FORWARD-LOOKING INFORMATION

This section summarizes information pertinent to the Department's future progress and success.

ENTERPRISE RISK MANAGEMENT

The Department is focused on improving enterprise risk management (ERM) to maximize the Department's value to students and taxpayers through achievement of the Department's strategic goals and objectives. The Department's implementation of ERM includes three critical strategies that are more fully described under Strategic Objective 4.2, *Identify, assess, monitor and manage enterprise risks*:

1. Creating a risk-aware culture that includes transparent discussions of risks.

2. Implementing an ERM framework and capability that leverages existing risk management activities and governance bodies.

3. Managing risks in a more coordinated and strategic manner.

In FY 2020, the Department envisions a streamlined, simplified approach to ERM implementation. Guiding principles supporting this vision include securing senior leadership buy-in and continued support and involvement with the ERM program through an established governance structure and routine engagement. The Department will revise its Risk Profile and other ERM deliverables and resources to capture only necessary and useful information. When the ERM framework is fully implemented, the Department plans to include risk information as a central consideration in all critical day-to-day and strategic decision-making activities, including resource allocations.

In FY 2019, the Department took further steps to set up a formal ERM program within the Office of Finance and Operations (OFO). In doing so, the Department continued to leverage expertise of colleagues in the Office of Federal Student Aid (FSA), as well as across the Federal Government through the ERM Community of Practice led by Treasury. Additionally, it ensured internal control activities are more efficiently focused on highest priority risks by adding a group of internal control experts to the ERM team.

The Department aims to develop a more risk-aware culture that facilitates increased focus on the range of risks the Department faces and fosters open discussions about how those risks might impact the accomplishment of the Department's mission and whether resources are aligned accordingly. In addition, the ERM program will expand enterprise capacity to achieve optimal performance and operational outcomes by leveraging data and analytical solutions to successfully identify and manage risks, strengthen internal controls through continuous process improvement, and inform strategic planning and decision-making. Finally, the ERM program will leverage partnerships across the agency to identify, measure, and assess challenges related to mission delivery in order to manage risk to a tolerable level and develop actionable response plans and assign owners.

DIRECT LOAN PROGRAM

The Department's largest program, the William D. Ford Federal Direct Loan (Direct Loan) program, provides students and their families with funds to help pay for their postsecondary education costs. The following is a discussion of (1) the steps the Department has taken to help make student debt more manageable and (2) the risks inherent in estimating the cost of the program.

Managing Student Loan Debt

Each year, federal student loans help millions of Americans obtain a college education—an investment that, on average, has high returns. While the average return to a college degree remains high,[1] some students leave school poorly equipped to manage their debt.

Traditionally, federal loans of this type have had flat 10-year repayment schedules, making it difficult for borrowers to pay at the start of their career when their salaries are lower. The recent expansion of income-driven repayment (IDR) plans grants students the opportunity for greater financial flexibility as it pertains to their monthly payment. For more details on these plans, visit FSA's **How to Repay Your Loans Portal**.

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[1] **https://libertystreeteconomics.newyorkfed.org/2019/06/despite-rising-costs-college-is-still-a-good-investment.html**

Recent trends in student loan repayment data show that:

- More than 80 percent of Direct Loan recipients with loans actively in repayment are current on their loans.

- As of June 2019, nearly 7.7 million Direct Loan recipients were enrolled in IDR plans, representing an 8 percent increase from June 2018 and a 22 percent increase from June 2017.

The Department continues to work relentlessly to make student debt more manageable. Looking to the future, the Department will:

- Continue conducting outreach efforts to inform student loan borrowers of their repayment options.

- Work to improve customer service and student aid systems and processes by implementing FSA's Next Generation Financial Services Environment (Next Gen FSA), see page 26.

- Continue to support additional tools such as the College Scorecard and Financial Aid Shopping Sheet to increase transparency around higher education costs and outcomes, in an effort to help students and families make informed decisions before college enrollment.

Managing Risks and Uncertainty Facing the Direct Loan Program's Cost Estimates

Direct Loan program costs are estimated consistent with the requirements of the *Federal Credit Reform Act of 1990*. Under the Act, the future costs and revenues associated with a loan are estimated for the entire life of the loan, up to 40 years in this case. The actual performance of a loan cohort tends to deviate from the estimated performance during that time, which is not unexpected given the inherent uncertainty involved in developing estimates. There are four types of inherent risk that make estimating lifetime program costs a difficult task.

Legislative, Regulatory, and Policy Risk

There are inherent risks from the possibility that the cost structure of the Direct Loan program may be altered through legislative, regulatory, or administrative action. In addition, recent legislative, regulatory, and policy action may be difficult to interpret with regard to effects on financial modeling and estimation, given the lack of actual trend data availability. Some examples of current risks include the following:

Income-Driven Repayment Plans: IDR plans tend to be more costly to the government than non-IDR plans; for the 2019 loan cohort, it is estimated that the government will recover 37 percent less for loans in IDR plans as compared to loans in standard plans. It is important to be careful in making such comparisons, however, as the underlying characteristics of borrowers selecting plans (and the corresponding dynamics of behavior driving selection in plans) also plays a role in driving the cost of loans enrolled in specific plans. In general, the proliferation of IDR plans has made IDR terms more generous (and more costly to the government) and made the plans available to a greater number of borrowers. Having more plans complicates repayment plan selection, since the tradeoffs between available plans vary by borrower and may not always be entirely clear. Selected comparisons between projected originations and borrower repayments under the different IDR plans are available on the **Department's website**. Future commitment to market and increased participation in these plans are areas of uncertainty. Future legislative and regulatory activity could also affect the underlying cost of IDR plans.

Public Service Loan Forgiveness: Enacted in 2007, the Public Service Loan Forgiveness (PSLF) program allows a Direct student loan borrower to have the balance of their Direct student loans forgiven after having made 120 qualifying monthly payments under a qualifying repayment plan, while working full time for a qualifying public service employer (such as government or certain types of nonprofit organizations). In general, forgiveness provided via PSLF raises the cost of the Direct Loan program; however, there is still uncertainty as to how many borrowers will take advantage of the program. Much of this uncertainty arises because borrowers do not need to apply for the program until after having made the 120 qualifying monthly payments.

Data on approved PSLF applications first became available in FY 2018, since borrowers first became eligible for PSLF starting October 1, 2017. As of September 30, 2019, the total number of borrowers who received forgiveness totaled 1,139. The value of this forgiveness totaled $71.90 million. Despite the relatively modest figures of approved applications to date, the number of borrowers who have certified their employment in a public service organization continues to increase. As of September 30, 2019, the number of borrowers with certified employment totaled 1,195,497. The low number of approved PSLF applications in relation to employment certifications

may be partially due to the complicated nature of the program, in particular the determination of what constitutes a qualifying payment. Many borrowers who file employment certification forms early in their careers may also move into private sector employment before reaching the 10 years and thus may (a) never apply for forgiveness or (b) apply for forgiveness much later, after returning to public service work. In the *Consolidated Appropriations Act*, FY 2018, Congress provided $350 million in funding to forgive up to $500 million in loan balances which were ineligible for immediate PSLF solely due to having made a payment under a nonqualifying repayment plan. Congress provided an additional $350 million in funding for up to $500 million in face-value forgiveness in the *Department of Education Appropriations Act*, FY 2019. Future congressional action that may affect eligibility for PSLF will continue to be an area of uncertainty. Lastly, the Department continues to remain informed on, and manage the risk that may arise in relation to, the uncertainty about the effect of further borrower outreach on boosting participation in the PSLF program.

Total and Permanent Disability: On August 21, 2019, the President issued a memorandum directing the Department of Education to ease the processing of loan discharges for borrowers who have been determined by the Secretary of Veterans Affairs to be unemployable due to a service-connected condition. Previously, borrowers were required to sign and return the application to complete the process of applying for a total and permanent disability (TPD) discharge. The ultimate effect of the new process is an area of uncertainty until enough actual data can be observed to analyze their impact.

Estimation Risk

Actual student loan outcomes may deviate from estimated student loan outcomes, which is not unexpected given the long projection window of up to 40 years. The Direct Loan program is subject to a large number of future borrower-level events and economic factors that heavily impact the ultimate cost of issued loans. For example, estimates that need to be made for loans originating in FY 2019 include how long students will remain in school; what repayment plan will be chosen; whether the loan will be consolidated; whether the borrower will die, become disabled, bankrupt, or have another claim for discharge or forgiveness (closed school, borrower defense, etc.); if the loan will go into deferment or forbearance; if the loan will go into default and, if so, what collections will be

received on the defaulted loan; and, if the loan is in IDR, what the borrower's employment (public sector or not) and income and family status will be over the next 25 years. These types of projections are not only extremely difficult to make but also are subject to change if future student behaviors deviate from past experience. Changes in private student loan markets, such as the recent increase in refinancing of federal student loans into private student loans, also add a layer of uncertainty to student loan estimates. Lastly, the Direct student loan portfolio has grown from approximately $356 billion in FY 2011 to more than $1.2 trillion as of the end of FY 2019. This growth naturally results in larger re-estimates, since a re-estimate worth 1 percent of the portfolio today would be more than three times as large as a similar re-estimate in FY 2011 ($11.2 billion vs. $3.6 billion).

Macroeconomic Risk

The ultimate amount, timing and value of future borrower repayments under the Direct Loan program are heavily affected by certain economic factors, especially since the introduction of IDR repayment plans. Some examples include the following:

Interest Rates: Direct Loan subsidy estimates are very sensitive to changes in interest rates. Under the current program terms, the fixed borrower rates for direct loans are established in advance of the upcoming school year, while the Treasury fixed interest rate on borrowings to fund those loans is not set until after those awards are fully disbursed, which can be as much as 18 months later. Unexpected changes in interest rates during this time can significantly impact the subsidy cost of these loans.

Unemployment: The financial crisis of 2008 and ensuing spike in unemployment rates had a dramatic effect on both student loan volume and student loan performance. Student loan volume peaked along with unemployment, as many displaced workers sought higher education opportunities. Student loan performance suffered as many borrowers repaying their loans were left with much less disposable income with which to make their loan payments. For example, the cohort default rate for students was at a high of 14.7 percent for loans entering repayment in 2010, while the most recent rate is 10.1 percent for loans entering repayment in FY 2016. While recessions and economic downturns are cyclical phenomena, their exact timing and impact on the cost estimates remain an area of uncertainty.

Wage Growth: The estimated costs of IDR plans are largely dependent on trends in observed wage growth. To the extent that future wage growth deviates significantly from prior wage growth, actual costs of IDR plans may deviate from projected estimated costs. The Department continues to manage risks in this area by continuing to learn about its borrower base and remain informed on such labor market statistics.

Operational Risk

Unforeseen issues in administering and servicing student loans may impact the cost estimates. For example, in March 2017, a tool used to transfer automatically a family's tax information to both student aid applications and IDR plan applications was taken down due to security concerns. Incidents like this may happen without warning and disrupt not only student loan administration but also resulting cash flows. Hence, there is an inherent risk that future, unpredictable disruptions in the administrative status quo may impact student loan cost estimates.

NEXT GEN FSA

About FSA

As the nation's largest provider of financial aid for education beyond high school, FSA delivers more than $120 billion in aid each year to students and their families. Through programs authorized under the *Higher Education Act of 1965*, as amended, FSA provides grants, loans, and work-study funds for college or career school. FSA also oversees the approximately 6,000 postsecondary institutions that participate in the federal student aid programs. In every interaction with students and their families, FSA strives to be the most trusted and reliable source of student financial aid information and services in the nation.

The Vision

FSA has one of the largest consumer loan portfolios in the country at $1.5 trillion.[2] It is critical that we provide a customer experience that is on par with world-class financial services firms and establishes our organization as one of the most trusted brands in the student aid industry. The Next Generation Financial Services Environment (Next Gen FSA) will enable FSA to realize this vision by modernizing the way we connect with our customers and streamlining our student aid systems and processes. This broad effort will deliver an improved customer experience for millions of Americans across the entire student aid life cycle, from fostering greater awareness about the availability of financial aid, to applying for aid, to repaying loans.

Today's Environment

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

Next Gen FSA Environment

Multiple websites, mobile applications, contact centers, and other customer interfaces are being combined into a simplified, consistent, and engaging experience, which will be enhanced by standardized training and tools across vendors and partners. With a focus on mobile engagement, Next Gen FSA has already begun to meet customers where they are, letting them connect with FSA on the device of their choice. Customers will soon have additional access to a modernized, online portal with personalized information that helps them quickly understand their options and make informed decisions throughout the financial aid life cycle, including borrowing and loan repayment. While Next Gen FSA will cut through the information clutter and provide robust self-service, it also will seamlessly connect customers with additional support when needed.

In addition to an improved customer experience, Next Gen FSA will completely modernize FSA's back-end systems and infrastructure. This transformation will pave the way for improved processing and customer management at lower costs. Vendor and partner performance standards and accountability measures will be built into Next Gen FSA to ensure customers receive world-class service while protecting taxpayer dollars. Next Gen FSA will integrate state-of-the-art cybersecurity protections across every aspect of the student aid experience. Enterprise-wide data analytics will drive improved customer service, particularly for at-risk students and borrowers, while also enhancing our oversight of participating postsecondary schools and supporting vendors.

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2   Includes lender-held FFEL loans and school-held Perkins loans.

Solicitation and Procurement Process

The Next Gen FSA implementation plan was based, in part, on extensive market research with more than 60 industry leaders. This research-based approach enabled FSA to identify best-in-industry standards and technical benchmarks that continue to inform the procurement process. On February 20, 2018, FSA initiated a multistage procurement process designed to identify the commercial partners most capable of supporting the implementation of Next Gen FSA; FSA intends to select a pool of vendors to deliver the Next Gen FSA environment. The first major element of Next Gen FSA, the Digital and Customer Care contract that will deliver our integrated mobile, web, and telephonic solution and single customer view, was awarded in February 2019. A series of additional awards, for enterprise data architecture and standards, was completed in August 2019. Contracts to support the remaining Next Gen FSA efforts are expected to be awarded in late 2019 or early 2020.

The current Title IV Additional Servicing (TIVAS) and Not-for-Profit indefinite-delivery, indefinite-quantity contracts are set to expire in December 2019 and March 2020, respectively. Should FSA require continued servicing support beyond these dates, there are multiple avenues it can pursue. The appropriate contractual actions will be taken to ensure continued servicing capabilities until this portion of the Next Gen FSA vision is implemented. FSA is taking a similar approach to all legacy contracts that will be impacted by the Next Gen FSA vision to ensure as smooth a transition as possible for our customers and partners.

LEVERAGING DATA AS A STRATEGIC ASSET

The Department is focusing on further leveraging its data as a strategic asset, in part in response to new requirements in the *Foundations for Evidence-Based Policymaking Act* (Evidence Act; **P.L. 115-435**). This section highlights three initiatives intended to help the Department realize the power of data in daily operations and national policy: (1) the establishment of the Office of the Chief Data Officer; (2) the chartering of an ED Data Governance Board; and (3) a new focus for the Evidence Leadership Group in advising the Evaluation Officer and developing the Department's learning agenda.

Office of the Chief Data Officer

The Department has established an Office of the Chief Data Officer (OCDO), effective October 2019, which is responsible for managing and improving the Department's ability to leverage data as a strategic asset. In accordance with the Evidence Act, the Secretary has named a Department Chief Data Officer (CDO), whose responsibilities include, but are not limited to, lifecycle data management across the Department and developing and enforcing the Department's data strategy and governance policies. The OCDO has oversight over the Department's information collections approval and associated Office of Management and Budget (OMB) clearance process. It is responsible for developing and enforcing the Department's open data plan, including management of a centralized comprehensive data inventory accounting for all data assets across the Department. The CDO submits annual reports to Congress on agency compliance with the Evidence Act. The OCDO is also responsible for developing and maintaining a technological and analytical infrastructure that is responsive to the Department's strategic data needs and exploiting traditional and emerging analytical methods to improve decision making, optimize outcomes, and create efficiencies.

ED Data Governance Board

In accordance with OMB guidance on the implementation of the Evidence Act, the CDO will convene an ED Data Governance Board (DGB). The DGB will gather input from across the Department to develop and enforce sound data governance policy and process decisions. The DGB will sponsor agency-wide actions to develop an open data culture and work to improve the Department's capacity to leverage data as a strategic asset for evidence building and operational decisions, including developing the capacity of data professionals in program offices. The DGB will help the Department implement a coordinated and collaborative approach to oversee strategic data collection and acquisition, responsible lifecycle data management, open and transparent release of its data assets, and advance internal and external uses of data.

Evaluation Officer and Evidence Leadership Group

The Evidence Act created a new role, a Department "Evaluation Officer" (EO), who is responsible for: (a) developing the Department's learning agenda by assessing the Department's portfolio of evaluations, policy research, and ongoing evaluation activities; (b) assessing the Department's capacity to support the development and use of evaluation; (c) establishing and implementing the Department's evaluation policy; and (d) coordinating

a Department-wide evidence-building plan. IES's Commissioner of the National Center for Education Evaluation and Regional Assistance is the Department's EO.

The Evidence Leadership Group (ELG) serves in an advisory capacity to the EO on these statutory responsibilities and serves additional functions to inform the Department's programs and policies. In addition, the ELG advises the Department's policy officials on how best to build, use, and disseminate evidence throughout the policy development and implementation lifecycle. The ELG is cochaired by the Evaluation Officer and a designee of the Assistant Secretary of the Office of Planning, Evaluation and Policy Development.

The work of the ELG depends upon strong partnerships across the Department's principal offices, with other agencies, states and localities, private sector innovators, and other stakeholders in the education community. It benefits from a shared vision and common language around evidence-building, use, and dissemination, and the Department's history of promoting the use of evidence.

CONTINUOUS IMPROVEMENT

Improving critical infrastructure, systems, and overall capacity, and ensuring sound strategic decision making regarding allocation of resources are essential to the Department's future progress and success. Implementing Technology Business Management Solutions is one of the Department's key initiatives.

Technology Business Management Solutions (TBMS)

The purpose of the TBMS project is to provide greater cost transparency into IT spend. The TBMS project will allow

OCIO to communicate the cost drivers for, and the value of, IT to senior leadership, improve the efficiency and predictability of the formulation of the IT budget, and optimize IT costs.

Beginning in 2017, OMB required agencies to begin reporting IT spending in alignment with the TBM Framework, including using Cost Pools and IT Towers to classify IT spending. The Department intends to leverage TBM beyond the minimum OMB reporting requirements to encompass the full implementation of the TBM cost accounting framework. The project started with a pilot that incorporated OCIO's operating budget of approximately $120 million into a TBM module designed to provide cost transparency and was then broadened to the Department's entire IT budget of approximately $750 million. One of the ultimate goals is to be able to provide a "bill of IT" to form the basis of a show-back model to drive more informed decision-making around IT.

The objective is to implement an integrated solution that will allow OCIO to:

- Accurately account for and categorize IT spending in IT Cost Towers and Pools;

- Evaluate IT spending using a method that helps identify redundant IT assets (e.g. systems, applications, and licenses);

- Extract cost elements from disparate sources, analyze these elements, and report cost stressors and trends to stakeholders; and

- Prepare accurate pricing through a show-back model to client offices for the services provided.