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. A summary of significant changes in financial statement line-item balances is provided in Table 1.

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 Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*. An independent accounting firm with oversight provided by the OIG was engaged to audit the consolidated balance sheet, related notes, and underlying business processes, systems and controls. The Consolidated Balance Sheet and related notes for FY 2023 are presented in the Financial Section. The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and related notes for FY 2023 are presented in the Other Information section.

Table 1. Key Financial Statement Changes
(Dollars in Billions)

Financial Statement Lines with Significant Changes	Amount		Total Changes		Changes Due to COVID-19	
	FY 2023	FY 2022	Amount	Percentage	Amount	Percentage
Balance Sheets						
Fund Balance with Treasury	$ 244.0	$ 317.0	$ (73.0)	-23.0%	$ (66.1)	-20.9%
Loan Receivables, Net – Direct Loan Program	1,030.9	816.5	214.4	26.3%	294.4	36.1%
Debt Associated with Loans – Direct Loan Program	1,127.0	837.4	289.6	34.6%	325.3	38.8%
Debt Associated with Loans – FFEL Program	60.9	67.0	(6.1)	-9.1%	13.9	20.7%
Subsidy Due to Treasury	1.6	27.0	(25.4)	-94.1%	-	0.0%
Statements of Net Cost (Net Program Costs)						
Promote Equity for Prekindergarten through Grade 12 Students with Access to Educational Resources, Opportunities, and Inclusive Environments	100.0	90.8	9.2	10.1%	(14.0)	-15.4%
Increase Postsecondary Value by Focusing on Equity Strategies to Address Access to Affordability, Completion, and Post-Enrollment Success	(58.6)	472.6	(531.2)	-112.4%	(733.3)	-155.2%
Statements of Budgetary Resources						
Unobligated Balance from Prior Year Budget Authority (Net)	52.3	65.3	(13.0)	-19.9%	(18.0)	-27.6%
Appropriations (Discretionary and Mandatory)	254.7	597.2	(342.5)	-57.4%	(424.1)	-71.0%
Borrowing Authority (Discretionary and Mandatory)	472.7	178.7	294.0	164.5%	339.3	189.9%
Spending Authority from Offsetting Collections (Discretionary and Mandatory)	70.5	60.7	9.8	16.1%	-	0.0%
New Obligations and Upward Adjustments (Total)	776.9	813.7	(36.8)	-4.5%	(442.0)	-54.3%
Unobligated Balance, End of Year (Total)	73.3	88.3	(15.0)	-17.0%	(0.1)	-0.1%
Outlays, Net	306.5	668.5	(362.0)	-54.2%	(438.6)	-65.6%
Distributed Offsetting Receipts	(347.6)	(29.1)	(318.5)	1,094.5%	(333.1)	1,144.7%

The Consolidated Balance Sheet and related notes for FY 2023 are on pages 80–99, the Independent Auditors' Report begins on page 100, and the Other Information section begins on page 115.

The financial statements are prepared to report the financial position and results of operations of the reporting entity, consistent with 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 understanding that they are for a component of the U.S. government.

Financial Statement Impacts of Debt Relief Actions

During FY 2022 and FY 2023, the Department announced significant actions to provide relief to federal student loan borrowers, including extensions to the student loan repayment pause through August 31, 2023, and several additional debt relief actions. Targeted debt relief actions announced or taken during FY 2023 include:

- Fixing historical inaccuracies in the Income Driven Repayment (IDR) count system for borrowers who earned forgiveness. These fixes, which were first announced by the Biden-Harris Administration in April 2022, are part of the Department's commitment to address historical failures in the federal student loan program. Borrowers are eligible for forgiveness if they have accumulated the equivalent of either 20 or 25 years of qualifying months.
- Creating the most affordable payment plan ever—the Saving on a Valuable Education (SAVE) plan. The SAVE plan cuts payments on undergraduate loans in half compared to other IDR plans, ensures that borrowers never see their balance grow as long as they keep up with their required payments, and protects more of a borrower's income for basic needs. A single borrower who makes less than $15 an hour will not have to make any payments. Borrowers earning above that amount will save more than $1,000 a year on their payments compared to other IDR plans.
- Making improvements to the Public Service Loan Forgiveness (PSLF) program, including helping borrowers earn progress toward PSLF, simplifying criteria to help borrowers certify qualifying employment, and providing opportunities for borrowers to get help correcting PSLF account problems. Borrowers with Direct Loans who work in public service are also likely to benefit from the one-time account adjustment announced by the Department last year, allowing borrowers to get credit for past periods of repayment on loans that would not otherwise qualify for PSLF.

Of the debt relief actions announced by the Biden-Harris Administration, as of September 29, 2023, **3.4 million borrowers** have already had their debt relief approved, including:

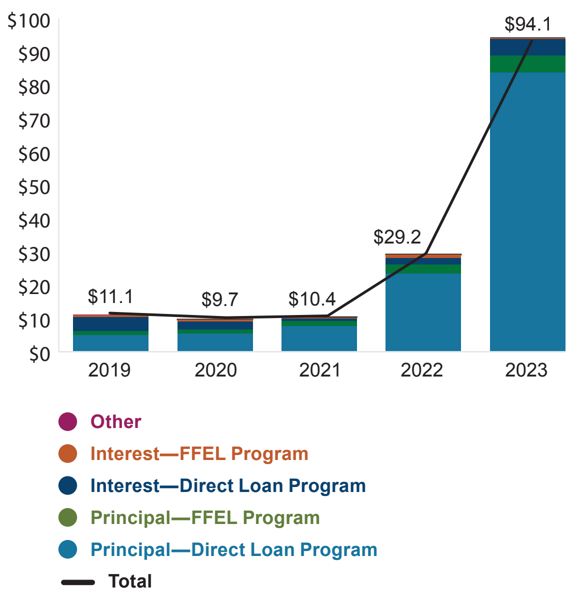
- **1.3 million borrowers** who were taken advantage of by their school, saw their school precipitously close, or are covered by related court settlements.
- More than **800,000 borrowers** who qualified for relief because of fixes to IDR plans implemented by the Biden-Harris Administration.
- More than **650,000 borrowers** through improvements to the PSLF program.
- Almost **500,000 borrowers** who have a total and permanent disability.

- Approving borrower defense and school closure discharges for borrowers whose institutions took advantage of them, including borrowers who attended Colorado-based locations of CollegeAmerica, Ashford University, and the University of Phoenix.
- Instituting a 12-month "on-ramp" to repayment, running from October 1, 2023, to September 30, 2024, so that financially vulnerable borrowers who miss monthly payments during this period are not considered delinquent, reported to credit bureaus, placed in default, or referred to debt collection agencies.
- Providing additional pathways for borrowers who have a total and permanent disability to receive a discharge. This includes allowing borrowers who receive additional types of disability review codes from the Social Security Administration (SSA) to qualify for a discharge. This also includes borrowers who later aged into retirement benefits and are no longer classified by one of these codes. Borrowers who have an established onset date of their disability determined by SSA to be at least 5 years in the past can also establish eligibility.

Although forgiveness of loan principal and interest associated with some of these actions will not occur until future fiscal years, these actions have already resulted in significant increases in cancellations of loan principal and interest for loans held by the Department.

As shown in Figure 1, cancellations of loan principal and interest increased 222.3 percent during FY 2023, primarily for the Direct Loan Program. A large portion of cancellations of loan principal and interest during FY 2023 were associated with the PSLF and IDR programs, as they made up 39.7 percent and 41.6 percent of total cancellations, respectively. Other notable types of cancellation activity include borrower defense discharges, cancellations of loan principal and interest for loans in default status, and discharges for total and permanent disability.

Figure 1. Loan Cancellations
(Dollars in Billions)



FY 2023 Loan Cancellations
(Dollars in Millions)

	FY 2023						
	Direct Loan Program		FFEL Program				
Loan Cancellation Type	Principal	Interest	Principal	Interest	Fees	Other	Total
Discharges for closed schools	$ 36	$ 2	$ 6	$ 1	$ -	$ -	$ 45
Discharges due to death of the borrower	619	47	41	5	-	-	712
Discharges for total and permanent disability	2,799	228	458	99	-	1	3,585
Public service loan forgiveness	35,789	1,563	4	-	-	1	37,357
Borrower defense discharges	7,210	1	2,362	66	-	-	9,639
Discharges for income driven repayment plans	34,601	3,066	1,478	49	-	-	39,194
Cancellation of defaulted loans held by guaranty agencies or the defaulted loan servicer	2,525	76	618	73	41	48	3,381
Other	210	7	3	-	-	10	230
Total Loan Cancellations	**$83,789**	**$4,990**	**$ 4,970**	**$ 293**	**$ 41**	**$ 60**	**$94,143**

Financial Statement Impacts of COVID-19 Activities

Many of the significant changes to the Department's financial statements resulted from the impacts due to coronavirus disease 2019 (COVID-19) activities. Congress passed multiple COVID-19 relief bills in FY 2020 and FY 2021, including the following that provided a total of $282.5 billion of direct appropriation funding for educational purposes:

- *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) $31.0 billion
- *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* (CRRSAA) $82.0 billion
- *American Rescue Plan Act of 2021* (ARP) $169.5 billion

These appropriations funded a variety of programs administered primarily through grant programs. The largest component of the education funding provided by the COVID-19 relief appropriations established the Education Stabilization Fund which included (1) the Elementary and Secondary School Emergency Relief Fund, (2) the Higher Education Emergency Relief Fund, (3) the Governor's Emergency Education Relief Fund, and (4) funds for outlying areas.

The COVID-19 relief legislation and administrative actions also provided support during FY 2023 for student loan borrowers by suspending nearly all federal student loan payments through August 31, 2023, interest free. Additionally, support for student loan borrowers was provided in previous fiscal years by the following COVID-19 relief legislative and administrative actions.

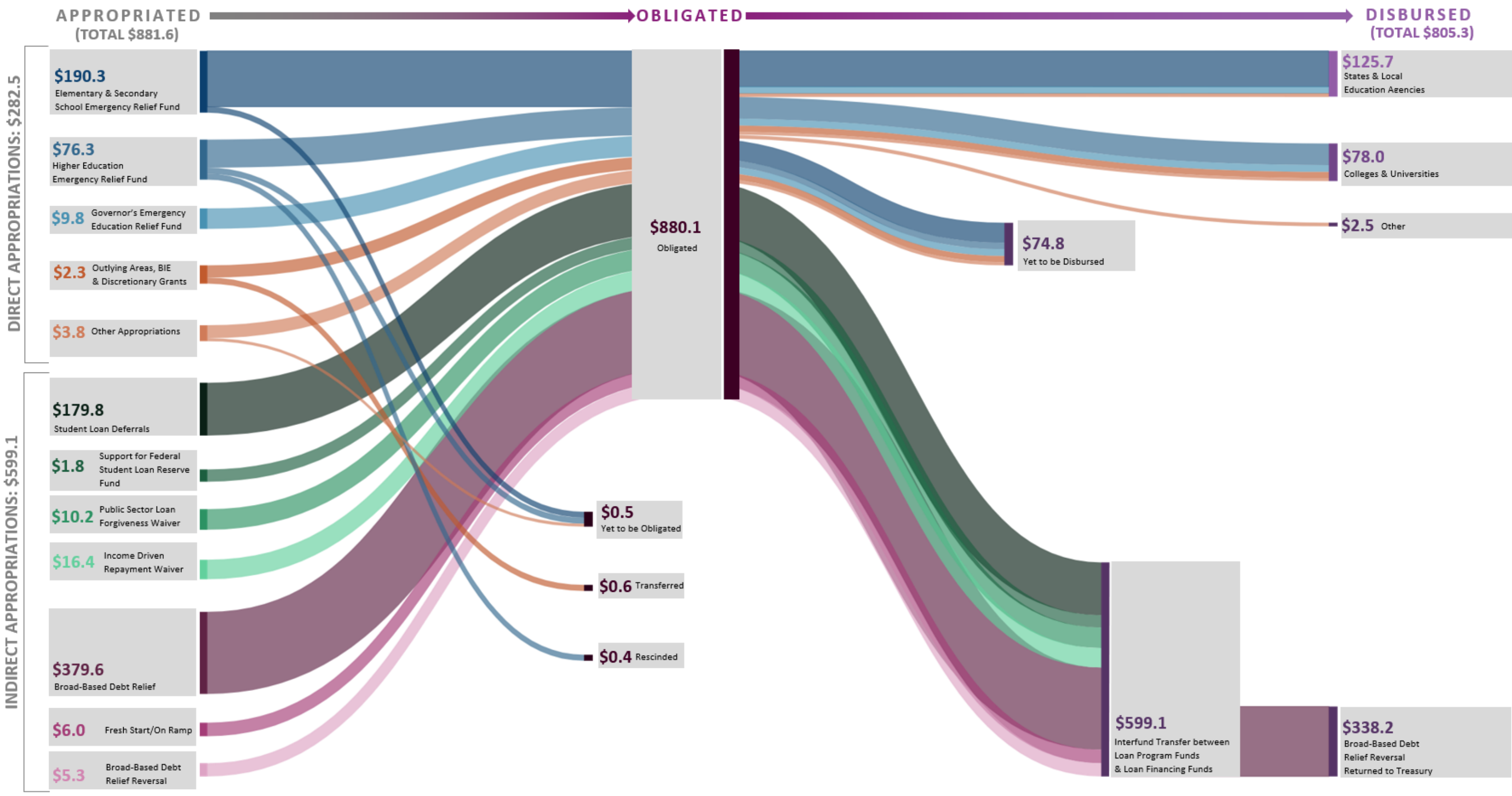
- Authorizing Guaranty Agencies to reimburse themselves from the Federal Student Loan Reserve Fund for lost revenue that resulted from student loan repayment deferrals. This reimbursement covers the share of what a guaranty agency might have reasonably collected during the pandemic, but for the suspension.
- Making temporary changes to the PSLF program through a Limited PSLF Waiver to allow student borrowers to get credit for payments made while working for a qualifying employer, regardless of loan type or repayment plan.
- Addressing issues with IDR payment counting by allowing any borrower who made IDR-qualifying payments to count toward IDR, regardless of repayment plan.

Funding for each of these actions was provided through indefinite appropriations. Cost impacts of the COVID-19 loan modifications were recorded as loan modifications and are a component of subsidy expense, which reduced the overall loan receivable balances for the student loan programs. Detailed explanations of the COVID-19 Direct Loan Program loan modifications are provided in the Analysis of Direct Loan Program Subsidy Expense section beginning on page 36 and in Note 13 in the Other Information section beginning on page 127.

The direct and indirect funding stemming from the combined COVID-19 relief legislative and administrative actions is summarized in Figure 2. Obligated and unobligated COVID-19 funds remaining to be disbursed as of September 30, 2023, totaled $75.3 billion. Most of the undisbursed funds are for the Elementary and Secondary School Emergency Relief (ESSER) Fund. While states may have made subawards for all of their

ESSER funding, subawardees may still be in the process of completing their obligations and requesting reimbursement from the states who will then in turn draw down the remaining undisbursed funds.

Figure 2. COVID-19 Funding Flow
(Dollars in Billions)



Elementary and Secondary School Emergency Relief (ESSER) Fund—Funds provided for state educational agencies (SEAs) and local educational agencies (LEAs) to support continued learning for K-12 students whose educations have been disrupted by COVID-19, and grants for the specific needs of homeless children and youth to address the challenges of COVID-19.

Higher Education Emergency Relief Fund (HEERF)—Funds provided for institutions of higher education (IHEs) to address needs directly related to COVID-19, including transitioning courses to distance education and granting aid to students for educational costs such as food, housing, course materials, health care, and childcare.

Governor's Emergency Education Relief (GEER) Fund—Grants provided to state governors to ensure education continues for students of all ages impacted by the COVID-19 national emergency.

Outlying Areas, Bureau of Indian Education (BIE), and Discretionary Grants—Funds provided for outlying areas and discretionary grants to states with the highest COVID-19 burdens.

Balance Sheet

The consolidated balance sheet presents, 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 $1,318.0 billion as of September 30, 2023. As shown in Figure 3, most assets relate to loans receivables, $1,073.0 billion, which comprised 81.4 percent of all assets. Direct loans comprise the largest share of these receivables. Analysis of the net change in Direct Loan Program receivable balances begins on page 30. All other assets totaled $245.0 billion, most of which was Fund Balance with Treasury, $244.0 billion, which decreased by $73.0 billion during FY 2023, largely due to a decrease in undisbursed COVID-19 funds as of September 30, 2023.

The Department's liabilities totaled $1,213.7 billion as of September 30, 2023. As shown in Figure 4, most of the Department's liabilities are also associated with loan programs, primarily amounts borrowed from the U.S. Department of the Treasury (Treasury) to fund student loans. Debt associated with the Direct Loan Program totaled $1,127.0 billion as of September 30, 2023. Analysis of debt associated with the Direct Loan Program begins on page 33.

Figure 3. Assets by Type

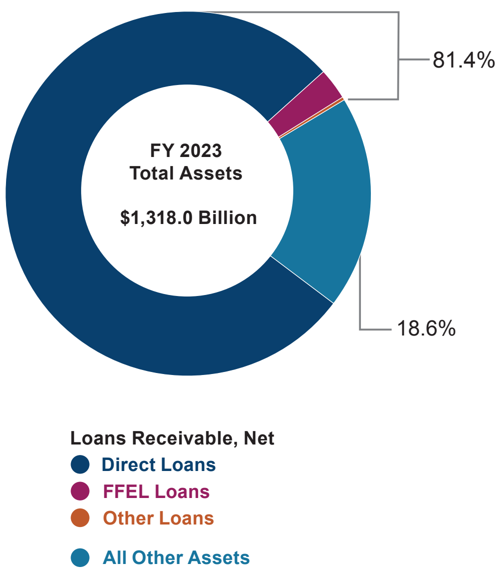
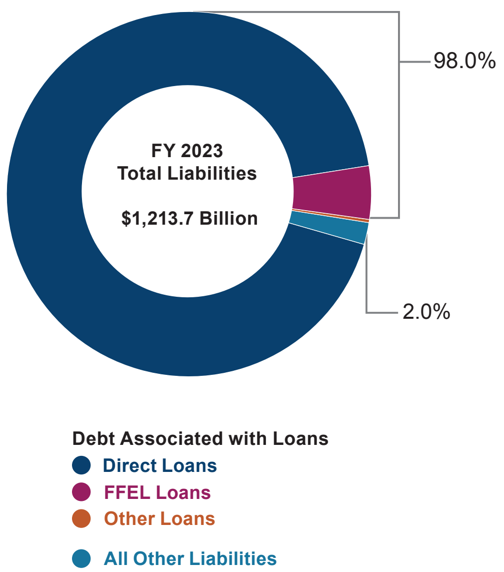


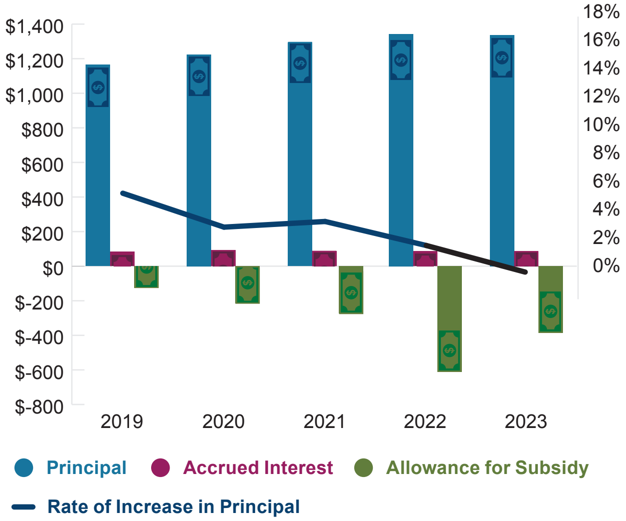
Figure 4. Liabilities by Type



Analysis of Direct Loan Program Receivables, Net

Figure 5 shows the changes in the Direct Loan Program receivable components over the past five years. The principal amount grew each year since 2019, except 2023, which saw a slight decrease. Although total principal has increased during these years, the rate of increase in principal slowed as enrollment stagnated and sometimes declined. Even so, new loan disbursements continued to exceed overall loan principal repayments—student loan borrowers have many options to stretch out their repayment terms and reduce their monthly payments, and student loan repayment deferrals were implemented in response to COVID-19. Accrued interest amounts have decreased in recent years due to COVID-19 relief actions to temporarily set borrower interest rates to zero percent until August 31, 2023.

Figure 5. Components of Direct Loan Receivables, Net (Dollars in Billions)



Direct Loan Component (Dollars in Billions)	Fiscal Year				
	2019	2020	2021	2022	2023
Principal	$1,164.9	$1,224.8	$1,292.2	$1,341.8	$1,336.2
Rate of Increase in Principal	7.5%	5.1%	5.5%	3.8%	-0.4%
Accrued Interest	$ 83.3	$ 92.1	$ 86.5	$ 86.7	$ $83.4
Allowance for Subsidy	$ (124.4)	$ (216.4)	$ (273.9)	$ (611.9)	$ (388.7)
Total No. of Direct Loan Recipients (in Millions)	**35.1**	**35.9**	**37.0**	**37.1**	**38.1**

In accordance with the *Federal Credit Reform Act of 1990*, the Department's financial statements report the value of direct loans (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.

A negative allowance for subsidy balance means that the present value of funds expected to be recovered is less than the principal outstanding. The increase in the negative allowance from FY 2019 through FY 2022 is due primarily to higher subsidy costs, the main causes being high participation in IDR plans and the COVID-19 deferrals of student loan repayments. In addition to these factors, the increase in the negative allowance for subsidy during FY 2022 was also due to higher subsidy costs due to debt relief actions announced during the FY. The decrease in the negative allowance for subsidy during FY 2023 was largely due to a downward modification to reverse the inclusion of student loan debt relief from the baseline subsidy cost as a result of the Supreme Court's ruling on Biden v. Nebraska on June 30, 2023 (see discussion in the Analysis of Direct Loan Program Subsidy Expense section on page 36).

Table 2. Payment Status of Direct Loan Principal and Interest Balance
(Dollars in Billions)

Loan Status	FY 2019	FY 2020**	FY 2021**	FY 2022**	FY 2023**
Total No. of Direct Loan Recipients (in Millions)	35.1	35.9	37.0	37.1	38.1
Total Dollar Amount of Direct Loans Outstanding	$ 1,248.1	$ 1,316.9	$ 1,378.7	$ 1,428.5	$ 1,419.6
Current Repayment[1]	$ 594.7	$ 14.2	$ 16.2	$ 11.8	$ 999.4
% Current Repayment	47.6%	1.1%	1.2%	0.8%	70.4%
In School, Grace Period, and Education Deferments	$ 294.8	$ 282.8	$ 271.9	$ 259.5	$ 255.4
% In School, Grace Period, and Education Deferments	23.6%	21.5%	19.7%	18.2%	18.0%
Forbearance and Noneducation Deferments	$ 133.2	$ 887.5	$ 967.8	$ 1,039.7	$ 57.4
% Forbearance and Noneducation Deferments	10.7%	67.4%	70.2%	72.8%	4.0%
Delinquent (Past Due 31–360 Days)	$ 90.8	$ 0.5	$ 0.0	$ 0.0	$ 0.0
% Delinquent (Past Due 31–360 Days)	7.3%	0.0%	0.0%	0.0%	0.0%
Default/Bankruptcy/Other*	$ 134.6	$ 131.9	$ 122.8	$ 117.5	$ 107.4
% Default/Bankruptcy/Other*	10.8%	10.0%	8.9%	8.2%	7.6%

[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.

*Adjusted to eliminate differences between NSLDS and FSA Total Reported DL Portfolio (principal and interest).

**Student loan payment pause in effect from March 2020 through August 2023.

Table 2 shows the payment status of the direct loan principal and interest balances outstanding over the past five 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 IDR plans. Loans in the Delinquent category are past due anywhere from 31 to 360 days. Default/Bankruptcy/Other includes loans that are more than 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.

COVID-19 student loan repayment deferrals were in effect from March 2020 through August 2023, resulting in significantly lower reported balances for Current Repayment and Delinquent in FY 2020–2022. The COVID-19 student loan repayment deferrals placed loans in forbearance and subsequently cured delinquencies. As a result of the COVID-19 student loan repayment deferrals, the delinquent balances have been zero for FY 2021–2023.

While the COVID-19 student loan repayment deferrals suspended payments for federally owned student loans, some borrowers elected to continue to make student loan payments. In addition to improving borrowers' overall financial health, factors that may have influenced borrowers to continue making payments on their student loans during forbearance include the following:

- Borrower flexibility to make payments or suspend payments as their financial circumstances permitted without notification to the loan servicer.

- Potential earlier loan payoff.
- Lower total cost of a loan over time to the borrower due to the zero percent interest rate. (Before the pause, an average of two-thirds of each dollar paid went to principal. During the pause, this quickly increased to above 90 percent, and now an average of 95 percent of each dollar goes toward principal.)
- Potentially improving the borrower's credit rating by reducing the student debt balance. The relative strength of FSA borrower payment activity has been driven, in part, by efforts of borrowers to improve their credit stance to purchase homes during the period of forbearance. During the pandemic, the U.S. Department of Housing and Urban Development and Federal Housing Authority implemented nontemporary policy changes to improve the underwriting stance of federal student loan borrowers.
- Potentially improved overall borrower financial health and reduced financial stress by reducing student debt.

Analysis of Debt Associated with Loans, Direct Loan Program

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.

The Department's total debt associated with the Direct Loan Program was $1,127.0 billion as of September 30, 2023, which was a $289.6 billion increase from FY 2022. Total debt increased largely because of new borrowings from Treasury during FY 2023 to fund the disbursement of new loans and downward modifications.

Figure 6. Direct Loan Program Cumulative Financing Activity
(Dollars in Billions)

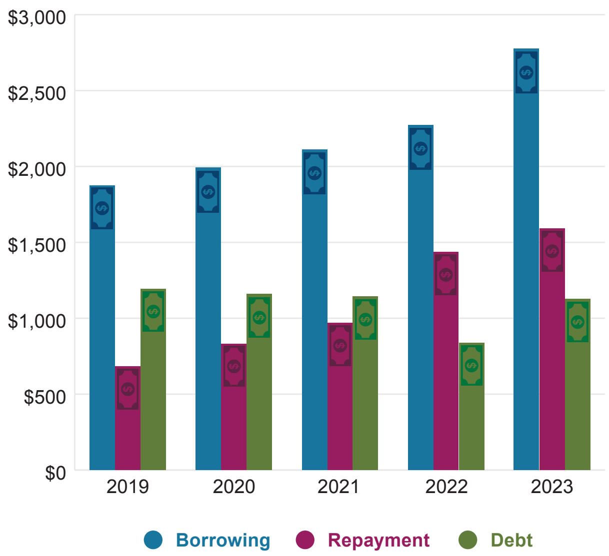
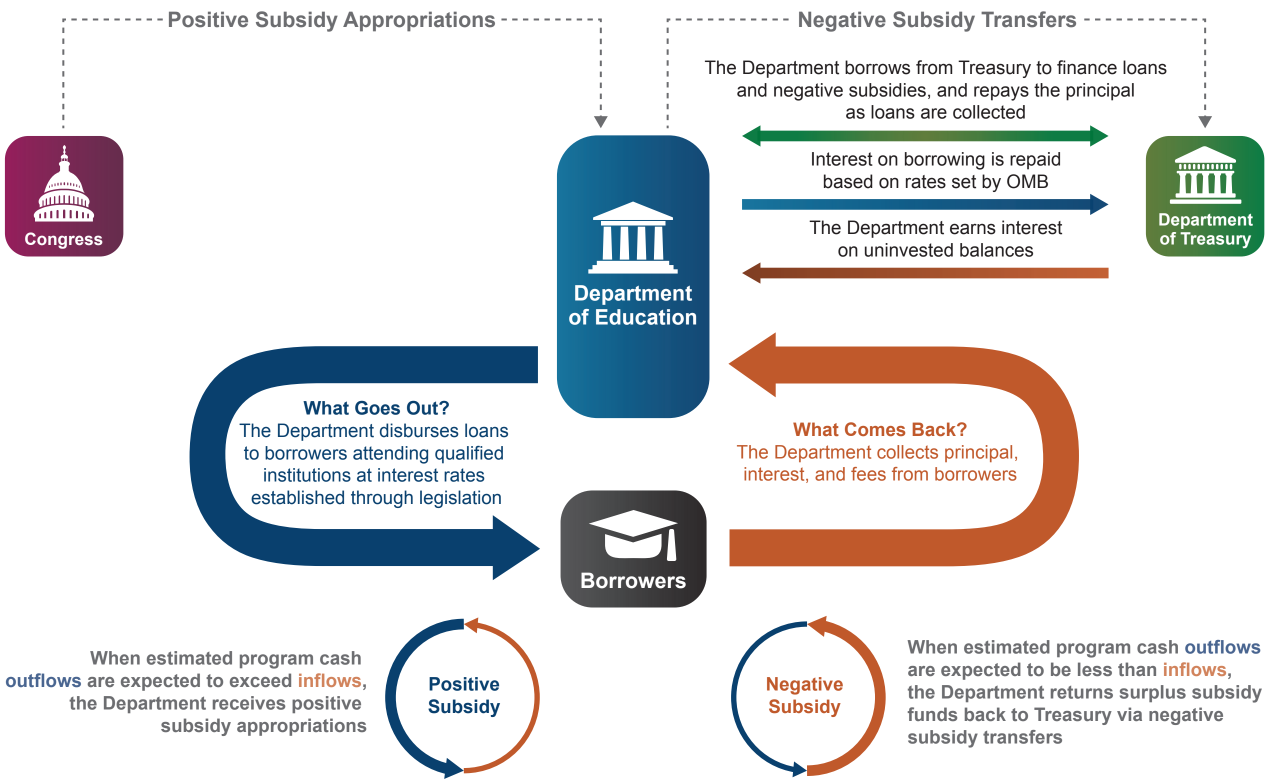


Figure 6 shows the Direct Loan Program cumulative borrowing and repayment activity that resulted in the debt amount on the balance sheet. A diagram depicting the Direct Loan Program financing process is displayed with related trend data as Figure 7 on page 34 of this report.

Figure 7. William D. Ford Federal Direct Loan Program: ***Follow the Funding***



Treasury Financing and Subsidy Cost of Direct Loans (Dollars in Billions)*					
Fiscal Year	2019	2020	2021	2022	2023
Net Borrowing	**$ 41.5**	**$ (32.0)**	**$ (17.9)**	**$ (304.8)**	**$ 289.5**
Borrowing from Treasury	137.6	116.9	120.0	162.8	445.0
Debt Repayments to Treasury	(96.1)	(148.9)	(137.9)	(467.6)	(155.5)
Interest Expense to Treasury	(33.8)	(34.7)	(33.0)	(30.6)	(28.2)
Interest Earned from Treasury	4.1	4.8	4.2	7.6	6.3
Cumulative Taxpayer Cost / (Savings)	124.4	216.4	273.9	611.9	388.7
Current Subsidy Expense / (Revenue)	61.5	100.9	93.9	385.4	(116.5)

Direct Loan Program Cash Transactions with Borrowers (Dollars in Billions)*					
Fiscal Year	2019	2020**	2021**	2022**	2023**
Loan Disbursements	**$ 130.7**	**$ 117.4**	**$ 104.8**	**$ 120.4**	**$ 122.3**
Stafford Subsidized	20.0	19.1	18.3	15.7	15.7
Stafford Unsubsidized	48.1	46.1	44.1	45.5	44.9
Parent Loan for Undergraduate Students (PLUS)	22.7	21.7	20.8	22.2	23.9
Consolidation[1]	39.8	30.4	21.5	36.9	37.8
Loan Collections[2]	**91.3**	**69.9**	**37.2**	**45.5**	**45.9**
Principal	67.0	55.3	33.3	41.3	42.1
Interest	22.4	12.9	2.3	2.6	2.1
Fees	1.9	1.7	1.6	1.6	1.7

* Numbers may not add due to rounding.

** Student loan payment pause in effect from March 2020 through August 2023.

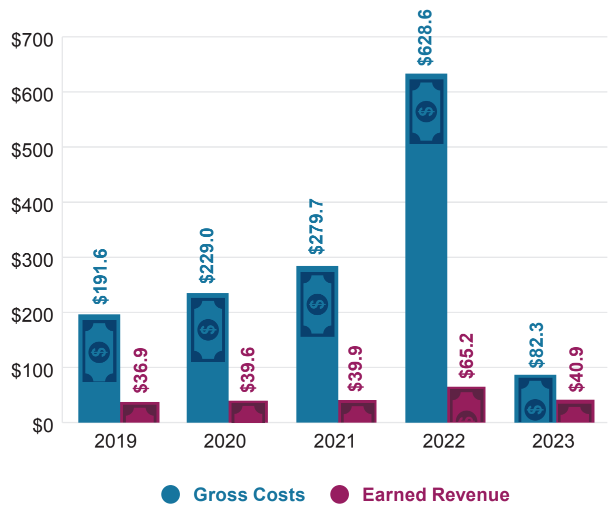
[1] Consolidation amounts stem from a number of loan programs, including most notably the FFEL program, in addition to Direct Loans.

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

Statements of Net Cost

The consolidated statements of net cost report the Department's components of the net cost of operations for a given 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 8 shows the Department's gross costs and earned revenue over the past five years. As discussed in more detail below, significant changes in the Department's net costs for FY 2023 were primarily due to loan modifications and re-estimates (subsidy expense) and grant expenses related to COVID-19 activities.

Figure 8. Gross Costs & Earned Revenue
(Dollars in Billions)

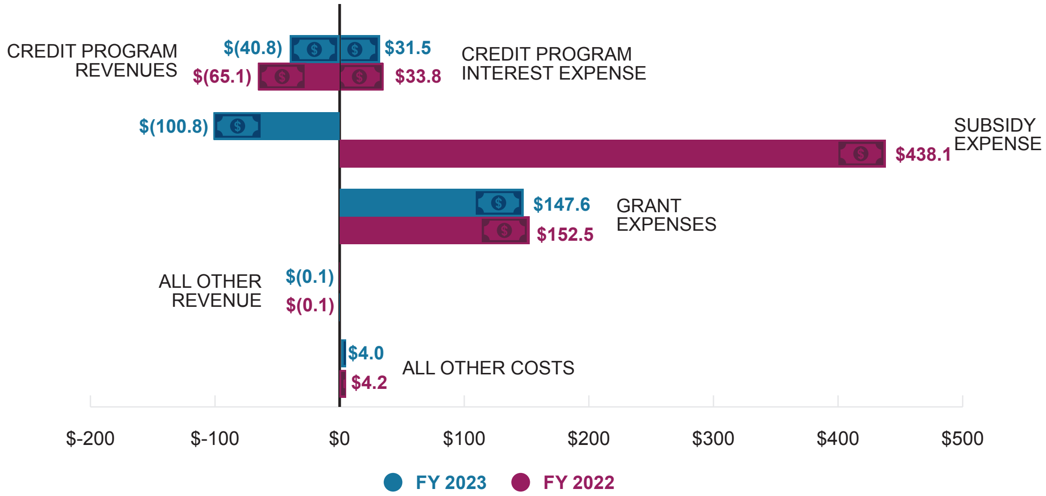


Gross Costs and Earned Revenue by Type

As shown in Figure 9, 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)
- Grant expenses. (See Figure 11)

Figure 9. Primary Components of Gross Costs and Earned Revenue
(Dollars in Billions)



Analysis of Direct Loan Program Subsidy Expense

The Department's gross costs can fluctuate significantly each year as a result of changes in estimated subsidy expenses—primarily subsidy expenses for direct loans. The primary components of subsidy expenses include year-end subsidy re-estimates and loan modifications.

Subsidy expenses are estimates of the present value cost of providing direct loans but exclude the administrative costs of issuing and servicing the loans. The Department estimates subsidy expenses using a set of econometric and financial models as well as cash flow models.

The Department estimates subsidy expenses annually for new loans disbursed in the current year and updates the previous cost estimates for outstanding loans disbursed in prior years based on various updated assumptions (subsidy re-estimates). The Department also updates subsidy expenses due to changes to terms of existing loans (subsidy modifications). Figure 10 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 individual components and overall subsidy expense are positive or negative.

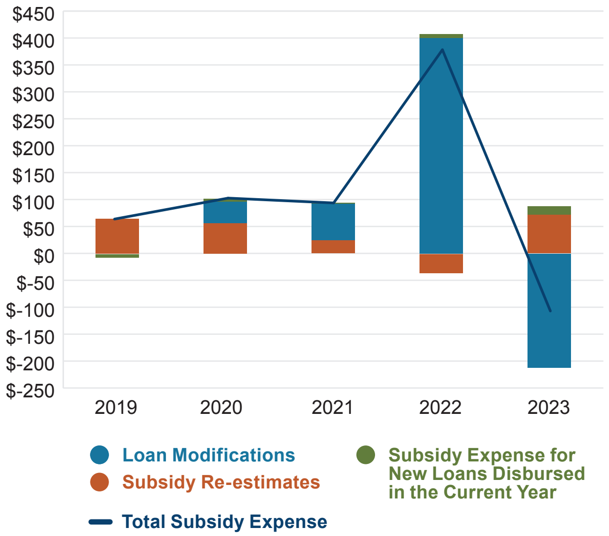
The Direct Loan Program subsidy expense for new loans disbursed was negative in FY 2019 primarily because lending interest rates charged were greater than the historically low rates at which the Department borrowed from Treasury. In practical terms, a negative subsidy occurs when the interest and/or fees charged to the borrower are more than sufficient to cover the interest on Treasury borrowings and the costs of borrower default. Subsidy expense for new loans disbursed since FY 2020 has been positive due in large part to rising enrollment in IDR plans, which contributes to a higher expected cost to the government for issuing student loans by reducing the amount that many borrowers will repay over the life of their loans and/or creating a student loan forgiveness benefit for amounts remaining after 20 or 25 years, particularly common among high-debt borrowers.

The Department updates it subsidy cost estimates each year for outstanding loans disbursed in prior years using a process referred to as a subsidy re-estimate. The total of Direct Loan subsidy re-estimates during FY 2023 was a net $71.4 billion upward subsidy re-estimate. The components of the Direct Loan Program subsidy re-estimates are summarized in Figure 10.

The Department also updates previous cost estimates based on any new legislation or other government actions that change the terms of existing loans and alter the estimated subsidy cost. This process is referred to as a modification. During FY 2023, the Department recorded a total of $204.2 billion net downward modifications. The modifications that were recorded in FY 2023 are summarized in Figure 10. More detail about these modifications and components of re-estimated subsidy cost can be found in the notes to the financial statements beginning on page 122.

The FY 2023 year-end subsidy re-estimates also resulted in a $25.4 billion decrease in the Subsidy Due to Treasury shown in Table 1 on page 24 of this report. This represents the amount of accrued downward re-estimates of subsidy expense that will be transferred to Treasury in the succeeding fiscal year upon receipt of authority from OMB. More detail on Subsidy Due to Treasury can be found in the notes to the Consolidated Balance Sheet beginning on page 81.

Figure 10. Direct Loan Program Subsidy (Dollars in Billions)



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Subsidy Expense for New Loans Disbursed in the Current Year	$ (3.0)	$ 5.1	$ 1.6	$ 7.3	$ 16.3
Subsidy Re-Estimates	64.5	56.1	24.0	(21.9)	71.4
Loan Modifications	-	39.7	68.3	400.0	(204.2)
Total Subsidy Expense	**$ 61.5**	**$100.9**	**$ 93.9**	**$385.4**	**$(116.5)**

Subsidy Re-estimate Components	FY 2023	FY 2022
Income-Driven Repayment (IDR) Model Changes	$ 26.5	$ (24.0)
Prior Year's Cohort Assumption Changes	0.2	7.7
Interest on the Re-Estimate	16.8	(0.4)
Default	(0.6)	3.0
Repayment Plan Selection	4.2	(3.0)
Discount Rates	0.8	(16.6)
Non-IDR Discharges	29.9	2.9
Deferment and Forbearance	(2.3)	2.6
Collections	16.4	(1.7)
Interactive Effects	(18.2)	7.4
Other Assumptions	(2.3)	0.2
Total Direct Loan Program Subsidy Re-Estimates	**$ 71.4**	**$ (21.9)**

	Modification Costs	
Loan Modification Components	FY 2023	FY 2022
Student Loan Repayment Deferrals	$ 23.3	$ 48.6
Broad-Based Debt Relief	-	337.3
Shift to Business Process Operations	-	(9.1)
PSLF Waiver	4.1	9.1
IDR Waiver	-	14.1
Total and Permanent Disability Discharges	4.4	-
Interest Capitalization	3.5	-
Closed School Discharges	3.7	-
Borrower Defense to Repayment & Arbitration	4.1	-
IDR SAVE Regulation	70.4	-
Broad-Based Debt Relief Reversal	(319.9)	-
Fresh Start/On Ramp	2.2	-
Total Direct Loan Program Loan Modifications	**$(204.2)**	**$400.0**

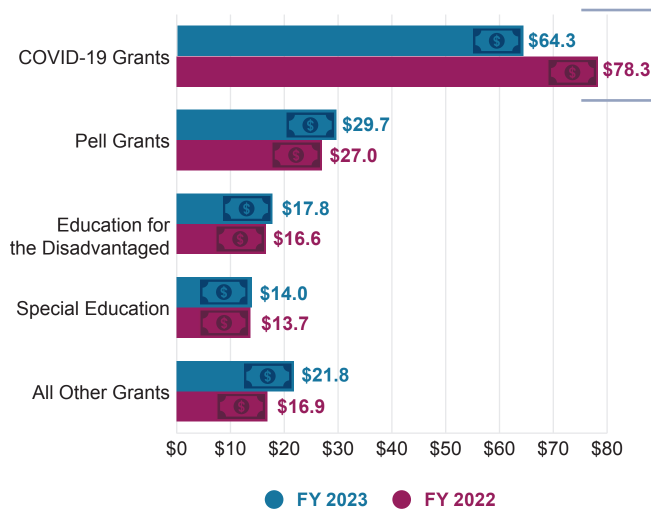
Grant Expenses

As shown in Figure 11, overall grant expenses changed primarily because of COVID-19 grants. More detail concerning COVID-19 grants can be found in Note 16 in the Other Information section beginning on page 142. In addition to COVID-19 funded grants, the Department has more than 100 other grant programs. The three largest of these grant program areas 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 grants that provide financial assistance through SEAs to LEAs 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. The program 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, or in correctional facilities.
- **Special Education**—Primarily consists of *Individuals with Disabilities Education Act* 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 assist states in providing early intervention services for infants and toddlers from birth through age 2 and their families. Also provides discretionary grants to IHEs and other nonprofit organizations to support research, demonstrations, technical assistance and dissemination, technology, personnel development and parent training, and information centers.

The Department also offers other discretionary grants under a variety of authorizing legislation, with approximately 90 percent of nonstudent aid funds awarded by formula and 10 percent through competitive processes.

Figure 11. Grant Expenses by Program Areas (Dollars in Billions)



COVID-19 Grant Expenses
(Dollars in Millions)

COVID-19 Grants	FY 2023	FY 2022
Education Stabilization Fund:		
Elementary and Secondary School Emergency Relief Fund	$ 52,832	$ 48,502
Higher Education Emergency Relief Fund	7,238	25,976
Governor's Emergency Education Relief Fund	2,354	2,654
Outlying Areas & Discretionary Grants	406	312
Total Education Stabilization Fund	**62,830**	**77,444**
Other COVID-19 Grants	1,451	865
Total COVID-19 Grants	**$ 64,281**	**$ 78,309**

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 is the residual difference between assets and liabilities and 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.

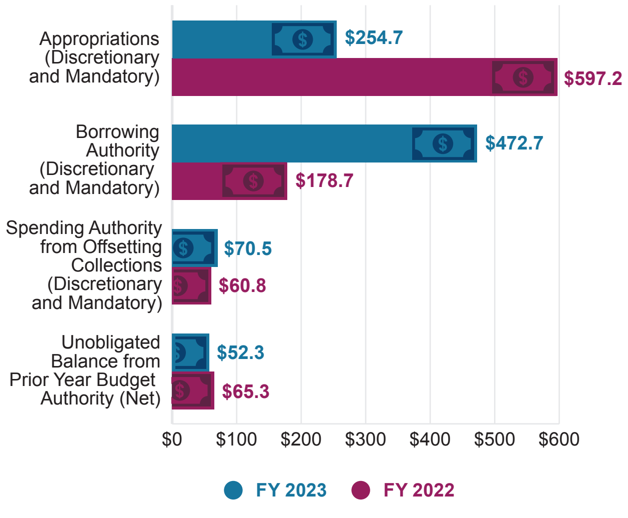
Statements of Budgetary Resources

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.

Figure 12 shows the components of the Department's budgetary resources, which totaled $850.2 billion for FY 2023, decreasing from $902.0 billion, or 5.7 percent, from the prior year. This decrease was primarily due to a net $342.5 billion decrease in appropriations received, of which $337.7 billion was for a decrease in Direct Loan Program appropriations for subsidy re-estimates and modifications. The decrease in appropriations was offset by a new $293.9 billion increase in borrowing authority, primarily for the Direct Loan Program, which increased by $281.4 billion.

Other significant changes to the Department's combined statement of budgetary resources compared to the prior year include the following:

Figure 12. Components of Budgetary Resources (Dollars in Billions)



- Unobligated Balances from Prior Year Budget Authority (Net) decreased by $13.0 billion, or 19.9 percent. Of this decrease, ($18.0) billion was due to COVID-19 funded balances.
- New Obligations and Upward Adjustments (Total) decreased by $36.8 billion, or 4.5 percent, primarily due to a net $20.1 billion decrease for the Direct Loan program. The change in the Direct Loan program includes the combined effect of differences in subsidy cost re-estimates and modifications that were executed during the two fiscal years.
- Unobligated Balance, End of Year decreased by $15.0 billion, or 17.0 percent. This decrease was largely due to a $13.6 billion decrease in unobligated balances for the FFEL guaranteed loan program financing account.

The combined statements of budgetary resources also present the Department's summary disbursement and collection amounts shown in Table 3.

Table 3. Outlays, Distributed Offsetting Receipts, and Disbursements, Net (Dollars in Billions)

	FY 2023	FY 2022
Outlays, Net		
Credit Programs	$ 155.6	$ 510.0
Grants	147.6	155.3
Contractual Services	2.5	2.5
Personnel Compensation and Benefits	0.8	0.7
Total Outlays, Net	**$ 306.5**	**$ 668.5**
Distributed Offsetting Receipts		
Negative Subsidies and Downward Re-Estimates of Subsidies	(346.7)	(28.2)
Repayment of Perkins Loans and Capital Contributions	(0.5)	(0.7)
Other	(0.4)	(0.2)
Total Distributed Offsetting Receipts	**$ (347.6)**	**$ (29.1)**
Disbursements, Net		
Direct Loan Program		
Gross Disbursements	$ 483.0	$ 177.6
Offsetting Collections	(195.5)	(526.6)
Total Direct Loan Program Disbursements, Net	287.5	(349.0)
FFEL Program		
Gross Disbursements	26.0	10.3
Offsetting Collections	(16.9)	(43.6)
Total FFEL Program Disbursements, Net	9.1	(33.3)
Other Loan Programs		
Gross Disbursements	0.3	0.5
Offsetting Collections	(0.2)	(0.5)
Total Other Loan Program Disbursements, Net	0.1	-
Total Disbursements, Net	**$ 296.7**	**$ (382.3)**

Outlays, Net is comprised of gross outlays and offsetting collections in the Department's budgetary funds. Outlays, Net decreased $362.0 billion (54.2 percent) due primarily to a decrease of $330.1 billion in Direct Loan Program outlays, including upward loan modifications and re-estimates.

Distributed Offsetting Receipts primarily represents amounts paid from the Direct Loan Program and FFEL Program financing accounts to Treasury General Fund receipt accounts for downward current fiscal year executed subsidy re-estimates and modifications, and negative subsidies. Of the $318.5 billion net decrease in FY 2023 versus FY 2022, $304.7 billion was attributed to the Direct Loan Program.

Disbursements, Net is comprised of gross outlays and offsetting collections in the Department's credit program nonbudgetary financing funds. Of the $679.0 billion net increase in FY 2023 versus FY 2022, $636.5 billion was attributed to the Direct Loan Program and primarily attributed to changes in the subsidy re-estimates and modifications during the fiscal years.