



Texas Guaranteed Student Loan Corporation

Agency at a Glance

The Federal Family Education Loan Program (FFELP), administered by the Department of Education, encourages private lenders to make loans to students and their parents to help pay for the cost of postsecondary education. To encourage lenders to participate in the program without requiring collateral or proof of creditworthiness from the student, the Department of Education protects the lender from financial loss by guaranteeing the repayment of the loan. The Texas Guaranteed Student Loan Corporation (TG) serves as the FFELP administrator in Texas, guaranteeing loans on behalf of the federal government; however, TG does not make loans. Established by the Legislature as a public, nonprofit corporation in 1979, TG's major functions include:

- issuing guarantees to private lenders for the repayment of FFELP loans;
- helping borrowers avoid loan delinquency and default through up-front education and awareness of loan repayment obligations;
- reimbursing lenders for loans that are not paid in full by the borrower;
- collecting from borrowers who have defaulted on their loans;
- overseeing schools and lenders participating in FFELP to ensure compliance with federal regulations; and
- serving as the central clearinghouse for FFELP student loan and financial aid information for students, parents, schools, and lenders in Texas.

Key Facts

- **Funding.** As a public, nonprofit corporation, TG receives no state funding. In fiscal year 2004, TG generated \$130.8 million in operating revenue, mostly derived from administrative fees paid by the Department of Education for FFELP loan guarantee functions. Of this amount, TG spent about \$74 million on student loan activities and related administrative functions.
- **Staffing.** TG has a staff of 578 employees, most of whom are based in its corporate headquarters in Round Rock.
- **Loan Guarantee Operations.** In fiscal year 2004, TG guaranteed 516,000 FFELP loans totaling more than \$2.8 billion. On average, loans guaranteed by TG that year totaled \$3,097 for undergraduates, and \$6,744 for graduate borrowers. Since its creation, TG has guaranteed more than \$33.8 billion in FFELP loans that were issued to 2.6 million postsecondary education students.



For additional information, please contact Lori Hartman at 512-936-2694.

- **Default Prevention Activities.** The typical student leaving school has a median student loan debt of \$8,125. TG provides borrowers with a variety of resources to help them track loan balances, manage debt, and understand and meet their loan repayment obligations. In fiscal year 2004, TG helped to resolve more than 91 percent of all loan delinquencies reported by lenders.
- **Claim Payments.** When a borrower does not repay a loan in full to the lender, TG reimburses the lender for most of its loss. In fiscal year 2004, TG paid 60,500 claims to lenders totaling \$303 million. These claims were for bankruptcy, disability or death, as well as default. TG's loan default rate is currently 7 percent, down from 17 percent 10 years ago.
- **Collections.** In fiscal year 2004, TG collected \$285 million in defaulted loans on behalf of the federal government, and assisted another 2,291 borrowers in rehabilitating their defaulted loans.
- **Outreach.** TG serves as a resource to students and their parents, schools, lenders, and the public. Last year, TG's Customer Assistance call center received about 150,000 telephone inquiries, and fielded more than 12,000 calls to the Texas Financial Aid Information Center hotline.
- **Compliance.** TG approves schools and lenders for FFELP participation at TG, and conducts reviews to ensure their continued compliance with federal regulations. Currently, TG works with about 775 schools and 300 lenders.

Board Members (10)

Ruben Esquivel, Chair (Dallas)	Jerry Don Miller, Ph.D. (Canyon)
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Morgan Howard (Bryan)	Carole Keeton Strayhorn,
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James Langabeer (Edinburg)	

Agency Head

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Recommendations

1. Continue the Texas Guaranteed Student Loan Corporation for 12 Years, and Increase the Size of TG's Board From 10 to 11 Members.
2. Require TG's Internal Auditor to Report to the Board of Directors.
3. Require Relevant State Agencies to Coordinate with TG on Outreach Activities Tied to Financial Aid for Higher Education, and Direct TG to Report to the Legislature on the Demand for Financial Aid in Texas.
4. Require TG to Better Identify and Exchange Data With Licensing Agencies on Licensees With Defaulted Student Loans.

Issue 1

Texas Has a Continuing Need for the Texas Guaranteed Student Loan Corporation, but the Current Size of TG's Board Does Not Comply With the Texas Constitution.

Key Findings

- The Legislature created the Texas Guaranteed Student Loan Corporation (TG) to administer the Federal Family Education Loan Program in Texas, and TG functions effectively in this role.
- Texas has a clear and continuing interest in having a guaranty agency to administer the Federal Family Education Loan Program (FFELP) for the State.
- The size of TG's Board does not comply with the Texas Constitution.

Texas has a continuing interest in having a guaranty agency to administer FFELP for the State. As the State's FFELP administrator, TG plays an important role in helping to remove financial barriers to postsecondary education and increasing students' awareness of educational and financial aid opportunities. With the increasing cost of tuition, Texas students rely heavily on FFELP loans to fund their education. TG's loan guarantees, on behalf of the federal government, help to encourage lenders to make loans to students. Overall, TG's structure and operations work well, providing significant benefits to the State and the students who obtain loans through this program. However, the current size of TG's Board does not comply with the requirement in the Texas Constitution for boards to be composed of odd numbers.

Recommendations

Change in Statute

1.1 Continue the Texas Guaranteed Student Loan Corporation for 12 years.

This recommendation would continue the Texas Guaranteed Student Loan Corporation as the entity responsible for administering the Federal Family Education Loan Program in Texas.

1.2 Increase the size of the Texas Guaranteed Student Loan Corporation's Board from 10 to 11 members.

This recommendation would increase TG's Board from 10 to 11 members, by adding a member from the faculty or administration of an eligible postsecondary educational institution. Under this change, the Governor would appoint 10 members, including five members with knowledge or experience in finance, four members from the faculty or school administration, and one member who is a full-time student enrolled at a postsecondary educational institution. The Comptroller of Public Accounts would continue to serve as a permanent, ex officio, voting member. This change would bring the Board into compliance with the constitutional requirement for state boards to have an odd number of members.

Issue 2

TG's Internal Auditor Lacks a Direct Link to the Board.

Key Findings

- TG's Chief Executive Officer has direct authority over the Internal Auditor.
- Without a direct link to the Board, the effectiveness of TG's Internal Auditor could be weakened.
- State law requires internal auditors at state agencies to report to their governing boards.
- Emerging standards in the private sector call for auditors to report to the audit committee of the board of directors.

State law requires TG's Internal Auditor to report to the Chief Executive Officer (CEO), giving the CEO direct authority over the Internal Auditor. Although this reporting structure has worked well in the past, as TG's CEO and senior management team are supportive of the internal audit function, this reporting structure does not afford the Internal Auditor the independence necessary to carry out required functions absent the support of management. The reporting structure is also contrary to state agency requirements and private sector best practices, which, over the past several years, have moved toward requiring the Internal Auditor to report to the governing board or a subcommittee of the board.

Recommendation

Change in Statute

2.1 Require TG's Internal Auditor to report to the Board of Directors.

This recommendation would change the current reporting structure, which requires the Internal Auditor to report to TG's CEO, to instead require the Internal Auditor to report to the Board. The Board could also opt to have the Internal Auditor report to a designated subcommittee of the Board. TG's Board would have the authority to hire and fire the Internal Auditor and would approve the Internal Auditor's budget, staffing level, and audit plans. TG's CEO would continue to provide administrative day-to-day support. The Internal Auditor would also continue to work closely with TG's CEO and senior management team to address audit related activities, and would report on the progress and results of audits at Board meetings.

Issue 3

Texas Lacks a Structure for Maximizing Its Resources, in Conjunction With TG's, to Increase Awareness About Higher Education and Financial Aid Opportunities.

Key Findings

- TG performs many outreach activities to increase awareness about higher education and financial aid opportunities.
- The Texas Higher Education Coordinating Board (Coordinating Board) and the Texas Education Agency (TEA) also conduct higher education and financial aid outreach.

- Despite these outreach efforts to help increase awareness of financial aid opportunities, most Texas students still rank cost as the major barrier to higher education.
- Texas lacks a mechanism for maximizing its resources, in conjunction with TG's, to increase awareness about higher education and financial aid opportunities.

State law currently charges TG with coordinating with TEA and the Coordinating Board on activities designed to increase awareness of higher education and financial aid. Although TG and the Coordinating Board collaborate on outreach activities, TG lacks a formal mechanism for coordinating its activities with other state agencies that perform similar functions, thereby increasing the potential for duplication or gaps. Such coordination is critical to meet the State's goal of increasing college enrollment by 500,000 students by 2015.

Recommendation

Change in Statute

- 3.1 Require state agencies that conduct financial aid outreach activities tied to higher education to coordinate with TG to maximize resources and avoid duplication, and direct TG to report regularly to the Legislature on the demand for student financial aid in Texas.**

This recommendation would require all state agencies that conduct higher education and financial aid outreach activities to have a memorandum of understanding with TG. This requirement would help ensure that TG and the state agencies make the most of limited resources and identify and eliminate areas of overlap. These changes would also help ensure that the State presents a unified message to Texans about the benefits of higher education. Additionally, having TG report to the Legislature in December of each even-numbered year would ensure that the Legislature has the most up-to-date information about the demand for student financial aid in Texas before the start of each legislative session.

Issue 4 ---

Problems With Identifying and Exchanging Data With Licensing Agencies Limit TG's Ability to Collect From Licensees With Defaulted Loans.

Key Findings

- To assist TG in collecting on defaulted student loans, state law authorizes TG to work with state agencies to deny the renewal of professional and occupational licenses until licensees enter into repayment with TG.
- Current law places the burden of identifying licensees with defaulted student loans on the licensing agencies instead of TG, even though TG has a greater interest in, and resources for, administering the data matches.
- Some agencies may not be participating in this program because TG has not identified them as having a licensing function.

The Legislature has authorized TG to work with state agencies to identify professional and occupational licensees who have defaulted on their student loans, and to deny the renewal of their licenses until

they enter into a repayment agreement with TG. However, current law inappropriately places the burden of identifying licensees with defaulted student loans on the licensing agencies, instead of TG. Further, TG has not identified all potential state licensing functions for inclusion in its search for licensees with defaulted loans. This results in missed opportunities for collections and unfairly applies this tool to some professions, but not to others.

Recommendations

Change in Statute

- 4.1 Require licensing agencies to provide TG with lists of licensees so that TG can identify individuals with defaulted student loans, rather than requiring the licensing agencies to identify these individuals.**

This recommendation would require licensing agencies to prepare a list, in written or electronic format, of licensees and provide that list to TG annually. TG would use the list to identify individuals with defaulted student loans guaranteed by TG, and would then notify the appropriate agency of any matches. The licensing agency would be responsible for denying the license renewal application of any licensee with a defaulted student loan. These changes would appropriately place the responsibility for conducting the matching process on TG, rather than the licensing agencies, since TG has a greater interest in identifying individuals with defaulted student loans.

Management Action

- 4.2 TG should compile a more comprehensive list of licensing agencies for inclusion in its search for professional and occupational licensees with defaulted student loans.**

Under this recommendation, TG would develop a more comprehensive list of agencies with licensing functions that are subject to this requirement. TG should update its list at least biennially, which would capture any agencies or licensing functions that have recently been created or reorganized by the Legislature. This would afford TG additional opportunities to identify licensees with defaulted student loans, and ensure that all the State's licensees are held equally accountable.

Fiscal Implication Summary

Because TG does not receive General Revenue appropriations, these recommendations would have no fiscal impact to the State. One recommendation offered in Issue 1 would result in a cost to TG, as summarized below.

- **Issue 1** – Increasing the size of TG's Board from 10 to 11 members would result in an annual cost to TG of approximately \$1,240 for Board member travel expenses.