taxes

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

Use of Estimates

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

FSA's estimates for credit reform programs are calculated using a series of assumption models that are updated using a statistically valid sample of National Student Loan Data System (NSLDS®) data, data from the Debt Management and Collection System (DMCS), and economic assumptions provided by the Office of Management and Budget. Actual results may differ from those assumptions and estimates. Differences between actual results and these estimates may occur in the valuation of credit program receivables and liabilities for loan guarantees under guidelines in the FCRA. FSA recognizes the sensitivity of credit reform modeling. Slight changes in modeling methodology or data used to derive assumptions can produce largely varied results. FSA therefore continually reviews its model factors and statistical modeling techniques to reflect the most accurate credit program costs possible in its annual financial

Notes to the Financial Statements

statements. FSA updates its assumption models in accordance with its model update plan, which takes into consideration statutory or new program requirements, major changes to the model structure or methodology, and data updates. This level of granularity in the modeling methodology is essential to the financial reporting and budgeting processes so that FSA can forecast the costs of various program options when making policy decisions. (See Note 5)

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 FY 2019 Outlays, Net line of Combined Statements of Budgetary Resources was reclassified to present net disbursements associated with credit financing accounts on a separate Disbursements, Net line to conform to FY 2020 changes in OMB Circular A-136.
- Note 13, Reconciliation of Net Cost to Net Outlays, was reclassified to exclude the credit financing account net disbursement amount that was reclassified on the Combined Statements of Budgetary Resources to conform to FY 2020 changes in OMB Circular A-136.

Note 2. Non-Entity Assets

(Dollars in Millions)

| | 2020 | | 2019 | |
|----------------------------------|-------------------|---------------------|-------------------|---------------------|
| | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Non-Entity Assets | | | | |
| Credit Program Receivables, Net | \$ - | \$ 633 | \$ - | \$ 607 |
| Other Assets | | | | |
| Guaranty Agencies' Federal Funds | - | 1,943 | - | 1,956 |
| Accounts Receivable, Net | - | - | - | 41 |
| Total Non-Entity Assets | - | 2,576 | - | 2,604 |
| Entity Assets | 70,267 | 1,169,208 | 62,574 | 1,201,698 |
| Total Assets | \$ 70,267 | \$ 1,171,784 | \$ 62,574 | \$ 1,204,302 |

FSA's FY 2020 assets are predominantly entity assets (99.8 percent), leaving the small portion of assets remaining as non-entity assets. Non-entity assets with the public primarily consist of guaranty agency reserves (75.4 percent), reported as Guaranty Agencies' Federal Funds, and Federal Perkins Loan program loan receivables (24.6 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)

| | 2020 | 2019 |
|---|------------------|------------------|
| Status of Funds | | |
| Unobligated Balance | | |
| Available | \$ 13,386 | \$ 11,361 |
| Unavailable | 23,594 | 18,984 |
| Obligated Balance, Not Disbursed | 81,054 | 87,678 |
| Authority Temporarily Precluded from Obligation | - | 1 |
| Borrowing Authority Not Yet Converted to Fund Balance with Treasury (Note 11) | (47,768) | (55,457) |
| Total Fund Balance with Treasury | \$ 70,266 | \$ 62,567 |

Available unobligated balances represent amounts that are apportioned for obligation in the current fiscal year. Unavailable unobligated balances represent amounts that are not apportioned for obligation during the current fiscal year and expired appropriations no longer available to incur new obligations. Total unavailable unobligated balance (\$23.6 billion) differs from unapportioned and expired amounts on the SBR (\$25.5 billion) due to the Guaranty Agencies' Federal Funds (\$1.9 billion).

In both FY 2020 and FY 2019, \$25 million of unused funds from canceled appropriations were returned to Treasury. Such balances are excluded from the amount reported as Fund Balance with Treasury in accordance with Treasury guidelines (see Note 12).

Note 4. Other Assets

(Dollars in Millions)

| | 2020 | | 2019 | |
|----------------------------------|-------------------|-----------------|-------------------|-----------------|
| | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Guaranty Agencies' Federal Funds | \$ - | \$ 1,943 | \$ - | \$ 1,956 |
| Accounts Receivable, Net | - | 191 | - | 209 |
| Advances | - | 30 | 7 | 33 |
| Property and Equipment, Net | - | 5 | - | 6 |
| Other | 1 | 1 | - | 6 |
| Total Other Assets | \$ 1 | \$ 2,170 | \$ 7 | \$ 2,210 |

Changes in property and equipment balances for the current year were as follows

Property and Equipment

(Dollars in Millions)

| | 2020 | | |
|-------------------------------|-------------------|--------------------------|-------------|
| | Acquisition Value | Accumulated Depreciation | Net |
| Balance Beginning of the Year | \$ 130 | \$ (124) | \$ 6 |
| Dispositions | (2) | 1 | (1) |
| Balance At End of Year | \$ 128 | \$ (123) | \$ 5 |

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

Credit Program Receivables, Net (Dollars in Millions)

| | Principal | Accrued Interest | Allowance for Subsidy | Net |
|--|---------------------|-------------------|-----------------------|---------------------|
| 2020 | | | | |
| Direct Loan Program | \$ 1,224,816 | \$ 92,132 | \$ (216,404) | \$ 1,100,544 |
| FFEL Program | 84,765 | 24,110 | (41,495) | 67,380 |
| Other Credit Programs for Higher Education | 1,775 | 319 | (404) | 1,690 |
| Total Credit Program Receivables | \$ 1,311,356 | \$ 116,561 | \$ (258,303) | \$ 1,169,614 |
| 2019 | | | | |
| Direct Loan Program | \$ 1,164,883 | \$ 83,262 | \$ (124,438) | \$ 1,123,707 |
| FFEL Program | 90,218 | 22,267 | (35,718) | 76,767 |
| Other Credit Programs for Higher Education | 1,692 | 367 | (441) | 1,618 |
| Total Credit Program Receivables | \$ 1,256,793 | \$ 105,896 | \$ (160,597) | \$ 1,202,092 |

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. The emergency relief measures provided by Congress and the Administration in response to the coronavirus pandemic were recorded as loan modifications and are described in each of the programs below. Per OMB guidance, loan modifications were calculated using the FY 2020 President's Budget formulation discount rates. The net loans receivable or the value of assets related to direct loans is not the same as expected proceeds from selling the loans.

What follows is additional analysis of the activity, costs, and adjustments for each of the loan programs.

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

Direct Loan program loan receivables include defaulted and nondefaulted loans owned and held by FSA. Of the \$1,317.0 billion in gross loan receivables, as of September 30, 2020, \$100.3 billion (7.6 percent) in loan principal was in default and had been transferred to FSA's defaulted loan servicer, compared to \$99.7 billion (8.0 percent) as of September 30, 2019.

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

| | 2020 | 2019 |
|----------------------------|-------------------|-------------------|
| Stafford | 19,126 | \$ 19,984 |
| Unsubsidized Stafford | 46,077 | 48,142 |
| PLUS | 21,735 | 22,709 |
| Consolidation | 30,427 | 39,829 |
| Total Disbursements | \$ 117,365 | \$ 130,664 |

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 \$30.4 billion during FY 2020 and \$39.8 billion during FY 2019. The effect of the early payoff of the existing loans—those being consolidated—is recognized in the future projected cash flows associated with that cohort.

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

| | 2020 | 2019 |
|--|------------------|------------------|
| Interest Expense on Treasury Borrowing | \$ 34,705 | \$ 33,817 |
| Total Interest Expense | \$ 34,705 | \$ 33,817 |
| Interest Revenue from the Public | 28,161 | 59,815 |
| Interest Revenue on Uninvested Funds | 4,786 | 4,082 |
| Administrative Fees | 163 | 210 |
| Amortization of Subsidy | 1,595 | (30,290) |
| Total Revenues | \$ 34,705 | \$ 33,817 |

Direct Loan Program Subsidy Expense (Dollars in Millions)

| | 2020 | 2019 |
|---|-------------------|------------------|
| Subsidy Expense for Direct Loans Disbursed in the Current Year | | |
| Interest Rate Differential | \$ 19,022 | \$ 11,440 |
| Defaults, Net of Recoveries | 1,925 | 1,862 |
| Fees | (1,676) | (1,720) |
| Other | (14,131) | (14,563) |
| Total Subsidy Expense for Direct Loans Disbursed in the Current Year | 5,140 | (2,981) |
| Modifications and Re-estimates | | |
| Loan Modifications | | |
| Modification Adjustment Transfer Gain | (265) | - |
| Modification Adjustment Transfer Loss | 347 | - |
| Loan Modifications | 39,576 | - |
| Total Loan Modifications | 39,658 | - |
| Net Upward Subsidy Re-estimates | | |
| Interest Rate Re-estimates | (967) | (981) |
| Technical and Default Re-estimates | 57,077 | 65,472 |
| Total Net Upward Subsidy Re-estimates | 56,110 | 64,491 |
| Total Modifications and Re-estimates | 95,768 | 64,491 |
| Direct Loan Subsidy Expense | \$ 100,908 | \$ 61,510 |

Subsidy Expense for Direct Loans Disbursed in the Current Year. The two major components of the total subsidy expense for direct loans disbursed in the current year (subsidy transfers) are Interest Rate Differential and Other Components. Interest rate differential is attributable to the difference between the borrowers' interest payments due to FSA and the FSA's estimated cost to finance the direct loan on a present value basis. The Other Components of subsidy transfers primarily consists of contract collection costs, program review collections, fees, and loan forgiveness.

Loan Modifications. Loan modifications for the Direct Loan program for FY 2020 included the following:

- **CARES Act.** The CARES Act automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans starting in March through September 30, 2020. The relief for borrowers resulted in an upward modification cost of \$24.6 billion, with an additional \$459 million for cancelled loans for students that did not complete the semester due to a qualifying emergency. There was a net positive \$82 million modification adjustment transfer associated with this modification bringing, the total to \$25.0 billion.
- **Presidential Memorandum ("Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic").** On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of \$13.5 billion. There was a net negative \$66 million modification adjustment transfer associated with this modification, bringing, the total to \$13.6 billion.
- **Total and Permanent Disability.** FSA recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of \$1.0 billion. There was a net negative \$98 million modification adjustment transfer associated with this modification, bringing, the total to \$1.1 billion.

Net Upward Subsidy Re-estimates for All Prior Year Loan Cohorts. The Direct Loan program subsidy re-estimate increased subsidy expense in FY 2020 by \$56.1 billion. Re-estimated costs only include cohorts that are 90 percent disbursed (i.e., cohort years 1994–2019). The re-estimate reflects the assumption updates and other changes described below.

In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, loan volume, and contract collection costs.

- **IDR Model Changes (including PSLF).** FSA completed a standard IDR data update to reflect the immediate prior cycle for defaults, prepayments and Death, Disability, & Bankruptcy (DDB). The DDB update includes adjustments for the Total Permanent Disability for Veterans regulation. In addition, an existing borrower income file was calibrated using an additional year of IDR application data through 2018. The additional year of borrower income data taken from IDR applications has been substantially lower than projected. As such, FSA reduced its projections of future borrower income by 35%, increasing costs associated with IDR. FSA also analyzed the actual PSLF approval rates

and supplementary data. As a result of that analysis, the PSLF approval rate was adjusted downward for initial cohorts to better reflect the actual data. Trends indicate that there has been some improvement in PSLF approval rates over time as borrowers better understand the application process. PSLF estimates were revised to reflect the most recent borrower behavior and adjust the temporal element to ramp up PSLF forgiveness over time. The combined effect of these updates led to a net upward re-estimate of \$35.5 billion.

- **Repayment Plans.** FSA updated the data and made an adjustment to exclude special consolidation of FFEL loans in FY 2012 and FY 2013 from the model. These loans are modeled separately and were less likely to enroll in income dependent repayment plans than typical consolidation loans. The combined effect of these changes led to a net upward re-estimate of \$6.5 billion.
- **Default.** In addition to the adjustments for the CARES Act, FSA updated the data and incorporated actual unemployment rates from the Bureau of Labor Statistics through June 2020. The combined effect of these changes led to a net upward re-estimate of \$1.8 billion.
- **2019 Cohort Assumption Changes.** The technical re-estimate cannot reflect the impacts of certain assumption changes applicable to the current year loan cohort until the following fiscal year per OMB guidance. The current year's re-estimate includes a net upward adjustment of \$4.8 billion for these current year assumption changes attributable to the FY 2019 cohort.
- **Interest on the Re-estimate.** Interest on re-estimates is the amount of interest that would have been earned or paid by each cohort on the subsidy re-estimate, if the re-estimated subsidy had been included as part of the original subsidy estimate. The interest on the re-estimate calculated on the overall subsidy re-estimate resulted in a net upward re-estimate of \$5.9 billion.
- **Interactive Effects.** The re-estimate includes a net upward re-estimate of \$1.5 billion attributed to the interactive effects of the assumption changes described above. Each assumption described above is run independently. The interactive effect is a result of combining all assumptions together to calculate the final re-estimate.

Direct Loan Subsidy Rates—Cohort 2020

| | Interest Differential | Defaults | Fees | Other | Total |
|-------------------------------|-----------------------|--------------|---------------|----------------|--------------|
| Stafford | 25.47% | 2.61% | -1.06% | -12.99% | 14.03% |
| Unsubsidized Stafford | 19.27% | 2.28% | -1.06% | -19.74% | 0.75% |
| PLUS | 8.16% | 1.46% | -4.24% | -18.63% | -13.25% |
| Consolidation | 14.70% | 1.16% | 0.00% | 4.88% | 20.74% |
| Weighted Average Total | 17.01% | 1.88% | -1.33% | -11.66% | 5.90% |

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

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior years cohorts. The subsidy

Notes to the Financial Statements

expense reported in the current year also includes modifications and re-estimates. The subsidy costs of FSA'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 Reconciliation of Allowance for Subsidy (Dollars in Millions)

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Beginning Balance of Allowance for Subsidy | \$ 124,438 | \$ 40,663 |
| Total Subsidy Expense for Direct Loans Disbursed in the Current Year | 5,140 | (2,981) |
| Adjustments | | |
| Loan Modifications | 39,658 | - |
| Fees Received | 1,609 | 1,693 |
| Loans Written Off | (7,833) | (9,096) |
| Subsidy Allowance Amortization | (1,595) | 30,290 |
| Other Activities | (1,123) | (622) |
| Ending Balance of Allowance for Subsidy Before Re-estimates | 160,294 | 59,947 |
| Net Upward Subsidy Re-estimates | 56,110 | 64,491 |
| Ending Balance of Allowance for Subsidy | \$ 216,404 | \$ 124,438 |

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

Due to the complexity of the Direct Loan program, there is inherent projection risk in the process used for estimating long-term program costs. As stated, some uncertainty stems from potential changes in student loan legislation and regulations because these changes may fundamentally alter the cost structure of the program. Operational and policy shifts may also affect program costs by causing significant changes in borrower repayment timing. Actual performance may deviate from estimated performance, which is not unexpected given the long-term nature of these loans (cash flows may be estimated up to 40 years), and the multitude of projection paths and possible outcomes. The high percentage of borrowers in Income Driven Repayment 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.

Loans written off result from borrowers having died, becoming disabled, or declaring 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.

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

authority (acquired FFEL loans), consolidated into a direct loan, or otherwise satisfied, discharged, or cancelled.

FFEL Guaranteed Loans Outstanding
(Dollars in Billions)

| | 2020 |
|---|----------|
| Outstanding Principal of Guaranteed Loans, Face Value | \$ 128.9 |
| Amount of Outstanding Principal Guaranteed | \$ 128.9 |

As of September 30, 2020, the total principal value of guaranteed loans outstanding and the amount of that principal which is guaranteed is approximately \$128.9 billion.

Additionally, the FFEL program guarantees outstanding interest balances. As of September 30, 2020, the interest balances outstanding for guaranteed loans held by lenders was approximately \$4.6 billion.

FSA's total FFEL program guarantees (principal and interest) are approximately \$133.5 billion as of September 30, 2020. Of the total guaranteed amount, FSA would expect to pay a smaller amount to the guaranty agencies. The guarantee rates range from 75 to 100 percent of the principal and interest balance depending on the type of claim, when the loan was made, and the guaranty agency's claim experience. For purposes of disclosing FSA's total risk exposure for FFEL guarantees, the highest reimbursement rate of 100 percent is assumed.

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

Notes to the Financial Statements

FFEL Program Loan Receivables (Dollars in Millions)

| | Principal | Accrued Interest | Allowance for Subsidy (Present Value) | Net |
|--|------------------|------------------|---------------------------------------|------------------|
| 2020 | | | | |
| DEFAULTED FFEL GUARANTEED LOANS | | | | |
| FFEL GSL Program (Pre-1992) | \$ 3,627 | \$ 5,809 | \$ (8,249) | \$ 1,187 |
| FFEL GSL Program (Post-1991) | 33,057 | 9,121 | (22,286) | 19,892 |
| Total Defaulted FFEL Guaranteed Loans | 36,684 | 14,930 | (30,535) | 21,079 |
| ACQUIRED FFEL LOANS | | | | |
| Loan Purchase Commitment | 16,009 | 2,797 | (4,102) | 14,704 |
| Loan Participation Purchase | 30,683 | 6,005 | (6,424) | 30,264 |
| ABCP Conduit | 1,389 | 378 | (434) | 1,333 |
| Total Acquired FFEL Loans | 48,081 | 9,180 | (10,960) | 46,301 |
| FFEL Program Loan Receivables | \$ 84,765 | \$ 24,110 | \$ (41,495) | \$ 67,380 |
| 2019 | | | | |
| DEFAULTED FFEL GUARANTEED LOANS | | | | |
| FFEL GSL Program (Pre-1992) | \$ 3,729 | \$ 5,858 | \$ (8,776) | \$ 811 |
| FFEL GSL Program (Post-1991) | 33,780 | 8,561 | (20,113) | 22,228 |
| Total Defaulted FFEL Guaranteed Loans | 37,509 | 14,419 | (28,889) | 23,039 |
| ACQUIRED FFEL LOANS | | | | |
| Loan Purchase Commitment | 17,536 | 2,519 | (2,531) | 17,524 |
| Loan Participation Purchase | 33,696 | 4,983 | (3,843) | 34,836 |
| ABCP Conduit | 1,477 | 346 | (455) | 1,368 |
| Total Acquired FFEL Loans | 52,709 | 7,848 | (6,829) | 53,728 |
| FFEL Program Loan Receivables | \$ 90,218 | \$ 22,267 | \$ (35,718) | \$ 76,767 |

FFEL Program Subsidy Expense
 (Dollars in Millions)

| | 2020 | 2019 |
|---|-----------------|------------------|
| Loan Modification Costs | | |
| FFEL Guaranteed Loan Program | | |
| Net Modification Adjustment Transfer (Gain)/Loss | \$ (9) | \$ - |
| Loan Modifications | 835 | - |
| Total FFEL Guaranteed Loan Program Loan Modifications | <u>826</u> | <u>-</u> |
| Loan Purchase Commitment | | |
| Net Modification Adjustment Transfer (Gain)/Loss | (7) | - |
| Loan Modifications | 958 | - |
| Total Loan Purchase Commitment Loan Modifications | <u>951</u> | <u>-</u> |
| Loan Participation Purchase | | |
| Net Modification Adjustment Transfer (Gain)/Loss | (10) | - |
| Loan Modifications | 1,658 | - |
| Total Loan Participation Purchase Loan Modifications | <u>1,648</u> | <u>-</u> |
| Total Loan Modification Costs | 3,425 | - |
| Upward/(Downward) Subsidy Re-estimates | | |
| FFEL Loan Guarantee Program | (3,451) | 6,866 |
| Loan Purchase Commitment | 802 | 2,144 |
| Loan Participation Purchase | 1,376 | 3,644 |
| Total FFEL Program Subsidy Re-estimates | (1,273) | 12,654 |
| FFEL Program Subsidy Expense | \$ 2,152 | \$ 12,654 |

Loan Modifications. Loan modifications for the FFEL Loan program for FY 2020 included the following:

- **CARES Act.** The CARES Act automatically suspended principal and interest payments and set interest rates to 0 percent on federally held student loans, including loans purchased under ECASLA, starting in March through September 30, 2020. The relief for borrowers resulted in a net upward modification cost of \$1,755 million that included a positive modification transfer of \$15 million.
- **Presidential Memorandum (“Memorandum on Continued Student Loan Payment Relief During the COVID-19 Pandemic”).** On August 8, 2020, the Administration issued a Presidential Memorandum that continued the temporary suspension of payments and the waiver of all interest on federally held student loans through December 31, 2020. The relief for borrowers resulted in an upward modification cost of \$1,051 million that included a positive modification transfer of \$9 million.
- **Secretary’s Discretion.** FSA extended certain provisions of the student loan deferrals not covered by the CARES Act to defaulted guaranteed loans held by FSA, resulting in an upward modification cost of \$492 million that included a positive modification adjustment transfer of \$4 million.
- **Total and Permanent Disability.** FSA recorded an upward modification for costs associated with the regulatory action to provide proactive discharge (unless the borrower elects to reject the discharge) to borrowers for whom the Department of Veterans Affairs provides information showing the borrower has a total and permanent disability. These discharges resulted in an upward modification cost of \$127 million across the FFEL and ECASLA programs.

Notes to the Financial Statements

Net Downward Subsidy Re-estimates. The FFEL subsidy re-estimate decreased subsidy expense in FY 2020 by \$1.3 billion. The net downward re-estimates in these programs were due primarily to interest rates provided by OMB used in the calculation of special allowance payments, updated disability discharges, and prepayment rates.

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

| | 2020 | 2019 |
|---|-----------------|-----------------|
| Beginning Balance of Post-1991 FFEL Loan Guarantee Liability | \$ 5,205 | \$ 2,591 |
| Adjustments | | |
| Loan Modifications | 826 | - |
| Interest Supplements Paid | (757) | (1,332) |
| Claim Payments to Lenders | (4,285) | (5,583) |
| Fees Received | 1,215 | 1,385 |
| Interest on Accumulation on the Liability Balance | (1,064) | (1,096) |
| Other Activities | 3,195 | 2,374 |
| Net Upward/(Downward) Subsidy Re-estimates | (3,451) | 6,866 |
| Ending Balance of Post-1991 FFEL Loan Guarantee Liability | 884 | 5,205 |
| Pre-1992 FFEL Liquidating Account Liability for Loan Guarantees | 1 | 1 |
| FFEL Liabilities for Loan Guarantees | \$ 885 | \$ 5,206 |

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 |
|--|--------------------------------|-----------------------------------|-----------------|------------------|
| 2020 | | | | |
| Beginning Balance of Allowance for Subsidy | \$ 2,531 | \$ 3,843 | \$ 455 | \$ 6,829 |
| Adjustments | | | | |
| Loan Modifications | 951 | 1,648 | - | 2,599 |
| Subsidy Allowance Amortization | 3 | (89) | - | (86) |
| Loans Written Off | (140) | (271) | (16) | (427) |
| Other Activities | (45) | (83) | (5) | (133) |
| Ending Balance of Allowance for Subsidy Before Re-estimates | \$ 3,300 | \$ 5,048 | \$ 434 | \$ 8,782 |
| Net Upward Subsidy Re-estimates | 802 | 1,376 | - | 2,178 |
| Ending Balance of Allowance for Subsidy | \$ 4,102 | \$ 6,424 | \$ 434 | \$ 10,960 |
| 2019 | | | | |
| Beginning Balance of Allowance for Subsidy | \$ 21 | \$ (458) | \$ 426 | \$ (11) |
| Adjustments | | | | |
| Subsidy Allowance Amortization | 571 | 1,027 | 52 | 1,650 |
| Loans Written Off | (165) | (308) | (18) | (491) |
| Other Activities | (40) | (62) | (5) | (107) |
| Ending Balance of Allowance for Subsidy Before Re-estimates | \$ 387 | \$ 199 | \$ 455 | \$ 1,041 |
| Net Upward Subsidy Re-estimates | 2,144 | 3,644 | - | 5,788 |
| Ending Balance of Allowance for Subsidy | \$ 2,531 | \$ 3,843 | \$ 455 | \$ 6,829 |

Other Credit Programs for Higher Education (Dollars in Millions)

| | Principal | Accrued Interest | Allowance for Subsidy | Net |
|-----------------------|-----------------|---------------------|--------------------------|-----------------|
| 2020 | | | | |
| Federal Perkins Loans | \$ 615 | \$ 202 | \$ (184) | \$ 633 |
| TEACH Program Loans | 764 | 88 | (182) | 670 |
| HEAL Program Loans | 396 | 29 | (38) | 387 |
| Total | \$ 1,775 | \$ 319 | \$ (404) | \$ 1,690 |
| 2019 | | | | |
| Federal Perkins Loans | \$ 532 | \$ 235 | \$ (160) | \$ 607 |
| TEACH Program Loans | 764 | 99 | (247) | 616 |
| HEAL Program Loans | 396 | 33 | (34) | 395 |
| Total | \$ 1,692 | \$ 367 | \$ (441) | \$ 1,618 |

Federal Perkins Loan Program. Loans made through the Federal Perkins Loan program were low-interest federal student loans for undergraduate and graduate students with exceptional financial needs. Schools made these Perkins loans to their students and are responsible for servicing the loans throughout the repayment term. Borrowers who undertake certain public, military, or teaching service employment are eligible to have all or part of their loans cancelled.

Notes to the Financial Statements

The Perkins Loan program was a revolving loan program where the loan repayments collected from former students were utilized to make new loans to current students. FSA provided most of the capital used by schools to make these loans to eligible students. Participating schools provided the remaining program funding. In some statutorily defined cases, funds were provided by FSA to reimburse schools for loan cancellations. The above schedule includes only Perkins loans which were assigned to FSA when schools discontinued their participation in the program. For these assigned Perkins loans, collections of principal, interest, and fees, net of amounts paid to cover contract collection costs totaled \$38 million and \$80 million for FY 2020 and FY 2019, respectively.

The *Federal Perkins Loan Program Extension Act of 2015* (Extension Act) eliminated the authorization for schools to make new Perkins loan disbursements as of September 30, 2017, and ended all Perkins loan disbursements by June 30, 2018. Prior to the authority for new Perkins loans ending, collections made by the schools would go back into each school's Perkins fund to be utilized to make more loans. Schools are required to return to FSA the federal share of any excess beyond what is needed (excess liquid capital).

Schools are not required to liquidate and close out their programs now that no new Perkins loans are being made. Schools continue to take in collections and are required to return the federal share of the capital that is collected to FSA on an annual basis. Schools returned \$1,279 million and \$10 million to FSA in FY 2020 and FY 2019, respectively, for the federal share of collected cash.

Schools will continue to service outstanding Perkins loans to recover the money they contributed to their Perkins funds for as long as it is feasible to do so or until the eventual wind-down of their portfolios. Schools that liquidate and close out their programs must transfer any outstanding portfolio to FSA and liquidate any final cash. Most recent data from the 2018-2019 reporting year shows a \$5.2 billion outstanding principal balance on Perkins loans held by schools, and FSA's equity interest on this portfolio is \$4.3 billion.

The amounts collected by FSA annually for defaulted Perkins loans and for the return of the federal share of schools' Perkins capital contributions are returned to the Treasury General Fund (see Note 12)

TEACH Grant Program. FSA awards annual grants of up to \$4,000 to eligible undergraduate and graduate students who agree to serve as full-time mathematics, science, foreign language, bilingual education, special education, or reading teachers at high-need schools for four years within eight years of graduation. The maximum lifetime grant for students is \$16,000 for undergraduate programs and \$8,000 for graduate programs. For students failing to fulfill the service requirement, the grants are converted to Direct Unsubsidized Stafford Loans. The program is operated as a loan program under the FCRA for budget and accounting purposes since grants can be converted to direct loans. The relief for borrowers provided by the CARES Act and Executive Action loan deferrals resulted in upward modification costs of \$11 million and \$5 million, respectively. The regulatory action to provide Total and Permanent Disability discharges resulted in an upward modification of less than \$0.1 million.

TEACH Subsidy Rates—Cohort 2020

| | Interest Differential | Defaults | Fees | Other | Total |
|---------------|-----------------------|----------|-------|---------|--------|
| Subsidy Rates | 70.46% | 0.35% | 0.00% | -41.88% | 28.93% |

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

HEAL Program. FSA assumed responsibility in FY 2014 for the HEAL program and the authority to administer, service, collect, and enforce the program. The HEAL program is structured as required by the FCRA. A liquidating account is used to record all cash flows to and from the government resulting from guaranteed HEAL loans committed prior to 1992. All loan activity for 1992 and beyond is recorded in corresponding financing accounts. The relief for borrowers provided by the Executive Action and the FSA's extension of the CARES Act provisions for loan deferrals resulted in upward modification costs of \$1 million and \$2 million, respectively.

Note 6. Liabilities Not Covered by Budgetary Resources

(Dollars in Millions)

| | 2020 | | 2019 | |
|---|---------------------|-----------------|---------------------|------------------|
| | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Liabilities Not Covered By Budgetary Resources | | | | |
| Other Liabilities | | | | |
| Accrued Unfunded Annual Leave | \$ - | \$ 17 | \$ - | \$ 12 |
| FECA Liabilities | - | 1 | - | 1 |
| Total Liabilities Not Covered By Budgetary Resources | - | 18 | - | 13 |
| Liabilities Not Requiring Budgetary Resources | | | | |
| Subsidy Due to Treasury General Fund | 1,436 | - | 1,239 | - |
| Federal Perkins Loan Program | 619 | - | 593 | - |
| Miscellaneous Receipt, Deposit Funds and Clearing Accounts | 19 | - | 55 | - |
| Total Liabilities Not Requiring Budgetary Resources | 2,074 | - | 1,887 | - |
| Total Liabilities Covered By Budgetary Resources | 1,253,600 | 5,748 | 1,298,515 | 11,352 |
| Total Liabilities | \$ 1,255,674 | \$ 5,766 | \$ 1,300,402 | \$ 11,365 |

Note 7. Debt

(Dollars in Millions)

| | Beginning Balance | Borrowing | Repayments | Accrued Interest | Ending Balance |
|--|---------------------|-------------------|---------------------|------------------|---------------------|
| 2020 | | | | | |
| Direct Loan Program | \$ 1,192,138 | \$ 116,883 | \$ (148,922) | \$ - | \$ 1,160,099 |
| FFEL Program | 94,671 | 10,997 | (16,682) | - | 88,986 |
| Other Credit Programs for Higher Education | 685 | 105 | (68) | - | 722 |
| Total | \$ 1,287,494 | \$ 127,985 | \$ (165,672) | \$ - | \$ 1,249,807 |
| 2019 | | | | | |
| Direct Loan Program | \$ 1,150,610 | \$ 137,583 | \$ (96,055) | \$ - | \$ 1,192,138 |
| FFEL Program | 107,261 | - | (12,590) | - | 94,671 |
| Other Credit Programs for Higher Education | 610 | 106 | (31) | - | 685 |
| Total | \$ 1,258,481 | \$ 137,689 | \$ (108,676) | \$ - | \$ 1,287,494 |

Notes to the Financial Statements

FSA borrows from Treasury's Bureau of the Public Debt to fund the disbursement of new loans and the payment of credit program outlays and related costs. During FY 2020, debt decreased 2.9 percent from \$1,287.5 billion in the prior year to \$1,249.8 billion. FSA makes periodic principal payments, after evaluating the cash position and liability for future outflows in each program and pays interest, as mandated by the FCRA.

Approximately 92.8 percent of FSA's debt, as of September 30, 2020, 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 2020, TEACH net borrowing of \$59 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)

| | 2020 | 2019 |
|---|-----------------|------------------|
| Credit Program Downward Subsidy Re-estimates | | |
| Direct Loan Program | \$ 1,773 | \$ 2,718 |
| FFEL Program | 74 | 6,345 |
| Total Credit Program Downward Subsidy Re-estimates | 1,847 | 9,063 |
| Future Liquidating Account Collections | | |
| FFEL Program | 1,436 | 1,239 |
| Total Future Liquidating Account Collections | 1,436 | 1,239 |
| Total Subsidy Due to Treasury General Fund | \$ 3,283 | \$ 10,302 |

Note 9. Other Liabilities

(Dollars in Millions)

| | 2020 | | 2019 | |
|--|------------------------|--------------------|------------------------|--------------------|
| | Intragover- nmental | With the Public | Intragover- nmental | With the Public |
| Accounts Payable | \$ - | \$ 3,561 | \$ - | \$ 3,597 |
| Accrued Grant Liability | - | 1,054 | - | 2,304 |
| Guaranty Agencies' Funds Due to Treasury | 1,943 | - | 1,956 | - |
| Loan Guarantee Liability | - | 1,123 | - | 5,436 |
| Federal Perkins Loan Program | 619 | - | 593 | - |
| Miscellaneous Receipt, Deposit Funds and Clearing Accounts | 19 | - | 55 | - |
| Advances from Others and Deferred Credits | - | - | - | 8 |
| Accrued Unfunded Annual Leave | - | 17 | - | 12 |
| FECA Liabilities | - | 1 | - | 1 |
| Accrued Payroll and Benefits | - | 10 | - | 7 |
| Employer Contributions and Payroll Taxes | 3 | - | 2 | - |
| Total Other Liabilities | \$ 2,584 | \$ 5,766 | \$ 2,606 | \$ 11,365 |

Note 10. Net Cost of Operations**Gross Costs and Exchange Revenue by Program****(Dollars in Millions)**

| | 2020 | 2019 |
|--|-------------------|-------------------|
| EXPAND POSTSECONDARY OPPORTUNITIES, IMPROVE OUTCOMES TO FOSTER ECONOMIC OPPORTUNITY, AND PROMOTE PRODUCTIVE CITIZENRY | | |
| <u>Direct Loan Program</u> | | |
| Gross Cost | | |
| Credit Program Interest Expense | \$ 34,705 | \$ 33,817 |
| Subsidy Expense | 101,173 | 61,510 |
| Administrative Expenses | 1,425 | 1,369 |
| Earned Revenue | | |
| Subsidy Expense | (265) | - |
| Interest & Administrative Fees | (33,110) | (64,107) |
| Subsidy Amortization | (1,595) | 30,290 |
| Net Cost of Direct Loan Program | 102,333 | 62,879 |
| <u>FFEL Program</u> | | |
| Gross Cost | | |
| Credit Program Interest Expense | 4,021 | 3,838 |
| Subsidy Expense | 2,180 | 12,654 |
| Subsidy Amortization (Guaranteed Loans) | (1,064) | (1,096) |
| Guaranty Agencies | 126 | 212 |
| Administrative Expenses | 156 | 151 |
| Earned Revenue | | |
| Subsidy Expense | (28) | - |
| Interest & Administrative Fees | (2,871) | (4,392) |
| Subsidy Amortization (Acquired FFEL Loans) | (86) | 1,650 |
| Guaranty Agencies | (123) | (128) |
| Net Cost of FFEL Program | 2,311 | 12,889 |
| <u>Other Credit Programs for Higher Education</u> | | |
| Gross Cost | | |
| Credit Program Interest Expense | 23 | 22 |
| Subsidy Expense | 27 | (4) |
| Administrative Expenses | 3 | 2 |
| Earned Revenue | | |
| Interest & Administrative Fees | (24) | (50) |
| Subsidy Amortization | 1 | 28 |
| Other | (1,283) | (111) |
| Net Cost of Other Credit Programs for Higher Education | (1,253) | (113) |
| <u>Non-Credit Programs</u> | | |
| Gross Cost | | |
| Grants | 28,113 | 32,208 |
| Other | 357 | 182 |
| Net Cost of Non-Credit Programs | 28,470 | 32,390 |
| Net Program Costs | 131,861 | 108,045 |
| Total Program Gross Costs | 171,245 | 144,865 |
| Total Program Earned Revenue | (39,384) | (36,820) |
| Net Cost of Operations | \$ 131,861 | \$ 108,045 |

Notes to the Financial Statements

Credit Program Interest Expense and Revenues (Dollars in Millions)

| | Gross Interest Expense | | Net Interest Expense | Gross Interest and Administrative Fee Revenue | | Subsidy Amortization | | Net Revenue |
|--|------------------------|-------------------|----------------------|---|------------------|----------------------|------------------|-------------|
| | Intragovernmental | With the Public | | Intragovernmental | With the Public | With the Public | | |
| 2020 | | | | | | | | |
| Direct Loan Program | \$ 34,705 | \$ - | \$ 34,705 | \$ 4,786 | \$ 28,324 | \$ 1,595 | \$ 34,705 | |
| FFEL Program | 4,021 | (1,064) | 2,957 | 1,435 | 1,436 | 86 | 2,957 | |
| Other Credit Programs for Higher Education | 23 | - | 23 | - | 24 | (1) | 23 | |
| Total | \$ 38,749 | \$ (1,064) | \$ 37,685 | \$ 6,221 | \$ 29,784 | \$ 1,680 | \$ 37,685 | |
| 2019 | | | | | | | | |
| Direct Loan Program | \$ 33,817 | \$ - | \$ 33,817 | \$ 4,082 | \$ 60,025 | \$ (30,290) | \$ 33,817 | |
| FFEL Program | 3,838 | (1,096) | 2,742 | 905 | 3,487 | (1,650) | 2,742 | |
| Other Credit Programs for Higher Education | 22 | - | 22 | 7 | 43 | (28) | 22 | |
| Total | \$ 37,677 | \$ (1,096) | \$ 36,581 | \$ 4,994 | \$ 63,555 | \$ (31,968) | \$ 36,581 | |

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)

| | 2020 | 2019 |
|---|------------------|------------------|
| Pell Grants | \$ 25,882 | \$ 30,530 |
| Federal Work-Study Program | 1,203 | 1,030 |
| Federal Supplemental Educational Opportunity Grants | 1,028 | 648 |
| Total | \$ 28,113 | \$ 32,208 |

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. COVID-19 Activity (See Note 5)

(Dollars in Millions)

| | 2020 | | | | | |
|---|------------------|------------------|--------------|-----------------|---------------------------|-------------------------|
| | Appropriations | Obligated | Unobligated | Outlays | Transfers to General Fund | Net Costs (See Note 10) |
| CARES Act | | | | | | |
| Student Aid Administration | \$ 40 | \$ 17 | \$ 23 | \$ 9 | \$ - | \$ 9 |
| Student Loan Deferrals | | | | | | |
| Direct Loan Program | 25,246 | 25,246 | - | 25,246 | 236 | 25,010 |
| FFEL Program | 1,770 | 1,770 | - | 1,770 | 15 | 1,755 |
| TEACH Program | 11 | 11 | - | 11 | - | 11 |
| Total CARES Act Student Loan Deferrals | 27,027 | 27,027 | - | 27,027 | 251 | 26,776 |
| Total CARES Act | 27,067 | 27,044 | 23 | 27,036 | 251 | 26,785 |
| Secretary's Discretion Student Loan Deferrals | | | | | | |
| FFEL Program | 496 | 496 | - | 496 | 4 | 492 |
| HEAL Program | 2 | 2 | - | 2 | - | 2 |
| Total Secretary's Discretion Student Loan Deferrals | 498 | 498 | - | 498 | 4 | 494 |
| Presidential Memorandum Student Loan Deferrals | | | | | | |
| Student Loan Deferrals | | | | | | |
| Direct Loan Program | 13,579 | 13,579 | - | 13,579 | 27 | 13,552 |
| FFEL Program | 1,059 | 1,059 | - | 1,059 | 9 | 1,050 |
| HEAL Program | 1 | 1 | - | 1 | - | 1 |
| TEACH Program | 5 | 5 | - | 5 | - | 5 |
| Total Presidential Memorandum Student Loan Deferrals | 14,644 | 14,644 | - | 14,644 | 36 | 14,608 |
| Total COVID-19 Activity | \$ 42,209 | \$ 42,186 | \$ 23 | \$42,178 | \$ 291 | \$ 41,887 |

Indirect appropriations were provided to fund loan modifications resulting from student loan deferrals authorized under the *CARES Act* and extended by the Administration's Presidential Memorandum. FSA also extended the provisions of the student loan deferrals to guaranteed loans not covered by the *CARES Act*. (See Note 5)

Note 12. Statements of Budgetary Resources

The SBR compares budgetary resources with the status of those resources. As of September 30, 2020, budgetary resources were \$389.1 billion and net agency outlays were \$104.4 billion. As of September 30, 2019, budgetary resources were \$306.1 billion and net agency outlays were \$97.3 billion.

Net Adjustments to Unobligated Balances Brought Forward

(Dollars in Millions)

| | 2020 | | 2019 | |
|---|------------------|---|------------------|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Prior Year Unobligated Balance, End of Year (Total) | \$ 14,158 | \$ 18,143 | \$ 15,033 | \$ 23,457 |
| Recoveries of Prior Year Unpaid Obligations | 942 | 18,220 | 738 | 24,840 |
| Borrowing Authority Withdrawn | - | (15,004) | - | (17,520) |
| Actual Repayments of Debt, Prior-Year Balances | - | (12,720) | - | (16,261) |
| Actual Capital Transfers to the Treasury General Fund | (261) | - | (322) | - |
| Canceled Authority | (25) | - | (25) | - |
| Downward Adjustments of Prior-Year Paid Delivered Orders | 125 | 301 | 4 | 342 |
| Other Differences | (1) | (1) | (50) | |
| Unobligated Balance from Prior Year Budget Authority (Net) | \$ 14,938 | \$ 8,939 | \$ 15,378 | \$ 14,858 |

During the years ended September 30, 2020 and September 30, 2019, certain adjustments were made to the balance of unobligated budgetary resources available as of October 1, 2019 and October 1, 2018. These adjustments include, among other things, recoveries of prior year unpaid obligations that result from downward adjustments of undelivered orders that were obligated in a prior fiscal year.

Unused Borrowing Authority

(Dollars in Millions)

| | 2020 | 2019 |
|---|------------------|------------------|
| Beginning Balance - Unused Borrowing Authority | \$ 55,457 | \$ 62,394 |
| Current Year Borrowing Authority | 135,300 | 148,272 |
| Funds Drawn from Treasury | (127,985) | (137,689) |
| Borrowing Authority Withdrawn | (15,004) | (17,520) |
| Ending Balance - Unused Borrowing Authority | \$ 47,768 | \$ 55,457 |

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)

| | 2020 | | 2019 | |
|---------------------------|------------------------|--------------------|------------------------|--------------------|
| | Intragovern- mental | With the Public | Intragovern- mental | With the Public |
| Unpaid | \$ 81 | \$ 77,543 | \$ 76 | \$ 82,607 |
| Paid | - | 502 | 7 | 561 |
| Undelivered Orders | \$ 81 | \$ 78,045 | \$ 83 | \$ 83,168 |

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)

| | 2020 | 2019 |
|---|------------------|------------------|
| Negative Subsidies and Downward Re-estimates of Subsidies: | | |
| Direct Loan Program | \$ 5,382 | \$ 9,906 |
| FFEL Program | 6,865 | 2,099 |
| HEAL Program | - | 34 |
| TEACH Program | 36 | 1 |
| Total Negative Subsidies and Downward Re-estimates of Subsidies | 12,283 | 12,040 |
| Repayment of Perkins Loans and Capital Contributions | 1,317 | 90 |
| Other | 6 | 15 |
| Distributed Offsetting Receipts | \$ 13,606 | \$ 12,145 |

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.

Reconciliation of SBR to Budget of the United States Government

(Dollars in Millions)

| | Budgetary Resources | New Obligations and Upward Adjustments (Total) | Distributed Offsetting Receipts | Net Outlays |
|---|------------------------|--|---------------------------------------|------------------|
| Combined Statements of Budgetary Resources | \$ 306,139 | \$ 273,838 | \$ 12,145 | \$ 57,251 |
| Expired Funds | (1,209) | (348) | - | - |
| FFEL Guaranty Agency Amounts Included in the President's Budget | 7,342 | 7,341 | - | - |
| Distributed Offsetting Receipts | - | - | - | 12,145 |
| Other | 1 | - | - | - |
| Budget of the United States Government¹ | \$ 312,273 | \$ 280,831 | \$ 12,145 | \$ 69,396 |

¹ Amounts obtained from the Appendix, *Budget of the United States Government, FY 2021*.

Notes to the Financial Statements

The FY 2022 *Budget of the United States Government* (President's Budget), which presents the actual amounts for the year ended September 30, 2020, has not been published as of the issue date of these financial statements. The FY 2022 President's Budget is scheduled for release in February 2021 and will be made available on OMB's website. The table above reconciles the FY 2019 SBR to the FY 2021 President's Budget (FY 2019 actual amounts) for budgetary resources, new obligations and upward adjustments, distributed offsetting receipts, and net outlays.

Reconciling differences exist because the President's Budget excludes expired funds. Additionally, the President's Budget includes a public enterprise fund that reflects the gross obligations by the FFEL program for the estimated activity of the consolidated federal fund of the guaranty agencies. Ownership by the federal government is independent of the actual control of the assets. Since the actual operation of the federal fund is independent from FSA's direct control, budgetary resources and new obligations and upward adjustments are estimated and disclosed in the President's Budget to approximate the gross activities of the combined federal fund. Amounts reported on the SBR for the federal fund are compiled by combining all guaranty agencies' annual reports to determine a net valuation amount for the federal fund.

Note 13. Reconciliation of Net Cost to Net Outlays

(Dollars in Millions)

| | 2020 | | | 2019 | | |
|--|------------------------|--------------------|-------------------|------------------------|--------------------|-------------------|
| | Intragovern- mental | With the Public | Total | Intragovern- mental | With the Public | Total |
| Net Cost of Operations | \$ 32,668 | \$ 99,193 | \$ 131,861 | \$ 32,828 | \$ 75,217 | \$ 108,045 |
| Components of Net Operating Cost Not Part of the Net Budgetary Outlays | | | | | | |
| Excess of Accrual-Basis Expenses Over Budget Outlays | | | | | | |
| Current-Year Subsidy Accrual Costs | - | (52,571) | (52,571) | - | (67,225) | (67,225) |
| Loan Modification Adjustment Transfer Gains/(Losses), Net | - | (56) | (56) | - | - | - |
| Federal Employee Retirement Benefit Costs Paid by OPM | (12) | - | (12) | (14) | - | (14) |
| Other Liabilities | 13 | 1,096 | 1,109 | (61) | (1,260) | (1,321) |
| Excess of Accrual-Basis Revenue Over Budget Receipts | | | | | | |
| Accounts Receivable | - | (43) | (43) | - | 3 | 3 |
| Offset to Non-Entity Accrued Collections | - | (41) | (41) | - | 6 | 6 |
| Total Components of Net Operating Cost Not Part of the Net Budgetary Outlays | 1 | (51,615) | (51,614) | (75) | (68,476) | (68,551) |
| Components of the Net Budgetary Outlays Not Part of Net Operating Costs | | | | | | |
| Current-Year Budget Subsidy Costs | - | 67,227 | 67,227 | - | 17,955 | 17,955 |
| Other Loan Activities, Net | - | (145) | (145) | - | 36 | 36 |
| Other Assets | (7) | (16) | (23) | (12) | (222) | (234) |
| Total Components of the Net Budgetary Outlays Not Part of Net Operating Costs | (7) | 67,066 | 67,059 | (12) | 17,769 | 17,757 |
| Net Outlays (Calculated Total) | \$ 32,662 | \$ 114,644 | \$ 147,306 | \$ 32,741 | \$ 24,510 | \$ 57,251 |
| Related Amounts on the Statement of Budgetary Resources | | | | | | |
| Outlays, Net (Discretionary and Mandatory) | | | 160,912 | | | 69,396 |
| Distributed Offsetting Receipts | | | (13,606) | | | (12,145) |
| Agency Outlays, Net (Discretionary and Mandatory) | | | \$ 147,306 | | | \$ 57,251 |

This reconciliation explains the relationship between FSA's net cost of operations and its net outlays. Reconciling items result from transactions which did not result in a current period outlay but did result in a current period cost, and current period outlays that did not result in a current period cost.

Disbursements for new FCRA loans and collections of principal and interest on existing FCRA loans are recorded in non-budgetary credit reform financing accounts. These disbursements and collections are reported on the Statement of Budgetary Resources as disbursements, net, and not as agency outlays, net. Since these disbursements and collections affect neither net cost of operations nor agency outlays, net, they are excluded from this reconciliation as are any increases or decreases in the FCRA loan receivable balances.

The two major reconciling differences, both associated with FSA's FCRA loan programs, are for current-year subsidy accrual costs and current-year budget subsidy costs.

- Current-year subsidy accrual costs are the portion of the current-year loan subsidy re-estimates not impacting the current year outlays.
- Current-year budget subsidy costs are current year indirect appropriations provided to fund subsidy costs accrued in the prior year. This includes the portion of the current year's

Notes to the Financial Statements

executed President's budget re-estimates not included in this year's net cost subsidy expense.

Note 14. Commitments and Contingencies

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

Future Minimum Lease Payments

(Dollars in Millions)

| 2020 | | 2019 | |
|--------------|--------------|--------------|--------------|
| 2021 | \$ 14 | 2020 | \$ 13 |
| 2022 | 14 | 2021 | 13 |
| 2023 | 14 | 2022 | 13 |
| 2024 | 12 | 2023 | 14 |
| 2025 | 12 | 2024 | 14 |
| After 2025 | 12 | After 2024 | 14 |
| Total | \$ 78 | 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 2020 or 2019 and does not expect to in future years. No provision has been made in the financial statements for potential liabilities.

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. As appropriate, the Department would seek recovery from Treasury's Judgment Fund for any loss in litigation that may occur. The Judgment Fund is a permanent, indefinite appropriation available to pay judgments against the government, if appropriated funds cannot be used.

The cost of loan forgiveness related to borrower defense claims reflected in the accompanying financial statements is limited to loans originated through September 30, 2020. The final disposition of claims filed and those yet to be filed from loans originated before September 30, 2020, 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 Information (Unaudited)

**United States Department of Education
Federal Student Aid
Combining Statements of Budgetary Resources
For the Year Ended September 30, 2020**

(Dollars in Millions)

| | Combined | | Health Education Assistance Loans | |
|--|-------------------|--|--------------------------------------|--|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 14,938 | \$ 8,939 | \$ - | \$ 8 |
| Appropriations (Discretionary and Mandatory) | 163,672 | 349 | 10 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 135,300 | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 232 | 65,625 | 5 | 7 |
| Total Budgetary Resources | \$ 178,842 | \$ 210,213 | \$ 15 | \$ 15 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 162,465 | \$ 187,667 | \$ 11 | \$ 3 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 13,386 | - | - | - |
| Unapportioned, Unexpired Accounts | 1,819 | 22,546 | 4 | 12 |
| Unexpired Unobligated Balance, End of year | \$ 15,205 | \$ 22,546 | \$ 4 | \$ 12 |
| Expired Unobligated Balance, End of Year | 1,172 | - | - | - |
| Unobligated Balance, End of Year (Total) | \$ 16,377 | \$ 22,546 | \$ 4 | \$ 12 |
| Total Status of Budgetary Resources | \$ 178,842 | \$ 210,213 | \$ 15 | \$ 15 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 160,912 | | 6 | |
| Distributed Offsetting Receipts (-) (Note 12) | (13,606) | | - | |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ 147,306 | | \$ 6 | |
| Disbursements, Net (Total) (Mandatory) | | (42,956) | | (13) |

Required Supplementary Information (Unaudited)

United States Department of Education Federal Student Aid Combining Statements of Budgetary Resources For the Year Ended September 30, 2020 (Dollars in Millions)

| | Direct Student Loan Program | | Teach Program | |
|--|-----------------------------|--|---------------|--|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 764 | \$ 691 | \$ 13 | \$ (1) |
| Appropriations (Discretionary and Mandatory) | 114,194 | 347 | 56 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 124,736 | - | 110 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | - | 46,801 | - | 47 |
| Total Budgetary Resources | \$ 114,958 | \$ 172,575 | \$ 69 | \$ 156 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 114,194 | \$ 169,195 | \$ 56 | \$ 157 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | - | - | - | - |
| Unapportioned, Unexpired Accounts | - | 3,380 | - | (1) |
| Unexpired Unobligated Balance, End of year | \$ - | \$ 3,380 | \$ - | \$ (1) |
| Expired Unobligated Balance, End of Year | 764 | - | 13 | - |
| Unobligated Balance, End of Year (Total) | \$ 764 | \$ 3,380 | \$ 13 | \$ (1) |
| Total Status of Budgetary Resources | \$ 114,958 | \$ 172,575 | \$ 69 | \$ 156 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 113,305 | | 54 | |
| Distributed Offsetting Receipts (-) (Note 12) | (5,388) | | (36) | |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ (107,917) | \$ | \$ 18 | \$ |
| Disbursements, Net (Total) (Mandatory) | | (29,898) | | 54 |

Required Supplementary Information (Unaudited)

United States Department of Education Federal Student Aid Combining Statements of Budgetary Resources For the Year Ended September 30, 2020 (Dollars in Millions)

| | Federal Family Education Loan Program | | Perkins Loans and Grants | Administrative Funds |
|--|--|--|-----------------------------|-------------------------|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Budgetary |
| | | | | |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 1,961 | \$ 8,241 | \$ 12,099 | \$ 101 |
| Appropriations (Discretionary and Mandatory) | 16,599 | 2 | 31,004 | 1,809 |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 10,454 | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 228 | 18,770 | (1) | - |
| Total Budgetary Resources | \$ 18,788 | \$ 37,467 | \$ 43,102 | \$ 1,910 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 16,760 | \$ 18,312 | \$ 29,571 | \$ 1,873 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 219 | - | 13,139 | 28 |
| Unapportioned, Unexpired Accounts | 1,809 | 19,155 | 7 | (1) |
| Unexpired Unobligated Balance, End of year | \$ 2,028 | \$ 19,155 | \$ 13,146 | \$ 27 |
| Expired Unobligated Balance, End of Year | - | - | 385 | 10 |
| Unobligated Balance, End of Year (Total) | \$ 2,028 | \$ 19,155 | \$ 13,531 | \$ 37 |
| Total Status of Budgetary Resources | \$ 18,788 | \$ 37,467 | \$ 43,102 | \$ 1,910 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 16,416 | | 29,369 | |
| Distributed Offsetting Receipts (-) (Note 12) | (6,865) | | (1,317) | |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ 9,551 | | \$ 28,052 | |
| Disbursements, Net (Total) (Mandatory) | | (13,099) | | 1,762 |

Required Supplementary Information (Unaudited)

United States Department of Education Federal Student Aid Combining Statements of Budgetary Resources For the Year Ended September 30, 2019

(Dollars in Millions)

| | Combined | | Health Education Assistance Loans | |
|--|------------------|--|-----------------------------------|--|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 15,378 | \$ 14,858 | \$ - | \$ 21 |
| Appropriations (Discretionary and Mandatory) | 69,804 | - | - | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 148,272 | - | 34 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 409 | 57,418 | 7 | 7 |
| Total Budgetary Resources | \$ 85,591 | \$ 220,548 | \$ 7 | \$ 62 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 71,433 | \$ 202,405 | \$ 1 | \$ 40 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 11,361 | - | - | - |
| Unapportioned, Unexpired Accounts | 1,935 | 18,143 | 6 | 22 |
| Unexpired Unobligated Balance, End of year | \$ 13,296 | \$ 18,143 | \$ 6 | \$ 22 |
| Expired Unobligated Balance, End of Year | 862 | - | - | - |
| Unobligated Balance, End of Year (Total) | \$ 14,158 | \$ 18,143 | \$ 6 | \$ 22 |
| Total Status of Budgetary Resources | \$ 85,591 | \$ 220,548 | \$ 7 | \$ 62 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 69,396 | | (6) | |
| Distributed Offsetting Receipts (-) (Note 12) | (12,145) | | (34) | |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ 57,251 | \$ | \$ (40) | \$ |
| Disbursements, Net (Total) (Mandatory) | | 40,085 | | 33 |

Required Supplementary Information (Unaudited)

United States Department of Education Federal Student Aid Combining Statements of Budgetary Resources For the Year Ended September 30, 2019

(Dollars in Millions)

| | Direct Student Loan Program | | Teach Program | |
|--|-----------------------------|--|---------------|--|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 522 | \$ 375 | \$ 12 | \$ (1) |
| Appropriations (Discretionary and Mandatory) | 33,812 | - | 34 | - |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | 148,159 | - | 79 |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | - | 44,443 | - | 46 |
| Total Budgetary Resources | \$ 34,334 | \$ 192,977 | \$ 46 | \$ 124 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 33,812 | \$ 187,172 | \$ 34 | \$ 123 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | - | - | - | - |
| Unapportioned, Unexpired Accounts | - | 5,805 | - | 1 |
| Unexpired Unobligated Balance, End of year | \$ - | \$ 5,805 | \$ - | \$ 1 |
| Expired Unobligated Balance, End of Year | 522 | - | 12 | - |
| Unobligated Balance, End of Year (Total) | \$ 522 | \$ 5,805 | \$ 12 | \$ 1 |
| Total Status of Budgetary Resources | \$ 34,334 | \$ 192,977 | \$ 46 | \$ 124 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 33,235 | - | 31 | - |
| Distributed Offsetting Receipts (-) (Note 12) | (9,906) | - | (1) | - |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ (23,329) | \$ - | \$ 30 | \$ - |
| Disbursements, Net (Total) (Mandatory) | | 46,829 | | 32 |

Required Supplementary Information (Unaudited)

United States Department of Education Federal Student Aid Combining Statement of Budgetary Resources For the Year Ended September 30, 2019

(Dollars in Millions)

| | Federal Family Education Loan Program | | Perkins Loans and Grants | Administrative Funds |
|--|--|--|-----------------------------|-------------------------|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Budgetary |
| | | | | |
| Budgetary Resources: | | | | |
| Unobligated Balance from Prior Year Budget Authority, (Net) (Note 12) | \$ 2,049 | \$ 14,463 | \$ 12,781 | \$ 14 |
| Appropriations (Discretionary and Mandatory) | 3,661 | - | 30,618 | 1,679 |
| Borrowing Authority (Discretionary and Mandatory) (Note 12) | - | - | - | - |
| Spending Authority from Offsetting Collections (Discretionary and Mandatory) | 403 | 12,922 | (1) | - |
| Total Budgetary Resources | \$ 6,113 | \$ 27,385 | \$ 43,398 | \$ 1,693 |
| Status of Budgetary Resources: | | | | |
| New Obligations Incurred and Upward Adjustments (Total) | \$ 3,913 | \$ 15,070 | \$ 31,986 | \$ 1,687 |
| Unobligated Balance, End of Year: | | | | |
| Apportioned, Unexpired Accounts | 287 | - | 11,070 | 4 |
| Unapportioned, Unexpired Accounts | 1,913 | 12,315 | 17 | (1) |
| Unexpired Unobligated Balance, End of year | \$ 2,200 | \$ 12,315 | \$ 11,087 | \$ 3 |
| Expired Unobligated Balance, End of Year | - | - | 325 | 3 |
| Unobligated Balance, End of Year (Total) | \$ 2,200 | \$ 12,315 | \$ 11,412 | \$ 6 |
| Total Status of Budgetary Resources | \$ 6,113 | \$ 27,385 | \$ 43,398 | \$ 1,693 |
| Outlays, Net, and Disbursements, Net | | | | |
| Outlays, Net (Discretionary and Mandatory) | 3,507 | - | 30,907 | - |
| Distributed Offsetting Receipts (-) (Note 12) | (2,099) | - | (105) | - |
| Agency Outlays, Net (Discretionary and Mandatory) (Notes 12 & 13) | \$ 1,408 | \$ - | \$ 30,802 | \$ - |
| Disbursements, Net (Total) (Mandatory) | | (6,809) | | 1,722 |

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Independent Auditors' Report

Office of Inspector General Audit Transmittal



UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

THE INSPECTOR GENERAL

November 16, 2020

Mark A. Brown
Chief Operating Officer
Federal Student Aid
Washington, D.C. 20202

Dear Mr. Brown:

The enclosed Independent Auditors' Report (report) presents the results of the audit of Federal Student Aid's (FSA) financial statements for fiscal years 2020 and 2019 to comply with the Higher Education Amendments of 1998. The report should be read in conjunction with FSA's financial statements and notes to fully understand the context of the information contained therein.

We contracted with the independent certified public accounting firm KPMG LLP (KPMG) to audit the financial statements of FSA as of September 30, 2020 and 2019, and for the years then ended. The contract requires that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget bulletin, *Audit Requirements for Federal Financial Statements*.

Results of the Independent Audit

KPMG found:

- The fiscal years 2020 and 2019 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 Underlying Data Used in Credit Reform Re-estimates Need Improvement.
- Three significant deficiencies in internal control over financial reporting:
 - Information Technology Controls Need Improvement,
 - Monitoring Controls over Service Organizations Need Improvement, and
 - Entity Level Controls Need Improvement.
- One instance of reportable noncompliance with Federal law in connection with 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.

Page 2 – Mark A. Brown

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express an opinion on FSA's financial statements, or conclusions on internal control over financial reporting, compliance, and other matters. KPMG is responsible for the report dated November 16, 2020, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Sincerely,



Sandra D. Bruce
Acting Inspector General

Enclosure

Independent Auditors' Report



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

Independent Auditors' Report

Acting Inspector General
United States Department of Education

Chief Operating Officer
Federal Student Aid:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Federal Student Aid (FSA), a component of the United States Department of Education, which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



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, 2020 and 2019, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Fiscal Year 2020 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 and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information on pages i through xiii, Annual Performance Report section, Overview of the Financial Section, Other Information section, Appendices, and Acknowledgements is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2020, we considered the FSA's internal control over financial reporting (internal control) as a basis for designing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FSA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FSA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.



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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FSA's consolidated financial statements as of and for the year ended September 30, 2020 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 financial statements. 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 is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03, and which is described in the accompanying Exhibit C, *Requirement for Referring Delinquent Student Loan Debts to Treasury*.

FSA's Responses to Findings

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

Our response to FSA's response is included in Exhibit E.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, D.C.
November 16, 2020

Exhibit A

Material Weakness

Controls over the Reliability of Underlying Data Used in Credit Reform Re-estimates Need Improvement

Under the *Federal Credit Reform Act of 1990* (FCRA), the United States Department of Education (Department) is required to perform periodic interest rate and technical re-estimates of the subsidy costs of its direct loan and guaranty programs. The re-estimates are calculated using an internally developed cash flow model. The cash flow model utilizes assumptions based on internally sourced data elements from Information Technology (IT) systems. The future cash flow outputs generated from the Department's cash flow model, the Student Loan Model (SLM), are then input into the format required by the Office of Management and Budget (OMB) Credit Subsidy Calculator (CSC), a required present value discount tool for agencies with credit reform programs. These procedures are necessary to generate subsidy re-estimates in accordance with the FCRA, as required by U.S. generally accepted accounting principles.

Condition:

The Department and FSA did not design and implement effective controls to ensure that the data used to develop the re-estimate is reliable, considering the elevated risk because of the control deficiencies related to IT systems discussed in Exhibit B of this report. Specifically, the Department and FSA rely on the IT systems to provide the data elements used in the cash flow model and do not perform sufficient procedures to ensure that such data is complete and accurate.

Cause/Effect:

The Department's and FSA's risk assessment process did not identify completeness and accuracy of the underlying data resulting from the IT system control deficiencies as a risk that required additional compensating controls.

Inadequate controls over the completeness and accuracy of the underlying data used to develop the re-estimate increases the risk that the financial statements could be materially misstated.

Criteria:

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

- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Principle No. 10, *Design Control Activities*; Principle No. 11, *Design Activities for the Information System*; Principle No. 13, *Use Quality Information*.
- FASAB Technical Release 6, *Preparing Estimates for Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reform Act – Amendments to Technical Release No. 3 Preparing and Auditing Direct Loan and Loan Guarantee Subsidies under the Federal Credit Reforms Act*, Paragraphs 20 and 40.

Recommendations:

We recommend that the Department and FSA:

1. Strengthen the risk assessment process by considering the impact of IT control deficiencies on internal controls over the reliability of information in the Department's IT systems. Such considerations should be documented.
2. Design and implement additional controls, over the completeness and accuracy of the underlying data used to develop the re-estimate.

Significant Deficiencies

A. Information Technology Controls Need Improvement

The following control deficiencies in the areas of IT logical access, security management, segregation of IT duties, and application change management are related to both the Department and FSA systems.

Conditions:

In FY 2019, we reported a significant deficiency related to Federal Student Aid's (FSA's) IT controls due to persistent unmitigated IT control deficiencies. During FY 2020, the FSA management demonstrated progress implementing corrective actions to remediate some prior-year deficiencies such as system data validation. However, management has not fully remediated prior-year deficiencies related to logical access administration, separated/transferred user access removal, user access reviews and recertification, and configuration management. We noted IT control deficiencies related to security management, segregation of IT duties, and application change control for three of FSA's financial and mixed systems. In addition, we noted deficiencies related to Department-level logical access for its core financial management system. Specifically, we noted the following:

Department:

1. Weakness in IT logical access controls. New and separated contractors were not consistently and accurately tracked resulting in the inconsistent reporting of start and termination dates and system access that was not always removed upon separation from the Department.

FSA:

1. Weakness in IT security management controls:
 - a. The System Security Plan for one system was incomplete and did not fully define and document all relevant control enhancements in accordance with National Institute of Standards and Technology (NIST) Special Publication (SP) 800-53, Revision (Rev.) 4, security control requirements.
 - b. Plan of Action and Milestone (POA&M) closure documentation did not always address the root cause of the deficiencies, thereby not preventing future reoccurrences.
2. Weaknesses in IT controls related to the segregation of IT duties. For one FSA system, users with developer access had access to the system's production staging environment and update access to the production environment.
3. Weakness in IT application change management controls. The application change management process was not consistently followed for one FSA system. We noted the documentation for a selection of changes indicated a) approvals of testing and/or post implementation validation (PIV) approvals could not be evidenced; and b) one instance of a change that was approved to migrate to the production environment prior to approval of the change testing.

Cause/Effect:

There was a lack of effective monitoring controls by the Department and FSA to ensure:

1. Systems and support processes consistently adhered to documented agency-wide policies and procedures and the NIST security control requirements for the financially and mixed systems hosted and managed by FSA and the Department.

Additionally, there was a lack of effective enforcement and monitoring of IT controls by FSA to ensure:

1. Corrective actions to remediate prior-year conditions and associated causes are fully implemented, as well as verifying and validating that these corrective actions were effectively addressing the weakness with adequate documented supporting evidence.
2. Segregation of duties and least privilege principles are followed and enforced.
3. The established change process is followed, and application change tickets accurately document the key control points of the change process, such as approvals to commence with the change, approval of testing results, approval to migrate the change to the production environment, and PIV approvals.

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 OCIO 3-112, Cybersecurity Policy.
- Department Baseline Cybersecurity Standard, OCIO-STND-01, dated April 1, 2020, Section 3.13. Personnel Access.
- The Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV3.08 *Effect of Deficiencies on the Internal Control System*, Principle 3 *Establish Structure, Responsibility, and Authority, Documentation of the Internal Control System*, Principle No. 3.08 *Assignment of Responsibility and Delegation of Authority*, Principle No. 8.07 *Response to Fraud Risks*, Principle No. 10.3 *Design of Appropriate Types of Control Activities*, Principle No.10.12 *Segregation of Duties*, Principle No. 11, *Design Activities for the Information System*, and Principle No. 13, *Use Quality Information*, Principle No.17, *Evaluate Issues and Remediate Deficiencies*.
- National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements PL-2 System Security Plan, PM-4 Plan of Action and Milestone, AC-2 Account Management, AC-5 Separation of Duties, AC-6 Least Privilege, CM-3 Configuration Change Control, and CM-5 Access Restrictions for Change.

Recommendations:

We recommend that the Department:

1. Evaluate, develop, and implement a formal process to track and report all new and separated contractors.
2. Ensure separated contractors are off-boarded and system personnel are notified in a timely manner to disable or remove access to IT resources.
3. Provide training and oversight to Education personnel with on/off-boarding responsibilities to help ensure new/separated contractors are properly tracked.

We recommend that FSA:

4. Validate that financial and mixed system security plans have identified and documented the required security controls and control enhancements and the control implementation statuses in the plans as required by NIST SP 800-53. Additionally, implement a quality review process of the system security plans prior to signing the plans to ensure compliance with NIST 800-53 requirements.

5. Implement a process to evaluate the significance of a deficiency by considering the magnitude of impact, likelihood of occurrence, and nature of the deficiency and tailor the corrective actions to remediate the risk and address the root cause. Further, update guidance to ensure that quality reviews over the POA&M closure documentation are conducted to confirm the noted deficiencies are fully addressed to help prevent future reoccurrences.
6. Formally develop and implement a quality control review process to ensure that the application change control process is followed completely and accurately to validate that changes were tested and approved prior to migration and post implementation validation was performed, the relevant documentation and approvals are verified prior to closing the change ticket, as required by policy, and supporting documentation is retained.
7. Ensure segregation of duties and least privilege principles are adhered to when granting user access to prevent users with the ability to develop and/or change application code from having update access to the environment where the final tested and approved changes are staged prior to migration to the financial and mixed systems' production environment; and prevent users with access to develop code from having update access to the production environment.

B. Monitoring Controls over Service Organizations Need Improvement

The Department and FSA relies on a certain IT system to store data for student loan programs. The Cost Estimation and Analysis Division (CEAD) within the Department also uses the data in the system for the development and update of the assumptions used in the re-estimation of subsidy allowance, a critical component of management's financial reporting process. The IT system is owned and controlled by FSA, who is responsible for the application-level internal controls, and is hosted by a service organization, who is responsible for internal controls at the data center.

Condition:

The Department and FSA did not have effective monitoring controls in place to ensure that the scope of the System and Organization Controls (SOC) 1, Type 2 report for the service organization and/or management's internal control processes sufficiently cover the relevant key controls to support the reliability and integrity of the data stored in the IT system. For example, we noted that there were not sufficient relevant controls identified and tested in the areas of mainframe operating system and security software, financial system production data bases, and financial system mainframe interface controls.

Cause/Effect:

FSA did not perform a comprehensive assessment of key relevant controls to appropriately assess the risks in the financial reporting process.

Ineffective monitoring controls over the service organization increases the risk of disruption, modification, or destruction of information that could impact the integrity and reliability of information processed in the associated application 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 Standards for Internal Control in the Federal Government issued by the Comptroller General of the United States (the Green Book), Section OV4.01 *Additional Consideration, Service Organizations*, Principle 16.08 - *Perform Monitoring Activities*.
- National Institute of Standards and Technology Special Publication 800-53, Security and Privacy Controls for Federal Information Systems and Organizations, Revision 4, dated April 2013, specifically security control requirements SA-9 External Information System Services.

Recommendations:

We recommend that FSA:

1. Enhance their risk assessment to identify risks impacting financial reporting processes.
2. Identify the controls at the service organization for the systems that are responsive to risks and that are relevant to FSA's financial statements.
3. Regularly monitor and meet with the service organization to communicate and ensure that controls that are relevant to FSA for financial reporting are adequately tested for design, implementation, and operating effectiveness.
4. Assess the need to implement compensating controls for financial reporting in the event relevant controls at the service organization are not within the scope of the SOC 1 report.

C. Entity Level Controls Need Improvement

The Department and FSA are continually seeking ways to improve accountability in achieving the entity's mission. A key factor in improving accountability in achieving an entity's mission is to implement an effective internal control system. The control environment sets the tone of an organization by influencing the control consciousness of its personnel. It is also the foundation for all components of internal control, providing discipline and structure. The Department and FSA need to address weaknesses in its entity-wide control environment as we have observed two entity-wide control environment conditions through our procedures that have a pervasive influence on the effectiveness of controls. These common themes, which contributed to the deficiencies noted above, are related to the entity's risk assessment and monitoring activities.

Conditions:

1. Risk Assessment- The Department and FSA's entity level controls were not designed and implemented appropriately in order to define objectives to enable the identification of risks, define risk tolerances and identified processes and controls responsive to those risks.
2. Monitoring Activities- The Department and FSA's entity level controls were not designed and implemented appropriately in order to remediate identified internal control deficiencies in a timely manner.

Cause/Effect

1. Risk Assessment considerations address the risks facing the entity as it seeks to achieve its objectives. This assessment provides the basis for developing appropriate risk responses. Specifically, inadequate risk assessment throughout the Department and FSA, prevented the proper identification and analysis of risks facing the Department and FSA, and from designing appropriate risk responses. For example, the Department did not identify the risk objectives that should have been either addressed by the SOC1, Type 2 report or through compensating controls at the Department and FSA, to support the reliability and integrity of the data used in the financial reporting process.
2. Monitoring Activities considerations address management's processes to establish and implement operations that assess the quality of performance over time and promptly resolve the findings of audits and other reviews. Specifically, insufficient monitoring has prevented the Department and FSA from ensuring that corrective action plans are implemented, and control deficiencies are remediated timely.

Criteria

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

- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 6, *Management should define objectives clearly to enable the identification of risks and define risk tolerances.*
- GAO Standards for Internal Control in the Federal Government (Green Book) Principle 17, *Management should remediate identified internal control deficiencies on a timely basis*

Recommendations

We recommend that management implement the following to improve the effectiveness of entity-level controls:

1. In the area of risk assessment, improve risk assessment process at the financial statement assertion level and at the process level to ensure the department is appropriately defining objectives to enable the identification of risks and define risk tolerances.

-
2. In the area of monitoring activities, implement key monitoring controls to ensure that corrective action plans are implemented to timely remediate control deficiencies identified. In addition, increase oversight, review, and accountability over the process among various offices and directorates within the Department and FSA.

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). FSA's current business process, which requires loans to be transferred to the default loan servicer after 360 days of delinquency, is not in alignment with the reporting requirements. Further, 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, 2020, 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 in 2015 as to how certain specific requirements of the amended law apply to the Direct Loan Program and other FSA programs. The FSA is improving delinquent debt reporting procedures, increasing the frequency of some debt referrals, and modifying its defaulted loan management system to accommodate this change. The FSA has developed a long-term project plan to incorporate the referral requirements into various servicer contracts and guaranty agency agreements, so it can initiate the required system programming changes.

Recommendation:

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


Management's Response

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November 13, 2020

MEMORANDUM

TO: Sandra D. Bruce
Deputy Inspector General
Delegated the Duties of the
Inspector General

FROM: 
Alison L. Doone
Chief Financial Officer

SUBJECT: DRAFT AUDIT REPORTS
Fiscal Years 2020 and 2019 Financial Statements
Federal Student Aid
ED-OIG/A17U0002

With respect to the Fiscal Year 2020 Financial Statement Audit, Federal Student Aid (FSA) received the findings and recommendations as identified in the Independent Auditors' Report and provides the following responses.

Exhibit A
Material Weakness

Controls over the Reliability of the Underlying Data Used in Credit Reform Re-estimates Need Improvement

FSA does not concur with the material weakness and believes the information technology (IT) findings in Exhibit B, individually and in aggregate, do not rise to the level of a material weakness. Further, it appears that the basis of the material weakness is duplicative of the significant deficiencies.

The FSA system that provides data to the Department's Student Loan Model is a High-Value Asset (HVA) as authorized by the Department of Education (ED) Chief Information Officer in accordance with Office of Management and Budget Memoranda M19-03, M16-04, and M-17-09. In compliance with Department of Homeland Security (DHS) requirements, an HVA assessment was performed independently by a DHS assessment team on the FSA HVA, including Risk Vulnerability Assessment (technical testing) and Security Architecture Review (assessment of the system architecture and procedures surrounding system cyber management). Following the initial assessment, FSA implemented additional independent HVA oversight processes including the Ongoing Security Assessment (OSA), Authority to Operate (ATO), and continuous monitoring programs which tests the DHS HVA Control Overlay as part of normal testing processes. FSA measures HVA compliance with these standards through use of the ED Cyber Security Framework Risk Scorecard which uses up-to-date threat information regarding federal information and systems. HVA scores reflect the continuous monitoring and remediation of threats as they are identified for each HVA.

Thus, FSA has numerous controls and mechanisms in place to protect the IT system that provides the data used to develop the subsidy re-estimate. The material weakness refers to the control findings and recommendations discussed in Exhibit B of the report. FSA's responses to the findings in Exhibit B are provided in the following section.

Exhibit B ***Significant Deficiencies***

A. Information Technology Controls Need Improvement

FSA does not agree that Plan of Action and Milestone (POA&M) closure documentation did not address the root causes of the deficiencies and that closure evidence was insufficient. FSA has a mature program that ensures POA&Ms are developed to address root causes and document specific deficiencies, recommendations, and corrective action plans. The POA&Ms are reviewed by an independent verification and validation team to ensure all processes are followed and that actions and remediation artifacts are sufficient and appropriate to close POA&Ms. Further, the findings do not consider the compensating controls that prevent inappropriate access, support segregation of duties, and ensure the integrity of application change management.

B. Monitoring Controls over Service Organizations Need Improvement

FSA does not concur with the findings. In FY 2020, FSA assessed and ensured key relevant controls at the service organization that pertained to FSA's financial reporting process were included in the scope of the service organization's System and Organization Controls (SOC) 1, Type 2 report. FSA also had effective monitoring controls in place to ensure the scope of the SOC1 report for the service organization and management's internal control processes covered the relevant key controls to support the reliability and integrity of the data stored in the IT system. Those included the FISCAM components of security management, access controls, configuration management, segregation of duties, and contingency planning. In FY 2020, FSA worked with the service organization to ensure the SOC1 report provided by the independent auditor covered testing of each FISCAM-defined control technique for each of the five control activities. Relevant controls were identified and tested for design and operating effectiveness where applicable in the areas of mainframe operating system and security software.

C. Entity Level Controls Need Improvement

FSA does not concur with the findings. FSA entity level controls are designed and implemented to enable the identification of risks, define risk tolerances, identify processes and controls responsive to those risks, and remediate identified internal control deficiencies in a timely manner. FSA has entity-wide processes in place that follow the principles of the GAO Green Book to define objectives, identify risks, and establish control activities for all infrastructure and systems. As noted in the Monitoring Controls over Service Organizations Need Improvement section above, FSA assessed and ensured key relevant controls at the service organization and had effective monitoring controls in place to ensure the scope of the SOC1 report for the service organization and management's internal control processes covered the relevant key controls to support the reliability and integrity of the data stored in the IT system.

Auditors' Response to Management's Response

We appreciate FSA management's response to our report, presented in Exhibit D.

In the area of controls over the reliability of the data used in the credit reform subsidy re-estimate process, we noted that the control deficiencies identified in the area of Information Technology (IT) elevate the risk that the underlying data used in the re-estimate may not be complete and accurate. For example, we noted that FSA's processes, controls and documentation did not demonstrate management's assessment of the risks related to the reliability of the underlying data posed by the IT control deficiencies and how such risks have been properly mitigated. As such, while the deficiencies related to the IT systems continue to be reported a significant deficiency, the lack of compensating controls to support the reliability of the underlying data is considered a material weakness.

In the area of the significant deficiency over IT controls, we identified numerous control deficiencies, including certain deficiencies that continued to exist for a number of years. We noted instances where management corrective actions were not properly designed and implemented to address the root cause of the findings. We also noted that certain corrective action plans were not implemented for the majority of the fiscal year. Moreover, control deficiencies continued to exist in the area of monitoring controls over service organizations. For example, the scope of the System and Organization Controls (SOC) 1, Type 2 reports reviewed by FSA did not always include certain key control objectives for the systems that FSA relies upon. IT controls, combined with IT application-level and manual controls, are critical to ensure accurate and complete processing of transactions and integrity of data stored in the IT systems.

In the area of entity level controls, we noted that the matters presented in our audit report, and reiterated in the preceding paragraphs, are indicative of lack of sufficient entity level controls in the areas of monitoring and risk assessments activities. For example, untimely remediation of repeat control deficiencies from prior years demonstrates the need for improvement in monitoring activities. The lack of properly calibrated risk assessments to address specific risks related to the underlying data used in the financial reporting process illustrates the need for improvement in the entity risk assessment process.

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Other Information (Unaudited)

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Other Information

Summary of Financial Statement Audit and Management Assurances

Summary of Financial Statement Audit

Audit Opinion: Unmodified

Restatement: No

Table 69: Material Weaknesses

| Material Weaknesses | Beginning Balance | New | Resolved | Consolidated | Ending Balance |
|---------------------------|-------------------|-----|----------|--------------|----------------|
| Total Material Weaknesses | 1 | 1 | 1 | 0 | 1 |

For details on the management assurances related to the FSA programs, please refer to the [Analysis of Systems, Controls and Legal Compliance](#) discussion in the Management's Discussion and Analysis section of this document as well as the *Summary of Financial Statement Audit and Management Assurances* section in the Other Information section of the Department's [AFR](#).

FSA Management Challenges

For details on FSA Management Challenges, please refer to the *Office of Inspector General's Management Challenges for FY 2020 Executive Summary* found in the Other Information section located within the Department's [AFR](#).

Payment Integrity

Payment Integrity Information Act Reporting Details

The *Payment Integrity Information Act of 2019* (Pub. L. 116-117) requires federal agencies to report information annually on improper payments to the President and Congress. For improper payments information, FSA's activities are part of an overall Departmental integrated reporting effort and reported on <https://paymentaccuracy.gov>.

In FY 2020, the Pell Grant and Direct Loan Programs are the FSA programs identified as susceptible to significant improper payments and OMB designated high priority programs. FSA continues to place additional emphasis on these important programs as required by OMB guidance to ensure payment integrity and minimize improper payments. Details on FSA's Pell Grant and Direct Loan improper payment estimation methodologies, improper payment estimates, root causes, and corrective actions can be found at paymentaccuracy.gov.



Appendices

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Appendix A: Discontinued Strategic Goals and Performance Metrics

In FY 2019, FSA initiated the development of an organizational five-year performance plan that aligned with its vision to create a more student-focused, agile, and transparent organization. The *FY 2020–24 Strategic Plan*, establishes ambitious goals and objectives to ensure that FSA will continue to improve upon its mission while increasing accountability in all areas of organizational performance. The development of the new strategic plan was coordinated with the closing of FSA's *FY 2015–19 Strategic Plan* on September 30, 2019.

To maintain consistency with the previous strategic plan, FSA transitioned eight performance metrics into its new strategic plan, while discontinuing five performance metrics from the previous strategic plan. The discontinued metrics are presented below. For more information on the prior year results of the discontinued metrics, refer to the *FSA FY 2019 Annual Report*.

Table 70: Discontinued Performance Metrics

| Performance Metric | Title |
|------------------------|--|
| Performance Metric A.4 | Social Media Channel Subscribership |
| Performance Metric B.1 | Improper Payment Rate |
| Performance Metric C.1 | Aid Delivery Costs per Application |
| Performance Metric D.2 | Percentage of Contract Dollars Competed by FSA |
| Performance Metric D.3 | Collection Rate |

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Appendix B: Glossary of Acronyms and Terms

| Acronym | Description |
|----------------------|---|
| A | |
| ABCP Conduit | Asset-Backed Commercial Paper Conduit |
| ACSI | American Customer Satisfaction Index |
| AD | Administratively Determined |
| <i>AFR</i> | <i>U.S. Department of Education FY 2020 Agency Financial Report</i> |
| <i>Annual Report</i> | <i>Federal Student Aid FY 2020 Annual Report</i> |
| APG | Agency Priority Goal |
| Appendix A | OMB Circular A-123, Appendix A, Management of Reporting and Data Integrity Risk |
| AR | Abandon Rate |
| ASA | Average Speed to Answer |
| ASLA | Annual Student Loan Acknowledgement |
| AWG | Administrative Wage Garnishments |
| B | |
| BD | Borrower Defense |
| BPO | Business Process Operations |
| C | |
| CARES Act | <i>Coronavirus Aid, Relief, and Economic Security Act</i> |
| Caucus | Student Loan Ombudsman Caucus |
| CDR | Cohort Default Rate |
| COD | Common Origination and Disbursement |
| COO | Chief Operating Officer |
| COVID-19 | Coronavirus Disease 2019 |
| CSRS | Civil Service Retirement System |
| D | |
| DCC | Digital Customer Care |
| DDB | Death, Disability, and Bankruptcy |
| the Department | U.S. Department of Education |

Appendix B: Glossary of Acronyms and Terms

| | |
|-------------|---------------------------------------|
| Direct Loan | William D. Ford Federal Direct Loan |
| DMCS | Debt Management and Collection System |
| DOL | U.S. Department of Labor |
| DRG | Default Resolution Group |

E

| | |
|--------|---|
| ECASLA | <i>Ensuring Continued Access to Student Loans Act of 2008</i> |
| EDWA | Enterprise Data Warehouse and Analytics |
| ERM | Enterprise Risk Management |

F

| | |
|----------------------------------|--|
| FAFSA [®] | Free Application for Federal Student Aid [®] |
| FASAB | Financial Accounting Standards Advisory Board |
| FCRA | <i>Federal Credit Reform Act of 1990</i> |
| FECA | <i>Federal Employees' Compensation Act</i> |
| Federal Funds | Federal Student Loan Reserve Funds |
| FERS | Federal Employees Retirement System |
| FEVS | Federal Employee Viewpoint Survey |
| FDMS | Feedback and Dispute Management System |
| FFEL | Federal Family Education Loan |
| FMFIA | <i>Federal Managers' Financial Integrity Act of 1982</i> |
| FRD | Fraud Risk Division |
| FSA | Federal Student Aid |
| FSA PPO | Federal Student Aid Partner and Participation Oversight |
| FSATC | Federal Student Aid Training Center |
| FSEOG | Federal Supplemental Educational Opportunity Grant |
| FUTURE Act | <i>Fostering Undergraduate Talent by Unlocking Resources for Education Act</i> |
| FY | Fiscal Year |
| <i>FY 2015–19 Strategic Plan</i> | <i>Federal Student Aid for Fiscal Years 2015–19 Strategic Plan</i> |
| <i>FY 2020–24 Strategic Plan</i> | <i>Federal Student Aid for Fiscal Years 2020 Through 2024 Strategic Plan</i> |

G

| | |
|------|--|
| GAAP | Generally Accepted Accounting Principles |
| GAO | Government Accountability Office |

Appendix B: Glossary of Acronyms and Terms

| | |
|------|--|
| GLBA | <i>Gramm-Leach-Bliley Act</i> |
| GS | General Schedule |
| GSMR | Granite State Management and Resources |

H

| | |
|-------|---|
| HCERA | <i>Health Care and Education Reconciliation Act of 2010</i> |
| HCWG | Human Capital Working Group |
| HEA | <i>Higher Education Act of 1965, as amended</i> |
| HEAL | Health Education Assistance Loan |

I

| | |
|------|---|
| IDR | Income Driven Repayment |
| IFAP | Information for Financial Aid Professionals |
| IHE | Institution of Higher Education |
| IRS | Internal Revenue Service |

L

| | |
|-----|----------------------------|
| LMS | Learning Management System |
|-----|----------------------------|

M

| | |
|--------|---|
| Met | Performance result met or exceeded target |
| MOU | Memorandum of Understanding |
| MSI | Minority Serving Institution |
| MSURSD | Minority-Serving Under-Resourced Schools Division |

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 Partner Participation and Oversight |
| NFP | Not-For-Profit |
| Not met | Performance result did not meet target |
| NSLDS | National Student Loan Data System |

O

| | |
|------|---|
| OCIO | Office of the Chief Information Officer |
| OIG | Office of Inspector General |
| OIO | Operational Improvement and Oversight |

Appendix B: Glossary of Acronyms and Terms

| | |
|--------------------|--|
| OMB | U.S. Office of Management and Budget |
| OMB Circular A-123 | OMB Circular A-123, <i>Management's Responsibility for Enterprise Risk Management and Internal Control</i> |
| OPEID | Office of Postsecondary Education Identification |
| OPM | U.S. Office of Personnel Management |

P

| | |
|--------------------|---|
| PAYE | Pay As You Earn |
| PBO | Performance-Based Organization |
| PCA | Private Collection Agency |
| Pell Grant | Federal Pell Grant Program |
| PEPS | Postsecondary Education Participants System |
| PHEAA | Pennsylvania Higher Education Assistance Agency |
| PLUS | Parent Loan for Undergraduate Students |
| POE | Principles of Excellence |
| President's Budget | <i>Budget of the United States Government</i> |
| Pub. L | Public Law |
| PSLF | Public Service Loan Forgiveness |

S

| | |
|-----------|----------------------------------|
| SBR | Statement of Budgetary Resources |
| Secretary | Secretary of Education |
| SecOps | Security Operations |
| SES | Senior Executive Service |

T

| | |
|-------------|---|
| TEACH Grant | Teacher Education Assistance for College and Higher Education Grant |
| TEPSLF | Temporarily Expanded Public Service Loan Forgiveness |
| Title IV | Title IV of <i>the Higher Education Act of 1965</i> , as amended |
| TIVAS | Title IV Additional Servicers |
| TOP | Treasury Offset Program |
| TPD | Total and Permanent Disability |
| TPDR | Third-Party Debt Relief |
| Treasury | U. S. Department of Treasury |

Appendix B: Glossary of Acronyms and Terms

U

U.S. United States

W

WDD Workforce Development Division

Appendix C: Availability of the Federal Student Aid Annual Report

The *Federal Student Aid FY 2020 Annual Report* and the *Annual Reports* from prior years are available on the following websites:

- **FSA:** [StudentAid.gov/strategic-planning-reporting](https://studentaid.gov/strategic-planning-reporting)
- **The Department:** <http://www.ed.gov/about/reports/annual/index.html>

The *Federal Student Aid Fiscal Years 2020 Through 2024 Strategic Plan* and prior years' strategic plans are also available at [StudentAid.gov/strategic-planning-reporting](https://studentaid.gov/strategic-planning-reporting).

Stay connected to Federal Student Aid through social media:

- Visit the FSA website: [StudentAid.gov](https://studentaid.gov)
- Like FSA on Facebook : [Facebook.com/FederalStudentAid](https://facebook.com/FederalStudentAid)
- Follow FSA on Twitter : [@FAFSA](https://twitter.com/FAFSA)
- Find FSA on YouTube : [YouTube.com/user/FederalStudentAid](https://youtube.com/user/FederalStudentAid)

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- Strategic Planning and Reporting.
- Office of the Ombudsman.
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- Budget Service.
- Office of the Secretary.
- Office of Legislation and Congressional Affairs.
- Office of Chief Information Officer.

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The Federal Student Aid FY 2020 Annual Report

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