

**SUBJECT:** Continuing the Texas Guaranteed Student Loan Corporation

**COMMITTEE:** Higher Education — favorable, without amendment

**VOTE:** 5 ayes — Morrison, Goolsby, Dawson, Giddings, Harper-Brown  
0 nays  
4 absent — F. Brown, Gallego, J, Jones, Rose

**WITNESSES:** For — None  
Against — None  
On — Neal Combs, Sue McMillin, Texas Guaranteed Student Loan Corporation; Lori Hartman, Sunset Advisory Commission

**BACKGROUND:** The Texas Guaranteed Student Loan Corporation (TG) was created by the 66th Legislature in 1979. TG administers the Federal Family Education Loan Program (FFELP) in Texas, which guarantees loans on behalf of the federal government to help students and their parents pay for college or other postsecondary education with low interest loans. TG does not make loans but guarantees lenders that loans will be repaid. TG also conducts activities to prevent delinquency, repays lenders when the borrowers fail to pay back their loans, collects on defaulted student loans, and assures that schools and lenders act in accordance with all federal regulations.

Unlike many of the corporations, boards, and councils under Sunset review, TG is not a state agency but a nonprofit, public corporation. TG does receive any state appropriation and is funded by fees from the federal government. In fiscal year 2004, TG guaranteed more than \$2.8 billion to students and parents. The board now consists of 10 members, nine of whom are appointed by the governor. Five members have knowledge or experience in finance, three members are faculty or administration at postsecondary institutions, and one is a full-time student attending a postsecondary institution. The Comptroller of Public Accounts serves as a permanent, voting member. If TG is not continued by the 79th Legislature, it will be abolished on September 1, 2005.

DIGEST:

HB 2274 would continue the Texas Guaranteed Student Loan Corporation until September 1, 2017, and would increase the size of the board to 11 members. The bill would require state agencies that conduct post-secondary education and financial aid outreach activities to reach mutual understanding with TG on how to capitalize on resources, coordinate events, and avoid replication. The bill would require all licensing agencies to provide TG with an annual list of the agency's licensees to help identify and find people with defaulted student loans. It also would require the internal auditor for TG to report to the board of directors.

The bill would add standard Sunset provisions relating to conflicts of interest, unbiased appointments to the agency's policymaking body, gubernatorial designation of the presiding officer, grounds for removal of a board member, training for board members, separation of policymaking and management responsibilities, information retention on complaints, and technology use for better public access to the corporation.

**Board size increase.** HB 2274 would increase the size TG's board from to 11 members. Five board members would have to have knowledge of finance, including management of funds and business operations. The number of board members who are faculty or administration at a postsecondary institution would increase from three to four. The governor would have to appoint one more member as soon as possible on or after September 1, 2005.

**Outreach programs.** All state agencies that conduct higher education and financial aid outreach activities would be required to enter into a memorandum of understanding with TG that outlined how TG and the state agencies would coordinate outreach activities to maximize resources and avoid duplication. HB 2274 would require TG to report the level of demand for student financial aid for postsecondary education no later than December 1 of each even-numbered year.

**State agency lists.** Each licensing agency annually would have to provide TG with a list of all the agency's licensees in either a hard copy format or electronically. Using these lists, TG would identify those in default on loans that have been guaranteed by the agency and provide a list of the names of those people to their respective licensing agencies in hard copy format or electronically. Licensing agencies could not renew licenses of defaulted borrowers unless the licensee presented a certificate issued by TG confirming that:

- the licensee had entered a repayment agreement on the loan; or
- the licensee was not in default on a loan guaranteed by TG.

**Internal auditor.** The TG internal auditor would report directly to the board of directors instead of to the TG's president. The internal auditor would meet with the board, or a committee designated by the board, rather than the president on a regular basis to deliver reports on the progress and success of the audits. The board could hire and fire the internal auditor and have control over its budget, audit plans, and staffing levels.

HB 2274 would update language in the policy on written complaints and the definition of a Texas trade association. It would repeal an obsolete section relating to the issuance of temporary licenses.

The bill would take effect on September 1, 2005.

**SUPPORTERS  
SAY:**

**Board continuation.** Following an interim study on the options available for a student loan program, the 66th Legislature created the Texas Guaranteed Student Loan Corporation (TG) to serve as an administrator to the Federal Family Education Loan Program (FFELP). Texas has an inherent and clear interest in having an agency such as TG continue. In the 2002-2003 school year, TG helped about 146,000 students by issuing more than \$2.3 billion dollars in student loan guarantees. Without a guarantee of repayment, many lenders in Texas would be unlikely and unwilling to make loans available to students who often do not have established credit histories. TG offers lenders a sense of security that they otherwise would not have. TG's delinquency and default-prevention programs assist students in debt management education and encourage them to continue with higher education, which helps ensure loan repayment and continuation of the program for the next generation of students.

**Board size increase.** The current 10-member board does not comply with the Texas Constitution, Art. 16, sec. 30a, which requires all state boards and commissions to have an odd number of members. The 78th Legislature enacted SB 287 by Ellis, which changed the composition of state boards and commissions that had an even number of voting members to comply with the Texas Constitution. Although TG's Board was included in this bill, a drafting error created confusion over the number of governor-appointed members and the total number of members. The bill called for the TG board to reduce membership of those with experience or

knowledge in finance from five to four but did not reduce the required number of appointees by the governor, which resulted in nine governor appointments and one permanent member (the Comptroller of Public Accounts). Increasing the size of the board to 10 governor-appointed members and one permanent member would put the board in compliance with the Texas Constitution.

**Outreach programs.** Requiring a memorandum of understanding between TG and other state agencies that serve to increase awareness of higher education would establish a clear mechanism to coordinate on outreach principles. The potential for duplication of programs and activities by TG and other agencies, such as TEA and the Texas Higher Education Coordinating Board (THECB), would be reduced if these agencies worked together. The Legislature previously created the P-16 Council to achieve better interagency coordination among TEA, THECB, and other state agencies that regulate workforce and education in Texas. If the P-16 Council were required to coordinate higher education outreach, along with financial aid education and programs TG conducts, outreach activities would be streamlined and more accessible to students and parents.

**State agency lists.** Under current law, the burden of finding licensees with defaulted student loans is the responsibility of the licensing agency rather than TG, regardless of the fact that TG has a greater interest in identifying defaulted borrowers and more ability to do so. Some small agencies do not have the technology to match their employees with the 90,000-person list of those who have not paid back their loans. HB 2274 would require licensing agencies to provide TG with a list of all licensees, thus shifting the burden to TG to discover defaulted borrowers. This would allow TG to identify those who have failed to pay back loans guaranteed by TG as well as put a hold on the license of the defaulted borrower.

**Internal auditor.** The TG internal auditor many times functions as an effective tool for early discovery of problems within the organization. Requiring the internal auditor to report to the TG board, rather than to TG's chief executive officer, would ensure that the internal auditor had independent discretion to carry out the required functions of the office without the potential of conflict, especially if the auditor uncovered fraud or fiscal mismanagement associated with the CEO or other management. This would provide a stronger structure for TG and ensure that the board

was well informed of any areas of high risk or weakness within the controls at TG. The Texas Internal Auditing Act requires that the internal auditor for an agency report to the governing board and not the executive director unless there is no board.

OPPONENTS  
SAY:

No apparent opposition

NOTES:

The companion bill, SB 420 by Carona, was left pending in the Senate Government Organization Committee on April 4.