FINANCIAL HIGHLIGHTS

INTRODUCTION

This section provides summarized information and analyses about the Department's assets, liabilities, net position, sources and uses of funds, program costs, and related trend data. It also provides a high-level perspective of the detailed information contained in the financial statements and related notes.

The Department consistently produces complete, accurate, and timely financial information. The Department's financial statements and notes are prepared in accordance with accounting principles generally accepted in the United States for federal agencies issued by the Federal Accounting Standards Advisory Board and the format and content specified by OMB Circular No. A-136, Financial Reporting Requirements. The financial statements, notes, and underlying business processes, systems, and controls are audited by an independent accounting firm with audit oversight provided by the Office of Inspector General (OIG). For 17 consecutive years, the Department has earned an unmodified (or "clean") audit opinion. The financial statements and notes for FY 2018 are on pages 28–67 and the Independent Auditors' Report begins on page 76.

BALANCE SHEETS

The consolidated balance sheets present, as of a specific point in time (the end of the fiscal year), the Department's total assets, total liabilities, and net position.

The Department's assets totaled $1,328.0 billion as of September 30, 2018. The vast majority of the assets relate to credit program receivables, which comprised 91.2 percent of all assets. Direct Loans comprise the largest share of these receivables, totaling $1,115.1 billion. All other assets totaled $117.1 billion, most of which was Fund Balance with Treasury.

The Department's liabilities totaled $1,279.2 billion as of September 30, 2018. As with assets, the vast majority of the Department's liabilities are associated with credit programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with Direct Loans totaled $1,150.6 billion as of September 30, 2018.

Figure 1. Assets by Type

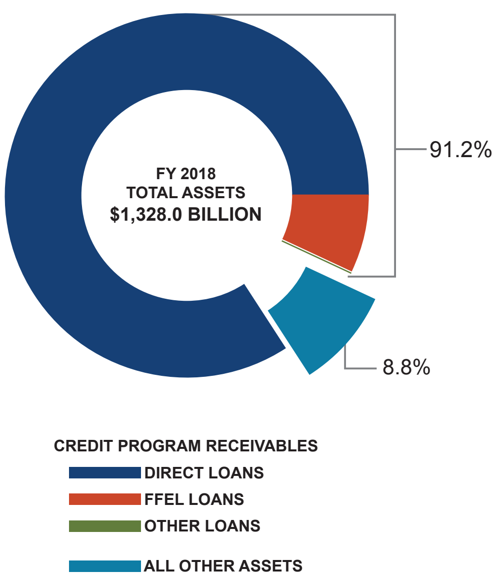


Figure 2. Liabilities by Type

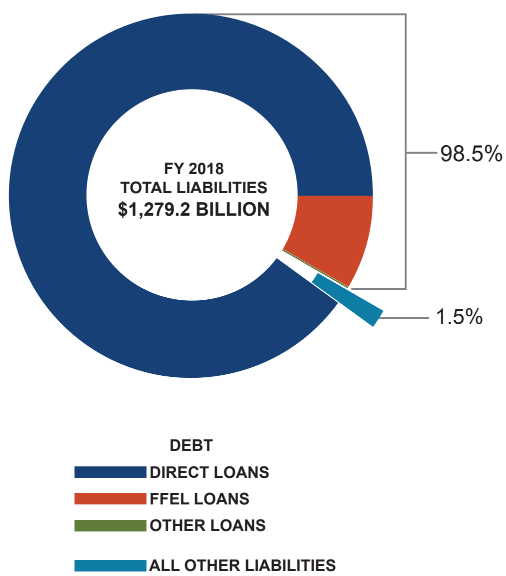
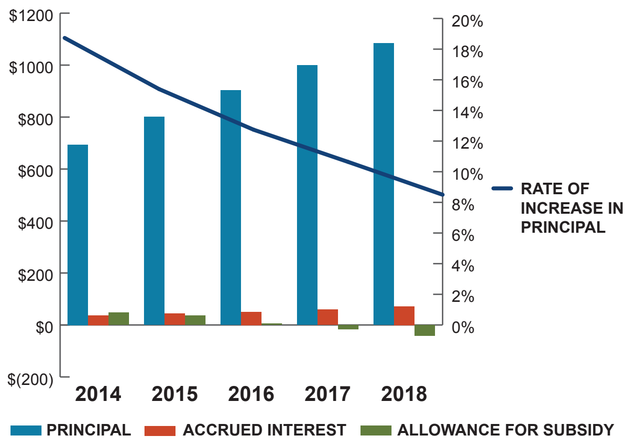


Figure 3. Components of Direct Loan Receivables, Net
(Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2014	2015	2016	2017	2018
Principal	**$ 694.0**	**$ 800.8**	**$ 902.8**	**$ 998.8**	**$1,083.7**
Rate of Increase in Principal	18.7%	15.4%	12.7%	10.6%	8.5%
Accrued Interest	$ 37.1	$ 44.3	$ 50.8	$ 59.5	$ 72.0
Allowance for Subsidy	$ 47.4	$ 35.5	$ 5.3	$ (16.8)	$ (40.7)
Total No. of Direct Loan Recipients (in Millions)	**27.9**	**29.9**	**31.5**	**33.0**	**34.2**

Figure 3 shows the changes in the Direct Loan receivables components over the past five years. The principal continues to grow as the Direct Loan program has originated all new federal loans since July 2010. However, the rate of increase in principal has slowed, as the Direct Loan program has originated fewer new loans each year since FY 2014 as a result of stagnant and in some cases declining enrollment, coinciding with the recovery from the 2007–09 recession. Even so, new loan disbursements continue to exceed overall loan principal repayments—student loan borrowers now have more options to stretch out their repayment terms and reduce their monthly payments.

In accordance with the *Federal Credit Reform Act of 1990* (FCRA), the Department's financial statements report the value of direct loans and loan guarantees (credit program receivables) at the net present value of their future cash flows, discounted at a fixed rate established based on Treasury securities. The difference between the recorded principal and interest balance and the net present value of the loans is referred to as the "allowance for subsidy" which can be positive or negative.

Prior years' positive allowance for subsidy balances represented estimates of funds expected to be recovered in excess of principal loaned less anticipated defaults, loan cancellations, and other adjustments. These positive allowance for subsidy balances resulted primarily from the difference between the interest rates charged by the Department to borrowers and the interest rates charged to the Department on amounts borrowed from Treasury to make the loans. The reduction in the positive allowance since FY 2014 is due primarily to higher subsidy costs, the main cause being high participation in income-driven repayment plans. As of FY 2017, the allowance for subsidy changed to a negative balance. In practical terms, this means that the present value of funds expected to be recovered is now less than the principal outstanding.

Table 1. Payment Status of Direct Loan Principal and Interest Balances
(Dollars in Billions)

Loan Status	Fiscal Year				
	2014	2015	2016	2017	2018
Total No. of Direct Loan Recipients (in Millions)	**27.9**	**29.9**	**31.5**	**33.0**	**34.2**
Total Dollar Amount of Direct Loans Outstanding	**$ 731.2**	**$ 845.1**	**$ 953.6**	**$1,058.4**	**$1,155.7**
Current Repayment[1]	247.2	332.0	406.8	467.9	531.4
In School, Grace Period, and Education Deferments	281.8	284.3	289.6	291.7	291.7
Forbearance and Noneducation Deferments	97.8	103.0	106.5	122.5	121.9
Delinquent (Past Due 31–360 Days)	54.6	65.1	71.8	79.5	92.2
Default/ Bankruptcy/ Other	49.8	60.7	78.9	96.8	118.5

[1] Loans in Current Repayment status include loans that are being repaid on-time. However, these on-time loans can include loans for which the amount of interest accruing is higher than payments that are being made, which can occur in the case of loans on income-driven repayment plans.

Participation in income-driven repayment plans has increased as (a) plans have become available that are more advantageous to borrowers, (b) plans have become available that expand the potential pool of borrowers, and (c) the Department has conducted targeted outreach to borrowers to make them aware of their potential eligibility for these plans. The percentage of borrowers in income-driven repayment plans has grown from 10.6 percent in FY 2013 to 30.0 percent in FY 2018.

Table 1 shows the payment status of the Direct Loan principal and interest balances outstanding over the past 5 years. The Current Repayment category consists of loans that are being paid back on time, including the current portion of loans being repaid pursuant to income-driven repayment plans.

Loans in the Delinquent category are past due anywhere from 31 to 360 days late. Default/Bankruptcy/Other includes loans that are over 360 days delinquent (default status); loans in a nondefaulted bankruptcy status; and loans in disability status. While technical default is 271 days delinquent, default is defined as 361 days delinquent for reporting purposes. The percentage of loans in default continues to grow, even as delinquencies and new defaults have declined, because defaulted loans can be difficult to collect or rehabilitate. The percentage of the portfolio in current repayment, which rose from 34 percent in FY 2014 to 46 percent in FY 2018, has eclipsed payments temporarily postponed and has grown far faster than loans in default.

The Department borrows funds to disburse new loans and pay credit program outlays and related costs. The Department repays Treasury after consideration of cash position and the liability for future cash outflows. Figure 4 shows the Direct Loan program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. Figure 6 (see page 12) illustrates the Direct Loan program financing process and provides financing and disbursing trend data.

STATEMENTS OF NET COST

The consolidated statements of net cost report the Department's components of the net cost of operations for each fiscal year. Net cost of operations consists of the gross costs incurred less any exchange (i.e., earned) revenue from activities. Gross costs are composed of the cost of credit and grant programs, and operating costs. Exchange revenue is primarily interest earned on credit program loans. Figure 5 shows the Department's gross costs and earned revenue over the past five years.

Figure 4. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)

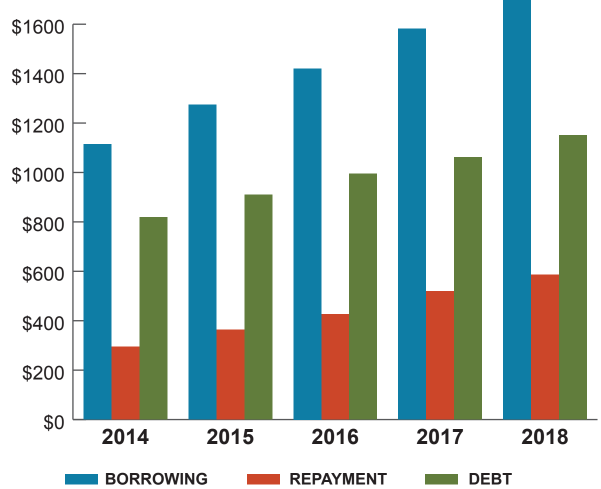


Figure 5. Gross Costs & Earned Revenue
(Dollars in Billions)

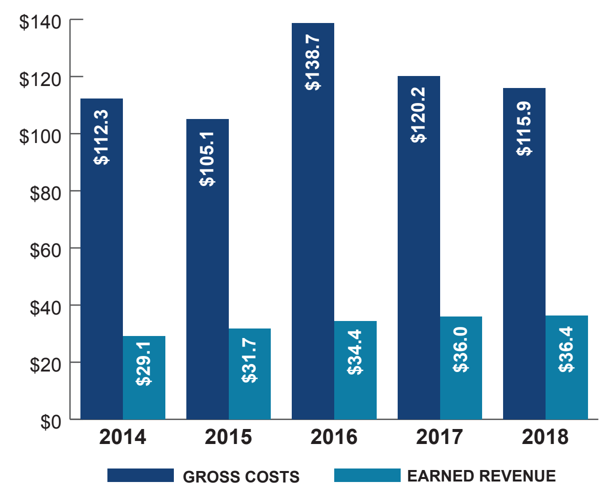
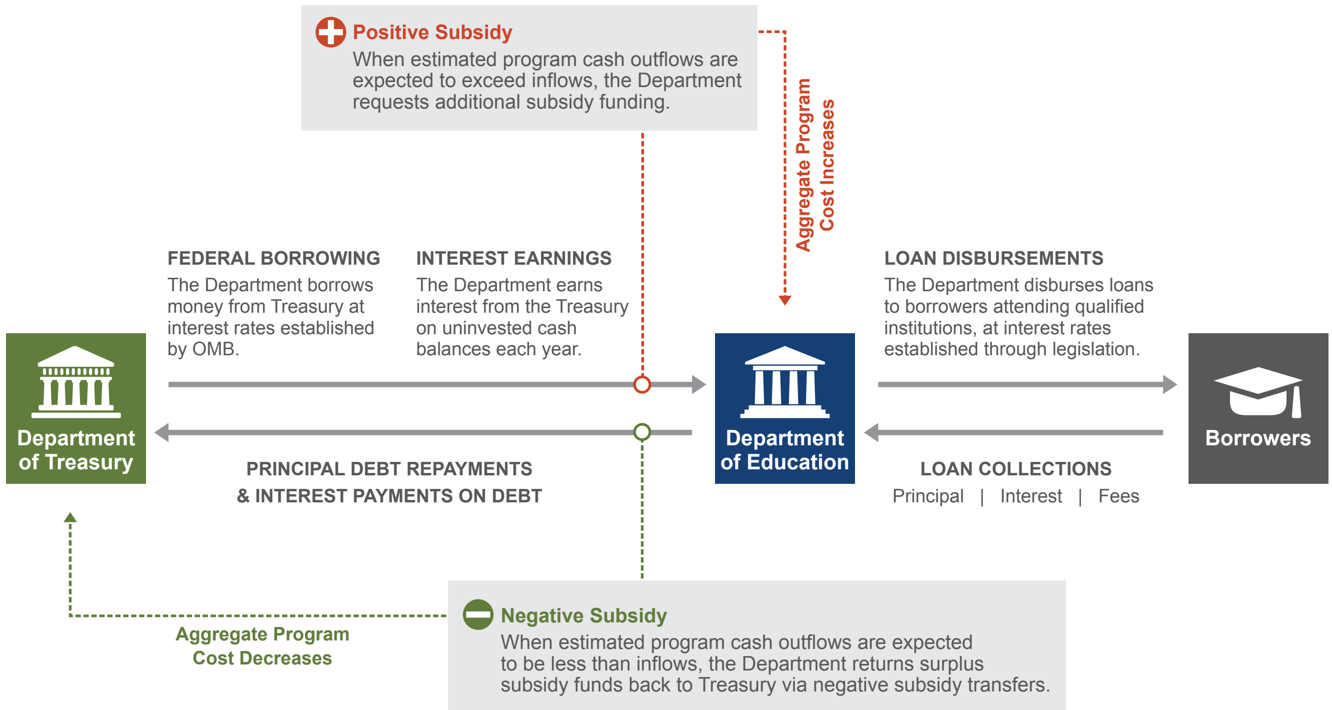


Figure 6. William D. Ford Federal Direct Loan Program: *Following the Funding*



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)					
Fiscal Year	2014	2015	2016	2017	2018
Net Borrowing	**120.6**	**90.9**	**84.4**	**67.3**	**89.1**
Borrowing from Treasury	171.2	159.7	147.0	160.5	155.3
Debt Repayments to Treasury	(50.6)	(68.7)	(62.6)	(93.2)	(66.2)
Interest Expense to Treasury	(25.2)	(27.6)	(30.5)	(31.3)	(32.3)
Interest Earned from Treasury	3.7	4.2	3.9	4.3	3.9
Cumulative Taxpayer Cost / (Savings)	(47.4)	(35.5)	(5.3)	16.8	40.7
Current Subsidy Expense (Revenue)	8.1	(0.9)	16.1	5.3	7.4

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)					
Fiscal Year	2014	2015	2016	2017	2018
Loan Disbursements	**134.1**	**142.2**	**140.5**	**142.5**	**134.1**
Stafford Subsidized	25.9	24.0	23.8	23.4	20.3
Stafford Unsubsidized	54.7	52.7	52.3	51.4	49.0
PLUS	18.9	19.2	19.0	18.7	23.1
Consolidation[1]	34.5	46.4	45.5	49.0	41.6
Loan Collections[2]	**48.8**	**65.1**	**73.2**	**82.0**	**84.9**
Principal	36.3	50.0	55.9	62.6	63.5
Interest	10.8	13.4	15.5	17.6	19.5
Fees	1.8	1.8	1.8	1.9	1.9

* Numbers may not add up due to rounding.

[1] Consolidation amounts stem from a number of loan programs, including most notably the Federal Family Education Loan (FFEL) program, in addition to Direct Loans.

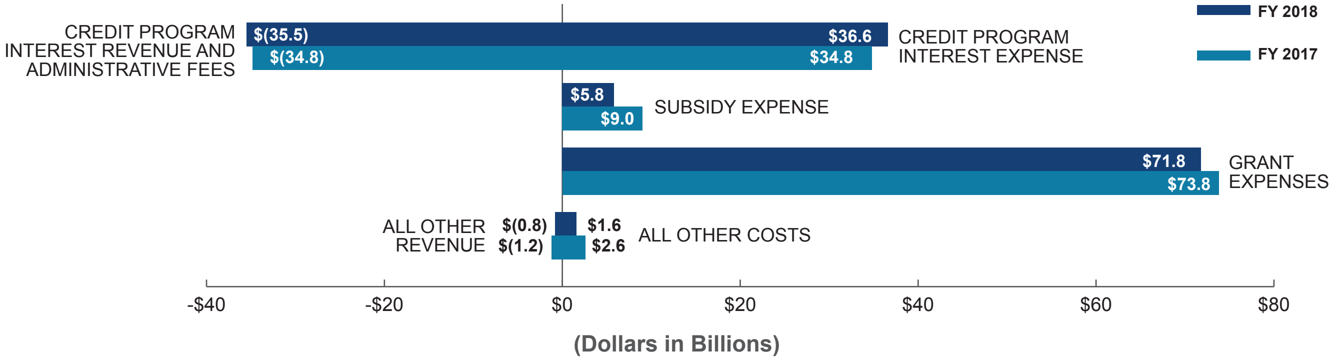
[2] Loan collections include prepayments, including prepayments in full due to consolidation of underlying loans.

GROSS COSTS AND EXCHANGE REVENUE BY TYPE

The major components of the Department's gross costs and earned revenue include three primary components:

- Credit program interest expense offset by credit program interest revenue and administrative fees as the result of subsidy amortization;
- Credit program subsidy expense (see Analysis of Direct Loan Program Subsidy Expense below); and
- Grant expenses (see Figure 9).

Figure 7. Major Components of Gross Cost and Earned Revenue



ANALYSIS OF DIRECT LOAN PROGRAM SUBSIDY EXPENSE

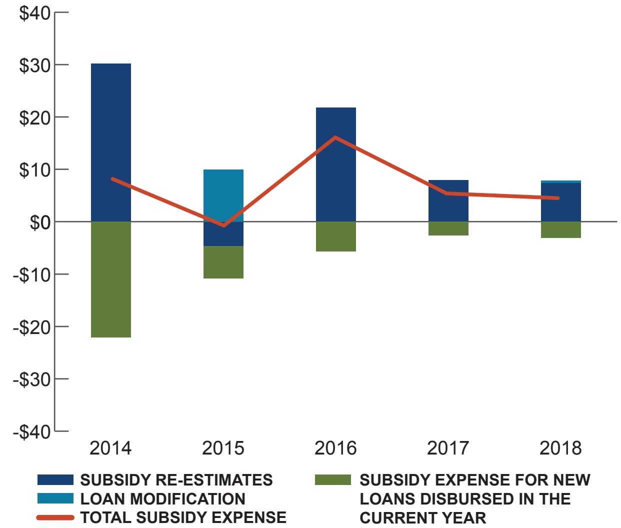
One of the components significantly impacting the Department's gross costs pertains to the estimated subsidy expense of the Direct Loan program. The Department's gross costs can fluctuate significantly each year as a result of changes in the estimated subsidy expense. Subsidy expense is an estimate of the present value cost of providing direct loans, but excludes the administrative costs of issuing and servicing the loans. The Department estimates subsidy expense using a set of econometric and financial models, as well as cash flow models.

The Department estimates subsidy costs 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 (subsidy modifications). Figure 8 shows these three components of the Direct Loan program subsidy expense for the past five years.

Factors, such as interest rates charged to the borrower, interest rates on Treasury debt, default rates, fees and other costs, and assumptions concerning borrowers' selection of repayment plans, impact the estimated cost calculation and determine whether the overall subsidy expense is positive or negative. Subsidy expense for new

Figure 8. Direct Loan Program Subsidy Expense

(Dollars in Billions)



	2014	2015	2016	2017	2018
Subsidy Expense for New Loans Disbursed in the Current Year	$(22.1)	$ (6.2)	$ (5.7)	$ (2.6)	$ (3.1)
Subsidy Re-estimates	30.2	(4.6)	21.8	7.9	7.4
Loan Modification	-	9.9	-	-	0.1
Total Subsidy Expense	**$ 8.1**	**$ (0.9)**	**$16.1**	**$ 5.3**	**$ 4.4**

loans disbursed in the current year has been negative in recent years primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default.

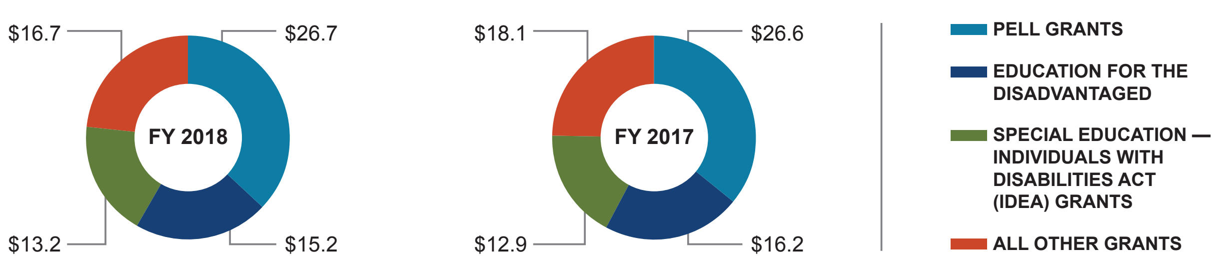
Direct Loan program re-estimated subsidy cost was adjusted upward by $7.4 billion in FY 2018. Re-estimated costs only include cohorts that are 90 percent disbursed; cohort years 1994–2017. In addition to the major assumption updates described below, the re-estimate reflects several other assumption updates, including interest rates provided by OMB, volume, and enter repayment rates.

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

The Department has more than 100 grant and loan programs (www.ed.gov/programs/inventory.html). The Department's FY 2018 expenses for grant programs totaled $71.8 billion. The three largest grant programs are:

- **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.
- **Education for the Disadvantaged—**primarily consists of Title I grants that provide financial assistance through state educational agencies to local educational agencies and public schools with high numbers or percentages of poor children to help ensure that all children meet challenging state academic content and student academic achievement standards. Also provides funds to states to support educational services to children of migratory farmworkers and fishers, and to neglected or delinquent children and youth in State-run institutions, attending community day programs, and correctional facilities.
- **Special Education—**primarily consists of *Individuals with Disabilities Education Act* (IDEA) grants that provide funds by formula to states to assist them in providing a free appropriate public education in the least restrictive environment for children with disabilities ages 3 through 21 and assists states in providing early intervention services for infants and toddlers from birth through age two and their families. Also provides discretionary grants to institutions of higher education and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent-training, and information centers.

Figure 9. Grant Costs by Appropriation (Dollars in Billions)



In addition to student loans and grants, the Department offers other discretionary grants under a variety of authorizing legislation, awarded using a competitive process and formula grants, using formulas determined by Congress with no application process.

STATEMENTS OF CHANGES IN NET POSITION

The consolidated statements of changes in net position report the beginning net position, the summary effect of transactions that affect net position during the fiscal year, and the ending net position. Net position consists of unexpended appropriations and cumulative results of operations. Unexpended appropriations include undelivered orders and unobligated balances for grant and administrative operations. Cumulative results of operations represent the net difference since inception between (1) expenses and (2) revenues and financing sources.

STATEMENTS OF BUDGETARY RESOURCES

The combined statements of budgetary resources present information on how budgetary resources were made available and their status at the end of the fiscal year. Information in the statements is based on budgetary transactions as prescribed by OMB and Treasury.

The Department's budgetary resources totaled $358.5 billion for the period ended September 30, 2018, decreasing from $398.5 billion, or approximately 10.0 percent from the prior year. Budgetary resources are comprised of appropriated budgetary resources of $113.1 billion and non-budgetary credit reform resources of $245.4 billion. The non-budgetary credit reform resources are predominantly borrowing authority for the loan programs.

The Department's gross outlays totaled $298.6 billion for the period ended September 30, 2018. Gross outlays are primarily comprised of credit program loan disbursements and claim payments, credit program subsidy interest payments to Treasury, and grant payments. Credit program gross outlays were offset by $124.4 billion of collections—primarily principal, interest, and subsidy collections.

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 U.S.C. § 3515(b). The statements are prepared from the Department's books and records in accordance with generally accepted accounting principles for federal entities and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Figure 10. Budgetary Resources

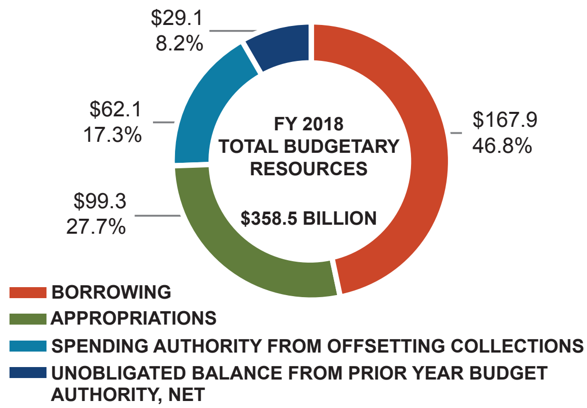
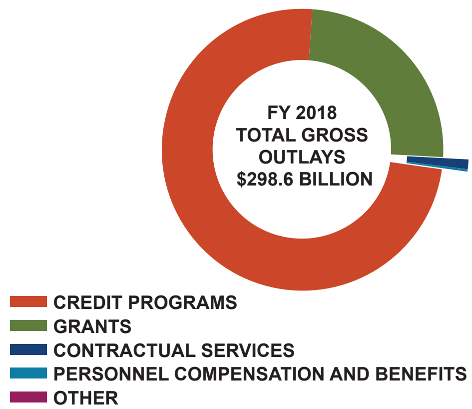


Figure 11. Gross Outlays by Type



	Billions	%
CREDIT PROGRAMS	**$ 221.3**	**74.3%**
DIRECT LOAN PROGRAM	205.0	68.9%
FFEL PROGRAM	15.6	5.2%
OTHER CREDIT PROGRAMS FOR HIGHER EDUCATION	0.7	0.2%
GRANTS	**$ 73.8**	**24.6%**
PELL GRANTS	28.2	9.4%
EDUCATION FOR THE DISADVANTAGED	15.3	5.1%
SPECIAL EDUCATION - INDIVIDUALS WITH DISABILITIES ACT (IDEA) GRANTS	12.9	4.3%
ALL OTHER GRANTS	17.4	5.8%
CONTRACTUAL SERVICES	**$ 2.8**	**0.9%**
PERSONNEL COMPENSATION AND BENEFITS	**$ 0.6**	**0.2%**
OTHER	**$ 0.1**	**0.0%**
TOTAL	**$ 298.6**	**100.0%**