State of Student Aid and Higher Education in Texas

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TG Research and Analytical Services
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December 2008

TO: Colleagues

FROM: Sue McMillin, President and CEO

RE: 2009 State of Student Aid and Higher Education in Texas

TG's vision is to be the premier source of information, financing, and assistance to help all families and students realize their education and career dreams. In support of this vision, I am pleased to provide you with TG's latest issue of *The State of Student Aid and Higher Education in Texas*. The publication offers Texas policymakers, their staff, and members of the student financial aid community an overview of key facts that describe student financial aid in Texas.

Our changing economy rewards workers who can think critically, who solve problems creatively, and who can master technical skills in multiple areas. Postsecondary education nurtures and hones these abilities, and success in college is the best predictor of later financial success and other quality-of-life benefits.

Texas is experiencing profound demographic changes. The state's population growth is being fueled by a dramatic increase in young Hispanics, a group that historically has been underrepresented in higher education. The economic vitality of the state will largely depend on how thoroughly financial barriers to education are removed. As the largest provider of student aid in Texas, TG plays a significant role in helping students achieve their educational goals.

Both the Texas Legislature and the U.S. Congress understand the importance of providing access to college and have sought to ensure that qualified students can get a college education. *The State of Student Aid and Higher Education in Texas* serves as a resource for those in search of information concerning demographic changes, educational attainment, college costs, financial aid programs, and student debt.

Please direct your questions and comments about this report to George Torres, assistant vice president for congressional/legislative relations at (512) 219-4503 or george.torres@tgslc.org, or to Jeff Webster, assistant vice president for research and analytical services at (512) 219-4504 or jeff.webster@tgslc.org. TG would like you to consider us a primary resource for information about the types and levels of the major student financial aid programs that are currently available to Texas students and families, and how Texas compares to the nation as a whole.

Sincerely,

Sue McMillin

Sue McMillin
President and CEO
TG

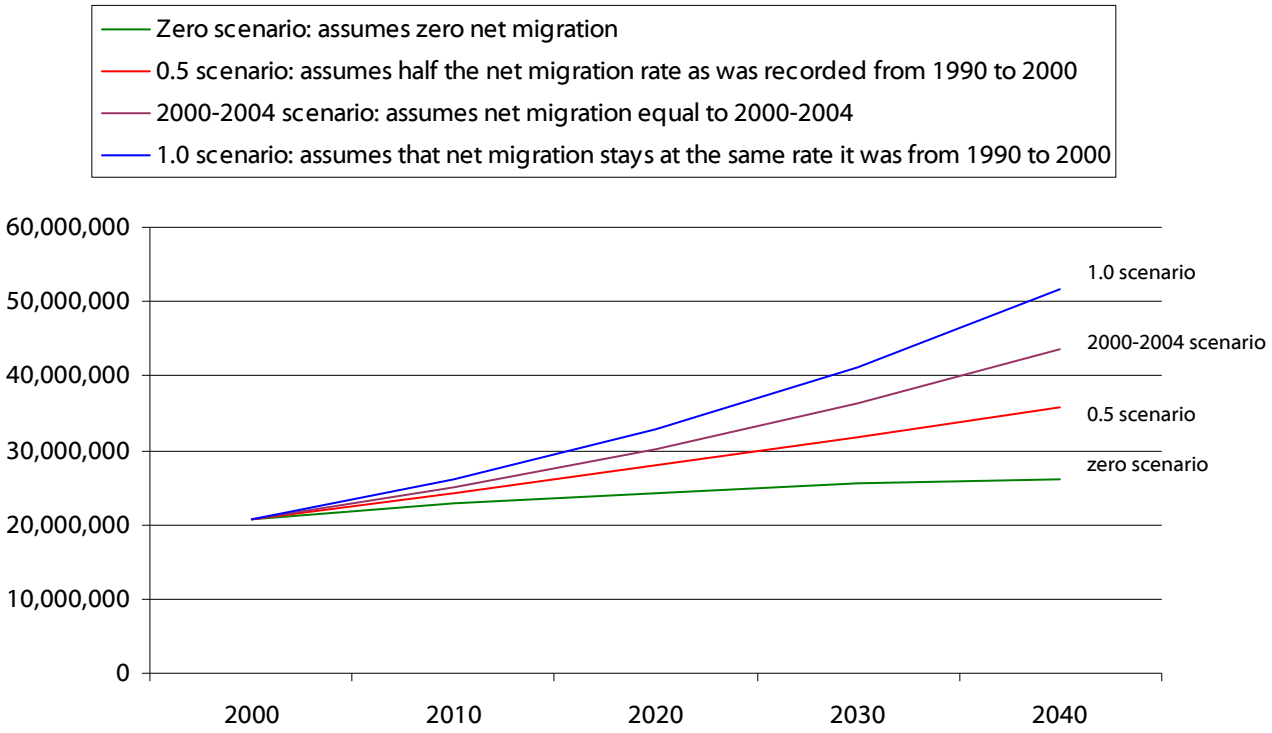
TG was established by the 66th Texas Legislature in 1979 to administer the Federal Family Education Loan Program (FFELP) for the State of Texas on behalf of the U.S. Department of Education. The FFELP is a partnership among colleges an universities, private lending institutions, state entities, and nonprofit guarantors and servicers. The FFELP is the largest source of student financial aid funding in the country and in Texas, providing 35 percent of all student financial aid nationwide and 63 percent of all the state and federal financial aid awarded each year in Texas.

Glossary of Terms

Academic Year	Usually a 12-month period that, depending on the school, begins in August and ends the following July. However, for cost purposes, an Academic Year is considered to be a nine-month period that begins in September and ends the following May.
Award Year	A 12-month period beginning July 1 and ending June 30 of the following year.
Average	Often called the mean, the average is a common statistical method used to calculate central tendency. The average is found by adding all numbers together and dividing the total by the sum of the number of items included in the calculation.
Borrower	An individual to whom a federal loan is made.
Claim	A request that the lender (or lender's servicer) files with the guarantor for reimbursement of its losses on a Federal Stafford, SLS, PLUS, or consolidation loan due to the borrower's death, disability, default, or bankruptcy; school closure; or false certification of the borrower's eligibility.
Cohort Default Rate	The percentage of Stafford and SLS loan borrowers who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. The Department of Education calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise specifically indicated, the cohort default rate includes the FFELP cohort default rate or the weighted average cohort rate.
Collections	Amounts collected by guaranty agencies or the federal government from borrowers after default claims are paid to lenders.
Collection Recovery Rate	The amount of loan collections for a fiscal year divided by the balance of accumulated defaults at the beginning of the fiscal year.
Cure	Reinstatement of a loan's guarantee upon completion of a prescribed series of loan collection activities; also the process by which the loan's guarantee is reinstated.
FFELP	Federal Family Education Loan Program authorized by Title IV, part B, of the Higher Education Act of 1965, as amended, including the Federal Stafford, Federal PLUS, Federal SLS, and Federal Consolidation Loan Programs. These loan programs are funded by lenders, guaranteed by guarantors, and reinsured by the federal government. These programs are defined individually in 34 CFR 668.
Fiscal Year	A 12-month period beginning October 1 and ending September 30 of the following year. Fiscal Year 2009, for example, begins Oct. 1 2008, and ends Sept. 30 2009. Fiscal Year-to-date (FYTD) is the FY time period, but is shorter than the entire twelve months.
Guarantee	A conditional legal obligation, as defined in an agreement by and between a guarantor and a lender, for the guarantor to reimburse the lender for some portion of a loan that is not repaid by the borrower due to default, death, disability, bankruptcy, borrower ineligibility, false certification of borrower eligibility, or school closure.
Indebtedness	How many TG student loan dollars a student owes upon leaving school.
Median	A statistical measurement used to calculate the middle most number within a range of numbers. Using the median is a preferred statistical method for central tendency when skewed, or distorted, distributions of numbers occur.
Weighted for Enrollment	An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by total enrollment, such that schools with higher enrollments are given greater weight.

Texas Demographics

Texas Population Projected to Grow Rapidly



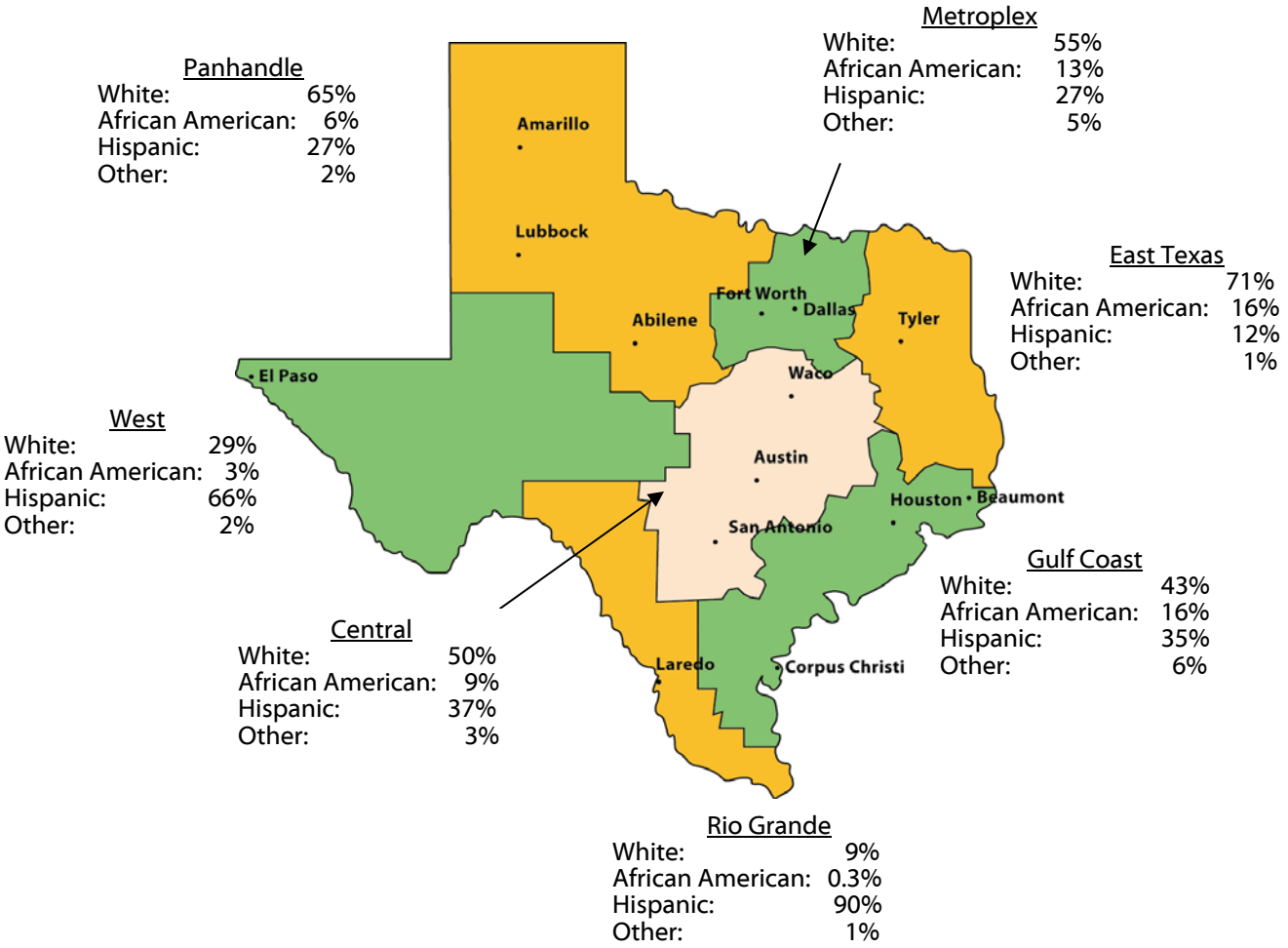
The Texas population is growing rapidly. In 2000, Texas had 20.9 million people. The Texas State Data Center, also known as the State Demographer, developed three forecasts for population growth for Texas to 2040. The forecasts share identical assumptions on death and fertility rates, but differ on rates of net migration into the state. The zero scenario, which is provided primarily for comparison purposes, assumes no net migration into the state and demonstrates the population change that would occur as a result of only births and deaths. The 0.5 scenario assumes half the net migration into the state as was recorded in the 1990s, and the 1.0 scenario assumes that net migration stays the same as the rate recorded in the 1990s. Because of a post-2000 slowdown in the rate of population growth compared to the 1990s, a fourth forecast was added. This forecast, which reflects the migration pattern of the 2000-2004 period, produces projected values that are generally lower than for the 1.0 scenario, but higher than for the 0.5 scenario.

For most areas of the state, the State Demographer suggests that the 2000-2004 scenario may be most appropriate for short-term planning purposes (i.e., 2-10 years), but that the 0.5 scenario is the most appropriate for long-term planning. This recommendation assumes that patterns from the recent past are most likely to characterize the immediate future, while growth rates under the 1.0 scenario and 2000-2004 scenario are sufficiently high that they are unlikely to continue over extended periods of time. The 2000-2004 scenario indicates that the population will grow by about 20 percent between 2000 and 2010, or to 25.1 million people. The 0.5 scenario indicates that the population will grow by about 72 percent between 2000 and 2040, or to 35.8 million people.

Source: Texas State Data Center and Office of the State Demographer, "New Texas State Data Center Population Projections from The University of Texas at San Antonio Point to a Texas Population that Is Growing Rapidly, Increasingly Diverse and Aging", Press release, June 2008, Introduction and Table 1 (http://www.txdc.utsa.edu/pepp/2008projections/presskit/).

Ethnic Composition of Texas Varies By Region

Ethnic Composition by Region (2007)



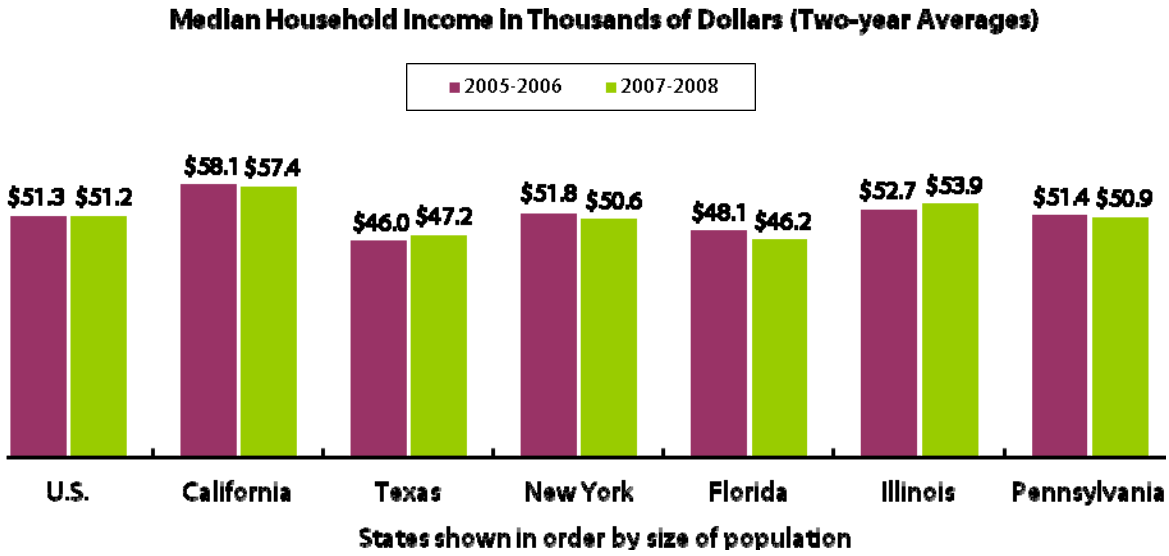
White non-Hispanics comprised less than 50 percent of the Texas population for the first time in 2003. In 2007, they comprised 47 percent, down from 53 percent in 2000. Hispanics are the fastest growing ethnic group in the state, as well as the nation. Most of the population growth in Texas in the next 30 years will continue to come from non-White ethnic groups, especially Hispanics.

More than half of the Texas population lives in just 2 of the 7 regions – the Gulf Coast, which had 6.9 million people in 2007, and the Metroplex, which had 6.5 million. The least populous region is West Texas, with 1.3 million people.

The racial/ethnic composition of the population varies greatly by region. East Texas (71 percent) and the Panhandle (65 percent) have the highest concentration of Whites, while the Rio Grande (90 percent) and West Texas (66 percent) have the highest percent of Hispanics. African Americans are most concentrated in East Texas (16 percent), the Gulf Coast (16 percent) and the Metroplex (13 percent). Central Texas most closely resembles the overall state composition.

Source: Percent of Texas population by race/ethnicity, 2007: U.S. Census Bureau, American Community Survey 2007 Data Profile, Texas: General Demographic Characteristics http://factfinder.census.gov/servlet/ADPTable?_bm=y&-geo_id=04000US48&-gr_name=ACS_2007_1YR_G00_DPS&-context=adp&-ds_name=&-tree_id=307&-_lang=en&-redoLog=false&-format=); All other: Texas State Data Center and Office of the State Demographer, Population by Race/Ethnicity for the State of Texas, 2007. (http://www.txsdc.utsa.edu/).

Median Income in Texas Increases Slightly



The median household income in the U.S. decreased slightly from $51,283* in 2005-2006 to $51,233* in 2007-2008. Between 2005-2006** and 2007-2008** the Texas median income rose from $45,966* to $47,157.* This represented an increase of $1,191 in annual income. Similar to the nation overall, all of the other largest states had decreases in household income, except for Illinois. With the recent recession, incomes can probably be expected to decrease nationwide in the next few years.

Whites in the U.S. continue to out earn African Americans and Hispanics. African American household income in the U.S. is 62 percent that of White household income, and Hispanic household income is 74 percent.

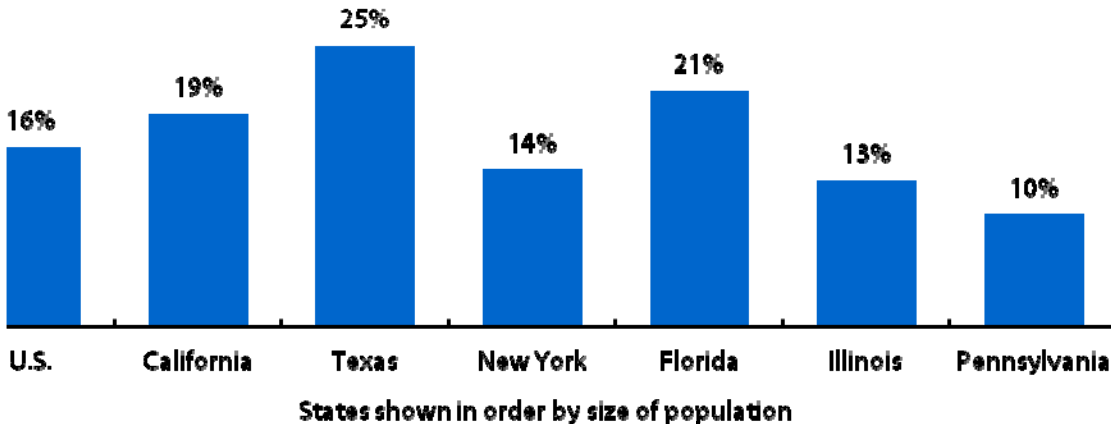
* In 2008 dollars

** Two-year average

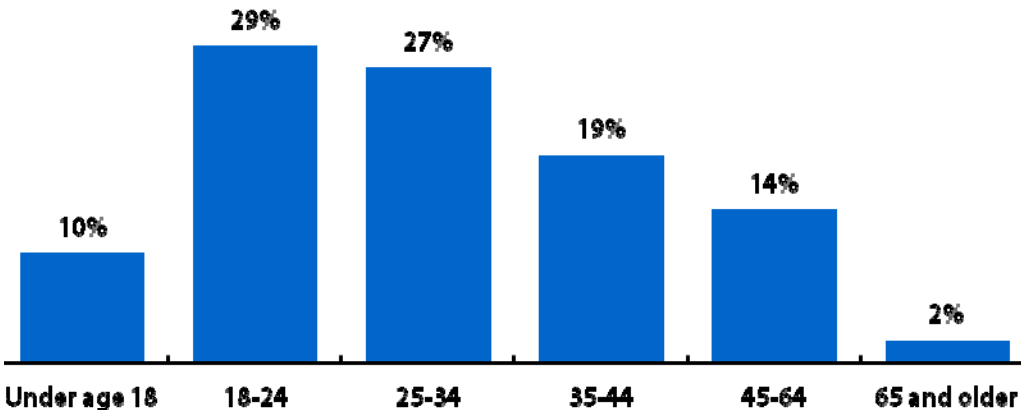
Source: U.S. Census Bureau, Two-Year Average Median Household Income by State: 2005-2008 (http://www.census.gov/hhes/www/income/statemedfaminc.html).

One in Four Texans Lacks Health Insurance

People Without Health Insurance, by State (Three-year Average, 2006-2008)



People Without Health Insurance, Nationally by Age (2008)



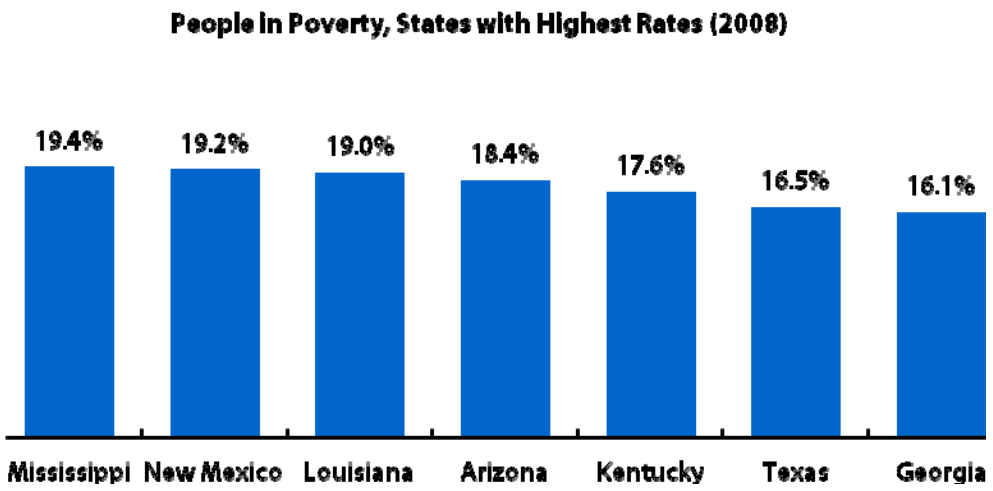
About 15.5 percent of Americans lacked health insurance in 2006-2008.* The percentage is much higher in Texas. One-fourth of Texans lacked insurance in 2006-2008,* the highest rate of any state in the nation. Only three other states — Florida, Louisiana, and New Mexico — have 20 percent or more of the population without insurance. People are most likely to lack insurance between ages 18 and 24, the traditional years for attending college. Nearly 30 percent of 18- to 24-year-olds in the U.S. lack health insurance, a slight increase of half of a percent from the year before. Insurance coverage by age is not available by state.

While people between ages 18 and 24 are generally quite healthy, some do occasionally experience prolonged or severe illness. If a college student without health insurance were to become ill, it could be financially devastating and cause the student to drop out of college.

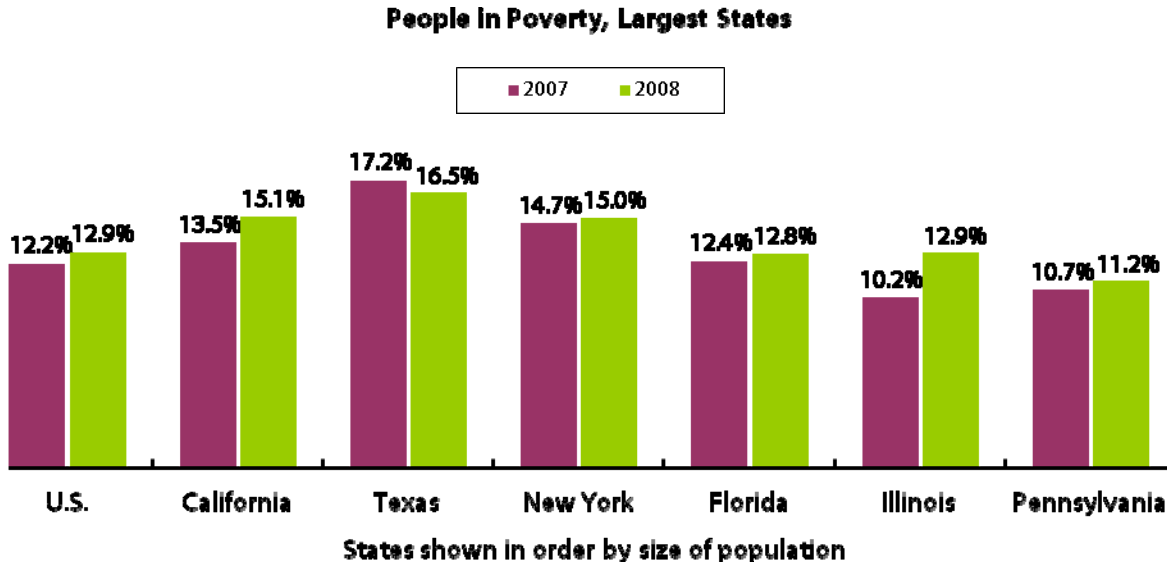
* Three-year average

Source: U.S. Census Bureau, Health Insurance Coverage: 2008, "Table 7" and "Number and Percentage of People Without Health Insurance Coverage by State Using 2- and 3-Year Averages: 2005-2006 and 2007-2008" (http://www.census.gov/hhes/www/hlthins/hlthin08/hlthtables08.html).

Texas Poverty Rate Sixth Highest in Nation



An average of 12.9 percent of people in the U.S. lived in poverty in 2008, an increase from 12.2 percent in 2007. Texas has the sixth highest poverty rate in the nation and a poverty rate much higher than the national average. About 16.5 percent of Texans lived below the poverty level in 2008, a decrease from 17.2 percent in 2007. In 2008, poverty was defined as having an income of $21,834 or less for a family of four with two children, or $11,201 or less for an individual under 65 years old.

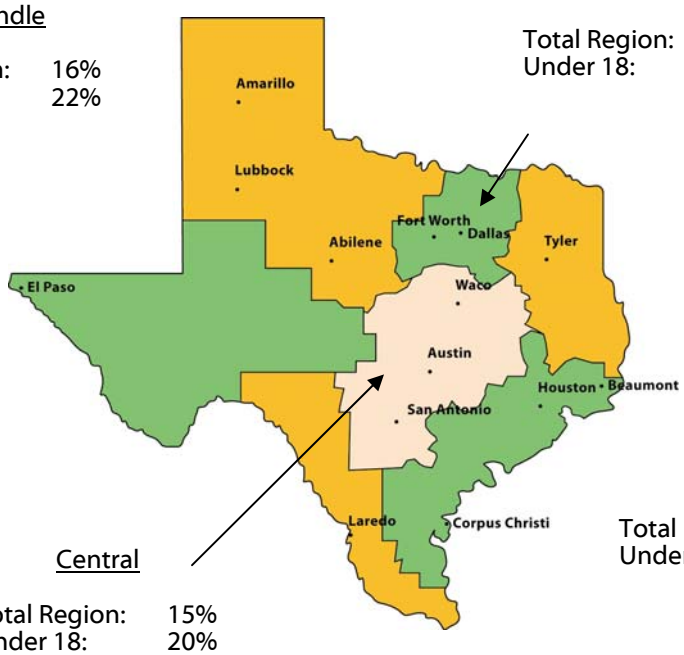


Texas continues to have the highest poverty rate among the six largest states. The Texas poverty rate is nearly 1.5 percentage points higher than the next highest large state, California. However, Texas was the only state to show a decrease in the poverty rate between 2007 and 2008.

Sources: 2008 Poverty Rates: U.S. Census Bureau, Current Population Survey, 2008 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages) (http://www.census.gov/hhes/www/cpstables/032009/pov/new46_100125_09.htm); 2007 Poverty Rates: U.S. Census Bureau, Current Population Survey, 2007 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, All Ages) (http://www.census.gov/hhes/www/macro/032008/pov/new46_100125_09.htm); Definition of Poverty: U.S. Census Bureau, Poverty 2008 Tables, "Poverty Thresholds: 2008" (http://www.census.gov/hhes/www/poverty/poverty08/tables08.html).

Poverty Rates Vary Widely Within Texas

Poverty Rate by Region (2008)



Panhandle

Total Region: 16%
Under 18: 22%

Metroplex

Total Region: 13%
Under 18: 18%

East Texas

Total Region: 17%
Under 18: 24%

West

Total Region: 21%
Under 18: 30%

Gulf Coast

Total Region: 14%
Under 18: 21%

Central

Total Region: 15%
Under 18: 20%

Rio Grande

Total Region: 32%
Under 18: 43%

The overall 2008 poverty rate in Texas was 16 percent, and the child poverty rate was 23 percent. Poverty rates vary widely by region in Texas, with the highest rates in the Rio Grande region and the lowest rates in the Metroplex region.

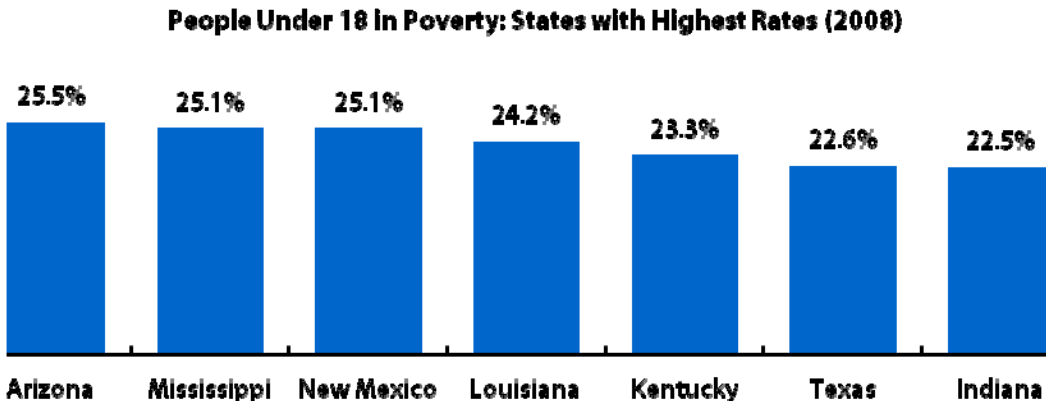
In 2008, poverty was defined as having an annual income of $21,834 or less for a family of four with two children, or $11,201 for an individual under 65 years old.

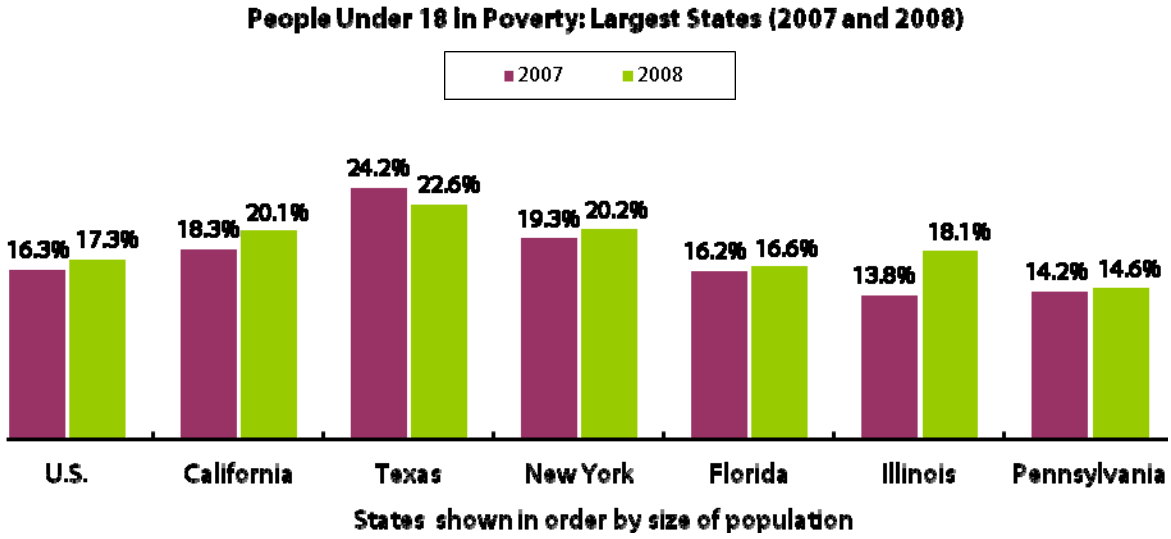
Sources: Poverty threshold: U.S. Census Bureau, Poverty 2008 Tables, "Poverty Thresholds: 2008" (http://www.census.gov/hhes/www/poverty/poverty08/tables08.html); Poverty rates by region: U.S. Department of Agriculture, Economic Research Service, County Level Poverty Rates for Texas, 2008 (http://www.ers.usda.gov/Data/povertyrates/PovListpct.asp?st=TX&view=Percent&longname=Texas).

Nearly One-fourth of Texas Children Live in Poverty

Texas has the sixth highest rate of children living in poverty, and the highest rate among the six largest states. Almost one-fourth — 22.6 percent — of Texas children lived in poverty in 2008, an improvement over the 24.2 rate in 2007. Although Texas still has the highest child poverty rate among the six largest states, it is the only one to show an improvement in the rate in 2008. About 1.5 million children in Texas lived in poverty in 2008, far higher than the 1.25 million children that lived in poverty in Arizona, Mississippi, New Mexico, Louisiana, and Kentucky combined.

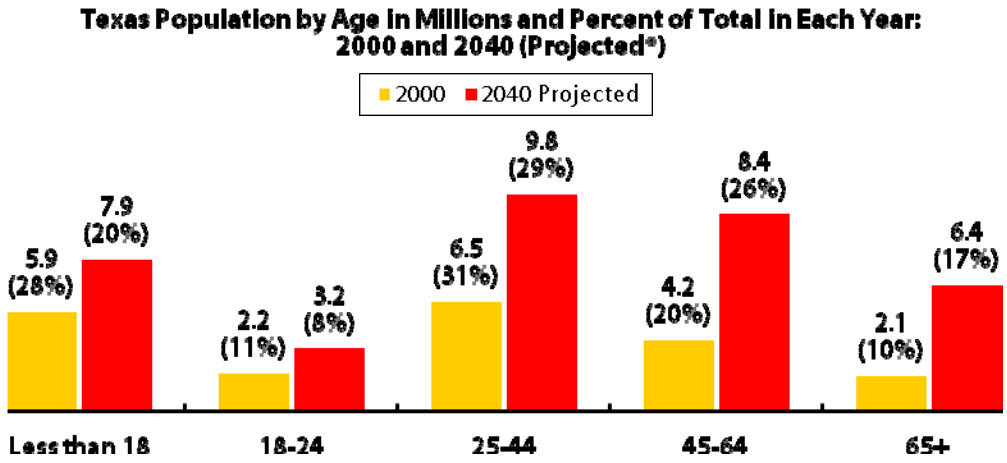
The child poverty rate for the U.S. in 2008 was 17.3 percent, an increase from 16.3 percent in 2007 and 16.0 percent in 2006. In 13 of the 50 states, 20 percent or more children live in poverty. In 2007, only seven states had 20 percent or more children living in poverty. Children who grow up in poverty and go on to college will most likely arrive with little financial assistance from their families and a high need for financial aid. In 2008, poverty was defined as having an annual income of $21,834 or less for a family of four with two children, or $11,201 or less for an individual under 65 years old.

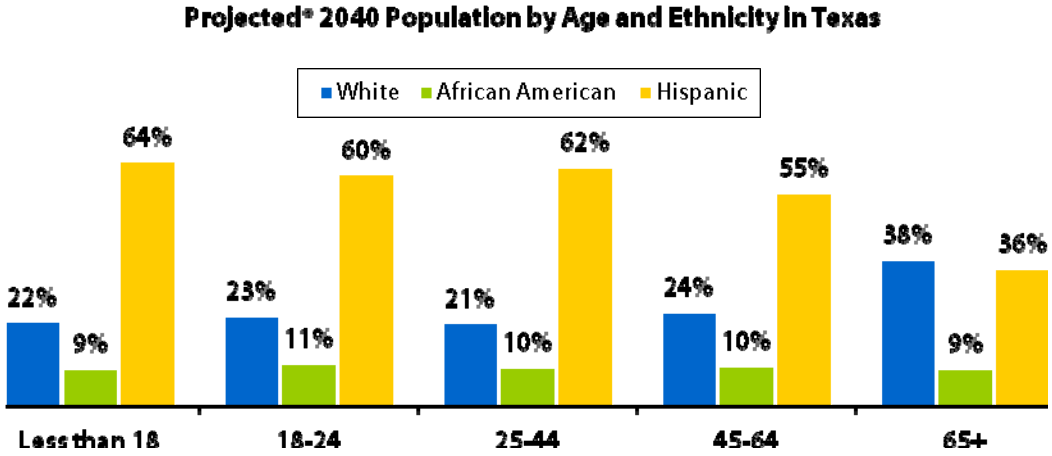




Sources: 2008 Poverty Rates: U.S. Census Bureau, Current Population Survey, 2008 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, People Under 18 Years of Age) (http://www.census.gov/hhes/www/cpstables/032009/pov/new46_100125_11.htm); 2007 Poverty Rates: U.S. Census Bureau, Current Population Survey, 2007 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, People Under 18 Years of Age) (http://www.census.gov/hhes/www/macro/032008/pov/new46_100125_11.htm); 2006 Poverty Rates: U.S. Census Bureau, Current Population Survey, 2006 Poverty Tables, Poverty Status by State (Sample Person Count, 100 Percent of Poverty, People Under 18 Years of Age) (http://pubdb3.census.gov/macro/032007/pov/new46_100125_11.htm); Definition of Poverty: U.S. Census Bureau, Poverty 2008 Tables, "Poverty Thresholds: 2008" (http://www.census.gov/hhes/www/poverty/poverty08/tables08.html); 2008 Population by State: U.S. Census Bureau, American FactFinder, 2008 General Demographic Characteristics by State (http://factfinder.census.gov/servlet/DatasetMainPageServlet?_program=PEP).

Texas' Future Dependent on the Education of its Non-White Population





By 2040,* Texas will have about two million more children under age 18, and one million more adults age 18 to 24 — the traditional college age population — than in 2000. The population ages 25 to 64 will grow by about 7.5 million, while the ranks of those age 65 and older will swell by more than 4 million. Despite the increase in the number of children and young adults, people age 24 and younger will actually drop from 39 percent of the population to 28 percent, while people age 65 and older will increase from 10 percent to 17 percent. As Texas changes from a majority-Anglo to majority-Hispanic state, and experiences an increase in the percentage of the population which is elderly, a significant difference emerges with respect to population by age. In 2040,* 64 percent of children, 60 percent of 18- to 24-year-olds, and 62 percent of 25- to 44-year-olds, will be Hispanic. By contrast, 38 percent of those 65 and older will be White. The African American population will remain relatively stable, at 9 percent to 11 percent of each age group. Increasingly, the future of Texas, including its economic prosperity, as well as the expertise needed to run business, government, and infrastructure, will depend on the education of its non-White populations, which historically have had lower incomes, higher rates of poverty, and less likelihood of attending and completing college than Whites.

* Based on the 0.5 scenario, which assumes half the net migration into state as was recorded from 1990 to 2000. The State Demographer suggests that the 0.5 scenario is most appropriate for long-term planning.

Source: Texas State Data Center and Office of the State Demographer, "Texas Population Projection Program: 2008 Population Projections", June 2009, Table 2 (http://www.txsdc.utsa.edu/tpepp/2008projections/).

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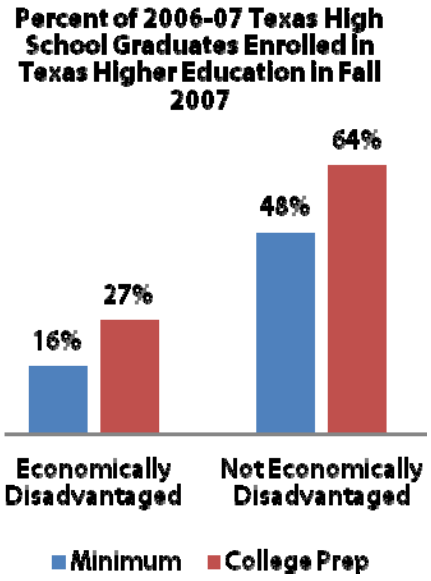
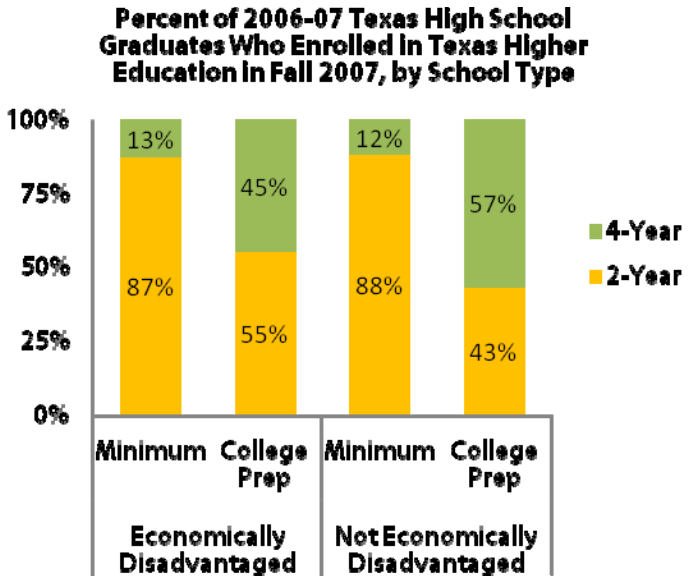
Texas College Readiness

A High School Curriculum of Academic Intensity Boosts College Success for Disadvantaged Students





Students whose parents have either low incomes or low educational levels are significantly less likely to enroll in college than students from more advantaged backgrounds. But access to a high school curriculum of high academic intensity and quality, such as the Recommended or Distinguished diplomas, can play a key role in their success. A U.S. Department of Education study found that the intensity and quality of a student's high school curriculum has a bigger impact on bachelor's degree completion than either the student's high school test scores or Grade Point Average (GPA).

High school graduates with College Prep** diplomas were more likely to enroll in college immediately following graduation, with 27 percent of economically disadvantaged*** students with College Prep diplomas enrolling in college compared to 16 percent of those with the minimum diploma. For students who were not economically disadvantaged, 64 percent of those with College Prep diplomas enrolled in college compared to 48 percent of those with minimum diplomas. College prepared high school graduates were also more likely to enroll in a 4-year college rather than a 2-year college.

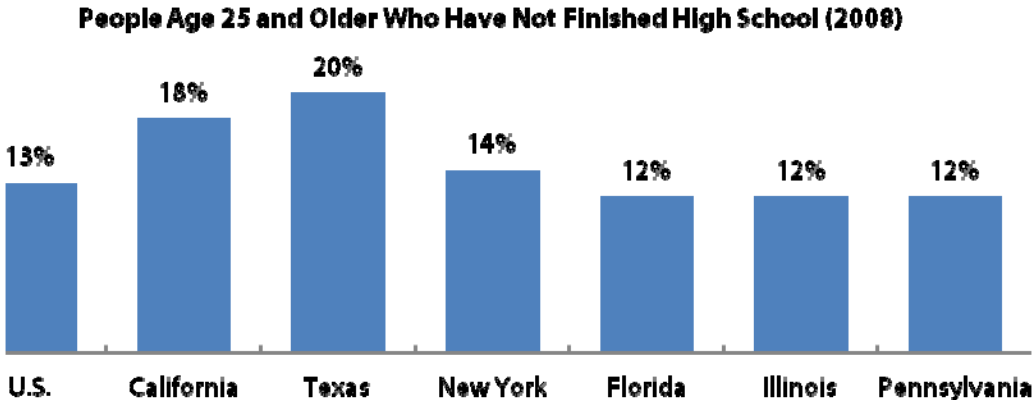
* The customary middle and high school math sequence is Algebra I, Geometry, and Algebra II. Higher math courses include Pre-Calculus, Calculus, Trigonometry, and Statistics.

**A high school student who graduates with either the Recommended or Distinguished diploma is considered to have a College Prep diploma for the purposes of this analysis. The Recommended and Distinguished diplomas require more completed credits in Mathematics, Science, Social Studies, Language other than English, and Fine Arts than the Minimum diploma.

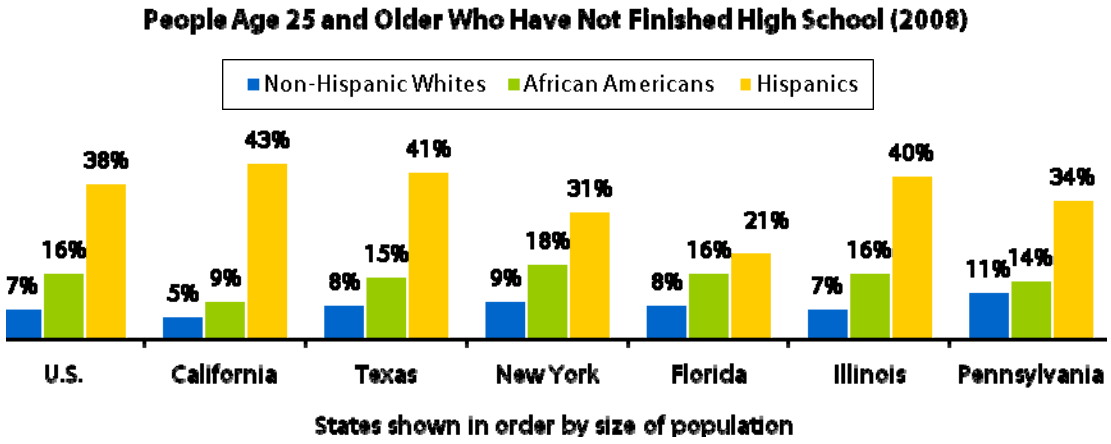
*** The Texas Education Agency collects data on whether a student was "economically disadvantaged" or not, based on the student's eligibility for free or reduced lunch as a proxy for family income. They do not have detailed information about family income.

Sources: High school curriculum and degree completion: U.S. Department of Education, Office of Educational Research and Improvement, *Answers in the Tool Box: Academic Intensity, Attendance Patterns, and Bachelor's Degree Attainment*, by Clifford Adelman (1999) (http://www.eric.ed.gov/ERICDocs/data/ericdocs2/content_storage_01/0000000b/80/11/8a/ec.pdf); All other: THECB, "2007 High School Graduates Enrolled in Higher Education Fall 2007, by Diploma Type and Ethnicity" (unpublished tables).

Texas Ranks Second to Last in High School Completion



In 2008, 20 percent of people age 25 and older in Texas had not finished high school, the second highest percentage of any state in the nation, behind only Mississippi at 21 percent. This means that nearly 3 million people in Texas age 25 or older never completed a high school education. Mississippi and Texas are the only two states in the U.S. to have at least 20 percent of their population age 25 or older not having completed high school. In the U.S., 13 percent of adults had not finished high school. Not completing high school can have a serious detrimental effect on college access.



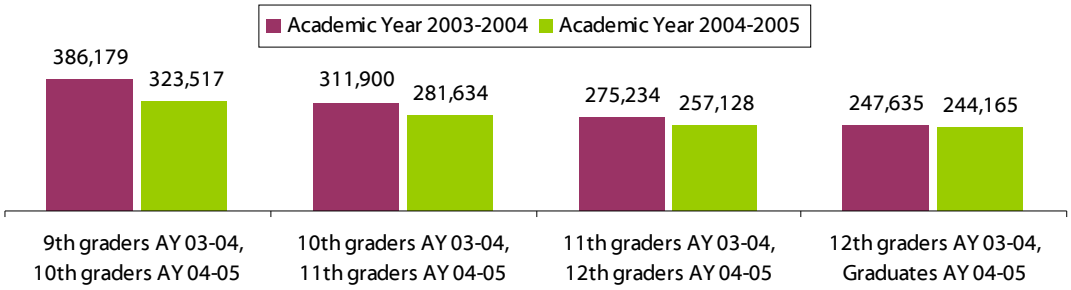
In addition, there are wide disparities in the completion rates of different ethnic groups. Although these disparities exist in many areas of the country, they are particularly important for Texas, which has become a "minority-majority" state. At the high school level, data show that:

- Hispanics, who comprised more than a third of the Texas population in 2008 and who are projected to comprise more than half by 2040, are the least likely to obtain a high school diploma. Of Hispanics age 25 and older, 41 percent have not finished high school. This actually represents an improvement from 2006, when 46 percent of Hispanics age 25 or older had not completed high school.
- Approximately 15 percent of African Americans in Texas have not completed high school. This is a higher percentage than for Whites, but lower than for Hispanics and represents a slight improvement over 2006 when 17 percent of African Americans had not finished high school.
- Among the six largest states, Texas ties for third in the completion rate of Whites, ranks third for African Americans, and ranks second to last for Hispanics.

Sources: Population projection: *The Texas Challenge in the Twenty-First Century: Implications of Population Change for the Future of Texas,* Murdock, White, Hoque, *et al*, the Center for Demographic and Socioeconomic Research and Education, December 2006, Table 2.7, p. 38 (http://www.txsdc.utsa.edu/download/pdf/TxChall2006.pdf); High school completion: U.S. Census Bureau, "Educational Attainment in the United States: 2008", Tables 10, 13, and 14 (http://www.census.gov/population/www/socdemo/education/cps2008.html).

Texas High School Promotion Rates Are Low

Enrollment and Graduation at Texas Public High Schools

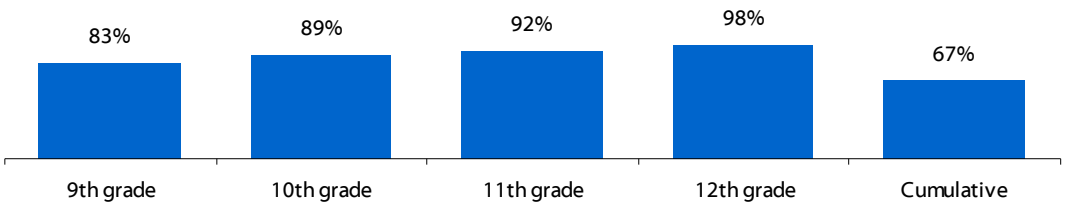


Texas has a higher proportion of people age 25 and older who have not finished high school than almost any other state in the nation — 20 percent, versus 13 percent in the U.S. A primary reason is the inability of Texas to move more children successfully through school, a problem which is evident in enrollment and graduation figures at Texas public high schools. Consider that, in Texas:

- there were 386,179 freshmen in 2003-2004, but only 323,517 sophomores a year later;
- there were 311,900 sophomores in 2003-2004, but only 281,634 juniors a year later.

The numbers continue to decrease, though less sharply, at each grade level throughout high school. The decrease cannot be attributed to migration out of state, as the state's population is growing, and the extent to which students are dropping out versus being held back is uncertain. However, both should cause concern. Students who drop out have fewer chances for success than those who graduate, and students who are held back have a higher likelihood of dropping out. When each column on the right in the graph above is divided by the column to its left — that is, when enrollment by grade (or, for 12th grade, the number of regular graduates) is divided by enrollment at the appropriate level one year earlier — the following promotion rates* are revealed:

Promotion Rates by Grade at Texas Public High Schools, Freshman Class of AY 2003-2004

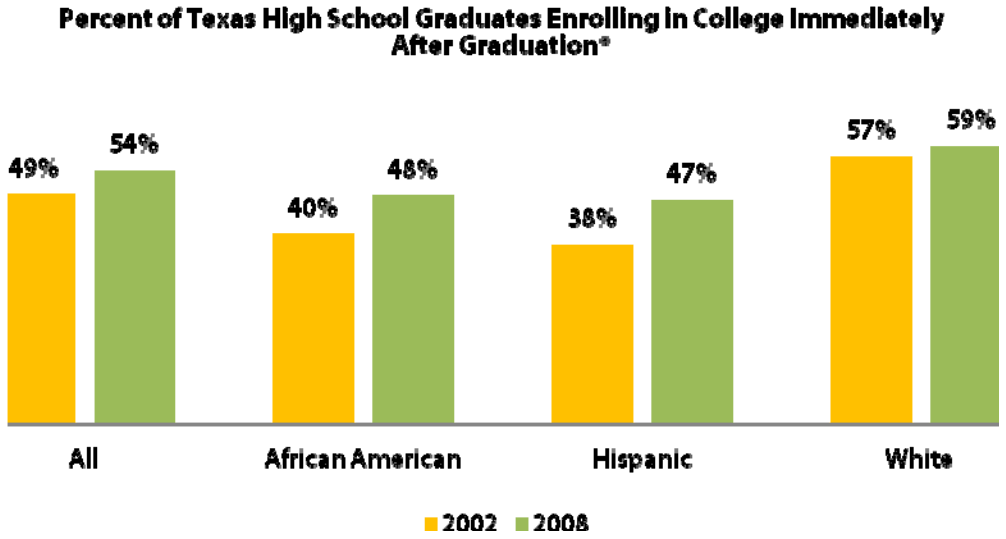


Thus, a 9th grader in Texas has an 83 percent chance of being promoted to 10th grade, and a 10th grader has an 89 percent chance of being promoted to 11th grade. With each grade, chances for success improve, such that if a student reaches 12th grade he or she is almost certain to graduate. But the lower promotion rates in the early years take their toll; overall, a freshman in Texas has only about a 67 percent* chance of graduating with a regular high school diploma in four years.

* The Cumulative Promotion Index (CPI) was developed by the Urban Institute using the U.S. Department of Education's Common Core of Data. CPI is not an "education pipeline," rather, CPI estimates the likelihood that a 9th grader in a particular district or school will complete high school with a regular diploma in four years by representing graduation as a process composed of four grade-level promotions: 9th to 10th grade, 10th to 11thgrade, 11th to 12th, grade, and 12th to diploma. The cumulative promotion rate is derived by multiplying the four grade-level promotion rates together.

Source: High school completion: U.S. Census Bureau, "Educational Attainment in the United States: 2006", Tables 10, 13, and 14 (http://www.census.gov/population/www/socdemo/education/cps2006.html); Texas enrollment and graduation figures and CPI: U.S. Department of Education, Common Core of Data: Information on Public Schools and School Districts in the U.S. (http://nces.ed.gov/ccd/); CPI description: The Urban Institute, *Who Graduates? Who Doesn't? A Statistical Portrait of Public High School Graduation, Class of 2001* (*http://www.urban.org/UploadedPDF/410934_WhoGraduates.pdf*).

Percent of Texas High School Graduates Who Enroll In College Immediately After High School Increases



Although the number of students enrolled in college in Texas has been increasing in recent years, the 2000 U.S. Census revealed that a smaller percentage of the Texas population participates in higher education than in other large states and the U.S. as a whole. About eight percent of the Texas population age 18 and older was enrolled in higher education in 2000, versus 10.4 percent for California, 9.1 percent for New York, and 8.4 percent for the nation.

In 2000, Texas set the goal of "closing the gaps" in participation and success in higher education by 2015 by increasing the number of students enrolled and the number of degrees awarded. A 2006 goal revision called for the number of students enrolled to increase from the original goal of 500,000 by 2015 to 630,000 by 2015. Also, the goal for the overall number of degrees awarded by 2015 was adjusted from the original goal of 163,000 to 210,000.

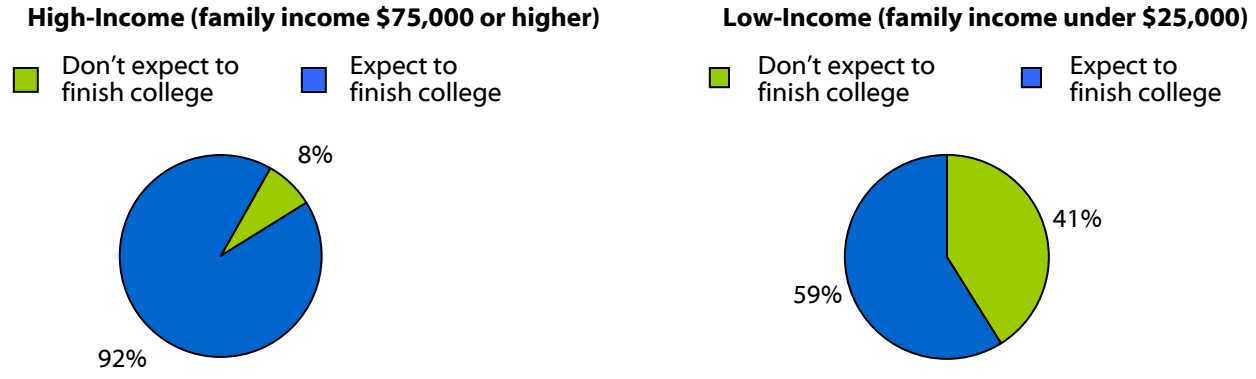
Although increasing the percentage of high school graduates who go on to college is not an official "closing the gaps" goal, the Texas Higher Education Coordinating Board (THECB) reports that the percentage of students entering college in the summer or fall immediately after high school graduation* has gradually increased from 2002 to 2008. About 54 percent of all 2008 Texas high school graduates enrolled in a Texas public college or university by that fall, an increase from 49 percent in 2002. The percent of Whites who enrolled exceeded the percentage of non-Whites by 11 to 12 percent. However, for both African Americans and Hispanics, the percentage enrolling in college immediately after high school has increased greatly since 2002. This is especially good news because delaying college enrollment after high school graduation is a risk factor for dropping out of college.

* Includes only Texas high school graduates who enrolled in a Texas public or private, not-for-profit, college or university. Data on students who enrolled at private, for-profit, institutions or enrolled in out-of-state schools are not available. In Academic Year 2007-08, about 93 percent of Texas students who enrolled in college immediately after high school graduation were attending school in their state of residence.

Sources: "Closing the Gaps" goals: Texas Higher Education Coordinating Board (THECB) *Closing the Gaps*. October 2000 (http://www.thecb.state.tx.us/AdvisoryCommittees/HEP/0096.htm); "Closing the Gaps" revised goals: Closing the Gaps Revised Goals and Targets for 2015 (http://www.thecb.state.tx.us/reports/PDF/1176.PDF); Percent enrolled in higher education: U.S. Census Bureau, *Census 2000,* General Demographic Characteristics – DP-1 (population age 18 and over) and General Social Characteristics (population enrolled in higher education) (http://www.census.gov/main/www/cen2000.html); Texas high school students enrolling in college immediately after graduation: Texas Higher Education Coordinating Board (THECB) High School to College Linkages, 2008, "High school students who graduated the year prior to entering higher education in the fall semester, fall 2000 to fall 2008" (http://www.thecb.state.tx.us/Reports/XLS/1547.XLS); All else: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

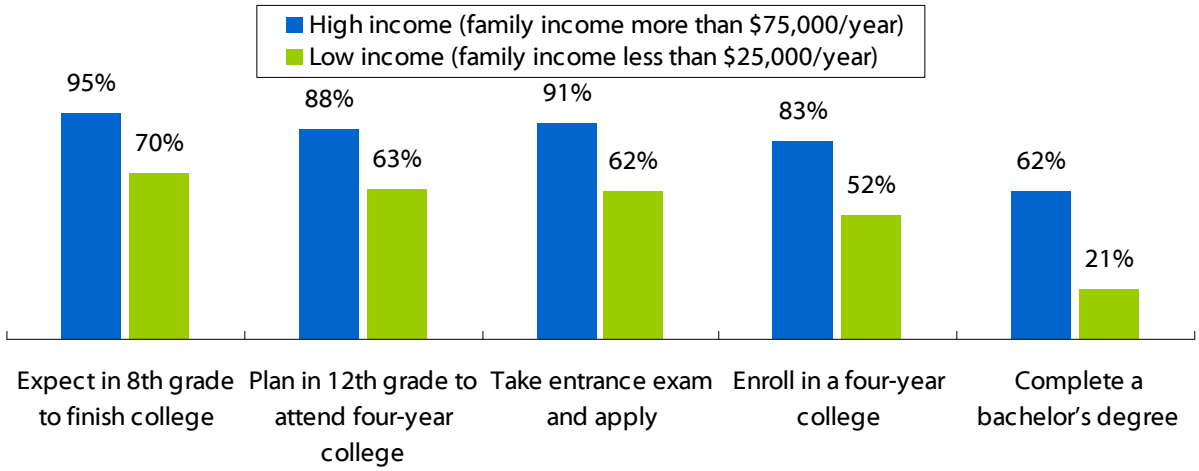
How a Dream Dies: Low Family Income Affects Student Expectations

Impact of Family Income on 8th Graders, All (2002)



Gaining access to and persisting in college is a sequential process, the academic portion of which is often referred to as an "education pipeline" consisting of five stages: 1) having educational expectations in middle school or earlier, 2) preparing academically in high school, 3) taking college entrance exams and applying, 4) enrolling and making financial and other arrangements after being accepted, and 5) persisting to degree completion. At each step along the way, the gap between students from high-income and low-income families grows. A study in the late 1990s indicates that, even among high school graduates who take college-preparatory courses, earn good grades, and score well on aptitude tests, children from low-income families lag behind their high-income counterparts in enrolling for and completing a college degree. And the gap is not just one of attendance, but of expectations as well, a gap that widens at every stage of education, from eighth grade onward. The gap in expectations may affect not only higher education, but K-12 as well, as teens who have little hope of furthering their education beyond high school are unlikely to take more challenging courses while they are in high school.

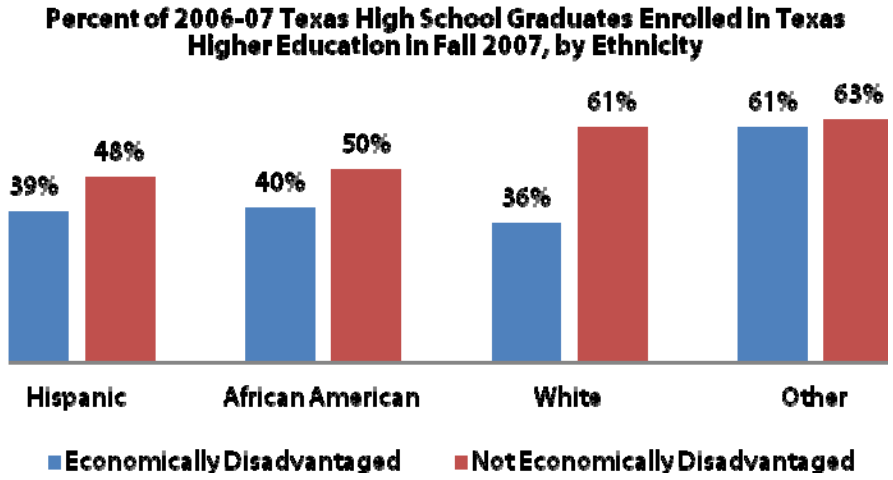
Impact of Family Income on High School Graduates, College-Qualified Only* (2002)



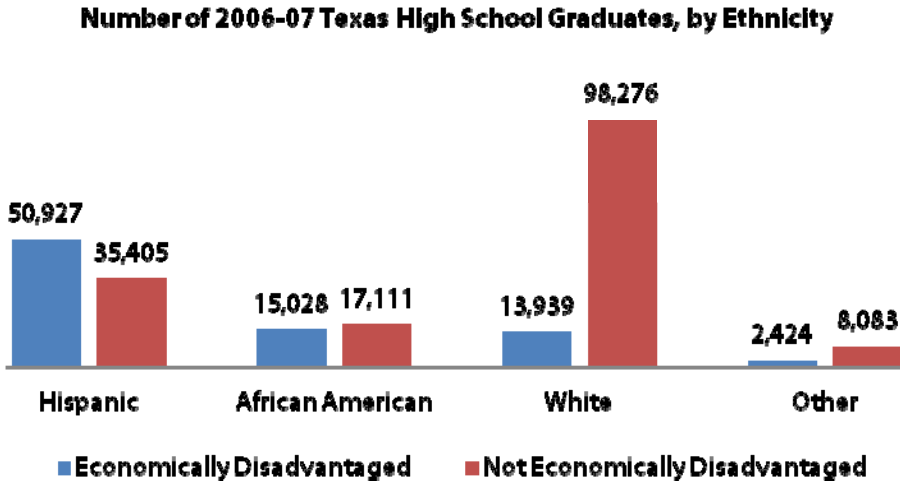
* High school graduates who took college-preparatory courses, earned good grades, and scored well on aptitude tests.

Source: The Advisory Committee on Student Financial Assistance. *Empty Promises: The Myth of College Access in America.* June 2002 (http://www.ed.gov/about/bdscomm/list/acsfa/emptypromises.pdf).

Low Income Texas Students Are Less Likely to Enroll in College



Economically disadvantaged* high school graduates in Texas are less likely to enroll in college. This is true across all racial and ethnic categories, but it is especially pronounced for White students.



However, only 12 percent of White students are considered to be economically disadvantaged, while nearly 60 percent of Hispanic students and nearly 50 percent of African American students are considered economically disadvantaged.

*The Texas Education Agency collects data on whether a student was "economically disadvantaged" or not, based on the student's eligibility for free or reduced lunch as a proxy for family income. They do not have detailed information about family income.

Sources: THECB, "2007 High School Graduates Enrolled in Higher Education Fall 2007, by Diploma Type and Ethnicity" (unpublished tables).

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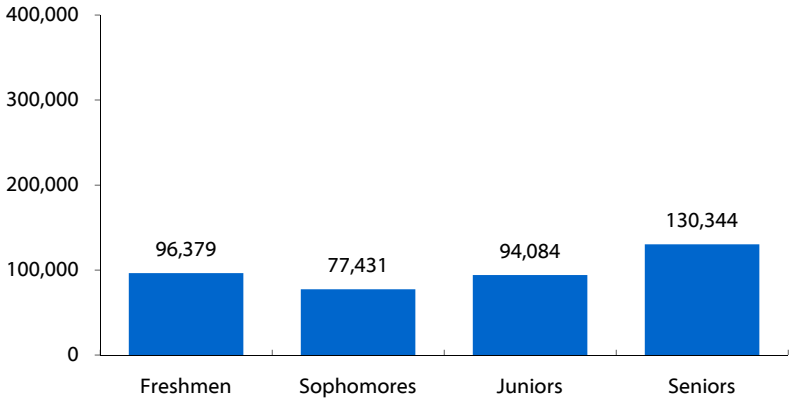
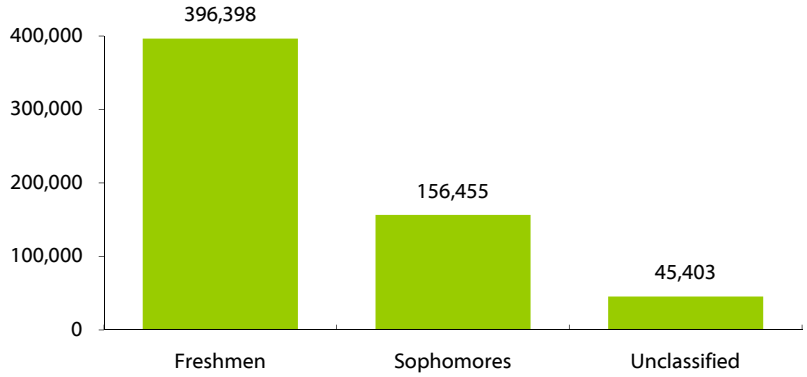
Profile of Texas College Students

Most Undergraduates in Texas Attend Two-year Institutions

Undergraduates at Public Four-year Universities by Classification (Fall 2008)



Undergraduates at Public Two-year Colleges by Classification (Fall 2008)



The number of undergraduates at public two-year institutions in Texas far exceeds the number at public four-year institutions, especially for freshmen. In fact, 80 percent of all freshmen attending Texas public institutions of higher education in fall 2008 were enrolled at two-year colleges (up from 76 percent in fall 2000), and only 20 percent were enrolled at four-year universities.

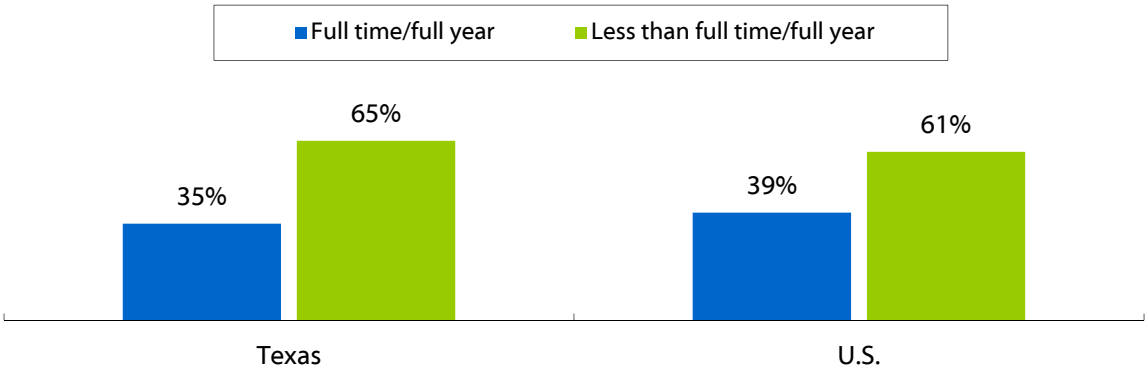
At public four-year universities, about 78 percent of students are undergraduates, but their distribution across grade levels is not consistent. Seniors made up the largest proportion of undergraduates in fall 2008, while sophomores represented the smallest proportion. The higher number of seniors indicates that some students may be classified as seniors for more than one year.

Private four-year universities enrolled a total of 115,048 students in the fall of 2008. Data on the percentage who were undergraduates and their distribution across grade levels are not available.

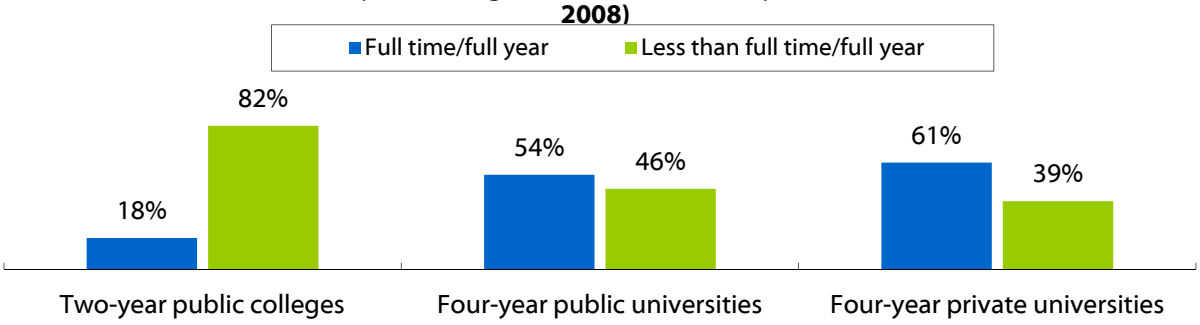
Source: Texas Higher Education Coordinating Board (THECB), Texas Higher Education Data (http://www.txhighereddata.org/).

More Than Half of Undergraduates in Texas Attend School Part Time

Attendance Intensity of Undergraduates* in Texas and the U.S. (AY 2007-2008)



Attendance Intensity of Undergraduates in Texas by School Sector (AY 2007-2008)**



About 35 percent of undergraduates* attending institutions of higher education in Texas in Award Year (AY) 2007-2008 attended full time/full year, 12 percent attended full time/part year, and 53 percent attended part time. Full time/full year students are those who took a full course load, usually 12 or more credit hours in the fall and spring semesters, for at least nine months between July 1, 2007, and June 30, 2008. Full time/part year students also took a full course load, but for less than nine months, and part time students did not take a full course load. Full time/full year attendance is higher at four-year institutions than at two-year: over one-half of undergraduates at Texas four-year universities attended full time/full year whereas at two-year colleges fewer than one-fourth of students attended full time/full year. Reasons for less than full time attendance vary, but may be related to the student's need to work or to keep college costs down. Full time/full year attendance is a good deal lower in Texas than in the U.S. Students who attend part time are at a greater risk for dropping out of school.

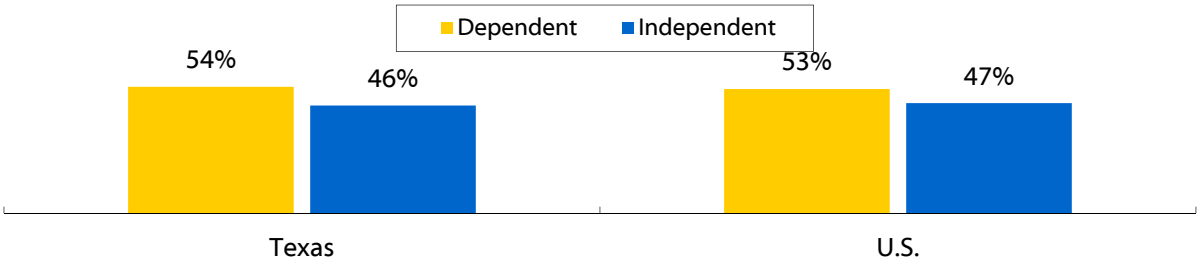
* Data on students who attended for-profit institutions are not available.

** Excludes students who attended more than one institution.

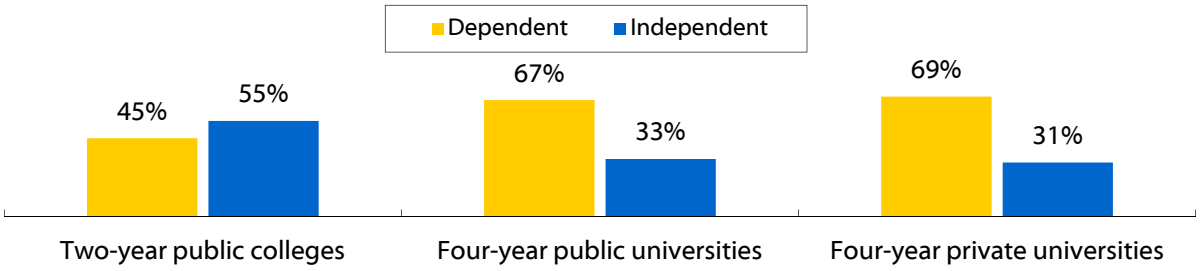
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

One-half of Undergraduates in Texas Are Independent of Their Parents, and One-fourth Are Parents Themselves

Dependency Status of Undergraduates* in Texas and the U.S. (AY 2007-2008)



Dependency Status of Undergraduates in Texas by School Sector (AY 2007-2008)**



Slightly less than one-half of undergraduates* attending institutions of higher education in Texas are independent of their parents and one-fourth (24 percent) are parents themselves, of whom over half (14 percent) are single parents. The U.S. Department of Education defines an independent undergraduate as someone who is age 24 or older, is married, has dependents to support, is a veteran, or an orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. A slightly higher proportion of undergraduates in Texas are independent of their parents than in the U.S.

There is considerable variation in dependency status between universities and community colleges. At four-year public and private universities in Texas, a little over two-thirds of undergraduates are dependent and one-third are independent. At two-year public colleges, however, those proportions are reversed. Over half of undergraduates at community colleges are independent of their parents.

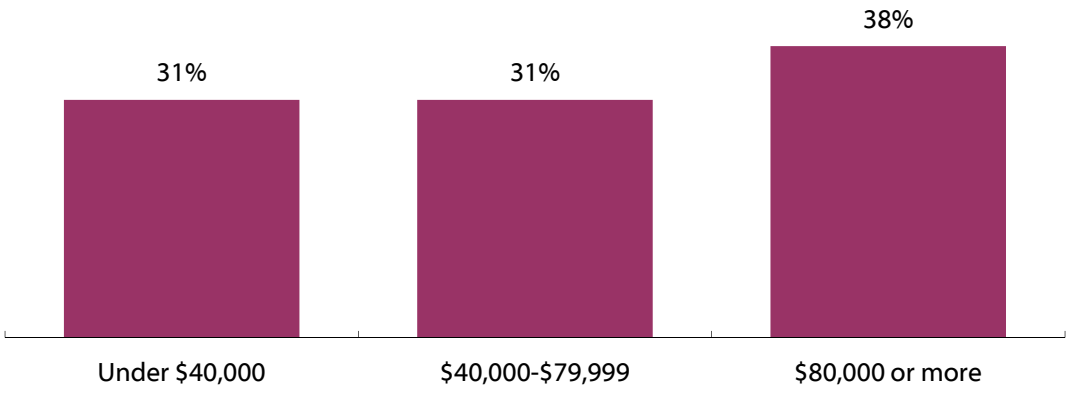
* Data on students who attended for-profit institutions are not available.

** Excludes students who attended more than one institution.

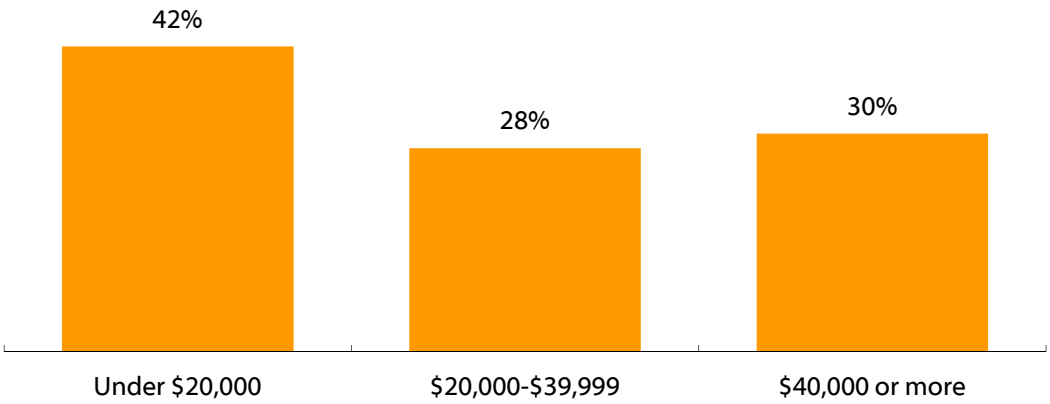
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

One-third of Undergraduates in Texas Come From Lower-Income Backgrounds

Dependent Undergraduates in Texas by Parents' Income, AY 2007-2008



Independent Undergraduates in Texas by Income,* AY 2007-2008



Many Texas undergraduates come from modest income backgrounds. About one-third of dependent undergraduates* have parents whose total income is less than $40,000 per year and about two-thirds of independent students earn less than $40,000 per year.** The U.S. Department of Education defines an independent undergraduate as someone who is age 24 or older, is married, has dependents to support, is a veteran, or an orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 54 percent of undergraduates in Texas are dependent and 46 percent are independent.

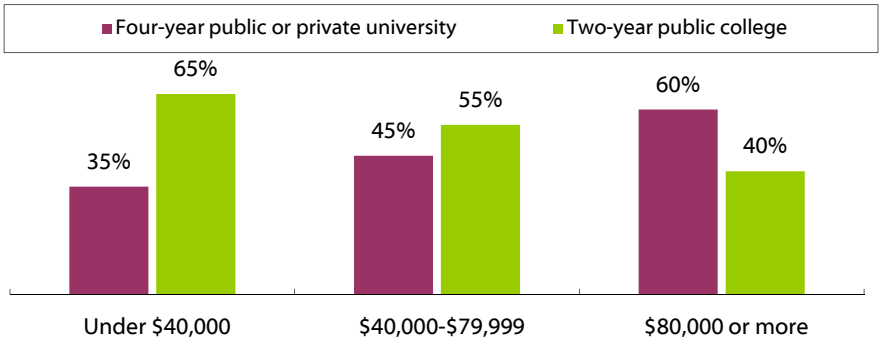
*Data on students who attended for-profit institutions not available.

**Income for independent students includes spouse's income, if any. About 42 percent of independent undergraduates in Texas are married.

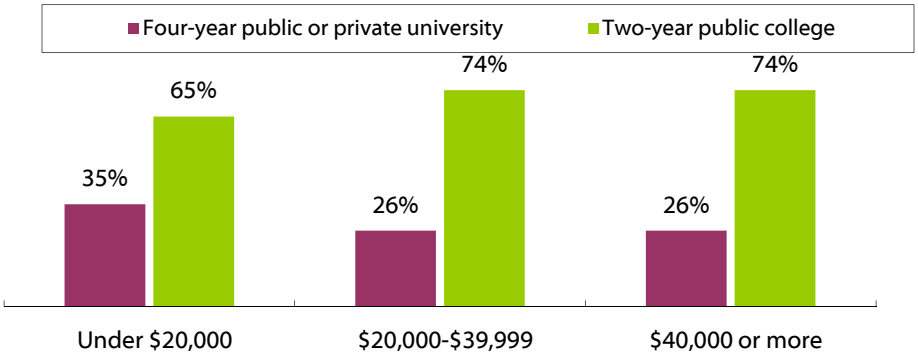
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

Low-income Students Less Likely to Attend Four-year Institutions

Type of Institution Attended by Dependent Undergraduates*, by Parents' Income (AY 2007-2008)



Type of Institution Attended by Independent Undergraduates*, by Income (AY 2007-2008)



Low-income students in Texas are less likely to attend four-year institutions than are their higher-income counterparts. Among dependent undergraduates** whose parents earn less than $40,000 per year, about 65 percent attend two-year public colleges and 35 percent attend four-year public or private universities. However, the proportion attending four-year institutions rises to 45 percent for students whose parents make between $40,000 and $79,999, and to 60 percent for those who parents make $80,000 or more. Meanwhile, students who are considered financially independent*** of their parents, who make up just over half of undergraduates in the state, overwhelmingly choose two-year over four-year institutions in every income category.

* Excludes students who attended for-profit institutions or more than one institution.

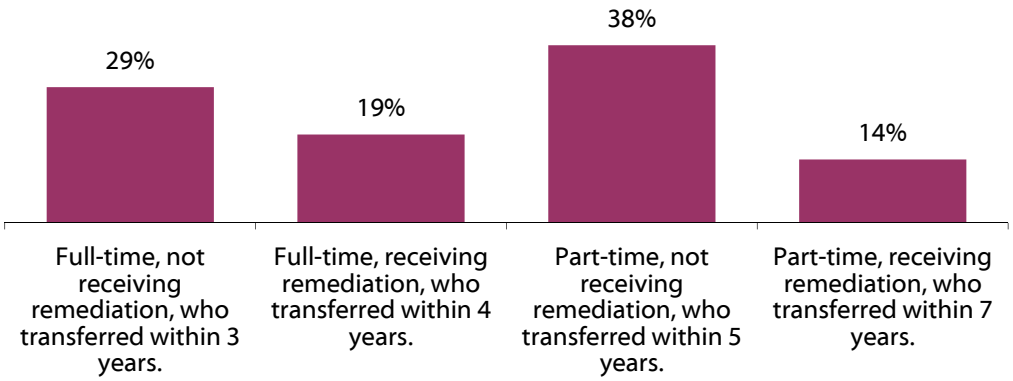
** Data on students who attended for-profit institutions are not available.

*** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 54 percent of undergraduates are dependent and 46percent are independent. Independent students' income includes spouse's, if any. About 43 percent of independent undergraduates in Texas are married.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

Transfer Rates from Two-year to Four-year Institutions in Texas Vary by Attendance Status and Remediation

Transfer Rates: Percentage of First-time Freshmen at Texas Public Two-year Institutions Who Transferred to a Texas Public Four-year Institution within the Specified Time, by Attendance and Remediation Status During First Year (2006-07)



Students enrolled at two-year institutions pursue higher education for a variety of reasons. Some enter a community college intending to transfer later to a university to obtain a bachelor's degree. For others, an associate's degree or certificate is the ultimate goal, and still others take courses out of personal interest or to improve job skills, without intending to obtain a degree.

The Texas Higher Education Coordinating Board (THECB) tracks the rate at which first-time freshmen attending Texas public two-year institutions transfer to Texas public four-year institutions. Among students who do not receive remediation,* about 29 percent of full-time freshmen transfer within three years of entering a two-year institution and 38 percent of part-time freshmen transfer within five years. Transfer rates for students who do receive remediation are lower. Because the THECB allows longer transfer times for part-time students and students receiving remediation, the overall transfer rate for all students entering in the same year is not available for recent years.** However, this much is known about the 347,151 freshmen who were enrolled at Texas public two-year institutions in the fall of 2002:

- 56,727 were first-time, full-time freshmen,
- 24,956 were first-time, full-time freshmen not receiving remediation, and
- 7,303 (29 percent of 24,956) transferred to a Texas public four-year institution by the fall of 2005.

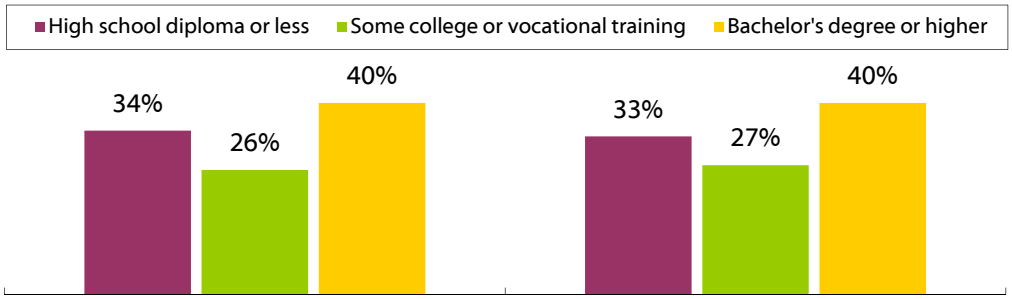
* Students entering higher education in Texas for the first time who did not pass the College Readiness Texas Academic Skills Program (TASP) or an alternative test must take remedial classes. Students can be exempted from the TASP test if they scored high enough on the SAT, ACT, or another college entrance test, or if they graduated from a Texas high school under the Recommended High School Program curriculum with a GPA of 3.5 or higher. Statewide, 46 percent of students entering public two-year colleges for the first time in fall 2002 needed remediation, up from 43 percent who entered in 2000.

** The most recent year for which an overall transfer rate is available is for students entering in the fall of 1998. About 25 percent of the students who entered higher education for the first time at a Texas public two-year institution in the fall of 1998 transferred to a Texas public four-year institution within the number of years specified by their attendance and remediation status during their first year (see graph above).

Sources: Number of total freshmen in fall 2002: Texas Higher Education Coordinating Board (THECB). Texas Higher Education Data (http://www.txhighereddata.org/; All else: THECB, *Institutional Effectiveness Measures and Standards 2006-2007, 2005-2006, 2004-2005, 2003-2004, 2002-2003* (http://www.thecb.state.tx.us/AAR/UndergraduateEd/IE/ctciems/).

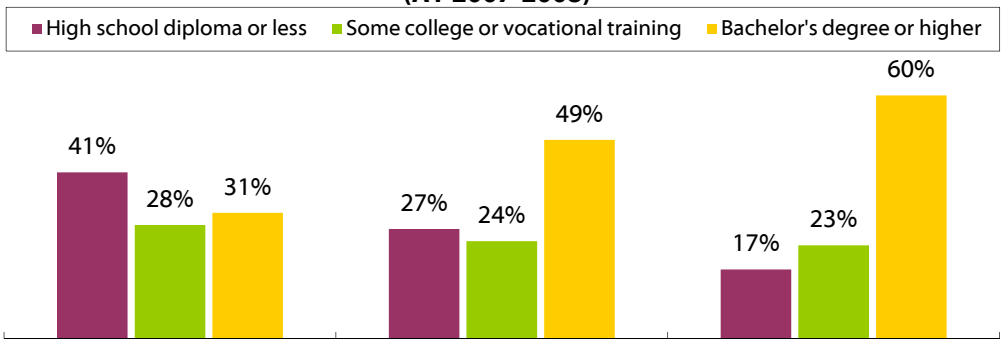
One-third of Undergraduates in Texas Are First Generation College Students

Highest Education Level of Parents of Undergraduates* in Texas and the U.S. (AY 2007-2008)



* Data on students who attended for-profit institutions not available.

Highest Education Level of Parents of Undergraduates in Texas, by School Sector (AY 2007-2008)**



** Excludes students who attended more than one institution.

About 33 percent of undergraduates* in Texas and the U.S. as a whole come from families in which the parents have a high school diploma or less. These "first-generation" college students are a good deal more likely to be independent of their parents than students whose parents have some education beyond high school. Forty-three percent of independent** undergraduates in Texas are first-generation students, compared to 27 percent of dependent undergraduates. First-generation students are also more likely to be concentrated at two-year schools. About 41 percent of students at two-year public colleges are the first in their families to pursue education beyond high school, compared to 27 percent and 17 percent, respectively, of undergraduates at public and private four-year universities.

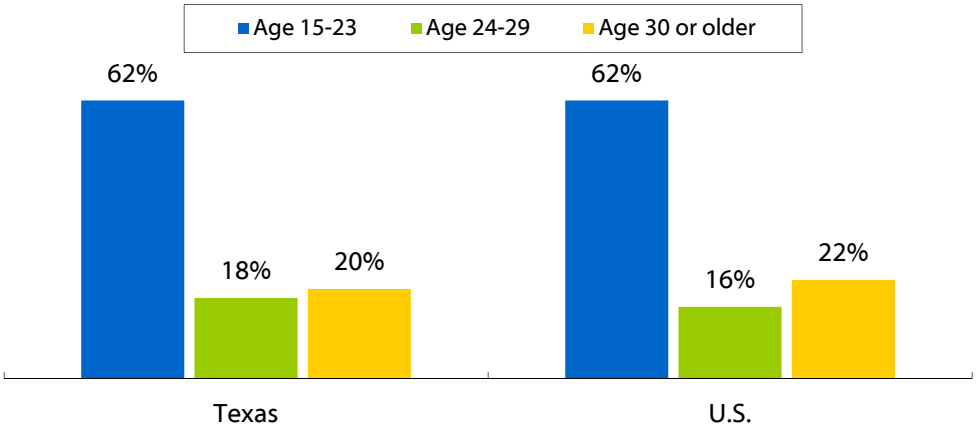
* Data on students who attended for-profit institutions are not available.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent.

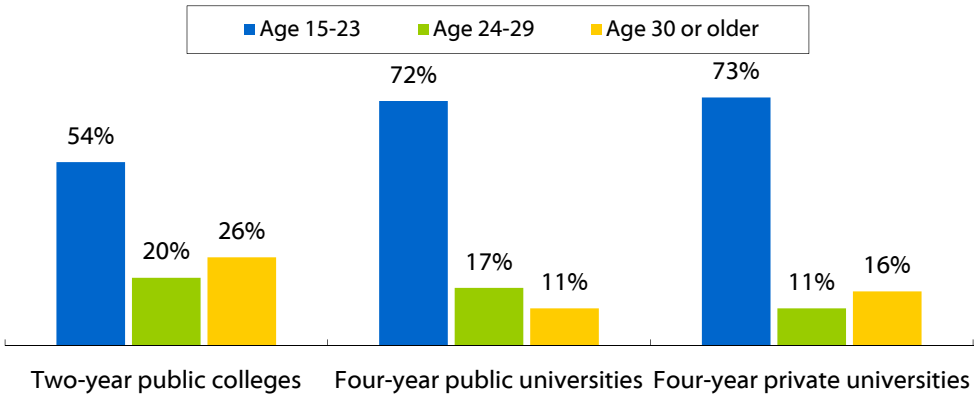
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

Nearly 40 Percent of Undergraduates in Texas and the U.S. Are Age 24 or Older

Age of Undergraduates* in Texas and the U.S. (AY 2007-2008)



Age of Undergraduates* in Texas by School Sector (AY 2007-2008)



About 62 percent of Award Year (AY) 2007-2008 undergraduates* in Texas and in the U.S. were under the age of 24, and 38 percent in Texas were age 24 or older.** In Texas, undergraduates age 24 and older are split fairly evenly between the 24 to 29 year old age group and the 30 and older age group. In the U.S., older undergraduates are somewhat more common.

Age breakdown by school sector in Texas yields some interesting results. Although more than two-thirds of undergraduates at both private and public four- year universities are under the age of 24, at private universities the remainder tend to be age 30 or older, whereas at public universities the remainder tend to be between ages 24 and 29. At public two-year colleges, by contrast, about one-half of students are under age 24 and the other half are over age 24. However, for those over age 24, the age distribution tends to resemble private, rather than public, universities — that is to say, at both community colleges and private universities, undergraduates who are over the age of 24 are more likely to be age 30 or older than are their counterparts at public universities.

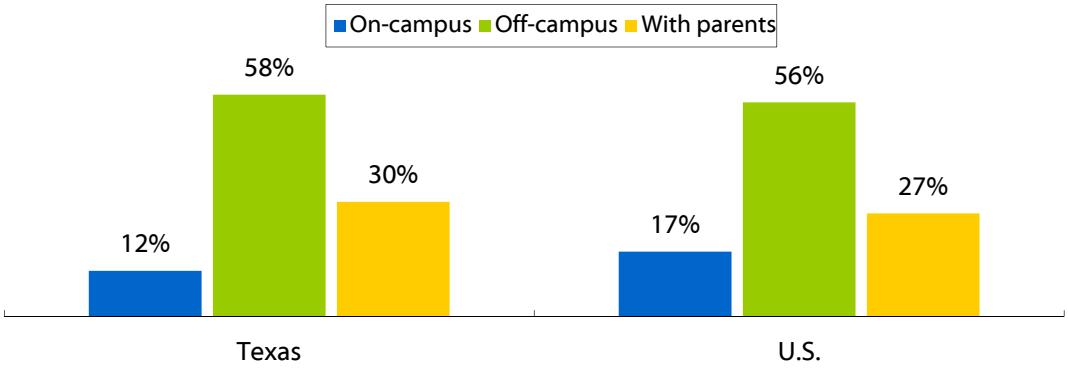
* Data on students who attended for-profit institutions are not available.

** Age as of Dec. 31, 2007.

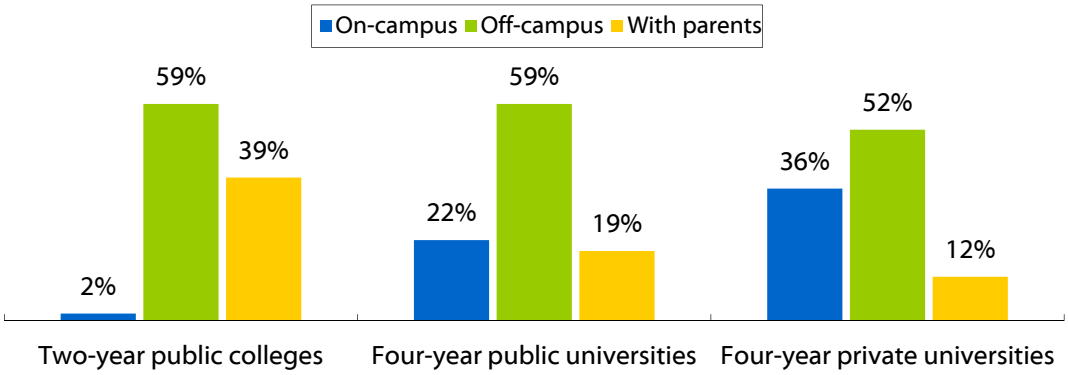
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

Nine Out of 10 Undergraduates in Texas Live Off-campus

Housing Status of Undergraduates* in Texas and the U.S. (AY 2007-2008)



Housing Status of Undergraduates* in Texas by School Sector (AY 2007-2008)



Just one undergraduate* out of 10 in Texas lives on-campus. Over half live off-campus and another one-third live with parents. Most students who live with parents do not have to pay room and board, although it is possible that some might be expected to help financially with household expenses. Undergraduate housing patterns in Texas are similar to the U.S. as a whole, with the exception that students in Texas are less likely to live on-campus than their counterparts in the U.S.

On-campus living in Texas is most common at four-year private universities. The percent of undergraduates at these institutions who live on-campus is somewhat lower than the percent who live off-campus, with a much smaller percentage of students living with parents. By contrast, at four-year public universities only 23 percent of undergraduates live on-campus versus more than one-half who live off-campus. Undergraduates at two-year public colleges are much more likely to live with parents than their counterparts at four-year public universities, but at both types of public institutions, off-campus living is more common than either on-campus or with parents.

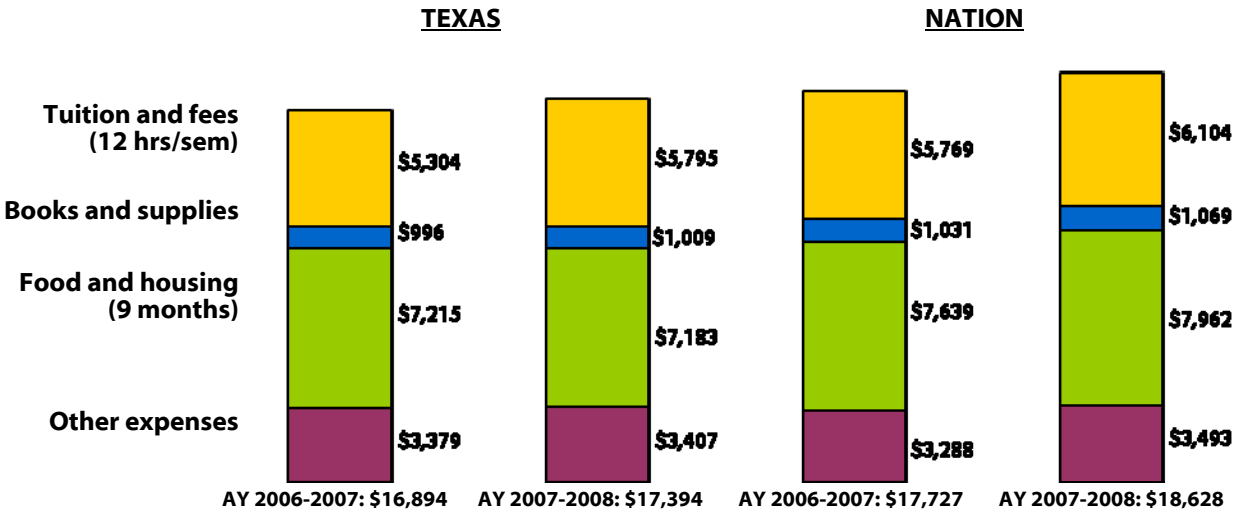
* Data on students who attended for-profit institutions are not available. Excludes students who attended more than one institution.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008", (http://www.nces.ed.gov/das/).

Cost of Education and Source of Aid in Texas

Texas Public Four-year University Total Costs Below National Average

Average Four-year Public University Cost of Attendance (Weighted for Enrollment*) for Two Semesters for Full-time Undergraduates Living Off-campus in Texas and the U.S. (AY 2006-2007 and AY 2007-2008)



The tuition and fees charged to students, along with living expenses and books and supplies, constitute a school's cost of attendance, or "sticker price." Weighted for enrollment*, two semesters of full-time** undergraduate education at Texas public four-year universities averaged $17,394 in Academic Year (AY) 2007-2008, or $1,234 less than in the U.S. Total expenses in Texas have been just under the national average for several years. All costs in Texas are less than the national averages this year. The primary expense facing students is not tuition and fees, but food and housing, which make up 41 percent of the budget. These costs are not discretionary: students must eat, and unless they live with parents — and 81 percent of Texas public university undergraduates do not — they must pay rent. Together, food, housing, and other expenses comprise nearly two-thirds of the student budget, while tuition and fees make up under a third. Total costs have risen by $500 in Texas and $901 in the U.S. since 2007, with most of the increase due to hikes in tuition and fees.

"Sticker price" is the starting point for determining financial aid. From the sticker price, the student's expected family contribution (EFC) *** is subtracted to arrive at the student's need. Once need is determined, an aid package, consisting primarily of grants and loans, can be developed. What students actually pay for college depends on a number of factors, including the aid they receive and how frugally they live, as well as their attendance and work patterns. To cut costs, many students attend part time, work long hours, or both, strategies that may increase their chance of dropping out of school without a degree.

* An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by full-time, undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

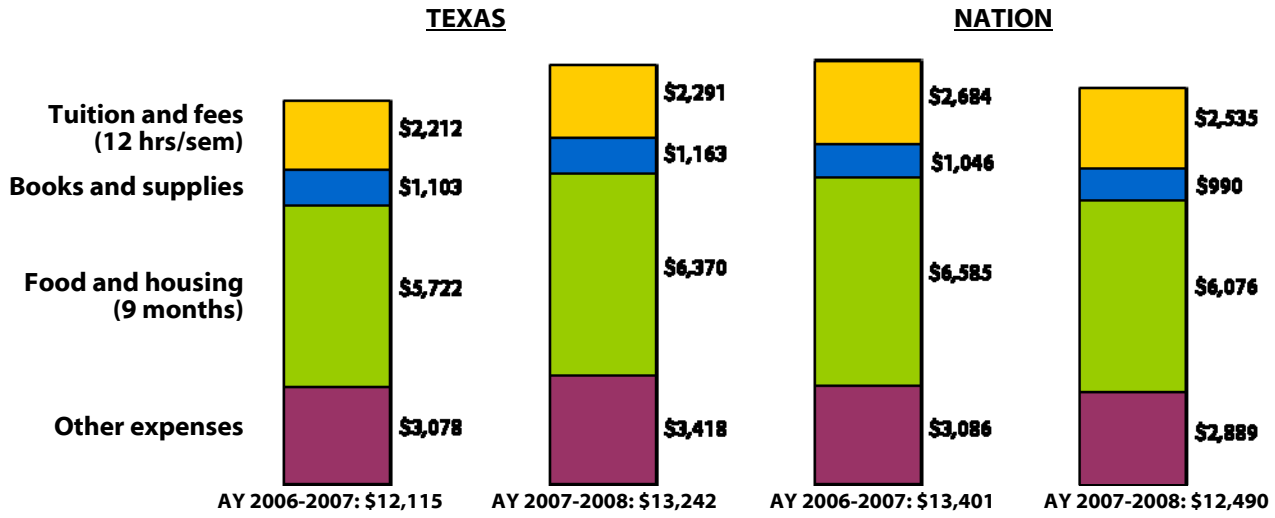
** 12 semester hours or more.

*** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2007-2008, 36 percent of public four-year university dependent undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

Sources: All Costs and Enrollments for 2007-2008: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2007 (http://nces.ed.gov/ipeds/); All Costs and Enrollments for 2006-2007: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2006 (http://nces.ed.gov/ipeds/); All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

Texas Public Two-year Colleges Now Cost More Than National Average

Average Two-year Public College Cost of Attendance (Weighted for Enrollment) for Two Semesters for Full-time Undergraduates Living Off-campus in Texas and the U.S. (AY 2006-2007 and AY 2007-2008)**



Nearly half of Texas postsecondary students, 47 percent, attend public 2-year colleges. The average cost for two full-time* semesters at Texas public two-year colleges, weighted for enrollment,** averages $13,242 in Academic Year (AY) 2007-2008. This is an increase of $1,127 over the Texas average in 2006-2007, and is $752 more than the 2007-2008 national average. Costs in all categories have increased in Texas since the 2006-2007 academic year, with a nearly $700 increase in food and housing comprising most of the increase. National costs have actually decreased in all categories in AY 2007-2008, totaling nearly $1,000, with half of that decrease coming from food and housing.

The "sticker price" of a school is the total cost of attendance for a student, which includes tuition and fees, books and supplies, and living expenses. The student's financial need is determined by subtracting the expected family contribution (EFC) *** from the "sticker price," which is the basis for determining financial aid packages. This package consists primarily of grants and loans. The actual amount that students pay for college depends upon factors such as how much and what type of aid they receive, how frugally they live, the number of credit hours they take, and whether or not they work. To save money, students may choose to attend school part-time or work long hours, or both, strategies that may increase their chance of dropping out of school without a degree.

* 12 semester hours or more.

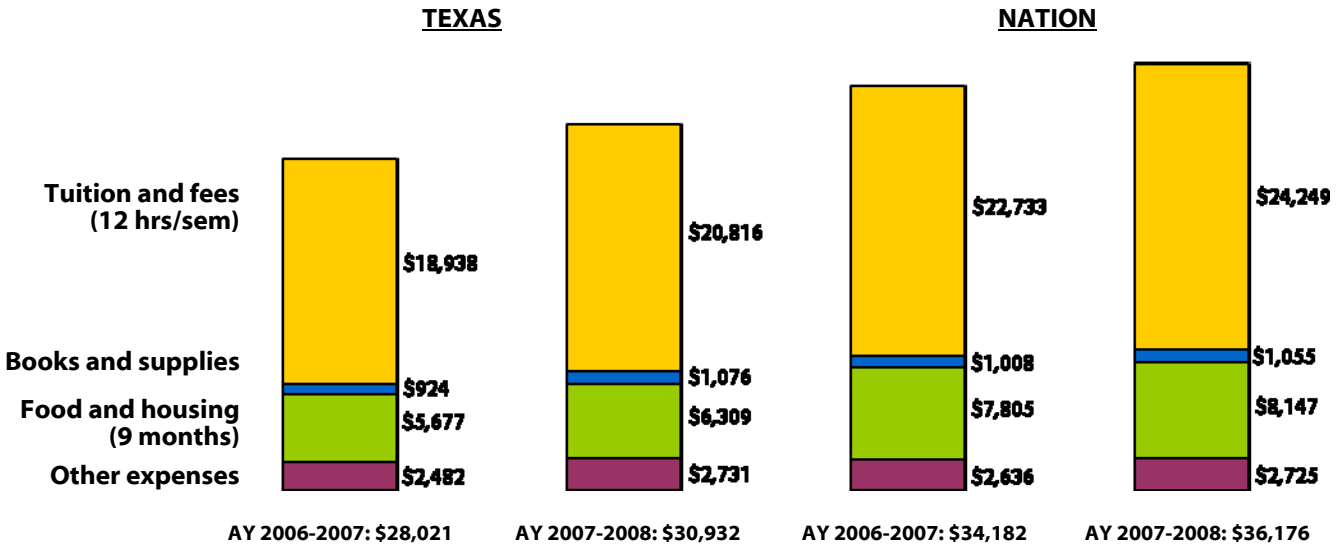
** An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by full-time, undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

*** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2007-2008, 46 percent of public two-year college dependent undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

Sources: All Costs and Enrollments for 2007-2008: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2007 (http://nces.ed.gov/ipeds/); All Costs and Enrollments for 2006-2007: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2006 (http://nces.ed.gov/ipeds/); All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

Costs at Texas Private Four-year Universities Still a Bargain Compared to National Average

Average Four-year Private University Cost of Attendance (Weighted for Enrollment*) for Two Semesters for Full-time Undergraduates Living Off-campus in Texas and the U.S. (AY 2006-2007 and AY 2007-2008)



The increase from Academic Year (AY) 2006-2007 to AY 2007-2008 at private four-year universities in Texas, at $2,911, was higher than the increases in the last several years. The increase this year was mostly due to a $1,878 increase in tuition and fees, but all categories increased by at least 10 percent during this one year. Weighted for enrollment,* the total cost of undergraduate education at Texas private four-year universities for two full-time** semesters averaged $30,932 in AY 2007-2008. This is considerably less than the national "sticker price," at $36,176, mainly because tuition and fees in Texas are $3,433 less than the average. Approximately 10 percent of students in higher education in Texas in AY 2007-2008 attended four-year private universities, versus 42 percent who attended four-year public.

Students who attend four-year private universities may receive an aid package, which primarily consists of grants and loans. The student's need is determined, by subtracting the expected family contribution (EFC) *** from the "sticker price," in order to determine what kind of financial aid package they should receive. The "sticker price" is the total cost of education, which includes tuition and fees, books and supplies, and living expenses. To save money, students may choose to attend school part-time or work long hours, or both, strategies that may increase their chance of dropping out of school without a degree.

* An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by full-time, undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

** 12 semester hours or more.

*** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2007-2008, 26 percent of private four-year university dependent undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

Sources: All Costs and Enrollments for 2007-2008: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2007 (http://nces.ed.gov/ipeds/); All Costs and Enrollments for 2006-2007: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2006 (http://nces.ed.gov/ipeds/); All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

The Cost of Going to College Continues to Rise Each Year

Change in Costs for Students Living Off-Campus: Dollar and Percent Change from Academic Year (AY) 2006-2007 to AY 2007-2008 (Costs Weighted for Enrollment*)

Texas	Public 4-year		Public 2-year		Private 4-year	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Tuition and fees (12 hrs./semester)	$491	9%	$79	4%	$1,878	10%
Books and supplies	$13	1%	$60	5%	$152	16%
Food and housing	-$32	0%	$648	11%	$632	11%
Other	$28	1%	$340	11%	$249	10%
Total Change	**$500**	**3%**	**$1,127**	**9%**	**$2,911**	**10%**

U.S.	Public 4-year		Public 2-year		Private 4-year	
	Dollar	Percent	Dollar	Percent	Dollar	Percent
Tuition and fees (12 hrs./semester)	$335	6%	-$149	-6%	$1,516	7%
Books and supplies	$38	4%	-$56	-5%	$47	5%
Food and housing	$323	4%	-$509	-8%	$342	4%
Other	$205	6%	-$197	-6%	$89	3%
Total Change	**$901**	**5%**	**-$911**	**-7%**	**$1,994**	**6%**

Public funding cuts and inflation are the primary factors driving college cost increases. As in other labor-intensive industries, higher education is limited in its ability to capitalize productivity gains through enhanced technology: professors cannot teach or grade papers very much faster than they did 30 years ago, so to reduce the cost of labor—by far colleges' biggest expense—schools must either increase the number of students per professor or hire less qualified staff, both of which lower the quality of education. When funding lags (state appropriations for higher education in Texas decreased 5 percent from Fiscal Year (FY) 2006-2007 to FY 2007-2008), schools tend to pass on cost increases to students. Weighted for enrollment,* the total cost or "sticker price" at Texas public two-year colleges is higher than at national public two-year colleges. The sticker price at private four-year universities in Texas increased by a larger percentage compared to the national increase, but Texas private four-year universities still remain more than $5,000 cheaper than national private four-year universities.

"Sticker price" is the starting point for determining financial aid. What students actually pay for college depends on a number of factors, including the aid they receive and how frugally they live, as well as their attendance and work patterns. To cut costs, many students attend part-time, work long hours, or both. In Academic Year (AY) 2007-2008, 65 percent of all undergraduates in Texas attended less than full-time/full year—that is, they either took fewer than 12 hours per semester or did not attend two semesters—and 79 percent worked while enrolled, of whom 36 percent worked full-time**. Full-time work and part-time attendance are associated with lower completion rates and also with each other: 81 percent of Texas undergraduates who work full-time while enrolled attend less than full-time/full year.

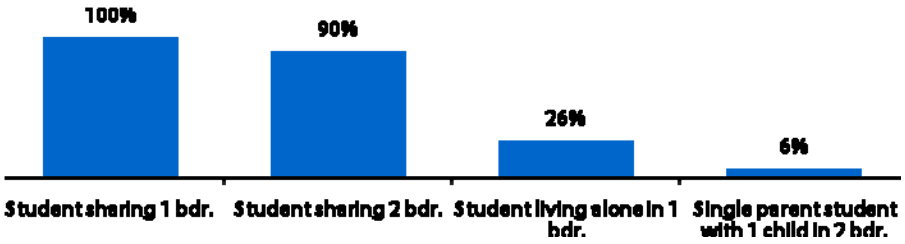
* An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by full-time, undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

** 35 or more hours per week; includes work study/assistantship.

Sources: All Costs and Enrollments for 2007-2008: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2007 (http://nces.ed.gov/ipeds/); All Costs and Enrollments for 2006-2007: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2006 (http://nces.ed.gov/ipeds/); Labor costs: "What Ails Us," by James Surowiecki, *The New Yorker,* (July 7, 2003); Cuts in state funding: Illinois State University, Center for the Study of Education Policy, "Grapevine: An Annual Compilation of Data on State Tax Appropriations" (http://coe.ilstu.edu/grapevine/); All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

Food and Housing for Some Students May Be Higher Than Estimated

Percent of Texas Public Universities in which the USDA and HUD Food and Housing Cost Estimate is within the Institution's Room and Board Cost Estimate for AY 2007-2008, by Type of Student



Food and housing make up about 41 percent of the cost of attending a public university in Texas. These costs are not discretionary. Students must eat, and unless they live with parents or other relatives — and 81 percent of Texas public university undergraduates do not — they must pay rent. But students do have some discretion in their choices. The stereotype of the undergraduate who drives an SUV coexists with that of the student who shares an apartment with six roommates, eats instant noodles, and frequents thrift shops. But do institutions' room and board estimates make for a pampered or a thrifty lifestyle?

Using their knowledge of housing located in areas popular with students, Texas universities estimate the cost of food and housing that is modest, but adequate. For the 2007-2008 Academic Year (AY), this estimate is $6,645,* or $738 per month. The U.S. Department of Agriculture (USDA) estimates the minimum dietary needs of an adult can be met on $225 per month provided that all food is prepared at home, an unlikely scenario for young adults. Subtracting $225 from $738 leaves $513 for rent and utilities. The addition of one small pepperoni pizza per week, however, would raise the monthly food budget to $255,** leaving $483 for rent and utilities.

The U.S. Department of Housing and Urban Development (HUD) estimates the average nine-month cost of rent and utilities for a one-bedroom unit in the counties and Metropolitan Statistical Areas (MSAs)*** where Texas public universities are located to be $5,410, or $601 per month. Sharing housing lowers the cost: a shared one-bedroom costs $301 per person and a shared two-bedroom costs $365. These data indicate a thrifty student who cooks and shares housing will indeed be able to stay within the institutional room and board estimate of $738 per month. However, a student who lives alone will probably not be able to stay within the estimate. Single parent students face additional costs. About 22 percent of Texas undergraduates in AY 2007-2008 had dependent children, and about 12 percent were single parents.

Average USDA and HUD Food and Housing Costs for Two Semesters (9 Months) for Counties and MSAs* Where Texas Public Universities Are Located (AY 2007-2008)**

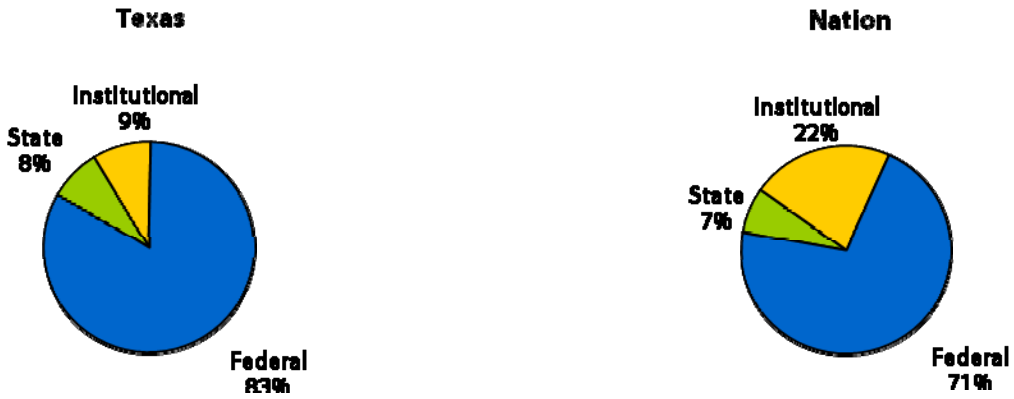
	Student sharing 1-bedroom unit	Student sharing 2-bedroom unit	Student living alone in 1-bedroom unit	Single parent student with 1 child in 2-bedroom
Food	$2,025	$2,025	$2,025	$3,010
Housing	$2,705	$3,286	$5,410	$6,571
Total	**$4,730**	**$5,311**	**$7,435**	**$9,581**

*$7,183 when weighted for enrollment; see Glossary for clarification. ** Based on the cost at Conan's Pizza near the University of Texas at Austin, September 2009. *** A Metropolitan Statistical Area is a geographic area of 50,000 or more inhabitants.

Sources: All Costs and Enrollments for 2006-2007: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2006 (http://nces.ed.gov/ipeds/); U.S. Department of Agriculture. "Official USDA Food Plans: Cost of Food at Home at Four Levels, U.S. Average, May 2006." (http://www.usda.gov/cnpp/FoodPlans/Updates/foodmay06.pdf); U.S. Department of Housing and Urban Development (HUD). "Fair Market Rents 2007 for Existing Housing, October 2006," (http://www.huduser.org/datasets/fmr/fmr2007f/FY2007F_County_Town.xls);All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2008 (http://www.nces.ed.gov/das).

Texas Highly Dependent on Federal Government for Student Aid

Direct Student Aid by Source for Award Year 2007-2008*



College students receive financial aid from three major sources: the federal government, the state government, and the colleges and universities they attend. Of these three, the federal government's contribution is primary. Nationally, the federal government provided 71 percent of the generally available direct financial aid* for undergraduate and graduate students in Award Year (AY) 2007-2008. In Texas, the federal government's role is much larger, accounting for 83 percent of aid.

Texas' state government provided 8 percent of generally available aid** in 2007-2008, slightly higher than the seven percent of aid in AY 2006-2007. Nationally, state governments provided seven percent of aid.

Texas colleges and universities, through institutional grants,*** provided a much smaller percentage of financial aid than colleges in other states. Texas institutions provided nine percent of aid versus 22 percent for colleges nationally.

* Direct student aid includes aid that is generally available, goes directly to students, and derives from state and federal appropriations, plus institutional grants. All aid shown in graphs is for Award Year 2007-2008, except the private institutional aid is for Award Year 2006-2007.

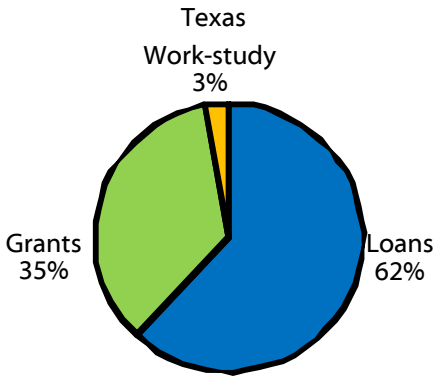
**The State of Texas, like other state governments, also supports public institutions through direct appropriations and tuition waivers.

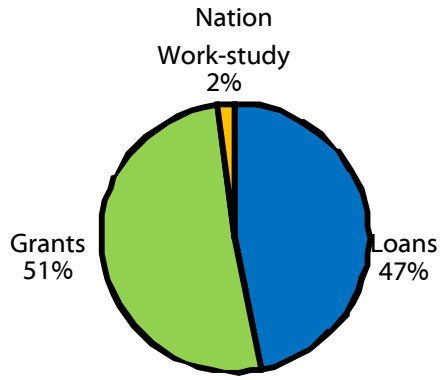
*** Includes the Texas Public Educational Grant (TPEG) for Award Year 2007-2008 as well as private institutional aid reported to the Independent Colleges and Universities of Texas (ICUT) for Award Year 2006-2007.

Sources: Private institutional aid: Independent Colleges and Universities of Texas (ICUT) "Annual Statistical Report 2008", (http://www.icut.org/documents/2008StatReportFinal_001.pdf); State aid and TPEG: Texas Higher Education Coordinating Board, "2008 Bentson Report," Austin, Texas, (unpublished tables); Federal aid in Texas: U.S. Department of Education, Federal Student Aid Data Center (http://federalstudentaid.ed.gov/datacenter/); Aid in the U.S.: The College Board. *Trends in Student Aid 2009* (http://www.trends-collegeboard.com/student_aid/pdf/2009_Trends_Student_Aid.pdf).

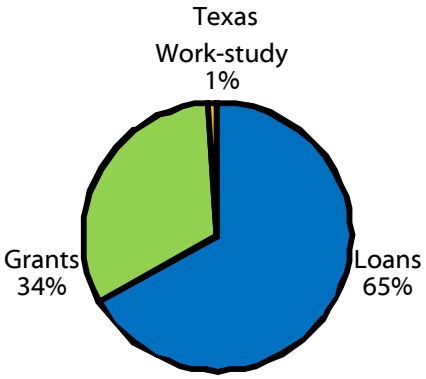
Texas Students Highly Dependent on Loans

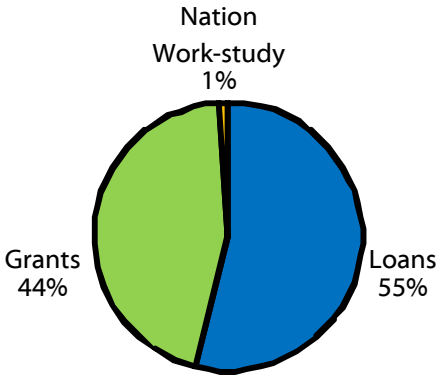
Direct* Student Aid by Type for Award Year 1991-1992





Direct* Student Aid by Type for Award Year 2007-2008





The increase in the percent of student aid in the U.S. that is allocated to loans mirrors the decrease in the percent allocated to grants. In Academic Year (AY) 1991-1992, loans accounted for 47 percent of direct* financial aid to undergraduate and graduate students in the U.S. and grants accounted for 51 percent. By AY 2007-2008, loans accounted for 55 percent of aid in the U.S. and grants accounted for 44 percent. Texas college students rely even more heavily on loans, both now and in the past. In AY 2007-2008, 65 percent of aid in Texas came from loans and 34 percent came from grants, including state and institutional grants.* Most student loans in Texas are Stafford loans, which are part of the Federal Family Education Loan Program (FFELP). The maximum subsidized** Stafford loan that a first-year student can receive is $3,500.

* Direct student aid includes aid that is generally available, goes directly to students, and derives from state and federal appropriations (including both FFEL and DL programs), plus institutional grants. All aid shown in second set of graphs is for Award Year 2007-2008, except the private institutional aid is for Award Year 2006-2007.

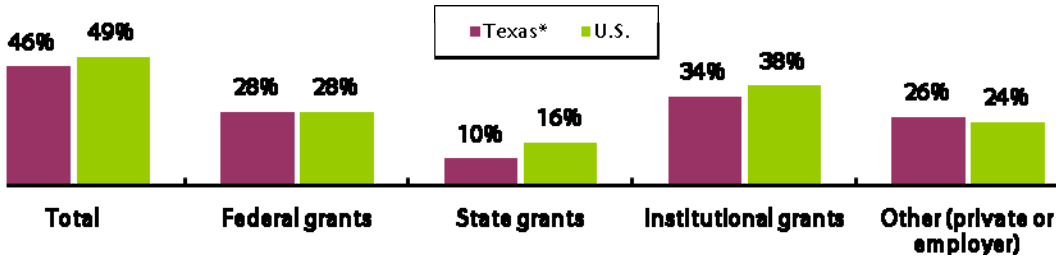
** Subsidized loans are for students who demonstrate financial need. The Department of Education pays the interest on subsidized loans while a student is in school and for the first six months after the student leaves school.

Sources: Private institutional aid: Independent Colleges and Universities of Texas (ICUT) "Annual Statistical Report 2008", (http://www.icut.org/documents/2008StatReportFinal_001.pdf); State aid and TPEG: Texas Higher Education Coordinating Board, "2007 Bentson Report," Austin, Texas, (unpublished tables); Federal loans in Texas: U.S. Department of Education. Office of Postsecondary Education. Special request (unpublished tables); Federal grants and work-study in Texas: U.S. Department of Education. Office of Postsecondary Education. "Federal Pell Grant Program" and "Federal Campus-Based Programs", special request (unpublished tables); Aid in the U.S.: The College Board. *Trends in Student Aid 2008* (http://professionals.collegeboard.com/profdownload/trends-in-student-aid-2008.pdf).

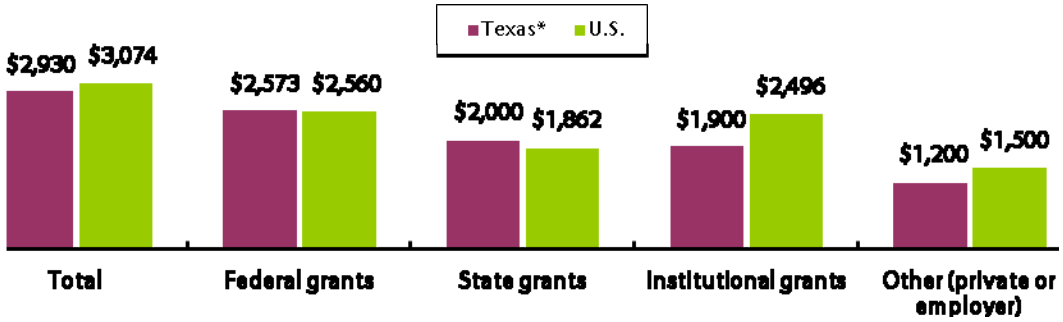
Grant Aid and Net Price in Texas

More Than Half of Undergraduates in Texas Do Not Receive Grant Aid

Percent of Undergraduates in Texas and the U.S. Who Received Any Grant Aid (AY 2007-2008)



Median Total Grant Aid for Undergraduates in Texas and the U.S. Who Received Grants: Total and by Source (AY 2007-2008)

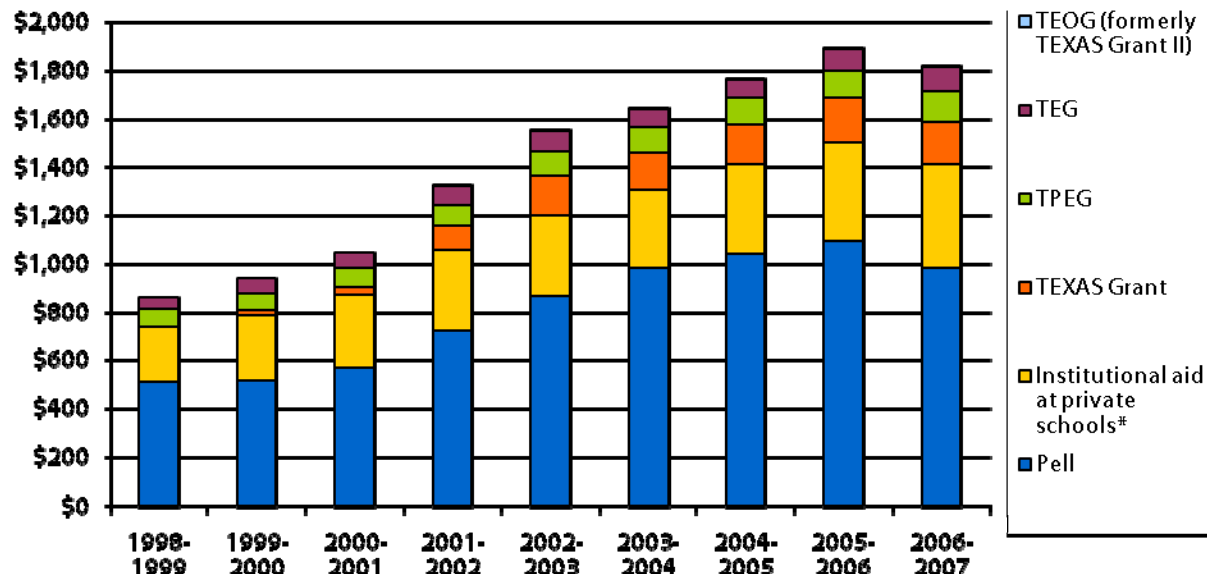


Grants (including scholarships) may be awarded to students on the basis of financial need; merit in academics, athletics, or other areas; a combination of need and merit; or other factors. Unlike loans, grants do not have to be repaid, so they lower the cost of attending college for students who receive them. In Award Year (AY) 2007-2008, about 46 percent of undergraduates in Texas** received some form of grant aid, with a median*** of $2,930 in total grants received by those who received them. In the U.S. as a whole, 49 percent of undergraduates received grants, with a median of $3,074 received. The most common source of grants was from schools themselves. About 34 percent of Texas undergraduates received institutional grants.* The second most common source of grant aid is the federal government. This is quite a change from four years ago when institutional grants trailed federal grants as the largest source of grant aid. Twenty-eight percent of undergraduates in Texas received a federal grant, with a median of $2,573 received. In most cases, this was a Pell Grant, which is the largest need-based grant program in the country. The third largest source was from outside entities, such as private foundations or employers. Texas' state-based grants represented the smallest source of grant aid. Just 10 percent of Texas undergraduates received a state grant* compared to 16 percent nationwide. For federal, state, and private grants, the median received by Texas students was almost the same as in the U.S. However, for institutional grants, the median in Texas was much smaller.

* The percent of undergraduates in Texas receiving institutional grant aid may actually be higher than shown and the percent receiving state grant aid may be lower. This is due to the fact that the Texas Public Educational Grant (TPEG) was reported in the National Postsecondary Student Aid Study (NPSAS) as a state grant rather than an institutional grant. TPEG comes from a school's own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting.
** Data on students who attended for-profit institutions are not available.
*** A median is the point at which 50 percent of students received more and 50 percent received less. A median represents a typical student better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

One-half of Non-federal Grant Aid Comes from Private Institutions



After the federal Pell Grant, the second largest source of grant aid in total dollars in Texas is institutional aid. Although a greater percentage of students receive institutional aid, the Pell Grant program provides more money overall each year. In Academic Year (AY) 2006-2007, private colleges and universities gave $430 million in institutional aid to undergraduate and graduate students. This was an increase of $25 million from the prior year.

The Texas Public Educational Grant (TPEG) is funded through schools' tuition revenue. In AY 2006-2007, $129 million was distributed in TPEG awards to undergraduate and graduate students.

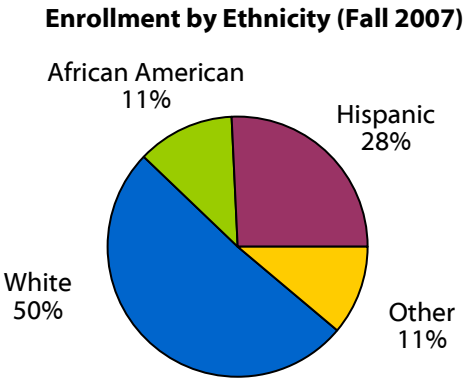
State grants comprise the smallest source of grant aid in Texas. There are three main state grants, of which the largest is the Towards EXcellence, Access, and Success (TEXAS) Grant. In AY 2006-2007, $175 million in TEXAS Grants was awarded, a decrease of about $11 million from the previous year. In AY 2005-2006, more than 34,000 needy students — over one-third of those eligible to receive a TEXAS Grant — did not receive one. It is estimated that, at currently proposed funding levels, the TEXAS Grant will fail to serve 36,804 students in the 2006-2007 academic year and an additional 38,106 the following year.

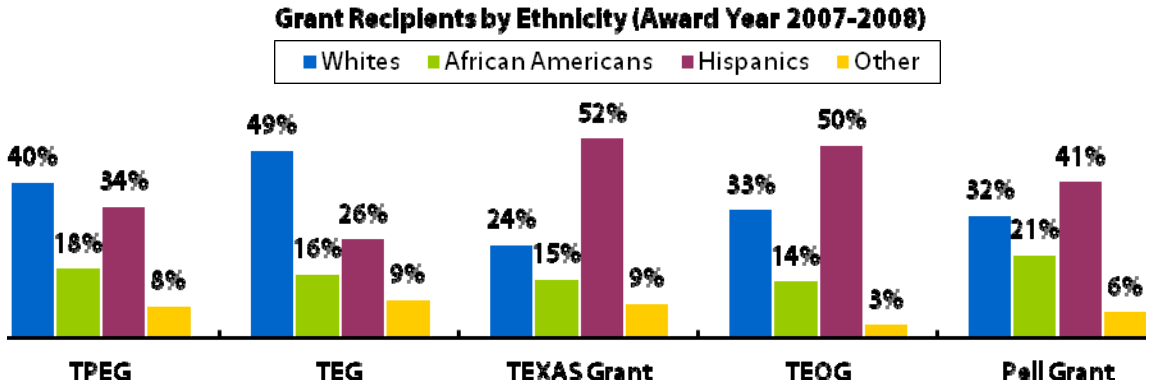
The Tuition Equalization Grant (TEG) is a state grant for students attending private non-profit colleges and universities in Texas. In AY 2006-2007, $99 million in TEG was awarded to undergraduate and graduate students.

The Texas Educational Opportunity Grant (TEOG), formerly TEXAS Grant II, is a state grant for undergraduates attending public two-year schools. In AY 2006-2007, $5 million was awarded through TEOG.

Sources: Private institutional aid: Independent Colleges and Universities of Texas (ICUT) "Annual Statistical Report", November 2007, (http://www.icut.org/publications.html); Pell data: U.S. Department of Education, "Federal Pell Grant Program End of Year Reports," (http://www.ed.gov/finaid/prof/resources/data/ope.html); All other grants: Texas Higher Education Coordinating Board (THECB) "2006 Bentson Report," Austin, Texas (Unpublished tables); TEXAS Grant shortfall AY 2004-2005: THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); TEXAS Grant shortfall projections AY 2006-2007 and AY 2007-2008: THECB, "TEXAS Grant 5% cut VS TEG-THECB.xls" (July 2006) (internal spreadsheet); Grant qualifications and grant availability: THECB "College for Texans" Web site (http://www.collegefortexans.com/paying/finaidtypes.cfm).

Grant Recipients in Texas are Ethnically Diverse



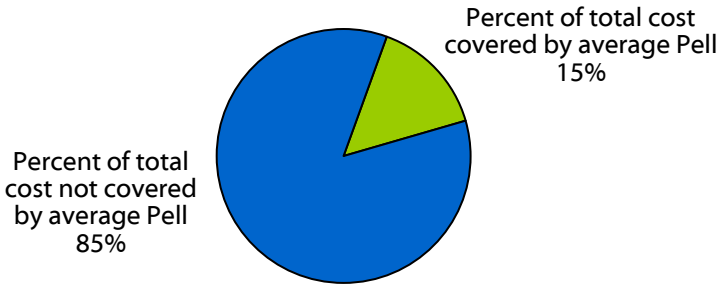


Allocation of grant aid in Texas reflects the ethnic diversity of the state. Approximately 65 percent of Towards EXcellence, Access, and Success (TEXAS) Grant and Texas Educational Opportunity Grant (TEOG) recipients are either Hispanic or African American. Percentages for the Tuition Equalization Grant (TEG) and Texas Public Educational Grant (TPEG) are somewhat less — 42 percent and 52 percent, respectively.

Sources: Public enrollment by ethnicity: Texas Higher Education Coordinating Board (THECB) PREP Online (http://www.txhighereddata.org/Interactive/PREP_New/); Private enrollment by ethnicity: Independent Colleges and Universities of Texas (ICUT), "Annual Statistical Report", November 2007 (http://www.icut.org/documents/ICUT2007ReportFinal_000.pdf); All other: THECB "Financial Aid Database for AY 2006-2007." Austin, Texas. 2008. (Unpublished tables).

The Value of the Federal Pell Grant Continues to Decline

Percent of Average Total Cost of Two Semesters of Full-time Attendance at a Public Four-year University in Texas That is Covered by the Average Pell Grant (AY 2006-2007)



Change in Average Pell Grant Over Previous Award Year and Increase in the Average Total Cost of Two Semesters of Full-time Attendance at a Public Four-year University in Texas and the U.S.

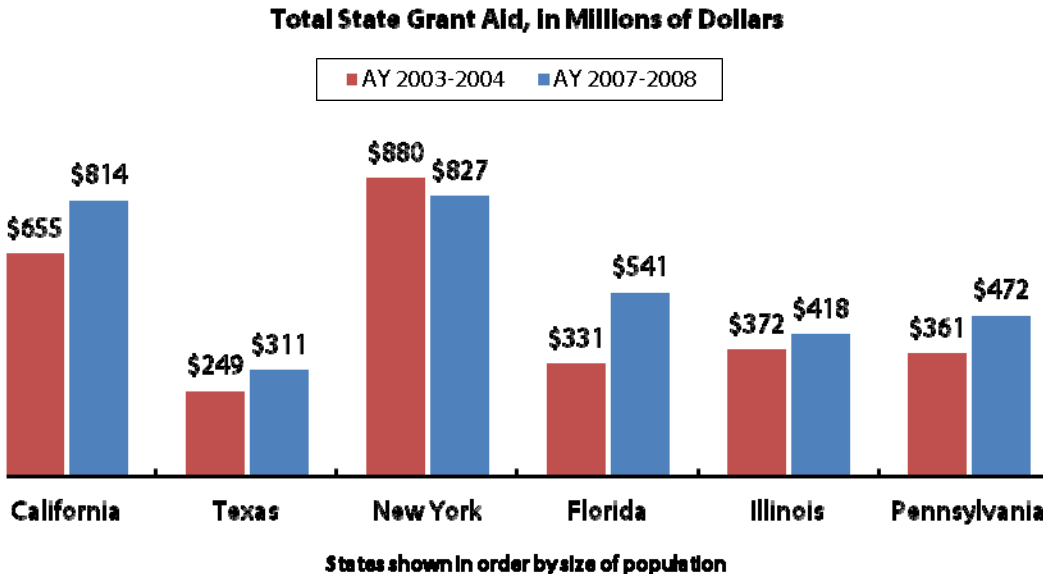
Award Year	Change in Average Pell Grant in U.S.	Increase in Cost in Texas	Increase in Cost in U.S.
2003-2004	-$17	$773	$1009
2004-2005	-$76	$1,204	$956
2005-2006	$-106	$1,151	$1,036
2006-2007	-$78	$697	$880
2007-2008	$109	$500	$901

The buying power of the largest grant program in the U.S. and in Texas, the federal Pell Grant, has declined over the last three decades. Originally designed as the foundation for student aid packaging, the Pell Grant is only allocated to the neediest of undergraduates. However, in Award Year (AY) 2006-2007, the average Pell Grant, at $2,571, covered only 15 percent of the average total costs (defined as tuition and fees, food and housing, books and supplies, transportation, and personal expenses) for undergraduates at public four-year universities in Texas. Overall, Pell funding has been increasing in recent years, but the number of recipients is also increasing due to, among other things, an increase in the cost of attending college. The average Pell Grant per student has not kept pace with rising costs.

The maximum Pell Grant is $5,350 starting in AY 2009-2010. The maximum Pell Grant amount is poised to increase in the coming years by new legislation called The Student Aid and Fiscal Responsibility Act of 2009, (HR 3221). If passed, the maximum Pell amount will increase to $5,500 in AY 2010-2011 and will be tied to the Consumer Price Index plus one percent.

Sources: Cost of attendance: U.S. Department of Education, National Center for Education Statistics, IPEDS Peer Analysis System Dataset Cutting Tool (costs have been weighted for enrollment) (http://nces.ed.gov/ipedspas/specifyLinchPin.asp); Pell: U.S. Department of Education, *The Federal Pell Grant Program End of Year Report, 2006-2007* (http://www.ed.gov/finaid/prof/resources/data/ope.htmlf).

Texas State Grant Aid Increases



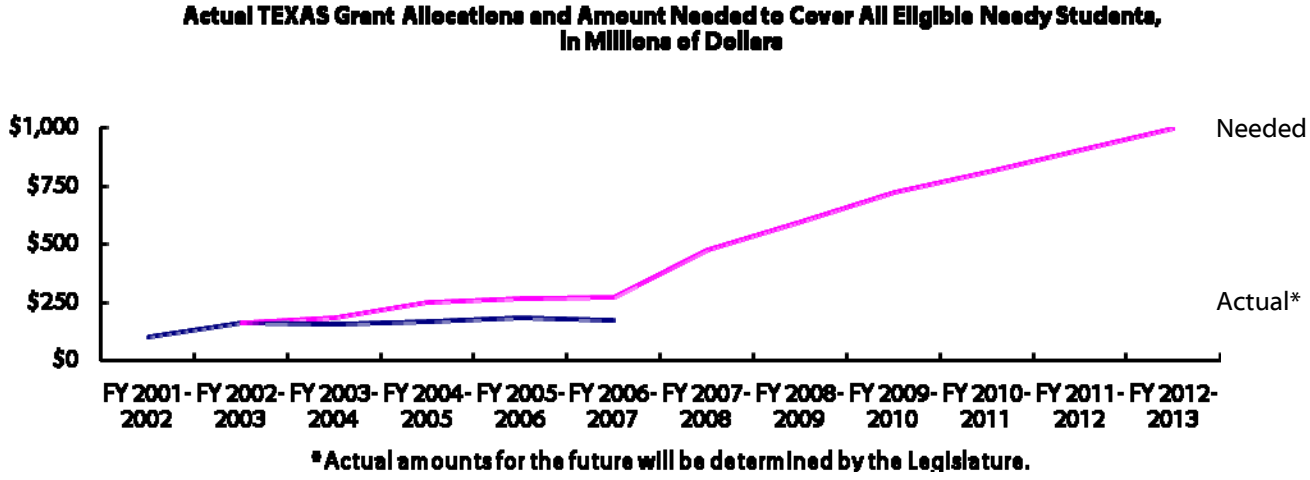
In Award Year (AY) 1996-1997, Texas spent only $48 million in state grant aid. Although Texas had the second largest college-aged population, it ranked last among the six largest states, spending less than half what was spent by the next lowest state, Florida. Then, with the establishment of the Toward EXcellence Access, & Success (TEXAS) Grant* program in 1999, state grant aid began to increase and reached more than $250 million from AY 2003-2004 onward.** However, Texas still ranks last among the largest states. In AY 2007-2008 Texas spent a little more than a third of what was spent by either California or New York. For Fiscal Year (FY) 2006-2007, TEXAS Grant funding was $175 million. In anticipation of a significant growth in the number of students eligible for the Texas Grant,*** the 80th Texas Legislature increased appropriations for the program considerably for the current biennium. Nevertheless, the Texas Higher Education Coordinating Board (THECB) estimates that almost half of students eligible for the TEXAS Grant will not receive one during this period.

Student grant aid may be based on financial need, academic merit, a combination of need and merit, or other factors. In Texas, most state grant aid has a need-based component.

* To receive a TEXAS Grant a student must have completed either the Recommended High School Program (RHSP) or Distinguished Achievement Program (DAP) and enrolled in an undergraduate program in a Texas college or university within 16 months or 2) have earned an associate's degree from a public technical, state or community college in Texas no earlier than May 1, 2001 and enrolled in any public university in Texas no more than 12 months after receiving the associate's degree. To remain eligible for the grant, students must maintain a Grade Point Average (GPA) of 2.5 on a 4.0 scale.
**State grant aid does not include institutional aid, such as the Texas Public Educational Grant (TPEG). Institutional grant aid comes from the school's own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting. TPEG and Student Deposit Scholarships reported to the National Association of State Student Grant and Aid Programs (NASSGAP) for AY 2006-2007 have been subtracted from NASSGAP's state grant aid data for Texas.
*** Fall 2008 marked the entry into college of the first cohort of students who graduated from high school since the RHSP became the default curriculum for graduation. The change in the default curriculum has resulted in a significant increase in the number of students eligible for the TEXAS Grant.

Source: TEXAS Grant amount: Texas Higher Education Coordinating Board (THECB), "Bentson Report" (unpublished tables) TEXAS Grant shortfall: THECB, "Recommendations Relating to the Feasibility Study for Restructuring Texas Student Financial Aid Programs, November 2008" (http://www.thecb.state.tx.us/reports/PDF/1671.PDF); All other: National Association of State Student Grant and Aid Programs. *38th Annual Survey Report on State-Sponsored Student Financial Aid.* 2008 (www.nassgap.org).

Many Eligible Students Are Not Receiving the TEXAS Grant



The Texas Legislature created the Toward EXcellence, Access, and Success (TEXAS) Grant in 1999 to help needy undergraduates pay tuition and fees comparable to what one would spend at a typical public four-year or two-year institution in Texas. To qualify, students must graduate from high school with a Recommended or Distinguished* diploma and enroll in a college or university in Texas within 16 months.** Initially, only 15 percent of Texas high school graduates had taken the courses to qualify for the TEXAS Grant. With greater public awareness and a 2001 law mandating the Recommended diploma as the default for entering high school freshmen beginning in 2004, the percentage of students graduating with either Recommended or Distinguished credentials increased to 68 percent in 2004 and 78 percent in 2007. The percentage for the Class of 2008 will be even higher, as the Recommended diploma is the default curriculum for these (and future) Texas high school graduates.

The program seemed to work. More needy students were taking the tougher courses and money was available to help them pay for college. Since then, state funding has remained flat, while the average grant amount has risen since (1) it is pegged to average tuition and fees for undergraduates at Texas public institutions, which have risen sharply since the program was created, and (2) the number of eligible students has exceeded expectations. More than 64,000 new and returning*** needy students received a TEXAS Grant in Fiscal Year (FY) 2003-2004, but only 33,000 students did in FY 2004-2005. Although 61,000 TEXAS Grants were awarded in FY 2005-2006, the Texas Higher Education Coordinating Board (THECB) reports that 34,000 needy students — over one-third of those eligible — did not receive the grant that year. Funding for the TEXAS Grant has increased to $428 million. Yet, the THECB estimates that, at currently proposed funding levels, the TEXAS Grant will fail to serve half of the students eligible for the award during FY 2008-2009.

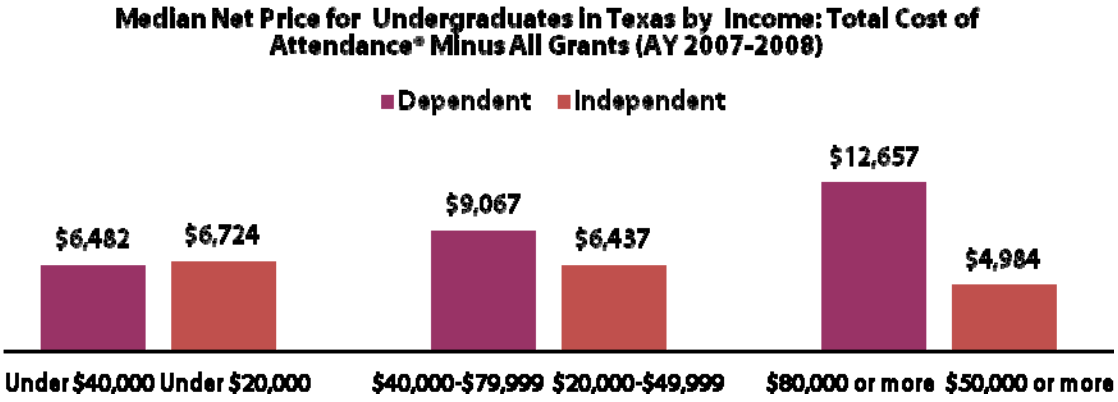
* The Recommended and Distinguished programs better prepare students for college than the minimum curriculum by requiring additional credits in science, social studies, and foreign language.

** Students awarded an associate's degree from a public technical, state or community college in Texas no earlier than May 1, 2001 may also qualify for the TEXAS Grant. Recipients must enroll in any public university in Texas no more than 12 months after receiving the associate's degree.

*** TEXAS Grant recipients are eligible to continue to receive the grant if they maintain an overall Grade Point Average (GPA) of 2.5 on a 4.0 scale.

Sources: TEXAS Grant requirements: Texas House Bill 713, 76th Legislature (1999); Recommended diploma mandate: Texas House Bill 1144, 77th Legislature (2001) (http://www.capitol.state.tx.us/tlo/77r/billtext/HB01144F.HTM); Percent of students graduating with a Recommended or Distinguished diploma: Texas Education Agency, "Academic Excellence Indicator System" (http://www.tea.state.tx.us/perfreport/aeis/2008/state.html); TEXAS Grant shortfall AY 2004-2005: THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); TEXAS Grant shortfall projections AY 2006-2007 and AY 2007-2008: THECB, "TEXAS Grant 5% cut VS TEG-THECB.xls" (July 2006) (internal spreadsheet); TEXAS Grant Projections FY 2005-2006 through FY2012-2013: THECB, "TEXAS Grant Program Projections as of March 2006" (internal memo); TEXAS Grant amount: THECB, "Bentson Report" (unpublished tables).

Net Price of Attendance for Low-income Undergraduates in Texas is More Than $6,400

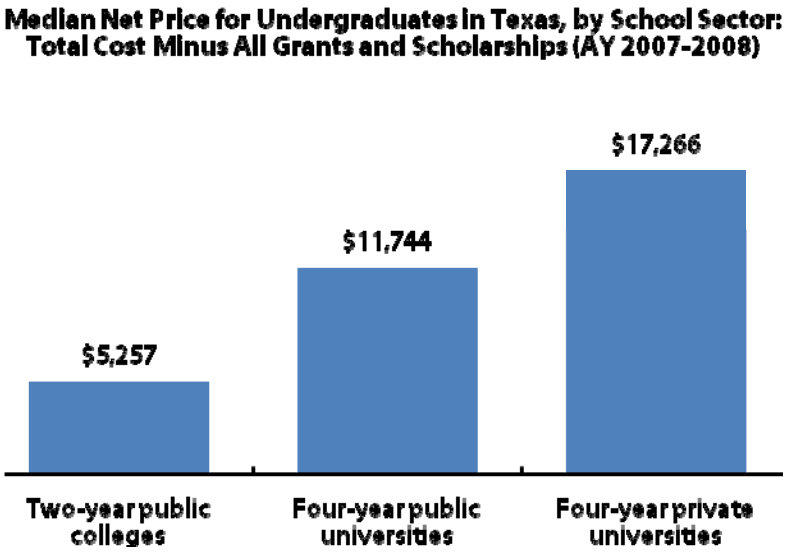


The net price of attendance for a student at an institution of higher education is defined as the student's total cost of attendance* minus the total grants and scholarships he or she receives. In Award Year (AY) 2007-2008, the median** net price of attendance for low-income students was $6,482 for dependent students whose parents earn less than $40,000, and $6,724 for independent students earning less than $20,000.*** This was the amount that students or their families had to cover through work, loans, or savings. The amount that dependent students had to cover rose with parental income, perhaps reflecting the fact that students from higher-income families are more likely to attend higher-cost institutions than students whose parents earn less money. For independent undergraduates, however, net price was actually higher for low-income students than for high-income. The median net price of $6,724 for those earning less than $20,000, who represent 42 percent of all independent undergraduates, represented one-third of the income of someone earning $20,000.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for nine months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.
** A median is the point at which 50 percent of students had a higher net price and 50 percent had lower. A median represents a typical student better than an average because students who had a high net price skew the average, making it a less reliable gauge than the median.
*** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates in Texas are married.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Net Price of Attendance at Public Institutions in Texas is More Than $5,200 at Two-year Schools and More Than $11,000 at Four-year Schools



The net price of attendance for a student at an institution of higher education is defined as the student's total cost of attendance* minus the total grants and scholarships he or she receives. At public institutions, which enroll 77 percent of all students in Texas, the median** net price of attendance for Award Year (AY) 2007-2008 was $5,257 at two-year institutions, and $11,744 at public four-year institutions. The weighted*** average total price at Texas two-year institutions in AY 2007-2008 was $13,242, an increase of $1,127 from AY 2006-2007. At Texas public four-year institutions, the weighted average total price in AY 2007-2008 was $17,394, and has increased by more than $3,500 since AY 2003-2004.

The weighted average total price of attendance at Texas private four-year universities in AY 2007-2008 was $30,932 , an increase of nearly $3,000 from AY 2006--2007. For private four-year universities, the median net price was $17,266. These are the amounts that students (or, for dependent students, their parents) had to cover through work, loans, or savings.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for nine months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.

** A median is the point at which 50 percent of students had a higher net price and 50 percent had lower. A median represents a typical student better than an average because students who had a high net price skew the average, making it a less reliable gauge than the median.

*** An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by full-time, undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

Source: Costs and Enrollments for 2003-2004: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2003 (http://nces.ed.gov/ipeds/); Costs and Enrollments for 2005-2006: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2005 (http://nces.ed.gov/ipeds/); All else: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

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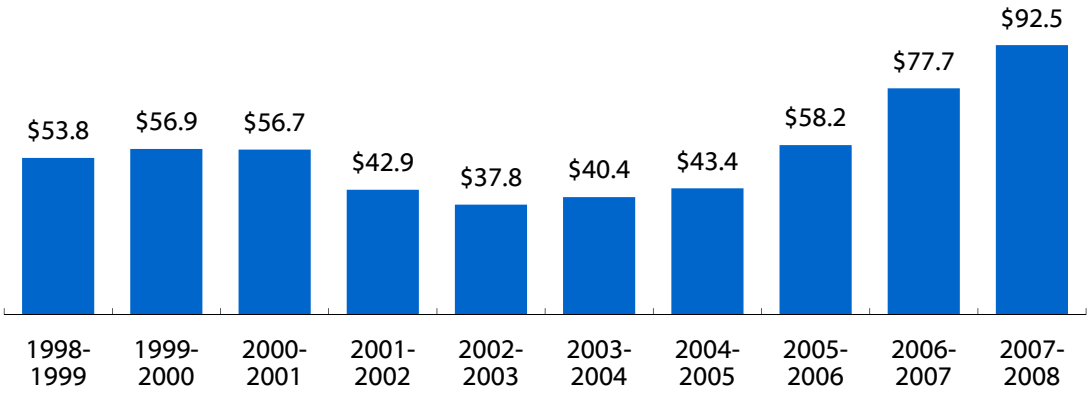
Loans

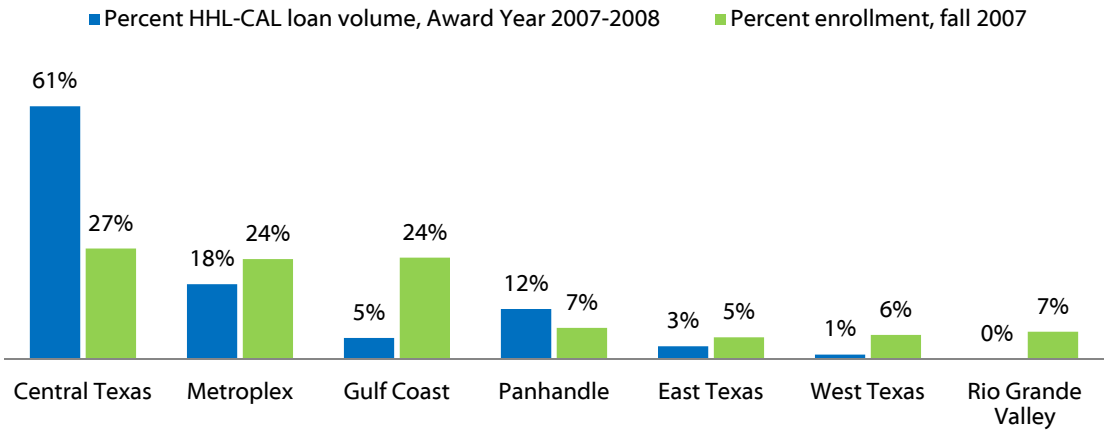
Volume for the Largest State Loan Program, HHL-CAL, Reaches New High

HHL-CAL Loan Volume by Award Year (in Millions of Dollars)*



The State of Texas offers three loan programs for students in general studies: the Hinson-Hazlewood College Access Loan (HHL-CAL), the Hinson-Hazlewood Loan-Stafford (HHL-Stafford), and the Texas B-On-Time Loan. The HHL-CAL, for which recipients do not have to demonstrate financial need, has the highest loan volume of the three. In Award Year (AY) 1998-1999, $53.8 million in HHL-CAL dollars was lent to 12,036 students. Volume fell slightly in AY 2000-2001, and sharply the year after that. In AY 2002-2003, a total of $37.8 million in HHL-CAL loans was given to 7,237 students, a decrease of 34 percent in volume since the peak year of AY 1999-2000. Loan volume once again began rising in AY 2002-2003 and reached a new high of $92.5 million in AY 2007-2008.

HHL-CAL Volume and Enrollment by Region



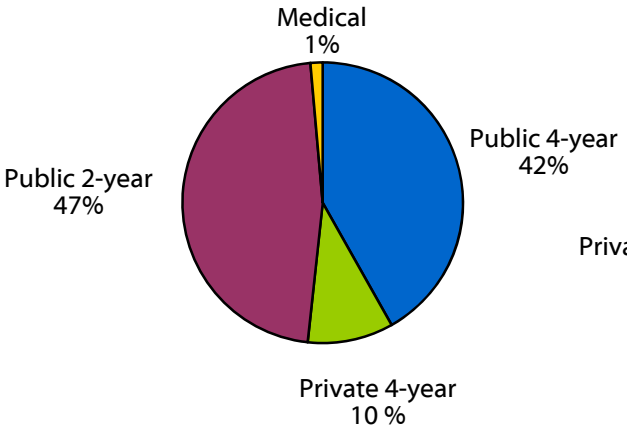
In AY 2007-2008, 61 percent of the Hinson-Hazlewood College Access Loan (HHL-CAL) dollars went to students attending schools in the Central Texas Region. Although Central Texas comprises only 27 percent of Texas enrollment, it is home to the state's two flagship universities, the University of Texas at Austin and Texas A&M University. The Panhandle received a slightly higher percentage of HHL-CAL dollars than it represented in student enrollment. All other regions received a smaller percentage than their share of enrollment.

* Includes only the amounts reported in the Texas Higher Education Coordinating Board's Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need.

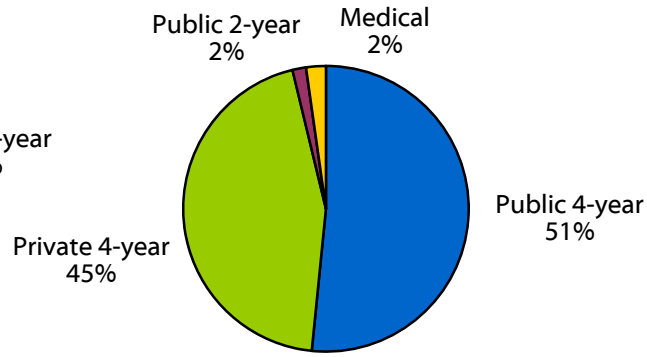
Source: Loan volume: Texas Higher Education Coordinating Board (THECB). "Bentson Report" and "Financial Aid Database for AY 2007-2008," Austin, Texas, 2009 (Unpublished tables); Data on loan terms and loan eligibility: THECB, "College for Texans" Web site (http://www.collegefortexans.com/apps/financialaid/tofa.cfm?Kind=L); Enrollment: THECB. Texas Higher Education Data (http://www.txhighereddata.org/).

HHL-CAL Loans Go Predominantly to Four-year Schools

Student Enrollment in Texas, Fall 2007



HHL-CAL Volume Percentages Award Year 2007-2008*

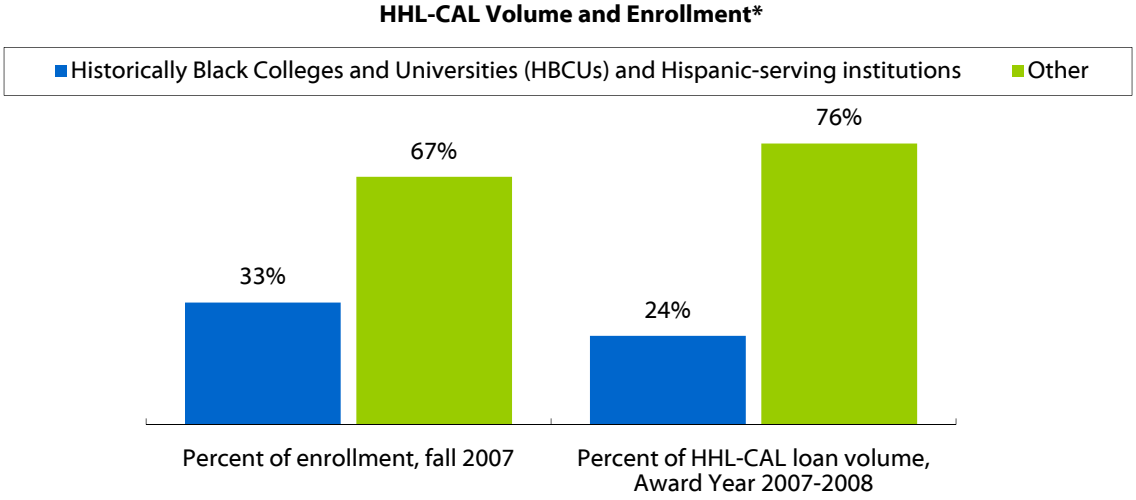


The majority of students in Texas attend public colleges or universities. However, Hinson-Hazlewood-College Access Loan (HHL-CAL) volume has often been awarded to students from private four-year institutions, which tend to cost more than public universities. In Award Year (AY) 1996-1997, 28 percent of HHL-CAL loan volume went to students in public universities, and 68 percent went to students in private universities. The gap between the percentages narrowed throughout the 1990s. By AY 2002-2003, the percent of HHL-CAL loan volume going to students in public institutions was greater than that going to students attending private institutions. About 51 percent of all HHL-CAL volume in AY 2007-2008 went to students in public four-year universities and 45 percent went to students in private four-year universities. Although the percent of HHL-CAL volume has increased for students attending public universities, the proportion of volume by school type does not parallel student enrollment. In AY 2007-2008, private four-year students accounted for 10 percent of enrollment in Texas postsecondary institutions, but 45 percent of HHL-CAL volume. Similarly, public two-year students account for 47 percent of enrollment, but only 2 percent of HHL-CAL volume.

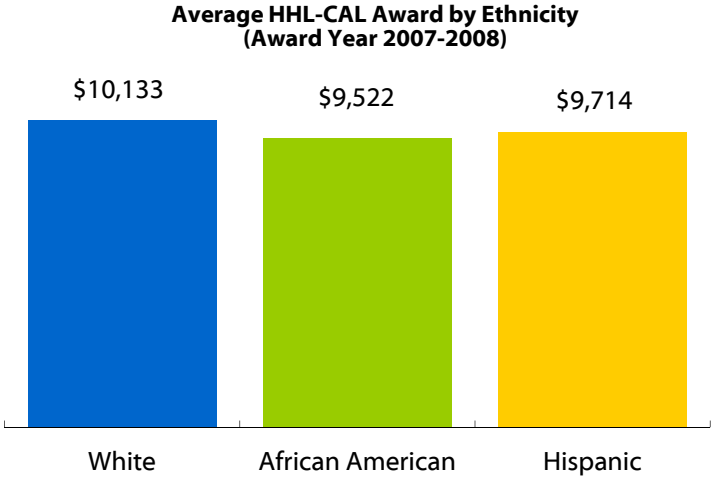
* Data on students who attended for-profit institutions are not available.

Sources: Loan volume: Texas Higher Education Coordinating Board (THECB). "Bentson Report," Austin, Texas, 2009 (Unpublished tables); Public Enrollment: THECB. "PREP Online" http://www.txhighereddata.org/Interactive/PREP_New); Private Enrollment: Independent Colleges and Universities of Texas (ICUT). Fall 2007 Headcount Enrollment (Unpublished tables).

Proportion of HHL-CAL Dollars to HBCUs and HSIs Increases



Texas has nine Historically Black Colleges and Universities (HBCUs) and 48 Hispanic-serving institutions (HSIs). In Award Year (AY) 2005-2006, HBCUs and HSIs comprised 33 percent of total Texas enrollment and received 14 percent of Hinson-Hazlewood College Access Loan (HHL-CAL) dollars. However, the proportion of enrollment versus HHL-CAL volume was more equal over the next two years. In AY 2007-2008, HBCUs and HSIs comprised 33 percent of total Texas enrollment and received 24 percent of HHL-CAL dollars.



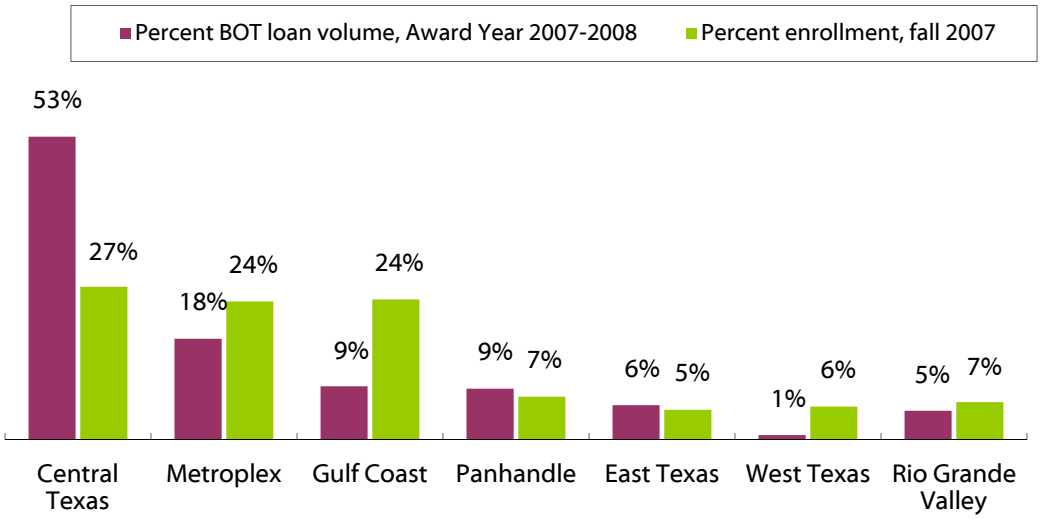
White, African American, Hispanics students receive a percentage of HHL-CAL dollars that overall represents the diversity of enrollment in Texas. However, the average loan for each group varies slightly, with African American students receiving about six percent less per loan than White students in AY 2007-2008.

* Includes only the amounts reported in the Texas Higher Education Coordinating Board's Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need.

Sources: Loan volume: Texas Higher Education Coordinating Board (THECB). "Financial Aid Database for AY 2007-2008." Austin, Texas, 2009 (Unpublished tables); Enrollment: THECB. Texas Higher Education Data (http://www.txhighereddata.org/). HBCUs: U.S. Department of Education, *Office for Civil Rights* database. "Accredited Postsecondary Minority Institutions" (http://www.ed.gov/about/offices/list/ocr/edlite-minorityinst.html); HSIs: Hispanic Association of Colleges and Universities. "Hispanic-Serving Institution Members in Texas" (http://www.hacu.net).

More Than Half of B-On-Time Dollars Go to Central Texas Region

B-On-Time Loan Volume and Enrollment by Region*



In 2003, the Texas Legislature created the B-On-Time (BOT) Loan. This is a no-interest loan that may be forgiven entirely upon graduation if the borrower 1.) graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale, and 2.) graduates within four years after entering a four-year institution (five years for architecture or engineering), or within two years after entering a two-year institution. It is not certain how many students will be able to benefit from the loan forgiveness component of the loan, as most students in the U.S. take longer than four years to graduate. About 25 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 2002 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 56 percent.

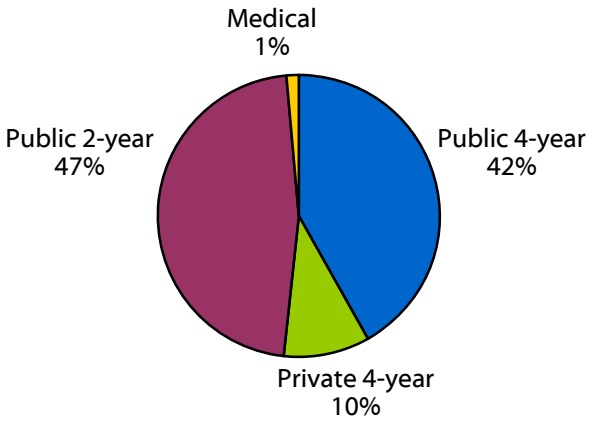
In Award Year (AY) 2007-2008, 53 percent of the BOT Loan dollars went to students attending schools in the Central Texas region, considerably more than the region represents in enrollment. In contrast, students in the Metroplex and Gulf Coast regions received a good deal less in BOT loan volume than they represent in enrollment. At only one percent, West Texas received the smallest percentage of BOT loans.

*Includes only the amounts reported in the Texas Higher Education Coordinating Board's Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need.

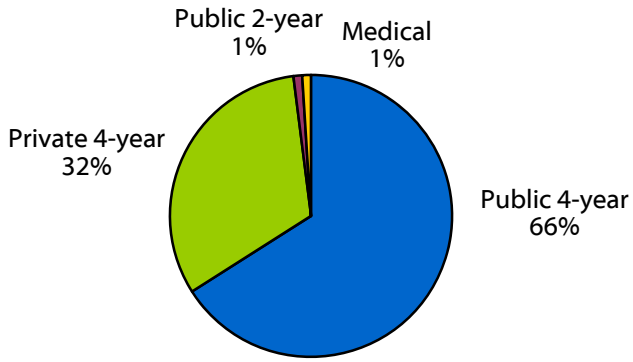
Sources: Loan volume: Texas Higher Education Coordinating Board (THECB). "Financial Aid database for AY 2007-2008," Austin, Texas, 2009 (Unpublished tables); Enrollment: THECB. Texas Higher Education Data (http://www.txhighereddata.org/); Graduation rates: Six-year: THECB. Baccalaureate Graduation Rates (http://www.txhighereddata.org/Interactive/GradRates.cfm); Four-year: THECB. Higher Education Accountability System (http://www.txhighereddata.org/Interactive/Accountability/); Time to degree completion: U.S. Department of Education. *Condition of Education: Student Effort and Educational Progress* (http://www.nces.ed.gov/programs/coe/2003/section3/indicator21.asp); Loan terms and loan eligibility: THECB. "College for Texans" Web site (http://www.collegefortexans.com/paying/finaidtypes.cfm).

Most Volume for Texas' Newest State Loan, the B-On-Time Loan, Goes to Students at Public Universities

Student Enrollment in Texas, Fall 2007



B-On-Time Loan Volume, by School Type, Award Year 2007-2008



Although nearly half of Texas postsecondary students attend public two-year schools, only one percent of B-On-Time (BOT) loan volume went to these students. One reason for this may be that students are required to attend school full-time in order to receive the loan, and two-year students are far less likely to attend full-time compared to four-year university students.

In 2003, the Texas Legislature created the BOT Loan, a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale, and also graduates within four years* after entering a four-year institution or within two years after entering a two-year institution. In Award Year (AY) 2003-2004, the first year in which awards were allocated, approximately $4.1 million in BOT aid was allocated to 1,663 students. BOT aid increased in AY 2006-2007 to $42.9 million and was distributed to 10,247 students. In AY 2007-2008, 6,875 students received $32.2 million in BOT loans.

It is not certain how many students will be able to benefit from the loan forgiveness component of the loan, as most students in the U.S. take longer than four years to graduate.** About 25 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 2002 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 56 percent.

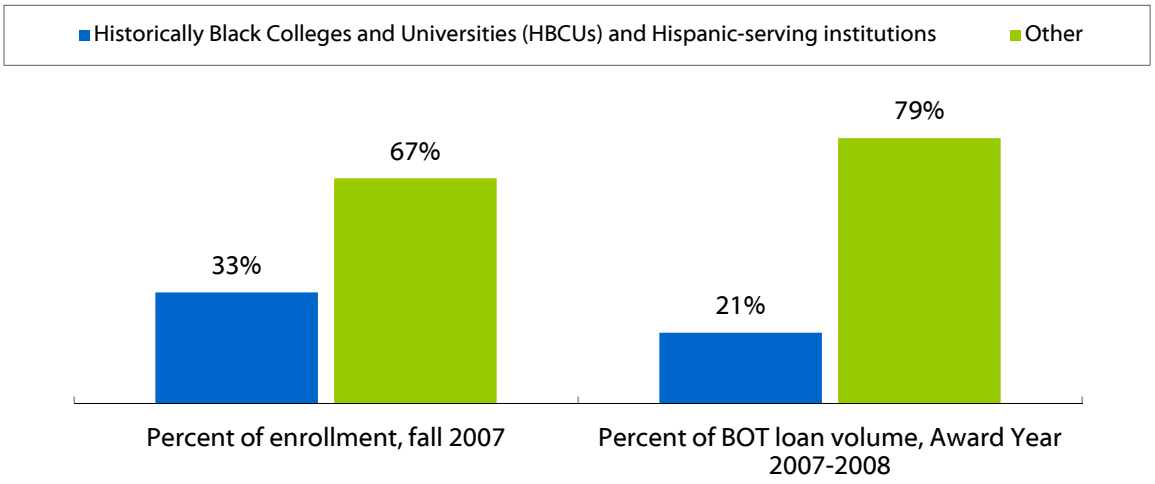
* Five years for architecture or engineering majors.

** Bachelor's degree recipients in the U.S. in AY 1999-2000 averaged 55 months from first enrollment to degree completion.

Sources: Loan volume: Texas Higher Education Coordinating Board (THECB). "Financial Aid Database for AY 2007-2008." Austin, Texas, 2009; Public Enrollment: THECB. "PREP Online" (http://www.txhighereddata.org/Interactive/PREP_New); Private Enrollment: Independent Colleges and Universities of Texas (ICUT). Fall 2007 Headcount Enrollment (Unpublished tables); Graduation rates: Six-year: THECB. Baccalaureate Graduation Rates (http://www.txhighereddata.org/Interactive/GradRates.cfm); Four-year: THECB. Higher Education Accountability System (http://www.txhighereddata.org/Interactive/Accountability/); Time to degree completion: U.S. Department of Education. *Condition of Education: Student Effort and Educational Progress* (http://www.nces.ed.gov/programs/coe/2003/section3/indicator21.asp); Loan terms and loan eligibility: THECB. "College for Texans" Web site (http://www.collegefortexans.com/paying/finaidtypes.cfm).

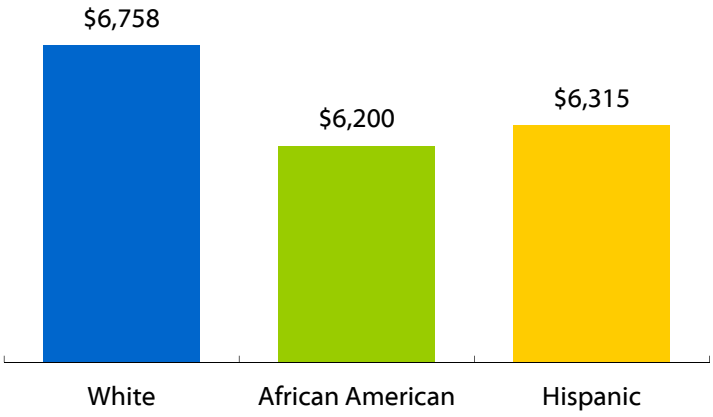
Proportion of B-On-Time Loan Volume to HBCUs and HSIs Decreases

B-On-Time Loan Volume and Enrollment*



Texas has nine Historically Black Colleges and Universities (HBCUs) and 48 Hispanic-serving institutions (HSIs). Hispanic-serving institutions are defined as those in which 25 percent or more of the student body is Hispanic and 50 percent or more of that Hispanic population is low-income. In Award Year (AY) 2006-2007, HBCUs and HSIs comprised 27 percent of total Texas enrollment and received 23 percent of B-On-Time (BOT) loan dollars. In AY 2007-2008, HBCUs and HSIs made up 33 percent of Texas enrollment, but the institutions received only 21 percent of BOT volume.

Average B-On-Time Loan by Ethnicity (Award Year 2007-2008)

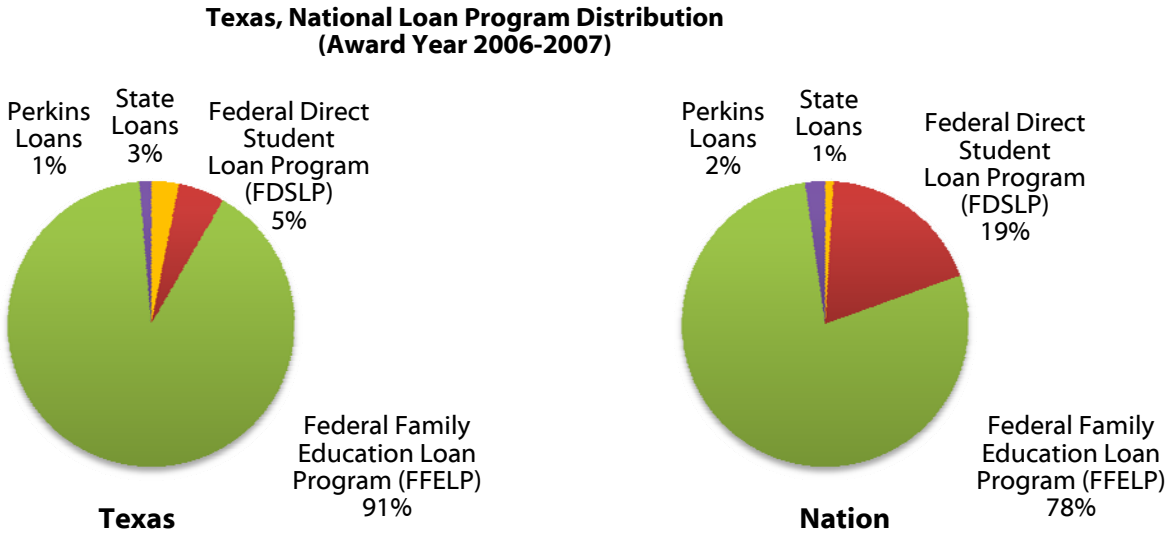


White, African American, and Hispanic students receive a percentage of (BOT) dollars that overall represents the diversity of enrollment in Texas. However, the average loan for each group varies slightly, with African American students receiving about nine percent less per loan than White students in AY 2007-2008.

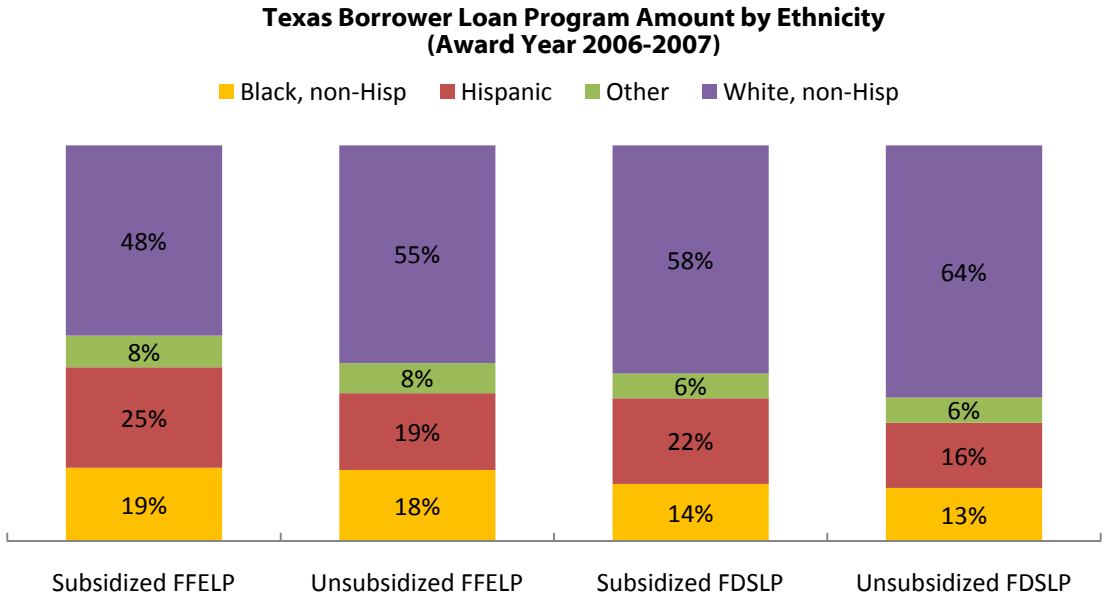
* Includes only the amounts reported in the Texas Higher Education Coordinating Board's Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need.

Sources: Loan volume: Texas Higher Education Coordinating Board (THECB). "Financial Aid Database for AY 2007-2008." Austin, Texas, 2009 (Unpublished tables); Enrollment: THECB. Texas Higher Education Data (http://www.txhighereddata.org/). HBCUs: U.S. Department of Education, *Office for Civil Rights* database. "Accredited Postsecondary Minority Institutions" (http://www.ed.gov/about/offices/list/ocr/edlite-minorityinst.html); HSIs: Hispanic Association of Colleges and Universities. "Hispanic-Serving Institution Members in Texas" (http://www.hacu.net).

Student Loan Choices Differ Between Texas and the Nation



Federal programs accounted for most student loans in Award Year (AY) 2006-2007. In Texas, 97 percent of all student loans derived from federal programs. Texans have demonstrated a preference for the Federal Family Education Loan Program (FFELP), which relies on a public/private partnership of lenders, a state guarantor, and the federal government to provide loans to students.

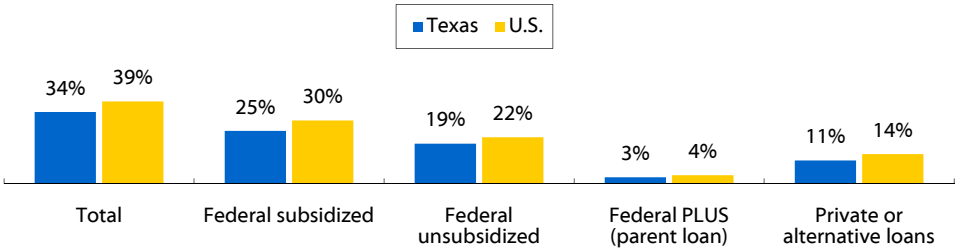


The major federal student loan program in Texas -- the Federal Family Education Loan Program (FFELP) -- serves a more ethnically diverse population than the Federal Direct Student Loan Program (FDSLP). The subsidized options for both FFELP and FDSLP, which require demonstrated financial need, serve a higher percentage of African American and Hispanic students than the unsubsidized option, which has no financial need requirement. However, both options of FFELP serve a more diverse population than both options of FDSLP. Data are not available for students who attend for-profit schools.

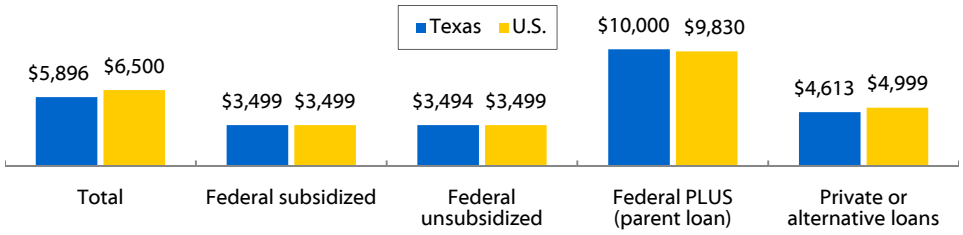
Sources: Perkins Loan data: Federal Campus-Based Data Book 2008, Recipient Data Award Year 2006-2007, Federal Perkins Loan State Listing (http://www.ed.gov/finaid/prof/resources/data/databook2008/perkins-fiscal.xls); State Loans data: The National Association of State Student Grant and Aid Programs (NASSGAP), 38th Annual Survey (http://www.nassgap.org/viewrepository.aspx?categoryID=3#); FFELP and FDSLP data: TG Internal Market Score Cards; All else: Texas Higher Education Coordinating Board. "Financial Aid Database for AY 2006-2007." Austin, Texas, 2008 (unpublished tables).

Two-thirds of Undergraduates in Texas Do Not Take Out Loans

Percent of Undergraduates in Texas and the U.S. Who Took Out Any Loans, Total and by Source (AY 2007-2008)



Median Total Loan Amount for Undergraduates in Texas and the U.S. Who Took Out Loans, by Source (AY 2007-2008)



A little more than one-third of undergraduates in Texas took out a loan to pay for their education during Award Year (AY) 2007-2008. Loans from the federal government dwarfed those from other sources, with about 25 percent of undergraduates taking out subsidized loans and 19 percent taking out unsubsidized.* Loans from the state or schools are the smallest source of loans. Fewer than eight percent of undergraduates in Texas took out loans from either of these two sources. The two most common loans, subsidized and unsubsidized, provide the smallest median amount per student in part because their maximum limits are capped. By contrast, borrowers who take out private or PLUS loans tend to borrow relatively large amounts. The median PLUS loan itself is nearly triple that of the federal subsidized loan.

Between 2004 and 2008, the percentage of students taking out private loans in Texas increased from five percent to 11 percent. This has likely decreased quite a bit since 2008 because of increased federal loan limits, and because the financial crisis that began in 2008 caused many lenders to tighten their private loan eligibility requirements.

Although the percentage of parents taking out PLUS loans didn't change between 2004 and 2008, the median loan amount they are borrowing in Texas grew from $7,000 to $10,000.

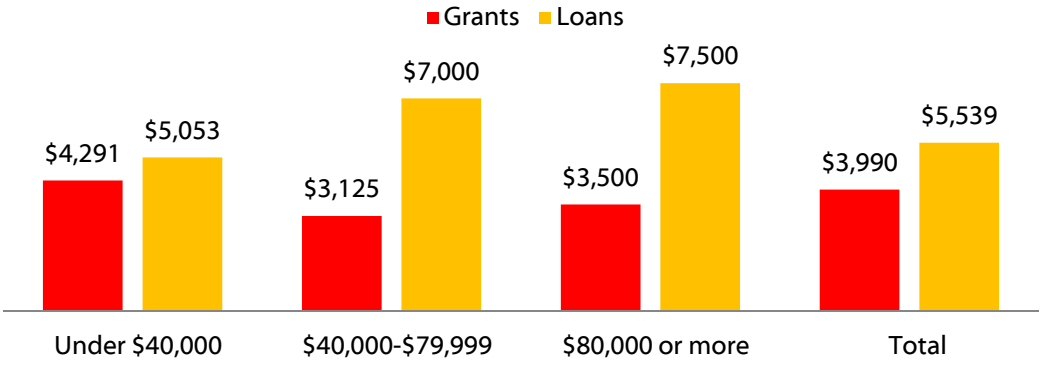
Some students may be reluctant to take out loans due to the fear that they will not be able to repay. The students who may have the most trouble repaying loans are those who do not complete their education. About 7.6 percent of borrowers at Texas four-year public universities who took out federal loans through TG and who entered repayment in Fiscal Year (FY) 2005 defaulted on their loans before the end of FY 2006, but this ranged from 2.2 percent of borrowers who graduated to 12.1 percent of those who withdrew from school without graduating.

* Subsidized loans are for students who demonstrate financial need. The federal government pays the interest on them while the student is in school and for the first six months after the student leaves school. Unsubsidized loans are not need-based and the student must pay the interest. As of July 1, 2008, the maximum federal loan for a first-year student is capped at $5,500 for dependent students and $9,500 for independent students. PLUS loans, which are unsubsidized, are only for parents of dependent students. The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent.

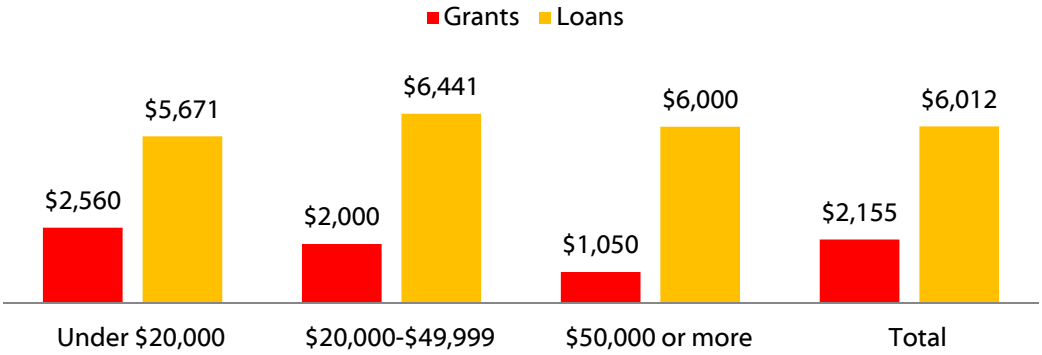
Sources: Default rates: TG, Internal Database, 2007; U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).
Federal Stafford Loan Limits: (http://studentaid.ed.gov/PORTALSWebApp/students/english/studentloans.jsp?tab=funding).

The Median Loan in Texas is More Than Twice as Large as the Median Grant for Independent Undergraduates

Median Grant and Loan Aid for Dependent Undergraduates in Texas, by Parents' Income (AY 2007-2008)



Median Grant and Loan Aid for Independent Undergraduates in Texas, by Income (AY 2007-2008)



The amount that Texas undergraduates take out in loans typically dwarfs what they receive in grants. The exception may be for dependent* students whose parents earn less than $40,000. For this group, the median** loan amount is only $762 higher than the median grant amount. For dependent students whose parents make between $40,000 and $79,999, and for all independent students regardless of income,** the median loan is more than twice as large as the median grant.

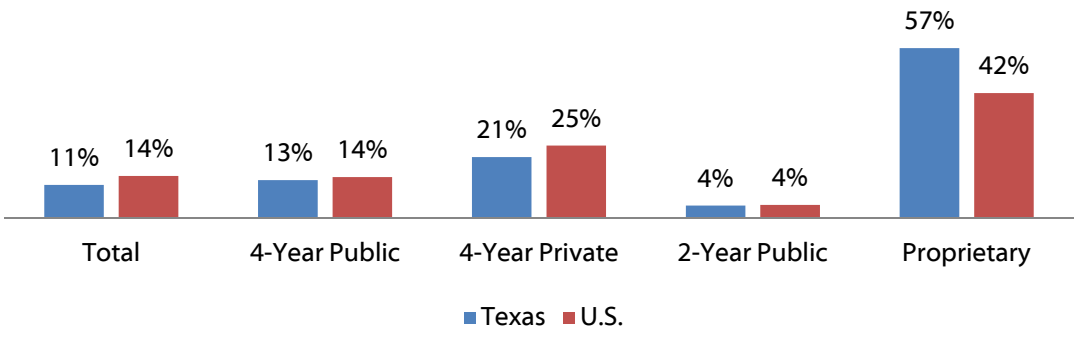
* The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates are married.

** A median is the point at which 50 percent of students had a higher amount and 50 percent had lower. A median represents a typical student better than an average because students who had high amounts skew the average, making it a less reliable gauge than the median.

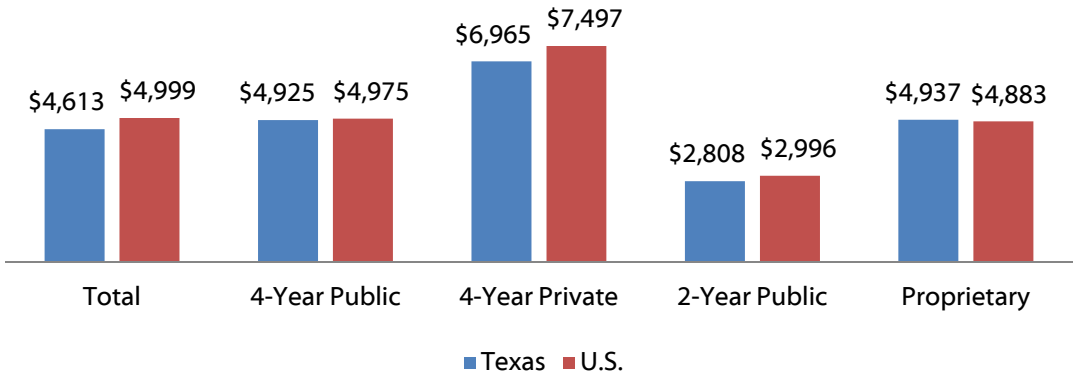
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

More Than One in Ten Texas Undergraduates Took out a Private Loan

Percent of Undergraduates in Texas and the U.S. Who Took Out a Private Loan, by School Type (AY 2007-2008)



Median Private Loan Amount for Undergraduates in Texas and the U.S. Who Took Out a Private Loan, by School Type (AY 2007-2008)



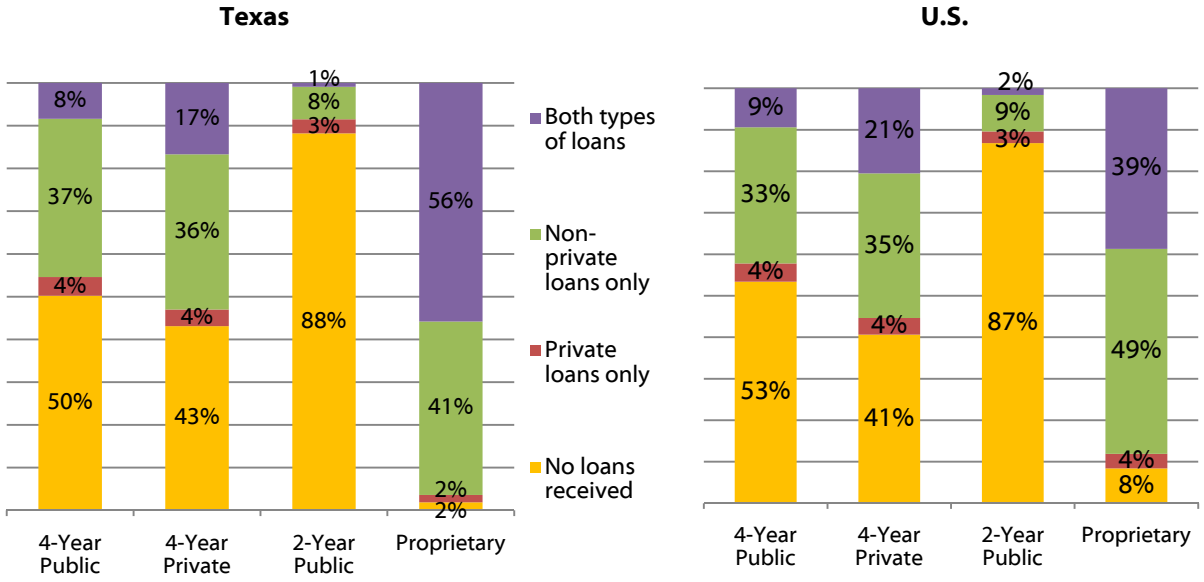
In Academic Year (AY) 2007-2008, 11 percent of Texas undergraduates took out a private, slightly less than the 14 percent in the U.S. overall. A higher percentage of 4-year private university students had a private loan than four-year public university students, due to the higher cost of private schools, and only four percent of two-year public college students took out a private loan. However, about 57 percent of Texas proprietary school students took out a private loan in AY 2007-2008, much higher than the 42 percent of U.S. students. This was also the only school type where Texas private loan borrowing was higher than the U.S. percentage. Proprietary school students are often low-income, independent students who are not able to completely fund their higher cost education through grants or federal loans.

The median private loan amount borrowed for AY 2007-2008 in Texas was $4,613, less than the national median at $4,999. The highest median amount borrowed is nearly $7,000 at four-year private universities, and the lowest median amount is just under $3,000 at two-year public colleges.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

More Than Half of Texas Proprietary School Students had Private Loans

Percent of Texas and U.S. Undergraduates Who Borrowed, by Loan Package and School Type (AY 2007-2008)



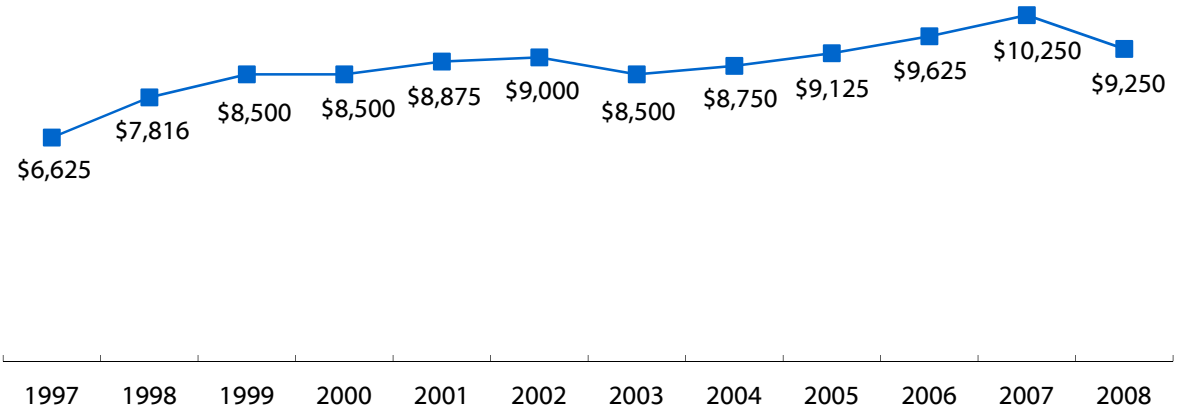
In both Texas and the U.S., students at two-year public schools were much less likely to have any loans in Academic Year (AY) 2007-2008 compared to all other school types. Students at four-year private schools were a little more likely to have loans than students at four-year public schools, likely due to the higher cost of tuition and fees. Proprietary school students were the most likely to have loans. In Texas, only two percent of proprietary school students in AY 2007-2008 did not have any loans. Texas proprietary school students were more likely to have private loans in their loan package compared to the U.S. (58 percent in Texas compared to 43 percent in the U.S.).

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Debt, Need, Work and Financial Literacy

Median Borrower Indebtedness Decreases

Median Borrower Indebtedness at Texas Schools
(Borrowers Entering Repayment Fiscal Year 1997-2008)



Fiscal Year Borrower Left School

Median borrower indebtedness* (MBI) among TG borrowers at Texas schools increased sharply from Fiscal Year (FY) 1997 to FY 1999, primarily due to students becoming eligible for larger amounts of student loans, the introduction of unsubsidized loans, and grant aid not keeping pace with increasing college costs. Student loans, along with money from part-time jobs and other forms of credit, frequently filled the gap between insufficient aid and higher costs. Many students paid for education and living expenses with credit cards and/or private loans at higher interest rates. Others increased the number of hours they devoted to work, sometimes jeopardizing their ability to keep pace academically.

Between FY 1999 and FY 2006, MBI increased at a slower rate, but reached a new high in FY 2007. The Higher Education Reconciliation Act (HERA) of 2005 included an increase in loan limits for first- and second-year Stafford loan borrowers, as well as for graduate students who borrow unsubsidized loans. These changes went into effect for loans certified with scheduled first disbursement dates on or after July 1, 2007. In addition, the Ensuring Continued Access to Student Loans Act of 2008 increased the aggregate Stafford loan limits and the annual Unsubsidized Stafford loan limits for undergraduate students. These changes will likely lead to a rise in MBI in the next few years.

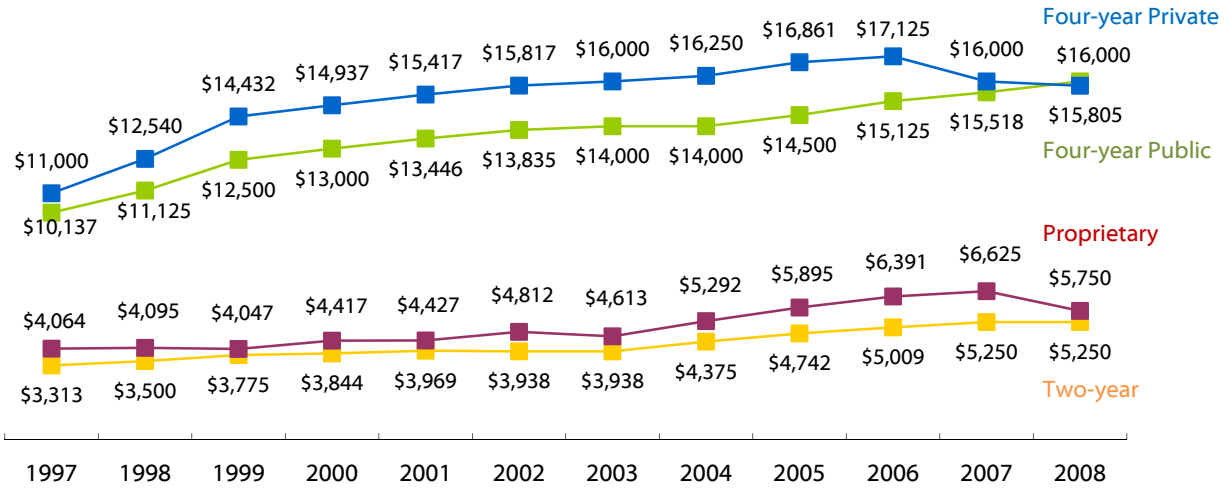
The abrupt decline in MBI in FY 2008 stems primarily from recent losses in TG's customer base. TG has lost some large Texas schools to Direct Lending in the past two years. Consequently, a higher proportion of TG borrowers had only a fraction of their debt guaranteed by TG, thus artificially lowering the organization's MBI. This decline does not represent more moderate borrowing habits, but reflects more a disruption in the student loan marketplace.

* A median is the point at which 50 percent of students borrowed less and 50 percent borrowed more. It represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower's experience with student loans.

Sources: TG, Internal Database, 2009.

Median Borrower Indebtedness Decreases for Two School Types in Texas

Median Borrower Indebtedness at Texas Schools by School Type
(Borrowers Entering Repayment Fiscal Year 1997-2008)



Fiscal Year Borrower Left School

In Fiscal Year (FY) 2008, median borrower indebtedness* (MBI) increased for TG borrowers from Texas four-year public schools, and remained the same for TG borrowers from Texas two-year schools. MBI for borrowers from Texas four-year private and Texas proprietary schools decreased between FY 2007 and FY 2008. For the first time, MBI for TG borrowers from four-year public schools was higher than for TG borrowers from four-year private schools. This FY 2008 MBI decrease at four-year private and proprietary schools is likely due to market changes. Some schools are switching to Direct Lending in anticipation of legislative changes that could require them to make this change. A majority of these schools that are switching appear to be concentrated in the two sectors that experienced a decrease in MBI in FY 2008. Consequently, a larger proportion of these borrowers have only a fraction of their total debt guaranteed by TG, thus lowering the MBI in these sectors.

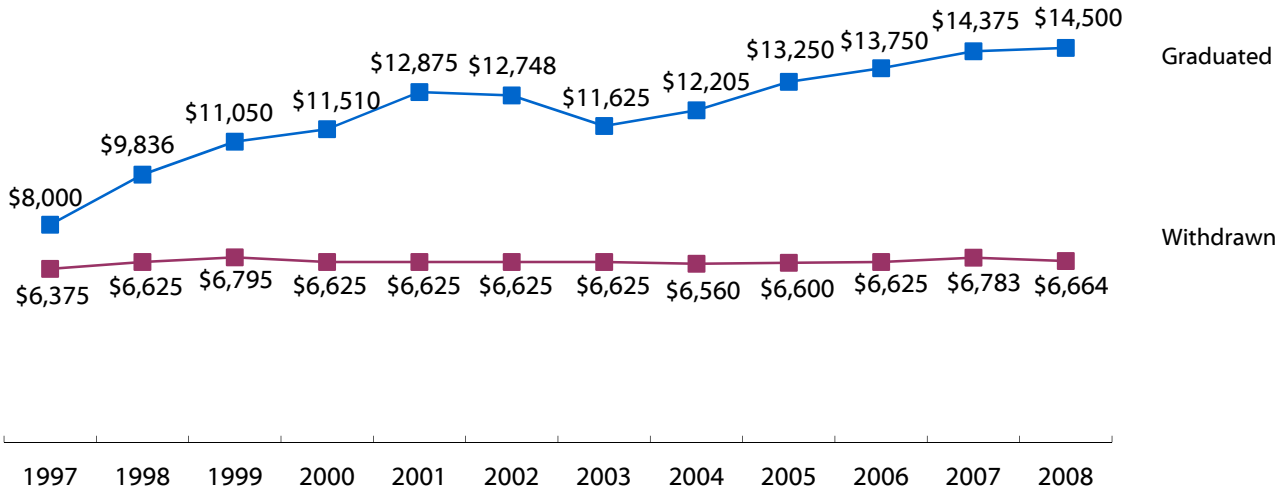
As one would expect, median borrower indebtedness* (MBI) remains higher among borrowers who attended four-year universities than among borrowers from two-year colleges and proprietary institutions. The Higher Education Reauthorization Act (HERA) of 2005 has had an overall greater impact in MBI for proprietary and two-year schools' borrowers than for those from four-year schools, as the limits were raised for first- and second-year students, but not for loans taken out during later years of school. However, the Ensuring Continued Access to Student Loans Act of 2008 includes increases in both the annual limits and aggregate limits for undergraduate students of all grades. For example, undergraduate independent students can borrow up to $57,500 in unsubsidized loans, up from the previous $46,000 aggregate limit. It is likely there will be a significant increase in MBI, although this effect will not be seen until a few years after the new limits have been in place.

* A median represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower's experience with student loans.

Source: TG, Internal Database, 2009.

Median Borrower Indebtedness Trends Vary by Enrollment Status

Median Borrower Indebtedness at Texas Schools by Enrollment Status
(Borrowers Entering Repayment Fiscal Year 1997-2008)



Fiscal Year Borrower Left School

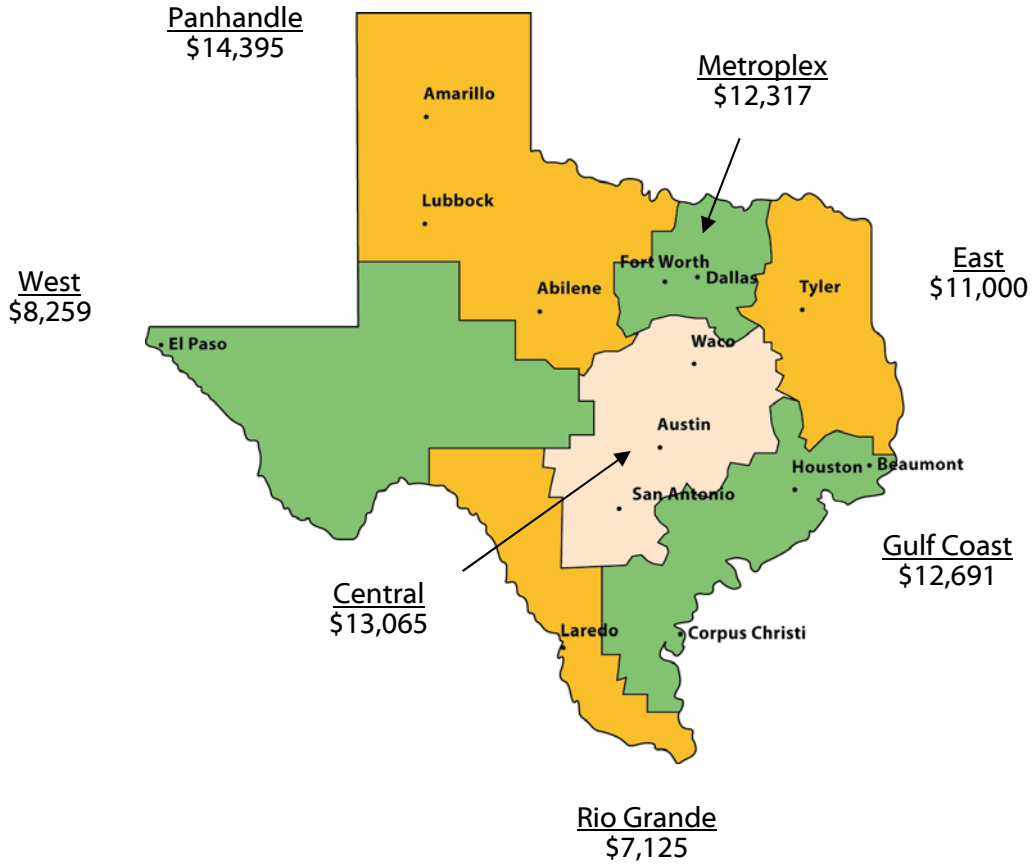
For TG borrowers who graduated from Texas schools, MBI increased 61 percent from FY 1997 to FY 2001. With minor exceptions, MBI has grown moderately since FY 2002. The MBI for borrowers who left school after graduating in FY 2008 was $14,500, the highest level to date. In contrast, the MBI for borrowers who withdrew has remained relatively the same between FY 1998 and FY 2008. Given the increase in loan limits approved in the Higher Education Reauthorization Act of 2005 (HERA) and the Ensuring Continued Access to Student Loans Act of 2008, the MBI for both graduated and withdrawn students should increase noticeably in the next few years. A rise in MBI may have a particularly significant impact on borrowers who leave school before program completion. Perhaps because students who withdraw from school reap fewer of the benefits of higher education, they are more at risk for defaulting on a student loan than is a borrower who graduates. This is particularly true for borrowers from proprietary and two-year institutions, which generally have higher rates of default than four-year schools.

* A median represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower's experience with student loans.

Source: TG, Internal Database, 2009.

Median Borrower Indebtedness Varies by Texas Region

Median Borrower Indebtedness by Region
(Borrowers Who Left School in Fiscal Year 2008)



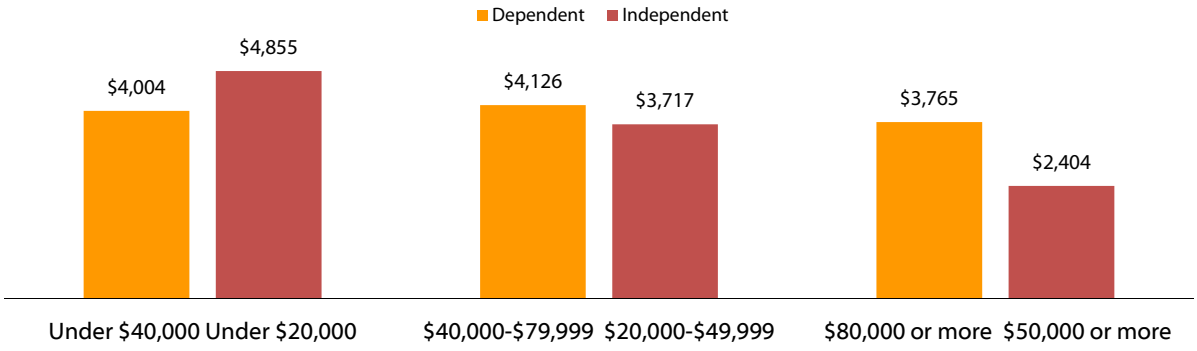
In all of the state's seven regions, the median borrower indebtedness* (MBI) increased in Fiscal Year (FY) 2008 among TG borrowers who either graduated, withdrew, or enrolled less than half time. The Gulf Coast region saw the largest dollar amount increase in MBI (i.e., $1,544 more in FY 2008 than in FY 2007). As in FY 2006 and FY 2007, students who attended school in Central Texas or the Panhandle left with the highest debt load. Regions with few four-year schools and/or many two-year or proprietary schools had lower indebtedness (i.e., Rio Grande and West Texas). The overall MBI for the state was $9,250.

* A median represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower's experience with student loans.

Source: TG, Internal Database, 2009.

Unmet Need for Low-income Undergraduates in Texas Exceeds $4,000

Median Unmet Need for Undergraduates in Texas by Parents' Income: Total Cost of Attendance Minus Expected Family Contribution (EFC) and All Aid Including Grants and Loans (AY 2007-2008)



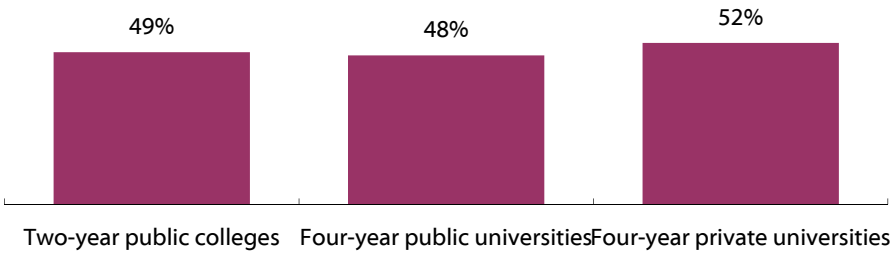
Unmet need is defined as the student's total cost of attendance* minus his or her Expected Family Contribution** and all financial aid including both grants and loans. About 75 percent of Texas undergraduates*** who are dependent on their parents and whose parents earn less than $40,000 per year had unmet need in Award Year (AY) 2007-2008, with a median**** unmet need of $4,004. This is the amount that students must cover through work or savings, or that their parents must cover through additional work and savings over and above what they are already contributing to their child's education. Unmet need was slightly higher for students whose parents earn between $40,000 and $79,999, and slightly lower for students whose parents earn $80,000 or more. The proportion of students with unmet need in these two income groups was a good deal lower than for lower-income students. For undergraduates who are independent of their parents,***** unmet need among the lowest-income students (earning less than $20,000) was $4,855. Unmet need for independent students with higher incomes was lower than for dependent students with higher incomes, perhaps due to the fact that independent students, regardless of income, attend two-year institutions by a two-to-one margin. The proportion of independent undergraduates with unmet need was 77 percent, 51 percent, and 14 percent, respectively, across the three income brackets.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses for a full-time student for nine months. Data on college costs as they relate to unmet need come from the National Postsecondary Student Aid Study (NPSAS) 2004 and are for students who took 12 or more credit hours in the fall and spring semesters. For students who took less than 12 hours, costs have been adjusted.
** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown.
*** Data on students who attended for-profit institutions are not available.
**** A median is the point at which 50 percent of students had a higher unmet need and 50 percent had lower. A median represents a typical student better than an average because students who had high unmet need skew the average, making it a less reliable gauge than the median.
***** The U.S. Department of Education defines an independent student as age 24 or older, married, with dependents to support, a veteran, orphan or ward of the court, or graduate student. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 54 percent of undergraduates in Texas are dependent and 46 percent are independent. Income of independent students includes spouse's income if any. About 43 percent of independent undergraduates are married.

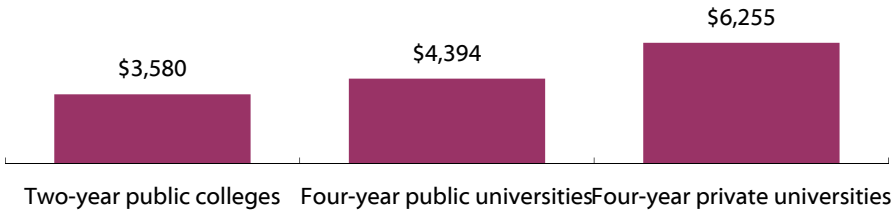
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Unmet Need in Texas is $3,580 at Two-year Public Colleges and $4,394 at Four-year Public Universities

Percent of Undergraduates in Texas with Unmet Need by School Type (AY 2007-2008)



Median Unmet Need by School Type in Texas: Total Cost of Attendance Minus Expected Family Contribution (EFC) and All Aid Including Grants and Loans (AY 2007-2008)



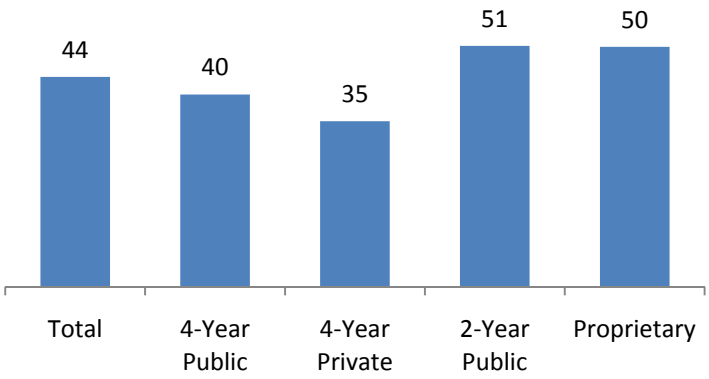
Unmet need is defined as the student's total cost of attendance* minus his or her Expected Family Contribution** and all financial aid including both grants and loans. Just under half of undergraduates in Texas*** had unmet need in Award Year (AY) 2007-2008, ranging from a median**** of $3,580 at two-year public colleges to $4,394 and $6,255, respectively, at four-year public and private universities. This is the amount that students must cover through work or savings, or, for dependent undergraduates,***** what their parents must cover through additional work or savings over and above what they are already contributing to their child's education. Although the average total cost of attendance at a four-year private university in Texas was more than $10,000 higher than at a public university ($24,453 versus $13,842, respectively, for AY 2003-2004), unmet need was only $356 higher. Although the gap between total cost of attendance was still just over $10,000 for FY 2007-2008 ($25,557 versus $14,620), the unmet need of those attending four-year private universities rose to more than $1,800 than those attending four-year public universities.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses for a full-time student for nine months. Data on college costs as they relate to unmet need come from the National Postsecondary Student Aid Study (NPSAS) 2008 and are for students who took 12 or more credit hours in the fall as well as the spring semesters. For students who took less than 12 hours, costs have been adjusted.
** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown.
*** Data on students who attended for-profit institutions are not available.
**** A median is the point at which 50 percent of students had a higher unmet need and 50 percent had lower. A median represents a typical student better than an average because students who had high unmet need skew the average, making it a less reliable gauge than the median.
***** The U.S. Department of Education defines an independent student as age 24 or older, married, with dependents to support, a veteran, orphan or ward of the court, or graduate student. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 49 percent of undergraduates in Texas are dependent and 51 percent are independent.

Sources: Costs for AY 2007-2008: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2003 (http://nces.ed.gov/ipeds/); All other: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

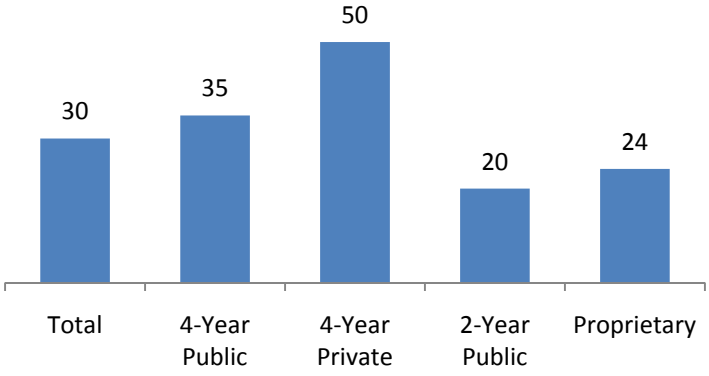
Less than One-third of Texas Undergraduates Expect Parental Help to Pay Credit Cards

Percent of Texas Undergraduates Who Carry Balances on Their Credit Cards (AY2007-2008)



More Texas undergraduates carry balances on their credit cards compared to their peers nationally, 44 percent to 41 percent, respectively. Those in two-year public and proprietary schools are more likely to carry balances on their cards, while those at four-year schools are more likely to pay off the balance each month. Half of undergraduates at four-year private universities expect help from parents to pay credit cards, while only 20 percent of two-year public undergraduates expect that help. Overall, about 30 percent of Texas undergraduates expect help from their parents to pay off their credit cards.

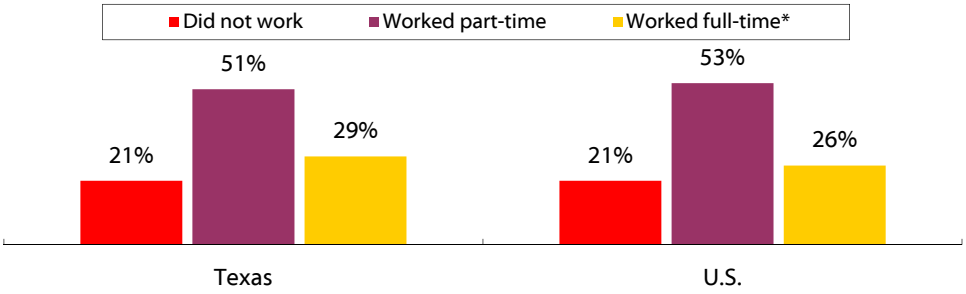
Percent of Texas Undergraduates Who Expect Help from Parents to Pay Credit Cards (AY2007-2008)



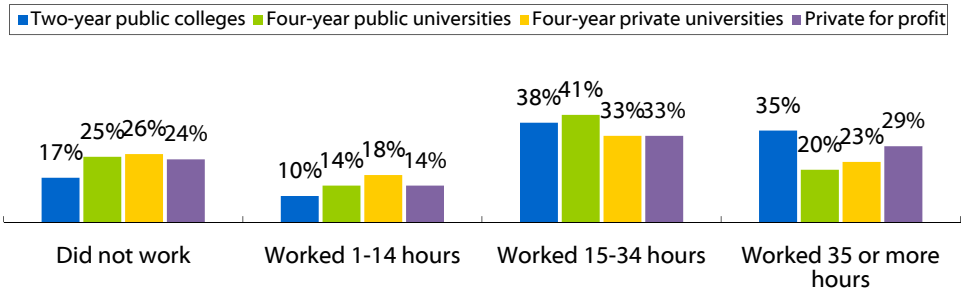
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Students Work Long Hours: Eighty Percent of Undergraduates in Texas Work While Enrolled in School

Work Status of Undergraduates in Texas and the U.S. While Enrolled in School (AY 2007-2008)



Percent Distribution of Undergraduates in Texas, by Hours Worked per Week While Enrolled and by School Type (AY 2007-2008)**



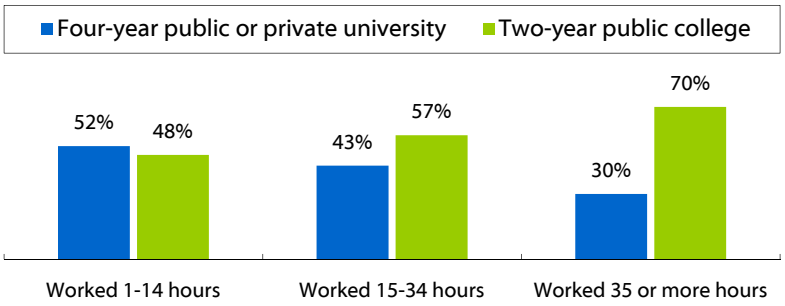
Work is one of the financing methods for many students. Research suggests that the students most likely to remain in school are those who work between one and 15 hours per week while enrolled, which described only 12 percent of Texas undergraduates in Award Year (AY) 2007-2008. In Texas, 80 percent of undergraduates worked while enrolled in school in AY 2007-2008, and 29 percent worked full-time,* with an average of 28 hours worked per week among those who worked. Students at Texas two-year public colleges, who make up a majority of undergraduates in the state, are far more likely to work full time than their counterparts at public and private four-year universities, but the percent who work 15 or more hours per week remains high at all three types of institutions: 73 percent, 61 percent, and 56 percent, respectively. About 31 percent of Texas undergraduates who work define their primary role not as a student, but as "an employee enrolled in school," while 69 percent describe themselves as "a student working to meet expenses." Among the latter group — those who consider their primary role to be student — 65 percent say the main reason they work is to pay tuition, fees, or living expenses, while 22 percent say they work mainly to earn spending money. Although on-campus employment is strongly associated with modest work hours, 92 percent of working undergraduates in Texas work off-campus.

* 35 or more hours per week.
**Excludes students who attended more than one institution.

Sources: Benefits of working modest hours: American Council on Education, *Crucial Choices: How Students' Financial Decisions Affect Their Academic Success.* Jacqueline E. King. 2002 (www.acenet.edu/bookstore/pdf/2002_crucial_choices.pdf); All other: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Work Affects Attendance: Texas Undergraduates Who Work Full time Usually Attend Part time

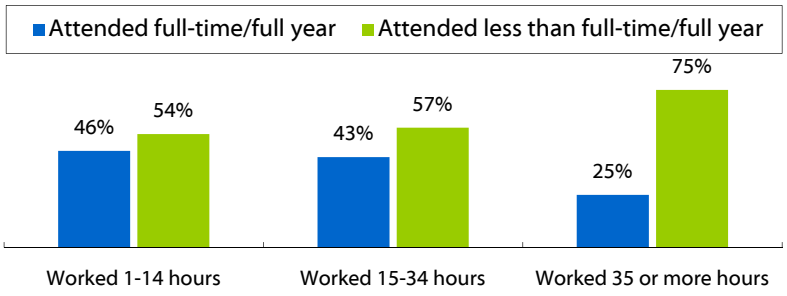
School Choice of Undergraduates in Texas, by Hours per Week Worked While Enrolled (AY 2007-2008)



While many students may consider work to be a reasonable method for financing a college education, too much work can jeopardize attendance, persistence, and degree completion, starting with the choice of which type of school to attend. The more students work the less likely they are to attend a school from which they can obtain a bachelor's degree. Undergraduates in Texas* who work part time are about as likely to choose a four-year institution as a two-year institution, but students who work full time** choose two-year schools by more than a two-to-one margin.

In addition to affecting school choice, long work hours can affect attendance intensity. Students who enroll on a full-time basis and devote most of their time to school are more likely to complete a degree in a timely manner than students who go to school part time. In Texas, 40 percent of undergraduates in Award Year (AY) 2007-2008 attended school full time/full year, meaning they took a full course load, usually 12 or more credit hours for at least nine months. Students who attend less than full time/full year either take a full course load for less than nine months, or do not take a full course load. Not surprisingly, the students who are most likely to attend full time are those who work modest hours: 46 percent of Texas undergraduates who work less than 15 hours per week attend school full time. By contrast, three-quarters who work full time attend school less than full time.

Attendance Intensity of Undergraduates in Texas, by Hours Worked While Enrolled (AY 2007-2008)



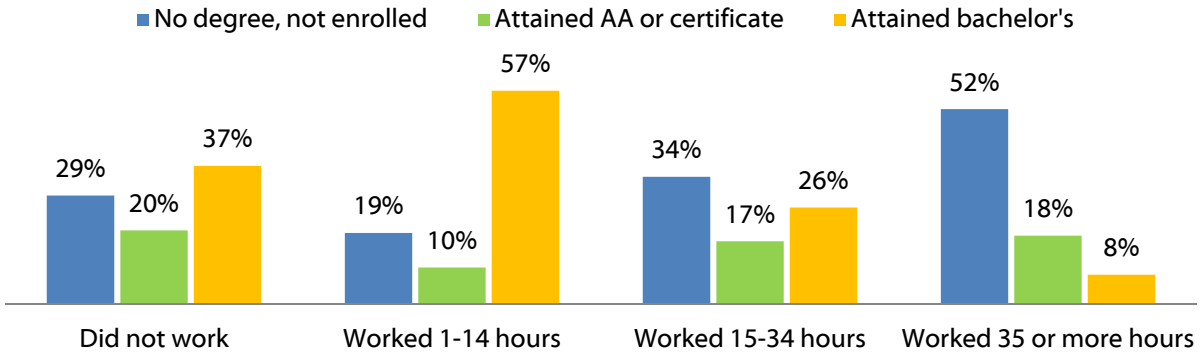
* Data on students who attended for-profit institutions are not available.

** 35 or more hours per week.

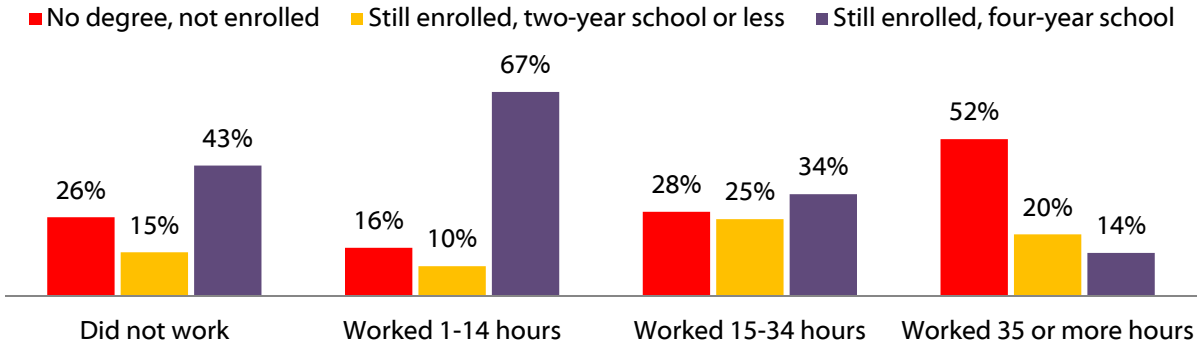
Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Work Affects Persistence: Students Who Work Full-Time are Less Likely to Graduate or Stay in School

Work and Degree Completion: Status in 2001 of Students Who Began Postsecondary Education in 1995, by Hours Worked Per Week While Enrolled Their First Year (Students Who Are Still Enrolled Not Shown)



Work and Persistence in School: Status in 1998 of Students Who Began Postsecondary Education in 1995, by Hours Worked per Week While Enrolled Their First Year (Students Who Obtained Certificate or Associate's Degree Not Shown)



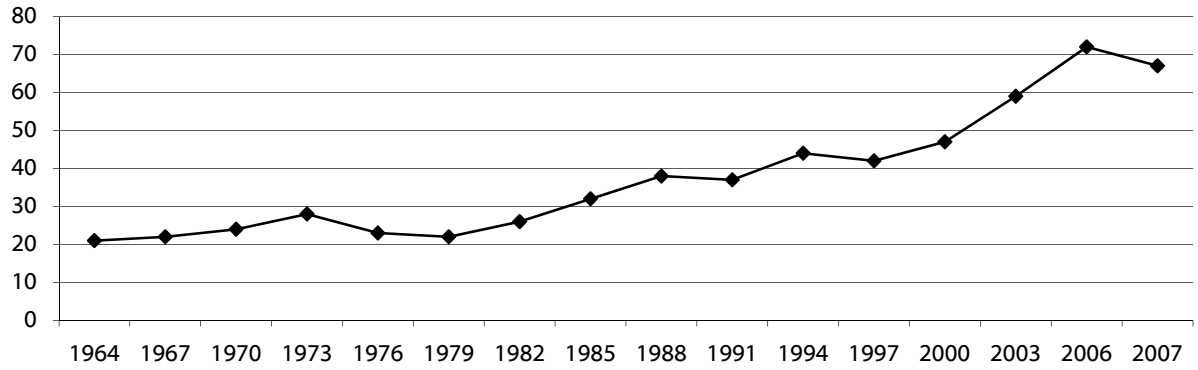
Most undergraduates take more than four years to complete a bachelor's degree. For students who work full time, degree completion can take even longer, or not occur at all. Only eight percent of students who began postsecondary education in the U.S. in 1995 and who worked 35 or more hours per week their first year had obtained a bachelor's degree by 2001, compared to 57 percent of those who worked only 1 to 14 hours per week. Among those who worked full time their first year, 52 percent, had left higher education by 2001 without obtaining a certificate or degree of any kind.

Research suggests that the students who are the most likely to remain in school are those who work fewer than 15 hours per week. Interestingly, students who work modest hours are even more likely to remain in school than students who do not work at all, perhaps because they learn to manage their time more effectively than students who do not work. Sixty-seven percent of freshmen who began postsecondary education in the U.S. in 1995 and who worked one to 14 hours per week their first year were still enrolled in a four-year school three years later. By contrast, a third of freshmen who worked 35 or more hours per week their first year were still enrolled three years later, and only 14 percent were enrolled in a four-year school. Data on Texas undergraduates are not available.

Sources: Benefits of working modest hours: American Council on Education, *Crucial Choices: How Students' Financial Decisions Affect Their Academic Success.* Jacqueline E. King. 2002 (www.acenet.edu/bookstore/pdf/2002_crucial_choices.pdf); Time to degree completion: U.S. Department of Education, *Condition of Education: Student Effort and Educational Progress* (http://nces.ed.gov/programs/coe/2003/section3/indicator21.asp);All other: U.S. Department of Education, National Center for Education Statistics, "Beginning Postsecondary Students (BPS): 2001 (www.nces.ed.gov/das).

A Student Working at Minimum Wage Must Work 67 Hours per Week to Pay for a Baccalaureate Education

Hours of Minimum Wage Work Needed to Pay for a Public University Undergraduate Education, 1964 to 2007



In earlier generations, some students paid their entire way through school by working and still managed to carry a full course load, but that is no longer feasible. How many hours would students need to work in order to pay their way through school today? From 1966 to 1981, a time in which the minimum wage increased fairly regularly, an industrious undergraduate could have paid for a year of education at a public university — including tuition, food, and housing — by working about 24 hours per week at a minimum wage job.

However, in the early 1980s, as the cost of education began to climb and minimum wage increases became less frequent, the number of work hours needed to pay for education began to rise. By 1988, a student working at the then-minimum wage of $3.35 per hour would have had to work 39 hours per week to put himself or herself through school. The number of work hours needed to pay for an undergraduate education continued to inch upward in the 1990s, then rose again sharply at the turn of the century. At the peak in 2006, as a result of both increased costs and stagnant wages, a student working at the minimum wage of $5.15 per hour would have had to work 72* hours per week every week of the year in order to pay the tuition, fees, and living expenses associated with two semesters of attendance at a public university. By 2007, due to an increase in minimum wage to $5.85, that dropped to 67* hours per week. Texas costs tend to be lower than the nation, which means a few less hours of work would be needed to pay for college. To pay for the total cost of two semesters of education at a Texas public university in 2006-2007, a student would have had to work 68** hours per week every week of the year.

The picture will continue to improve as minimum wage rises to $6.55 in 2008 and $7.25 in 2009.

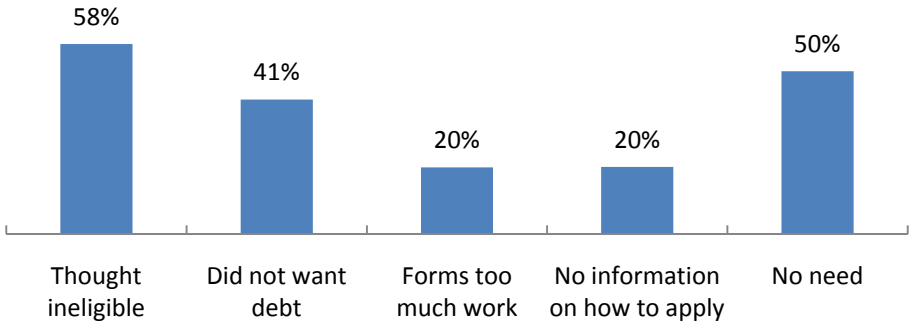
*Postsecondary Education Opportunity estimated the AY 2007-2008 student budget at public universities at $19,027. In 2007, the minimum wage was $5.85 per hour, with 6.2 percent taken out for Social Security. At a net of $5.49 per hour, a full-time student with no other financial aid or assets would have to work 3,466 hours per year, or 67 hours per week, to put himself or herself through school.

**The average total student budget, weighted for enrollment, at Texas public 4-year universities in 2006-2007 was $17,196. At a net of $4.83 per hour, a full-time student with no other financial aid or assets would have to work 3,560 hours per year, or 68 hours per week, to put himself or herself through school.

Sources: Minimum wage: U.S. Department of Labor. Employment Standards Administration, "History of Federal Minimum Wage Rates" (http://www.dol.gov/esa/minwage/chart.htm); U.S. Data: Postsecondary Education Opportunity. "'I worked my way through college. You should too," 2008 update to *Research Newsletter,* Issue Number 125 (November 2002) (www.postsecondary.org); Texas Data: U.S. Department of Education, National Center for Education Statistics, IPEDS Dataset Cutting Tool (http://www.nces.ed.gov/ipeds/).

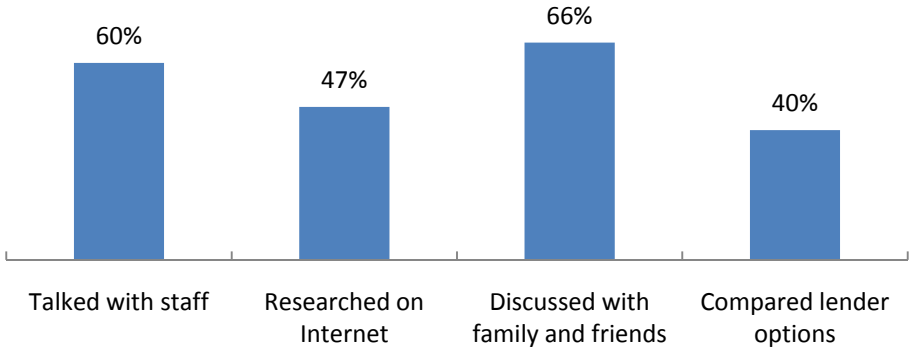
Financial Literacy of Texas Students

Percent of Texas Students by Reason for Not Applying for Financial Aid (AY 2007-2008)



More than 40 percent of Texas students in Academic Year (AY) 2007-2008 did not apply for financial aid because they did not want to take on debt. Half did not apply because they did not need any aid. One in five did not apply because they believed the forms were too much work. A recent study found that students who received help filling out the Free Application for Federal Student Aid (FAFSA) were more likely to actually submit it, and were more likely to receive a Pell grant, than those who did not receive help. In this randomized experiment, 56 percent of dependent students who received help with the FAFSA ended up submitting it compared to 40 percent in the control group, and the study also showed 40 percent of dependent students who submitted the FAFSA with assistance received a Pell grant compared to 30 percent of dependent students who submitted the FAFSA without assistance. These same trends were also seen with independent students who did not have prior college experience and independent students with prior college experience.

Percent of Texas Students by Strategy Used for Making Financial Aid Decisions (AY 2007-2008)



Two-thirds of Texas college undergraduates who applied for aid in AY 2007-2008 discussed financial aid with their family and friends to help make decisions. Nearly that many also talked with their high school or college staff when making financial aid decisions. Almost half researched financial aid on the Internet, while less than half of Texas undergraduates who had a Federal Family Education Loan Program (FFELP) Stafford loan or a private loan compared options by different lenders when making decisions about borrowing money.

Source: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

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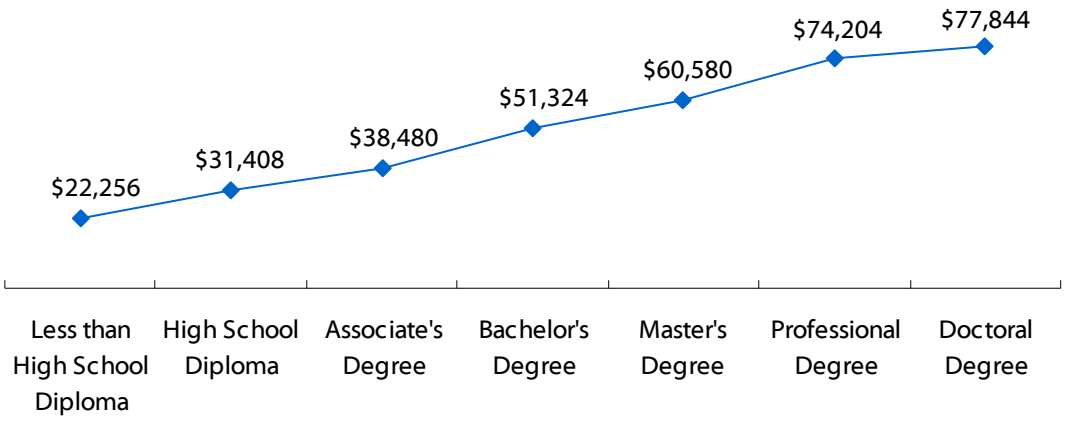
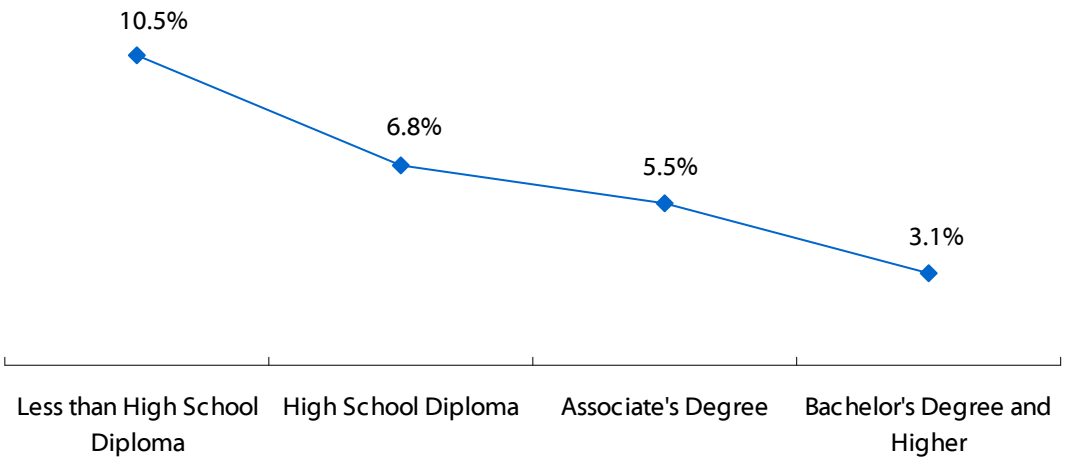
Texas College Attainment

College Graduates Earn Far More than High School Graduates Earn and Experience Less Unemployment

More Education Equals Higher Earnings: Median Earnings by Educational Attainment (2007)



Unemployment Rate by Educational Attainment (November 2008)



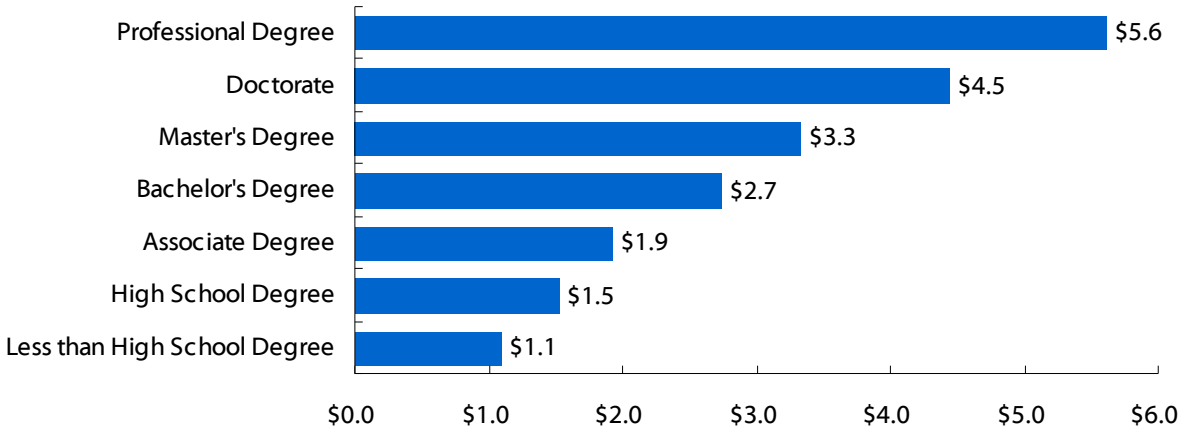
The U.S. Census Bureau reports that higher levels of education are closely associated with higher average earnings. While an associate's degree provides a boost in average annual earnings above those of high school graduates, earning a bachelor's degree enables the graduate to make an additional $19,916 each year. Earning a bachelor's degree can also lead to graduate school, where average incomes soar.

More evidence for the economic strength of education comes from the U.S. Bureau of Labor Statistics. For November 2008, the unemployment rate of workers age 25 and older who had not completed high school stood at 10.5 percent. Unemployment decreases with additional education. The unemployment rate for high school graduates was 6.8 percent, while the unemployment rate for those with a bachelor's degree and higher was 3.1 percent.

Sources: Unemployment: Bureau of Labor Statistics. "Employment Status of the Civilian Population 25 Years and Over by Educational Attainment," November 2008 (http://www.bls.gov/news.release/empsit.t04.htm); Earnings: Bureau of Labor Statistics, Current Population Survey 2007.

Better Educated Workers Have Higher Worklife Earnings

Worklife* Earnings for Full-time Year-round Workers by Educational Attainment (in Millions of 2005 Dollars)



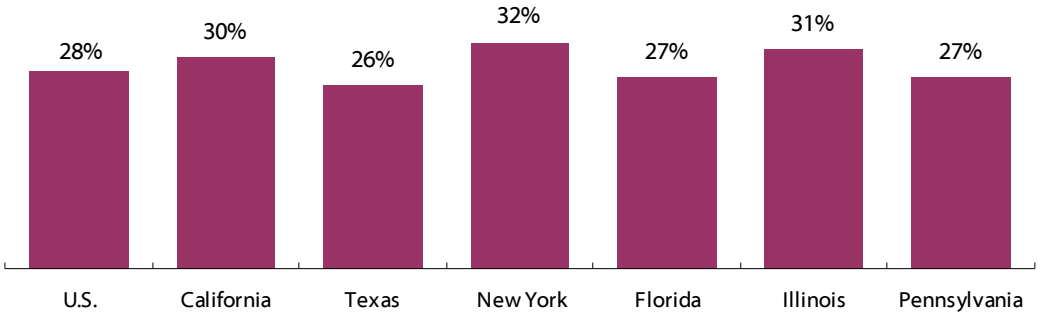
(*approximately 40 years)

The difference in the salary earned by higher- and lower-educated workers compounds over a lifetime. The estimated earnings during the worklife (approximately 40 years) of a full-time worker who did not complete high school are about $1.1 million. Completing high school increases earnings by about $400,000, and completing a bachelor's degree raises worklife earnings to $2.7 million. Post graduate education pays off even more; workers with a professional degree, such as doctors and lawyers, can expect over the course of their worklives to earn more than twice what workers with a bachelor's degree will earn.

Source: Kantrowitz, Mark. "The Financial Value of Higher Education," *NASFAA Journal of Student Financial Aid*, Vol. 37, No. 1 (2007); U.S. Census Bureau. *The Big Payoff: Educational Attainment and Synthetic Estimates of Work-Life Earnings.* July 2002. (http://www.census.gov/prod/2002pubs/p23-210.pdf).

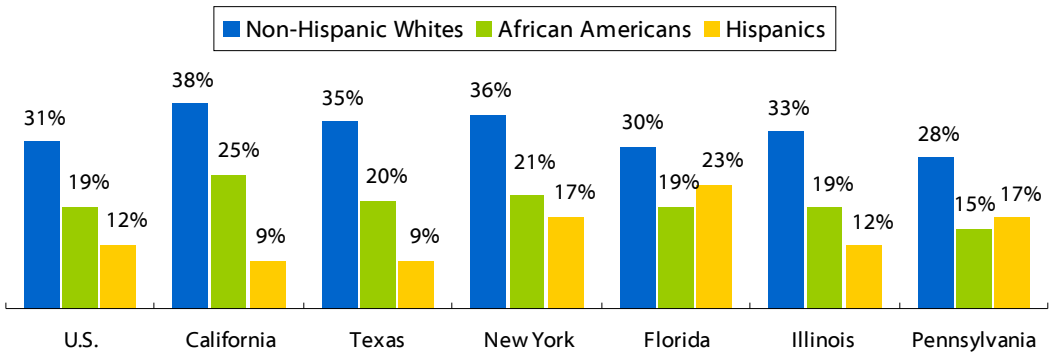
College Completion Rates in Texas Are Lower Than in the U.S., though the Gap is Not as Wide as for High School Completion Rates

Population Age 25 and Older With a Bachelor's Degree or Higher (2006)



States shown in order by size of population

Population Age 25 and Older With a Bachelor's Degree or Higher (2006)



States shown in order by size of population

Texas ranks lower than the nation in the percent of people who have completed a bachelor's degree or higher, although the gap between Texas and the U.S. is not as wide as the gap in the percent who have completed high school (79 percent and 85 percent, respectively). U.S. Census Bureau data show that about 26 percent of Texans age 25 and older have obtained a bachelor's degree or higher, compared to 28 percent in the U.S. The percent of Texans with a bachelor's degree or higher rose slightly from 25 percent in 2005. Among the six largest states, Texas is in last place in the percentage with a bachelor's degree or higher.

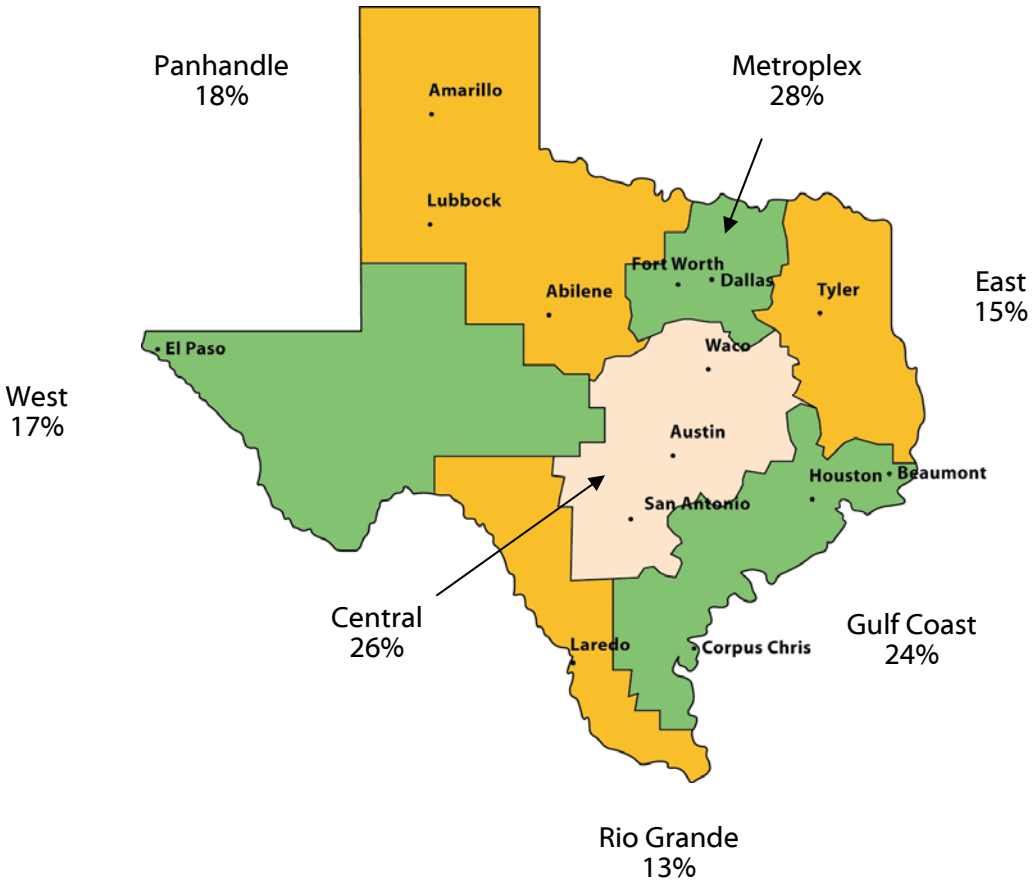
By ethnicity, U.S. Census Bureau data also show that:

- Just as Hispanics in Texas are the least likely to complete high school, they are also the least likely to complete a bachelor's degree. Fewer than one in 10 Hispanics age 25 and older has a bachelor's degree or higher, compared with over one in three Whites.
- Although the percent of African Americans who have completed high school is 8 percent lower than for Whites, the percent who have completed college is 15 percent lower. The gap in college completion rates between Whites and African Americans has increased from 13 percent in 2005.
- Among the six largest states, Texas ranks third in the percent of Whites with a degree, ranks fourth for African Americans, and ties for last for Hispanics.

Source: U.S. Census Bureau, Current Population Survey 2006. "Educational Attainment in the United States: 2006", Tables 1a, 10, and 14 (http://www.census.gov/population/www/socdemo/education/cps2006.html)

Texas Educational Attainment Levels Vary by Region

People Age 25 and Older With a Bachelor's Degree or Higher (2000)

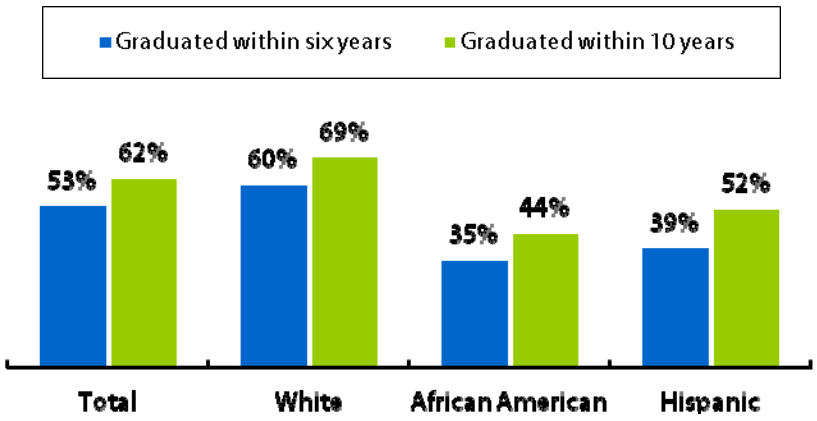


Educational attainment levels in the different regions of Texas vary dramatically. In the Metroplex, 28 percent of people age 25 and older have a bachelor's degree or higher. Educational attainment levels in Central Texas and the Gulf Coast region are only slightly less. In Central Texas, home to the state's two flagship universities, 26 percent of adults have a bachelor's degree or higher, and in the Gulf Coast region, 24 percent of people have a bachelor's degree or higher. However, educational attainment levels drop off in other areas of the state. East Texas, West Texas, and the Panhandle all record lower levels of educational attainment, and in the Rio Grande Valley, the percentage of college graduates is less than half that in the Metroplex.

Source: Texas State Data Center and Office of the State Demographer. "Table 3: Number and Percent of Persons Age 25 and Older who are High School Graduates and Higher or College Graduates and Higher for the State of Texas and Counties in Texas, 1990 and 2000" (http://www.txsdc.tamu.edu/data/census/2000/dp2_4/county/tab-003.txt) .

Graduation Rates in Texas Remain Stratified by Ethnicity

First-time, Full-time Freshmen Who Entered a Texas Public University in 1996 and Who Received a Bachelor's Degree Within Six and 10 Years, by Ethnicity



College graduation rates in Texas are rising, but remain stratified by ethnicity and gender. About 56 percent of first-time, full-time freshmen who entered a Texas public university in 2001 obtained a bachelor's degree from that or another Texas public university within six years, but the rate varied from 64 percent of Whites to 45 percent of Hispanics and 38 percent of African Americans. The 10-year graduation rate for Whites and African Americans is 9 percent higher than their six-year graduation rate, and the 10-year rate for Hispanics is 13 percent higher. Only 25 percent of freshmen in Texas graduate in four years. Most undergraduates in the U.S. take more than four years to complete a bachelor's degree.* Reasons for this vary, but include: 1) pursuing a degree that requires more than 120 credit hours; 2) pursuing more than one degree; 3) changing the degree plan or major; 4) taking extra courses beyond those needed to graduate; 5) leaving or "stopping out" of school for brief periods; and 6) transferring from one institution to another. In addition, many students may attend school part time and work long hours in order to cut costs. In Academic Year (AY) 2003-2004, 45 percent of public university undergraduates in Texas attended school less than full time/full year, that is they either took fewer than 12 hours per semester or did not attend two semesters, and 75 percent worked while enrolled, of whom 28 percent worked full time.** Full time work and part time attendance, both of which are associated with lower graduation rates, are also associated with each other; 69 percent of Texas public university undergraduates who work full time while enrolled attend less than full time/full year.

* Bachelor's degree recipients in AY 1999-2000 who had not stopped out of school averaged 55 months from first enrollment to degree completion.

** 35 or more hours per week.

Sources: Time to degree completion and reasons for delay: U.S. Department of Education, *Condition of Education: Student Effort and Educational Progress* (http://nces.ed.gov/programs/coe/2003/section3/indicator21.asp); Graduation rates: Six-year and ten-year: THECB, Baccalaureate Graduation Rates http://www.txhighereddata.org/Interactive/GradRates.cfm); Four-year :THECB, Higher Education Accountability System (http://www.txhighereddata.org/Interactive/Accountability/); All other: U.S. Department of Education, National Postsecondary Student Aid Study (NPSAS) 2004 (http://www.nces.ed.gov/das).

THECB Reports Texas Meeting Overall Higher Education Targets, but Not Meeting Targets for Hispanic Enrollment or Bachelor Degrees

Although the number of students enrolled in college in Texas has been increasing, the 2000 U.S. Census revealed that a smaller percentage of the population participates in higher education than in other large states and the U.S. as a whole. About eight percent of the Texas population age 18 and older was enrolled in higher education in 2000, versus 8.4 percent for the U.S. and 10.4 percent for California. In 2000, Texas set the goal of "closing the gaps" in participation and success in higher education by 2015. The state aims to achieve this goal by increasing the number of students enrolled by 630,000, and increasing the number of degrees and certificates awarded by 50 percent.

In July 2005, the Texas Higher Education Coordinating Board (THECB) reported that the state has met its 2005 intermediate target for overall enrollment, but has not met its target for Hispanic enrollment. Hispanic enrollment increased, but below the rate needed to meet the 2005 target. Although the large number of White students has significantly increased total enrollment, the percentage enrollment increase for Whites was only 10.4 percent between fall 2000 and fall 2005. African American enrollment rose by 28.8 percent during the same period. Hispanic enrollment rose by 34.6 percent, but because of the magnitude of growth needed to reach Hispanic enrollment targets the impressive increase for Hispanic students was not sufficient to reach the interim 2005 enrollment target. As of fall 2007, Hispanic enrollment needed to grow by 37 percent in order to reach the target set for 2010.

The THECB also reported that the state has achieved its 2005 target for the total number of degrees and certificates awarded, and is on track to reach the target set for bachelor's degrees.

Texas Participation Targets for 2010

	Actual Fall 2007	2010 Targets	Growth Needed to Reach 2010 Targets
Total enrollment	1,254,983	1,423,000	13%
African American enrollment	145,387	158,300	9%
Hispanic enrollment	345,284	474,000	37%
White enrollment	621,603	660,500	6%

Texas Success Targets for 2010

	Actual FY 2007	2010 Targets	Growth Needed to Reach 2010 Targets
Total certificates and degrees	152,058	171,000	12%
Associate's degrees	37,869	43,400	15%
Bachelor's degrees	93,032	100,000	7%

Sources: Percent enrolled in higher education: U.S. Census Bureau, *Census 2000,* General Demographic Characteristics – DP-1 (population age 18 and over) and General Social Characteristics (population enrolled in higher education) (http://www.census.gov/main/www/cen2000.html); "Closing the Gaps" goals: Texas Higher Education Coordinating Board (THECB). *Closing the Gaps,* October 2000 (http://www.thecb.state.tx.us/AdvisoryCommittees/HEP/0096.htm); "Closing the Gaps" progress: THECB. *Closing the Gaps by 2015: 2008 Progress Report,* July 2008 (http://www.thecb.state.tx.us/reports/PDF/1555.PDF).

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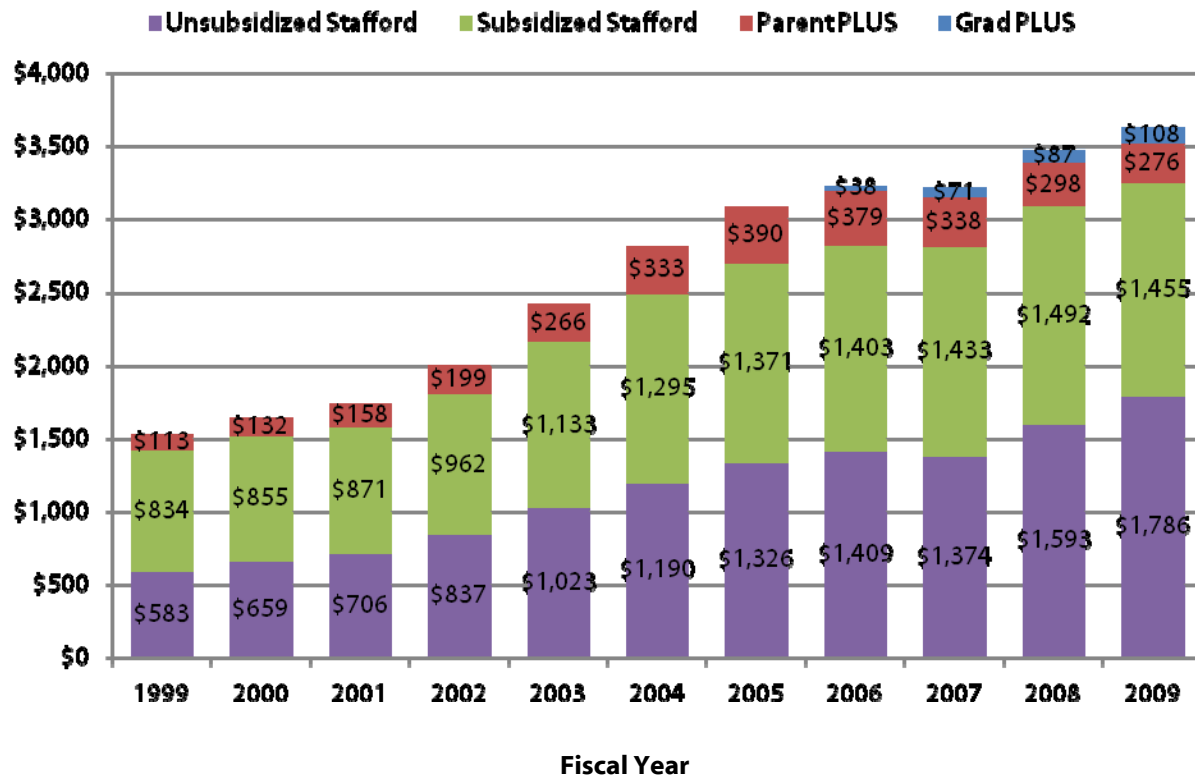
TG

TG Texas Volume Continues to Experience Gains

TG Gross Loan Volume at Texas Schools by Program in Millions of Dollars
(Fiscal Years 1998-2008 – Excludes Consolidations)



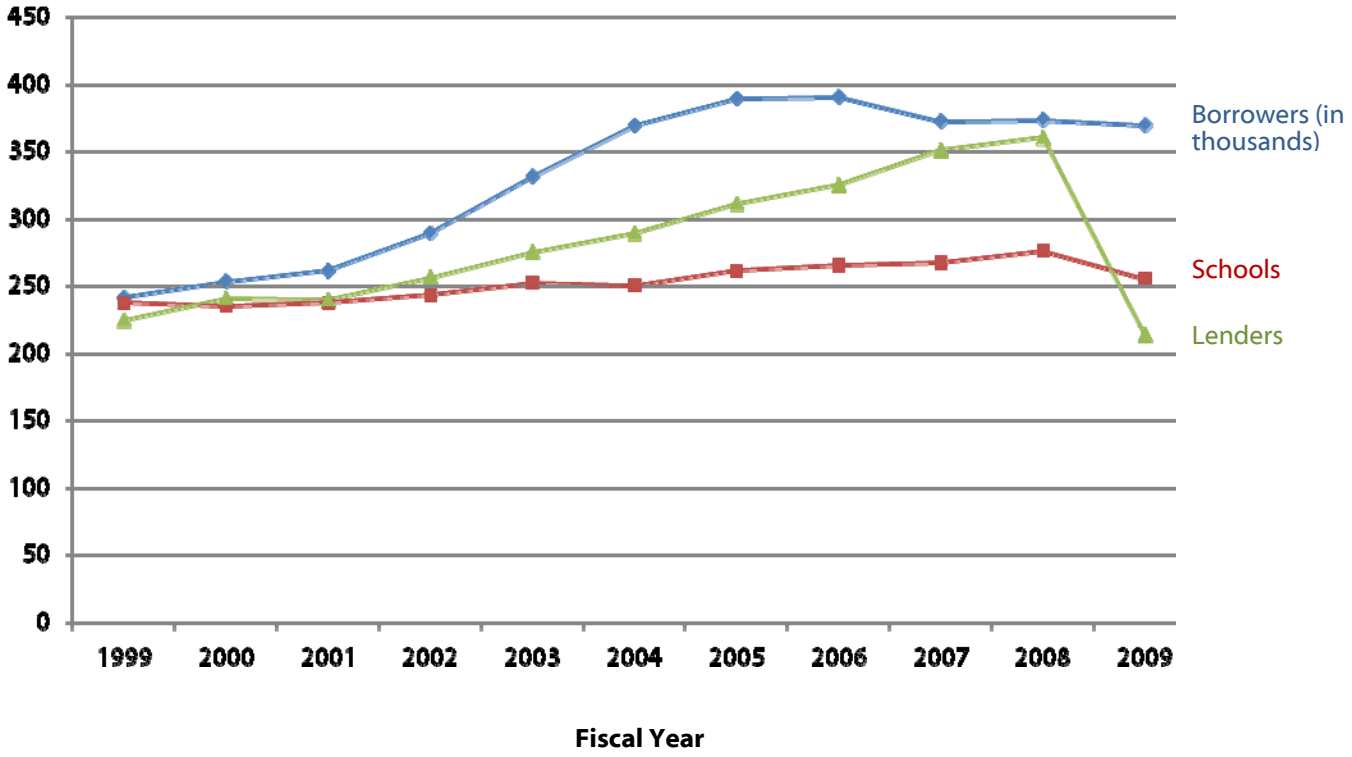
The chart above displays TG's Texas loan volume by fiscal year, which begins on October 1 and ends on September 30 of the following year.

From Fiscal Year (FY) 1999-2001, TG's gross loan volume increased between five and eight percent annually. From FY 2002 to FY 2005, however, TG experienced double digit increases, between 10 and 21 percent annual growth. That growth tapered off again in FY 2006 and FY 2007, but picked back up again in the last two years, with a four percent volume increase in FY 2009 over FY 2008.

Source: TG, Internal Database, 2009.

Participating Lenders Drop

Number of TG Texas Borrowers* (in Thousands) and Numbers of Participating TG Texas Schools and Lenders (Fiscal Years 1999-2009)**



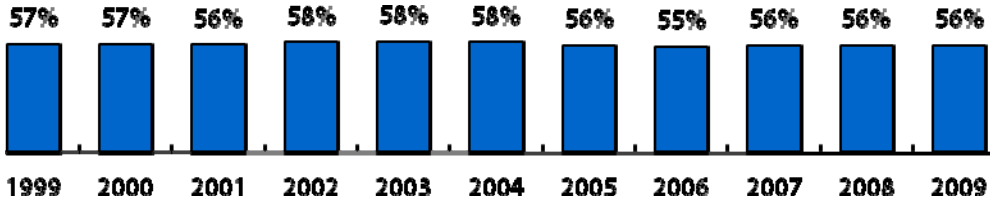
The number of TG borrowers in Texas has held relatively steady the past three years at around 370,000. The number of Texas schools using TG as their guarantor dropped about eight percent in FY 2009, due to the shift from the Family Federal Education Loan Program (FFELP) to Direct Lending (DL). The number of lenders working with TG at Texas schools dropped 41 percent in FY 2009 due to the shift to DL, the financial crisis that began in 2008, the reduction of lender subsidies, and the collapse of the securitization market.

*Excludes consolidation borrowers
**Includes school branches

Source: TG, Internal Database, 2009.

Top Texas School Volume Increases

Top 20 Texas Schools' Percentage of TG Texas Volume, (FY 1999-2009 Gross)



Fiscal Year

Gross loan volume for TG's top 20 Texas schools increased by nearly $85 million in Fiscal Year (FY) 2009, a four percent increase from the previous fiscal year. TG's top 20 Texas schools accounted for 56 percent of TG's total Texas volume in FY 2009.

TG Top Originating Texas School Volume, FY 2009 Gross

School	Loans (In Thousands)	Amount (In Millions of $)	% of TG Volume
1. University of Texas at Austin	60.2	328.6	9.1
2. University of Houston	33.1	179.5	5.0
3. Texas A&M University	33.7	172.8	4.8
4. Texas Tech University	29.7	139.1	3.8
5. University of Texas at Arlington	32.4	138.4	3.8
6. Baylor University	18.2	97.0	2.7
7. Texas Southern University	19.2	95.7	2.6
8. University of Texas at El Paso	20.5	93.5	2.6
9. Southern Methodist University	10.4	91.2	2.5
10. Stephen F. Austin University	20.4	82.8	2.3
11. Texas Woman's University	18.9	81.1	2.2
12. Sam Houston State University	17.9	77.7	2.1
13. University of the Incarnate Word	14.9	72.3	2.0
14. Tarleton State University	12.4	58.5	1.6
15. Texas Christian University	8.5	57.7	1.6
16. University of North Texas	15.0	55.1	1.5
17. Texas A&M University Corpus Christi	11.7	54.6	1.5
18. Lamar University	13.2	52.8	1.5
19. University of Houston Downtown	11.9	52.7	1.5
20. Texas Wesleyan University	6.7	52.3	1.4
Total	**408.9**	**2,033.6**	**56.1**

Source: TG, Internal Database, 2009.

TG Volume Concentrated in Rural Areas, More Widely Distributed in Urban Areas

TG Top Schools by Region
(FY 2009 Gross)

Panhandle*

1. Texas Tech University	$139 Million
2. Texas Tech University Health Sciences Ctr	$52
3. West Texas A&M University	$39
4. Abilene Christian University	$36
5. Midwestern State University	$32

*** Top 5 Schools Account for 70% of Volume**

Metroplex*

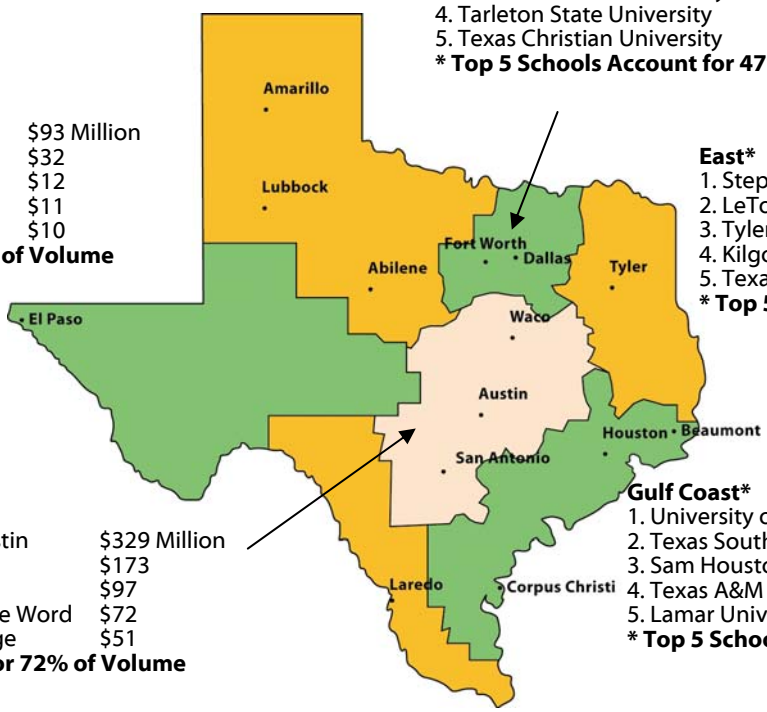
1. University of Texas at Arlington	$138 Million
2. Southern Methodist University	$91
3. Texas Woman's University	$81
4. Tarleton State University	$58
5. Texas Christian University	$58

*** Top 5 Schools Account for 47% of Volume**

West*

1. University of Texas El Paso	$93 Million
2. Angelo State University	$32
3. Sul Ross State University	$12
4. Univ. of Texas – Permian Basin	$11
5. Western Technical College	$10

*** Top 5 Schools Account for 87% of Volume**



East*

1. Stephen F. Austin State Univ.	$83 Million
2. LeTourneau University	$37
3. Tyler Junior College	$26
4. Kilgore College	$15
5. Texas College	$6

*** Top 5 Schools Account for 86% of Volume**

Central*

1. University of Texas at Austin	$329 Million
2. Texas A&M University	$173
3. Baylor University	$97
4. University of the Incarnate Word	$72
5. Austin Community College	$51

*** Top 5 Schools Account for 72% of Volume**

Gulf Coast*

1. University of Houston	$180 Million
2. Texas Southern University	$96
3. Sam Houston State University	$78
4. Texas A&M Univ. - Corpus Christi	$55
5. Lamar University	$53

*** Top 5 Schools Account for 55% of Volume**

Rio Grande*

1. University of Texas at Brownsville	$40 Million
2. Texas A&M International University	$22
3. Valley Grande Institute for Academic Studies	$4
4. South Texas Vocational Tech Inst. McAllen	$4
5. South Texas Vocational Tech Inst. Weslaco	$3

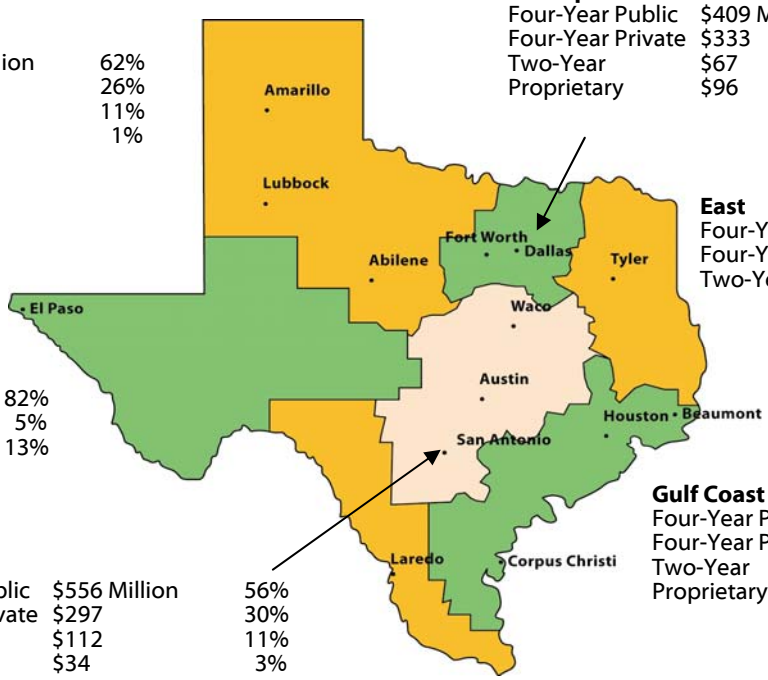
*** Top 5 Schools Account for 91% of Volume**

In the rural areas of the state, TG Fiscal Year (FY) 2009 loan volume remains concentrated among a few schools. In regions that contain the state's largest cities, loan volume is more widely distributed. For example, in the Rio Grande region five schools account for 91 percent of regional loan volume, while in the Metroplex the five schools with the largest loan volume account for less than half of regional volume. This is most likely due to the greater number of school choices that exist in the more urbanized regions of the state.

Source: TG, Internal Database, 2009.

Four-year Public Schools Account for Most Loan Volume

TG Volume by Region and School Type
(FY 2009 Gross)



Panhandle

Four-Year Public	$261 Million	62%
Four-Year Private	$111	26%
Two-Year	$48	11%
Proprietary	$4	1%

Metroplex

Four-Year Public	$409 Million	45%
Four-Year Private	$333	37%
Two-Year	$67	7%
Proprietary	$96	11%

East

Four-Year Public	$91 Million	47%
Four-Year Private	$48	25%
Two-Year	$54	28%

West

Four-Year Public	$149 Million	82%
Two-Year	$9	5%
Proprietary	$25	13%

Gulf Coast

Four-Year Public	$617 Million	74%
Four-Year Private	$77	9%
Two-Year	$112	13%
Proprietary	$34	4%

Central

Four-Year Public	$556 Million	56%
Four-Year Private	$297	30%
Two-Year	$112	11%
Proprietary	$34	3%

Rio Grande

Four-Year Public	$62 Million	76%
Two-Year	$1	2%
Proprietary	$18	22%

In Fiscal Year (FY) 2009, four-year public schools accounted for 59 percent of TG gross loan volume, lower than the previous fiscal year. Four-year private school volume and proprietary volume increased as a share of total TG volume in Texas compared to the previous fiscal year.

Comparing Texas regions reveals distinct differences. Proprietary volume as a percent of the region's total volume is highest in the Rio Grande Valley and West Texas, and these two regions also have the lowest two-year volume. Four-year private volume is highest in the Metroplex region, and four-year public volume is highest in regions where TG does not have four-year private volume (the Rio Grande Valley and West Texas regions).

TG Texas Volume by School Type

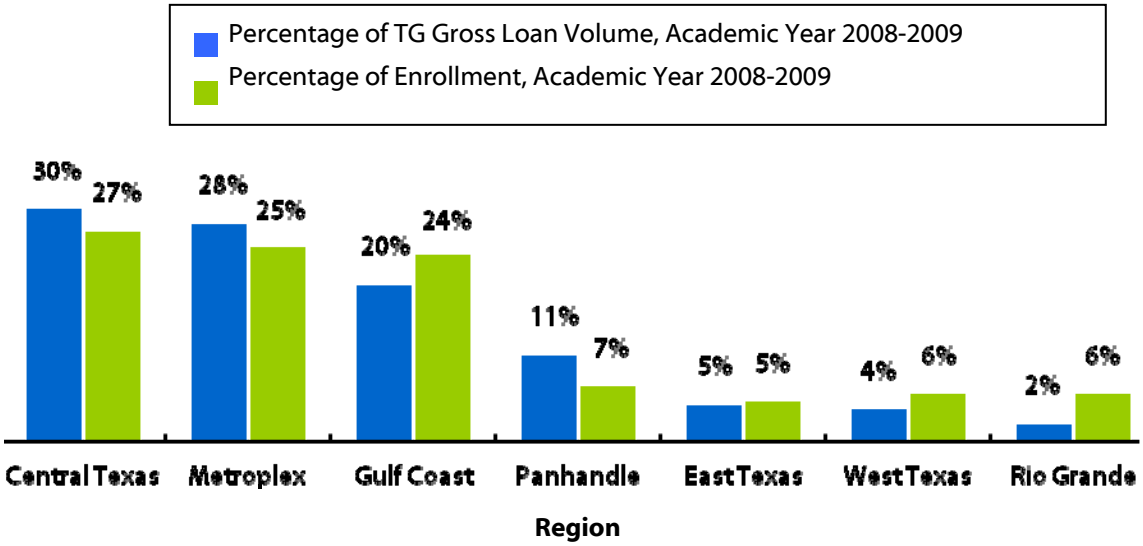
FY 2009 Gross

School Type	Amount (in Millions)	% of Amount
Four-Year Public	$2,146	59%
Four-Year Private	$865	24%
Two-Year	$404	11%
Proprietary	$211	6%

Source: TG, Internal Database, 2009.

TG Regional Volume Corresponds to Enrollment

Ratio of Regional Enrollment to Texas Guaranteed Regional Volume



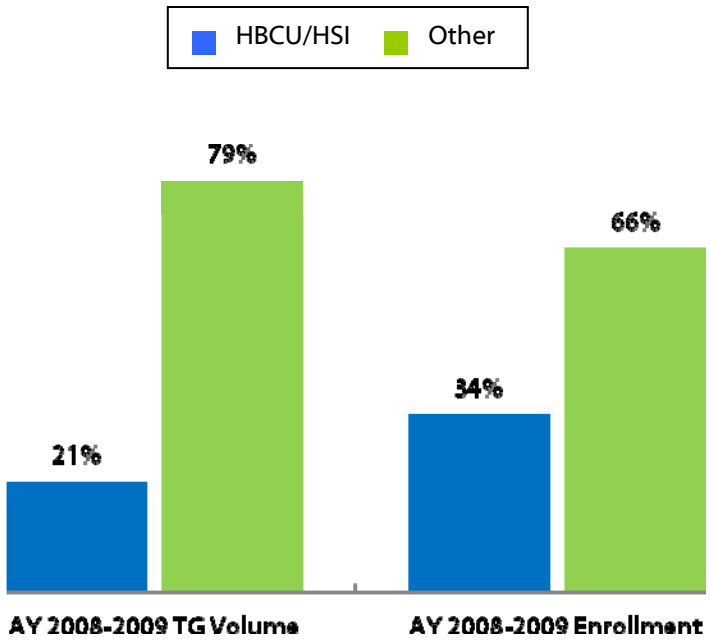
For the most part, TG gross loan volume corresponds to enrollment levels across Texas regions. Central Texas, the Panhandle, and the Metroplex account for a greater loan volume proportion than their student population, while West Texas, Rio Grande Valley, East Texas, and the Gulf Coast receive somewhat less. Specifically, the Gulf Coast region comprised 24 percent of enrollment in Academic Year (AY) 2008-2009, yet received only 20 percent of TG loan volume.

Central Texas and the Gulf Coast represent the largest disparities, with Central Texas receiving a larger share of volume and the Gulf Coast receiving a smaller share of volume compared to enrollment.

Sources: Enrollment: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2008 (http://nces.ed.gov/ipeds/); Loan Volume: TG, Internal Database, 2009.

HBCU and HSI Enrollment Not Comparable to Volume

Ratio of HBCU/HSI Enrollment to TG HBCU/HSI Volume*



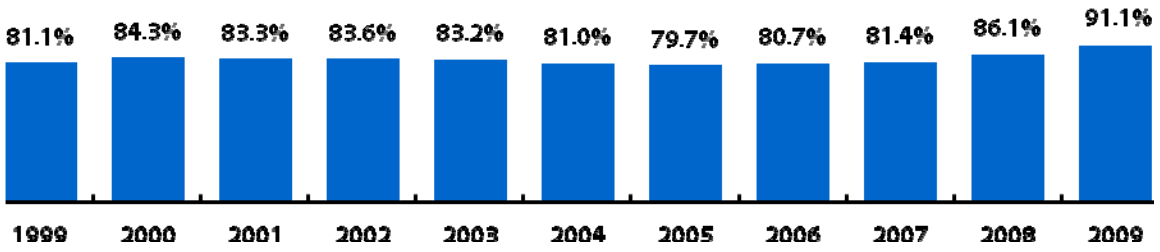
Texas has nine Historically Black Colleges and Universities (HBCU) and 48 Hispanic Serving Institutions (HSI). HBCU and HSI schools accounted for 34 percent of total Texas enrollment in Fall 2008 while generating 21 percent of Academic Year 2008-2009 TG loan volume. This disparity is most likely due to TG's lower volume in comparison to enrollment in the Rio Grande Valley and Gulf Coast regions, which are largely Hispanic areas.

*Does not include proprietary schools for volume or enrollment

Sources: Enrollment: Enrollment: U.S. Department of Education, National Center for Education Statistics, Integrated Postsecondary Education Data System (IPEDS) 2008 (http://nces.ed.gov/ipeds/); Loan Volume: TG, Internal Database, 2009; HBCUs: U.S. Department of Education, Office for Civil Rights database. "Accredited Postsecondary Minority Institutions" (http://www.ed.gov/about/offices/list/ocr/edlite-minorityinst.html); HSIs: Hispanic Association of Colleges and Universities, "Hispanic-Serving Institution Members in Texas." (http://www.hacu.net).

TG Lender Volume Increases

Top 20 Lenders Percentage of TG Volume
(FY 1999-2009 Gross - Excludes Consolidation Loans)



Fiscal Year

The largest 20 lenders provided about 91 percent of total TG loan volume in Fiscal Year (FY) 2009, higher than in the past 10 years. Reasons for this most likely include the market climate forcing many lenders to leave the program combined with TG's fast-growing volume with a few key lenders. In fact, nearly half of TG's FY 2009 volume is with just three lenders: Wells Fargo, Bank of America, and Sallie Mae.

TG Top Originating Lender Volume, FY 2009 Gross

Lender	**Loans** (In Thousands)	**Amount** (In Millions of $)	**% of TG Volume**
1. Wells Fargo Education Financial Services	144.9	693.1	19.1
2. Bank of America	116.1	524.7	14.5
3. Sallie Mae Education Trust	107.2	519.1	14.3
4. JP Morgan Chase Bank	63.7	322.8	8.9
5. Wachovia	48.2	219.3	6.1
6. Citibank	34.4	190.1	5.2
7. National Education Loan Network (Nelnet)	33.2	155.9	4.3
8. University Federal Credit Union	28.2	133.7	3.7
9. First National Bank Texas	22.1	91.0	2.5
10. Discover Bank	14.7	78.8	2.2
11. Compass Bank, N.A.	20.4	75.0	2.1
12. Herring Bank	13.2	51.9	1.4
13. Aggieland Credit Union	9.4	44.7	1.2
14. Regions Bank	8.3	33.9	0.9
15. Smart Financial Credit Union	7.4	32.0	0.9
16. MyEd Student Loans	6.8	30.7	0.8
17. Texas Tech Federal Credit Union	6.1	28.9	0.8
18. Austin Bank, N.A.	7.1	26.7	0.7
19. Access Group	3.1	26.1	0.7
20. Parker College of Chiropractic	1.7	22.3	0.6
Total	**696.4**	**3,300.6**	**91.1**

Source: TG, Internal Database, 2009.

Top Lender Volume Varies by Texas Region

TG Lender Volume by Region
(FY 2009 Gross - Excludes Consolidation Loans)

Panhandle*

1. Wells Fargo EFS	$103 Million
2. Herring National Bank	$46
3. Sallie Mae Education Trust	$40
4. Bank of America, N.A.	$39
5. Citibank	$29

*** Top 5 Lenders Account for 61% of Volume**

Metroplex*

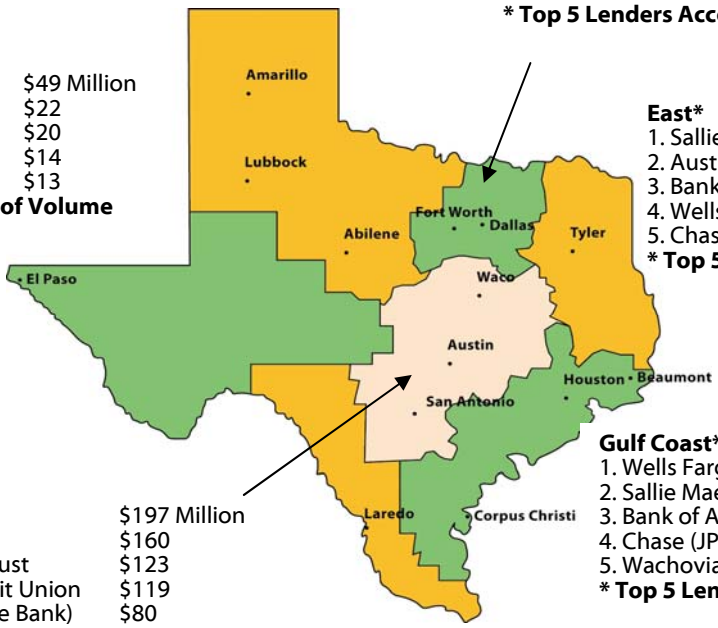
1. Sallie Mae Education Trust	$159 Million
2. Wells Fargo EFS	$146
3. Bank of America, N.A.	$141
4. Chase (JP Morgan Chase Bank)	$78
5. Wachovia	$69

*** Top 5 Lenders Account for 66% of Volume**

West*

1. Wells Fargo EFS	$49 Million
2. Bank of America, N.A.	$22
3. Sallie Mae Education Trust	$20
4. Nelnet	$14
5. Wachovia	$13

*** Top 5 Lenders Account for 64% of Volume**



East*

1. Sallie Mae Education Trust	$28 Million
2. Austin Bank, N.A.	$25
3. Bank of America, N.A.	$24
4. Wells Fargo EFS	$21
5. Chase (JP Morgan Chase Bank)	$19

*** Top 5 Lenders Account for 61% of Volume**

Central*

1. Wells Fargo EFS	$197 Million
2. Bank of America, N.A.	$160
3. Sallie Mae Education Trust	$123
4. University Federal Credit Union	$119
5. Chase (JP Morgan Chase Bank)	$80

*** Top 5 Lenders Account for 68% of Volume**

Gulf Coast*

1. Wells Fargo EFS	$157 Million
2. Sallie Mae Education Trust	$131
3. Bank of Americ, N.A.	$128
4. Chase (JP Morgan Chase Bank)	$106
5. Wachovia	$63

*** Top 5 Lenders Account for 70% of Volume**

Rio Grande*

1. Wells Fargo EFS	$21 Million
2. Sallie Mae Education Trust	$17
3. Bank of Americ, N.A.	$10
4. Wachovia	$5
5. Citibank	$5

*** Top 5 Lenders Account for 72% of Volume**

School location influences which lender students choose to finance their education. In FY 2009, with lenders leaving the program due to volatile market conditions, which caused greater concentration among a few national lenders, there's not as much lender variation by region as there has been in recent years. Only two different lenders occupy the top spot in the seven regions, and three lenders - Wells Fargo, Sallie Mae, and Bank of America - are among the top five lenders in all seven regions. Two other lenders, Chase (JP Morgan Chase Bank) and Wachovia, show up in the top five lenders in four of the seven regions.

Source: TG, Internal Database, 2009.

Top Servicers See Volume Grow

After lenders provide the capital for a student loan, they often delegate billing and account maintenance responsibilities to another type of institution called a servicer. Sallie Mae was surpassed this year in servicing volume by Affiliated Computer Services (ACS), the Department of Education's contracted servicer from 1994 to 2009. This jump in volume for ACS occurred because lenders were allowed to "sell" their loans to the Department of Education starting in 2008 in order to obtain more funds to originate loans. This meant that those loans were then serviced by the Department of Education servicer, which was only ACS for those 15 years. Recently, the Department of Education had a competitive bid for servicing contracts. Four servicers won the bids: Great Lakes Educational Loan Services, Nelnet Servicing, Pennsylvania Higher Education Assistance Agency (PHEAA), and SLM Corporation (Sallie Mae). Borrowers are likely to see changes in which servicer they direct their payments.

TG Top Servicers (Borrowers Leaving School in FY 2009 – Includes Originating Lenders)

Servicer	**Loans** (In Thousands)	**Amount** (In Millions of $)
1. Affiliated Computer Services	724.3	3,031.1
2. Sallie Mae Servicing Corporation	474.1	1,997.4
3. Wells Fargo Education Financial Services	303.9	1,310.7
4. Nelnet Academic Loan	289.0	1,095.4
5. EdFinancial Services	120.1	524.9
6. Citibank, N.A.	87.4	404.4
7. Higher Education Servicing Corp	85.7	345.9
8. Panhandle Plains Student Loan Center	83.4	315.3
9. COSTEP Servicing Agent	68.1	231.2
10. Wachovia ELT	50.5	229.2
Total	**2,286.5**	**9,485.5**

Source: TG, Internal Database, 2009.

Regional Servicers Vary Less Than Before

TG Top Servicers by Region
(Borrowers Leaving School in FY 2009)

Top Servicers – Panhandle

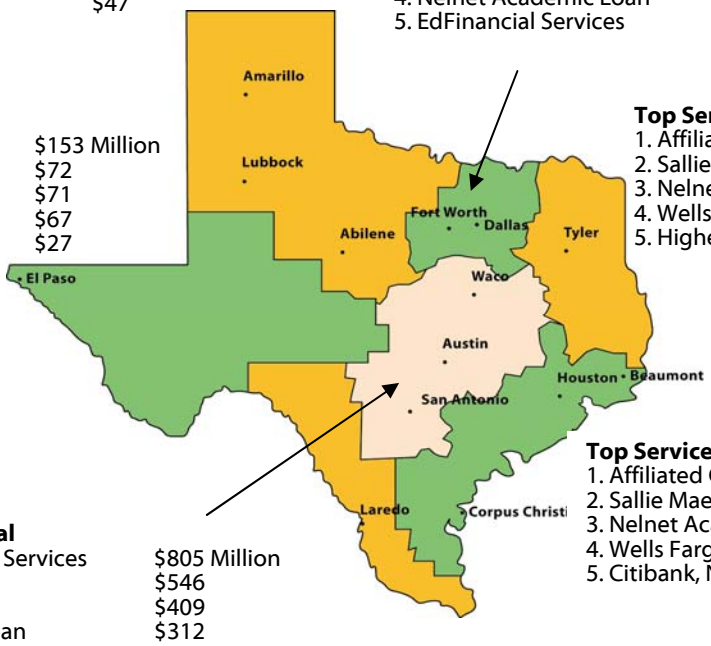
1. Affiliated Computer Services	$484 Million
2. Panhandle Plains SLC	$181
3. Wells Fargo EFS	$163
4. Sallie Mae Servicing	$101
5. Citibank, N.A.	$47

Top Servicers - Metroplex

1. Affiliated Computer Services	$778 Million
2. Sallie Mae Servicing	$536
3. Wells Fargo EFS	$293
4. Nelnet Academic Loan	$252
5. EdFinancial Services	$161

Top Servicers - West

1. Affiliated Computer Services	$153 Million
2. Nelnet Academic Loan	$72
3. Wells Fargo EFS	$71
4. Sallie Mae Servicing	$67
5. Panhandle Plains SLC	$27



Top Servicers - East

1. Affiliated Comp. Serv.	$151 Million
2. Sallie Mae Servicing	$143
3. Nelnet Academic Loan	$62
4. Wells Fargo EFS	$45
5. Higher Education Serv.	$42

Top Servicers – Gulf Coast

1. Affiliated Computer Services	$599 Million
2. Sallie Mae Servicing	$548
3. Nelnet Academic Loan	$335
4. Wells Fargo EFS	$296
5. Citibank, N.A.	$89

Top Servicers - Central

1. Affiliated Computer Services	$805 Million
2. Sallie Mae Servicing	$546
3. Wells Fargo EFS	$409
4. Nelnet Academic Loan	$312
5. EdFinancial Services	$271

Top Servicers – Rio Grande

1. COSTEP Servicing	$83 Million
2. Affiliated Computer Services	$63
3. Sallie Mae Servicing	$57
4. Wells Fargo EFS	$33
5. Nelnet Academic Loan	$20

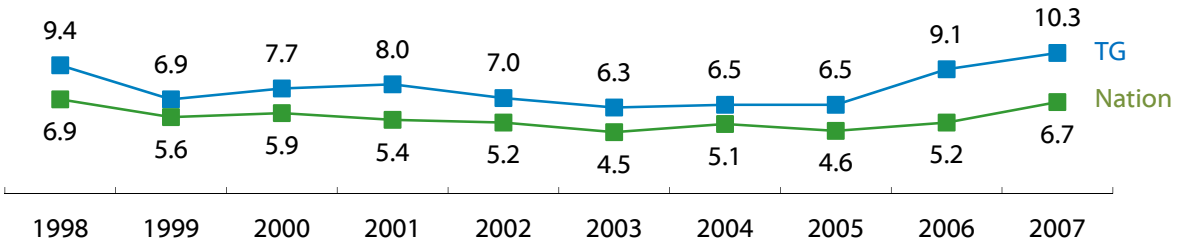
A servicer is an entity that maintains accounts and corresponding billing responsibilities for lenders after a student loan has been disbursed. Some servicers focus their business in certain regions of the state. So, as is the case with gross loan volume, where a borrower attends school may influence who administers his or her loan after departure from higher education. However, three servicers maintain a presence in the top five list in each region: Wells Fargo EFS, Sallie Mae Servicing, and Affiliated Computer Services (ACS). In fact, ACS was the top servicer in every region except for the Rio Grande region, and Sallie Mae was the next largest servicer after ACS in five of the seven regions. Some regional servicer presence can still be seen, such as COSTEP in the Rio Grande and Panhandle Plains SLC in the Panhandle and West regions, but for the most part large national servicers dominate the market.

Source: TG, Internal Database, 2009.

Defaults and Collections

Cohort Default Rates Increase

TG, National Cohort Default Rates
(Fiscal Year 1998-2007)



Fiscal Year Borrower Entered Repayment

Between Fiscal Year (FY) 1999 and FY 2005, TG's cohort default rate (CDR) fluctuated between 8.0 percent and 6.3 percent. During this same time period, TG's CDR exceeded the national average by 1.2 to 2.6 percentage points. The gap is now 3.6 percentage points, with TG's most recent official ED rate being 10.3 percent.

TG's volume outside of Texas is rapidly growing (e.g., the loan volume guaranteed by TG during Award Year [AY] 2008 is nearly the same proportionately for schools outside Texas versus schools within Texas). However, approximately 80 percent of TG's 2007 cohort was made up of borrowers from schools within Texas, where graduation rates lag behind national averages and where relatively less state grant money is available for needy students. In addition, compared to the nation as a whole, Texas has a higher proportion of borrowers with some of the strongest predictors of whether a student defaults (i.e., low grade-point average, part-time attendance, and full-time employment while in college). TG is concerned that the weakening economy will make it more difficult for some borrowers to stay current on their student loan payments, while changes in consolidation borrowing will also adversely affect TG's rate. The federal consolidation loan program saw unprecedented growth during the cohort period. Aggressive marketing tactics and the growth of specialized consolidation lenders created shakeups in the student loan market, steering significant market share to a handful of guarantors. While TG saw record highs in consolidation loan volume, more consolidation borrowers left TG's portfolio than those who entered it. Under U.S. Department of Education rules, borrowers are counted in the denominator of the consolidation loan guarantor only. Because consolidation borrowers rarely default within the two-year timeframe, this net loss of borrowers had a skimming effect leaving TG with a somewhat riskier population of borrowers.

TG undertakes numerous efforts to prevent defaults, including calling and sending letters to delinquent borrowers, providing schools with default prevention training, providing a Web-based tool to help schools and lenders more effectively focus their default prevention resources, and participating in an industry advisory committee to develop best practices for default prevention. TG also provides resources for high school counselors to advise students on the options to pay for college, and the ramifications of taking on debt. In addition, TG's financial literacy program is available to students once they enter college, assisting them in managing their money and making thoughtful financial choices.

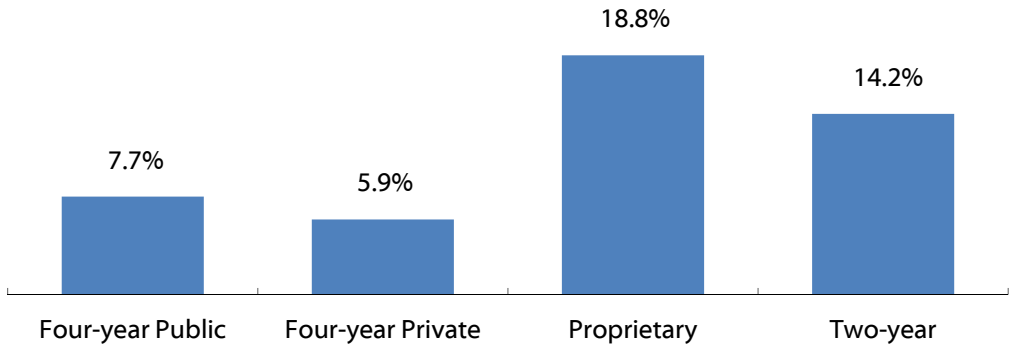
TG's estimated FY 2008 cohort default rate is 9.3, an improvement of one percentage point on the FY 2007 rate. The national FY 2008 cohort default rate is not yet known. Draft rates may be released in the spring, and the official rates will be released in September of 2010.

* The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2007 cohort default rate, for example, is based on students who entered repayment during FY 2007 and subsequently defaulted before the end of FY 2008.

Source: Cohort Default Rates: U.S. Department of Education, Fiscal Year 2007 Official Cohort Default Rates, Washington, D.C., 2009; Graduation Rates: National Center for Higher Education Management Systems, "NCHEMS Information Center for State Higher Education Policymaking and Analysis" (http://www.higheredinfo.org/); All Other: U.S. Department of Education, National Center for Education Statistics , "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

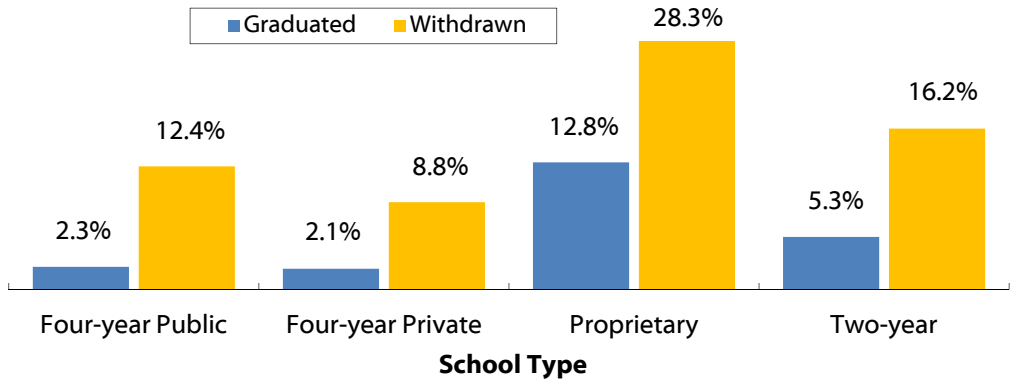
Short-term Programs Have Higher Default Rates

TG Cohort Default Rates by School Type (Fiscal Year 2007)



In Fiscal Year (FY) 2007, TG borrowers who attended short-term programs (i.e., two-year and proprietary schools) defaulted at more than twice the rate of those who attended four-year schools. While the default rate for short-term programs was 16.2 percent, the rate for four-year institutions was 7.3 percent. There are several factors that contribute to the tendency toward higher default rates for proprietary and two-year schools than for four-year schools. For example, borrowers from short-term programs are more likely to have risk factors for dropping out of school, such as attending school part time and working full time, than are students from four-year colleges and universities. Failure to complete a degree program is associated with an increased risk for defaulting on a student loan.

TG Cohort Default Rates* By School Type and Enrollment Status (Fiscal Year 2007)

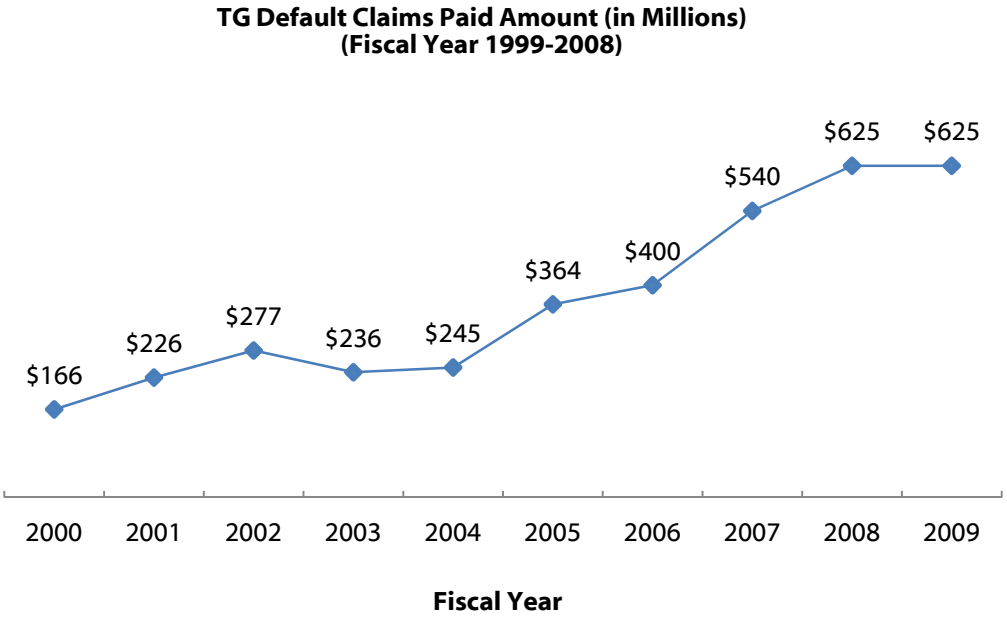


A borrower who graduates is much more likely to pay back a student loan than one who withdraws. In Fiscal Year (FY) 2007, the cohort default rate (CDR) for borrowers who graduated was 5.3 percent compared to 14.8 percent for borrowers who had withdrawn. The difference in default rates for graduated versus withdrawn students from proprietary, two-year schools, and four-year public schools was more than 10 percentage points. Approximately half of the borrowers in TG's official FY 2007 cohort did not complete their degree programs before entering repayment on their student loans, and thus were at a high risk of defaulting on their loans.

*The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2007 cohort default rate, for example, is based on students who entered repayment during FY 2007 and subsequently defaulted before the end of FY 2008.

Source: Cohort Default Rates: U.S. Department of Education, Fiscal Year 2007 Official Cohort Default Rates, Washington, D.C., 2009. ; All Other: U.S. Department of Education, National Center for Education Statistics , "National Postsecondary Student Aid Study (NPSAS) 2008" (http://www.nces.ed.gov/das/).

Default Claims Amount Same as Previous Year

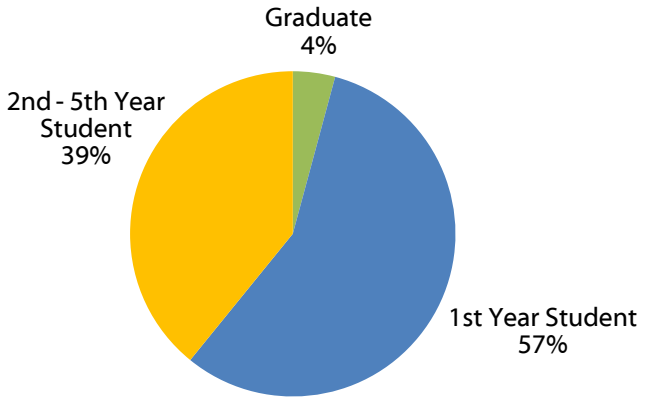


From Fiscal Year (FY) 2000 to FY 2002, claim amounts increased by $111 million due to (1) a change in default aversion request policies between TG and participating lenders, (2) an unstable economy, and (3) other things or influences. TG's default claims have continued to rise in dollar amount since FY 2004, and the dollar amount in claims paid by TG rose from $540 million in FY 2007 to $625 million in FY 2008 and remained at $625 million in FY 2009. This recent increase is at least partially a result of the fact that the size of TG's portfolio has increased significantly over the last few years. From FY 1997-2001, TG's gross origination loan volume increased an average of seven percent annually. Since FY 2001, however, TG's loans originations have risen at a considerably higher rate. At the same time, the amount of consolidation loans in TG's portfolio has greatly expanded as a result of a change in policy, and a push toward consolidation of loans after interest rates dropped. Consequently, default claim volume parallels the growth in loan originations.

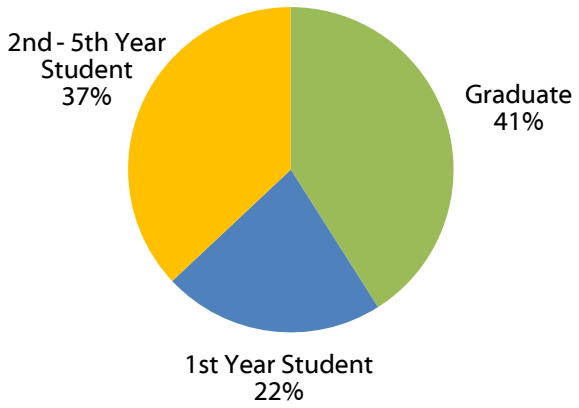
Source: TG, Internal Database, 2009.

Most TG Defaults Occur Among Freshmen Borrowers

TG Default Claims by Grade Level
Fiscal Year 2008

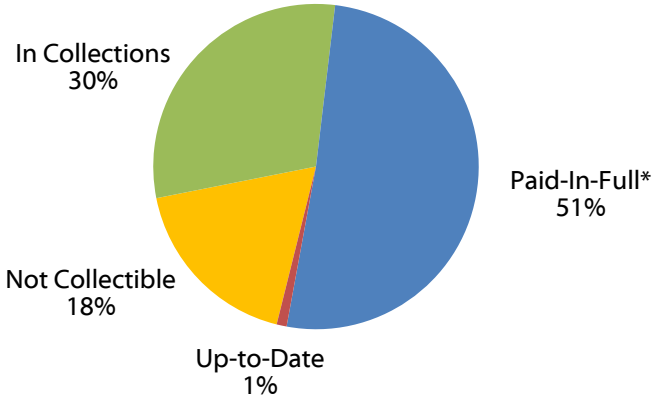


TG Gross Guarantees by Grade Level
(Excludes Consolidations)
Fiscal Year 2008



Students who last borrowed during their first year of postsecondary education accounted for 57 percent of all default claims in Fiscal Year (FY) 2009. In contrast, first-year students accounted for 22 percent of the dollar amount in loan guarantees during FY 2009. Thus, claims are paid disproportionately compared to loan guarantees by grade level.

Cumulative Status of TG Default Claims
(Fiscal Year 1982-2009)



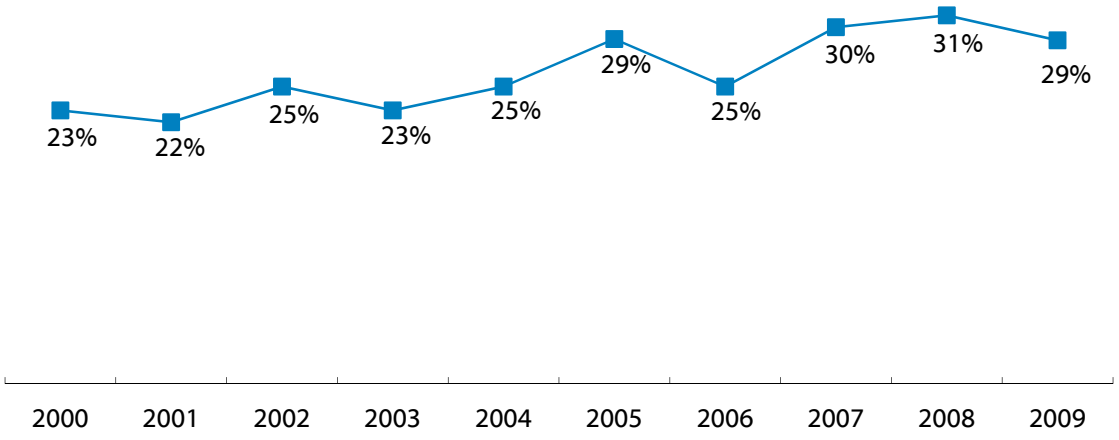
Since TG's inception, more than half of the borrowers with default claims have paid off their debt or are currently in repayment. Specifically, 51 percent have all of their claims paid-in-full, while another one percent appear to have made a payment in the last three months. Thirty percent have at least one claim in collections, meaning there have been no payments made during the last 90 days. The claims of 18 percent are not collectible due to death, disability, bankruptcy-discharge and subrogation (i.e., assumed possession) by the U. S. Department of Education.

* Includes loans paid-in-full by consolidation, for which students may presently be making payments.

Source: TG, Internal Database, 2009.

TG Recovery Rate Decreases

TG Collection Recovery Rate
(Fiscal Year 2000-2009 – Excludes IRS Collections)



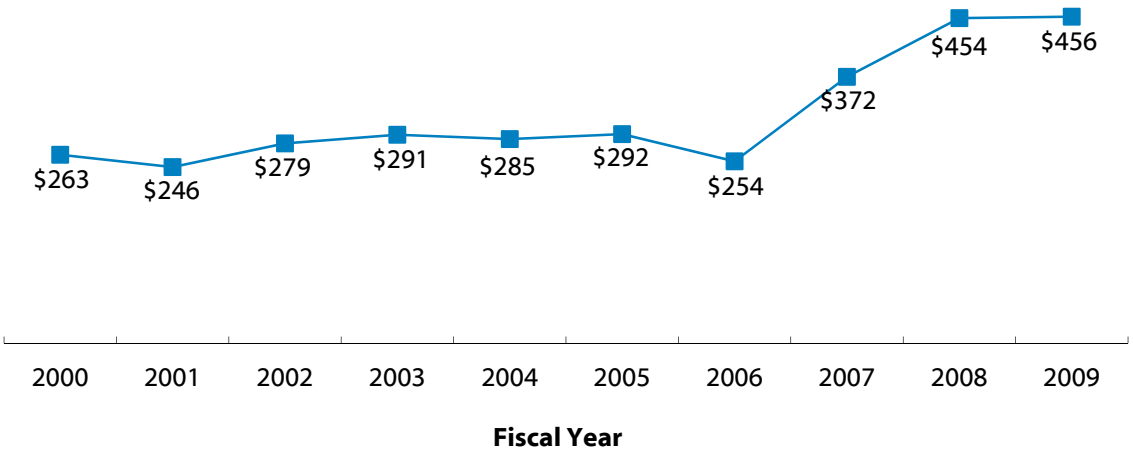
In order to prevent defaults, TG assists lenders in "curing" delinquent loans. A cure involves contacting borrowers (via phone calls, letters, etc.) and getting them back into repayment before the loan defaults, or get them a deferment or forbearance if they need one. If these efforts fail and the loan defaults, TG tries to bring the borrower into repayment using numerous collection strategies. These include letters, phone calls, credit reporting, professional license denial, wage garnishment, and state employee warrant holds (i.e., cases where expense reimbursements are redirected to paying off a defaulted loan). Using these strategies, TG's collection recovery rate* has grown steadily, with the exception of a slight drop in Fiscal Year (FY) 2006 and FY 2009. FY 2007 marked the largest single year rise in the last decade, an increase from 25 percent in FY 2006 to 30 percent in FY 2007. TG's recovery rate increased by an additional percentage point between FY 2007 and FY 2008. The rate dropped two percentage points between FY 2008 and FY 2009.

* Collection recovery rates are the amount of loan collections in a given fiscal year divided by the balance of accumulated defaults at the beginning of that year.

Source: TG, Internal Database, 2009.

TG Collection Amounts Increase Slightly

TG Collections Amount (in Millions)
(Fiscal Year 2000-2009 – Excludes IRS Collections)



TG's collection amount remained relatively flat from Fiscal Year (FY) 2000 to FY 2006, with two years of phenomenal growth in FY 2007 and FY 2008, and another relatively flat year in FY 2009. The highest amount collected to date ($456 million) occurred in FY 2009, an 80 percent increase from FY 2006. A growing claims paid amount has contributed to the rise in collection recoveries over the last decade. However, with claims steady from FY 2008 to FY 2009, collections were also fairly steady between these same two years.

Source: TG, Internal Database, 2009.