

TG's Long-term Commitment  
to Families and Students

2007 TG Annual Report

*On the cover: Tracy Samsel (center) is TG's Customer Assistance team leader. She has been a TG team member since 1994. She is pictured with her mother, Carolyn Rivers, and daughter, Kayla Lindsay, who is a high school sophomore.*

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Increasingly, in our complex modern society, the burden falls on colleges and universities to provide the best possible education to students. TG understands and shares in that work. We work hard to make sure that students have access to the financing and information needed to get a higher education and that schools can help them. Our belief is that an education is key to the betterment of each person and of society as a whole. We also believe that those who serve in higher education make a difference in the lives of countless individuals.

At TG, we strive to make that difference in many ways. We work to provide the best in products and services for our customers, including schools, lenders, and servicers. And we dedicate ourselves to helping students navigate a successful path to graduation.

Today, there are far more financing opportunities, including grants and scholarships, for college students. There also can be just as many obstacles. First-generation students, in particular, face hurdles in terms of learning about availability and acquiring the funding that can make their college dream a reality. That's why TG does more than just guarantee student loans. We invest resources in pre-college awareness programs, in college enrollment and retention strategies, and in helping students prepare for their financial obligations after graduation.

You'll find out more about these efforts throughout this Annual Report for Fiscal Year (FY) 2007.

Together, these stories illustrate just how steadfast TG is in its commitment to championing the educational dreams of families and students.

You'll also see examples of TG's direct assistance to educational and community organizations whose goals mirror TG's own — making a difference for the thousands of students who deserve a higher education.

**\$4,277,960,000**  
TG's total loan volume for FY 2007  
(excluding Consolidation loans)



“Our long-term commitment to provide comprehensive services to families and students has never been more evident than today.”

## To TG’s stakeholders

By any measure, 2007 was a challenging year for the student loan industry. Congress and the U.S. Department of Education made many changes to the Federal Family Education Loan Program (FFELP) and to the way that schools, lenders, and guarantors can conduct their business — both individually and collectively.

But despite the challenges, 2007 was another strong year for TG. Over these last 12 months, TG has enhanced its reputation as a company searching for new and better ways to help students and their families achieve their educational goals. Our service to customers and to business associates has earned TG an all-time high customer satisfaction score of 4.53 (out of 5.0).

TG also remains financially strong. During our 26 years, we have guaranteed close to \$50 billion in FFELP loans and assisted more than 3 million students and parents in financing higher education opportunities.

More importantly, TG continues to leverage its resources and human capital to fulfill its mission, not only as a guarantor but as an organization striving to improve access to the lifeblood of our nation’s economic prosperity — higher education.

Our long-term commitment to provide comprehensive services to families and students has never been more evident than today.

We at TG have long realized that we must act as a bridge for students to gain access to a postsecondary education. Today, that task is even more monumental given the changing demographics of our country and the enormous need to serve first-generation college students. For many, substantial obstacles remain in their quest for a college degree — factors that we seek to help address through philanthropic support of educational and nonprofit organizations across the country.

In 2007, we more than doubled the amount spent on competitive grants through our Public Benefit Grant Program to nonprofit entities and postsecondary institutions to improve access to, or participation in, postsecondary education, college retention, and student access. TG awarded \$3.8 million in grants during the year to provide help for students from low- to moderate-income families, and to address the particular needs of first-generation college students. In addition, \$1 million was awarded in scholarships to financially-needy students. TG continues to administer this program

based solely on merit and need, and without regard to our business or any form of *quid pro quo* consideration.

We have increased efforts in our extensive awareness and outreach initiatives, helping to provide information and resources to a wide range of students, families, schools, and educational organizations. TG has also added resources and staff to contact and directly help borrowers avoid defaulting on their loans.

TG is pleased to present this Annual Report for FY 2007 as testament to our continued success. We also introduce you to a few of the faces of the organizations and students we proudly support in making a difference in higher education.



Sue McMillin  
President and CEO



Tommy J. Brooks  
Chair of the Board of Directors

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*Vice President, Collections*

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*Chief Financial Officer and  
Senior Vice President,  
Finance and Administration*

Lloyd Dodge  
*Senior Vice President,  
Information Technology*





## Supporting the FFELP

During its more than quarter-century history, TG has grown into one of the largest guarantors in the nation by standing on a foundation of sound business practices, appropriate and ethical conduct, and steadfast support of the Federal Family Education Loan Program (FFELP).

TG has remained strong by focusing on three core principles to help customers: to provide superior service; to deliver innovative solutions; and to offer insightful expertise. We provide schools and lenders with training, expertise, and business solutions to meet their needs. To families and students, we offer resources and information to help them access higher educational opportunities. And our customers consistently give us top marks in delivering those services to them.

*Photo: Lloyd Dodge, TG's senior vice president for Information Technology, leads a dedicated team of professionals developing practical business solutions that help our customers serve their students.*

“TG has worked with 1.9 million borrowers to prevent more than \$18 billion in student loan defaults.”

As importantly, TG has maintained its position at the top echelon of the most financially-stable guarantors serving the student loan industry. Our reserve ratio – the key consideration in determining a guarantor’s fiscal viability in paying out claims – ranks best among the 10 largest guarantors, and third among all guarantors.

TG’s commitment to make a difference for student and parent borrowers remains unwavering. In FY 2007, TG’s board of directors voted to continue to subsidize the 1 percent federal default fee for federal Stafford, PLUS and Grad PLUS loans for student and parent borrowers for AY 2007-08. This resulted in a direct benefit to more than 500,000 borrowers whose loans are guaranteed by TG. Additionally, TG provides a comprehensive financial literacy program to support students during important stages of their education, and to help them manage debt and reduce their chances of defaulting on loans.

In the past year, TG focused on developing more effective methods and communication channels to prevent delinquency and student loan default as a major objective. We have been successful in helping borrowers avoid the burdens of default, and we intend to commit additional resources in the future to help in this critical area. In the past seven years, TG has worked with 1.9 million borrowers to prevent more than \$18 billion in student loan defaults. In FY 2007 alone, TG prevented more than \$3.53 billion in delinquent loans from defaulting for more than 342,000 borrowers.

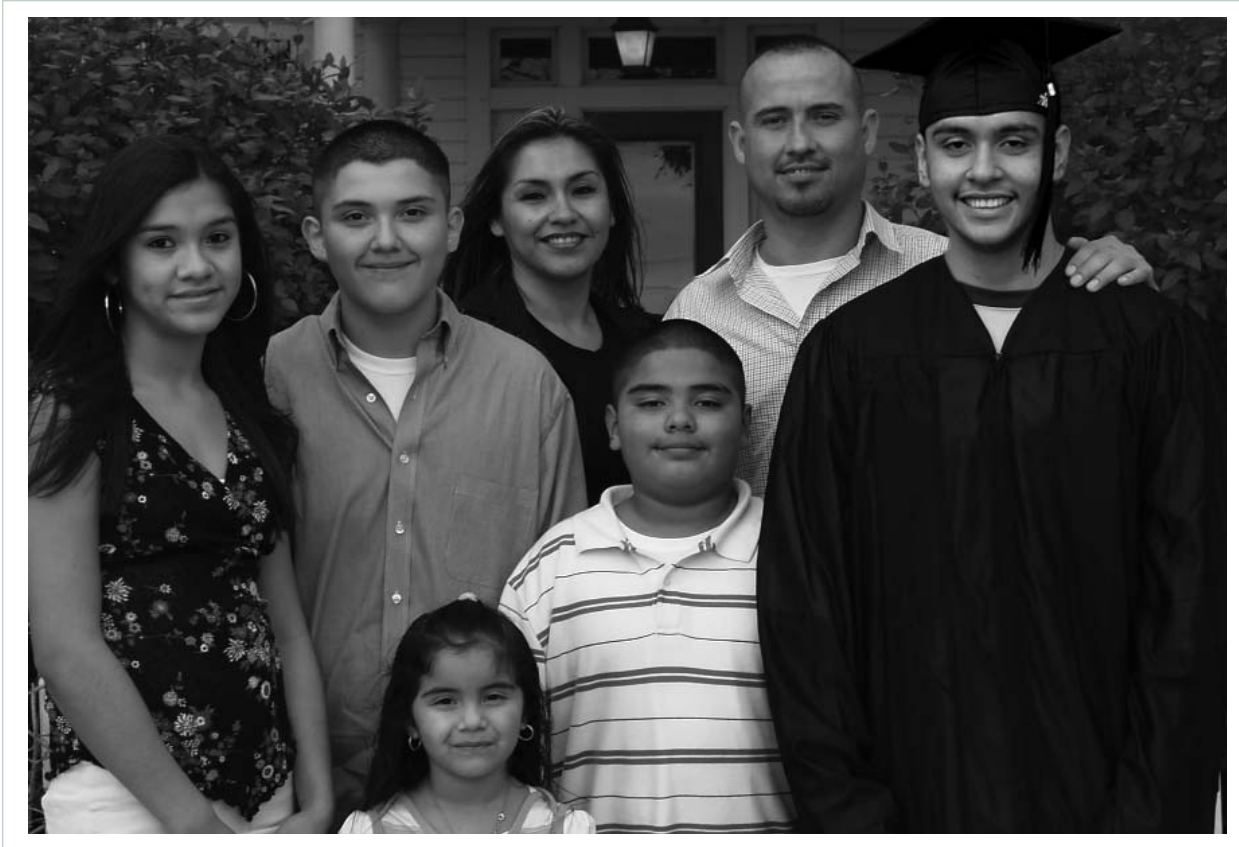
## Collaborating with customers

In FY 2007, TG continued to provide customers with the benefits and services needed to help them achieve their business goals. For schools, TG provides critical customer technologies to manage the loan delivery process. TG also offers training for financial aid professionals to help improve services provided by financial aid offices to students.

For lenders, TG provides free technology and support to help borrowers navigate the financial aid process and to give them easy access to their loan funds. We also continue to make enhancements to key products such as TG Loans By Web™ and AdvanTG Web™ to simplify loan transaction and disbursement of funds.

TG’s customer service philosophy is to listen and respond to the needs of our customers. In FY 2007, we created a new Product Management Team to streamline product development to help our customers better serve student borrowers – all through careful consultation and collaboration with schools and lenders. This will be a cornerstone of TG’s short-term and long-term strategies, as we search for new ways to keep the FFELP strong and viable for future generations of students dependent on the collective services of guarantors, schools and lenders to plan for and finance a college education.

“In FY 2007 alone, TG prevented more than \$3.53 billion in delinquent loans from defaulting for about 342,000 borrowers.”



## TG's long-term commitment to serving families and students

In a changing national landscape — both demographically and economically — it is important to pave new avenues for high school graduates to reach college. At TG, we take great pride in our award-winning early awareness programs and resources, especially those targeted to underserved communities. But our commitment does not end there, because we understand that enrollment in college is but the first step. Many students — especially those who are the first in their families to attend college — need additional assistance to make it through to graduation. Our services extend beyond graduation. Our commitment to students is comprehensive and long-term, and it goes far beyond our primary business of guaranteeing low-cost federal loans.



"AIE earned an 'A+' for providing quality online content and resources from *Education World*, a comprehensive, education-related Web site."

## Early Awareness

For more than a decade, TG has managed **Adventures In Education** ([www.AIE.org](http://www.AIE.org)), a popular English and Spanish Web site that offers information and resources to help students and families prepare for college and explore career options. AIE™ also offers important information for parents, guidance counselors, librarians and educators. In FY 2007, the Web site was visited by about 325,000 students, parents, and educators. AIE earned an "A+" for providing quality online content and resources from *Education World*, a comprehensive, education-related Web site.

For the 12th consecutive year, TG sponsored the video program, **The FAFSA-Made-Easy**, which helps students and families complete the Free Application for Federal Student Aid (FAFSA). During the year, the video program, provided in English and Spanish, was broadcast to 237 host sites in Texas and across the nation.

Ambassadors from **TG's Ambassador Program** participated in 131 career fairs and financial aid nights at high schools. The program allows TG team members to deliver presentations and distribute information on financial aid and higher education at these events, and to directly answer questions from students and parents.

For several years, TG has led a national initiative to create and update the **Postsecondary Education English-Spanish Glossary** of standard terms relating to access to higher education. This year, TG used in-house technology to enhance the glossary to include a searchable online database, providing faster and easier access for users. The glossary has now been adopted by several national educational groups, as well as the Texas *Closing the Gaps* campaign, an initiative to increase Texas' college enrollment by 630,000 by 2015.

## Services to Students and Schools

As more first-generation students enter college, TG and other organizations are looking for ways to help them succeed and graduate. TG joined the American Association of Hispanics in Higher Education in sponsoring a Latino Student Success Institute to



address the lagging pace of Hispanic participation in college programs. Likewise, we joined with the Educational Policy Institute to develop the **Effective Practices in Student Success**, a Web-based database that collects information about successful student retention programs. College educators and administrators have easy access to this database.

We continue to provide students with training on money management through a program called Positive+Balance™, a TG-developed workshop that teaches students the basics of financial literacy.

The **TG Speakers Bureau** is an effective and evolving initiative in which the company provides schools and student financial aid organizations with training on the FFELP and other financial-related topics.

## Post-College Services

Many student borrowers need assistance after graduation, especially with strategies to repay loans. TG continues to focus on aversion of student loan default and delinquency by offering counseling and early intervention to those in danger of default. TG has been able to contact more borrowers by expanding its default prevention call center.

TG customer assistance representatives handled more than 320,000 requests for information and assistance in FY 2007, and fielded calls from 150,000 students, families, and borrowers. TG's customer assistance call center scored 4.72 (out of 5.0) on its yearly customer satisfaction survey. TG also assisted in the forgiveness of \$4.6 million in federal student loans for 703 teachers who qualified under the federal Teacher Loan Forgiveness Program by working a minimum of five years at schools in low-income areas. To date, 1,604 teachers with TG-guaranteed student loans have qualified for loan forgiveness, totaling \$10.3 million.



"To date, 1,604 teachers with TG-guaranteed student loans have qualified for loan forgiveness, totaling \$10.3 million."

*Photo: Katherine Segler is an elementary school teacher in Austin, Texas.*



## TG's Public Benefit Grant Program

At its core, TG is about shaping opportunities, and we have demonstrated a continuing commitment to support programs that directly benefit families and students who aspire to complete a postsecondary education. TG's Public Benefit Grant Program and other philanthropy is administered and awarded without consideration to TG's business as a FFELP guarantor, and never based on *quid pro quo* consideration.

In FY 2007, TG awarded almost \$5 million through its Public Benefit Grant Program. A large portion of that — \$3.8 million — was awarded to 28 educational and nonprofit organizations in competitive grants to improve access to, or participation in, postsecondary education, college retention and student access. The funding also was used to contribute direct aid to students, especially those from low- to moderate-income families. Additionally, TG provided \$1 million for need-based college scholarships through the Charley Wootan Grant Program. Examples of some of those initiatives are described on the following pages.

*Photo (L-R): St. Edward's TG Interns for Success Program: Esther Salinas (intern), Lawrence Vampler (intern), Dustin Kreitner (intern), and Andrew Harper (internship coordinator)*



## TG Interns for Success Program

The *TG Interns for Success Program* at **St. Edward's University** in Austin, Texas, promoted undergraduate success and retention by training 18 upper-class students to serve as mentors for a group of freshmen enrolled in "The American Experience" course. A Summer Research Internship program was also part of the project. Results of the project showed that freshmen students receiving the mentoring performed better academically than their peers who did not participate in the program and were more apt to stay in college and proceed on to graduate studies.

*"The program was a success for the university as it provided increased opportunities for students and contributed to overall retention. And it was a success for TG's Public Benefit Grant Program and its investment in students."*

– Dr. Robert W. Strong, program coordinator,  
TG Interns for Success Program

*Top photo (L-R): Janice M. Brown (supplemental instruction coordinator), Dr. Robert W. Strong (program coordinator), and Cristal Lopez (intern)*

## EduGuide: Partnership for Learning

**EduGuide: Partnership for Learning** in Lansing, Mich., works to prepare high school seniors for the transition to college. The organization used its TG grant to fund a research project to analyze new national data from thousands of high school students, parents, and college access professionals. The project was designed to help identify new ways to connect with hard-to-reach families in the digital age. Some of the findings were surprising — the study showed that 80 percent of parents of first-generation college students use the Internet. It also showed that higher education professionals need to learn more about technology to connect with families about college opportunities. The report has been distributed to more than 1,000 college access professionals and has become the hub of a new learning community.

*"TG enabled us to deliver outstanding results for the families and partners that we serve. More than just funding, TG staff provided advice and connections in the higher education community that enabled us to reach more people."*

– Bryan Taylor, president,  
EduGuide: Partnership for Learning



## First Generation College Student Initiative

A TG grant allowed **McLennan Community College** in Waco, Texas, to conduct a highly-successful two-year project — the *First Generation College Student Initiative*. The comprehensive program targeted area high school students. It provided direct scholarship aid to those students so they could participate in a summer bridge program and receive mentoring and tutoring services once enrolled in college. Students who completed the first year of the program were then trained to be mentors to incoming freshmen participating in the second phase of the initiative. Another key component of the initiative included outreach sessions for students and parents, both in the community and on the community college campus. The program also worked with parents and their elementary school children to encourage early college planning.

*“We are grateful to TG for helping McLennan Community College start our First Generation Initiative. In addition to offering scholarships, TG’s grant has allowed us to supplement orientation and support programs to foster success among incoming freshmen whose families have no experience with college.”*

—Harry Harelik, executive director,  
McLennan Community College Foundation

*Back Row (L-R): Joseph Anderson, Jr., Dr. Vivian Jefferson (director of admissions and recruitment), Nathan McAllister, Nikki Jupe, Angela Croford, and Harry Harelik (executive director, McLennan Community College Foundation)*

*Front Row (L-R): Jeremiah Jonse, Candace Bolden, Ashley Bolden, Ameenah Snow (outreach specialist for the First Generation College Student Initiative), Yesenia Rangel, Salvador Medina, and Denise Rodriguez*



## Charley Wootan Grant Program

The Charley Wootan Grant Program provides need-based scholarships to help students attend a postsecondary institution. Since starting the program in 2000 in honor of the late chairman of TG's board of directors, the company has awarded nearly \$6 million in direct assistance to students.



**Luis Castañeda** is a 43-year-old student at the **University of Texas – Brownsville (UT-B)**. He first enrolled at Texas Southmost College in 2005 and in 2007 moved on to UT-B with the goal of graduating with a bachelor's degree in 2009. A Charley Wootan scholarship helped him stay on course during a difficult time.



A Charley Wootan scholarship made a significant difference to **Matthew McKnight**, who graduated from **Sam Houston State University** in August 2007.

*"The scholarship was very helpful. I was able to pay off some debt from the purchase of books and also take care of other academic needs." — Luis Castañeda*

*"The scholarship helped pay for books and tuition. Without it, I don't think I would have been able to take the needed classes to graduate in the time that I had planned." — Matthew McKnight*

I sincerely appreciate the scholarship award given to me for the amount of \$2000 from the Dr. Charley Wootan Grant/ TGSLC for the 2007-2008 academic year.

I will use this money to purchase a laptop that I need since most of my books are now being supplied via CD. My commute to and from school has been very long and carrying these heavy books are quite a challenge. Now with the freedom of having my books on my laptop I will have a much easier commute to and from school.

Once again, I could not thank you enough.

Regards,

Mary

To Whom it May Concern:

I would like to thank each and everyone who considered me as one of the scholarship recipients for the 2007-2008 Dr. Charley Wootan Grant. The grant was truly a blessing to me and has helped tremendously with my finances for school. Words could not express how grateful I am to have received this scholarship. It has really helped and I am thankful I was considered. May God continue to bless each of you.

Thanks

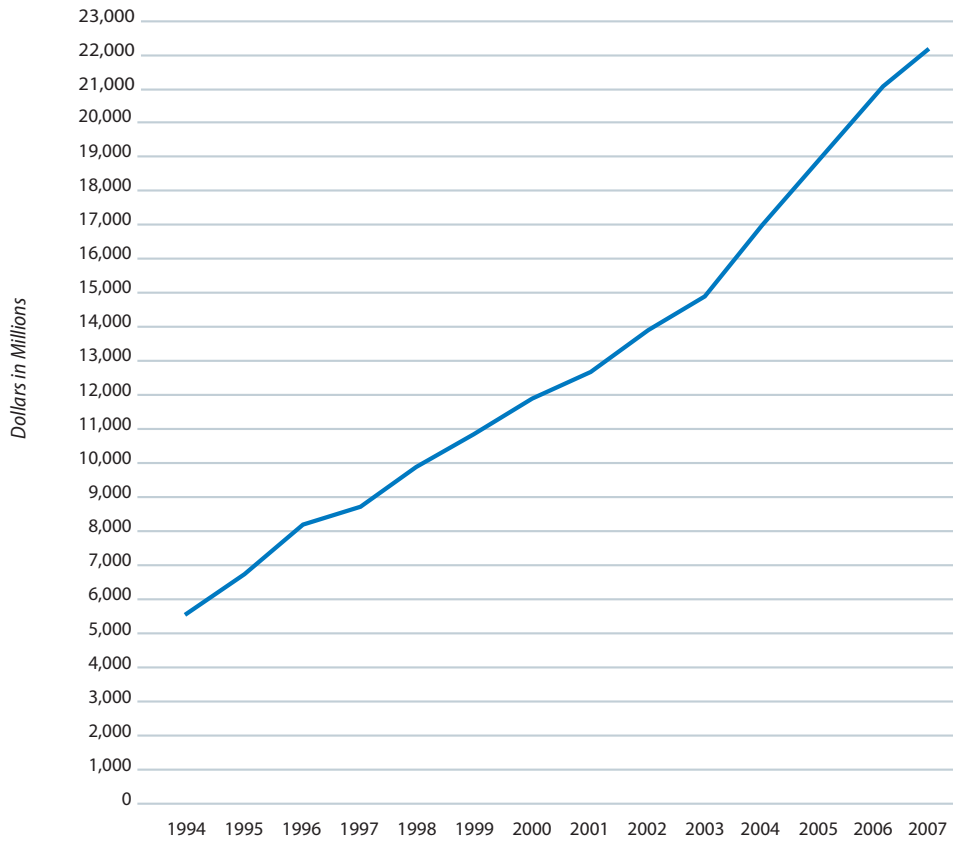
Teresa

*With many thanks  
to you  
for your kindness.*

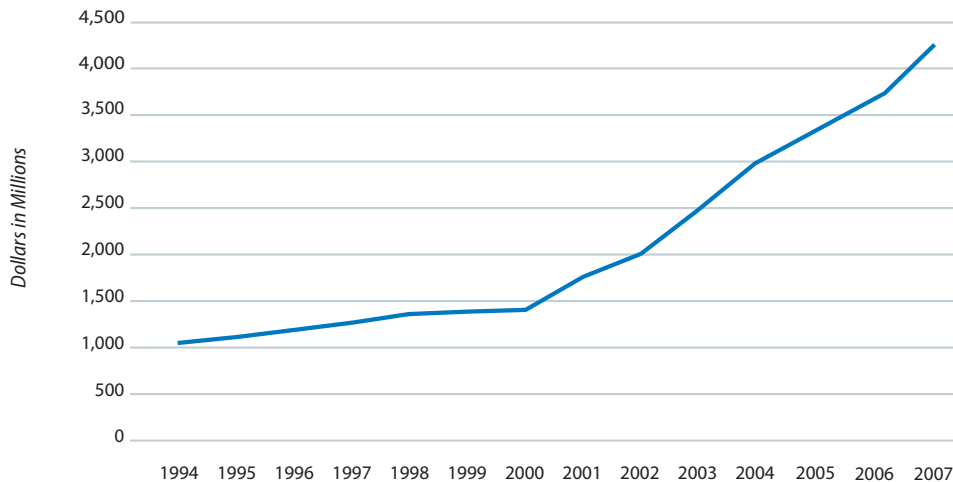
*This scholarship will be a blessing in my life. I was recently married, and my husband has been the sole provider will I continue my education. This money will help us to continue our focus on my career rather than the stress of bills. Thank you so much!*  
Valerie

# Guarantee Volume

*Loan Volume — Original Principal Balance Outstanding*



*Loan Volume Guaranteed  
(excludes Consolidation loans)*



# Top 25 Schools and Lenders

## Top 25 Schools

(ranked by total gross amount for Stafford and PLUS loan types as of September 30, 2007)

1. The University of Texas at Austin
2. University of North Texas
3. University of Texas at San Antonio
4. Texas A&M University
5. University of Houston
6. Texas Tech University
7. University of South Florida
8. University of Texas at Arlington
9. University of Missouri - Kansas City
10. Texas Southern University
11. Southern Methodist University
12. Baylor University
13. University of Phoenix
14. University of Texas at El Paso
15. Sam Houston State University
16. Texas Woman's University
17. Life University
18. Stephen F. Austin State University
19. University of Texas at Dallas
20. Florida International University
21. Capella University
22. Kennesaw State University
23. Lindenwood University
24. University of the Incarnate Word
25. University of Texas Health Science Center at San Antonio

## Top 25 Lenders

(ranked by total gross amount\* for Stafford and PLUS loan types as of September 30, 2007)

1. Bank of America
2. Wells Fargo Education Financial Services
3. Wachovia Education Finance
4. Chase
5. Citibank
6. Sallie Mae
7. Nelnet
8. College Loan Corporation
9. Frost National Bank
10. University Federal Credit Union
11. First Financial Bank
12. Student Loan Xpress, Inc.
13. Compass Bank
14. PlainsCapital Bank
15. Suntrust Education Loans
16. University of Missouri - Kansas City
17. U.S. Bank
18. Life University
19. Commerce Bank
20. Parker College of Chiropractic
21. Access Group
22. Southern Methodist University
23. T.H.E. Loan Program
24. Edamerica
25. Woodforest National Bank

*\*Amounts represent total loan volume for all U.S. Department of Education codes owned by a lender.*

# Advisory Committees for FY 2007

## Lender Advisory Committee

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*Austin, Texas*

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College Loan Corporation  
*College Station, Texas*

**Dr. Jim Lane**

KeyBank Education  
Resources  
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**Kenny McLesky**

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*Cedar Park, Texas*

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San Antonio Federal  
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**Brian Sunshine**

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University  
*Huntsville, Texas*

**Mary Gallegos-Adams**

Texas State Technical  
College – Harlingen  
*Harlingen, Texas*

**Christine Gauger**

University of Texas  
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*Austin, Texas*

**Governor Jackson**

Texas Woman's University  
*Denton, Texas*

**Yvonne Lane**

Baylor College of  
Medicine  
*Houston, Texas*

**Noé C. Ortiz**

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*San Antonio, Texas*

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University of Houston  
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**Joe Pettibon**

Texas A&M University  
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*Lubbock, Texas*

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Concorde Career Institute  
*Arlington, Texas*

**Don Zackary**

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*Tulsa, Oklahoma*

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University of Mississippi  
*Oxford, Mississippi*

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State University  
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**Bill Spiers**

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**Trevor Summers**

Southwest Assemblies  
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*Levelland, Texas*

**Steve Johnson**  
Texas Association of  
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*Austin, Texas*

**Henry Garcia**  
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**Linda Gonzalez-  
Hensgen**  
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College  
*El Paso, Texas*

**Lois Hollis**  
Texas Higher Education  
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*Austin, Texas*

**Noé C. Ortiz** - Chair  
Northwest Vista College  
*San Antonio, Texas*

**Rick Renshaw**  
Dallas County  
Community College  
District  
*Dallas, Texas*

**Bill Spiers**  
Tallahassee Community  
College  
*Tallahassee, Florida*

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Services Corporation  
*Waco, Texas*

**Janet Hardick**  
School Chair  
McLennan Community  
College  
*Waco, Texas*

**Claudia Hernandez**  
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*Edinburg, Texas*

**Kevin LeMasters**  
Sallie Mae  
*Austin, Texas*

**Wyatt Matthies** - Chair  
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*Brenham, Texas*

**Rachelle McDonald**  
Nelnet  
*Bryan, Texas*

**Mandy Rangel**  
University of Houston –  
Downtown  
*Houston, Texas*

**Estella Vasquez**  
Texas A&M University –  
Corpus Christi  
*Corpus Christi, Texas*

**Council for the Management of  
Educational Finance**

**Ed Apodaca**  
University of Houston –  
Downtown  
*Houston, Texas*

**Lynn Barnes**  
Texas A&M University  
*College Station, Texas*

**Terry Bazan** - Chair  
Austin Community  
College  
*Austin, Texas*

**Ron Brown**  
University of Mary  
Hardin – Baylor  
*Belton, Texas*

**Dr. Lawrence Burt**  
The University of Texas  
at Austin  
*Austin, Texas*

**Dr. Brent Cejda**  
University of Nebraska –  
Lincoln  
*Lincoln, Nebraska*

**Paul Dockry**  
Wells Fargo Education  
Financial Services  
*Sioux Falls, South Dakota*

**Adam Gonzalez**  
COSTEP  
*Edinburg, Texas*

**Robert Hogeda, Jr.**  
Student Loan Express  
*Austin, Texas*

**Raul Lerma**  
University of Texas  
at El Paso  
*El Paso, Texas*

**Jennifer Medley**  
Student Loan Xpress  
*Dallas, Texas*

**Michael O’Rear**  
Stephen F. Austin  
State University  
*Nacogdoches, Texas*

**Jennifer Phillips**  
Western Technical  
College  
*El Paso, Texas*

**Tyler Pruett**  
New Mexico State  
University  
*Las Cruces, New Mexico*

**Javier Salinas**  
Chase  
*Austin, Texas*

**Brian Sunshine** - Chair  
Nelnet  
*Bryan, Texas*

**Phillip Wambsgans**  
North Texas Higher  
Education Authority  
*Arlington, Texas*

# Contact TG

## Telephone

(800) 252-9743  
In Austin, call 219-5700

## Mailing Address

TG  
P.O. Box 83100  
Round Rock, TX 78683-3100

## Physical Address

TG  
301 Sundance Parkway  
Round Rock, TX 78681

## TG Distribution Center

(Shipping, receiving, and overnight deliveries)  
3500 Wadley Place, Bldg. C, Ste. 303  
Austin, TX 78728-1244

## TG Web Sites

[www.tgslc.org](http://www.tgslc.org)  
[www.AIE.org](http://www.AIE.org)  
[www.ConsolidationStation.org](http://www.ConsolidationStation.org)

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## Ask TG™

Search TG's FAQ database, submit a question to our support staff, review the status of your question, or give us your feedback — all from one convenient resource, designed for both schools and lenders, and students and borrowers. [www.tgslc.org](http://www.tgslc.org)

## Collections

Collections works with borrowers after default and informs them of TG's many repayment options.  
(800) 222-6297  
(512) 219-4739 fax  
[collections@tgslc.org](mailto:collections@tgslc.org)

## Communications

Communications provides publications and printed materials, subscriptions, Web sites, and press and media information.  
(800) 252-9743, ext. 4732  
(512) 219-4850 fax  
[communications@tgslc.org](mailto:communications@tgslc.org)

## Customer Assistance

The Customer Assistance team answers approximately 300,000 customer queries a year from a wide range of TG customers: borrowers, schools, lenders and servicers, prospective students, and their families.  
(800) 845-6267  
(512) 219-4633 fax  
[cust.assist@tgslc.org](mailto:cust.assist@tgslc.org)

## Default Prevention

The Default Prevention team works with schools and lenders to prevent the default of student loans. Default Prevention also works with borrowers to avoid default, informs them of TG's many repayment options, and offers TG's financial literacy training program, Positive+Balance™  
(800) 338-4752  
(512) 219-4630 fax  
[prevent.default@tgslc.org](mailto:prevent.default@tgslc.org)

## Educational Alliances and Partnerships

Educational Alliances and Partnerships works within the Title IV community and with other educational, financial aid, and civic organizations to promote awareness. They also make middle school and high school students aware of requirements for getting into college.  
(800) 252-9743, ext. 4964  
(512) 219-4932 fax

## Loan Guarantee Operations/ Data Reporting

Loan Guarantee Operations works with schools and lenders to process loan guarantees. The team also regularly reports loan information to the National Student Loan Data System.  
(800) 446-5616  
(512) 336-4777 fax  
[lgo.helps@tgslc.org](mailto:lgo.helps@tgslc.org)

## Ombudsman

The TG Ombudsman provides assistance to resolve specific borrower issues when other means have been exhausted.  
(800) 252-9743

## Product Support Group

The Product Support Group provides technical assistance for TG's products and services.  
(800) 332-1455  
(512) 219-4525 fax  
[product.support@tgslc.org](mailto:product.support@tgslc.org)

## Relationship Management and Consulting

The Relationship Management and Consulting team serves the needs of TG's school and lender partners. The team responds to customer needs, provides on-site consulting, and builds partnerships.  
(800) 892-1357  
(512) 219-4989 fax  
[relationship.management@tgslc.org](mailto:relationship.management@tgslc.org)

## Texas Financial Aid Information Center

This call center is a collaborative effort between TG and the Texas Higher Education Coordinating Board. TG's Customer Assistance team receives all calls through this toll-free number, used by college-bound students, families, guidance counselors, and others seeking general information about planning for higher education academically and financially.  
(888) 311-8881



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Texas Guaranteed Student Loan Corporation (TG) annual financial report presents discussion and analysis of its financial performance during the fiscal years ended September 30, 2007 and 2006, and should be read in conjunction with TG's financial statements, which follow this section.

### Financial Highlights

- In July 2006, the provisions of the Higher Education Reconciliation Act (HERA) became effective, requiring deposit of a 1% Federal Default Fee (FDF) into the Federal Fund for all loans guaranteed after June 30, 2006. TG has committed to subsidize the FDF from its Operating Fund on behalf of its customers since its inception in July 2006 through June 2009. This resulted in fiscal year 2007 and 2006 transfers of \$34.5 million and \$9.2 million, respectively.
- TG has authorized annual expenditure of up to 5% of its available Operating Fund balance for public benefits. In fiscal year 2007, expenditures included \$1 million in Charley Wootan Grants and approximately \$4 million in competitive based education related grants.
- Claims increased by over 30% to \$572 million during fiscal year 2007 due in part to an increased portfolio as well as an influx of hurricane related claims. This resulted in a 3.01% estimated annual default rate for fiscal year 2007 which is slightly lower than the prior year default rate, in part due to growth in the underlying portfolio.
- As required by the 1998 Higher Education Act (HEA), in August 2007, TG made the final of three returns of Federal Fund reserves from Escrowed Assets in the amount of \$4.2 million. The second \$4.2 million return was made in September 2006.
- During fiscal year 2007, TG acquired its warehouse facility for approximately \$4 million funded from its own cash reserves. A portion of this facility had been under lease by TG through September 2019 for approximately \$15,000 per month.
- Beginning in October 2007, the College Cost Reduction and Access Act (CCRAA) reduced AMF from 0.10% annually to 0.06% as well as reducing retention on cash collections for non-VFA guarantors from 23% to 16%.
- In October 2007, ED notified TG that it was exercising its right to terminate TG's VFA effective January 1, 2008, upon which TG would revert to the currently effective statutory guarantor funding model.

## Overview of the Financial Statements

This report consists of four parts – Management's Discussion and Analysis (this section), Independent Auditors' Report, Financial Statements (Balance Sheets, Statements of Revenue and Expenses and Changes in Fund Equity, and Statements of Cash Flows), and Notes to the Financial Statements that explain some of the information in the financial statements and provide more detailed data.

TG is comprised of two funds: the Operating Fund and the Federal Fund. These distinct funds are defined in the Federal legislation which governs the Federal Family Education Loan Program (FFELP) within which TG functions as a guarantor. The Operating Fund, which is the property of TG, reports the guarantor activities as specified in the law including loan guarantee and supporting systems, guarantee maintenance, delinquency and default prevention, claims processing, and default recoveries, as well as financial aid awareness and related outreach activities. Operating Fund revenues are derived principally from life of the student loan activities funded by ED. The Federal Fund, which is considered to be the property of the United States, reports TG's student loan insurance activity. Under the VFA, Federal Fund net assets on March 31, 2001 have been set aside in escrow, with TG receiving advance funding of 100% of eligible lender claims. Although not an operating entity, the Federal Fund derives revenue from FDF, recoveries on pre-VFA defaults, refunds of pre-VFA default aversion fees in the event of loan default, interest on loans repurchased by lenders, and interest earned on non-escrowed assets. Interest on escrowed assets is not Federal Fund revenue, and serves to increase both the escrow as well as the Liability Payable from escrowed assets. Upon VFA termination, these escrowed assets will return to TG's Federal Fund reserves, reported as fund equity with the concurrent elimination of the corresponding Liabilities Payable from Escrowed Assets.

TG's funds are reported as proprietary component units of the State of Texas, and as such are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow, similar to private sector companies. The most significant example is the Default Aversion Refund Allowance, for which an estimated refund liability is recorded upon fee billing, in recognition of the long-term obligation to refund the fee in the event of subsequent loan default.

## Condensed Financial Information (000s)

	Operating Fund			Federal Fund		
	2007	2006	2005	2007	2006	2005
<b>Fund Equity</b>						
Current Assets	\$ 463,583	\$ 392,444	\$ 315,969	\$ 226,928	\$ 176,090	\$ 164,535
Capital Assets	38,600	35,332	37,864	1	4	10
Other Noncurrent Assets	(2,760)	(3,276)	(3,920)	4,666	5,203	5,870
Total Assets	499,423	424,500	349,913	231,595	181,297	170,415
Current Liabilities	25,406	20,507	18,248	15,795	15,938	10,554
Noncurrent Liabilities	99,577	92,961	79,830	138,527	130,615	138,520
Total Liabilities	124,983	113,468	98,078	154,322	146,553	149,074
Fund Equity:						
Invested in Capital Assets	28,984	24,169	25,224	1	4	10
Restricted		207	848	77,272	34,740	21,331
Unrestricted	345,456	286,656	225,763			
Total Fund Equity	\$374,440	\$311,032	\$251,835	\$77,273	\$34,744	\$21,341
<b>Changes in Fund Equity</b>						
Program Revenues:						
Non-Recovery	\$79,684	\$78,656	\$73,996	\$3,831	\$2,485	\$5,116
Recovery	79,752	51,707	52,519	397	426	562
Nonoperating Revenues	23,012	13,284	3,692	3,827	1,306	540
Total Revenues	182,448	143,647	130,207	8,055	4,217	6,218
Operating Expenses:						
Operations	81,725	71,991	68,805	3	6	12
Corporate Projects	2,838	3,267	7,202			
Total Expenses	84,563	75,258	76,007	3	6	12
Income	97,885	68,389	54,200	8,052	4,211	6,206
Transfer	(34,477)	(9,192)		34,477	9,192	
Change in Fund Equity	\$63,408	\$59,197	\$54,200	\$42,529	\$13,403	\$6,206

## Overall Financial Analysis

TG has grown its combined total assets by over \$125 million, or 21%, in fiscal year 2007 and over \$85 million, or over 16%, in fiscal year 2006, while combined liabilities increased by \$19.3 million and \$12.9 million in fiscal year 2007 and 2006, respectively. In both years, assets grew as a result of TG's operational performance offset by scheduled payments on the building note, reduced by another year of default aversion fees refund deferrals. The resulting

approximate \$106 million and \$72.6 million increases in combined Fund Equity in fiscal year 2007 and 2006 are driven primarily by TG's operational performance.

TG's subsidy of FDF is reported as a transfer from the Operating Fund to the Federal Fund.

Elements of TG's financial performance are described in the Individual Fund Financial Analysis.

## Individual Fund Financial Analysis

### Operating Fund

The significant components of the \$71 million, 18% increase, in Current Assets from fiscal year end 2006 to 2007 are as follows. Operating Fund investments grew by approximately \$75 million and \$73 million in fiscal years 2007 and 2006, respectively, driven primarily by Operating Fund income and investment portfolio market valuation increases. Receivables Due from Department of Education were down \$5.3 million primarily from reduced September Default Aversion Fee (DAF) performance.

By comparison, Current Assets increased by \$76.5 million, or 24%, from fiscal year end 2005 to 2006. Operating Fund investments grew by approximately \$73 million in fiscal year 2006 driven primarily by Operating Fund income, offset by market valuation decreases. While the combined amounts for Receivables Due from Department of Education and Interfund Receivables and Payables are consistent from fiscal year end 2005 to 2006, end of fiscal year Account Maintenance Fees (AMF) previously subsidized by the Federal Fund were funded by ED under HERA requirements. Accordingly, such fees are due directly from ED rather than settled through Interfund Receivables and Payables as in prior years.

During the fiscal year 2007, TG acquired its previously leased warehouse facility for approximately \$4 million, funding this acquisition from its own cash reserves. Other significant asset purchases were predominantly technology oriented including desktop PCs, servers, software and upgrading to a new mainframe. Excluding depreciation of the facility and modular furniture finish-out costs, in fiscal year 2006, Capital Assets remained relatively stable with life cycle replacement of equipment. Other Noncurrent Assets also reflect the pre-VFA Default Aversion Fee (DAF) refund obligation due to the Federal Fund which is paid down with loan defaults.

Current Liabilities increased \$4.9 million from fiscal year 2006 to 2007 due to improved performance against corporate goals and success in the national market which increased corporate performance and related compensation earned by TG's staff by \$2.4 million. Employee performance bonuses are paid in the first quarter of the following fiscal year. Amounts Due to Department of Education also increased \$2.5 million due to changes in Collections and DAF revenues.

By comparison, Current Liabilities increased \$2.3 million from fiscal year 2005 to 2006 due to a \$1.5 million increase in employee performance bonuses, as well as the timing of the annual Charley Wootan Grant disbursements.

Increases in Noncurrent Liabilities result from the Default Aversion Refund Allowance due to ED continuing to grow in both fiscal years, as a portion of the Default Aversion Fees (DAF) billed to ED is set aside to provide for the refund obligation in the event of underlying loan default. The refundable fee estimate is based upon projected claims performance and has grown from approximately 50% in 2006 to approximately 55.8% in 2007. Accordingly, this portion of DAF is not recognized as revenue.

Program Revenues increased by \$29 million in fiscal year 2007, with Recovery revenue providing \$28 million of the increase as collections volumes, increased from \$254 million to \$372 million primarily due to TG's successful culmination of its strategic shift in focus from loan consolidation to rehabilitation as a collection tool sustaining TG's VFA top-tier performance. These Recovery revenues have been reduced by a \$7.6 million deferral due to the HERA reduction of consolidation collections commissions from 18.5% to 10% pending negotiation into TG's VFA. Non-recovery Program revenues increased by a net \$1 million from the following: Delinquency Prevention Fees (DPF) increased approximately \$4.7 million due to TG improving performance from the VFA base tier in fiscal year 2006 to the VFA second performance tier in fiscal year 2007; Loan Processing Issuance Fees (LPIF), earned at 0.40% of disbursements, increased \$1.9 million in fiscal year 2007 due to continued guarantee volume growth, as loans are typically disbursed in two installments spanning fiscal year end; Account Maintenance Fees (AMF), earned at 0.10% of outstanding portfolio, increased \$1.8 million as TG added another \$6 billion to its loan portfolio in fiscal year 2007 to outpace consolidations of loans out of the portfolio, claims and loans paid in full; DAF, which is both a volume and performance driven fee, decreased \$14.1 million due to a cure rate performance decrease from 89.6% in 2006 to 87.2% in 2007, resulting from VFA base-tier performance in eight months of the fiscal year. This DAF reduction was partially offset by the one-time revenue recognition of \$6.8 million, triggered by recent VFA negotiation activities, of previously deferred DAF.

By comparison, Program Revenues increased by \$3.8 million in fiscal year 2006 from \$126.5 million in fiscal year 2005. The fiscal year 2006 program revenue performance resulted from the following nonrecovery sources. LPIF increased \$1.1 million in fiscal year 2006 due to continued guarantee volume growth. AMF increased \$1.4 million as TG added \$6 billion to its loan portfolio in fiscal year 2006 to outpace consolidations of loans out of the portfolio, claims and loans paid in full. DPF increased approximately \$0.7 million due to underlying portfolio increases and continued base level performance. DAF increased almost \$1.3 million, due to a cure rate performance increase from 89% in 2005 to 89.6% in 2006. This was achieved by advancing a VFA

performance level in two months as compared to 2005. Recovery Revenue decreased \$0.8 million, while remaining in the top VFA performance category, as collections volumes decreased from \$292 million to \$254 million due to TG's initiating a shift in focus from loan consolidation to rehabilitation as a collection tool.

The Nonoperating Revenues increase of \$9.7 million from fiscal year 2006 to 2007 results from the investment portfolio. Higher market valuations at fiscal year end 2007 compared to 2006 resulted in a \$5.8 million improvement in the net change in fair value of investments. Investment interest increased \$3.8 million from fiscal year 2006 to 2007 due to the operating income driven investment portfolio increases. By comparison, Nonoperating Revenues experienced a similar increase in fiscal year 2006 of \$9.6 million due to higher market valuations at fiscal year end 2006 of \$5.8 million over fiscal year end 2005 and investment interest also increased \$3.7 million.

Non-project Operating Expenses increased \$9.6 million, or 13%, from fiscal year 2006 to 2007. This resulted from a \$2.7 million increase in personnel costs including: merit raises, benefits and additional positions; a \$1.6 million increase in TG's public benefit program; a \$2.9 million increase in employee performance bonuses; and \$4.8 million increase in outsourced loan recovery commissions. These increases were partially offset by a \$1 million decrease in other operations costs primarily related to the data loss event remediation and a \$0.4 million decrease in depreciation as TG extended its utilization of existing desktop and server technology.

By comparison, Non-project Operating Expenses increased \$3.19 million, or 4.6%, from fiscal year 2005 to 2006. This resulted from a \$1.3 million increase in personnel costs including: merit raises, benefits and additional positions; a \$2.3 million increase in TG's public benefit program; a \$1.8 million increase in employee performance bonuses; as well as other increases including data loss event remediation. These increases were offset by a \$2.2 million reduction in outsourced loan recovery commissions, a \$0.4 million reduction in equipment rent due to TG's continuing bias toward purchase over lease, and a \$0.4 million decrease in depreciation, as TG continues to optimize its equipment replacement strategy.

Project-related Operating Expenses decreased less than \$0.5 million in fiscal year 2007 as TG continued its efforts on assessing its technology infrastructure, architecture, and business processes. This effort began in fiscal year 2006 when project-related expenses decreased almost \$4 million as a result.

## Federal Fund

Current Assets increased \$50.8 million from fiscal year end 2007 to 2006, primarily from the \$34.5 million of FDF transferred from the Operating Fund to the Federal Fund, the increase in Federal Fund Income of almost \$4 million, an increase of \$8 million in cash in support of expected claims, and a \$4 million increase in Escrowed Assets due to market growth and interest earnings after funding the final \$4.2 million reserve return payment to U.S. Treasury required under the 1998 HEA Reauthorization. At fiscal year end 2006, Current Assets increased \$11.6 million over fiscal year end 2005, primarily from \$9.2 million of the new FDF transferred from the Operating Fund to the Federal Fund. Increases in portfolio interest earned and collections retained exceeded the settlement of the fiscal year 2005 AMF due to the Operating Fund, and the second \$4.2 million scheduled return of reserves.

Other Noncurrent Assets decreased by \$0.5 million and \$0.7 million in fiscal year 2007 and 2006, respectively, due primarily to the continuing collections on the DAF refund receivable from the operating fund related to defaults upon which pre-VFA DAF was paid by the Federal Fund.

Current Liabilities remained consistent from fiscal year 2007 as compared to fiscal year 2006. TG's payment of final scheduled \$4.2 million return of reserves reduction in liabilities was offset by an increase in amounts Due to Department of Education as a result of increased collection activity from TG's shift to a rehabilitation collection strategy. Current Liabilities increased \$5.4 million in fiscal year 2006, due to increased collection activity resulting from HERA easing of the loan rehabilitation requirements, effective for the first time in the fourth quarter of fiscal year 2006.

Recovery Program Revenues, which consist of the non-reinsured portion of post claim borrower payments, decreased more than \$0.29 million in fiscal year 2007 and \$0.1 million in fiscal year 2006. While recoveries increased in fiscal year 2007, after a decrease in 2006 due to shift from a consolidation to a rehabilitation collections strategy, federal fund recoveries revenue continues to decrease as the 100% reinsured portion of the collections portfolio increases.

Nonoperating Revenues include investment interest derived primarily from non-escrowed Federal Fund investments, which have increased in fiscal year 2007 due primarily to the first full year of FDF, and to a lesser degree in 2006 from the first quarter of FDF. While investment purchases have been at progressively higher coupon rates over the period, revenues have also been positively impacted by changes in investment market value.

## Capital Assets and Long Term Debt

TG's most significant capital asset is its primary operating facility with an original cost of almost \$33 million. This fiscal year 2003 acquisition was partially financed with a \$16.25 million, 10-year, 4.75% fixed rate loan from an institutional lender, of which \$9.6 million remains outstanding at September 30, 2007. In addition, TG acquired its previously leased warehouse facility for approximately \$4 million, funding this acquisition from its own cash reserves. Other significant asset purchases were predominantly technology oriented including desktop PCs, servers, software and upgrading to a new mainframe. Capital asset purchases in fiscal year 2006 were also predominantly technology-oriented.

TG continues to provide stand-by liquidity under a Prime Broker margin facility with borrowing capacity up to 95% of the investment portfolio fair value. To facilitate TG's cash management strategy for security reinvestment, the facility was accessed on several occasions in fiscal year 2007 and 2006 typically on a one day basis. Draws ranged in size up to \$9.5 million, with the total of all draws approximating \$36.8 million for 2007.

In April 2007, TG renewed its \$5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest at the institution's prime rate. The facility, which expires April 30, 2009, has not been accessed.

## Significant Known Facts, Decisions, or Conditions

In October 2007, ED notified TG that it was exercising its right to terminate TG's VFA effective January 1, 2008, upon which TG would revert to the statutory guarantor funding model. Primary features of the statutory guarantor funding model include: no DPF; one-time 1% refundable DAF paid from the Federal Fund; collections retention at 16% for cash collections, 10% for consolidations and 18.5% for rehabilitations; and maximum claims reinsurance ranging from 95% to 100% dependent upon underlying loan disbursement date. With these changes, TG expects to generate a net surplus in fiscal year 2008, while continuing current operations and development, funding its FDF subsidy commitment, and sustaining its other public benefit activities.

TG has committed to subsidize the FDF from its Operating fund on behalf of its customers since its inception in July 2006 through June 2009. This resulted in transfers of \$34.5 and \$9.2 million in fiscal year 2007 and 2006, respectively. Given current volume estimates, the subsidy could exceed \$43 million in fiscal year 2008 and \$27 million in the first nine months of fiscal year 2009.

In May 2006, a company TG engaged to prepare a document management system lost a piece of equipment which contained the names and Social Security numbers of a portion of TG's borrowers. TG has undertaken remediation measures including borrower communication. At this time TG does not anticipate that any resulting litigation will have a material adverse financial impact on TG.

## Contacting TG's Financial Management

This financial report is designed to provide our customers, business partners, and creditors with a general overview of TG's finances. Questions about this report can be directed to TG's Chief Financial Officer, James Patterson at (512) 219-4611 or [james.patterson@tgscl.org](mailto:james.patterson@tgscl.org), or to TG's Controller, Mark Zarsky at (512) 219-4617 or [mark.zarsky@tgscl.org](mailto:mark.zarsky@tgscl.org).

## INDEPENDENT AUDITOR'S REPORT

Board of Directors

Texas Guaranteed Student Loan Corporation:

We have audited the accompanying financial statements of the Texas Guaranteed Student Loan Corporation (TG), a component unit of the State of Texas, as of and for the years ended September 30, 2007 and 2006, which collectively comprise TG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of TG's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TG as of September 30, 2007 and 2006, and the respective changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with the *Government Auditing Standards*, we have also issued our report dated November 28, 2007, on our consideration of TG's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 20 through 24 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP  
Austin, Texas  
November 28, 2007

## Balance Sheets

	September 30, 2007			September 30, 2006		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Assets</b>						
<b>Current Assets:</b>						
Cash & Cash Equivalents	\$ 3,448,998	\$ 19,727,968	\$ 23,176,966	\$ 5,175,972	\$ 11,348,837	\$ 16,524,809
Receivables						
Due from Department of Education	18,451,329		18,451,329	23,756,527	385,460	24,141,987
Accrued Interest & Other	4,368,140	475,983	4,844,123	3,502,129	277,675	3,779,804
Investments	436,062,639	69,938,952	506,001,591	360,610,221	29,489,078	390,099,299
Interfund Receivables, Payables	(47,400)	47,400		(1,856,058)	1,856,058	
Other Current Assets	1,299,772		1,299,772	1,254,759		1,254,759
Escrowed Assets - VFA		136,737,464	136,737,464		132,732,636	132,732,636
<b>Total Current Assets</b>	<b>463,583,478</b>	<b>226,927,767</b>	<b>690,511,245</b>	<b>392,443,550</b>	<b>176,089,744</b>	<b>568,533,294</b>
<b>Noncurrent Assets:</b>						
Capital Assets, Net	38,600,277	837	38,601,114	35,332,256	3,586	35,335,842
Interfund Default Aversion Fee						
Refund Allowance	(2,876,575)	2,876,575		(3,413,949)	3,413,949	
Escrowed Assets - VFA		1,789,870	1,789,870		1,789,870	1,789,870
Other Noncurrent Assets, Net	116,281		116,281	138,430		138,430
<b>Total Noncurrent Assets</b>	<b>35,839,983</b>	<b>4,667,282</b>	<b>40,507,265</b>	<b>32,056,737</b>	<b>5,207,405</b>	<b>37,264,142</b>
<b>Total Assets</b>	<b>\$ 499,423,461</b>	<b>\$ 231,595,049</b>	<b>\$ 731,018,510</b>	<b>\$ 424,500,287</b>	<b>\$ 181,297,149</b>	<b>\$ 605,797,436</b>
<b>Liabilities and Fund Equity</b>						
<b>Current Liabilities:</b>						
Accounts Payable and Accrued Liabilities	\$ 10,495,621	\$ 328,337	\$ 10,823,958	\$ 8,214,091	\$ 313,567	\$ 8,527,658
Due to Department of Education	13,288,225	15,466,529	28,754,754	10,745,232	11,416,456	22,161,688
Note Payable	1,622,805		1,622,805	1,547,669		1,547,669
Liabilities Payable from Escrowed Assets					4,207,762	4,207,762
<b>Total Current Liabilities</b>	<b>25,406,651</b>	<b>15,794,866</b>	<b>41,201,517</b>	<b>20,506,992</b>	<b>15,937,785</b>	<b>36,444,777</b>
<b>Noncurrent Liabilities:</b>						
Due to Department of Education						
Default Aversion Fee Refund Allowance	90,563,425		90,563,425	82,316,051		82,316,051
Note Payable	7,993,061		7,993,061	9,615,866		9,615,866
Liabilities Payable from Escrowed Assets		138,526,944	138,526,944		130,615,274	130,615,274
Other	1,020,259		1,020,259	1,029,427		1,029,427
<b>Total Noncurrent Liabilities</b>	<b>99,576,745</b>	<b>138,526,944</b>	<b>238,103,689</b>	<b>92,961,344</b>	<b>130,615,274</b>	<b>223,576,618</b>
<b>Total Liabilities</b>	<b>124,983,396</b>	<b>154,321,810</b>	<b>279,305,206</b>	<b>113,468,336</b>	<b>146,553,059</b>	<b>260,021,395</b>
<b>Fund Equity:</b>						
Net Assets Invested in Capital Assets, net of related debt	28,984,411	837	28,985,248	24,168,721	3,586	24,172,307
Restricted Net Assets		77,272,402	77,272,402	206,798	34,740,504	34,947,302
Unrestricted Net Assets	345,455,654		345,455,654	286,656,432		286,656,432
<b>Total Fund Equity</b>	<b>374,440,065</b>	<b>77,273,239</b>	<b>451,713,304</b>	<b>311,031,951</b>	<b>34,744,090</b>	<b>345,776,041</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 499,423,461</b>	<b>\$ 231,595,049</b>	<b>\$ 731,018,510</b>	<b>\$ 424,500,287</b>	<b>\$ 181,297,149</b>	<b>\$ 605,797,436</b>

The accompanying notes are an integral part of the financial statements.

## Statements of Revenue and Expenses and Changes in Fund Equity

	Fiscal Year Ended September 30, 2007			Fiscal Year Ended September 30, 2006		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Operating Revenues</b>						
Loan Processing and Issuance Fee	\$ 15,172,935	\$	\$ 15,172,935	\$ 13,279,801	\$	\$ 13,279,801
Account Maintenance Fee	23,303,931		23,303,931	21,473,571		21,473,571
Delinquency Prevention Fee	9,693,287		9,693,287	4,946,964		4,946,964
Default Aversion Fee	29,899,535		29,899,535	37,256,927		37,256,927
Recovery Revenue	79,752,412	396,787	80,149,199	51,707,260	426,071	52,133,331
Other Revenue	1,614,019	3,831,601	5,445,620	1,698,390	2,485,030	4,183,420
<b>Total Operating Revenues</b>	<b>159,436,119</b>	<b>4,228,388</b>	<b>163,664,507</b>	<b>130,362,913</b>	<b>2,911,101</b>	<b>133,274,014</b>
<b>Operating Expenses</b>						
Operations	81,882,405		81,882,405	72,242,502		72,242,502
Depreciation	2,680,434	2,686	2,683,120	3,015,834	6,471	3,022,305
<b>Total Operating Expenses</b>	<b>84,562,839</b>	<b>2,686</b>	<b>84,565,525</b>	<b>75,258,336</b>	<b>6,471</b>	<b>75,264,807</b>
<b>Operating Income</b>	<b>74,873,280</b>	<b>4,225,702</b>	<b>79,098,982</b>	<b>55,104,577</b>	<b>2,904,630</b>	<b>58,009,207</b>
<b>Nonoperating Revenues (Expenses)</b>						
Net Increase (Decrease) in the Fair Value of Investments	5,127,382	1,006,517	6,133,899	(717,696)	131,890	(585,806)
Investment Interest	18,382,208	2,827,258	21,209,466	14,568,219	1,174,001	15,742,220
Net Gain (Loss) on Sale of Assets	427	(63)	364	(1,036)	300	(736)
Interest Expense	(498,500)	(6,948)	(505,448)	(565,140)		(565,140)
<b>Total Nonoperating Revenues</b>	<b>23,011,517</b>	<b>3,826,764</b>	<b>26,838,281</b>	<b>13,284,347</b>	<b>1,306,191</b>	<b>14,590,538</b>
<b>Income</b>	<b>97,884,797</b>	<b>8,052,466</b>	<b>105,937,263</b>	<b>68,388,924</b>	<b>4,210,821</b>	<b>72,599,745</b>
Transfer	(34,476,683)	34,476,683		(9,191,867)	9,191,867	
<b>Change in Fund Equity</b>	<b>63,408,114</b>	<b>42,529,149</b>	<b>105,937,263</b>	<b>59,197,057</b>	<b>13,402,688</b>	<b>72,599,745</b>
<b>Fund Equity, Beginning</b>	<b>311,031,951</b>	<b>34,744,090</b>	<b>345,776,041</b>	<b>251,834,894</b>	<b>21,341,402</b>	<b>273,176,296</b>
<b>Fund Equity, Ending</b>	<b>\$ 374,440,065</b>	<b>\$ 77,273,239</b>	<b>\$ 451,713,304</b>	<b>\$ 311,031,951</b>	<b>\$ 34,744,090</b>	<b>\$ 345,776,041</b>

The accompanying notes are an integral part of the financial statements.

## Statements of Cash Flows

	Fiscal Year Ended September 30, 2007			Fiscal Year Ended September 30, 2006		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Cash Flows from Operating Activities:</b>						
Claims Reinsurance Received	\$	\$ 605,136,639	\$ 605,136,639	\$	\$ 467,619,115	\$ 467,619,115
Collection of Defaulted Loans		257,059,193	257,059,193		137,747,341	137,747,341
Fees Received (Paid)	170,236,870	(68,841,124)	101,395,746	127,176,342	(36,076,253)	91,100,089
Proceeds from Other Revenues	1,018,927	3,831,602	4,850,529	1,522,736	2,485,030	4,007,766
Claims Payments		(604,538,188)	(604,538,188)		(467,749,127)	(467,749,127)
Collection Payments to Department of ED		(184,496,771)	(184,496,771)		(101,808,380)	(101,808,380)
Payments to Suppliers for Goods and Services	(42,626,960)		(42,626,960)	(37,389,398)		(37,389,398)
Payments to Employees	(37,182,420)		(37,182,420)	(33,278,507)		(33,278,507)
<b>Net Cash Provided By Operating Activities</b>	<b>91,446,417</b>	<b>8,151,351</b>	<b>99,597,768</b>	<b>58,031,173</b>	<b>2,217,726</b>	<b>60,248,899</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from Note Payable	24,564,322	12,277,910	36,842,232	10,059,501		10,059,501
Principal Payments on Note Payable	(24,564,322)	(12,277,910)	(36,842,232)	(10,059,501)		(10,059,501)
Interest Paid	(7,754)	(7,928)	(15,682)	(2,429)		(2,429)
Transfer - Federal Default Fees Received (Paid)	(33,141,920)	33,141,920		(5,777,831)	5,777,831	
<b>Net Cash Provided By (Used In) Non-Capital Financing Activities</b>	<b>(33,149,674)</b>	<b>33,133,992</b>	<b>(15,682)</b>	<b>(5,780,260)</b>	<b>5,777,831</b>	<b>(2,429)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from Sale of Assets	4,650		4,650	583	300	883
Purchases of Property, Plant and Equipment	(5,814,271)		(5,814,271)	(755,233)		(755,233)
Principal Payments on Note Payable	(1,547,669)		(1,547,669)	(1,476,012)		(1,476,012)
Interest Paid	(452,682)		(452,682)	(518,522)		(518,522)
<b>Net Cash Provided By (Used In) Capital and Related Financing Activities</b>	<b>(7,809,972)</b>		<b>(7,809,972)</b>	<b>(2,749,184)</b>	<b>300</b>	<b>(2,748,884)</b>
<b>Cash Flows from Investing Activities:</b>						
Purchases of Investments	(127,865,492)	(71,522,859)	(199,388,351)	(135,010,321)	(49,117,775)	(184,128,096)
Proceeds from Maturity or Sale of Investments	57,540,455	31,000,000	88,540,455	73,897,038	40,700,030	114,597,068
Interest Received	18,111,292	8,708,484	26,819,776	14,183,358	7,328,683	21,512,041
<b>Net Cash Used In Investing Activities</b>	<b>(52,213,745)</b>	<b>(31,814,375)</b>	<b>(84,028,120)</b>	<b>(46,929,925)</b>	<b>(1,089,062)</b>	<b>(48,018,987)</b>
Increase (Decrease) in Cash and Cash Equivalents	(1,726,974)	9,470,968	7,743,994	2,571,804	6,906,795	9,478,599
<b>Cash and Cash Equivalents, Beginning</b> (Including \$125,452 and \$1,035,624 in Federal Fund Escrowed Cash Equivalents at September 30, 2006 and 2005, respectively)						
	5,175,972	11,474,289	16,650,261	2,604,168	4,567,494	7,171,662
<b>Cash and Cash Equivalents, Ending</b> (Including \$1,217,289 and \$125,452 in Federal Fund Escrowed Cash Equivalents at September 30, 2007 and 2006, respectively)						
	<u>\$ 3,448,998</u>	<u>\$ 20,945,257</u>	<u>\$ 24,394,255</u>	<u>\$ 5,175,972</u>	<u>\$ 11,474,289</u>	<u>\$ 16,650,261</u>
Operating Income	<u>\$ 74,873,280</u>	<u>\$ 4,225,702</u>	<u>\$ 79,098,982</u>	<u>\$ 55,104,577</u>	<u>\$ 2,904,630</u>	<u>\$ 58,009,207</u>
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:						
Depreciation	2,680,434	2,686	2,683,120	3,015,834	6,471	3,022,305
Other	22,149	(375)	21,774	22,148	(446)	21,702
Change in Assets & Liabilities (Including Escrowed Assets & Liabilities):						
Receivables	4,710,105	385,461	5,095,566	(9,791,420)	(130,011)	(9,921,431)
Other Assets	(45,013)		(45,013)	(189,618)		(189,618)
Interfund Receivables, Payables	(3,680,796)	3,680,796		(7,221,851)	7,221,851	
Liabilities Payable from Escrowed Assets		(4,207,762)	(4,207,762)		(13,167,791)	(13,167,791)
Accounts Payable & Accrued Liabilities Due to Department of Education	2,095,891	14,770	2,110,661	1,742,065	166,906	1,908,971
	10,790,367	4,050,073	14,840,440	15,349,438	5,216,116	20,565,554
Total Adjustments	16,573,137	3,925,649	20,498,786	2,926,596	(686,904)	2,239,692
<b>Net Cash Provided By Operating Activities</b>	<u>\$ 91,446,417</u>	<u>\$ 8,151,351</u>	<u>\$ 99,597,768</u>	<u>\$ 58,031,173</u>	<u>\$ 2,217,726</u>	<u>\$ 60,248,899</u>

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

### 1] Organization and Operations

**Initial structure:** The Texas Guaranteed Student Loan Corporation (TG) is a Texas public nonprofit corporation organized under the provisions of House Bill 38 of the 66th Texas Legislature to operate as a guaranty agency under the Federal Guaranteed Student Loan Program. TG was organized in February 1980 with initial loan guarantee operations beginning in January 1981. TG is subject to the Texas Sunset Act (Chapter 325, Government Code) and as a result of Sunset Review completed in 2004, the Texas Legislature enacted legislation to extend TG's existence until September 1, 2017. The Comptroller of Public Accounts serves as trustee to administer its assets upon liquidation and satisfy all outstanding obligations.

**Purpose:** The Federal Family Education Loan Program (FFELP) under which TG operates was established by Congress and is administered by the U.S. Department of Education (ED) as a means of making loans available to students attending colleges, universities and postsecondary educational and vocational schools. FFELP provides for TG to guarantee the repayment of principal and accrued interest to lenders for eligible student loans. TG is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and collecting loans on which default claims have been paid. TG also informs schools, students, lenders, secondary markets and servicers of FFELP requirements and encourages participation. In addition TG engages in outreach activities to make students and parents aware of the loan programs and other means to promote access.

**Portfolio:** FFELP loan volume guaranteed during the fiscal year, by school type is as follows, net of cancellations (in 000s):

	Sept. 30, 2007	Sept. 30, 2006
Four Year	\$3,593,840	\$3,188,140
Two Year	357,620	301,690
Proprietary	326,500	236,420
Consolidation	1,461,390	2,317,830
Total	\$5,739,350	\$6,044,080

Outstanding guaranteed student loans, by school type, are as follows (in 000s):

	Sept. 30, 2007	Sept. 30, 2006
Four Year	\$9,767,663	\$9,172,317
Two Year	1,181,070	1,069,671
Proprietary	1,098,851	1,053,189
Consolidation	10,172,739	9,831,516
Total	\$22,220,323	\$21,126,693

**Subsidiary:** In fiscal year 1995, TG established Educational Assistance Services, Inc. (EAS) as a for-profit, wholly owned subsidiary for the furtherance of its student loan and higher education mission. EAS is currently dormant.

### 2] Significant Accounting Policies

**Fund accounting:** The accounts of TG are maintained in accordance with the principles of fund accounting. This is a system under which resources are classified for accounting and reporting purposes into funds established according to their purpose.

Major Funds - TG's Operating Fund is property of the guaranty agency and incurs substantially all FFELP operational costs as well as financial aid awareness and related outreach activities and other student financial aid activities as selected by the guaranty agency. TG's Federal Fund, which finances FFELP insurance activities, is considered to be the property of the United States. Recall of Federal Fund assets requires congressional action.

TG is reported as a proprietary component unit in the State of Texas financial statements. Proprietary component units are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the liability is incurred regardless of the timing of the related cash flow. Accordingly, TG has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement Number 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, which specifies that in addition to adopting all applicable GASB pronouncements, TG has adopted Statements and Interpretations of the Financial Accounting Standards Board, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**Voluntary Flexible Agreement:** In March 2001, TG entered into a Voluntary Flexible Agreement (VFA) with ED as provided for in Reauthorization, with an effective date of October 1, 2000. TG's VFA increases the focus upon borrower delinquency and default prevention, and includes: the escrow of all Federal Reserve cash, cash equivalents, and investments as of March 31, 2001, coupled with 100% ED reinsurance of default claims paid subsequent to March 31, 2001; continuance of loan processing and portfolio maintenance revenues as provided under HEA; creation of a new delinquency prevention focused fee; and establishing a performance-based fee structure for default aversion and collection activities. In October 2007, ED notified TG that it was exercising its right to terminate TG's VFA effective January 1, 2008, upon which TG would revert to the currently effective statutory guarantor funding model.

**Cash and cash equivalents:** For purposes of the statement of cash flows, TG considers as cash equivalents, certificates of deposits with original maturity of six months or less, overnight repurchase agreements, and all money market account and mutual fund assets.

Custodial Credit Risk – To minimize this risk, TG employs U.S. Government and Agency instrument overnight repurchase agreements to minimize cash in its depository institution. Repurchase agreements totaled \$4.66 million and \$4.99 million for the Operating fund and \$44.9 million and \$16.2 million for the Federal fund at September 30, 2007 and 2006, respectively. Remaining balances, if any, are subject to FDIC and SIPC insurance and up to \$3 million in pledged collateral.

**Investments:** Investments are reported at fair value based upon quoted market prices, with the change in fair value of investments captioned as Net Increase (Decrease) in the Fair Value of Investments, and interest income reported at the relevant stated interest rate.

TG's Operating Fund, in accordance with Texas Public Funds Investment Act provisions, is authorized to invest in: U.S. Government obligations including agencies and instrumentalities, State of Texas direct obligations, Texas based financial institution certificates of deposit, as well as, subject to certain restrictions; obligations of states, agencies, counties, cities, and other political subdivisions of any state, collateralized mortgage obligations, commercial paper, direct and reverse repurchase agreements, no-load money market and mutual funds, and investment pools. Individual investment maturities are limited to a maximum of 10 years. Average maturities will depend upon cash flow requirements of TG and the safety, liquidity, and yield parameters set forth in TG's policy.

TG's Federal Fund investments are limited by HEA provisions to US Government obligations including agencies and instrumentalities and State of Texas direct obligations, as well as, subject to certain restrictions; obligations of states, agencies, counties and other political subdivisions of any state, no-load money market and mutual funds and direct and reverse repurchase agreements investing exclusively in obligations described herein.

TG's investment policies and practice address various investment risks as follows:

**Credit Risk** – TG minimizes credit risk, the risk of loss due to the failure or downgrade of the security issuer or backer, by; limiting investments to investment grade securities as authorized by TG's investment policy, prequalifying the financial institutions and broker/dealers with which TG will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. TG's U.S. Agency Obligations and Municipalities investments are Aaa rated by Moody's.

**Concentration of Credit Risk** – TG maintains maximum percent of portfolio limits by instrument type, and limits single security issues to no more than \$10 million or 5% of the applicable fund's portfolio.

**Interest Rate Risk** – TG minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations avoiding the need to sell securities prior to maturity, investing operational funds primarily in shorter-term securities, money market mutual funds and similar investment pools, and diversifying the investment portfolio maturities over a reasonable time horizon to limit exposure to unusual yield curves maintaining the duration of each fund's portfolio at six or less.

**Foreign Currency Risk** – TG's authorized investments are not subject to this risk.

**Capital Assets:** Capital Assets are recorded at cost. Depreciation is provided on the straight-line method using estimated useful lives of three to 10 years for vehicles, equipment, furniture and software, the shorter of 10 years or the remaining lease period for the leasehold improvements, and 40 years for buildings. Internal development costs associated with software utilized in TG operations are expensed as incurred. Purchased software is capitalized in accordance with the capital asset policy.

**Escrowed Assets – VFA:** Terms of the VFA required the return through escrow of Federal Fund cash, cash equivalents and investments as of March 31, 2001. Earnings on these assets remain in the escrow. These escrowed assets are as follows (in 000s):

	Sept. 30, 2007	Sept. 30, 2006
<b>Current Assets</b>		
Cash & Cash Equivalents	\$1,217	\$125
Accrued Interest & Other	1,609	1,480
Investments	133,911	131,127
Total	\$136,737	\$132,732
<b>Noncurrent Assets</b>		
Due from ED	\$1,790	\$1,790
Total	\$1,790	\$1,790
Total	\$138,527	\$134,522

As provided for in the VFA, ED is a party to the escrow agreement and while escrowed, these assets are due to ED with no stated repayment term. Accordingly, TG utilizes agency accounting, offsetting the escrowed assets with an obligation to ED captioned "Liabilities Payable from Escrowed Assets." Upon VFA termination, these escrowed assets would return to TG's Federal Fund reserves, reported as fund equity with the concurrent elimination of the corresponding Liabilities Payable from Escrowed Assets.

**Fund Equity:** HEA specifies that the Federal Fund is the property of ED. ED's total ownership equity in the Federal Fund includes Liabilities Payable from Escrowed Assets and Fund Equity reduced by pre-VFA reserve obligations to ED, totaling \$208.88 million and \$158.44 million at September 30, 2007 and 2006, respectively. The pre-VFA reserve obligations to ED which continue as components of Liabilities Payable from Escrowed Assets to ED, includes the remaining \$6.92 million of initial funding provided by ED, in accordance with Section 422(c) of the Higher Education Act to assist in establishing an adequate reserve. Pursuant to the 1998 HEA Reauthorization, \$4.2 million of the reserves were returned to the Federal Treasury in September 2006 and an additional \$4.2 million in August 2007 from Escrowed Assets.

The remaining interest earned on Federal Fund assets segregated under the 1997 Budget Reconciliation Act (returned to the U.S. Treasury in September 2002 and commonly referred to as the Section 422(h) return) restricted by the Act to ED approved default prevention activities was expended in fiscal year 2007.

**Classification of Operating and Non-Operating Revenues and Expenses:** Program revenues and expenses related to FFELP and other education related activities as determined by TG are classified as operating, the primary components of which include the

revenues further described in this note, as well as personnel, facility, contractual, travel, maintenance, development and depreciation costs. Consistent with GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, operating revenues and expenses exclude financing, investing and capital assets disposition activities. Other revenues and expenses which do not meet the operating categorization requirements are also classified as non-operating.

**Revenue Recognition:**

Loan Processing and Issuance Fee (LPIF) – LPIF, paid quarterly by ED to TG's Operating Fund, is equal to 0.40% of non-consolidation FFELP loans guaranteed. Loan disbursement typically occurs after guarantee and in two installments. VFA status does not impact LPIF rates.

Account Maintenance Fee (AMF) – AMF, also paid quarterly by ED to TG's Operating Fund, is equal to 0.10% annually of TG's end of fiscal year guarantee portfolio original principal balance outstanding. Beginning in October 2007, Federal law reduces AMF from 0.10% to 0.06%. Prior to fiscal year 2007, ED had the authority to instruct TG to subsidize a portion of AMF from Federal Fund Escrowed Assets. VFA status does not impact AMF rates.

Delinquency Prevention Fee (DPF) – As VFA provisions specify, TG's Operating Fund is eligible to receive monthly, from ED, DPF at an annual base rate of 0.042% of TG's beginning of year loans in repayment portfolio, with performance rate increases up to 0.10% based upon reductions in annual Default Aversion Assistance Requests (DAAR) relative to loans in repayment. TG performed at the 2nd level in fiscal year 2007 and at the base level in fiscal year 2006, resulting in fee rates of 0.06% and 0.042%, respectively. Upon VFA termination, TG would no longer be eligible for DPF.

Default Aversion Fee (DAF) – As VFA provisions specify, TG's Operating Fund is eligible to receive monthly, from ED, DAF equal to 1.25% of delinquent loan principal and interest when reported to TG by the holder under regulatory required DAAR, with potential increases up to 4%, based upon monthly cohort cure rate performance. TG's weighted average DAF performance fee rate was 1.66% and 2.59% for fiscal years 2007 and 2006, respectively. VFA provisions permit DAF billing on a specific loan only once every 12 months, and upon loan default, all DAF billed is refundable to the Federal government. Accordingly, DAF is recognized upon delinquency reporting to TG and cure performance, net of anticipated future refunds which approximate \$93.44 million and \$85.73 million at September 30, 2007 and 2006, respectively. Upon VFA termination, DAF will be limited to 1% of delinquent loan

principal and interest when reported to TG by the holder for the first time under regulatory required DAAR, refundable in the event of loan default.

Recovery Revenue - Upon default claim payment, TG is statutorily required to pursue collection on behalf of the Federal government. TG collected approximately \$372 million and \$254 million on defaulted student loans, including Federal income tax offsets and Federal Direct Loan Program consolidations of defaulted student loans in fiscal 2007 and 2006, respectively. As VFA provisions specify, TG's Operating Fund is eligible to retain from 19.5% to 23% of borrower payments and from 18.5% to 20% of rehabilitation and consolidation collections, based upon recovery performance, with the balance due to ED. In fiscal years 2007 and 2006, TG performed at the highest tier with recovery rates of 33.23% and 26.97%, respectively, retaining 23% of borrower payments, and 20% of rehabilitation and consolidation collections. Upon VFA termination, recovery revenue will be reduced to non-variable rates of 16% for borrower payments, 10% for consolidation collections, and 18.5% for rehabilitation collections.

**Interfund Activities:** Interfund activity depicts transactions between TG's Operating and Federal funds as stipulated in the legislation, regulation and requirements governing FFELP. TG's interfund activity includes interfund receivables, payables, interfund default aversion fee refund allowance, and transfers as follows:

Interfund Receivables, Payables – Beginning in fiscal year 2006, the Higher Education Reconciliation Act (HERA) requires deposit of a Federal Default Fee (FDF) into the Federal Fund equal to 1% of all loans guaranteed and disbursed after June 30, 2006. TG has committed to subsidize the FDF as a transfer from its Operating Fund on behalf of its customers since its inception in July 2006 through June 30, 2009. This resulted in transfers of \$34.5 million and \$9.2 million in fiscal year 2007 and 2006, respectively. At September 30, 2007 and 2006, the majority of the interfund balance is related to the September FDF due to the Federal Fund, offset by collections on defaulted loans, including recovery revenue earned thereon by TG's Operating Fund.

Interfund Default Aversion Fee Refund Allowance – this interfund balance consists of the anticipated refunds due the Federal Fund related to pre-VFA DAF.

Transfer – The subsidy of FDF by TG's Operating Fund on behalf of its customers is the reported operating transfer from the Operating Fund to the Federal Fund.

**Public Benefits Program:** TG has authorized the annual expenditure of up to 5% of its available Operating Fund balance for public benefits. In fiscal year 2007, expenditures include \$1 million in Charley Wootan Grants and approximately \$4 million in competitive based education related grants. In fiscal year 2006 expenditures included \$1 million in Charley Wootan Grants, \$1.7 million in competitive based education related grants, and \$0.5 million in hurricanes Katrina and Rita related educational support. These activities are reported as a component of the Operating Fund's Operating Expenses.

**Use of estimates:** The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management estimates include useful lives in depreciating Capital Assets and anticipated future default aversion fee refunds. Actual results could differ from those estimates.

**Risk Management:** In addition to FFELP guarantee activity risks, TG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees; and natural disasters, for which it carries commercial insurance at levels consistent with that of the prior fiscal year. Risk retention is substantially confined to customarily nominal policy deductibles, with the exception of typically higher deductible limits for directors' and officers' liability, and umbrella coverage, as well as the retrospective rating of job-related illnesses or injuries to employees' policy premiums, which have outperformed the industry standard for four years. Resulting risk management liabilities, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There were no claims that exceeded insurance coverage in fiscal years 2007 or 2006.

**Income taxes:** As an organization described in Internal Revenue Code (IRC) section 501(c)(3), TG is exempt from federal and state income tax on income from activities related to its exempt purpose. No material amounts of unrelated income were earned in the fiscal year ended September 30, 2007 and 2006 so no accrual for income taxes is included in the financial statements.

### 3] Reinsurance

Under VFA provisions, all eligible default claims paid subsequent to March 31, 2001, receive 100% weekly advance Federal reinsurance. TG paid default claims, net of \$32 million and \$37.2 million in claim repurchases and partial refunds, and is eligible for reinsurance thereon totaling approximately \$572.5 million and \$430.6 million in fiscal years 2007 and 2006, respectively. Annual default rates ("Trigger rates") are calculated by dividing claims paid during the year by the original guarantee amount of loans in repayment at the

preceding fiscal year end. The annual default rates were 3.01% and 3.06% for fiscal years 2007 and 2006, respectively. All claims paid after VFA termination, are eligible for reinsurance depending upon annual Trigger rates and the underlying loan origination date. Claims at or exceeding 5% and 9% Trigger rates result in reduced non-VFA reinsurance as follows: 95%/85%/75% for loans disbursed after September 30, 1998, 98%/88%/78% for loans disbursed after September 30, 1993, and 100%/90%/80% for loans disbursed on or before September 30, 1993.

### 4] Investments

TG's investments are as follows (in 000s)

	September 30, 2007				September 30, 2006			
	Operating Fund	WAM	Federal Fund	WAM	Operating Fund	WAM	Federal Fund	WAM
<b>Investments</b>								
U.S. Treasury Notes	\$112,660	4.06	\$19,973	1.53	\$92,709	3.59	\$9,840	.99
U.S. Agency Obligations								
FHLB	66,561	3.27	20,376	.47	69,342	3.87	5,905	1.45
FHLMC	76,516	3.80	11,977	1.52	68,865	3.71	7,658	1.21
FNMA	125,902	5.07	6,403	1.34	91,917	5.15	1,214	3.03
FFCB	15,523	3.26	11,210	4.09	15,072	.78	4,872	.26
GNMA	1,997	5.04						
Other	2,977	6.76			2,413	5.32		
	<u>289,476</u>	4.29	<u>49,966</u>	1.63	<u>247,609</u>	4.18	<u>19,649</u>	1.16
Municipalities	<u>33,927</u>	4.57			<u>20,292</u>	3.84		
Total	<u>\$436,063</u>	4.25	<u>\$69,939</u>	1.60	<u>\$360,610</u>	4.01	<u>\$29,489</u>	1.10
<b>Escrowed Assets - VFA</b>								
U.S. Treasury Notes			\$37,734	2.71			\$35,792	2.47
U.S. Agency Obligations								
FHLB			26,821	2.07			28,833	2.61
FHLMC			15,771	1.35			13,114	1.44
FNMA			41,543	1.48			46,199	1.86
FFCB			2,224	.87			2,233	1.88
FAMC			6,040	4.38				
Other			3,778	4.71			4,956	.38
			<u>96,177</u>	1.91			<u>95,334</u>	1.95
Total			<u>\$133,911</u>	2.13			<u>\$131,127</u>	2.09

WAM is weighted average maturities.

## 5] Capital Assets

Capital Assets include the following (in 000s):

	Sept. 30, 2005	Additions	Deletions	Sept. 30, 2006	Additions	Deletions	Sept. 30, 2007
<b>Operating Fund</b>							
Land	\$ 3,315			\$ 3,315			\$ 3,315
Building	29,410			29,410	\$4,100		33,510
Furniture & Equipment	8,785	\$341	\$(42)	9,084	1,555	\$(96)	10,543
Software	5,715	144		5,859	298		6,157
Leasehold Improvements	2			2			2
Vehicles	51			51			51
Capital Assets	47,278	485	(42)	47,721	5,953	(96)	53,578
Accumulated Depreciation	(9,414)	(3,016)	41	(12,389)	(2,680)	91	(14,978)
Capital Assets, Net	\$37,864	\$(2,531)	\$(1)	\$35,332	\$3,273	\$(5)	\$38,600

During fiscal year 2007, TG acquired its warehouse facility for approximately \$4 million. TG funded this acquisition from its own cash reserves. A portion of this facility had been under lease by TG through September 2019 for approximately \$15,000 per month.

Operating Fund Capital Assets at September 30, 2007 include approximately \$0.14 million in accrued purchases.

## 6] Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities include the following (in 000s):

	September 30, 2007		September 30, 2006	
	Operating Fund	Federal Fund	Operating Fund	Federal Fund
Trade Payables	\$2,981	\$328	\$3,093	\$314
Compensated Absences	1,487		1,606	
Incentives	5,851		3,360	
Other	177		155	
Total	\$10,496	\$328	\$8,214	\$314

## 7] Short Term Financing

**Margin Facility:** In December 1997, TG entered into an agreement with its investment Prime Broker providing borrowing capacity, with certain exceptions, at 95% of its U.S. Treasury and U.S. Agency investment portfolio fair value, and up to 95% of other portfolio investments, subject to Federal Reserve regulations. Outstanding balances bear interest at the Broker Call Rate minus 3/8% or 6.125% at September 30, 2007, with payments required to the extent that outstanding principal and interest exceeds the borrowing capacity level.

The facility was accessed several times in fiscal year 2007 and 2006, typically on a one day basis to facilitate cash management. There is no outstanding balance under this facility at September 30, 2007 and 2006.

**Line of Credit:** In April 2007, TG renewed its \$5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest at the institution's prime rate. The facility, which expires April 30, 2009, has not been accessed.

## 8] Noncurrent Liabilities

Noncurrent liabilities include the following net of the Current Portion (in 000s):

	Sept. 30, 2005	Additions	Payments/ Deletions	Sept. 30, 2006	Additions	Payments/ Deletions	Sept. 30, 2007	Current Portion
<b>Operating Fund</b>								
Due to ED:								
DAF Refund	\$ 67,840	\$ 32,576	\$ (18,100)	\$ 82,316	\$ 29,143	\$ (20,895)	\$ 90,564	
Notes Payable:								
Building Note	12,640		(1,476)	11,164		(1,548)	9,616	\$ 1,623
Other	4,294	5,336	(3,635)	5,995	7,297	(4,934)	8,358	7,338
<b>Federal Fund</b>								
Escrowed Assets	142,727	8,564	(16,468)	134,823	9,450	(5,746)	138,527	

**Building Note:** In fiscal year 2003, TG entered into a \$16.25 million, 10-year, 4.75% fixed rate loan from an institutional lender to finance a portion of the acquisition of office space and building finish out, collateralized by the real estate and improvements, due in equal monthly installments of \$170,378, subject to a minimum 1% prepayment penalty.

Future note payments are as follows:

Fiscal Year	Principal	Interest	Total
2008	\$1,622,805	\$421,726	\$2,044,531
2009	1,701,589	342,942	2,044,531
2010	1,784,197	260,334	2,044,531
2011	1,870,816	173,715	2,044,531
2012	1,961,640	82,891	2,044,531
2013 & After	674,819	6,691	681,510
Total	\$9,615,866	\$1,288,299	\$10,904,165

**Other:** Other noncurrent liabilities consist primarily of accrued compensated absences and amounts due under TG's corporate incentive plans. The current portion of these liabilities is reported as a component of accounts payable and accrued liabilities.

## 9] Retirement Benefits

TG maintains a defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan), which covers substantially all employees. While employees do not contribute to the Plan, TG's contributions to the Plan are based on 9.0% of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$31.5 million and \$29.5 million respectively, in the Plan year ended June 30, 2007, and approximately \$30.8 million and \$27.7 million respectively, in Plan year ended June 30, 2006. Total TG contributions, in accordance with this Plan requirement, were approximately \$2.5 million and \$2.4 million for the years ended September 30, 2007 and 2006, respectively. Plan amendments are subject to the Plan's Board of Trustees' approval and TG's Board of Directors' ratification.

## 10] Lease Commitments

TG obtains various equipment under operating lease agreements. Rent expense for fiscal years 2007 and 2006 was approximately \$1.1 million and \$1.5 million, respectively. Future minimum lease payments under the agreements are as follows (in 000s):

Fiscal Years	
2008	\$193
2009	193
2010	145
2011	
2012	
2013 & Beyond	
Total	\$531

## 11] Credit Risk

As described in "Voluntary Flexible Agreement," guaranteed student loan claims paid subsequent to March 31, 2001 are 100% reinsured by ED. Accordingly, ED bears the credit risk on TG's guaranteed loan portfolio. However, upon VFA termination, TG will receive less than 100% reinsurance on the majority of its claim payments. Accordingly TG's credit risk will be principally inherent in student loan guarantees as follows: Outstanding guaranteed student loans, including loans transferred to TG, are composed of 44% four-year schools, 5% proprietary schools, 5% two-year schools, and 46% consolidation loans at September 30, 2007. Based upon the historical default characteristics of this portfolio, a non-VFA allowance for unreinsured claims would have been estimated at \$208 million at September 30, 2007. Assuming all outstanding guaranteed loans default simultaneously resulting in the highest Trigger Rate and therefore minimum reinsurance, the maximum non-VFA credit risk exposure to TG approximates \$5.44 billion at September 30, 2007, net of Federal reinsurance.

## 12] Contingencies

TG has committed to subsidize the FDF from its Operating Fund on behalf of its customers since its inception in July 2006 through June 2009. Given current volume estimates, the subsidy could exceed \$43 million in fiscal year 2008 and \$27 million in the first nine months of fiscal year 2009.

In May 2006, a company TG engaged to prepare a document management system, lost a piece of equipment which contained the names and Social Security numbers of a portion of TG's borrowers. TG has undertaken remediation measures including borrower communication. At this time TG does not anticipate that any resulting litigation will have a material adverse financial impact on TG.

Recent investigations of the student loan industry have questioned the business practices of certain members of the industry. The primary focus of much of the inquiry is into the area of prohibited inducements. TG does not engage in the conduct of business through prohibited inducements and has strong policies and controls against their use. Laws, rules and regulations which are anticipated to result from the investigations at both the state and federal level may apply to TG and its business partners. TG is prepared to address any new requirements addressed in any pending legislation or regulation. TG does not anticipate that such future changes, if any, would materially impact the results of its operations.

In the ordinary course of business TG is subject to a range of claims, administrative proceedings (including reviews by federal agencies which may result in refunds or adjustments) and legal proceedings, such as lawsuits that relate to contractual allegations, employment related matters and actions brought or threatened by third parties under various state and federal laws and regulations. Although it is not possible to predict with certainty the outcome or costs of these matters, TG management believes that these matters will not have a material adverse effect on its financial position, results of operations or cash flows.



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