

# FEDERAL STUDENT AID STRATEGIC PLAN FY 2011–15

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# FEDERAL STUDENT AID

## Strategic Plan Fiscal Years 2011–15

U.S. Department of Education  
Federal Student Aid | 2011



**U.S. Department of Education**

Arne Duncan

*Secretary*

**Federal Student Aid**

William J. Taggart

*Chief Operating Officer*

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## Message From the Chief Operating Officer

President Obama has set an ambitious goal for the United States to lead the world in college completion by 2020. This will require America to produce over 8 million more college graduates over the next 10 years by improving completion rates and creating access for millions of Americans. Many of these new graduates are likely to have completed high school long ago and have very different profiles and needs than the “traditional” college student.

However, the average cost of postsecondary education has been rising far faster than inflation, increasing the financial pressures on students and their families. Meanwhile, private and state-based funding have recently decreased, due to a challenging economy and the fact that many Federal Family Education Loan Program (FFELP) lenders are leaving the student lending market.

The passage of the *Health Care and Education Reconciliation Act (HCERA) of 2010* also presents new opportunities and challenges to Federal Student Aid (FSA): As FSA’s role in providing direct loans to students expands, we will have to take on additional responsibilities to ensure that the system for postsecondary education financing functions efficiently and effectively, focusing primarily on supporting students and their families. Various stakeholders within and outside government will be looking to FSA to ensure the health of the system of postsecondary education funding. Meanwhile there is pressure for the federal government to reduce its costs across the board, and FSA must do its part to increase the efficiency and effectiveness of government spending.

In light of this changing environment, we at FSA have spent the last several months fundamentally rethinking our strategy for serving the American people. We took a hard look at the changing world around us and at ourselves. This document pulls together that thinking and lays out an ambitious long-term strategy for FSA to deliver on its mission of helping Americans to pay for higher education.

Our plan is composed of five strategic goals. We will (A) provide superior service and information to students and borrowers, (B) work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery, (C) develop efficient processes and effective capabilities that are among the best in the public and private sectors, (D) ensure program integrity and safeguard taxpayers’ interests, and (E) strengthen FSA’s performance culture and become one of the best places to work in the federal government.

These goals represent a substantial change for FSA. We will place more of an emphasis on proactively serving students and their families, take a broader role in cultivating the system of institutions that are involved in funding postsecondary education, and push harder to do more with less. We will strive for operational excellence that stands up to the justifiable scrutiny that FSA will receive, given its increased importance in the system of postsecondary education funding. Across the board, we have set a higher bar for ourselves because we believe that we can and must perform at a higher level.

We at FSA are committed to this strategy and all that it will entail. By charting this new course, we believe that we will set the stage for future generations of Americans to pursue their dreams and prepare themselves for long-term prosperity, for the betterment of our great nation.

William J. Taggart

Chief Operating Officer





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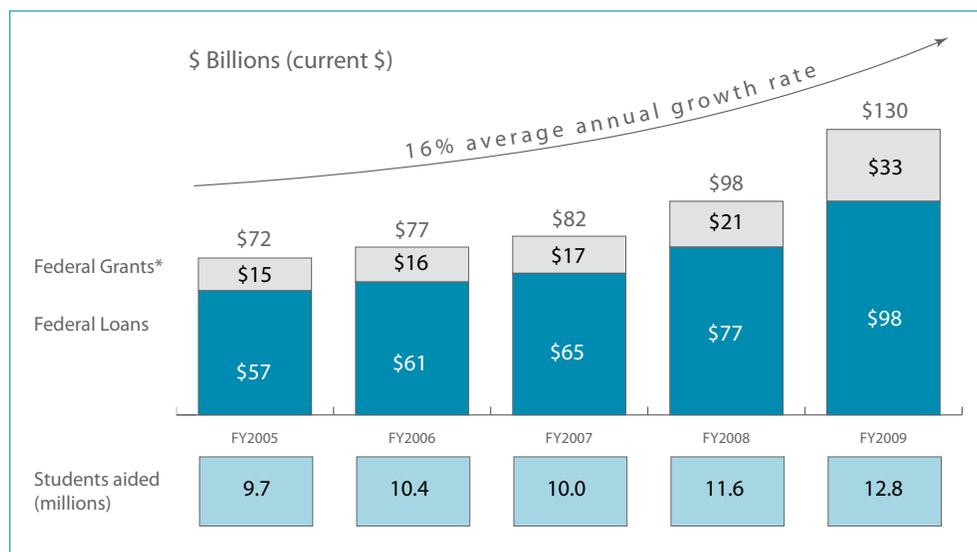
# 1. OVERVIEW OF FEDERAL STUDENT AID



Federal Student Aid (FSA), a principal office of the United States Department of Education (the Department), seeks to ensure that all eligible individuals can benefit from federal financial assistance for education beyond high school. FSA is responsible for implementing and overseeing federal student financial assistance programs, authorized under Title IV of the Higher Education Act (HEA) of 1965, as amended.

The grant, work-study, and loan program money made available to students through FSA has grown on average at 16 percent per year over the last five years (Exhibit 1). In fiscal year (FY) 2009, close to 13 million students and their families were supported through approximately 30 million aid awards, with the total amount of over \$129 billion in Title IV programs (Exhibit 2).<sup>1</sup> FSA maintained a \$622 billion loan portfolio at the end of FY 2009.<sup>2</sup>

**EXHIBIT 1:** Federal student aid disbursed to students: FY 2005–09



\* Includes federal work-study program of approximately \$1 billion annually  
 SOURCE: Department of Education, Budget Summaries



**EXHIBIT 2:** Summary of federal aid disbursed to students, by program: FY 2009

		<b>Aid available to students</b>
<b>Program</b>		<b>\$ Millions (current \$)</b>
<b>GRANTS</b>	Federal Pell Grant Program (Pell Grant)	\$28,213
	Supplemental Educational Opportunity Grants	\$959
	Academic Competitiveness Grants	\$503
	National Science and Mathematics Access to Retain Talent (SMART) Grants	\$361
	Leveraging Educational Assistance Partnerships (LEAP) Program	\$162
	Federal Work-Study Program	\$1,417
	<b>Subtotal grants</b>	<b>\$31,615</b>
<b>LOANS</b>	Federal Family Education Loan (FFEL <sup>SM</sup> ) Program	\$66,778
	Federal Direct Loan Program	\$29,738
	Federal Perkins Loan Program	\$1,106
	The Teacher Education Assistance for College and Higher Education (TEACH) Grants	\$72
		<b>Subtotal loans</b>
	<b>Total</b>	<b>\$129,310</b>

NOTE: Details may not sum to total because of rounding  
 SOURCE: Department of Education, Budget Summary FY 2011

Historically, federal aid has comprised almost half of all annual sources of funding for students’ postsecondary education expenses. For example, in FY 2009, an estimated 50 percent of the total aid and personal funds used to finance postsecondary education expenses came from federal grants, the work-study program, and loans (Exhibit 3). Every year, a considerable number of students, as well as institutions, rely on federal funding as the largest component of their budgets.

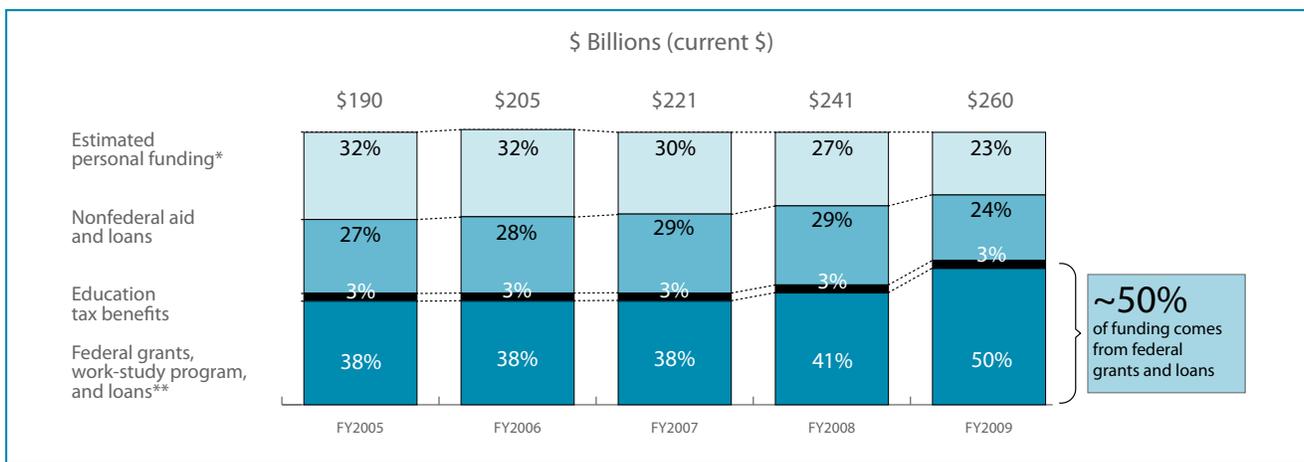
In order to execute Title IV programs, FSA is responsible for a range of functions across the student aid lifecycle, including educating students and families about the process for obtaining aid, processing millions of student financial aid applications, disbursing billions of dollars in aid, insuring billions of dollars in existing loans, servicing tens of millions of loans, and partnering with schools, financial institutions, and guaranty agencies to prevent program fraud, waste, and abuse. The community of stakeholders in the student aid delivery system includes postsecondary institutions,

Federal Family Education Loan Program<sup>SM</sup> (FFELP<sup>SM</sup>) lenders, guaranty agencies, and contracted servicers and collection agencies, as well as other types of contractors, federal entities (e.g., Congress, the president and White House, Office of Management and Budget, among others), and the Department of Education itself<sup>3</sup> (Exhibit 4).

FSA’s role is primarily to manage, coordinate, and monitor the activity of the large number of federal, state, nonprofit, and private entities involved in federal student aid delivery—within a statutory framework set by Congress and a regulatory framework set by the Department. For the Direct Loan Program<sup>SM</sup> and Pell Grants, the core functions related to application processing and disbursement of program funds are fulfilled by postsecondary institutions and contracted vendors retained by FSA. As customers enter repayment, contracted companies engage in servicing the loan portfolio and collecting funds from borrowers in default.



### EXHIBIT 3: Estimated total spending for postsecondary education expenses, by type of funding source: FY 2005–09



\* Calculated by estimated total spending minus nonfederal aid and loans, education tax benefits, and federal grants and loans.

\*\* Including other federal loans and grants that are administered by other federal agencies, such as the Department of Defense.

NOTE: Estimated totals based on number of enrolled students and average tuition, fees, room, and board for public 4-year, public 2-year, and private institutions for each year. The sum of percentages may not total 100 percent because of rounding.

SOURCE: Department of Education, National Center for Education Statistics, 'Digest of Educational Statistics,' <http://nces.ed.gov/programs/projections/projections2018/tables.asp>; College Board, 'Trends in College Pricing 2008' (superseded by 2010 edition available at [http://trends.collegeboard.org/college\\_pricing](http://trends.collegeboard.org/college_pricing)); College Board, 'Trends in Student Aid 2008' (superseded by 2010 edition available at [http://trends.collegeboard.org/student\\_aid](http://trends.collegeboard.org/student_aid)); Department of Education, Budget Summaries FY 2007–2011 available through <http://www2.ed.gov/about/overview/budget>; and FSA program files

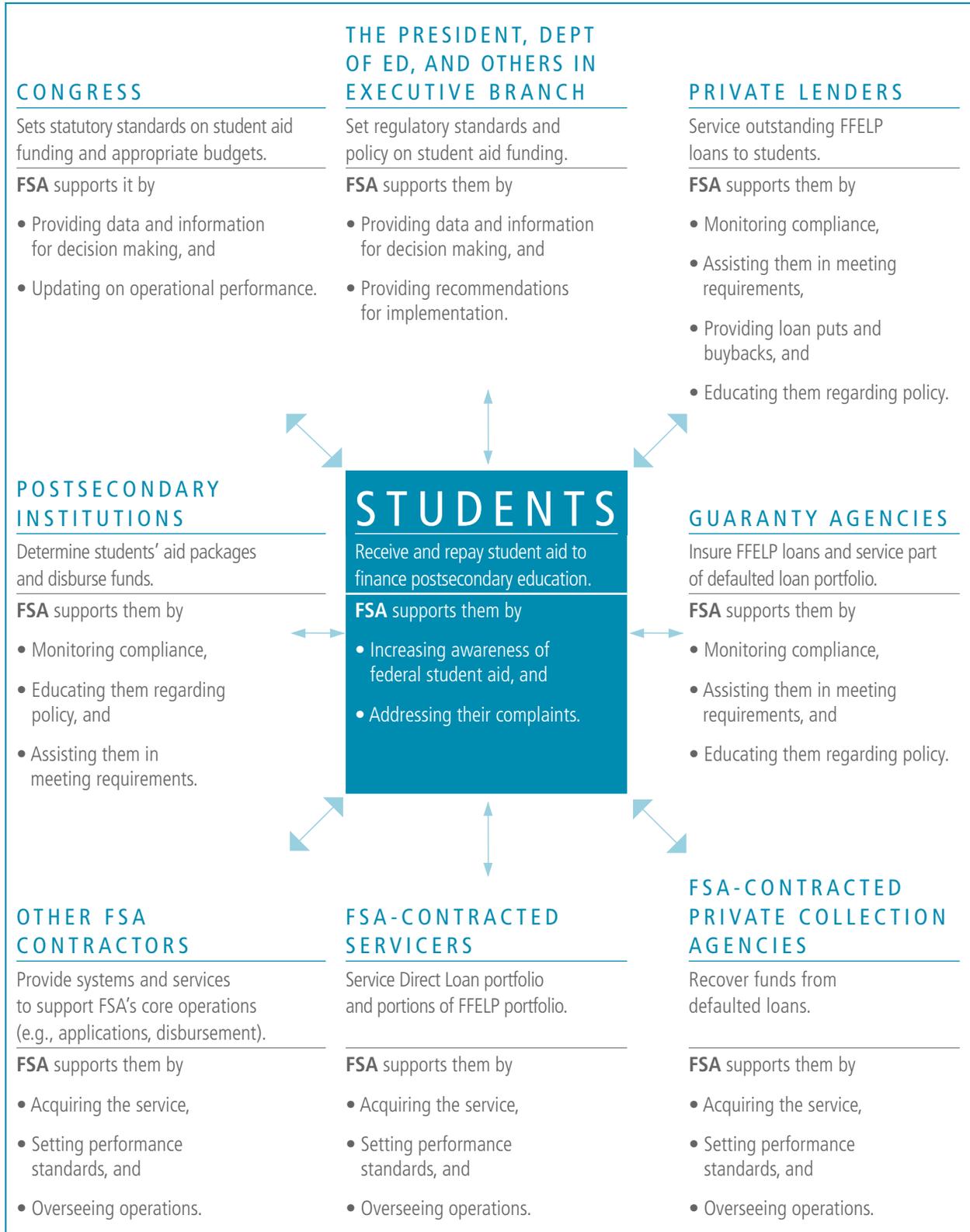
In the case of Federal Family Education Loans, FFELP lenders originated the loans, which were insured by guaranty agencies. FFELP lenders and guaranty agencies were also responsible for servicing and collections. The passage of the *Health Care and Education Reconciliation Act (HCERA)* in March 2010 ended the origination of new FFELP loans and FFELP lenders will no longer issue federal loans. However, FFELP lenders will continue to issue private student loans, and FFELP lenders and guaranty agencies will continue to service and collect outstanding FFELP loans.

Designated by Congress in 1998 as a performance-based organization (PBO), FSA focuses on executing the responsibilities effectively and efficiently, on achieving tangible results, and on continuously improving its performance. Today, FSA has an annual administrative budget of approximately \$1 billion (FY 2010) and has about

1,000 full-time employees based out of Washington, D.C. and 10 regional offices located throughout the country.<sup>4</sup> Its staff is augmented by about 10,000 contractors, who provide outsourced business operations such as customer service, loan servicing, and collections.<sup>5</sup> In fact, 85 percent of FSA's administrative budget is dedicated to external services. This model of public-private partnership provides stability to FSA's service to the public and allows it to procure the best-in-class services at the best cost.



## EXHIBIT 4: Role of FSA and other participants in federal student aid system



# 2. KEY TRENDS SHAPING FEDERAL STUDENT AID'S STRATEGY

As the largest single source of funding for postsecondary education in the United States, FSA has historically played a pivotal role in supporting higher education. This role will likely become even more important in light of current trends and President Obama's higher education agenda. In his Joint Address to Congress on Feb. 24, 2009, President Obama set the goal that, by 2020, America will have the highest proportion of college graduates in the world. For the U.S. to achieve this goal, FSA must expand its contribution.

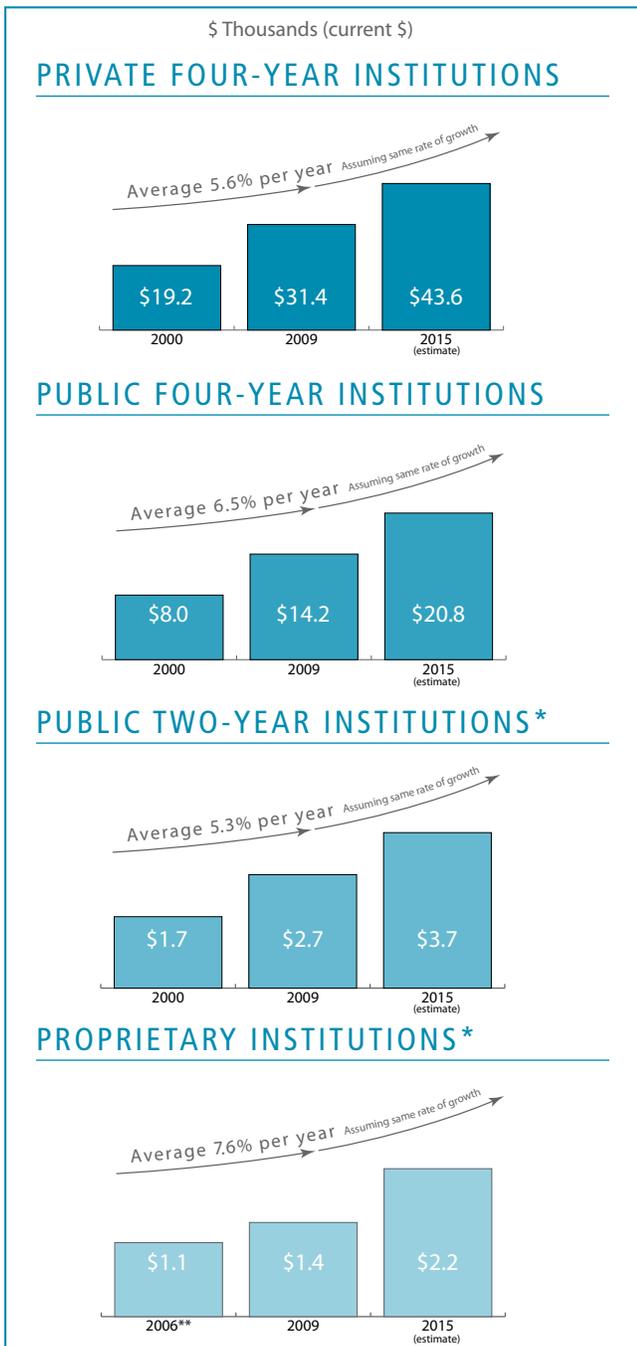
Five trends will likely shape FSA's role over the next five years: (1) the rising cost of attendance for postsecondary education; (2) the decline in availability of nonfederal sources of postsecondary education funding; (3) the expected increase in enrollment, particularly of nontraditional students; (4) the growth in enrollment in proprietary schools, distance-learning programs, and 2-year institutions; and (5) the expanded role of the federal government in providing federal student aid, as a shift towards Direct Lending<sup>SM</sup> takes place.

## Trend 1: The rising cost of attendance for postsecondary education

From 2000 to 2009, the average costs of attending public 2-year, public 4-year, and private 4-year schools have grown at the annual rate of 5.3, 6.5, and 5.6 percent, respectively. Proprietary institutions' tuition has risen at 7.6 percent a year since 2006 (Exhibit 5). This is much faster than the rate of inflation during the same period at, on average, 2.5 percent annually.<sup>6</sup> While the government is working hard with institutions to contain the increase in cost of attendance, if this increase continues, the cost of attendance in 2015 will be as much as two times more than what it was in 2000. This is a likely scenario for the next five years, as many institutions are faced with declining endowments, fewer and smaller charitable donations, and reduced state funding. While the law mandates maximum grant and loan amounts per student, the increased cost of higher education puts additional pressure on FSA to ensure that eligible students are aware of federal student aid and available funds, and are able to finance their education at the institutions they desire to attend.



**EXHIBIT 5:** Historical and estimated average costs of attendance, by institution type: Various years



\* Room and board not included in calculating averages for public 2-year institutions and proprietary institutions

\*\* Data prior to 2006 not available

NOTE: Average published tuition, fees, room and board

SOURCE: For 2000 data: <http://www.eric.ed.gov/PDFS/ED446618.pdf> Last accessed May 10, 2010; For 2006 data: [http://www.collegeboard.com/prod\\_downloads/about/news\\_info/trends/trends\\_pricing\\_07.pdf](http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf) Last accessed May 12, 2010; For 2009 data: College Board, "Trends in College Pricing 2009" (superseded by 2010 edition available at [http://trends.collegeboard.org/college\\_pricing/](http://trends.collegeboard.org/college_pricing/)); Last accessed Feb. 10, 2010; FSA program files for 2015 estimates

## Trend 2: The decline in availability of nonfederal sources of postsecondary education funding

Over the next five years, the need for federal student aid is likely to increase, driven not only by rising costs of attendance but also by a decrease in other sources of funding, such as expected contributions by students and their families.

Since 2007, the availability of nonfederal sources of funding, such as family contribution, state and institutional funding, and private student loan originations, has declined driven by the economic recession (Exhibit 6). Reductions in household income, assets, and access to credit have decreased the ability of students and their families to pay for college without aid. This is not likely to reverse anytime soon. For example, the Federal Reserve Board estimated that household income is expected to grow much slower for the next several years (1–3 percent range per year) than it had previously, before the recession (above 4 percent).<sup>7</sup> The availability of nonfederal aid and loans has also decreased and will likely remain reduced, as states and institutions face significant budget constraints and the private lending market shrinks in an attempt to reduce risk exposures.

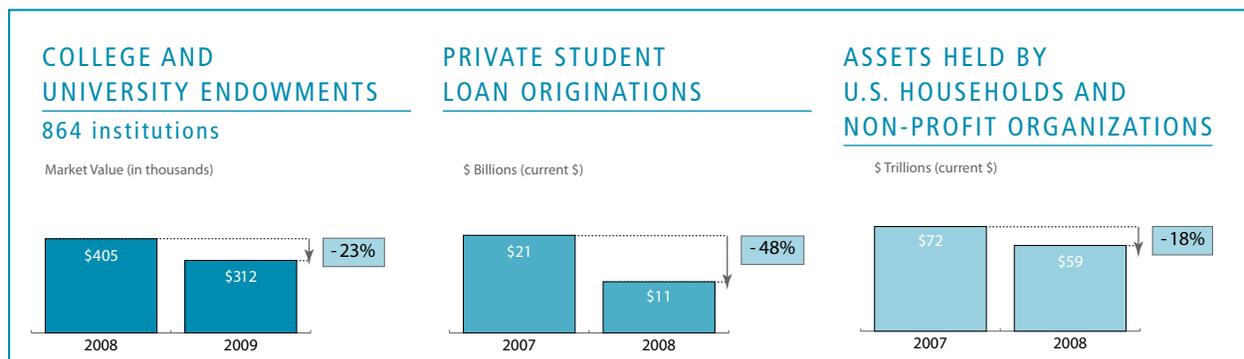
All of these factors will likely lead to a growth in the total demand for federal student aid, as more students are going to schools with increasing costs of attendance and fewer available sources for funding. The extent to which FSA can effectively meet this growing need and serve an increasing share of the market will be a key measure for FSA's success in the next five years.

## Trend 3: The expected increase in enrollment, particularly of nontraditional students

The National Center for Education Statistics (NCES) predicts that enrollment in degree-granting higher education institutions will increase from just over 15 million students in 2000 to 20 million by 2015.<sup>8</sup> The increase will come from two sources: increased enrollment rate of "traditional" students, who go to college directly after high school; and the growth in "nontraditional" students, those who are 25 years old and above, who are increasingly becoming a part of the student population.



## EXHIBIT 6: Changes in nonfederal sources of funding: 2007–09



SOURCE: *The Chronicle of Higher Education*, 'College and University Endowments, 2008–09,' <http://chronicle.com/premium/stats/endowments/results.php?offset=0>, last accessed Feb. 13, 2010, available only to subscribers

SOURCE: College Board, 'Trends in College Pricing, 2009' (superseded by 2010 edition available at [http://trends.collegeboard.org/college\\_pricing](http://trends.collegeboard.org/college_pricing)), last accessed Feb. 10, 2010

SOURCE: The Federal Reserve Board, 'Flow of Funds,' *Moody's Economy.com*, last accessed Feb. 10, 2010, available only to subscribers

Historically, about 60 percent of students enrolled in postsecondary, degree-granting institutions have been those of traditional age, between 18 and 24. The proportion of high school graduates going directly to college has increased from 63 percent in 2000 to 69 percent in 2008, and this increase is expected to continue at a modest rate.<sup>9</sup> However, there are still 31 percent of high school seniors who did not enroll in college after graduation, with particularly high proportion among African American and Hispanic students.<sup>10</sup> Many of these students are not aware of the availability of funding through FSA, and increasing the awareness and access to postsecondary schools for this population will drive overall enrollment.

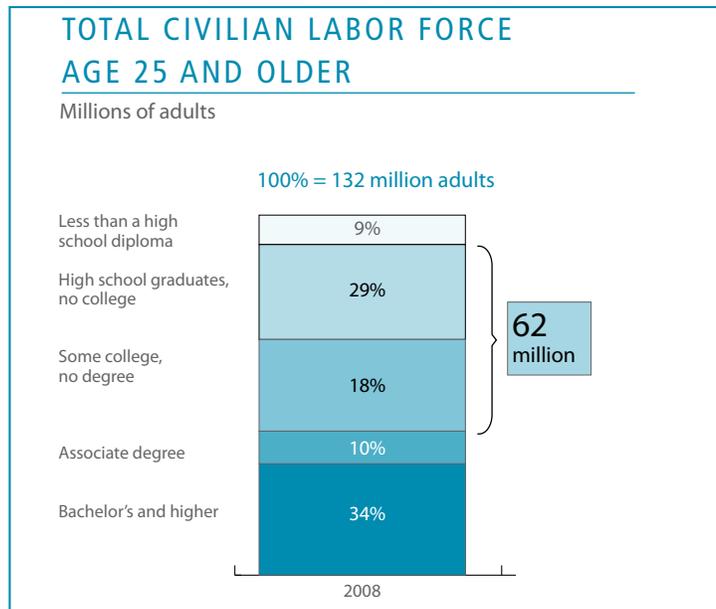
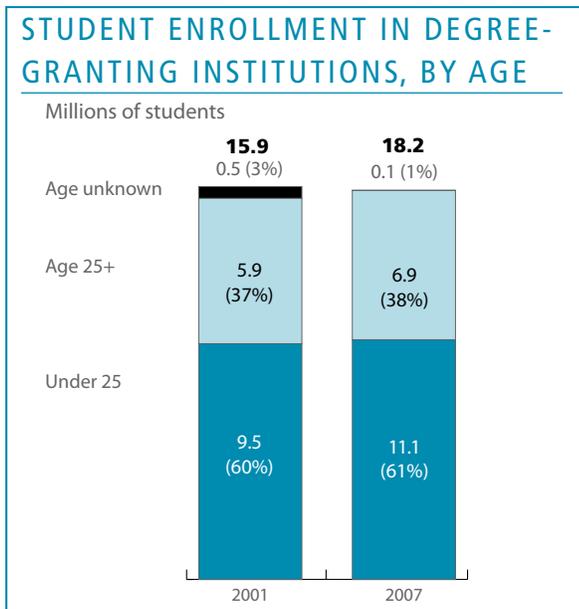
In addition, the enrollment of nontraditional students is likely to see even more of an increase in the coming years for a number of reasons. First, adult enrollment is historically correlated with unemployment rates.<sup>11</sup> The recent downturn has and will likely continue to cause laid-off workers to go back to school. Second, the U.S. economy is changing rapidly and requiring new skills. Many in the workforce will have to go back to school for re-training as a result, primarily to a growing number of community colleges and other schools that offer specific job training programs (e.g., systems analyst, medical technician). As of 2008, there were approximately 73 million members of the workforce age 25 years and older who did not have postsecondary degrees, including 23 million—or 18% of the workforce—who had completed at least some college courses (Exhibit 7).

Last but not least, the president's goal of becoming number one in the world in the proportion of college graduates by 2020 will accelerate the enrollment of nontraditional students. Estimates suggest that in order to achieve the president's goal, the United States must produce over 8 million more college graduates over the next 10 years.<sup>12</sup> Given the current trends in population growth of traditional students, enrollment and completion must increase for nontraditional students in order to meet this goal. The *HCERA* appropriated \$500 million annually, for a total of \$2 billion from FY 2011 to 2014, for the Community College and Career Training Grant Program (CCCTGP) a discretionary grant program within the Trade Adjustment Assistance program to be administered by the secretary of labor.<sup>13</sup> CCCTGP is aimed at improving education and training programs at community colleges. These funds have the potential to benefit nontraditional students in a significant way.

Finally, even with the increased number of nontraditional students, increasing access to postsecondary programs will not be enough to meet the president's 2020 college goal on its own. For example, according to NCES, of full-time students who were seeking a bachelor's degree or equivalent for the first time in 2002, only 57 percent completed their degree at that school within 6 years.<sup>14</sup> Another recent survey of college dropouts cited financial issues as one of the major reasons why they left school.<sup>15</sup> This underscores the importance of FSA's aid to students not only for increasing access to postsecondary education but also for enabling them to complete their programs.



**EXHIBIT 7: Student enrollment, by age: 2001 and 2007; and total civilian labor force age 25 and older, by level of educational attainment: 2008**



NOTE: Details may not sum to total because of rounding  
 SOURCE: [http://nces.ed.gov/programs/digest/d08/tables/dt08\\_192.asp](http://nces.ed.gov/programs/digest/d08/tables/dt08_192.asp), last accessed Feb. 10, 2010

SOURCE: U.S. Department of Labor, Bureau of Labor Statistics, *Labor Force Statistics, Table 7 'Employment status of the civilian noninstitutional population 25 years and over by educational attainment, sex, race, and Hispanic or Latino ethnicity'*, <http://www.bls.gov/cps/cpsaat7.pdf>, last accessed Feb. 11, 2010

**Trend 4: The growing number of enrollments at proprietary and 2-year postsecondary institutions**

The mix of the types of institutions that FSA will have to serve is also changing. In community colleges, proprietary schools, and distance-learning programs, student enrollment has grown rapidly over the past few years, often outpacing growth in enrollment in traditional public and private 4-year institutions. For example, the number of students enrolled in for-profit schools has grown at 14 percent annually since 1998, compared to approximately 2 percent for public and private not-for-profit schools.<sup>16</sup> For-profit institutions often offer more flexibility for specific job training and scheduling needs of students and can accommodate growing numbers of students. By working together to ensure that students have the financial resources necessary to graduate with meaningful degrees and certificates, these institutions can help us in reaching the president's goal.

Many proprietary schools, distance-learning programs, and community colleges may have different ways they interact with

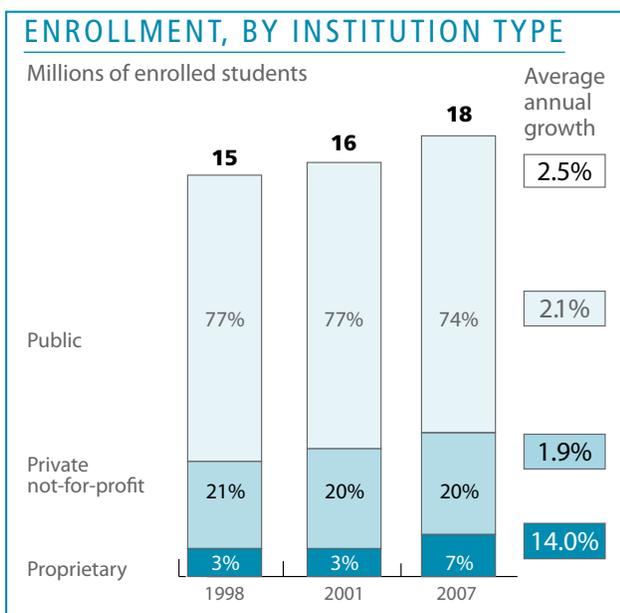
students, or have different support infrastructure for students (e.g., less availability of financial aid offices and counselors at some community colleges). In FY 2007, the cohort defaults rate for proprietary schools and community colleges were much higher at 11.0 percent and 9.9 percent, respectively, than more traditional institutions (Exhibit 8). To adapt to the changing mix of institutions, FSA will need to adjust how it provides oversight and conducts compliance reviews as well as how it provides information to students entering these types of institutions to supplement the information they receive from the schools.

**Trend 5: The greater role of the federal government in providing funding for postsecondary education**

The role of the federal government in providing funding for postsecondary education has increased in the past few years with the passage of two main pieces of legislation. Using authority provided in the *Ensuring Continued Access to Student Loans Act of 2008 (ECASLA)*, the Department committed to purchase loans

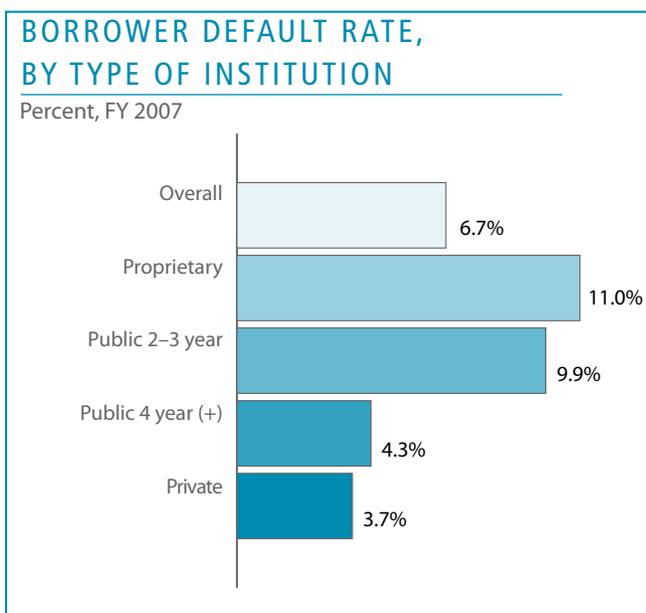


### EXHIBIT 8: Enrollment and cohort default rate, by type of institution: Various years



NOTE: The sum of percentages may not total 100 percent because of rounding

SOURCE: NCES, Department of Education, 2007 Integrated Postsecondary Education Data System (IPEDS), Spring 2008.



SOURCE: U.S. Department of Education, FSA Office, Direct Loan and Federal Family Education Loan Programs, 'Institutional Default Rate Comparison of FY 2006, 2007, and 2008 Cohort Default Rates,' <http://www2.ed.gov/offices/OSFAP/defaultmanagement/instrates.html>, last accessed Feb. 11, 2010

in order to ensure that despite credit market disruptions, lenders would continue to make loans to students and their parents. The Department first used this authority to purchase loans and participation interests in loans made for the 2008–09 academic year, and then replicated these actions for loans made for the 2009–10 academic year. To generate additional funds for lenders to make new loans, the Department then purchased loans made for the 2007–08 academic year, and, finally, supported the establishment of an Asset-Backed Commercial Paper (ABCP) conduit to which lenders could sell older loans. As of June 2010, FSA had purchased, or purchased an ownership interest in, a total of 11.5 million loans with a balance of \$90 billion, and, by its loan purchase commitment to the ABCP conduit, had committed to purchase an additional amount of more than \$35 billion over the next four years from the conduit, if and when needed.<sup>17</sup>

The HCERA makes postsecondary education more accessible and affordable for millions of Americans by increasing funds for Pell Grants; investing in support for college access, community colleges, and minority-serving institutions; and capping required payments under the Income-Based Repayment Program at 10 percent of the borrower’s discretionary income. At the same

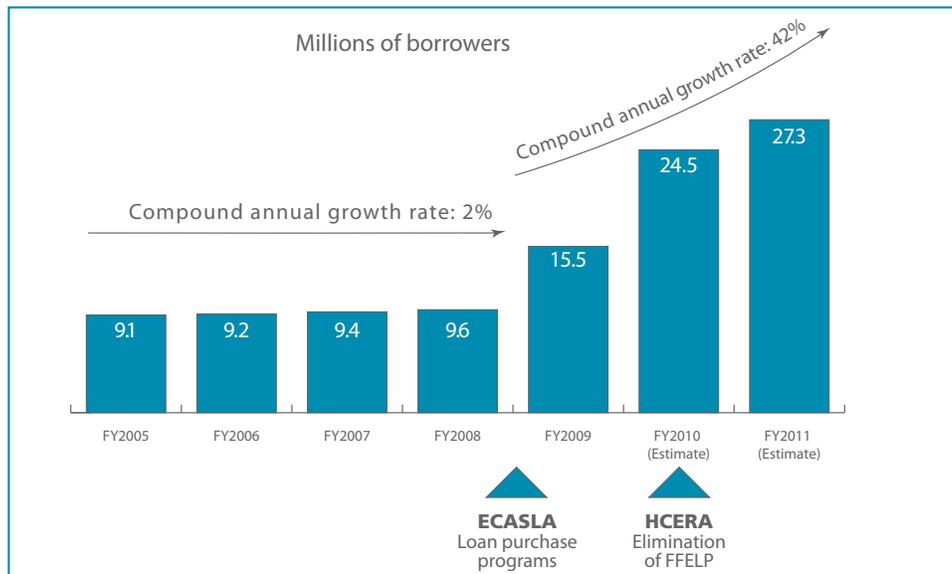
time, it has a major operational implication to FSA: the bill ended the origination of new loans under the FFELP, and converts new federal lending to the Direct Loan Program, effective July 1, 2010, expanding FSA’s role in providing the loans to eligible students.

To successfully execute the transition, FSA will need to (1) ensure all schools are ready to administer the Direct Loan Program, and (2) build the operational capabilities to effectively manage direct loans on an ongoing basis. In effect, this could mean providing support services to institutions in transition, overseeing Direct Loan volume that will be seven times greater in FY 2015 than it was in FY 2008 (from 4 million loans to 29 million),<sup>18</sup> and ensuring the same quality of service previously provided by FFELP guarantors and FFELP lenders. As a result of all the changes in legislation and the shift to the Direct Loan Program, the number of FSA borrowers is expected to almost double from FY 2009 to FY 2011 (Exhibit 9).

The legislative changes will therefore shape FSA’s future role, as it requires FSA to take on additional responsibilities, and provides an opportunity to demonstrate the organization’s ability to adapt to external changes. According to current



**EXHIBIT 9:** Number of FSA borrowers: FY 2005–09, and estimated for 2010–11

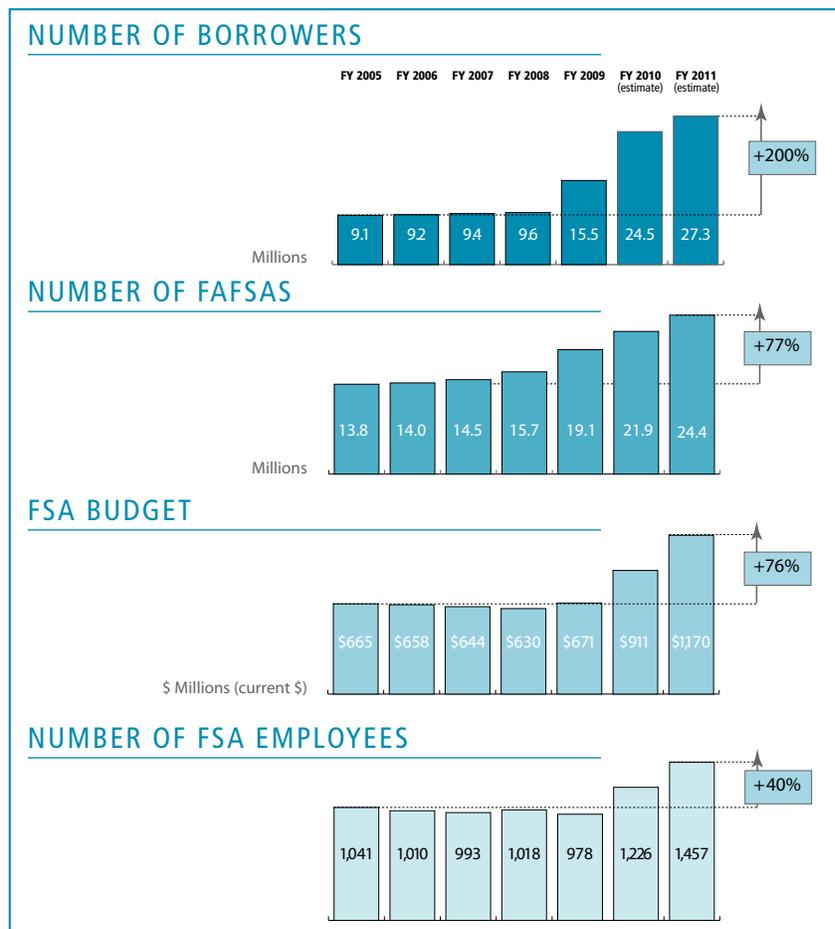


SOURCE: Federal Student Aid, program files

estimates, these legislative changes and other external trends are likely to substantially increase FSA’s workloads (Exhibit 10): for example, by the end of FY 2011, the number of borrowers is projected to increase threefold from the FY 2005 baseline due to the shift to Direct Lending. The number of FAFSA<sup>SM</sup> applications is expected to grow by almost 80 percent due to increased enrollment. At the same time, FSA’s budget and staffing levels are projected to undergo more modest increases, of 75 percent and 35 percent, respectively. These numbers illustrate the magnitude of the challenges faced by FSA in the coming years.

These trends provide important context for defining FSA’s future strategy and role in postsecondary education funding. FSA faces new challenges and opportunities from the rising cost of attendance, growing need for federal student aid, an increase in nontraditional students and new types of institutions, and expanded roles and responsibilities of the federal government as mandated by recent legislative changes.

**EXHIBIT 10:** Changes in FSA workloads and resources: FY 2005–09 and estimated for 2010–11



SOURCE: Federal Student Aid, program files

# 3. NEW MISSION, VISION, AND CORE VALUES

This year, FSA revised its mission, vision, and core values to capture the opportunities and meet the challenges arising from the changing environment (Exhibit 11). These revisions were developed and refined based on numerous discussions and feedback from employees from all parts of FSA.

The emphasis of the new mission and vision is the focus on students, and the position that FSA is a provider of not only student financial aid and services but also information

that can help students make better decisions related to postsecondary education funding. The core values reflect FSA employees' desire to build a high-performing organization and a work environment among the best in the federal government, while improving our operations and services.

## EXHIBIT 11: FSA's new mission, vision, and core values: FY 2010

### MISSION

Funding America's Future, One Student at a Time

### VISION

To be the most **trusted** and **reliable** source of student financial aid, information, and services in the nation

### CORE VALUES

<b>Integrity</b>	Do the right thing above other interests and hold everyone accountable
<b>Customer Service</b>	Know what our customers want and ensure we meet their expectations
<b>Excellence</b>	Strive to be the very best in all we do by embracing a culture of continuous improvement
<b>Respect</b>	Value individuals by acknowledging the diversity of their contributions, ideas, and beliefs
<b>Stewardship</b>	Uphold the sacred trust of taxpayers as we work to support the goals of Congress and the administration
<b>Teamwork</b>	Work in collaboration with our colleagues and partners to produce the best possible results

# 4. FSA'S STRATEGIC GOALS AND OBJECTIVES

Since FSA's creation, its core mission has been to deliver financial aid efficiently and effectively. In the past five years, FSA primarily focused on achieving operational efficiency and system integration, both of which are key to FSA's designation as a PBO. In that time, several external changes required FSA to take on additional responsibilities, and FSA employees consistently came together to meet the challenge of the moment.

Over the next five years, FSA seeks to do more. In addition to its core mission, FSA now seeks to improve the overall system of funding for postsecondary education by (1) providing better information to students and their families so they can make better decisions about postsecondary education; and (2) actively shaping the behavior of participants in education funding, by using FSA's knowledge, data, oversight authority, and relationships to improve the coordination of all participants in the system.

FSA also considered two important factors in devising these strategic goals. First, with the increasing budget deficits of the federal government, it is important for FSA to increase efficiency and free up resources, both to enable FSA to invest for the future and to be less of a draw on taxpayers. Second, FSA must be far more responsive to its stakeholders than it has been in the past, as the organization will be

under increased scrutiny as a result of the shift to direct lending and the expanded role of FSA. While FSA does not set policies and regulations, FSA has valuable and wide-ranging data about students and schools, data that FSA can provide to policymakers, students, and borrowers to empower them to make even better decisions.

To achieve these aspirations, FSA developed a set of strategic goals for the next five years (Exhibit 12). *The Higher Education Act of 1965, as amended (HEA)* states that as a performance-based organization, FSA has a responsibility to improve service, reduce costs, improve and integrate support systems, and develop delivery and information systems. FSA's five strategic goals are squarely aligned to these PBO responsibilities. FSA will improve service through strategic goals A and B; reduce costs through strategic goals C and D; improve and integrate support systems and develop delivery and information systems through strategic goal C, and enhance staff development and talent to better deliver on the HEA's mandate through Goal E, the human capital initiative.

Each strategic goal encompasses several objectives and performance goals, and each objective in turn includes detailed initiatives. Taken together, these provide the blueprint for how FSA will achieve its vision.



## EXHIBIT 12: FSA's strategic goals and objectives: FY 2011–15

### STRATEGIC GOALS

- A. Provide superior service and information to students and borrowers
- B. Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery
- C. Develop efficient processes and effective capabilities that are among the best in the public and private sectors
- D. Ensure program integrity and safeguard taxpayers' interests
- E. Strengthen FSA's performance culture and become one of the best places to work in the federal government

### OBJECTIVES

- 1. Take a data-driven approach to better understand students and borrowers and develop insights from these customers
- 2. Reach out to potential students more effectively to expand access to higher education, especially for nontraditional students
- 3. Aggregate and distribute information on the costs and benefits of higher education programs and on funding options to improve financial literacy and support the customers' decision-making
- 4. Identify students for whom financial assistance can make a difference in completing a degree or credential and develop a plan to support the president's 2020 college completion goal
- 5. Enhance customer-facing processes to improve the customer experience
- 1. Improve FSA's support, communications, and processes for postsecondary institutions and financial partners
- 2. Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in higher education funding
- 3. Support system participants in completing the transition laid out by the *Health Care and Education Reconciliation Act* and other future legislation
- 1. Deliver funds to students accurately, promptly, and professionally, to create high levels of customer satisfaction
- 2. Strengthen FSA's Information Technology (IT) function to complete systems integration and modernization, and to maintain IT security
- 3. Refine FSA's acquisition strategy, acquisition processes, and performance management
- 4. Improve the organizational capacity to anticipate and handle external change
- 5. Enhance the risk management organization, systems, and processes
- 6. Evaluate administrative cost structures and streamline internal operations to increase efficiency and productivity
- 7. Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination
- 1. Improve quality control and reduce errors, waste, fraud, abuse, and mismanagement on the part of postsecondary institutions and financial partners to minimize program losses
- 2. Manage unpaid obligations and provide transparency about portfolio risk exposure
- 1. Improve human capital processes to attract, develop, and retain talent, and help FSA employees achieve their full performance potential
- 2. Further develop a student-centric culture among all managers and employees that will fully deliver on FSA's mission, vision, and strategy



## Strategic Goal A: Provide superior service and information to students and borrowers

A major component of FSA's mission is to ensure that all eligible individuals benefit from federal student aid. In order to achieve this goal, FSA must actively inform all eligible individuals of their funding options and help the customers make well-informed decisions. As a customer-facing institution, FSA also has an obligation to uphold the highest standards of service when interacting with its customers: prospective students, current students, their families, and borrowers.

While high-quality customer service and a customer focus have always been FSA's organizational priorities, there are a number of ways in which FSA could dramatically improve. FSA is in the process of establishing a position of Chief Customer Experience Officer (CCEO), to be the internal champion for customers at FSA. As part of the CCEO mandate, FSA will take steps to improve the organization's understanding of the full range of current and potential customers. The insight will be used to increase higher education access for potential students, develop a plan to support the president's 2020 goal of college completion, and to identify the best channels to interact with the customers. FSA also will undertake a thorough effort to improve the customer experience by simplifying points of customer interaction.

FSA will link these efforts to broader efforts in the Department. Several other offices in the Department have and use data on students, borrowers, and schools. FSA will partner with these other offices to ensure that the Department brings all its data and resources to improve all its programs, within and beyond FSA.

### Objective A1: Take a data-driven approach to better understand students and borrowers and develop insights from these customers

As part of its operational mandate, FSA collects large amounts of customer data. This data comes from a variety of sources, including the *Free Application for Federal Student Aid* (FAFSA<sup>SM</sup>), the National Student Loan Data System<sup>SM</sup>, other Department of Education offices, and postsecondary

institutions, to name a few. Despite the abundance of data, FSA has not collected these data centrally and has not systematically analyzed them to yield customer insights.

In the next five years, FSA aims to build the capabilities to collect and analyze customer data in order to develop the analytical base required to conduct effective outreach and provide better-tailored customer service. This will also increase transparency and support the administration's Open Government priority. FSA will have dedicated staff focusing on customer insights and innovation. These personnel will be responsible for compiling disparate data sources into a central customer-data architecture. Then, FSA will develop and disseminate insights on customer needs and characteristics throughout the organization. FSA will segment customers based on their needs. Possible customer segmentations could include such factors as demographics, student aid lifecycle stage, socio-economic indicators, geography, and types of institutions students attend, among others. FSA will conduct research and develop further detail to determine the needs of different customer types and work closely with FSA's business units to increase customer awareness.

### Objective A2: Reach out to potential students more effectively to expand access to higher education, especially for nontraditional students

From websites and TV campaigns, to partnerships with high schools, FSA has utilized different messages and media to reach potential customers. Although FSA receives millions of FAFSA applications per year from eligible students, there are ways in which FSA could better identify and attract new customers. This is particularly true when it comes to potential nontraditional students, 25 years and older, whose enrollment in postsecondary programs is an especially important driver for reaching the president's higher education goal for 2020.

Over the next five years, in collaboration with other Department efforts, FSA will use the staff's innovation capability and customer insights to more effectively identify and target eligible customers, in order to fulfill the organization's mission and expand access to higher education. These efforts will be managed in conjunction with other programs administered by the Department, such as Talent Search, Educational Opportunity Centers, Upward Bound, GEAR UP, and College Access Challenge Grants. First, FSA must identify which potential students have historically



been underserved, relative to their presence in the student population and the population at large. FSA will determine the specific needs and preferences of those underserved students, as well as barriers to enrollment and completion that they face; and it will identify effective media to reach them. FSA will use these findings to inform outreach strategies and provide information about programs to improve potential for completion. Furthermore, FSA will establish performance metrics for measuring access to postsecondary education and monitor them continuously so as to identify and invest in successful outreach strategies, while ceasing those efforts that prove ineffective. Thus, all potentially eligible students will have better access to the information they need.

**Objective A3:**  
Aggregate and distribute information on the costs and benefits of higher education programs and on funding options to improve financial literacy and support the customers' decision-making

In the past, Federal Student Aid has provided potential students with information on the benefits of higher education in order to inform their decision on whether or not to enroll. However, FSA has not traditionally supported customers' decision-making with regard to which specific programs to enroll in. As the primary source for postsecondary education aid, FSA is in the ideal position to aggregate and distribute information on postsecondary education, in close collaboration with other offices in the Department. This is consistent with the Department's overall trend towards greater transparency. The information could include the lifetime costs and benefits of different higher education programs and funding options, so that prospective students can make the best decision on which program to enroll in.

To fulfill this objective, the Department will need to work closely together to collect data on tuition costs, the earnings of program graduates, and the expected lifetime costs of different funding options. The Department will then disseminate this information to students and their families and thereby ensure that they have the most relevant information available to support their decision-making. By increasing students' understanding of the relative financial value of different degree programs and funding options, the Department can help to make sure that students receive the maximum benefits from their education and become well positioned to repay their loans.

**Objective A4:**  
Identify students for whom financial assistance can make a difference in completing a degree or credential and develop a plan to support the president's 2020 college completion goal

Data from NCES suggest that there are opportunities to improve financial assistance to students in the United States. For example, of full-time students who were seeking a bachelor's degree or equivalent for the first time in 2002, only 57 percent completed their degree at that school within six years. Similarly, of students attending 2-year institutions full-time and for the first time in 2004, only 37 percent graduated within 4 years.<sup>19</sup> In a survey of dropout students, more than half cited financial barriers to be a major reason for leaving school. Moreover, one survey found that more than 60 percent of students who take out private loans do not actually exhaust federal aid, with nearly half of such students not even taking out any federal loans.<sup>20</sup> These facts suggest that there are students who would benefit from federal student aid.

Increasing completion rates and the number of graduates is a top priority for the administration and the Department, in light of the president's 2020 goal for America to have the highest proportion of college graduates in the world. In support of this agenda, in collaboration with other offices within the Department, such as the Office of the Under Secretary (OUS) and the Office of Postsecondary Education (OPE), FSA will use its customer-insights function to identify students who could benefit from additional financial assistance to complete their degree or credential. It will develop a plan to educate and support those students, and work with school financial aid administrators, nonprofit organizations, and associations to create opportunities for students to learn more about financial aid opportunities and complete their programs.

**Objective A5:**  
Enhance customer-facing processes to improve the customer experience

FSA has successfully maintained high customer satisfaction ratings from its students and borrowers. FSA has also recently introduced significant simplifications and improvements to the FAFSA, such as the reduction of almost 30 percent of questions and the tax data retrieval option from the Internal Revenue Service. FSA will continue to simplify and



improve the application process and other interactions with FSA's customers in order to create a better user experience and potentially lead to an increase in applications, timely repayment, and recovery rates.

Focusing on the customer experience is a high priority for FSA. As part of the Chief Customer Experience Officer (CCEO) position being founded, FSA will create a unit devoted to improving interactions with FSA customers: prospective students, current students, their families, and borrowers. FSA will systematically investigate how to provide a simpler, more straightforward experience for borrowers in repayment or default. The CCEO's unit will also expand FSA's outreach by substantially scaling up the use of digital channels, such as social networks and online communities. FSA will leverage technology more effectively to better meet the demands of its customers and to find efficiency improvements. Lastly, FSA will continue to simplify customer points of contact, for example, by making the FAFSA even easier to fill out.

## **Strategic Goal B:** Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery

FSA plays a vital role within the system of postsecondary education funding in the United States. While the Office of Postsecondary Education (OPE) within the Department is responsible for any matters related to policy and regulation setting regarding postsecondary education, FSA collaborates with the Department and Congress to inform policy and regulations relating to student financial assistance. FSA also works closely with partners: it coordinates the activities of different contractors, including servicers and private collection agencies; it works with guaranty agencies and FFELP lenders to administer programs; it provides oversight and support to postsecondary institutions; and it directly interacts with students and their families.

In the past, FSA has rigorously met its responsibilities within the postsecondary education funding system.

However, over the next five years, since new FFELP loans will no longer be originated, FSA will have to increase its role even further so as to better fulfill the organization's mission to consistently champion the promise of postsecondary education for all Americans. This will involve improving interactions with system participants and proactively providing information to shape participants' decisions and behavior. FSA will not set policy, but it will provide more timely and relevant information to the Department and policymakers, to help them make appropriate decisions about issues related to funding postsecondary education. In addition, FSA intends to take a more active leadership role in the universe of postsecondary education funding and will help to ensure that all system participants effectively serve the interests of students. FSA will continue to play an active role in working with financial partners (FFELP lenders and guaranty agencies) to ensure transition is sustained.

### **Objective B1:** Improve FSA's support, communications, and processes for postsecondary institutions and financial partners

FSA works closely with postsecondary institutions to provide millions of students with federal student aid. While OPE is responsible for setting policy governing postsecondary education, FSA determines how it supports and communicates with its partners. Ultimately, successfully delivering aid through a complex system depends on FSA's ability to work well with its partners, to support them through technical assistance that will help them improve their performance, and to provide adequate oversight to ensure that participants are complying with program requirements.

In collaboration with other principal offices in the Department, FSA will be more active in assisting the full range of higher education funding partners. This will be accomplished by improving FSA's support for and communications with these partners and by formally soliciting and acting on partner feedback. FSA will also provide necessary technical and expert support to schools and financial partners, especially in light of the shift to Direct Lending and the subsequent phasing-out of services previously provided by private FFELP lenders. In addition to the support, FSA will provide streamlined processes for those institutions with better performance so as to encourage the desired behaviors among other schools



and thereby increase access, quality and completion. FSA will enhance communications with its partners, particularly through the explicit use of data and information to help institutional decision-making. FSA also will work to ensure that all participants in the higher education funding system can easily access the information they need from the organization. It will work with nonprofit organizations, associations, and other partners in postsecondary education to provide data and share knowledge that may lead to improvements in the quality of higher education. Lastly, FSA will compile and share best practices among its partners where it is appropriate and use feedback to recommend changes to regulations and laws where necessary. These activities will strengthen the organization's relationships and ensure that institutional systems are functioning at their best in the service of FSA's customers.

**Objective B2:**  
Provide ideas, data, and analyses to inform policymakers about opportunities and challenges in higher education funding

FSA was created to administer the Title IV Programs, but it is also responsible for providing input to the Department and Congress on policy-related matters. While FSA has been involved in many discussions to provide operational input on critical policies and regulations related to postsecondary education funding, there are opportunities to better share the organization's ideas, data, and analyses with policymakers and to be more proactive in highlighting the opportunities and challenges in higher education funding.

Moving forward, FSA will enhance the processes for communicating with policymakers, assessing the impact of proposed policies and understanding the policy changes desired by FSA service areas and customers so that students' interests are better reflected in consideration of policymaking. FSA will increase the organization's capacity to quickly assess potential policy changes in order to understand and communicate their benefits and disadvantages to various stakeholders. In parallel, FSA will expand the formal mechanisms for soliciting and analyzing feedback from customers, partners, and service areas in order to identify potentially advantageous policy changes that would lead to achievement of the president's 2020 college goal and share this information with policymakers. In this way, FSA can better utilize its institutional knowledge, data, and relationships to improve the higher education funding

system, while maintaining the integrity of its role as an operations-focused, performance-based organization.

**Objective B3:**  
Support system participants in completing the transition laid out by the *Health Care and Education Reconciliation Act* and other future legislation

As a result of *HCERA* and the discontinuation of new loan origination under the FFELP, there will be a number of changes to the roles of participants in the system of student aid. Private financial institutions, while continuing to service FFELP portfolios, will no longer originate federal student loans. Similarly, public and private guaranty agencies will no longer insure newly originated, privately held federal student loans. At the same time, the growth in the government-held Direct Lending portfolio will require FSA to procure broader support from private and nonprofit entities to service outstanding Direct Loans. In addition to Direct Loan origination and servicing, FSA will need help reaching out to customers and promoting financial literacy. Historically, financial institutions and guaranty agencies have provided these financial literacy trainings to FFELP participants, but they are no longer likely to provide such services.

FSA will create and enhance programs that facilitate this transition so that students will face minimal disruption in receiving their federal student aid. FSA intends to work with FFELP lenders and guaranty agencies in winding down their FFELP portfolios as needed. FSA will ensure that all willing institutions of postsecondary education will successfully transition to the Direct Loan Program. FSA will also prepare to be responsive to any further changes in legislation.

**Strategic Goal C:**  
Develop efficient processes and effective capabilities that are among the best in the public and private sectors

FSA is responsible for managing the operational functions associated with delivering Title IV grants, work-study, and loan programs, while continually improving operating efficiency. To maintain credibility and confidence in the overall student aid delivery system, it is important for FSA



to be able to smoothly handle the expected increase in the volume of aid, driven by increased student enrollment and the passage of *HCERA*. Historically, FSA's budget has not grown proportionally to the increase in the volume of aid, and that is likely to remain true going forward. As a result, FSA will need to pursue further efficiencies to free up additional resources in its operating budget for allocation to the initiatives outlined in this strategic plan.

FSA also will continue to improve its internal efficiency and capabilities across key functions, particularly in technology, acquisition, risk management, and business management, by comparing the current state with best practices and benchmarks across private and public sectors. The objectives under this goal will build the foundation and capability to support the first two strategic goals, providing better service and information to FSA customers and playing an integral role in the overall student aid delivery system.

**Objective C1:**  
Deliver funds to students accurately, promptly, and professionally, to create high levels of customer satisfaction

FSA's primary responsibility is to deliver aid reliably: to deliver the right funds to the right students at the right time. There are always opportunities to deliver aid faster and more accurately. Two ways to accomplish this are by automating and simplifying processes. While most of the delivery-critical processes around application and disbursements are already automated, there are still parts of the process that are subject to occasional error and that need reconciliation. FSA will continue to improve the accuracy and speed with which it delivers aid to students and their families.

**Objective C2:**  
Strengthen FSA's Information Technology (IT) function to complete systems integration and modernization, and to maintain IT security

FSA's operations rely on a number of large-scale IT systems for application processing, disbursement, loan servicing, compliance monitoring, collections, and many other functions. FSA has decentralized application development and has extensively used third-party contractors to build its IT systems. The PBO legislation mandated the integration of FSA's IT systems, but many large-scale projects made substantially slower progress than expected. Going forward, FSA will need to continue responding to changes in

legislative and operational demands. To do so, FSA should invest to build an agile and effective IT function that consistently delivers IT projects on time and within budget. This is a critical capability necessary to achieve the overall strategic goals and objectives.

Over the next few years, FSA will invest to transform its IT capabilities and strengthen the central IT function. FSA will develop a long term vision of its future IT systems, and a near-term road map to begin the journey towards the target state. FSA will identify the functionality required to deliver on FSA's long term vision, then prioritize and sequence the development efforts required to achieve the long term vision. In parallel, FSA will develop a stronger central IT organization with great responsibility and control residing with FSA's Chief Information Officer (CIO). The CIO organization will become a center of excellence around the core application development processes, software development lifecycle, architecture and standards, IT project management and oversight, and IT vendor management. As part of this transition, FSA will need to determine what skills, roles, and knowledge should be developed and maintained within FSA. The central IT team also will conduct a talent review and gap analysis based on required roles and skills in the new organization and an assessment of current staff skills and performance. Based on both the target vision and the new organization, FSA will develop a roadmap for execution with sequence and timing of key initiatives. FSA will transition to this new model and the future state over several years in a way that allows the organization to track regular progress against major milestones and to manage the operational risks involved.

**Objective C3: Refine FSA's acquisition strategy, acquisition processes, and performance management**

FSA uses contracted vendors for customer service, application processing, loan and grant origination and disbursement, loan servicing and collections, system applications and infrastructure development, as well as administrative functions. Although FSA has developed an acquisition strategy in the past, it has not been fully deployed. Consequently, major contracts evolved over time out of necessity to respond to legislative and external changes. With 85 percent of FSA's administrative budget allocated to vendors today, there is still ample opportunity to strengthen FSA's acquisition capabilities and more actively lead vendor relationships.



Over the next five years, FSA will optimize public-private partnership with vendors and undertake a two-pronged approach. In the near-term, FSA will review existing major contracts to identify any improvement opportunities for better pricing and contractor performance. At the same time, with a view to the long term, FSA will develop and execute a refined acquisition strategy to migrate to a more rationalized model for external vendor usage, keeping in-house those activities that are more effectively and efficiently performed by the government and outsourcing the rest. FSA will also align its acquisition process to the strategy, balancing the timely completion of acquisition with effective contracting. The acquisition strategy will allow FSA to improve its subject-matter expertise, so FSA can better manage its vendors.

**Objective C4:**  
Improve the organizational capacity  
to anticipate and handle external change

The environment in which FSA delivers financial aid and related services to students changes quickly, due to external events including economic cycles, technological changes, and new legislation. As such, FSA's success relies in large part on its ability to anticipate and adapt to external change. To date, FSA has been effective at adapting to change, as evidenced by its ability to respond to *ECASLA* in 2009.

In the near term, FSA must focus on ensuring that it successfully manages the shift to Direct Lending, as mandated by the recently passed *HCERA* legislation. This will require rapidly deploying resources and the concerted efforts of every FSA employee. Over the longer term, there are opportunities for FSA to improve its rapid-response capabilities. First, FSA will further develop its ability to anticipate changes by having an ear to the ground in the marketplace, at schools, and in policy discussions. Second, FSA will improve its resourcing model to ensure that it has highly capable personnel and vendors who are available to respond to unforeseen events. Third, FSA will clarify roles, responsibilities, and authorities for managing new development, to allow everyone to act more quickly and develop contingency plans. This would include ensuring that contractual terms with external vendors are set up flexibly enough to adapt to changes. Fourth, FSA will establish processes to respond more effectively to various stakeholders' requests, such as congressional inquiries and those related to audit findings. These actions will ensure that FSA remains nimble, able to respond effectively to change.

**Objective C5:**  
Enhance the risk management organization,  
systems, and processes

Fulfilling FSA's broad responsibilities to students, their families, borrowers, and higher education partners comes with a wide range of risks. Robust risk management, from operational risk to credit risk, is crucial for FSA to ensure that the organization maintains the highest standards of professionalism and operational excellence. Although FSA recently took some steps to centralize key risk responsibilities and made progress in identifying and assessing different types of risks across the organization, there are opportunities for continued improvement. The need is particularly acute for managing the risks throughout the distributed network of partners through which FSA delivers federal student aid.

Over the next five years, FSA will work to strengthen the central risk management function, while developing enterprise-wide systems and processes for identifying, quantifying, monitoring, and mitigating risks. FSA will increase central oversight of all risk functions within the organization and develop clear lines of communication between service-area risk functions and the risk organization in order to eliminate risk-management redundancies and ensure comprehensive risk-management coverage. FSA also will continue to build on the risk identification and assessment processes completed to date, to quantify and prioritize all risks, and to develop systems and process for regularly monitoring and mitigating identified risks.

**Objective C6:**  
Evaluate administrative cost structures and  
streamline internal operations to increase  
efficiency and productivity

FSA's internal processes have evolved based on the necessities of rapidly changing operational requirements. Since becoming a PBO, FSA has managed to reliably deliver aid and quickly adapt its processes to the demands of changing laws and regulations. At the same time, FSA has not had the opportunity to systematically re-evaluate and optimize the internal processes in order to reduce administrative cost, workload, and bureaucracy.

To simplify the process and identify potential cost savings, FSA will conduct a systematic review of its internal



processes to identify the biggest inefficiencies and introduce changes that would improve these processes. In parallel, FSA will develop a better understanding of its cost structure, and evaluate its administrative cost levels. FSA also will introduce cost targets throughout the organization in order to reduce costs wherever it is possible to do so without adversely affecting the quality of services to customers or compromising our risk management capabilities. These changes will not only save taxpayer funds but also increase the agility of the organization.

**Objective C7:**  
**Build stronger business management capabilities and increase operational transparency to improve cross-functional coordination**

FSA will need to pursue organization-wide efforts to maintain FSA's reliability and adaptability while managing the expected increases in application and servicing volume. Historically organizational units have been largely contained in the individual service areas, and there is room to increase coordination across the organizational units.

There are four types of coordination and business management areas that present opportunities for improvement: a project management capability to ensure timely delivery of large-scale projects; a strategic management capability to develop, execute, and monitor progress of strategy, including initiatives to support this strategic plan; a data management capability to take full advantage of the wealth of data that exists within FSA; and a budget management capability to prioritize the projects to ensure they receive adequate resources. FSA will strengthen all of these capabilities, with a particular emphasis on increasing operational transparency of process, financials, and coordination across the organization.

## **Strategic Goal D:** **Ensure program integrity and safeguard taxpayers' interests**

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The Congressional Budget Office projects that the latest federal budget will result in close to \$10 trillion in cumulative budget deficits over the next 10 years.<sup>21</sup> This places additional importance on the responsibility of all federal agencies to safeguard taxpayer resources through all of their activities. FSA's role requires the organization to provide more oversight of taxpayer dollars than most agencies, as FSA annually disburses almost \$130 billion in aid and administers a loan portfolio valued at \$700 billion. Even small variances in the financial performance of this portfolio can have a large impact on the U.S. federal budget. In addition to the budget constraints, to preserve the integrity of the system, there are challenges associated with managing the behavior of educational institutions, some of which recruit, represent information, and deal with enrolled students in ways that are considered improper.

FSA will strive to better manage taxpayer resources and minimize program costs across all its activities. As part of this goal, FSA will intensify efforts aimed at preventing the misuse of funds by noncompliant institutions, and continue to reduce fraud and abuse of federal student aid programs. FSA also intends to take a larger responsibility for understanding and managing the credit risks of the student loan portfolio it manages.

**Objective D1:**  
**Improve quality control and reduce errors, waste, fraud, abuse, and mismanagement on the part of postsecondary institutions and financial partners to minimize program losses**

An important component of administering the federal student aid programs for taxpayers is ensuring that funds are not misdirected inadvertently or intentionally: that aid is given only to students attending institutions that are licensed and accredited, and that these institutions continue to comply with all legal requirements. FSA must carefully balance two conflicting interests—supporting the schools and financial partners in administering and servicing the aid while providing sufficient oversight to those institutions—by sustaining the independent structure within the organization. With respect to financial partners, FSA will maintain the appropriate level of oversight to financial institutions,



even though their role has changed to no longer involve origination of new FFELP loans.

Given the growth of enrollment in for-profit and distance-education programs, FSA has been focusing on addressing the unique oversight challenges these institutions pose. The current state of oversight regulations and practices present challenges for FSA due to changes in the ownership structures of institutions, and the use of alternative ways to provide instruction. The current regulations do not necessarily address the different needs of different types of schools. FSA has made inroads to improve the effectiveness of compliance reviews by introducing risk-based early warning signals and methodology to select schools for review, but there are opportunities for improvement. FSA has an opportunity to continuously improve the ways it can collaborate with institutions to ensure compliance; for example, FSA needs to develop compliance metrics that would differentiate the level of monitoring and oversight based on the institutions' performance. There is also an opportunity to increase the aggregate effectiveness of compliance reviews for the entire population of higher education institutions.

FSA will continue working to identify and eliminate elements of federal aid delivery processes that may lead to incidence of fraud and abuse. This includes identifying and more carefully reviewing federal aid process points that have shown incidents of abuse in the past and actively examining areas where mismanagement presents a large risk to the organization. FSA will amend the organization's review standards to better reflect the characteristics of nontraditional schools and ensure that compliance processes use the latest technology to be most effective. FSA also plans to focus on quickly identifying and monitoring institutions that have a higher risk of noncompliance to ensure that resources are best directed at areas of greatest risk and importance.

Abuse and mismanagement may not be strictly out of compliance with loans or regulations. In such instances, FSA will seek to eradicate the undesired behavior by invoking the help of other participants in the system, publicizing undesired behavior, and informing Congress. The new Chief Customer Experience Officer will have a consumer protection function that will focus on this issue.

## **Objective D2:** Manage unpaid obligations and provide transparency about portfolio risk exposure

FSA is the largest custodian of the federal government's funds provided for federal student aid. FSA fulfills this role primarily by managing the processes to ensure that loans are repaid on time and recovered in full, even when borrowers default. Although FSA has unique legal tools to recover the students' federal obligations, there is room to further decrease the cost of the federal student aid programs to the American taxpayer without affecting their effectiveness.

FSA will play a stronger role in maximizing the timely repayment and recovery of federal student aid program funds and in informing the stakeholders of the long-term financial implications of the changing macroeconomic environment on the cost of providing aid. FSA will actively manage the performance of the vendors who provide servicing and collection services and help them share best practices and standards, leading to superior performance. FSA also plans to collect the data and create an analytical apparatus to examine the risk exposures in the loan portfolio and identify the variables affecting default rates (such as unemployment rate, borrower's school type, or geography). The insights gained will allow FSA to forecast the effects of changing external trends on future economic performance, adapt compliance processes, and improve portfolio performance by focusing default-aversion activities on at-risk loans. By taking these steps to further minimize program losses, FSA will ensure that the organization is best safeguarding taxpayer dollars.

## **Strategic Goal E:** Develop FSA's performance culture and become one of the best places to work in the federal government

FSA achieved substantial improvement in operational performance after its transformation into a PBO in 1998, successfully and reliably delivering aid under changing legislative conditions. According to the most recent internal employee survey, FSA employees feel strongly about the organization's mission, but they do not feel empowered or encouraged to take on new responsibilities.<sup>22</sup> In addition, FSA has a rapidly aging workforce, with a significant part of the



staff eligible for retirement over the next several years. In order to meet the performance challenges facing FSA in the next five years and to fulfill its rapidly expanding role, FSA will have to rebuild its human capital foundations.

The objectives supporting this goal will strengthen and support FSA's workforce: the core asset of the organization. FSA will revisit its fundamental human capital processes, such as hiring, training, and performance evaluation, to ensure that formal mechanisms are in place to support a performance culture. FSA employees will develop a student-focused culture to support the goals of the president and the Department. FSA also will work to actively transform the cultural aspects of what it means to work at FSA and increase the organization's focus on students by reshaping employees' mindsets and behaviors and modeling the desired culture at the leadership level.

**Objective E1:**  
Improve human capital processes to attract, develop, and retain talent, and help FSA employees achieve their full performance potential

FSA faces substantial human capital challenges. Of the 1,000 employees on board today, approximately 20 percent are eligible for retirement. To adequately support the increase in workloads and fill current vacancies, FSA plans to increase staffing levels to 1,226 positions in FY 2010.<sup>23</sup> This implies that effective and efficient human capital processes will be a critical priority for the organization if it is to maintain current levels of reliability and performance as well as deliver on the ambitious goals laid out in this strategy.

In the next five years, FSA will strive to improve core human capital processes across all major dimensions. FSA will review the hiring process to substantially reduce cycle times, reduce number of potential applicants who leave halfway through the process, and identify the highest-performing candidates. The organization will then redesign the processes and systems to measure individual performance, and complement them with a broad palette of non-financial means of employee recognition. FSA intends to focus on the management level, recognizing the important role managers play in executing FSA's responsibilities. Specifically, FSA will create a training program for managers and introduce a process to plan each manager's career track. This will result in meaningful opportunities for professional growth within FSA and in the federal government.

**Objective E2:**  
Further develop a student-centric culture among all managers and employees that will fully deliver on FSA's mission, vision, and strategy

FSA's most important priority will continue to be to deliver the right aid to the right person at the right time. Going forward, FSA also will need to acquire resources to cultivate the organization's workplace environment, to foster a culture of performance, and to think more about how to meet the changing needs of students. According to an employee survey, FSA's staff remains intensely dedicated to serving students and upholds the sharp focus on monitoring and adapting to external changes. However, FSA has identified several specific areas that have room for improvements, beyond increasing the focus on students, which has the highest priority: employee engagement, trust in senior leadership, and accountability, among others. FSA employees wish to move away from bureaucracy and silos, and promote openness, empowerment, and trust. FSA needs to execute on this desired change to unlock the full potential of its staff and to deliver truly superior service to students.

FSA has started to create the momentum for change by substantially increasing the amount of communication at FSA and actively involving employees in the development of FSA's new mission, vision, and core values. FSA will build on this by creating a dedicated team that will be tasked with effecting cultural change at FSA. FSA also will systematically strengthen the leadership capacity and the skills of middle managers. Finally, FSA will redesign the internal communication systems to create effective avenues of propagating messages from its leadership and employees. FSA also needs to undertake actions to better disseminate and represent the voice of the students across the organization, to make the customer more directly relevant to its employees. FSA must meaningfully collect the views of frontline employees, through focus groups and surveys, and create formal processes for including employee input in discussions and decisions that affect the organization.

# 5. PERFORMANCE GOALS

FSA's strategic goals, objectives and initiatives will significantly improve the organization's future performance. FSA will measure the success of its strategic goals against the following performance goals (Exhibit 13).

For strategic goal A, provide superior service and information to students and borrowers, the success outcome would be an increased number of students applying for federal student aid and their satisfaction with FSA's services. For the application, FSA will look at groups by segments: (1) traditional high school senior students (number of original filers who are age 18 or younger, divided by the total number of high school graduates); (2) nontraditional students (number of original filers who are age 25 or older and with no college degree, divided by the number of people in the workforce age 25 and older with no college degree). In addition, given the increased focus on most-needy and least-served students, FSA will measure penetration of FAFSA applications for low-income students (number of original filers who are from low-income households, divided by the number of low-income households that have college eligible students). For all metrics, we aim to continue to improve every year.

FSA also will measure the percentage of students who dropped out of postsecondary school due to financial reasons, and customer satisfaction throughout the student aid lifecycle. FSA will develop a new survey or work with outside organizations to measure what proportion of dropouts are driven by lack of financial resources, and

FSA will aim to reduce this proportion every year. FSA also will aggregate the American Customer Satisfaction Index (ACSI) survey for applicants, students in school, and borrowers in repayment to measure overall customer satisfaction level throughout the student aid lifecycle. FSA's goal is to improve the aggregate ACSI score from 74 today to 79 by FY 2015. This metric will measure how FSA is improving in terms of streamlined process for customer interaction and the accessibility of information FSA provides to its customers on its websites and in other materials.

For strategic goal B, work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery, FSA will conduct a survey with postsecondary institutions and partners to gauge the "ease of doing business with FSA." FSA aims to improve the score year after year. FSA also will continue to study other possible ways to measure the extent to which postsecondary institutions and partners are actively supporting the interests of students and borrowers. Specifically, FSA will develop an additional metric to measure the impact of improvement under development.

For strategic goal C, develop efficient processes and effective capabilities that are among the best in the public and private sectors, FSA will measure two unit costs: (1) the cost for delivering aid (total cost to process FAFSA and originate aid, divided by the number FAFSA processed); and (2) cost for servicing all borrowers (total costs for servicing and



**EXHIBIT 13: FSA's performance goals: FY 2011–15**

STRATEGIC GOAL	PERFORMANCE GOAL	BASELINE IN FY 2010	TARGET FOR FY 2015
<b>A.</b> Provide superior service and information to students and borrowers	1. % of original FAFSA filers among high school seniors	49.5%	Continue to increase every year
	2. % of original FAFSA filers among workforce aged 25+ without college degree	3.9%	Continue to increase every year
	3. % of original filers among low-income students	Calculation in progress	Continue to increase every year
	4. % of students who dropped out due to financial reasons	Develop baseline in FY 2011	Set target in FY 2011
	5. Customer satisfaction score (ACSI) for the entire aid lifecycle	74	79
<b>B.</b> Work to ensure that all participants in the system of postsecondary education funding serve the interests of students, from policy to delivery	1. "Ease of doing business with FSA" survey result from schools	Develop baseline in FY 2011	Set target in FY 2011
	2. Additional metric to measure impact of improvements under development	Develop metric and develop baseline in FY 2011	Set target in FY 2011
<b>C.</b> Develop efficient processes and effective capabilities that are among the best in the public and private sectors	1. Aid Delivery-related cost per application	Develop baseline in FY 2011	Set target in FY 2011
	2. Loan servicing-related cost per borrower serviced	Develop baseline in FY 2011	Set target in FY 2011
	3. Additional metric to measure improvement in cost structures under development	Define metric and develop baseline in FY 2011	Set target in FY 2011
<b>D.</b> Ensure program integrity and safeguard taxpayers' interests	1. Delinquency rate*	8.8%	Maintain <= 8.8%
	2. Default rate**	12.2%	Maintain <= 12.2%
<b>E.</b> Strengthen FSA's performance culture and become one of the best places to work in the federal government	1. <i>Best Places to Work in the Federal Government</i> ranking	217th out of 224	100th

\* Delinquency rate is defined as the balance of loans that are 1–270 days past due serviced by FSA, divided by total balance of loans serviced by FSA (not in school or in grace loan status)

\*\* Default rate is defined as the balance of loans that are 270-days-or-more past due serviced by FSA and loans serviced in debt collection, divided by total balance of loans serviced by FSA (not in school or in grace loan status)



administrative costs of collections, divided by the number borrowers serviced). Since the shift to Direct Loans will impact these unit costs dramatically from FY 2010 and FY 2011, FSA will set baseline and targets in FY 2011 that incorporate a fuller understanding of the impacts of shift to Direct Lending. Finally, FSA will develop a measure to better evaluate its cost structure and set a target in FY 2011 to improve its cost structure.

For strategic goal D, ensure program integrity and safeguard taxpayers' interest, FSA will look at its performance on managing outstanding loans to reduce delinquency and default rates. The delinquency rate is defined as the balance of loans 1–270 days past due serviced by FSA, divided by total balance of loans serviced by FSA (not in school or in grace loan status); default rate is defined as the balance of loans that are 270-days-or-more past due serviced by FSA and loans serviced in debt

**EXHIBIT 14: Year-by-year performance goals: FY 2011–15**

<b>PERFORMANCE GOAL</b>	<b>FY 2011</b>	<b>FY 2012</b>	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>
<b>A.</b> 1. % of original FAFSA filers among high school seniors	>=49.5%	----- Each year no lower than in previous year ----->			
2. % of original FAFSA filers among workforce aged 25+ without college degree	>=3.9%	----- Each year no lower than in previous year ----->			
3. % of original filers among low-income students	TBD	----- Each year no lower than in previous year ----->			
4. % of students who dropped out due to financial reasons	TBD	----- Each year no higher than in previous year ----->			
5. Customer satisfaction score (ACSI) for the entire aid lifecycle	74	74	76.5	76.5	79
<b>B.</b> 1. "Ease of doing business with FSA" survey result from schools	Launch Survey	---- Each year the same or better than in previous year --->			
2. Additional metric to measure impact of improvements under development	TBD	----- TBD ----->			
<b>C.</b> 1. Aid Delivery-related cost per application	TBD	----- Each year no higher than in previous year ----->			
2. Loan servicing-related cost per borrower serviced	TBD	----- Each year no higher than in previous year ----->			
3. Additional metric to measure improvement in cost structures under development	TBD	-- Each year the same or better than in previous year -->			
<b>D.</b> 1. Delinquency rate	<=8.8%	----- Maintain the rate lower than baseline- ----->			
2. Default rate	<=12.2%	----- Maintain the rate lower than baseline- ----->			
<b>E.</b> 1. <i>Best Places to Work in the Federal Government</i> ranking	180th	160th	140th	120th	100th



collection, divided by total balance of loans serviced by FSA (not in school or in grace loan status). Historical analyses of these metrics showed that there is no significant correlation with industry benchmarks and they are not as susceptible to economic cycles. Therefore, FSA will aim to maintain or improve the rates for the next five years.

For strategic goal E, strengthen FSA's performance culture and become one of the best places to work in the federal government, FSA will aim to improve our ranking in the *Best Places to Work in the Federal Government* from current bottom quartile to top half by FY 2015. Because the ranking is based on the composite score of the Employee Viewpoint Survey conducted by OPM, it is a good indicator to measure the change in performance culture.

The year-by-year performance goals are described below (Exhibit 14). Except for the *Best Places to Work in the Federal Government* ranking, FSA currently does not track the metrics it aims to measure; over the course of FY 2011, FSA will develop the current baseline for all performance goals and then set targets for the next five years.

In addition to these 13 major performance goals, FSA has developed detailed performance metrics to monitor progress against each objective and strategic goal, so that stakeholders can keep track of progress and FSA can report on the same in its annual performance report.

# 6. EXTERNAL RISK FACTORS

FSA faces a number of external risk factors that could undermine the organization's mission and progress in implementing its strategy. While these factors are, by definition, outside of FSA's control, FSA can anticipate and prepare for them to minimize their potential impact. The major risks are:

- **Changing political landscape.** Changes in the administration may alter the direction, postsecondary education strategy, and overall goals that FSA is supporting. New legislation and regulations could impact what FSA is required and expected to do and require modifications to aspects of FSA's strategy.
- **Federal resource constraints.** FSA has prepared this strategic plan based on an assumption of budget availability. Any reductions in the assumed budget levels or any constraints on FSA's authority to allocate those resources would have an impact on the organization's ability to reach its performance goals.
- **Economic uncertainty.** The effects of the recession could dramatically alter FSA's operating and program costs by significantly increasing the number of students enrolled in higher education who require support services.
- **Stakeholder and partner behavior.** Many of FSA's stakeholders will have their businesses radically altered by the recent legislation to shift to Direct Lending, particularly FFELP lenders and guaranty agencies. As a result, some partners may decrease provisions of services and information on student lending. This would increase the responsibility of FSA to ensure students have access to available information and funding. In addition, evolving trends, such as high growth of proprietary schools, may pose additional challenges to FSA's operations. For example, proprietary schools conduct more proactive marketing to enroll students and are more likely to use new modes of instructional delivery (e.g., distance learning, technology-based learning) to optimize shareholder value, compared to traditional public 2- and 4-year, and not-for-profit private institutions.
- **Natural disasters and catastrophic events.** A catastrophic event, such as Hurricane Katrina, could change FSA's responsibilities; that is, FSA may have to address specific need for additional aid to those students facing crisis. Similar unforeseen events could have unanticipated impact on FSA's contractors and operations.
- **Personally identifiable information.** FSA and its partners handle personally identifiable information, such as Social Security numbers and tax and income information of family members. While FSA is working hard to upgrade its IT security, there is a continuous threat of exposure of personally identifiable information to unintended audiences.

# 7. PROGRAM EVALUATIONS

FSA will continually monitor the progress of the implementation of this strategic plan and the effectiveness of its components, by undertaking the following:

- **Ongoing monitoring of initiative implementation.**

As part of objective C7, FSA will set up the organization and processes to closely track the progress of each of the initiatives specified in this document, with ongoing reporting to FSA senior leadership and quarterly reviews to assess progress and resolve any obstacles to successful implementation that should emerge.

- **Ongoing monitoring of performance metrics.**

FSA will develop the baseline and track the performance metrics outlined in section five above, regularly communicate them throughout the organization, and investigate ways of furthering progress towards the established performance goals.

- **Annual performance reporting.** FSA will include the progress against the performance goals set in this plan in the annual performance report. FSA also will report on the achievement of milestones and the impact of individual initiatives as they are meaningful components of the annual performance plans for FSA managers and executives. FSA also will monitor and evaluate them as part of FSA's organizational performance assessment process.
- **Annual strategic plan revision.** Based on the progress made and effectiveness of the initiatives outlined in this plan, FSA will annually revise the strategy to make sure it is on the right trajectory towards supporting FSA's mission and vision and the administration and the Department's goals and objectives. As part of the revision, FSA also will modify initiatives and priorities to meet the changing environment and demands of FSA customers.

# 8. MOVING FORWARD

FSA stands at a critical juncture today, facing a number of external changes and new opportunities. The president's 2020 college completion goal increases the importance of providing access to higher education, particularly for nontraditional students. The recent legislation that shifts to Direct Lending presents opportunities as well as challenges, as FSA's role within the overall financial aid system becomes greater, and as we become more responsible for ensuring students have access to postsecondary education and the needed funding.

This five-year strategic plan is designed to help us achieve our mission to help put America through school and realize our vision to become the most trusted and reliable provider of postsecondary financial aid information and services in the

nation—all while supporting progress towards the president's 2020 college completion goal. We believe that the direction we outlined in this plan is ambitious, but at the same time it is a reasonable stretch for FSA to take on more responsibility in serving students, ensuring that they have access to funding, information to guide their choices in selecting postsecondary educational programs, and opportunity to reap the benefits of further educational attainment.

We will use this plan as the foundation for discussion and decision-making at every level of our organization. While we will review and update the plan annually, it will serve as a tool to align our employees and stakeholders to the goals and priorities for our journey over the next five years.

# 9. NOTES

<sup>1</sup> U.S. Department of Education, Fiscal Year (FY) 2010 Budget Summary.

<sup>2</sup> U.S. Department of Education, FSA, Annual Report 2009. The data is as of end of FY 2009.

<sup>3</sup> FSA interacts with a number of other offices within the Department. In such mentions, this report will refer to these offices simply as “the Department.”

<sup>4</sup> Presentation by Bill Taggart to the Department, Aug. 28, 2009.

<sup>5</sup> Ibid.

<sup>6</sup> U.S. Department of Labor, Bureau of Labor Statistics, Inflation calculator, 2000–09. <http://data.bls.gov/cgi-bin/cpicalc.pl>, last accessed Feb. 11, 2010.

<sup>7</sup> The Federal Reserve Board: *Flow of Funds*, Moody’s Economy.com, last accessed Feb. 10, 2010, available only to subscribers.

<sup>8</sup> U.S. Department of Education, National Center for Education (NCES). *Enrollment in Postsecondary Institutions*, Fall 2008; *Graduation Rates, 2002 and 2005 Cohorts; and Financial Statistics, Fiscal Year 2008* (NCES 2010-152), 2010. <http://nces.ed.gov/pubs2010/2010152.rev.pdf>, last accessed Feb. 10, 2010.

<sup>9</sup> U.S. Department of Education, NCES. *Digest of Education Statistics*, Table 384: College enrollment and labor force status of 1999 and 2000 high school graduates, by sex & race/ethnicity: October 1999 & October 2000, <http://nces.ed.gov/programs/digest/d01/dt385.asp>, last accessed Feb. 10, 2010.

<sup>10</sup> U.S. Department of Labor, Bureau of Labor Statistics (BLS) Current Population Survey, [http://www.bls.gov/news.release/archives/hsgec\\_04282009.pdf](http://www.bls.gov/news.release/archives/hsgec_04282009.pdf), last accessed Feb. 11, 2010.

<sup>11</sup> U.S. Department of Labor, Bureau of Labor Statistics Current Population Survey, “College Enrollment and Work Activity of 2008 High School Graduates,” 2009. [http://www.bls.gov/news.release/archives/hsgec\\_04282009.pdf](http://www.bls.gov/news.release/archives/hsgec_04282009.pdf)

<sup>12</sup> Under Secretary Martha Kanter’s Remarks at the 2010 Association of International Education Administrators (AIEA) Conference, Feb. 15, 2010.

<sup>13</sup> Center for Law and Social Policy, “Summary of Key Postsecondary Education and Training Provisions in the Health Care and Education Reconciliation,” March 23, 2010.

<sup>14</sup> U.S. Department of Education, NCES “Enrollment in Postsecondary Institutions, Fall 2008; Graduation Rates, 2002 and 2005 Cohorts; and Financial Statistics, Fiscal Year 2008.”

<sup>15</sup> Bill and Melinda Gates Foundation, “With Their Whole Lives Ahead of Them,” December 2009.

<sup>16</sup> U.S. Department of Education, NCES, Integrated Postsecondary Education Data System (IPEDS), Federal Student Aid program files.

<sup>17</sup> Federal Student Aid, Chief Finance Office, program files.

<sup>18</sup> President’s Budget 2011 Budget Loan volumes—Net Commitments by Fiscal Year; The Department of Education Budget Service. 2009.

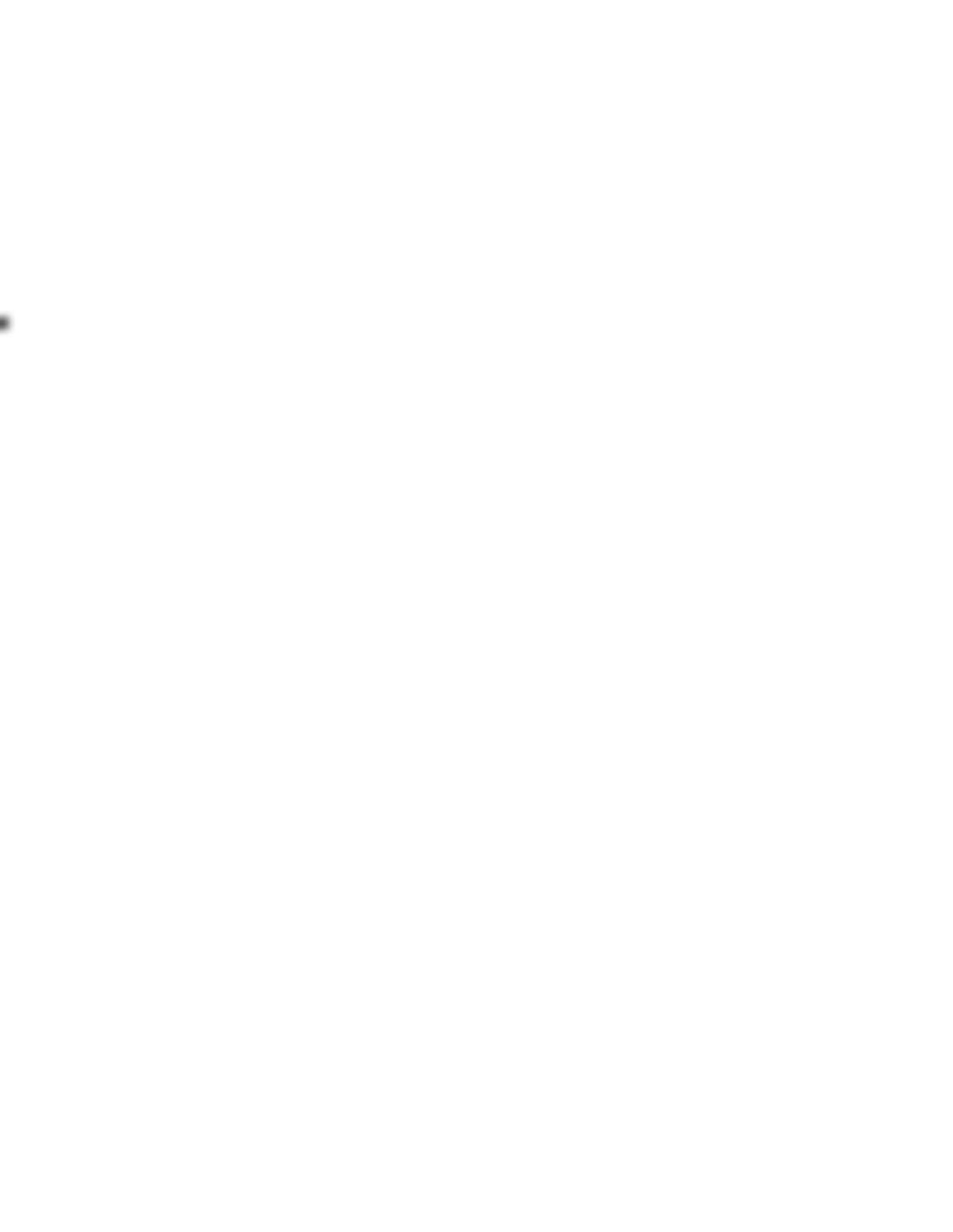
<sup>19</sup> Organization for Economic Cooperation and Development, “State of Education 2009. OECD Indicators” [http://www.oecd.org/document/24/0,3343,en\\_2649\\_39263238\\_43586328\\_1\\_1\\_1\\_1,00.html#4 Indicator A-3](http://www.oecd.org/document/24/0,3343,en_2649_39263238_43586328_1_1_1_1,00.html#4 Indicator A-3).

<sup>20</sup> Bill and Melinda Gates Foundation, “With Their Whole Lives Ahead of Them,” December 2009.

<sup>21</sup> Congressional Budget Office, “An Analysis of the President’s Budgetary Proposals for Fiscal Year 2011,” March 2010.

<sup>22</sup> Federal Student Aid Organizational Health Index Survey, FSA program files.

<sup>23</sup> Federal Student Aid, FSA program files.





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