

SUBJECT: Student loan corporation merger, out-of-state operations

COMMITTEE: Higher Education — favorable, without amendment

VOTE: 5 ayes — Rangel, Kamel, Moreno, Reyna, Rodriguez

0 nays

4 absent — Ogden, Gallego, Goolsby, Harris

WITNESSES: For — George Torres, Texas Guaranteed Student Loan Corporation

Against — None

BACKGROUND: The Texas Guaranteed Student Loan Corporation (TGSLC) is a public, non-profit corporation established by the state in 1979. Under authority in the Education Code the corporation administers the federal guaranteed post-secondary student loan program (Federal Family Education Loan Program). The agency guarantees repayment of student loans made by private lenders in case the borrower dies, becomes disabled, declares bankruptcy or defaults. The loans are reinsured by the federal government, which pays a large portion of any claims.

In 1993 the federal government established a *direct* student loan program (Federal Direct Student Loan Program) to lend public money directly to students. By 1998 the direct loan program is supposed to account for 60 percent of the student loan volume, while guaranteed private loans are to account for 40 percent.

DIGEST: HB 1157 would eliminate prohibitions against the TGSLC merging or consolidating with other corporations and guaranteeing loans for other states. It also would require the TGSLC's internal auditor to meet regularly with the corporation's board of directors or a committee designated by the board, instead of with the board's executive committee. HB 1157 would replace the term "executive director" with "president" in certain provisions. The bill would take effect September 1, 1995.

**SUPPORTERS
SAY:**

As federal direct loans to students gain in importance nationally, the number of guaranteed student loan agencies is expected to shrink from about 44 to only five or 10. TGSLC could easily become one of the remaining agencies, if it has the flexibility this bill would confer. The TGSLC is one of the largest loan-guarantee agencies in the nation and has the experience and capacity to expand. With authority to guarantee loans in other states, it would be in a good position to continue operating under the new federal structure.

Lenders and students in Texas colleges, universities and proprietary schools would benefit if the TGSLC was one of the surviving guaranteeing agencies. The agency's primary focus is Texas, and it has a relationship with Texas lenders and schools. The TGSLC holds regional workshops and has programs customized for Texas that might not exist if the Texas loan market were served by an out-of-state guaranteeing agency. An out-of-state guaranteeing agency might be less responsive to Texas needs.

The Texas guaranteed loan market is large, and guaranteed loans are the largest source of financial aid for Texas college students. The TGSLC has guaranteed over 1.5 million student loans, valued at about \$6 billion, since 1981. Direct loans are less popular in Texas than in other states, and 84 percent of student loans in Texas are being made through the guaranteed loan program. Direct loans in Texas in the next few years are not expected to account for more than 20 percent of the 1992 student loan volume, compared with 40 percent nationally. The amount of guaranteed loans is expected to continue growing in Texas.

TGSLC would continue to serve Texas well, even it were also serving other states. The agency's focus would still be on Texas. The fact that lenders could switch to another guaranteeing agency if the TGSLC gave poor service would keep the agency on its toes. The agency's 400 employees want the chance to continue serving students and lenders.

The federal direct loan program may change, and Texas needs to keep a guaranteeing agency if the federal direction changes and guaranteed loans regain primacy.

HB 1157
House Research Organization
page 3

HB 1157 would give the TGSLC's board of directors the flexibility to appoint a board to meet with the internal auditor instead of requiring that the auditor meet with the board's executive committee. Replacing "executive director" with "president" would make the internal auditor section of the law conform with the rest of the Education Code dealing with the TGSLC.

OPPONENTS
SAY:

HB 1157 may need additional safeguards to ensure that the TGSLC would continue to focus on the Texas market even if it expands its scope to other states.

NOTES:

The companion bill, SB 711 by Luna, has been referred to the Senate Education Committee.