Department of Education

STUDENT AID ADMINISTRATION

Fiscal Year 2019 Budget Request

CONTENTS

STUDENT AID ADMINISTRATION

NOTES

A full-year 2018 appropriation for this account was not enacted at the time the fiscal year 2019 Budget was prepared; therefore, the Budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.

No appropriations language is included for this account. All programs in this account for fiscal year 2019 are authorized under the expired Higher Education Act of 1965, as amended; when new authoring legislation is enacted, appropriations language for these programs will be proposed.

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STUDENT AID ADMINISTRATION

Amounts Available for Obligation
(dollars in thousands)

Appropriation and Adjustments	2017	2018 Annualized CR	2019
Discretionary appropriation:			
Appropriation	$1,576,854	$1,576,854	$1,772,000
Across-the-board reduction (P.L. 115-56)	0	-10,708	0
Subtotal, appropriation	1,576,854	1,566,146	1,772,000
Unobligated balance, start of year	2,430	2,814	0
Recovery of prior-year obligations	10,738	0	0
Unobligated balance expiring	-212	0	0
Unobligated balance transfer to Ready to Learn (P.L.115-31)	-2,000		
Unobligated balance, end of year	-2,814	0	0
Subtotal, adjusted discretionary appropriation	1,584,996	1,568,960	1,772,000

STUDENT AID ADMINISTRATION

Obligations by Object Classification
(dollars in thousands)

	Object Class	2017	2018 Annualized CR	2019	Change from 2018 to 2019
11.10	Full-time permanent	$165,462	$170,906	$168,282	$-2,624
11.31	Full-time temporary	1,246	0	0	0
11.32	Part-time	1,160	0	0	0
11.33	Consultants	2	0	0	0
11.51	Overtime	96	76	105	29
11.52	Awards	2,212	2,938	2,202	-736
11.80	Other Compensation	97	0	0	0
	Subtotal, Personnel Comp.	170,275	173,920	170,589	-3,331
12.00	Benefits	53,239	54,646	54,220	-426
13.10	Benefits for Former Personnel	0	174	78	-96
	Subtotal, Per. Comp & Ben.	223,514	228,740	224,887	-3,853
21.00	Travel	1,667	1,950	2,747	797
22.00	Transportation of things	39	0	0	0
23.10	Rental payments to GSA	19,919	20,514	19,527	-987
23.31	Communications	19	0	0	0
23.32	Postage/fees	0	22	22	0
	Subtotal, 23	19,938	20,536	19,549	-987
24.00	Printing and reproduction	587	121	680	559
25.10	Advisory and assistance services	1,630	386	4,380	3,994
25.21	Other services	922,900	975,593	1,072,772	97,179
25.22	Training/Tuition/Contracts	951	2,070	2,155	85
25.30	Goods/Services from Gov't	43,799	38,249	59,620	21,371
25.40	Operations/Maint of Facilities	120	0	0	0
25.71	Operations/Maint of Equipment	11	15	15	0
25.72	IT Services/Contracts	369,379	300,938	384,557	83,619
	Subtotal, 25	1,338,790	1,317,251	1,523,499	206,248
26.00	Supplies	174	270	465	195
31.10	IT Equipment/Software	246	92	173	81
31.30	Other Equipment	0	0	0	0
	Subtotal, 31	246	92	173	81
32.00	Building Alterations	28	0	0	0
43.10	Prompt payment interest	13	0	0	0
	Total, Obligations	1,584,996	1,568,960	1,772,000	203,040

STUDENT AID ADMINISTRATION

Summary of Changes
(dollars in thousands)

2018	$1,566,146
2019	1,772,000
Net change	+205,854

Increases:	2018 Annualized CR	Change from Annualized CR
Program:		
Increase in loan servicing activities due to increase in loan volume; shifts of existing borrowers from in-school to more expensive, in-repayment, statuses; and transitioning to the Next Generation Processing and Servicing Environment.	$993,662	+$76,338
Increase in core operations including application processing, origination and disbursement functions, and IT system hosting.	211,068	+53,472
Increase in contracted IT services for IT security.	28,575	+29,520
Increase in other student aid activities.	17,680	+24,592
Increase in Goods/Services from Government, mainly for the IRS Data Retrieval tool.	38,249	+21,371
Increase in advisory and assistance services.	386	+3,994
Increase in travel.	1,950	+797
Increase in printing.	121	+559
Increase in supplies.	270	+195
Increase in training.	2,070	+85
Increase in technology equipment/software.	92	+81
Increase in overtime.	76	+29
Subtotal, increases		+211,033

STUDENT AID ADMINISTRATION

Summary of Changes—Continued
(dollars in thousands)

Decreases:	2018 Annualized CR	Change from Annualized CR
Built-in:		
Decrease in PC&B expenditures due to a reduction of 23 FTE.	$225,552	-$3,360
Decrease in rent to GSA.	20,514	-987
Program:		
Decrease in employee awards.	2,938	-736
Decrease in benefits for former personnel.	174	-96
Subtotal, decreases		-5,179
Net change		+205,854

STUDENT AID ADMINISTRATION

Authorizing Legislation
(dollars in thousands)

Activity	2018 Authorized	2018 Annualized CR	2019 Authorized	2019 Request
Student aid administration *(Higher Education Act of 1965, I-D and IV-D, section 458; Public Health Service Act, VII-A)*	0[1]	$1,566,146	To be determined[2]	$1,772,000
Total appropriation		1,566,146		1,772,000
Portion of request not authorized				1,772,000

[1] The program was authorized in 2018 through appropriation language.
[2] The GEPA extension expired September 30, 2015; reauthorizing legislation is sought for fiscal year 2019.

STUDENT AID ADMINISTRATION

Appropriations History
(dollars in thousands)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2010	$870,402	$870,402	$870,402[1]	$870,402
Rescission (P.L. 111-226)	0	0	0	-82,000
2011	1,170,231	994,600[2]	1,048,078[1]	992,012[3]
2012	1,095,418	992,012[4]	1,045,363[4]	1,043,387
2013	1,126,363	1,043,387[5]	1,126,363[5]	978,924[6]
2014	1,050,091[7]	N/A[8]	1,044,301[2]	1,166,000[9]
2015	1,446,924[10]	N/A[11]	1,446,924[12]	1,396,924
2016	1,581,854[10]	1,446,924[13]	1,361,700[13]	1,551,854
2017	1,631,990[14]	1,551,854[15]	1,546,854[15]	1,576,854[15]

[1] The levels for the Senate allowance reflect Committee action only.
[2] The levels for the House allowance reflect the House-passed full-year continuing resolution.
[3] The level for appropriation reflects the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10).
[4] The level for the House allowance reflects an introduced bill; the level for the Senate allowance reflects Senate Committee action only.
[5] The levels for the House and Senate allowance reflect action on the regular annual 2013 appropriation bill, which proceeded in the 112th Congress only through the House Subcommittee and the Senate Committee.
[6] Total transfer $9,888 thousand to Program Administration, Office for Civil Rights and Office of Inspector General.
[7] Excludes $2,807 thousand proposed for transfer from Department of Health and Human Services to Department of Education for the Health Education Assistance Loan program.
[8] The House allowance is shown as N/A because there was no Subcommittee action.
[9] Excludes $996 thousand transferred from Department of Health and Human Services to Department of Education for the Health Education Assistance Loan program.
[10] The Bipartisan Budget Act of 2013 eliminated mandatory funding for the Not-for-Profit (NFP) servicing costs, which were previously not reflected in this table. Starting in fiscal year 2015, the estimate reflects total cost to service loans, discretionary funding and what was previously considered mandatory funding.
[11] The House allowance is shown as N/A because there was no Subcommittee action.
[12] The level for the Senate allowance reflects Senate Subcommittee action only.
[13] The levels for House and Senate allowances reflect action on the annual 2016 appropriations bill, which proceeded in the 114th Congress only through the House Committee and Senate Committee.
[14] The Bipartisan Budget Act of 2013 eliminated mandatory funding for the Not-for-Profit (NFP) servicing costs, which were previously not reflected in this table. Starting in fiscal year 2015, the estimate reflects total cost to service loans, discretionary funding and what was previously considered mandatory funding.
[15] The levels for the House and Senate allowances reflect Committee action on the regular annual 2017 appropriations bill; the Appropriation reflects the Consolidated Appropriations Act, 2017.

STUDENT AID ADMINISTRATION

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2018	$1,697,711[1]	$1,697,711[1]	$1,576,854[1]	$1,566,146[1]
2019	1,772,000			

[1] The levels for the House reflect floor action on an Omnibus appropriation bill; Senate allowances reflect Committee action on the regular annual 2018 appropriations bill; the Appropriation reflects the annualized Continuing Resolution level.

STUDENT AID ADMINISTRATION

Significant Items in FY 2018 Appropriations Reports

SAA Obligation Plan Discretionary Funds

Senate — The Committee directs the Department to continue to provide quarterly reports detailing its obligation plan by quarter for student aid administrative activities broken out by servicer and activity.

Response — The Department will continue to provide the requested quarterly reports on administrative obligations.

Benefits for Servicemembers and Veterans

Senate — The Committee directs the Secretary of Education to enter into a Memorandum of Understanding with the Secretaries of Defense and Veterans Affairs to automate the application of loan benefits to eligible servicemembers and veterans using information in existing Federal databases in a timely manner so that servicemembers and veterans can receive the benefits due under law. The Committee further directs the Secretary of Education to brief the Committees on Appropriations of the House of Representatives and the Senate, Senate Committee on Health, Education, Labor, and Pensions, and the House Committee on Education and the Workforce on the plan for implementing this automation process within 90 days of enactment of this act.

Response — The Department shares your commitment to ensuring that eligible servicemembers and veterans receive the benefits due under law and is working with the Departments of Defense and Veterans Affairs on a number of initiatives to streamline the process for identifying current or former servicemembers. While some efforts have resulted in formal data-sharing agreements, it is not clear that a memorandum of understanding is needed to facilitate the exchange of data. The Department will brief the Committees on Appropriations as requested.

Cohort Default Rates

Senate — The Committee is concerned that some public institutions of higher education operating in economically distressed communities have faced challenges in meeting statutory requirements to manage and prevent student loan defaults because of community-wide factors where the institution operates. The Committee strongly encourages the Secretary to use any authority available, including under section 435(a)(2)(iii) of the HEA, to provide flexibility in applying section 435(a) to institutions of higher education in severely distressed communities in the United States, including institutions operating in counties ranking in the bottom 5 percent of all counties in the Distressed

Designation and County Economic Status Classification System of the Appalachian Regional Commission, or based on other commonly used indices or measures. The Committee directs the Secretary to report to the Committees on Appropriations of the House of the Representatives and the Senate, the Senate Committee on Health, Education, Labor and Pensions, and the House Committee on Education and the Workforce on any additional statutory authority the Secretary may need to provide flexibility to such institutions.

Response — The Department will look into additional statutory authority and will report to the Committees as requested.

Loan Counseling

Senate — The Committee directs the Department within 180 days of enactment to issue guidance to clarify how colleges and universities can allow state-based organizations to participate in advising students on campus without violating Preferred Lender List rules. Pursuant to statutory restrictions, such guidance should not permit institutions of higher education or State-based organizations to directly market or advertise State-based education loan programs to students.

Response — The Department believes that it currently lacks the authority to comply with this directive absent a change in law.

Student Loan Discharges

Senate — The Committee recognizes that there is ongoing disruption to and burden on the lives of students from the closure of and misconduct by Corinthian Colleges, Inc. (CCi). Former students who enrolled in many programs of study at more than 100 CCi campuses were provided with highly misleading job placement rate information. At least 45,000 former CCi students have pending applications with the Department for a discharge and refund of their fraudulently issued federal loan debt and the Committee believes that many more students have not applied. The Committee directs the Secretary to process applications as expeditiously as possible, and ensure students are aware of their potential eligibility for relief by identifying and contacting borrowers who may qualify to assert a defense to repayment utilizing the program-level enrollment information provided.

Response — The Department shares your concern about processing Corinthian Colleges, Inc. (CCi) Borrower Defense (BD) claims as expeditiously as possible. With the conclusion of the Inspector General management review that was performed to ensure that there were processes and procedures in place to successfully adjudicate BD claims, the Department has resumed the processing of CCi claims and has already reduced the backlog of pending CCi claims. The Department has previously reached out to borrowers who may be eligible for relief through mail, email, and social media notifications. The Department is also aware that State Attorneys General and other third-parties have contacted borrowers who attended a CCi campus to inform them that they may be eligible for borrower defense relief and with instructions on how to submit an application.

Borrower Defense Claims Reporting

Senate The Committee directs the Department to report on a quarterly basis to the Committees on Appropriations of the House of Representative and the Senate, the Senate Committee on Health, Education, Labor, and Pensions, and the House Committee on Education and the Workforce, on receipt and processing by the Department of borrower defense claims made pursuant to section 455(h) of the HEA. This should include information on the total number of pending borrower defense claims, total dollar amount of relief, and the total dollar amount of relief, and total number of denied claims, including disaggregated by State. The report shall also include specific actions taken and planned to process this workload in a timely manner.

Response The Department will provide the requested report on borrower defense claims.

Student Loan Servicing: New Servicing Environment

Senate During the collaborative information gathering and stakeholder engagement effort related to the new servicing environment that was announced on August 1, 2017, the Department is directed to engage with the Committees on Appropriations of the House of Representatives and the Senate, the Senate Committee on Health, Education, Labor, and Pensions, and the House Committee on Education and the Workforce to gather input from Congress on the design of this environment.

Response The Department has engaged with Congressional members and Committees and will continue to collaborate with the Committees on the new servicing environment.

Student Loan Servicing: Loan Consolidation

Senate The Committee reiterates the directive included in bill language in the Consolidated Appropriations Act, 2017, and included in this bill, requiring the Department to allow borrowers, when consolidating student loans to select from any of the existing servicers to service their new consolidated loan.

Response	The Department is pleased to notify the Committee that at the end of December 2017 all borrowers have the ability to choose any existing servicer when consolidating their student loans.

Student Loan Servicing: Common Policies and Procedures Manual

Senate	The Committee reiterates the directive included last year and again directs the Department to issue a common policies and procedures manual, including voluntary best practices, to help improve the consistency of servicing for student loan borrowers. The manual should include best practices related to how borrowers should be counseled about repayment options and benefits. The Department should utilize expertise and resources from its servicers in developing this manual which can also serve as the guide for servicing standards in the future servicing environment.
Response	The Department appreciates the Committee's interest and is pursuing an acquisition approach for Federal student loan servicing that it believes best balances high-quality service for borrowers and value for taxpayers. Information on this procurement is available on the Federal Business Opportunities website at: https://www.fbo.gov/index?s=opportunity&mode=form&id=4ad285d54ca5520b541283995c7e39d6&tab=core&_cview=0 One of the key goals of this procurement is to ensure that Federal student loan borrowers receive consistent high-quality service throughout the student aid lifecycle.

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DEPARTMENT OF EDUCATION FISCAL YEAR 2019 PRESIDENT'S BUDGET
(in thousands of dollars)

	Category Code	2017 Appropriation	2018 Annualized CR	2019 President's Budget	2019 President's Budget Compared to 2018 Annualized CR Amount	2019 President's Budget Compared to 2018 Annualized CR Percent
Student Aid Administration (HEA I-D and IV-D, section 458)						
1. Salaries and expenses	D	716,253	632,484	762,000	129,516	20.48%
2. Servicing activities	D	860,601	933,662	1,010,000	76,338	8.18%
Total		1,576,854	1,566,146	1,772,000	205,854	13.14%

NOTES: D = discretionary program; M = mandatory program
Detail may not add to totals due to rounding.

STUDENT AID ADMINISTRATION

(Higher Education Act of 1965, I-D and IV-D, section 458; Public Health Service Act, VII-A)

(dollars in thousands)

FY 2019 Authorization: To be determined[1]

Budget Authority:

	2018 Annualized CR	2019 Request	Change from Annualized CR
Personnel Comp. & Ben. Costs	$228,740	$224,887	-$3,853
Non-Personnel Costs, excluding Loan Servicing Costs	403,744	537,113	+133,369
Subtotal, Salaries and Expenses	632,484	762,000	+129,516
Loan Servicing Costs	933,662[2]	1,010,000[3]	+76,338
Total, Student Aid Administration	1,566,146	1,772,000	+205,854
FTE	1,517	1,494	-23

[1]The GEPA extension expired September 30, 2015; reauthorizing legislation is sought for fiscal year 2019.

[2] Includes servicing costs of $803,960 thousand for loan servicer contracts, $89,027 thousand for Debt Management Collection System (DMCS) servicing costs, $36,063 thousand for loan servicer development costs, $1,905 thousand for Department-held Perkins Loans servicing, $1,810 thousand for Health Education Assistance Loan (HEAL) program administration costs, $500 thousand for loan servicer lockbox services, and $397 thousand for customer service survey.

[3] Includes $856,190 thousand for loan servicer contracts, $95,072 thousand for DMCS servicing costs, $50,000 thousand for Next Generation Processing and Servicing costs, $2,280 thousand for Department-held Perkins Loans servicing, $4,000 thousand for loan servicer development, $1,560 thousand for HEAL program administration costs, $500 thousand for loan servicer lockbox services, and $398 thousand for a customer satisfaction survey.

STUDENT AID ADMINISTRATION

PROGRAM DESCRIPTION

Student Aid Administration (SAA) provides funds to administer the Federal student financial assistance programs authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended.

The Title IV programs, which provide funds to help students and families pay for the cost of postsecondary education, are the Nation's largest source of financial aid for postsecondary students. The account provides funding to administer the student aid lifecycle, including: educating students and families about the process for obtaining Federal aid and repaying student loans; processing approximately 19.7 million student financial aid applications; disbursing nearly $151 billion in Direct Loans and $30 billion in Pell grants; administering a loan portfolio of nearly $1.4 trillion; and protecting students and taxpayers by ensuring that Federal resources are used appropriately.

The Higher Education Amendments of 1998 established Federal Student Aid (FSA) as the Federal Government's first performance-based organization to improve service for students, parents, schools, and other program participants; to reduce student aid administration costs; to increase the accountability of the officials responsible for administering program operations; and to integrate the student aid processing and delivery systems.

The Offices of Postsecondary Education (OPE), the Under Secretary, and FSA oversee and administer the Federal student financial assistance programs. OPE formulates policy for these student financial assistance programs and administers other Federal postsecondary education programs. In addition, other Department offices—Office of the Chief Financial Officer; Office of the Chief Information Officer; Office of the General Counsel; Office of Management; and Office of Planning, Evaluation, and Policy Development—contribute to the policy formulation, administration and oversight of the student aid programs.

The Federal Pell Grant Program is the foundation of a low-or moderate-income student's financial aid package. The program provides financial assistance to students attending postsecondary education programs disbursing, approximately $29.0 billion to 7.2 million low-and middle-income undergraduate students during the 2017–2018 award year, with an average award of $4,050. The maximum Pell Grant award has grown from $5,550 for the 2010–2011 award year to $5,920 for the 2018–2019 award year.

The William D. Ford Federal Direct Loan (DL) Program drives a significant portion of FSA's workload. The DL program lends funds directly to students and their families through participating schools. In fiscal year 2019, the Department will originate $99 billion in new Direct Loans, excluding Consolidation Loans. See the **Student Loans Overview** and **Student Aid Overview** for details on Student Loan programs in the fiscal year 2019 request. The Federal Family Education Loan (FFEL) Program is similar to the DL Program except private lenders provided those funds, which are insured by loan guaranty agencies and then reinsured by the Government.

SAFRA (Student Aid and Fiscal Responsibility Act), Title II, Part A of the Health Care Education Reconciliation Act, 2010, ended the FFEL program's authority to originate new Federal student loans. Since July 1, 2010, the Department has originated and serviced all new Federal student loans through the DL program. FSA continues to administer the FFEL program, while lenders and guaranty agencies continue to service and collect some outstanding loans in the FFEL portfolio. FSA services the government-held FFEL program loans and DL program loans through the use of private contractors.

Funding levels for the past 5 fiscal years were:

Fiscal Year	(dollars in thousands)
2014	$1,166,000
2015	1,396,924
2016	1,551,854
2017	1,576,854
2018	1,566,146

FY 2019 BUDGET REQUEST

The Administration requests $1.8 billion in the Student Aid Administration (SAA) account to administer the Federal student aid programs, which is $205.9 million, or 13 percent, above the fiscal year 2018 Annualized Continuing Resolution level. A full-year 2018 appropriation was not enacted at the time of the fiscal year 2019 request was prepared; therefore, the Budget assumes the Department is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for fiscal year 2018 reflect the annualized level provided by the continuing resolution. The requested funds are necessary to manage and service the student loan portfolio, including: anticipated increases in loan volume; maintaining operations for student aid application processing, origination and disbursement functions, and student aid information technology (IT) system hosting; supporting the IRS Data Retrieval Tool; and enhancing security across applications.

Highlights of the fiscal year 2019 request include:

1) **Loan servicing activities** total $1.0 billion, an increase of $76.3 million over the fiscal year 2018 Annualized CR level. These increased costs are directly tied to expected increases in loan volume and shifts of existing borrowers from in-school to more expensive in-repayment statuses, in addition to costs associated with transitioning to the Next Generation Processing and Servicing Environment. More detail is provided on Y-18–20.

2) **Maintaining continual operations for student aid application processing, origination and disbursement functions, and IT system hosting** total $264.5 million, an increase of $53.5 million over the fiscal year 2018 Annualized CR level. These costs are necessary for maintaining core operations of the student aid life cycle. More detail is provided on Y-20–22.

3) **Federal Student Aid IT security** totals $45.6 million, an increase of $28.2 million over the fiscal year 2018 Annualized CR. The net increased costs are crucial to protecting

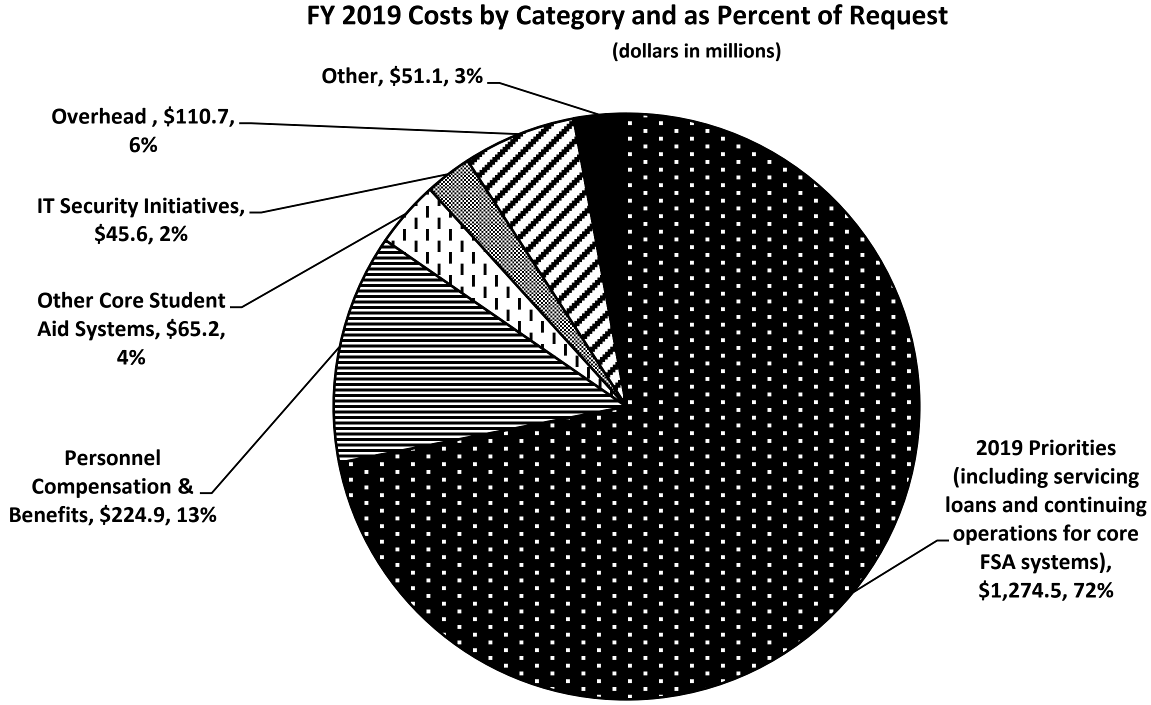
borrowers' personal information and to enhance cybersecurity initiatives to protect against security breaches. More detail is provided on Y-24-27.

4) **Federal Student Aid Interagency Agreements** total $32.8 million, an increase of $20.8 million over the fiscal year 2018 Annualized CR level. The net increased costs, $17.8 million, are critical to the operations and maintenance of the IRS Data Retrieval Tool and IRS customer notices and customer service. More detail is provided on Y-23.

Fiscal Year 2019 Budget Costs by Category

SAA groups investments by category. The chart on Y-18 provides the funding level for each budget cost category and the percentage share of the fiscal year 2019 Budget request. Eighty-five percent of the proposed SAA budget supports fiscal year 2019 Federal Student Aid operational activities and personnel compensation and benefits. Federal Student Aid's major operational activities include: effectively servicing the growing student loan portfolio and operations for student aid application processing, origination and disbursement functions, and IT system hosting. The budget request includes $224.9 million to cover the Personnel Compensation and Benefits (PC&B) costs of 1,494 Full-Time Equivalent (FTE) Employment; 1,365 FTE in Federal Student Aid and 129 FTE in the non-Federal Student Aid offices, as shown on page Y-28. The fiscal year 2019 request is a net total decrease of 23 FTE below the fiscal year 2018 Annualized CR level.

Other core student aid systems (e.g., National Student Loan Data System and FSA's accounting system), matching agreements (e.g., IRS Data Retrieval), and IT security initiatives, including FSA's increased cybersecurity efforts, account for 6 percent of the request. The remaining 9 percent includes overhead for central support (e.g., rent, background investigations), central information technology (e.g., the Department's EDCAPS financial systems) and the "Other" category that includes Web site interfaces, contract specialist support, and other activities to carry out FSA's mission.



The following sections highlight the budget categories specific investments for fiscal year 2019.

Fiscal Year 2019 Federal Student Aid Budget Priorities: $1,274.5 million

Effectively servicing the student loan portfolio: FY 2019 request of $1,010.0 million is an increase of $76.3 million over the fiscal year 2018 Annualized CR level

The fiscal year 2019 requests $1,010.0 million for loan servicing costs ($906.2 million for operations and maintenance for loan servicers and Next Generation Processing and Servicing transition costs; $98.9 million for Debt Management Collection System (DMCS) servicing costs, Department-held Perkins Loan Servicing, and Health Education Assistance Loan (HEAL) program administration costs; $4.0 million for system development costs; $500,000 for lockbox services; and $398,000 for customer service satisfaction surveys). The servicing costs are driven in part based on the overall loan volume, the combination of repayment statuses in the loan portfolio, and the timing of loan delivery.

Currently, the Department contracts with nine servicers to provide borrower services for the Federal Direct Loan and TEACH Grant programs, as well as for federally held loans originated under the Federal Family Education Loan program. Two additional servicers provide services for the Perkins Loan program and default management. All servicers are funded entirely with discretionary budget authority. In addition, the costs necessary to service the HEAL program are included in the total servicing request for fiscal year 2019.

Servicing cost estimates are very sensitive to changes in the total number of borrowers being serviced and the distribution of accounts across loan statuses. Loan servicers are currently paid a unit cost per borrower account that they service. Unit costs are structured to incentivize servicers to keep borrower accounts in repayment current. Servicers are compensated more for accounts that are actively repaying. Conversely, servicers are paid less for accounts that are not actively repaying (in-school, deferment, and forbearance status) and incrementally paid even less as accounts shift further into non-payment, i.e., delinquency status. As the total number of borrower accounts being serviced increases and as more borrowers move into active repayment (current status), servicing costs will increase accordingly. FSA closely analyzes performance and costs of the servicing contractors to ensure that its estimates are as accurate as possible and to evaluate whether its servicing contracts are appropriately incentivizing servicers to keep borrowers in good standing.

New Federal Student Aid Processing & Servicing Environment

The Department is pursuing a new approach to Federal Student Aid processing and servicing that will allow a more innovative approach to the delivery of services and information to its customers. This new approach will meet customer expectations, improve how customers consume services and utilize different technology and media platforms, and further enhance borrower protections. The approach will also require the separation of database housing, system processing, and customer account servicing so that cost efficiencies can be achieved and current state-of-the-art technologies can be deployed and evolve in the future. To address future loan servicing needs, FSA conducted market research on how world-class financial services organizations design and operationalize their customer service engagement practices, as well as web and mobile, middleware, data processing, analytics, storage, and hosting capabilities. Through this market research, FSA is refining its strategy to implement the Next Generation Processing and Servicing Environment.

Based on this research and conversations with a broad range of internal and external experts in student loan finance, the Department has developed a plan for a Next Generation Financial Services Environment that will leverage best-in-business technology to improve customer experience and outcomes and drive savings for taxpayers by reducing FSA administrative costs.

The key to this transformation will be a comprehensive, FSA-branded customer engagement layer that will create an environment through which the Department’s customers will receive clear, consistent information and readily accessible self-service options at every stage of the student aid lifecycle. FSA will emphasize a mobile-first, mobile-complete strategy complemented by web, phone, chat, and in-person capabilities.

This engagement layer will foster a life-long relationship with customers, from before they apply for aid as high school students through when they plan for their children and grandchildren’s education. It will transform FSA into a trusted source of information and greatly simplify the process of helping customers choose the best options to help them manage their student debt. In addition, the creation of standardized systems, processes, and procedures—combined with the inclusion of clear performance expectations tied where possible to explicit contractual incentives and disincentives—is expected to simplify oversight of vendor performance and better ensure compliance with consumer protection and customer service standards.

At the same time, FSA will leverage the latest in middleware, processing, data storage and security to create a more efficient, cost-effective technical infrastructure. While Federal student loans are uniquely complex, the Department believes that leveraging modern commercial engagement and technical capabilities is likely to reduce FSA's operating costs once the solution is fully implemented.

The Department plans to have elements of the new environment in place prior to the expiration of the current servicing contracts in 2019.

Maintaining continued operations for IT system hosting and student aid application processing, origination, and disbursement functions: FY 2019 request of $264.5 million, an increase of $53.5 million over the fiscal year 2018 Annualized CR level.

The budget request includes $264.5 million for information technology (IT) system infrastructure and student aid application processing, origination, and disbursement functions, an increase of $53.5 million over the fiscal year 2018 Annualized CR level. Included in this request are key FSA operational costs:

- Title IV Origination and Disbursement System (TIVODS) ($120.7 million);
- Application and Eligibility Determination System (AEDS) and Customer Contact Center ($67.6 million) including operations and maintenance of the development and processing of FAFSA ($28.3 million), customer contact center operations with FSA Feedback System ($37.7 million), and recompete efforts ($1.6 million); and
- IT system costs ($76.2 million) including the operation and maintenance of the Next Generation Data Center, software licenses, and the technical architecture and system support for FSA applications.

<u>Title IV Origination and Disbursement System (TIVODS): FY 2019 request of $120.7 million is an increase of $17.3 million over the fiscal year 2018 Annualized CR level.</u>

Federal Student Aid will originate and disburse over $181 billion in Pell Grants (HEA, Title IV, Part A, Subpart 1) and Direct Loans (HEA, Title IV, Part D) including loan consolidations in fiscal year 2019. TIVODS is responsible for originating and disbursing this aid to approximately 6,000 schools and millions of student recipients of federal student aid. The system also supports interfaces to other systems to verify borrower eligibility as well as provide federal student aid, loan consolidation, borrower counseling, financial reporting, and program oversight.

In fiscal year 2018, the functionality of the eCampus-Based (eCB) system, which automates the administration of the Federal Perkins Loan and Federal Work Study Programs, will also be integrated into TIVODS. This additional functionality will determine institutional funding needs and allocation levels based on data from the Fiscal Operations Report and Application to

Participate; collect funding data to inform subsequent reallocations; maintain cumulative Perkins Loan funding histories; calculate institutional cohort default rates; update the list of qualifying schools that TEACH recipients and others looking for certain loan forgiveness benefits need to teach at in order to maintain eligibility; and identify delinquent or defaulted Perkins Loan borrowers.

Application and Eligibility Determination System (AEDS) and Customer Contact Center: $67.6 million; including operations and maintenance ($28.3 million), customer contact center operations with FSA Feedback System ($37.7 million), and reengineering efforts ($1.6 million) is an increase of $19.3 million over the fiscal year 2018 Annualized CR level.

AEDS operations and maintenance (O&M) provides funding for daily operations of systems and services related to FAFSA filing (online and paper), application processing, determination of aid eligibility, and development of the upcoming annual application. In addition to these contracted services, AEDS O&M provides funds for increased hardware and software support during FAFSA peak processing months.

In addition, the FSA Customer Contact Center ensures that customers, both student applicants and schools, have accessible, accurate, timely, and professional responses to their inquiries via their preferred method of communication. Funding also supports call center operational support for the Ombudsman's Group including call intake, casework, and customer response services for new and existing contacts to the Federal Student Aid Ombudsman Group.

The fiscal year 2019 budget request will support operations and maintenance costs for the FSA Feedback and Ombudsman System, which registers feedback and complaints by public users. After the complaint is registered, the complaint is then sent to the Ombudsman for the Ombudsman to reach out to the submitter for resolution. Lastly, funding will also support the recompete efforts for the eligibility and determination system of AEDS, which will include contact award and transition costs.

Next Generation Data Center (NGDC): FY 2019 request of $50.2 million is an increase of $13.2 million over the fiscal year 2018 Annualized CR level.

The NGDC is a single computing environment for data and transaction processing, network communication services, infrastructure, and tools required to deliver financial aid.

The NGDC will host 61 system applications and has a security posture that incorporates best practices utilizing a hybrid cloud solution. The fiscal year 2019 request will support the operation and maintenance of the NGDC and funding will also be utilized to provide the NGDC's telecommunication foundation for FSA systems and call centers.

Enterprise Software Licenses: FY 2019 request of $20 million is an increase of $2.0 million over the fiscal year 2018 Annualized CR level.

Enterprise Software Licenses supports maintenance renewal agreements for all FSA and NGDC supported software. This program consolidates similar software licenses with different renewal dates under one agreement and reduces licensing duplication for FSA. Centralizing procurements and renewals of software licenses promotes cost savings through quantity discounts and reduction of contracts used for maintenance renewals.

Enterprise Architecture & Engineering (EAE): FY 2019 request of $6.0 million is an increase of $1.7 million over the fiscal year 2018 Annualized CR level.

EAE provides a full range of technical architecture and engineering functions that provide FSA with the necessary services and support needed to plan, maintain, and develop its enterprise architecture. Engineering services include Enterprise IT Architecture (EITA) middleware architecture services and Enterprise Performance Testing (EPT) services. Architecture services include Enterprise Architecture (EA) and Technical Architecture Services (TAS).

EITA provides critical technology platform and technical support services, including integrated technical architecture and middleware architecture. EITA provides product support services, including root cause analysis and resolution of middleware-related production issues for FSA's mission-critical applications. Middleware services reduce security vulnerabilities within the FSA system architecture. EPT provides performance testing analysis services that ensure FSA's applications are configured appropriately. It also makes sure that sufficient capacity is deployed during production for each mission critical application within the NGDC. Enterprise Architecture (EA) provides FSA stakeholders - senior managers, application leads, investment decision makers, with essential IT architecture information and tools, for use in evaluation and acquisition of new solutions. TAS provides IT engineering expertise to ensure technical solutions meet FSA's technical requirements, and represent industry best practices and implements FSA IT engineering processes that evaluate and improve design standards.

Other Core Student Aid Administration Systems: $65.2 million

National Student Loan Data System (NSLDS): $17.3 million

NSLDS maintains detailed administrative data on the provision of Title IV aid, such as the number of loans and grants made, and provides for the electronic exchange of data between program participants and the system. NSLDS collects and stores data from borrowers, schools, lenders, and guaranty agencies and integrates data on student aid applicants and recipients. The Department uses this comprehensive data to effectively administer the student loan and grant programs by preventing fraud and abuse through pre-screening and post-screening for Title IV aid eligibility, calculating statutory guaranty agency payments, and calculating higher education accountability measures. NSLDS data is integrated into the Enterprise Data Warehouse and Analytics project, which improves the Department’s portfolio management, policy analysis, and budget formulation capabilities. As part of FSA’s overarching strategy to maintain modern systems, the fiscal year 2019 request supports the operations and maintenance of the system and enhancements. The fiscal year 2019 request of $17.3 million is an increase of $4.6 million over the fiscal year 2018 Annualized CR level.

Financial Management System (FMS): $8.8 million

FMS consolidates and manages all financial transactions from FSA's feeder systems. FMS facilitates reconciliation and internal program management and reporting. The system tracks and manages payment processing for Federal Direct Loan originations and Pell Grant awards, and it processes refunds to borrowers for overpaid loans and payments to lenders and guaranty agencies. It also performs validations and reasonability checks to minimize erroneous payments. The fiscal year 2019 request supports the operations and maintenance of the system. The fiscal year 2019 request of $8.8 million is the same as the fiscal year 2018 Annualized CR level.

Federal Student Aid Administration Interagency Agreements: $32.8 million

The Department enters into agreements with other Government agencies for the purpose of verifying Federal student aid eligibility and accessibility and providing services to simplify the aid process. Currently the Department has agreements with Department of Treasury, Internal Revenue Service, Social Security Administration, Department of Homeland Security, Health Resources and Services Administration, Government Printing Office, and Department of Commerce.

The fiscal year 2019 request of $32.8 million is an increase of $20.8 million over the fiscal year 2018 Annualized CR level. A net increase, $17.8 million, over the fiscal year 2018 Annualized CR is due to the recent agreement between FSA and IRS. FSA and IRS collaborate on a data retrieval tool, publicly known as the IRS Data Retrieval Tool or DRT, which retrieves specific tax return information for authenticated users of ED’s online FAFSA form (fafsa.gov) and the Income Driven Repayment plans (IDR) online applications. The tool provides users a convenient option to securely transfer encrypted tax return information to the online FAFSA form and or IDR applications. Information is shared with FSA, based on user authentication and consent via the online FAFSA form and IDR applications, and is specifically used for determining student eligibility for federal student aid and loan repayment options. Via a Memorandum of Understanding (MOU), FSA pays IRS for operations and management of the data retrieval tool for FAFSA and IDR applications, as well as for required IRS notices issued to users who successfully authenticate in the data retrieval tool and IRS customer service related to those notices. Costs for this tool are largely driven by the IRS notices and customer service (rather than the operations and management). It is estimated that FAFSA usage will account for approximately 60 percent of the required notices, and IDR applications usage will account for 40 percent. FSA is committed to working with IRS to explore and implement alternate, more cost-effective ways of fulfilling the IRS notice requirements while maintaining consistency with NIST standards. The Budget also proposes to streamline the Department of Education’s ability to verify applicants’ income data which could reduce these notification costs among other improved cost efficiencies.

Participation Management (PM): $3.7 million

Participation Management is FSA's central system for managing partner organization enrollment in FSA data exchange services. Virtually all schools, third-party servicers, guaranty agencies, Federal loan servicers, FSA External Partners, State Agencies, and other organizations must use PM to enroll in services provided by FSA systems such as NSLDS, TIVODS, FMS, SAIG, AIMS, CPS, FAA Access, TPD and DMCS. Without PM, enrollment in FSA data services would be severely impaired as FSA's process for managing that access would become fragmented.

The fiscal year 2019 request supports ongoing operations, maintenance, and customer support to manage collecting and integrating service enrollment information, and sharing that information in a timely manner across FSA systems. The fiscal year 2019 request of $3.7 million is an increase of $1.6 million over the fiscal year 2018 Annualized CR level.

OIG Fraud Referral: $1.0 million

The OIG Fraud Referral process streamlines FSA's receipt process to determine if fraudulent activities occurred and whether there was an appropriate resolution. This effort is fully responsive to OIG requests for coordination on these referrals.

In fiscal year 2019, funds will continue to provide annual contract support to maintain sustainable operations and will continue to advance data-driven analysis, outreach, and coordination of enhancements to FSA's control framework. The fiscal year 2019 request of $1.0 million is an increase of $618,000 over the fiscal year 2018 Annualized CR level.

EDExpress (EDE): $1.6 million

Funding for this project is for the continued operation and maintenance of the EDE Suite (EDExpress and DL Tools) software tool provided by FSA to schools.

EDE Suite is a "school product" software suite provided to schools at no cost for their use in originating, disbursing, and packaging direct loans and grants for students. EDE Suite significantly eases the school's process of interacting with TIVODS to submit awards by automating most of the tasks involved in building the XML Common Record file that TIVODS requires for origination and disbursement of student aid.

The EDE Suite also provides valuable reconciliation functionality to participating Title IV schools, allowing them to compare their internal organizational award databases against the TIVODS database for direct loan and grant awards, and identify discrepancies that require further attention. Without FSA's continued support for this product, schools would be forced to seek technical support from private market software products at additional cost, develop their own products, or be unable to participate in Title IV programs due to their inability to submit records to TIVODS. The fiscal year 2019 request will support operations and maintenance of the system and contract recompete costs for the system. The fiscal year 2019 request of $1.6 million is an increase of $700,000 over the fiscal year 2018 Annualized CR level.

IT Security Initiatives: $45.6 million

FSA takes seriously the ongoing security threats to operations and the real risks of compromising borrowers' personal information. In addition to verifying that security requirements are being met in individual system and service contracts, FSA has specific initiatives to mitigate security risks.

Cybersecurity (CS) initiatives: $26.5 million

Cybersecurity (CS) initiatives mitigate current critical, high, and moderate vulnerabilities that affect FSA on an enterprise-wide scale. Instead of a single point solution or application-specific problems, CS initiatives fund remediation activities and enterprise solutions as indicated by industry best practices, DHS, and OIG audit findings. CS initiatives include implementing foundational security technologies that augment or add new capabilities to protect business functions such as loan servicing and delivery of grants and loans to students and institutes of higher education. These broad initiatives include reducing the types and numbers of insecure Internet connections from student to FSA systems, thus protecting the privacy and integrity of student financial and personal information.

FSA will continue to maintain the cyber security capabilities and services focused on the data centers and third party hosting providers. In addition to the efforts on identifying, preventing, detecting, protecting, and reacting services, the investment will focus on data protection and management across all systems using the capabilities delivered during fiscal years 2017 and 2018. Additionally, in fiscal year 2019, corrective actions will be taken to address gaps in services and capabilities identified in fiscal year 2018; a key focus will be the systematic detection of fraud and insider threat activities.

The fiscal year 2019 request of $26.5 million is an increase of $24.0 million over the fiscal year 2018 Annualized CR level. The increase in fiscal year 2019 will allow for both the continued monitoring of internal systems and the expansion of cybersecurity capabilities into existing vulnerability gaps, specifically external partner networks, systems, and end-user schools. This expansion constitutes a significant upgrade to the oversight capabilities of FSA IT security. This level of security technology allows for real-time identification and prevention of common hackers as well as detection and protection against more sophisticated state sponsored attackers and new zero-day attacks.

Enterprise Identity Management System (EIMS): $7.3 million

Enterprise Identity Management Service (EIMS) enables authentication of FSA system users and provides access to FSA systems. EIMS is an umbrella initiative focused on improving the overall security posture of FSA systems, making identity management, permission and access management more efficient and secure for FSA systems, the 80,000 privileged users (ED, FSA and partners) and 76 million non-privileged users (students/borrowers). EIMS supports efforts to improve system security and meet dynamic changes to the Federal IT Security Requirements. Without EIMS, users (both privileged and non-privileged) would not be able to access systems securely.

The EIMS initiative includes Person Authentication Service (PAS), Access and Identity Management System (AIMS), and Two-Factor Authentication (TFA). EIMS meets the FSA's business and technical requirements through these three main projects.

Person Authentication Service (PAS): $5.2 million

PAS provides a secure identity and access management system for non-privileged users, who have access to only their own PII (i.e., parents, borrowers). PAS centralizes access, identity management functions, and permissions for non-privileged users and also provides a secure system that is integrated with the FSA security architecture. The fiscal year 2019 request supports ongoing operations and maintenance and development work for OIG monitoring and analyses, digital services changes, risk based authentication, security changes, and remediation. The fiscal year 2019 request of $5.2 million is the same as the fiscal year 2018 Annualized CR level.

Access and Identity Management System (AIMS): $1.4 million

AIMS provides the FSA enterprise with enhanced sign-on capability and access control for web applications to privileged users, who have access to PII. AIMS allows for simplified logon and an integrated horizontal sign-on to multiple FSA applications, thereby, enforcing standardized security requirements such as identity, password complexity, and multi-factor authentication. Currently, there are 25 major and minor applications behind AIMS serving a population of approximately 80,000 users including FSA employees, postsecondary schools' financial aid administrators, and call center staff. The fiscal year 2019 request supports ongoing operations and maintenance and development work for security changes and simplification of architecture. The fiscal year 2019 request of $1.4 million is an increase of $222,000 over the fiscal year 2018 Annualized CR level.

Two-Factor Authentication (TFA): $740,000

Homeland Security Presidential Directive 12 requires agencies to control access to their systems and data through the use of two-factor authentication (TFA). To meet this requirement, the Department of Education has implemented the TFA security protocol through which all authorized privileged users are required to use TFA to access Federal Student Aid systems via the Internet. TFA protects FSA systems that service a population of approximately 80,000 users including FSA employees, postsecondary schools' financial aid administrators, and call center staff. The fiscal year 2019 request supports ongoing operations and maintenance. The fiscal year 2019 request is an increase of $67,000 over the fiscal year 2018 Annualized CR level.

System Security Authorizations (SSA): $7.9 million

SSA provides the basic security critical to ensure all FSA applications and general support systems are secured from malicious exploits and threats. Security authorizations and annual testing are mandated by the Federal Information Security Management Act and must be performed before new systems are launched or system upgrades are implemented. Continuous testing must be completed to maintain system security authorization. In addition, an official re-authorization is required every 3 years for 61 FSA systems.

The fiscal year 2019 request will continue to support ongoing operations and external support to protect FSA's infrastructure and applications to ward off new threats and continue to defend against previous known threats. The fiscal year 2019 request of $7.9 million is an increase of $2.2 million over the fiscal year 2018 Annualized CR level.

Security Operations Center: $3.9 million

The Security Operations Center provides independent monitoring and analysis needed to protect the NGDC infrastructure, systems, and data from vulnerabilities. The Security Operation Center will automate the security sensors on approximately 1,500 servers housed at the NGDC and communicate real-time information regarding suspicious events. The real-time information enables FSA to react timely to suspicious activity and make timely reports to DHS.

In fiscal year 2019, FSA will continue to link external systems into the Security Operation Center to obtain a comprehensive evaluation of threats to FSA networks and data. The fiscal year 2019 request of $3.9 million is an increase of $1.7 million over the fiscal year 2018 Annualized CR level.

Other: $51.1 million

The "Other" category includes projects aimed at supporting FSA's mission and projects administered by FSA. Costs in the "Other" category include conference management, compliance activities, Web site interfaces, human capital support, contract specialist support, travel, training, and other administrative expenses for Federal Student Aid. Additional projects in this category also support FSA's efforts to increase awareness of the availability of financial aid through targeted customer outreach and information dissemination; information sharing through enterprise business collaboration; the integrated student experience, which supports StudentAid.gov; and the Enterprise Data Warehouse Analytics (EDW&A).

The EDW&A project is notable, because it centralizes FSA lifecycle data. EDW&A allows the Department to access timely, accurate, consistent, and repeatable data for improved analytics, insights, budgeting, and reporting; and allows FSA to responsibly expand data available for research without compromising the administration of the Federal student aid programs. In particular, EDW&A data are central to the Department's efforts to improve the cost estimation of the federal student loan programs. The system is a critical tool that will allow the Department to respond to recommendations on how to improve the IDR plan modeling from Congressional staff, the Government Accountability Office, the Office of the Inspector General, and external policymakers. EDW&A offers the opportunity for significant return on investment via data-driven insights to improve program management, retire redundant systems, and alleviate strain currently placed on NSLDS and other operational systems. In fiscal year 2019, FSA plans to develop and expand dashboards and products including the Annual Risk Assessment; and conduct research on modeling efforts to further inform the management of the Title IV programs as well as identify potential cost savings. FSA also plans to expand and modernize the FSA Data Center and continue to augment EDW&A with new data sets as necessary to facilitate these efforts. The fiscal year 2019 request supports continual operations and maintenance and development work. The fiscal year 2019 request of $7.4 million is an increase of $7.4 million over the 2018 Annualized CR level.

Non-Federal Student Aid Support Activities

The SAA account supports activities in addition to the funds directly allocated to Federal Student Aid to manage student aid programs. The fiscal year 2019 request for non-Federal Student Aid activities is $133.7 million, $110.7 million in Overhead and $23.0 million in non-Federal Student Aid personnel compensation and benefits, a decrease of $6.1 million below the fiscal year 2018 Annualized CR level of $139.8 million. This request supports departmental support activities, such as central computer services and financial management systems operations, rent, legal and policy expertise, and other overhead.

Rent payments to the General Services Administration for FSA-occupied space will total $19.5 million for fiscal year 2019, a decrease of $1.0 million below the fiscal year 2018 Annualized CR level.

Combined funding for central computer services and telecommunications will total $36.9 million in fiscal year 2019, a decrease of $849,000 below the fiscal year 2018 Annualized CR level. The Departmentwide financial management systems, which is supported by this account is $17.4 million a decrease of $4.1 million below the fiscal year 2018 Annualized CR level.

Other non-pay central support services including background investigations will total $27.1 million in fiscal year 2019, a decrease of $577,000, below $27.7 million in fiscal year 2018 Annualized CR level.

Non-Federal Student Aid Full-Time Equivalent (FTE) Employment

The Department requests for SAA in fiscal year 2019 a total of 1,494 FTE, a decrease of 23 FTE below the fiscal year 2018 Annualized CR level. In addition to 1,365 FSA full-time staff, the fiscal year 2019 request also provides $23.0 million for the salaries and benefits of 129 FTE outside FSA who perform student-aid related activities and are located in the Office of the Chief Financial Officer; Office of the Chief Information Officer; Office of the General Counsel; Office of Management; Office of Postsecondary Education; Office of Planning, Evaluation, and Policy Development, and the Office of the Under Secretary.

Student Loan Modeling Investment

One key investment managed by the Office of Planning, Evaluation, and Policy Development is the Student Loan Modeling investment. The fiscal year 2019 request is $2.2 million, a $636,000 increase over the fiscal year 2018 Annualized CR level. The Student Loan Modeling investment provides support for developing cost estimates and budgetary impacts of student loan policies affecting the $1.4 trillion current portfolio. Given the magnitude of the portfolio, cost estimates of the student loan programs are vitally important. The Department of Education’s financial reporting, informed policy making, and effective monitoring of government borrowing by Treasury all rely on accurate cost estimates. This investment is critical for the projection of future cost estimates and will support 1) continued development of the microsimulation model, 2) credit and modeling analysis, and 3) validation support for credit models.

Microsimulation Model Development

In order to more accurately estimate student loan costs, to provide more detailed analysis of program effects, and better inform student loan policy, one of the major goals of this investment is to develop and implement a borrower-based microsimulation model. This model will consist of multiple components, most significantly the Servicer Emulator (which will process borrower and loan events to calculate cash flows) and the Event Generator (which will simulate borrower and loan events). Full development of this model is expected to be highly complex and rely on a combination of Department, interagency, and vendor support.

- Servicer Emulator: The Department currently has an interagency agreement with the Department of Treasury to develop a borrower-based (i.e., microsimulation) cash flow model—the Servicer Emulator. The fiscal year 2019 request of $538,000, an increase of $12,000 over the fiscal year 2018 Annualized CR level, will be utilized to continue to fund this agreement. During fiscal year 2018, the focus is on continual testing of the Servicer Emulator, processing borrower and loan events in parallel with the inputs of the current cash flow model. Differences between the current model and the Servicer Emulator will be reconciled, explained, and validated. Functionality will also be added to address rehabilitated loans. In fiscal year 2019, the focus will be to finalize testing, with a goal of operationalizing the Servicer Emulator for the fiscal year 2020 President's Budget cycle.

Credit and Modeling Analysis

The Department has engaged contractor support to address various credit, modeling, and documentation needs, as well as continued support of the current cash flow model. For example, during fiscal year 2018, vendor support will be used to analyze the budgetary effects of income recertification in Direct Student Loans, which addresses a GAO recommendation. In fiscal year 2019, a major focus will be on development of the Event Generator, which will provide a comprehensive model for simulating borrower and loan events. Initial development planning for the event generator will begin in fiscal year 2018. In both fiscal years 2018 and 2019, vendor support will also be provided to maintain the current cash flow model as well as assist in preparation and support of the Agency Financial Report. The fiscal year 2019 request for these activities is $850,000, an increase of $600,000 over the fiscal year 2018 Annualized CR level.

Validation Support for Credit Models

Independent model validation was included as a key recommendation in the Independent Auditor's Report on the Department's 2016 Agency Financial Report. A robust validation program is also central to identifying and mitigating model risk. The fiscal year 2019 request, $848,000, is an increase of $24,000 over the fiscal year 2018 Annualized CR level. This request will help validate the Department's credit models.

System Application Matrix

The two system matrixes, shown in the charts below, illustrate the interdependencies between the major student aid system applications for the core business functions and the end user. The first chart shows each system application, its projected costs for fiscal years 2018 and 2019, and core business functions supported by each system application. The second chart shows the interdependencies between all system applications and the four end users: schools, students, financial partners, and the Department of Education.

System Applications and Core Business Functions Interdependencies

System Application	2018 Annualized CR Cost (dollars in millions)	2019 Request Cost (dollars in millions)	Student Aid Application Processing	Origination and Disbursement	Student Loan Servicing
Loan Servicing	$933.7	$1,010.0		X	X
Title IV Origination and Disbursement System	103.4	120.7	X	X	X
Application and Eligibility Determination System; FSA Customer Contact Center; and Feedback and Ombudsman System and Call Center	48.3	67.6[1]	X	X	
Next Generation Data Center	37.0[1]	50.2	X	X	X
Enterprise Software Licenses	18.0	20.0	X	X	X
National Student Loan Data System	12.7	17.3[1]	X	X	X
Financial Management System	8.8	8.8		X	
Total Discretionary Costs	**1,161.9**	**1,294.6**			

[1] Amount includes reengineering and recompete efforts.

Systems Applications and End Users

System Application	School	Student	Financial Partners	Department of Education
Loan Servicing	X	X	X	X
Title IV Origination and Disbursement System	X	X		X
Application and Eligibility Determination System	X	X		X
Next Generation Data Center				X
Enterprise Software Licenses				X
National Student Loan Data System	X	X	X	X
Financial Management System			X	X

Note: Financial Partners include lenders and guaranty agencies.

Major SAA Contracts

The following tables provide a list of Student Aid Administration contracts in fiscal years 2018 and 2019:

Contracts: Loan Servicing
Description: Servicing and consolidation of direct student loans, Perkins loans, TEACH grants, servicing FFEL loans, and defaulted loans
FY 18 Annualized CR Level: $ 933.7 million
FY 19 Request: $ 1,010.0 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
PHEAA	Harrisburg, PA* Chester, PA Mechanicsburg, PA Pittsburgh, PA State College, PA
Great Lakes Education Loan Services Inc.	Madison, WI* Eagan, MN Aberdeen, SD Plano, TX Boscobel, WI Eau Claire, WI Stevens, Point, WI Rocky Hill, CT
Nelnet Servicing LLC	Lincoln, NE* Aurora, CO Highlands Ranch, CO Omaha, NE Houston, TX Boise, ID
Navient	Wilmington, DE* Reston, VA Fishers, IN Muncie, IN Newark, DE Wilkes-Barre, PA
Missouri Higher Education Loan Authority	Chesterfield, MO* Columbia, MO Washington, DC
HESC/EdFinancial	Knoxville, TN* North Charleston, SC Mansfield, OH

Vendor	Vendor Locations
	Mechanicsburg, PA Rose Hill, KS
Cornerstone	Salt Lake City, UT*
New Hampshire Higher Education Corporation (Granite State)	Concord, NH*
Oklahoma Student Loan Authority	Oklahoma City, OK*
Maximus Federal Services, Inc.	Reston, VA* Frederick, MD
Educational Computer Systems	Warrendale, PA* Coraopolis, PA Pittsburg, PA

Contract: Title IV Origination and Disbursement System (TIVODS)
Description: Disbursement of Pell Grants and Direct Loans
FY 18 Annualized CR Level: $ 103.4 million
FY 19 Request: $ 120.7 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
Accenture LLP	Arlington, VA* Columbus, GA Monticello, KY Niagara Falls, NY Piscataway, NJ San Antonio, TX Washington, DC

Contracts: Application and Eligibility Determination System (AEDS); FSA Customer Contact Center; and the FSA Feedback and Ombudsman System

Description: Integration of application processing, aid awareness, and eligibility determination; call center services; and FSA Feedback and Ombudsman System operations

FY 18 Annualized CR Level: $ 48.3 million

FY 19 Request: $ 67.6 million

Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
General Dynamics One Source	Fairfax, VA* Coralville, IA Lawrence, KS Washington, DC Montgomery, AL Herndon, VA Broomfield, CO Rockville, MD Hattiesburg, MS Westminster, CO
Senture	London, KY* Monticello, KY
Enterprise Services, LLC	Montgomery, AL El Paso, TX London, KY Monticello, KY Hattiesburg, MS

Contract: Next Generation Data Center
Description: Data center for student financial aid systems
FY 18 Annualized CR Level: $ 37.0 million
FY 19 Request: $ 50.2 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
DXC Enterprise Services	Herndon, VA* Plano, TX Boise, ID Clarksville, VA Colorado Springs, CO Washington, DC

Contract: Enterprise Software Licensing
Description: Maintenance for software licenses for Financial Management System and database operations
FY 18 Annualized CR Level: $ 18.0 million
FY 19 Request: $ 20.0 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
Various	Various

Contract: National Student Loan Data System
Description: Loan-level database to verify student eligibility, calculate institutional default rates, pay guaranty agency fees, track enrollment for loan servicing, and support credit reform accounting
FY 18 Annualized CR Level: $ 12.7 million
FY 19 Request: $ 17.3 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
Briefcase Systems Development, Inc.	Arlington, VA* Coralville, IA Venice, FL Lawrence, KS

Contract: Financial Management System
Description: Accounting system for transactions
FY 18 Annualized CR Level: $ 8.8 million
FY 19 Request: $ 8.8 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
Avineon, Inc.	McLean, VA* Washington, DC

Contract: System Security Authorization
Description: Basic security for all FSA applications and general support systems
FY 18 Annualized CR Level: $ 5.7 million
FY 19 Request: $ 7.9 million
Vendors: *denotes vendor headquarters for loan servicers

Vendor	Vendor Locations
Blue Canopy	Reston, VA

PROGRAM PERFORMANCE INFORMATION

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives, measures, and performance targets and data; and an assessment of the progress made toward achieving program results. At the beginning of fiscal year 2016, Federal Student Aid (FSA) released its current strategic plan, *Federal Student Aid: Strategic Plan, Fiscal Years 2015–19* which described the organization's current goals and objectives. FSA's performance indicators were updated this year to account for improvements in data collection and analysis that allowed for more accurate and better-aligned metrics.

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

Measure: Percent of first-time FAFSA filers among high school seniors.

Year	Target	Actual
2014	58.8%–60.8%	60.1%
2015	59.1–61.1	60.5
2016	59.5–61.5	57.5
2017	56.5–58.5	60.2
2018	66.4–68.4	
2019	TBD	

Note: The methodology for calculating this metric is changing in fiscal year 2018 to account for the fact that many high school seniors are 19 years of age. The previous methodology was undercounting high school seniors, since it was based on an age of 18 years.

Additional information: FSA met its target for this metric with a result of 60.2 percent.

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

The denominator is the number of graduating high school seniors according to the most recent projection by National Center for Education Statistics. The numerator is based on the number of applications for first-time filers during the first nine months of the application cycle that are, as of September 30 of the first year of the application cycle, complete (not rejected). First-time filers are defined as incoming freshmen, with or without previous college attendance; age 18 or less as of June 30 of the first year of the application cycle; reporting high school diploma attainment; and attended a high school in the 50 states and Washington D.C.

Measure: Persistence among first-time filing aid recipients.

Year	Target	Actual
2014	77.5–79.5%	79.6%
2015	78.6–80.6	79.5
2016	78.5–80.5	79.7
2017	78.7–80.7	82.6
2018	81.6–83.6	
2019	TBD	

Additional information: FSA met its target for this metric with a result of 82.6 percent. Moving the FAFSA start date back three months (from January 1st to October 1st) provided more time for federal student aid recipients to file a renewal FAFSA. The increased time—provided by the expanded FAFSA calendar—resulted in more first-time filers returning to file a FAFSA for their next school year.

Measure: Customer visits to StudentAid.gov.

Year	Target	Actual
2014	> =30.7 million	32.7 million
2015	> =32.7	43.3
2016	> =43.4	47.2
2017	> =43.3	44.3
2018	> =43.3	
2019	TBD	

Additional information: FSA continued to exceed its target for this metric again in fiscal year 2017 with a result of 44.3 million customer visits. FSA's performance on this metric is a testament to the success of its effort to consolidate disparate sites and systems into a single, integrated student experience. Since its launch in 2012, StudentAid.gov has evolved into FSA's primary information interface for federal student aid tools, resources, and services.

Measure: Social media channel subscribership.

Year	Target	Actual
2014	>= 296,000 subscribers	368,042
2015	>=368,000	454,066
2016	>= 454,000	528,251
2017	>= 500,000	584,241
2018	>= 590,000	
2019	TBD	

Additional information: FSA exceeded its target with more than 584,000 subscribers. FSA greatly exceeded its target on this metric for the fourth year in a row, with subscribers to FSA's Facebook, Twitter, and YouTube social media channels. Fiscal year 2017 results indicate an 11 percent increase compared to fiscal year 2016.

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

Measure: Customer service level of American Customer Satisfaction Index for entire aid lifecycle (1–100 Scale).

Year	Target	Actual
2014	Prior to revised metric	
2015	Prior to revised metric	
2016	Prior to revised metric	
2017	69.4–71.4	69.9
2018	68.9–70.9	
2019	TBD	

Additional information: FSA meet its target for this metric with a result of 69.9. Due to budgetary constraints during fiscal year 2017, FSA discontinued the in-school survey and reduced the frequency of the borrower survey from four times per year to two times per year. To adjust for these limitations, FSA modified weightings for each component of this metric. Shifts in weighting and other calculation changes resulted in fiscal year 2017 scores that are fundamentally different from those derived from previous years. As a proxy for comparison purposes, FSA calculated alternative fiscal year 2016 results adjusted to more closely reflect the changes in the methodology impacting this metric in fiscal year 2017. For comparative purposes, only FSA's simulated result for fiscal year 2016 using the adjusted weightings equals 70.0.

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

Measure: Improper Payment Rate.

Year	Target	Actual
2014	Prior to revised metric	
2015	1.65%	2.38%
2016	N/A	4.85
2017	4.85	4.97
2018	4.97	
2019	TBD	

Additional information: FSA did not meet its target for this metric with a blended improper rate for the Direct Loan and Pell Grant programs of 4.97 percent. The Improper Payment Rate metric is a single 'blended' rate that divides aggregated estimated improper payments for all programs identified as risk-susceptible for that year by aggregated estimated program outlays. In fiscal year 2015 and fiscal year 2016, FSA identified the Pell Grant and Direct loan programs as risk-susceptible. FSA convened a working group in 2016 with OIG and OMB participating in an advisory capacity to identify, evaluate, and implement improvements to the baseline estimation methodology to address improper payment risks not previously incorporated.

The underlying improper payment estimates were calculated using an alternative methodology. The increase in the improper payment estimates falls within the margin of error associated with these estimates. Although FSA strives for zero improper payments, there continue to be improper payments. In designing controls, FSA must strike the right balance between providing timely and accurate payments to grant recipients and students, while at the same time ensuring that controls are not too costly and burdensome to students and schools. Additionally, FSA must rely on controls established by intermediaries, such as schools, who make payments to students on behalf of FSA. In 2017, over 96 percent of the estimated improper payments were a result of administrative or process errors made by other parties. FSA continues to assess risks associated with improper payments and establish effective internal controls designed to prevent, detect, reduce, and recover improper payments. The Budget also proposes to streamline the Department's ability to verify student aid applicants' income data, which would reduce improper payments deriving from misreported income on the FAFSA.

Other information:

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

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

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

Measure: Percent of borrowers >90 days delinquent.

Year	Target	Actual
2014	Prior to revised metric	
2015	10.4%	9.8%
2016	9.9	8.8
2017	7.4	8.3
2018	8.18	
2019	TBD	

Additional information: FSA did not meet its target with a result of 8.3 percent. During the prolonged continuing resolution, the Department discontinued an incentive program under which loan servicers received quarterly payments for improved performance in reducing delinquencies. This change affected FSA's ability to meet its fiscal year 2017 loan delinquency rate target.

The borrower delinquency rate is defined as the average number of borrowers each year who are 91–270 days delinquent in the year ending June 30, divided by the average number of borrowers in repayment for the year (does not include in-school or in-grace loan statuses).

Strategic Goal C: Improve operational efficiency and flexibility.

Measure: Aid Delivery Cost per Application.

Year	Target	Actual
2014	$11.94	$11.43
2015	12.28	10.73
2016	13.11	11.53
2017	11.46	10.68
2018	12.16	
2019	TBD	

Additional information: FSA met its target for this metric with a result of $10.68. One of the drivers for FSA's success in meeting this metric was because FSA ID call center costs associated with the online FAFSA were $8 million less than forecasted. Though the target assumed the call center would primarily support calls related to the online FAFSA, analysis of the actual call center utilized (based on FSA ID successful registrations and authentications revealed significant support for other IT investments, such as StudentLoans.gov and the National Student Loan Data System (NSLDS)).

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

Measure: Outstanding Direct Loan Portfolio in Current Repayment Status.

Year	Target	Actual
2014	Prior to revised metric	
2015	Prior to revised metric	
2016	85.3%	85.4%
2017	84.9%–85.9	85.7
2018	85.0%–86.0	
2019	TBD	

Additional information: FSA met its target for this metric with a result of 85.7 percent.

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

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

Strategic Goal D: Foster trust and collaboration among stakeholders.

Measure: Ease of Doing Business with FSA (1–100 Scale).

Year	Target	Actual
2014	73.0–75.0	77.0
2015	75.9–77.9	75.8
2016	74.3–77.3	72.3
2017	71.3–73.3	73.4
2018	71.9–74.9	
2019	TBD	

Additional information: FSA met its target for this metric with a result of 73.4. Funding impacted FSA's ability to conduct this survey as frequently as in fiscal year 2017. In past years, the survey was conducted biannually, in the fall and spring, and the scores were averaged for a single performance metric score. In fiscal year 2017, the survey was only administered once, during the summer.

Measure: Percentage of contract dollars competed by FSA.

Year	Target	Actual
2014	85.3–87.3%	88.7%
2015	87.7–89.7	90.3
2016	89.3–91.3	92.9
2017	89.3–91.3	95.2
2018	89.3–91.3	
2019	TBD	

Additional information: FSA exceeded this metric with a final score of 95.2 percent. FSA exceeding the target for this performance metric in fiscal year 2017 is the result of FSA's commitment to competitively award a high percentage of contract dollars each year, driving value for taxpayers through a competitive acquisition process.

Measure: Collection Rate (non-default and default).

Year	Target	Actual
2014	$45.65	$35.90
2015	36.56	51.58
2016	51.79	53.07
2017	51.68	59.69
2018	59.24	
2019	TBD	

Additional information: FSA met its target for this metric with a result of $59.69. FSA exceeded the target for this metric in fiscal year 2017, because collections from servicing and default were 11.9 percent higher than forecasted. In addition, loan servicing costs were primarily lower than the forecast due to a delay of $15.7 million in contract re-compete costs, while debt collection costs were considerably lower than forecasted due to level spending on the default collection management system operations and maintenance instead of an anticipated 9.2 percent increase.

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

Strategic Goal E: Strengthen Federal Student Aid's performance culture and become one of the best places to work in the Federal Government.

Measure: FSA Employee Engagement Index (Subset of Questions from Governmentwide Employee Viewpoint Survey)—Percentage of positive responses to survey.

Year	Target	Actual
2014	>=64.2%	67.7%
2015	66.7–68.7	67.9
2016	66.9–68.9	67.4
2017	65.4–69.4	69.7
2018	67.7–72.7	
2019	TBD	

Additional information: FSA met its target with a result of 69.7 percent. In fiscal year 2017, FSA's employee engagement team coordinated with business units to deliver meaningful programs (under the FSA First Class initiative) designed to (1) increase employees' awareness of FSA's mission and priorities, (2) help employees map their own work to the organization's mission, and (3) increase employees knowledge about other areas within FSA outside of their own business unit. Implementing strategic initiatives directly led to an increase in the positive responses associated with the Employee Engagement Index (EEI) questions. The fiscal year 2017 result is the highest percentage of positive responses for the Employee Engagement Index (EEI-15 question subset) within the Federal Employment Viewpoint Survey (FEVS) that

FSA has ever received. Fourteen out of the 15 questions within the EEI increased in positive response, increasing the total index score by 2.3 percentage points since 2016. Similarly, FSA had 47 questions (inclusive of the EEI) within the FEVS increase in their percentage of positive responses between fiscal year 2016 and fiscal year 2017.

Organization Chart