**Testimony by**

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**Submitted to the**

**Committee on Education and Labor**

**Subcommittee on Higher Education, Lifelong Learning, and Competitiveness**

**United States House of Representatives**

**Related to Minority-Serving Institutions of Higher Education in Texas**

**May 27, 2010**

Mr. Chairman and Members of the Subcommittee:

My name is Sue McMillin; I serve as President and CEO of Texas Guaranteed Student Loan Corporation (TG). On behalf of TG and its Board of Directors, I am pleased to submit to the Subcommittee, for your consideration and entry into the record, testimony related to today's hearing on Minority-Serving Institutions (MSIs) of Higher Education.

TG's testimony does not address directly the issues outlined in the Government Accountability Office report *Low-Income and Minority Serving Institutions – Management Attention to Long-standing Concerns Needed to Improve Education's Oversight of Grant Programs*. Rather, TG is pleased to provide contextual data and insights into the invaluable role of MSIs in serving Texas students, and especially those from low-income and first-generation college families. TG also respectfully submits its suggestions for support services and technical assistance needed to maximize the efforts of MSIs and other institutions in ensuring student success and adequate administration of the federal student aid programs.

Established in 1979, TG is a public nonprofit organization that serves institutions and students in Texas and other states. For purposes of today's hearing, I will focus my testimony on TG's role as the designated guaranty agency and administrator of the Federal Family Education Loan Program (FFELP) for the State of Texas.

TG has extensive experience working with Historically Black Colleges and Universities (HBCUs), Predominantly Black Institutions, Hispanic-Serving Institutions (HSIs), and emerging HSIs. TG believes that its story of dedication to mission and its 30-year history of service to MSIs shed a positive light on the value-added programs and services that nonprofit entities, like TG, provide to MSIs and students who are underrepresented in postsecondary education.

## Background

The State of Texas benefits from a rich depth and breadth of MSIs. The state is home to an estimated 47 HSIs, nine HBCUs, one Predominantly Black Institution,[1] and an estimated 42 emerging HSIs.[2] St. Phillip's College in San Antonio has the distinction of serving as both an HBCU and an HSI. The nine HBCUs had a combined fall 2008 enrollment of 31,504 students: 62% was African American, 21% was Hispanic, 14% was White, and the remaining 3% was composed of Asian American and foreign students.

Most of the HSIs in Texas (57%) are public 2-year schools. The next largest group (23%) is public 4-year schools, followed by private not-for-profit 4-year schools (15%). The HSIs in Texas had a combined fall 2008 enrollment of 442,282 students: 9% was African American, 55% was Hispanic, 27% was White, and the remaining 9% was composed of Asian American students, foreign students, and students of unknown race. MSIs play a critical role not only in educating the next generation of leaders, but also in developing the intellectual and human capital of their communities. They are critical in preparing the local and regional workforce, and together play an important role in building a strong economic foundation for the state.

The significance of MSIs is especially evident in the state's master plan for higher education, known as the *Closing the Gaps* plan.[3] The Texas plan includes two notable goals: increasing student enrollments by an additional 630,000 students, and increasing certificate and degree completions by 50%, between

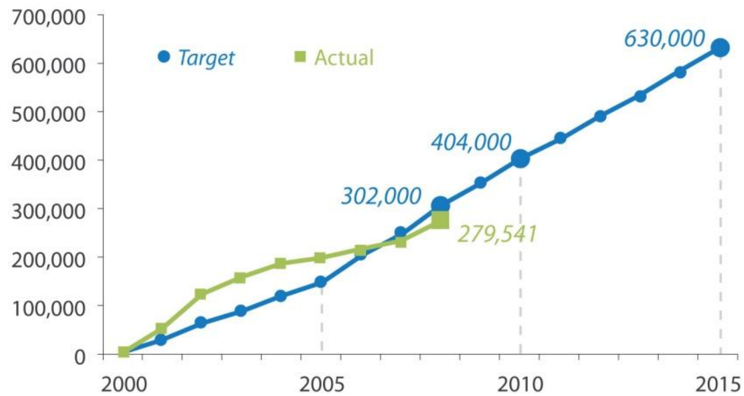
[1] A Predominantly Black Institution is a public or private nonprofit institution with an undergraduate enrollment composed of 40% or greater African-American students.
[2] *Emerging Hispanic-Serving Institutions (HSIs): Serving Latino Students. Excelencia in Education, 2010.* http://www.edexcelencia.org/research/emerging-hispanic-serving-institutions-hsis-serving-latino-students
[3] *Closing the Gaps: The Texas Higher Education Plan. Texas Higher Education Coordinating Board, 2005.* http://www.thecb.state.tx.us/index.cfm?objectid=858D2E7C-F5C8-97E9-0CDEB3037C1C2CA3

2000 and 2015. The state's ability to meet those goals will continue to depend largely on the capabilities of MSIs.

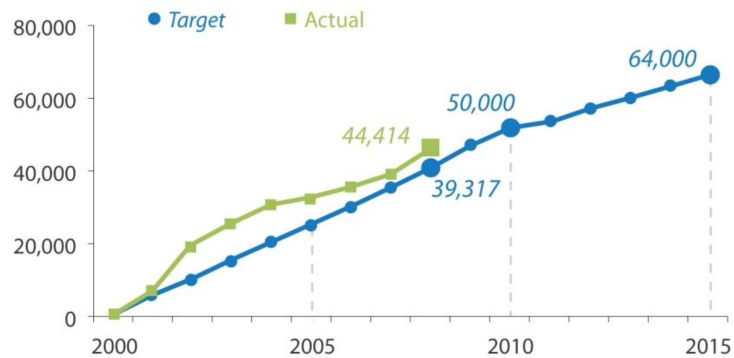
The graphs below (see page 5) show the target higher education enrollments compared to actual enrollments over the 15-year period of the plan, for the state overall, for African American students, and for Hispanic students.[4]

[4] *Closing the Gaps 2009 Progress Report. Texas Higher Education Coordinating Board, 2009*. http://www.thecb.state.tx.us/index.cfm?objectid=858D2E7C-F5C8-97E9-0CDEB3037C1C2CA3

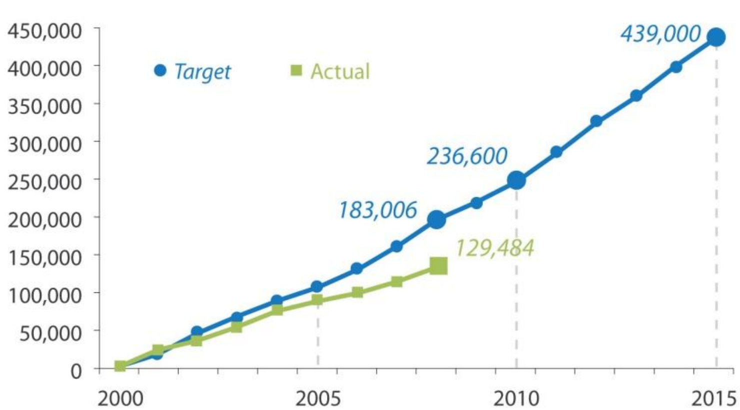
## Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000




## African American Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000




## Hispanic Enrollment Growth at Public and Independent Higher Education Institutions since Fall 2000



## The Challenge Ahead

For more than two decades, TG has conducted extensive research in the areas of college access, student financial aid, and student loan delinquencies and defaults, among other areas. Moreover, TG publishes, in collaboration with the University of Nebraska-Lincoln, a quarterly refereed journal on student access and success.[5] TG's research and experience allow it a unique window into issues and education areas that pose potential challenges for higher education in Texas and, in particular, for MSIs.

Provided below are selected findings from the February 2010 edition of TG's *State of Student Aid and Higher Education in Texas*, an annual report provided to education stakeholders and policymakers. TG found that:

- The Texas poverty rate is the sixth highest in the nation; about 16.5% of Texans lived in poverty in 2008, compared to 12.9% of the people in the U.S.
- The child poverty rate in Texas was 22.6%, compared to 17.3% in the U.S, in 2008.
- Texas ranks second to last in high school completion; in 2008, 20% of Texans aged 25 and older did not have a high school diploma, compared to 13% of people in the U.S.
- Nearly 3 million people in Texas aged 25 and older never completed a high school education. Hispanics, who made up more than one-third of the Texas population in 2008, are the least likely to obtain a high school diploma. Of Hispanics aged 25 and older, 41% have not finished high school.
- Economically disadvantaged high school graduates in Texas are less likely to enroll in college. Nearly 60% of Hispanic high school graduates and 50% of African American high school graduates are economically disadvantaged (as determined by students' eligibility for free or reduced lunch).

[5] *Enrollment Management Journal: Student Access, Finance, and Success in Higher Education.* http://www.tgslc.org/emj/

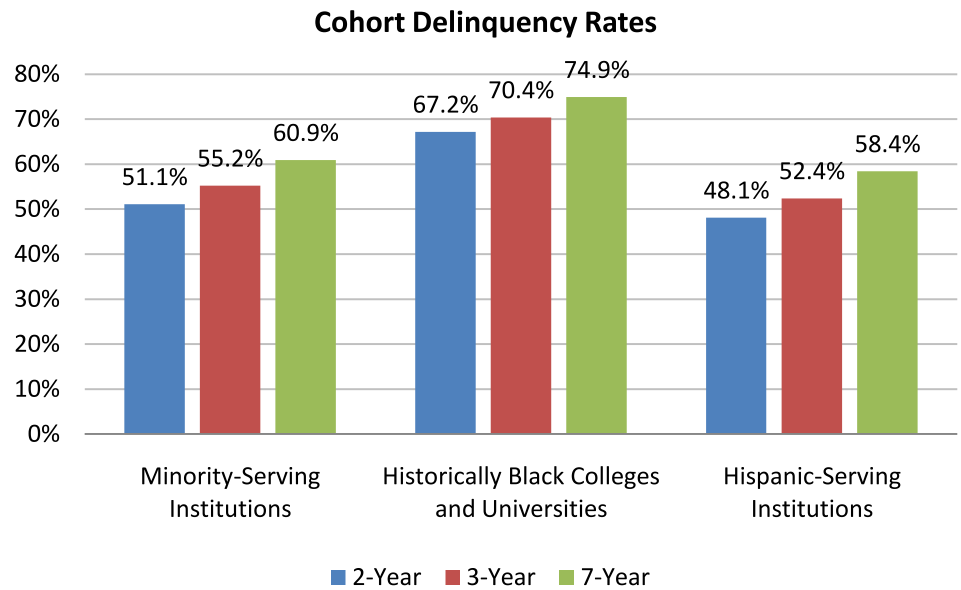
- Texas students are highly reliant on loans; in academic year (AY) 2007-08, 65% of aid in Texas came from loans (compared to 55% in the U.S.) and 34 % came from grants (compared to 44% in the U.S.), including state and institutional grants.

**Loan Delinquencies and Defaults**

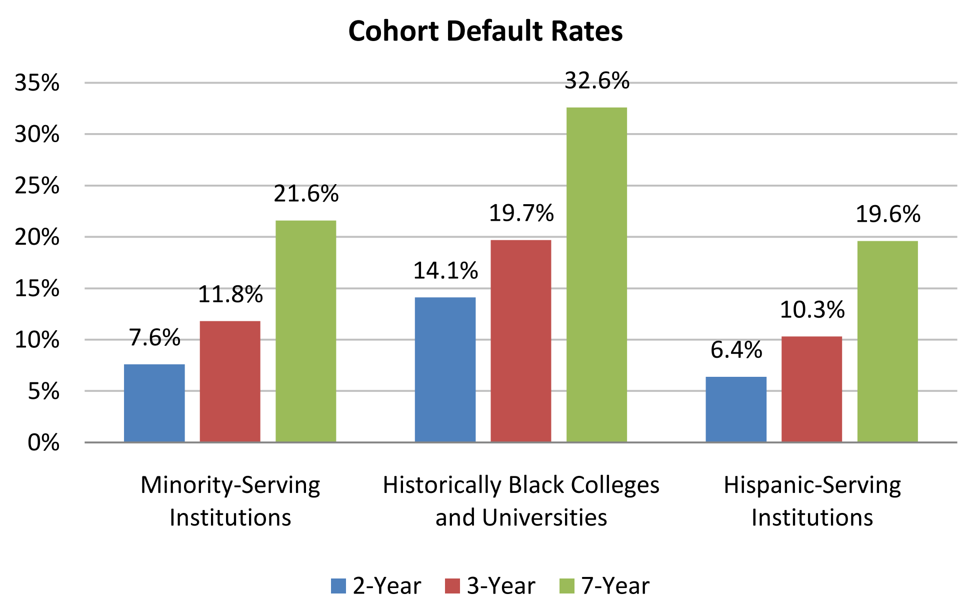
TG continuously studies and reports its findings on student loan borrowing and repayment trends as a service to institutions and education stakeholders and as a means of informing its own efforts in delinquency and default prevention. TG has published and continues to publish studies that individually and collectively examine default rates and borrowing patterns for Texas institutions, all schools in TG's loan portfolio, MSIs, and individual institutions. TG publishes reports that examine short-term and long-term (over seven years in repayment) rates for delinquency and default for its entire portfolio and certain schools that TG serves.

One report on MSIs,[6] attached to TG's testimony, examines student loan borrowing among HBCUs and HSIs. When measured in both short-term and long-term periods, student loan delinquency and default rates at these institutions paint a picture of the continuing need to provide support services to these students.

[6] *Profile of Minority-Serving Institutions in Texas: A Study of Historically Black College and Universities and Hispanic-Serving Institutions. Texas Guaranteed Student Loan Corporation, 2010*. http://www.tgslc.org/publications/




More than half of students who attended MSIs and went into repayment on their TG loans in FY 2002 were delinquent on those loans by the end of FY 2003. The delinquency rates at MSIs continue to increase to 55% at 3 years out and 61% at 7 years out. More than 67% of students who attended HBCUs and went into repayment on their TG loans in FY 2002 were delinquent on those loans by the end of FY 2003. This increased to 70% delinquent by the end of FY 2004 (3-year rate), then to 75% by the end of FY 2008 (7-year rate).



Almost 8% of students who attended an MSI and went into repayment on their TG loans in FY 2002 defaulted on those loans. When the analysis is extended one year, TG finds that the cohort default rate increases to 11.8%, and this jumps to 21.6% for the 7-year default rate.

Again, the default rates at HSIs are very similar to the overall MSI rates, but the rates at HBCUs are much higher than those at HSIs.

## Federal Student Loan Borrowing

The chart below shows the levels of federal student loan volume among students attending MSIs during academic year 2007-2008. Students at Texas MSIs borrowed a total of $874.7 million, compared to $3.8 billion borrowed by students at all Texas institutions in FFELP and FDLP.

| | FFELP AY 07-08 | FDLP AY 07-08 | Total AY 07-08 |
|---|---|---|---|
| Texas Minority-Serving Institutions | $861,259,764 | $13,485,902 | $874,745,666 |
| Texas Historically Black Colleges and Universities | $177,297,910 | $0 | $177,297,910 |
| Texas Hispanic-Serving Institutions | $691,493,227 | $13,485,902 | $704,979,129 |

## Median Borrower Indebtedness in Texas

Overall, the median borrower indebtedness (MBI) of students leaving MSIs in FY 2008 was $10,375. The MBI at HBCUs was $15,000 and the MBI at HSIs was $9,775. This difference is expected based on the dominant school types of each group. Most of the HBCUs are 4-year universities, mainly private not-for-profit, while most of the HSIs are 2-year public colleges. Four-year universities are more expensive than 2-year colleges, which accounts for much of the difference in MBI, and students attending 4-year universities also tend to attend for a longer time, and so end up having more years of borrowing.

**<u>Paying for College — Aid and Work</u>**

Students attending HSIs in Texas in AY 2007-08 were significantly less likely to expect help from their parents to pay for tuition and fees, compared with students attending schools not designated as HSIs. Sixty-four percent of students at non-HSIs expected help from their parents, compared to 53% of students at HSIs. The students at HSIs and HBCUs were also significantly more likely to have a Pell grant, compared to their non-HSI and non-HBCU counterparts (23% at non-HSIs and 33% at HSIs; 25% at non-HBCUs and 51% at HBCUs). In line with this finding, those students at HSIs and HBCUs had significantly lower median incomes than their non-HSI and non-HBCU counterparts ($47,844 at non-HSIs and $28,880 at HSIs; $40,793 at non-HBCUs and $26,991 at HBCUs).

Students attending HSIs in Texas in AY 2007-08 were significantly less likely to work to earn spending money compared to students attending non-HSIs (79% versus 71%). Students attending HSIs were significantly more likely to work to pay for living expenses compared to students attending non-HSIs (82% versus 76%). Students attending HBCUs in Texas were significantly more likely to work to send money home, compared to students attending non-HBCUs (12% versus 6%).

**MSIs and Student Loans**

HSIs and HBCUs in Texas enroll hundreds of thousands of students each year, with the majority of these being minority students. These students have more risk factors that lead them to drop out of school, compared to White students, making them more likely to default on their student loans.

These institutions, which have traditionally participated in the FFELP, have been able to rely on the support of their local, often state-based, FFELP partners for the provision of support services and programs, including delinquency and default prevention, training, financial literacy, and enrollment management. To the extent the need for these services will continue as MSIs fully transition into direct lending, TG would welcome the opportunity to work with the department to identify and address those gaps in services.

TG's experience with HBCUs shows that with concentrated efforts, TG can have a meaningful, positive impact in the form of lowering delinquency and default rates. TG invites the Subcommittee to review two reports, detailing TG's work with HBCUs beginning in 1999, immediately after Congress eliminated the exemption for HBCUs from federal cohort default rate sanctions established in the early 1990s. TG asserts that these successes among HBCUs can be replicated at other MSIs and non-MSIs.

Links to the reports are provided below:

*Breaking New Ground: The Texas Historically Black Colleges and Universities Default Management Consortium*. Texas Guaranteed Student Loan Corporation, 2004. http://www.tgslc.org/pdf/HBCU.pdf

*Lowering Student Loan Default Rates: What One Consortium of Historically Black Institutions Did to Succeed*. Education Sector, 2010.

http://www.educationsector.org/research/research_show.htm?doc_id=1169156

The following excerpt from the report by the Education Sector captures adequately the challenge faced by HBCUs and the real potential for successfully addressing cohort defaults:

> *But the experience of the Texas HBCUs, along with a new statistical analysis of cohort default rates, suggests that dangerously high default rates for institutions that serve at-risk students are not inevitable. From the initial financial aid package to providing individual counseling on loan repayment when students leave, institutions can take steps to help students avoid default. Schools can also maintain contact with students after*

*they leave campus, communicating with them about when they need to begin repayment and where they should send their repayment checks…*

*Such 'default aversion' strategies helped a number of HBCUs significantly lower their loan default rates and avoid losing eligibility for federal financial aid the last time the federal government imposed tough new default rate standards. Their story is one of teamwork, collaboration, and relationship-building and proves that when institutions are armed with the tools, resources, support, and commitment needed to lower default rates, they can do so successfully.*

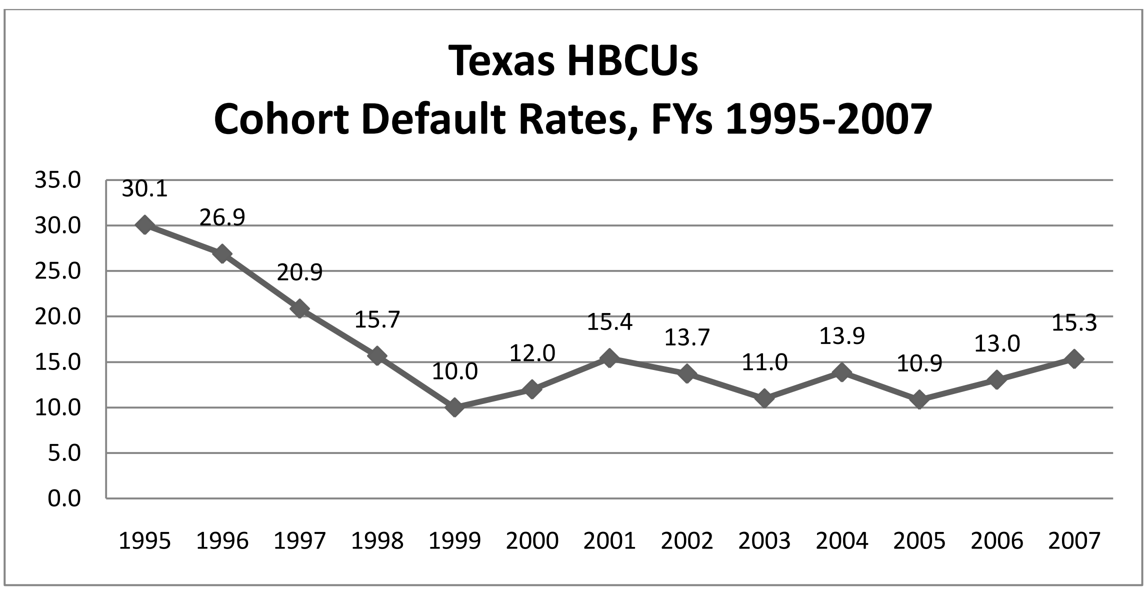
*With the recent HEOA amendment and a worsening economic outlook, all colleges can learn from the efforts of these schools. Their success is not only applicable to other similar institutions, but to all schools that serve those students most at risk for default and who are committed to helping them succeed.*

*Default aversion strategies, moreover, are just one part of the solution. Institutions that make increasing graduation rates a priority will also help their students repay their student loans. Put simply, students who graduate are less likely to default. As institutions face the next default rate challenge, those that combine default aversion strategies with strategies for degree completion will be in the best position to not only reduce their default rates now and in the future, but to improve the overall success of their institutions and their students.*

## TG as a Catalyst for Success

As documented in the reports *Breaking New Ground and Lowering Student Loan Default Rates*, student loan delinquencies and defaults can be successfully managed if the federal government utilizes local entities with the expertise, experience, and relationships with students and schools to assist the government in administering the federal student loan program. This is especially important with respect to MSIs because of their unique and important role in educating many first-generation college students from low-income backgrounds who rely on student loans to finance their postsecondary educations.

The Texas HBCU Default Management Consortium referenced in the above reports became a reality because of TG's support and active participation. TG helped organize the consortium, served as a resource to HBCUs, and designed a holistic model for providing technical assistance and support to all institutions. At the request of the U.S. Department of Education (ED), TG created a new program, *Achieving Systemic Default Aversion*, and received ED's specific approval to use funds from the interest earnings on the Federal Reserve Fund, from Section 422(h) of the Higher Education Act of 1965, as amended, to implement these strategies. The program's initial focus was on Texas HBCUs. The chart below shows the progression of cohort default rates among these HBCUs from FYs 1995 -2007.[7]




[7] Texas Guaranteed Student Loan Corporation.

TG is positioned to continue to provide these services to MSIs and other institutions under the Federal Direct Loan Program (FDLP) or in any future federal student loan environment. On March 5, 2010, TG outlined its capabilities to assist institutions and began discussions with ED's office of Federal Student Aid to identify ways in which TG can provide needed services for the immediate challenge of helping institutions effectively transition into the FDLP.

TG looks forward to its ongoing and future collaboration with ED and appropriate state agencies to ensure that intermediate and longer-term services - to include financial literacy, delinquency and default prevention, proactive assistance toward the realization of programmatic borrower benefits by student loan borrowers and technical assistance - are available to all MSIs as well as other institutions. Thank you again, Mr. Chairman, for the opportunity to submit my testimony for the subcommittee's consideration.