

SUNSET COMMISSION DECISIONS



TEXAS GUARANTEED STUDENT LOAN CORPORATION

December 2004

AGENCY INFORMATION

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. 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 2003, TG generated \$131.6 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 \$80 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 2003, TG guaranteed 416,000 FFELP loans totaling more than \$2.3 billion. On average, loans guaranteed by TG that year totaled \$2,963 for undergraduates, and \$6,459 for graduate borrowers. Since its creation, TG has guaranteed more than \$32.5 billion in FFELP loans that were issued to 2.5 million postsecondary education students.
- **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 2003, 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 2003, TG paid 59,696 claims to lenders totaling \$285 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 2003, TG collected \$291.5 million in defaulted loans on behalf of the federal government, and assisted another 2,615 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 130,000 telephone inquiries, and fielded more than 15,000 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.

ISSUES / RECOMMENDATIONS

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.

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 Reduce the size of the Texas Guaranteed Student Loan Corporation’s Board from 10 to nine members.

This recommendation would reduce TG’s 10-member Board to a nine-member Board to comply with the Texas Constitution. The Governor would appoint eight members, including four members with knowledge or experience in finance, three members who are on the faculty or administration of an eligible postsecondary educational institution, 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.

Fiscal Implication

Because TG is federally funded and receives no state appropriations, continuing TG would have no fiscal impact to the State.

Responses

Agency

Recommendation 1.1: TG supports the Sunset staff’s recommendation to continue TG for 12 years.

Recommendation 1.2: While TG recognizes that a change in the number of Board members to an odd number is necessary, it believes a larger Board would allow members to rotate through the various Board subcommittees, while focusing on the work of one subcommittee at a time. As such, TG suggests adoption of Modification 1.

Agency Modification

1. Increase the size of TG’s Board to 11 members, rather than reducing it to nine members.

(Ruben E. Esquivel, Chair – TG Board of Directors and Sue McMillin, President and CEO – Texas Guaranteed Student Loan Corporation)

The Texas Comptroller of Public Accounts, a member of the TG Board, believes the Board can work well with either nine or 11 members, and strongly supports the need for continued representation of the Comptroller’s Office on the TG Board to provide a stable level of financial oversight. (Carole Keeton Strayhorn, Texas Comptroller – Texas Comptroller of Public Accounts)

For

Brian D. Sunshine, Vice President of Policy and Compliance – LoanStar Systems, Inc., Bryan
Phillip Wambsganss, President – Association of Texas Lenders for Education, Arlington

Against

None received.

Recommended Action: Adopt Recommendations 1.1 and 1.2.

Commission Decision: The Commission adopted Recommendations 1.1 and Modification 1 to increase the size of TG’s Board from 10 to 11 members. TG’s Board would consist of five members who have knowledge or experience in finance; four members from the faculty or administration of an eligible postsecondary educational institution; one student who is enrolled full-time at a postsecondary educational institution; and the Comptroller of Public Accounts.

Issue 2 TG’s Internal Auditor Lacks a Direct Link to 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. The Internal Auditor should report on the progress and results of audits at Board meetings, which occur at least twice a year. Under this recommendation, 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.

Fiscal Implication

This recommendation would not result in any fiscal impact to the State or TG.

Responses

Agency

TG supports this recommendation. (Ruben E. Esquivel, Chair – TG Board of Directors and Sue McMillin, President and CEO – Texas Guaranteed Student Loan Corporation)

For

Brian D. Sunshine, Vice President of Policy and Compliance – LoanStar Systems, Inc., Bryan
Phillip Wambsgans, President – Association of Texas Lenders for Education, Arlington

Against

None received.

Recommended Action: Adopt Recommendation 2.1.

Commission Decision: Adopted Recommendation 2.1.

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.

Recommendation

Change in Statute

3.1 Require the P-16 Council to coordinate higher education and financial aid outreach activities in Texas, and to ensure TG's inclusion in these coordination efforts.

This recommendation would require the P-16 Council to add higher education and financial aid awareness programs to its current areas of coordination, and to include TG on these issues. This recommendation would not add TG as a permanent member of the Council, but would ensure TG's inclusion for purposes of coordinating outreach activities.

Fiscal Implication

This recommendation would have no fiscal impact to the State. However, the recommendation could result in an unidentifiable savings to the Coordinating Board and TEA, as TG could potentially contribute to some outreach activities that would otherwise be funded by the State.

Responses

Agency

TG supports this recommendation. (Ruben E. Esquivel, Chair – TG Board of Directors and Sue McMillin, President and CEO – Texas Guaranteed Student Loan Corporation)

Affected Agencies

The Texas Education Agency agrees that the P-16 Council is the appropriate conduit for collaborative efforts affecting higher education and financial aid awareness, but believes that existing language in the Education Code already directs the Council to coordinate these issues. TG has participated in P-16 Council activities in the past, and TEA anticipates that the Council will continue its coordination efforts with TG in the future. (Shirley J. Neeley, Ed.D., Commissioner of Education – Texas Education Agency)

The Texas Higher Education Coordinating Board believes that the recommendation to require the P-16 Council to coordinate higher education and financial aid outreach activities in Texas would be a worthwhile addition to the issues the P-16 Council is charged with coordinating, as adding the requirement would ensure that the entire Council works toward a key strategy of *Closing the Gaps by 2015*. (Raymund A. Paredes, Commissioner of Higher Education – Texas Higher Education Coordinating Board)

The Texas Workforce Commission does not believe the P-16 Council's scope should be expanded to include coordination of higher education and financial aid, but instead offers Modification 1.

Texas Workforce Commission Modification

1. Require all state agencies that conduct higher education and financial aid activities to have a memorandum of understanding with TG that outlines how these activities will be coordinated to maximize resources and avoid duplication.

(Diane Rath, Chair, Commissioner Representing the Public; Ron Lehman, Commissioner Representing Employers; and Ronald G. Congleton, Commissioner Representing Labor – Texas Workforce Commission)

For

John Fitzpatrick, Executive Director – Capital Area Training Foundation, Austin

Brian D. Sunshine, Vice President of Policy and Compliance – LoanStar Systems, Inc., Bryan

Phillip Wambsganss, President – Association of Texas Lenders for Education, Arlington

Against

None received.

Recommended Action: Adopt Recommendation 3.1.

Commission Decision: In lieu of Recommendation 3.1, the Commission adopted Modification 1 as amended, to require all state agencies that conduct higher education and financial aid activities to have a memorandum of understanding with TG that outlines how these activities will be coordinated to maximize resources and avoid duplication, and to direct TG to report to the Legislature in December of each even-numbered year on the demand for student financial aid among postsecondary education students in Texas.

Issue 4 Problems with Identifying and Exchanging Data with Licensing Agencies Limit TG’s Ability to Collect From Licensees with Defaulted Loans.

Recommendations

Change in Statute

4.1 Require licensing agencies to provide TG with a written or electronic list of licensees for use in identifying individuals who have defaulted student loans, rather than requiring 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 should use the list to identify individuals with defaulted student loans guaranteed by TG. It would then notify the appropriate agency of any matches so that the licensing agency would deny the license renewal application of any licensee with a defaulted student loan.

Management Action

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

This recommendation would direct TG to develop a more comprehensive list of agencies with licensing functions that are subject to this requirement including, but not limited to, the additional agencies identified in this issue. To effectively identify agencies with licensing functions, TG should conduct periodic searches of state statutes that provide for the licensure of individuals, and determine if any new licensing functions have been created that could be subject to this collection tool. Once identified, TG should provide the agencies with written notice of this requirement and work with them to effectively implement it. TG should update its list at least biennially, which would capture any agencies or licensing functions that have been created or reorganized by the Legislature.

Fiscal Implication

These recommendations would not have a fiscal impact to the State, but could potentially increase collections made by TG on behalf of the federal government.

Responses

Agency

TG supports these recommendations. (Ruben E. Esquivel, Chair – TG Board of Directors and Sue McMillin, President and CEO – Texas Guaranteed Student Loan Corporation)

For

Brian D. Sunshine, Vice President of Policy and Compliance – LoanStar Systems, Inc., Bryan
Phillip Wambsgans, President – Association of Texas Lenders for Education, Arlington

Against

None received.

Recommended Action: Adopt Recommendations 4.1 and 4.2.

Commission Decision: Adopted Recommendations 4.1 and 4.2.

ACROSS-THE-BOARD RECOMMENDATIONS

Texas Guaranteed Student Loan Corporation	
Recommendations	Across-the-Board Provisions
Do Not Apply	1. Require public membership on the agency's policymaking body.
Update	2. Require provisions relating to conflicts of interest.
Update	3. Require unbiased appointments to the agency's policymaking body.
Apply	4. Provide that the Governor designate the presiding officer of the policymaking body.
Update	5. Specify grounds for removal of a member of the policymaking body.
Modify	6. Require training for members of the policymaking body.
Update	7. Require separation of policymaking and agency staff functions.
Already in Statute	8. Provide for public testimony at meetings of the policymaking body.
Update	9. Require information to be maintained on complaints.
Apply	10. Require the agency to use technology to increase public access.
Do Not Apply	11. Develop and use appropriate alternative rulemaking and dispute resolution procedures.

Responses

Agency

TG opposes the application of ATB 4, relating to the Governor designating the presiding officer of the policymaking body. TG believes it has a well established process that allows thoughtful selection of its leadership by members of the Board. In addition, because of the complexity of the federal student loan program, TG believes its Board members are in a unique position to determine which board member, by reason of leadership and understanding of the program, is best able to lead TG. (Ruben E. Esquivel, Chair – TG Board of Directors and Sue McMillin, President and CEO – Texas Guaranteed Student Loan Corporation)

For

Brian D. Sunshine, Vice President of Policy and Compliance – LoanStar Systems, Inc., Bryan
Phillip Wambsganss, President – Association of Texas Lenders for Education, Arlington

Against

None received.

Recommended Action: Adopt staff recommendations.

Commission Decision: The Commission adopted staff's recommendations, except for ATB Recommendation 4. The Commission took no action on this recommendation.

NEW ISSUES

New Issues

None received.

