



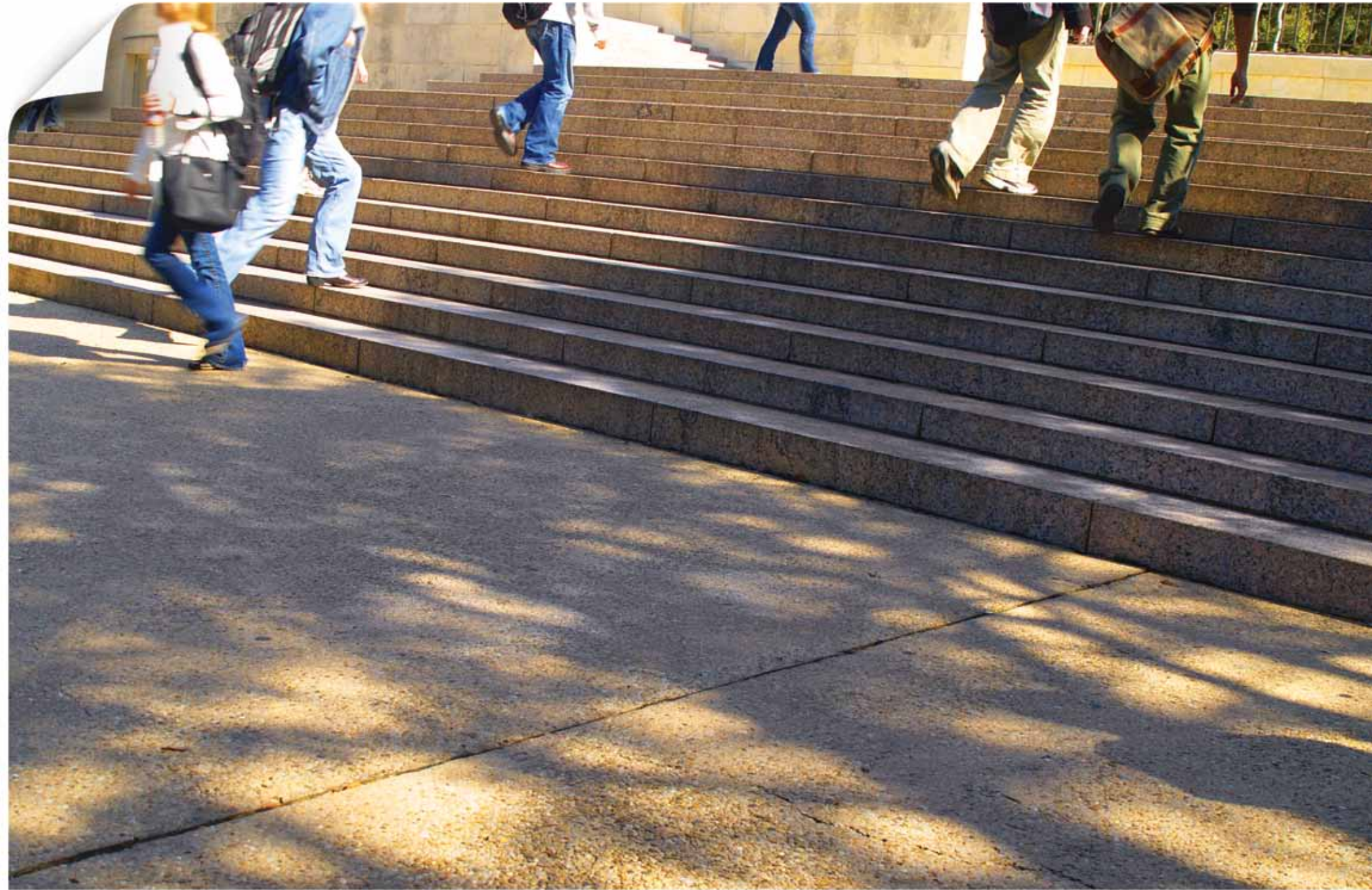
2010 **TG** ANNUAL REPORT

# Turning the Page

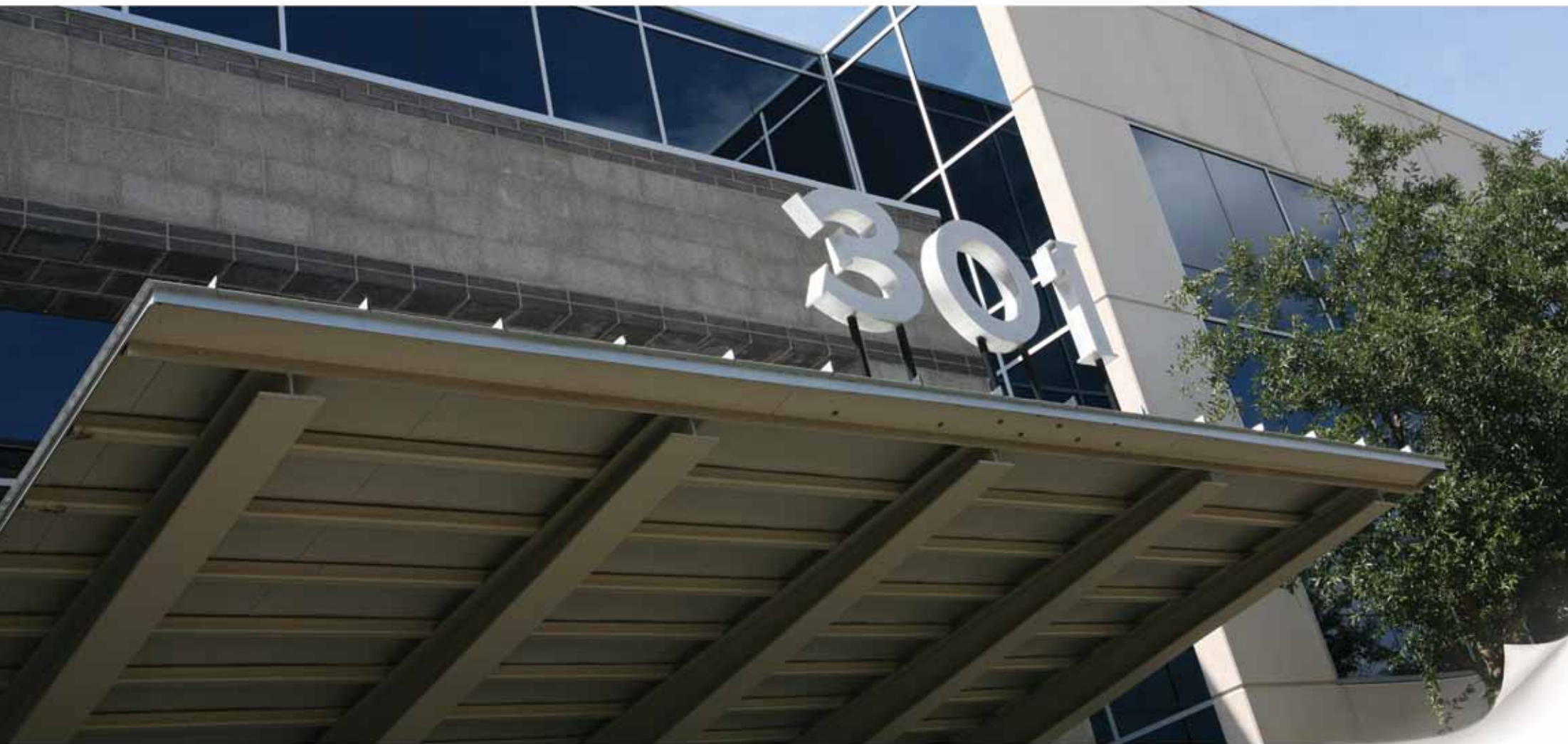
Delivering solutions today to  
meet the needs of tomorrow

# Contents

Introduction.....	2
To TG's stakeholders.....	3
TG is the architect of its future.....	5
Delivering solutions today to meet the needs of tomorrow.....	7
Serving students and families at all stages in the higher education experience.....	9
Serving schools so they can better serve their students.....	15
Conclusion.....	20
TG Board of Directors.....	21
Senior Management Team and Advisory Committees.....	22
Resources.....	25
Financials.....	26



# Introduction



The story of TG begins in 1979, when it was established by the Texas Legislature to serve as the designated guarantor of Federal Family Education Loan Program (FFELP) loans for the state of Texas.

TG's story has taken many turns, but at each one, TG has foreseen and prepared for change; it has evolved with the times, leveraging the strengths of the corporation to undertake new ventures that are relevant and purposeful. TG has consistently anticipated the needs of the higher education community and developed measures to meet those needs. In addition, TG has continuously been devoted to achieving the highest level of customer satisfaction. Fiscal year 2010 (FY 10) was no exception.

Last year, TG continued to develop solutions to meet the evolving needs of its customers by enhancing existing offerings, bringing new products to market, and pursuing strategic opportunities. All of these endeavors reinforce TG's vision to be the premier provider of information, products, and services to help students and families realize their education and career dreams.

Every year, TG turns the page and continues its success story — one of service and dedication to the state of Texas and the nation. Keeping its public mission squarely in focus, TG anticipates building upon its esteemed reputation, shifting to align with the new marketplace, and continuing to deliver creative and meaningful services to TG's customers.

# To TG's stakeholders

## TG continues to provide vital services during a time of transition

For more than 30 years, TG has adjusted to meet the needs of the ever-changing higher education industry. Over this time, TG has developed electronic tools that have brought efficiencies; created information resources that have increased understanding; and led initiatives that have simplified student loan processing for students, families, and schools. TG has served its customers and added value during every phase of the industry's evolution.

One of the most profound shifts in the history of the federal student aid programs occurred in fiscal year 2010 (FY 10) when President Barack Obama signed into law the Health Care and Education Reconciliation Act of 2010 (HCERA, Public Law 111-152).

Since the passage and implementation of this law, TG is turning the page and beginning a new chapter in its history. However, even as it adjusts to respond to this industry shift, TG continues to provide vital services to students, families, and schools and remains fully committed to the cause of higher education.

The HCERA ceased origination of federal student loans under the Federal Family Education Loan Program (FFELP) effective for loans first disbursed on or after July 1, 2010. As a result, also effective on that date, all new Stafford, PLUS, and Consolidation loans are originated under the Federal Direct Loan Program (FDLP).

Even as TG was affected by the tremendous change that captivated higher education, it reached out to Texas schools to gauge their readiness to make the shift, and offered help. This help came in the form of a collaborative effort with multiple school associations to supply information, technical assistance, and ongoing support throughout and beyond the transition.

TG also recognizes that student loan default rates are on the rise, and that with the transition to the three-year cohort default rate in progress, schools need more robust resources to assist them in reaching out to borrowers with delinquent loans. That's why in FY 10, TG significantly enhanced its foremost default prevention tool.

TG also continues to improve upon its offerings in the area of financial literacy. This is a subject so important and timely — particularly in the midst of the nation's ongoing economic downturn — that in FY 10, TG developed an exciting new program that takes student engagement to the next level. Response to the program, which debuted in October 2010, has been enthusiastic.

Even as TG embarks on new ventures, it continues to provide life-of-the-loan support for loans that remain in its TG-guaranteed FFELP portfolio. TG endeavors to assist borrowers in staying current on their federal student loans. During FY 10, TG averted a record dollar amount in potential student loan defaults. TG understands that students are graduating with ever-higher student loan debt and are daunted by the challenges of repayment. Now, as much as ever, TG advocates for borrowers to avoid the consequences of default, reap the rewards of consistent repayment, and understand that full repayment of student loan debt is an attainable goal.

Of course, these are just a few of TG's accomplishments during this past year. TG achieved many additional successes featured in this report, each of which contributed to TG earning an overall customer satisfaction score of 4.5 out of 5.0. TG will continuously strive to develop products and services that anticipate and meet its customers' needs, and will continue to provide the same high-quality customer service that students, families, and schools have come to expect.

Finally, in this year of transition, TG reiterates its dedication to its customers and colleagues. TG remains focused on those endeavors that will benefit its stakeholders and promote the value of higher education.

Sue McMillin  
TG President and CEO

Ms. Dora Ann Verde  
Chair, TG Board of Directors



*Sue McMillin*

**Sue McMillin**  
TG President and CEO



*Dora Ann Verde*

**Ms. Dora Ann Verde**  
Chair, TG Board of Directors

# TG is the architect of its future

There is no question that fiscal year 2010 (FY 10) was a challenging one for many Federal Family Education Loan Program (FFELP) participants. While enactment of the Health Care and Education Reconciliation Act (HCERA) was daunting, however, TG proactively planned for the consequences of its adoption. TG knew that it would need to transform its business model — while staying true to its vision — and that TG would have both new and continuing roles to fill regardless of which federal student loan program is in effect.

Over the last year, TG has been evaluating its experience, resources, and skill sets, as well as soliciting input from schools — by survey and by interview — to determine services to retain and new avenues to pursue. TG understands the ongoing concerns and needs of students, families, and schools, and is not waiting for opportunities to present themselves; TG is building on its existing capabilities and creating opportunities to add value for all those it serves.

As the architect of its future, TG launched a new strategic plan in FY 10 that spans the subsequent three fiscal years. Under the plan, TG will continue to promote an environment of dedication to the mission of the corporation, regular evaluation of performance, and continuation of outstanding service levels.

TG will continue to leverage its resources and take planned steps that further its efforts to serve students, families, and schools in areas that include delinquency and default prevention, debt management, financial literacy, and industry training.

TG embraces change, focusing with renewed energy on the future that lies ahead.



# Delivering solutions today to meet the needs of tomorrow



For Texas and the nation, improving educational outcomes is a challenge. How can we get more students to enroll in college, to find resources to pay for their education, to complete their programs of study, and to repay their federal student loan debt? As a longstanding member of the higher education community, TG not only understands these difficulties, but takes action to identify and deliver solutions.

TG has partnered with state agencies to promote the value of higher education and to inform students and families on available financial aid options. TG has also developed a financial literacy program that state educators and colleges can use to deliver money management instruction to secondary and postsecondary students in Texas and elsewhere in the nation. Through its Charley Wootan Grant Program, TG provides direct aid to students to pay for college expenses; through its Public Benefit Grant Program, it provides funding to nonprofit organizations and higher education institutions which create and implement programs to improve access, persistence, and completion among underrepresented and first-generation students. Finally, to address concerns about rising default rates, which could be further exacerbated by more students borrowing under multiple federal loan programs, TG has provided schools with a unique tool to facilitate default aversion efforts and manage default.

TG is an active player in the higher education community's efforts to close the gaps in student awareness, participation, and success. TG does not want simply to see change happen; it wants to help make it happen.

# Serving students and families at all stages in

# the higher education experience

Among its many accomplishments in fiscal year 2010 (FY 10), TG provided services to assist students and families at all stages in the higher education experience. TG delivers solutions to those who are considering the higher education path, attending college, and managing loan repayment. TG strives to connect students with success at every turn.

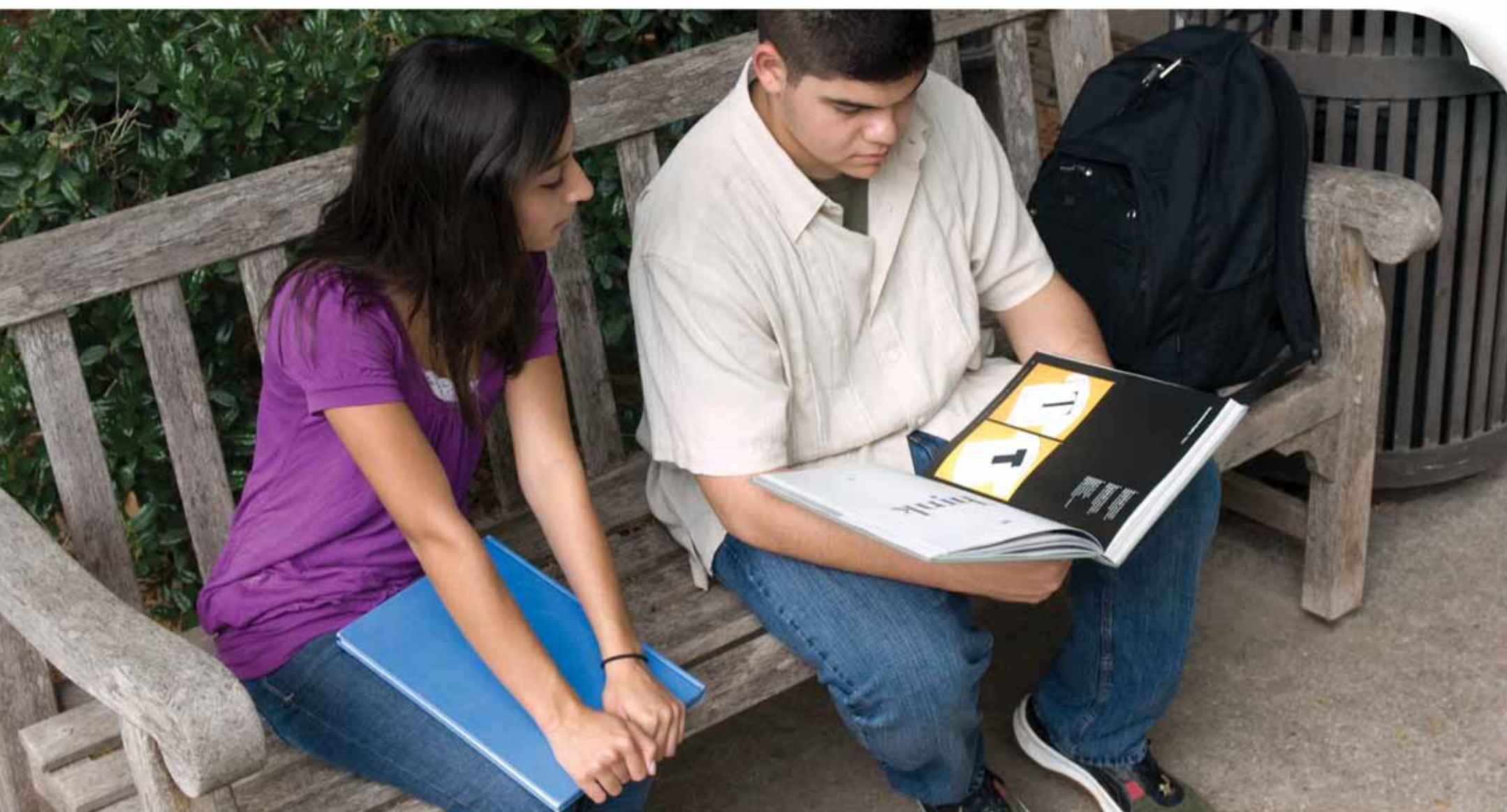
## TG develops public service announcement promoting free call center for Texas students and families

In FY 10, in collaboration with Generation TX, a state-based initiative that advances the value of higher education, TG launched a multimedia campaign promoting the Texas Financial Aid Information Center (TFAIC). TFAIC is a toll-free call center staffed by TG employees who answer questions about planning and paying for college, and the campaign — “This call could help change your family’s future” — encouraged Hispanic parents to call TFAIC for help with the Texas college admissions process and applying for federal and state financial aid. The anchor of the campaign was a public service announcement produced for television and radio.

In addition to carrying out other elements of the campaign, organizers distributed paycheck stuffers and posters to area businesses in El Paso, Laredo, and Harlingen. These elements were part of a grander effort to further publicize information directed toward Hispanic parents that facilitates higher education access and success.

TFAIC is a free public service available to all Texas students and families wanting to pursue a higher education. Created in 1999, TFAIC is a collaborative effort between the Texas Higher Education Coordinating Board and TG.

TFAIC representatives average more than 15 years of experience in fielding questions on student financial aid. These professionals can assist students with the Texas college admission process, help them understand and apply for federal and state student financial aid, and provide support in English and Spanish.



TG HAS DISTRIBUTED OVER  
**\$13.4 MILLION**  
UNDER THE  
**CHARLEY WOOTAN**  
**GRANT PROGRAM**  
SINCE IT WAS  
ESTABLISHED  
IN 2000.

#### Financial literacy training targets those preparing for and attending college

In FY 10, TG launched its enhanced TG Financial Literacy Program, designed to help students learn essential skills for financial success. The program also assists education professionals in developing, implementing, and improving their financial literacy initiatives.

The TG Financial Literacy Program features a series of instructional mini-modules with accompanying activities. While students of all ages can benefit from the modules, each was conceived to appeal to students preparing for and attending college. The modules are designed to present concepts in a memorable way to the target audience. Modules can be mixed and matched in different combinations, and all the modules have associated games or activities, to reinforce the content in an entertaining way. The modules educate students on a range of concepts on topics such as managing credit, saving and investing, creating spending plans, employee compensation, and setting financial goals.

The Texas Education Agency (TEA) has approved the addition of the TG Financial Literacy Program to the list of instructional materials that high school instructors can use to teach Texas students the basic skills and concepts of money management. Use of the program complies with recent mandates by the State Board of Education and helps prepare students for success in postsecondary education.

#### Grant program increases access and success

Each year, TG provides assistance — under the Charley Wootan Grant Program — to students who have difficulty pursuing their higher education dreams because of financial need. The program has provided approximately \$2 million for students for each of the last two academic years; however, in FY 10, TG's Board of Directors approved an additional allocation of \$5 million to the program, directed at Texas residents. This brought the total contribution to assist students in paying for higher education during the 2010–11 academic year to \$7 million.

TG has distributed over \$13.4 million under the Charley Wootan Grant Program since it was established in 2000 in honor of the late Dr. Charley V. Wootan, a former chair of TG's Board of Directors.

#### New relocation guide helps students prepare for the big move

TG's *Adventures in Education (AIE™)* website now features a new guide to assist students in thinking through all of the necessary steps for the literal move to begin the next phase of their lives. This relocation guide was developed in FY 10 to help alleviate the stress of moving from home to a college dorm or apartment (or, alternatively, from college to a new city to begin a new internship or job). The guide helps students to avoid the relocation rollercoaster and appropriately gauge the time and expense required to make that all-important move.

AIE is an award-winning public-service program developed by TG that helps students plan and complete their journey through higher education. The AIE website ([www.AIE.org](http://www.AIE.org)) is a free resource to students, parents, counselors, and educators, and encourages individuals to discover and pursue educational opportunities.

#### New tool helps students get ready to begin the college experience

There are many steps involved in making the decision to go to college, from determining which school is the right fit to figuring out how to get in the door. However, while a student is making these moves, he or she could miss a few equally important steps along the way. In FY 10, TG developed the *College Advising 101 Worksheet: Planning Your Transition to College* to guide students in asking and getting answers to important questions that will ease their transition to college.

The worksheet is designed to help a student to be “academic-ready,” “financial-aid-ready,” and “college-life-ready.” The goals of the tool are to take away some of the guesswork and surprises about the transition to college, and to make the process of getting acclimated to a new environment as smooth as possible for the student. The sooner the student can make this transition, the sooner he or she can focus on the path to higher education success.

This resource, available for download from the AIE website or for bulk order by schools, makes a great takeaway for college fairs and other awareness events. Schools can also stock the publication in their office lobbies or mail it to prospective students.



**TG honors commitment to pay federal default fee, reducing borrower debt burden**

When the Health Care and Education Reconciliation Act of 2010 was signed into law March 30, 2010, signaling the forthcoming end of FFELP originations, TG reiterated to its school customers that it would continue to pay the one-percent federal default fee on behalf of its borrowers for federal Stafford and PLUS loans guaranteed and first disbursed before July 1, 2010. This announcement honored the commitment TG made in February 2009 to subsidize the fee for the 2009–2010 award year. In addition, this benefit was the culmination of the fourth consecutive year of TG’s subsidy of the fee, and the tenth consecutive year of TG’s waiver of guarantee fees and subsidy of federal default fees. Over the course of this period (1999–2010), TG saved student and parent borrowers more than \$398 million in loan fees.

**TG enhances online repayment resource for borrowers**

In FY 10, TG made several enhancements to the myTG™ portal, TG’s account management tool that provides students, families, and borrowers convenient access to loan data as well as a number of tools for monitoring and handling payments.

Registered borrowers can use myTG, a portal tailored to the individual user, to access a summary of their TG-guaranteed loans, which includes contact information on schools, loan holders, and servicers. Borrowers of TG-guaranteed loans in default can resume repayment on their student loans by making payments online by selecting single or recurring autodrafts from a checking or savings account. They can also receive notices about important due dates and online payments pending or set a repayment schedule.

Borrowers can view information on default prevention, deferments and forbearances, rehabilitation, and loan discharge and forgiveness, as well as download forms. Finally, with myTG, borrowers can update personal contact information via a secure registration process that protects borrower information and maintains privacy.

**FROM 1999 TO 2010,**  
TG SAVED STUDENT AND  
PARENT BORROWERS  
**MORE THAN**  
**\$398 MILLION**  
IN LOAN GUARANTEE AND  
FEDERAL DEFAULT FEES.

**Default prevention assists borrowers in need of repayment solutions**

TG assists borrowers in staying on the path toward repayment until their loans are paid in full. TG also advocates for borrowers to avoid the negative consequences of default.

In FY 10, TG’s default prevention accomplishments included the launch of *Ahead of the Game*, an electronic newsletter sent to borrowers to encourage them to stay in a productive repayment habit. With content that varies according to audience — for borrowers entering their grace period, borrowers entering repayment, borrowers who are in repayment and progressing well, and borrowers who are in repayment but falling behind — *Ahead of the Game* keeps each audience informed of repayment options and reminds them that TG can help.

In addition, in FY 10, TG averted more than \$4.8 billion in potential student loan defaults, a record amount. The default prevention team accomplished this feat while earning a customer satisfaction score from borrowers of 4.77 out of a possible 5.0.

**IN FY 2010, TG’S**  
**DEFAULT PREVENTION**  
**TEAM AVERTED**  
**MORE THAN**  
**\$4.8 BILLION**  
IN POTENTIAL STUDENT LOAN DEFAULTS,  
**A RECORD AMOUNT.**



# Serving schools so they can better serve their students

TG understands the pressures that schools have felt over the last several years concerning financial aid funding issues, budget challenges, increasing enrollments, and integration of statutory and regulatory changes into daily operations. TG strives to assist schools through products and services that relieve some of these pressures and give financial aid offices more time to counsel and work with students.

## **Harnessing the power of collaboration, TG provides assistance to schools converting federal loan programs**

The Health Care and Education Reconciliation Act of 2010 (HCERA) mandated that all new Stafford, PLUS, and Consolidation loans be originated under the Federal Direct Loan Program (FDLP) for loans first disbursed on or after July 1, 2010.

Enactment of the HCERA, just three months before this effective date, was a call to action for many schools that were in the early stages of conversion to the FDLP. TG proactively engaged individual schools and their school associations in discussions on how TG could assist them with the transition, to help ensure an uninterrupted source of funding for students.

TG's preparations included a collaborative effort between the Texas Council of Public University Presidents and Chancellors (CPUPC), the Independent Colleges and Universities of Texas (ICUT), the Texas Association of Community Colleges (TACC), and TG.

Together, all of these organizations surveyed schools concerning their FDLP readiness. The results of the survey, conducted in January 2010 before the legislation was signed, showed that many Texas institutions were concerned about conversion to the FDLP within the required time frame.

TG assembled a collection of tools and resources to assist schools in the transition to the FDLP. TG also developed a series of communications for schools on the conclusion of FFELP originations which included information on policy guidance, operational considerations, and guarantee processing timelines.



TG HAS DISTRIBUTED OVER  
**\$27 MILLION**  
THROUGH THE  
**TG PUBLIC BENEFIT  
GRANT PROGRAM**  
SINCE 2005.

TG kept in regular contact with schools, monitoring their progress during the transition, communicating with the Department, and following up to provide guidance where requested.

Specifically, TG offered technical support via phone and on site at multiple schools shortly before the effective date of the conclusion of FFELP originations. Executive management remained in regular contact with the Department and its contractors, providing information, perspective, and standby transition support services.

TG remained focused on its public mission to ensure that its customers were well taken care of during this strenuous transitional period, regardless of the impact that the transition to a new federal student loan program would have on TG's processes.

**Public Benefit Grant Program continues support for programs that promote student success**

TG distributed \$5.6 million in competitive grants to 50 institutions and nonprofit organizations to advance access to college, student retention, and educational research in FY 10.

In awarding grant proposals, TG required recipients to use the funding to promote college access and retention. Grant funding in FY 2010 was particularly targeted to help, either directly or indirectly, students from low- to moderate-income families.

Priority was also given to proposals that address the needs of first-generation college students, and/or students who are underrepresented in higher education.

TG's philanthropic efforts help fund need-based grants to students, student mentoring and internships, pre-college outreach to students and families, academic support and instruction, student retention, student transfer guidance and support, and education research.

In total, TG has distributed over \$27 million in grant funding through the TG Public Benefit Grant Program since the program's inception in 2005.

**Refreshed tool assists schools and legislators**

In FY 10, TG updated its popular *School Fact Sheets* — a resource designed to help schools, legislators, and others learn more about a particular school and its use of student aid programs. Created and maintained by TG's research and analytical services team, the *School Fact Sheets* comprise a database searchable by multiple categories.

The updated *School Fact Sheets* now offer the ability to compare the data of multiple institutions at once. In addition, the loan data used in the tool now includes all federal student loans, not just TG-guaranteed loans. TG plans to add still more search criteria to the database over the next several years.

In addition to the *School Fact Sheets*, TG continues to provide its *Legislative Fact Sheets*, which contain useful data about schools and borrowers within state and congressional legislative districts which can be used to facilitate effective communication between schools, lenders, and other financial aid professionals and their representatives.

TG also publishes annually its informative *State of Student Aid and Higher Education in Texas*, a resource for those in search of information concerning demographic changes, educational attainment, college costs, financial aid programs, and student debt.

**Negotiated rulemaking provides opportunity for TG to showcase policy expertise**

In fall 2009, the Department of Education selected members of the higher education community to participate in negotiated rulemaking, the process by which federal regulations are developed. TG's vice president of policy and compliance participated on the Program Integrity Issues team as a representative of the National Association of Student Loan Administrators. TG's participation in the negotiated rulemaking process is just one example of its service to schools and the industry to advance common policy, rules, resources, and technology platforms.

**TG releases enhanced tool to assist schools in managing default**

The Integrated Default Assistant™ (IDA™), TG's default management application, is a multipurpose tool that helps schools track their cohort default rate performance, evaluate which borrowers may have loans at risk of default, manage borrower demographic data, and communicate with targeted borrowers.



With the latest release in FY 10, IDA now has the ability to provide a complete institutional picture of student loan delinquency. Schools can consider IDA as one weapon in their arsenal to prevent default, thereby helping borrowers as well as protecting the federal fiscal interest.

IDA is a unique tool that allows schools to import data from multiple sources and to create reports to better track and manage borrower loan delinquency. Using IDA, a school can import records of delinquent loans made under the Federal Direct Loan Program (FDLP), FFELP loans guaranteed by TG, non-TG-guaranteed FFELP loans, or loans “put” to the Department under the facility provided pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA); and generate reports to track loan status for borrowers with delinquent loans.

The latest version of IDA also allows a school to communicate with specific borrowers, including borrowers with loans at risk of default, using letter and e-mail templates. With IDA, a school is able to reach out to borrowers at risk of default through standardized letters and e-mails; however, schools can also customize letters in English or Spanish or a combination of English and Spanish.

TG offers IDA at no cost to Texas schools, and to schools outside of Texas that have borrowers with TG-guaranteed loans.

#### Customer satisfaction score reflects continued value

In FY 10, TG launched a new slogan — “TG Can Help” — and TG believes that schools agree. In a year of transition, schools provided TG with an overall customer satisfaction score of 4.50 out of 5.0. TG is especially pleased that in a year of challenges and changing roles, its customers see the continued value that TG offers.

#### TG hosts financial literacy symposia

In FY 10, TG hosted a series of professional development symposia to help schools with their financial literacy efforts. The symposia series brought together experts from the higher education community who discussed effective strategies and approaches for on-campus financial literacy programs.

Participants gained insights to implement or improve their programs and were able to engage their colleagues in interactive discussions on topics of mutual interest in the subject of financial literacy.

#### TG and the Council issue study on high-risk students

Not surprisingly, given the rough economy, student loan borrowing has increased, both in terms of the percentage of students borrowing and the amount borrowed. According to a Pew Research Center analysis of data provided by the National Center for Education Statistics (NCES), 60 percent of all graduates in 2008 had borrowed to pay for college as compared to 52 percent of graduates in 1996. Graduates are leaving with more debt as well — they borrowed on average about \$23,000 in cumulative student loans in 2008, compared with \$17,000 in 1996.

Recognizing this trend, TG and Council for the Management of Educational Finance (Council) commissioned a study entitled *How to Graduate High-Risk Students: Lessons from Successful For-Profit Colleges and Schools in Texas*, published in June 2010.

This project studied four career college and school campuses in Texas that had higher than average graduation rates and lower than average student loan default rates to determine what they did to achieve these positive outcomes. Visits to the campuses found that a conscious, concerted effort to integrate students into the academic and social systems of a school operates in favor of successful student completion and placement. The study can serve as a resource for schools looking to improve their borrower outcomes during these challenging economic times.

As an advisory group to TG, the Council collaborates with TG to develop and carry out initiatives that result in successful student loan repayment and in the minimization of student loan delinquencies.

**TG EARNED AN  
OVERALL CUSTOMER  
SATISFACTION  
SCORE OF 4.5  
OUT OF A POSSIBLE 5.0  
IN FY 2010.**

## Conclusion

TG’s areas of service are varied and many — it provides direct support to students and families, and direct support to schools (from which students and families also derive benefit). TG’s accomplishments for FY 10 constitute a wide compilation of activities, and all have TG’s vision as their unifying point. Whether TG develops outreach materials to encourage underserved students to succeed in higher education, provides schools with enhanced tools to help prevent student loan default, or serves borrowers whose loans are still in TG’s guarantor portfolio, TG is dedicated to being the premier provider of information, products, and services to help students and families realize their education and career dreams.



# TG Board of Directors

**Ms. Dora Ann Verde**  
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**Mr. Ivan A. Andarza**  
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**Ms. Yvonne Batts**  
Secretary  
Abilene

**Mr. Steven "Wroe" Jackson**  
Austin  
Term completed in May 2010

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**Dr. Richard M. Rhodes**  
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**Dr. Michael Savoie**  
Northlake

**Dr. Connie S. Sitterly**  
Fort Worth

**Mr. Steven Tays**  
San Antonio  
Term commenced in August 2010

**Mr. Welcome W. Wilson, Jr.**  
Houston

**Mr. Phil W. Worley**  
Hebbronville

**The Honorable Susan Combs**  
State Comptroller of Public Accounts  
Austin

# TG Senior Management Team

**Sue McMillin**  
President and Chief Executive Officer

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

**Lloyd Dodge**  
Senior Vice President,  
Information Technology

**Deanne Varner**  
Senior Vice President, Legal and Regulatory Affairs, General Counsel, and Chief Ethics Officer

**Kim Alexander**  
Vice President, Customer Focus

**Phillip Cervin**  
Vice President, Collections

**Rinn Harper**  
Vice President, Operations

**Carol Lindsey**  
Vice President, Policy and Compliance

**John Zanot**  
Vice President, Marketing and Product Management

# Advisory Committees for FY 2010

## TG Lender Advisory Committee

**Caite Blount**  
Texas Dow Employee  
Credit Union  
Lake Jackson, Texas

**Mackie Bonner**  
First National Bank Central Texas  
Waco, Texas

**Wally Boudet**  
Discover Student Loans  
Madisonville, Louisiana

**Katherne Carson**  
Texas Higher Education  
Coordinating Board  
Austin, Texas

**Casey Creel**  
Wells Fargo Educational  
Financial Services  
Humble, Texas

**Jose Guerrero**  
North Texas Higher Education  
Servicing Corporation  
Austin, Texas

**Cathleen Harmon**  
Sallie Mae  
Killeen, Texas

**Paige Hendricks**  
Edamerica  
West Monroe, Louisiana

**Sherry Schroeder**  
Aggieland Credit Union  
College Station, Texas

**Amanda Stephens**  
First National Bank Texas  
Killeen, Texas

**Rhonda Summerbell**  
University Federal  
Credit Union  
Austin, Texas

**Brian Sunshine**  
Nelnet  
Salado, Texas



(Top row, left to right) Kevin Deiters, representing the Comptroller, Richard M. Rhodes, Phil W. Worley, Welcome W. Wilson, Jr., Michael Savoie

(Bottom row, left to right) Steven Tays, Yvonne Batts, Ivan A. Andarza, Dora Ann Verde, F.H. "Skip" Landis

Not shown: Steven "Wroe" Jackson and Connie S. Sitterly

Susan Warren  
PNC Bank  
Austin, Texas

#### TG School Advisory Committee

Jim Reed  
(School Chair)  
West Texas A&M University  
Canyon, Texas

Paul Blake  
Texas Tech University  
Lubbock, Texas

Cynthia Butler  
Northwood University  
Cedar Hill, Texas

Maria Carrizales  
University of Texas — El Paso  
El Paso, Texas

Lindy Hall  
LeTourneau University  
Longview, Texas

Shanna Hollis  
Texas Wesleyan University  
Fort Worth, Texas

Carolyn Jones  
Collin County Community College  
McKinney, Texas

Tracy Lutkenhaus  
Blinn College  
Brenham, Texas

Lisa McGaha  
University of Texas Southwestern  
Dallas, Texas

Dr. Tom Melecki  
University of Texas at Austin  
Austin, Texas

Jackie Stevens  
Parker College of Chiropractic  
Dallas, Texas

Mary Teel  
Texas A&M University  
College Station, Texas

Anne Walker  
Rice University  
Houston, Texas

Michael Williams  
Richland College  
Dallas, Texas

John Wood  
The Ocean Corporation  
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#### Center for Financial Aid Policy in Community Colleges

Linda Gonzalez-Hensgen  
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El Paso Community College  
El Paso, Texas

Casey Acker  
Blinn College  
Brenham, Texas

JimAnn Batenhorst  
South Plains College  
Levelland, Texas

Lee Carrillo  
Central New Mexico  
Community College  
Albuquerque, New Mexico

Henry Garcia  
Del Mar College  
Corpus Christi, Texas

Lois Hollis  
Texas Higher Education  
Coordinating Board\*\*  
Austin, Texas

Steve Johnson  
Texas Association of  
Community Colleges\*\*  
Austin, Texas

Robert Merino  
San Jacinto  
Community College  
Pasadena, Texas

Annette Morgan  
Kilgore College  
Kilgore, Texas

Noé C. Ortiz  
Northwest Vista College  
San Antonio, Texas

Anafe Robinson  
Pierce College  
Woodland Hills, California

Bill Spiers  
Tallahassee Community College  
Tallahassee, Florida

David Ximenez  
Tarrant County College  
Fort Worth, Texas

#### TG Users Group

##### Schools

Cristen Alicea  
University of the Incarnate Word  
San Antonio, Texas

Stephen Brower  
Hardin Simmons University  
Abilene, Texas

Amanda Larson  
Southwestern Adventist University  
Keene, Texas

Cindi Pedersen  
Bethel College  
Mishawaka, Indiana

Luzanne Vance  
San Jacinto Community  
College District  
Pasadena, Texas

Christy Young  
Blinn College  
Brenham, Texas

##### Lenders

Jason Lolley  
Sallie Mae Servicing Corporation  
Killeen, Texas

Desiree Nelson  
San Antonio Federal Credit Union  
San Antonio, Texas

Lucy Peto  
Student Loan Corporation (Citi)  
Stamford, Connecticut

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(TASFAA Representative)  
Central Texas College  
Killeen, Texas

Bill Spiers  
Tallahassee Community College  
Tallahassee, Florida

Brian Sunshine  
Nelnet  
Salado, Texas

Debbie Urias  
(ATLE Representative)  
Brazos Higher Education  
Service Corporation, Inc.  
Austin, Texas

\*\*Permanent positions

# RESOURCES

## Contact TG

### Telephone

(800) 252-9743  
(512) 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 Websites

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

### 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 schools, lenders, students, and borrowers.  
[tgslc.custhelp.org](http://tgslc.custhelp.org)

### Collections

Collections works with borrowers in default and informs them of multiple repayment options to help them change course and overcome default's negative consequences.  
(800) 222-6297  
(512) 219-4739 — fax  
[collections@tgslc.org](mailto:collections@tgslc.org)

### Communications

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

### Default Prevention

The Default Prevention team works with schools and loan holders to prevent the default of federal student loans. Default Prevention also works with borrowers to avoid default, and informs them of multiple repayment options.  
(800) 338-4752  
(512) 219-4630 — fax  
[tgcares@tgslc.org](mailto:tgcares@tgslc.org)

### Student and Institutional Success

Student and Institutional Success works within the federal student aid community and with other educational, financial aid, and civic organizations to promote higher education awareness. The team provides outreach to middle school and high school students, administers TG's Public Benefit Program, and manages the TG Financial Literacy Program.  
(800) 252-9743, ext. 4964  
(512) 219-4932 — fax

### Customer Support and Reporting

TG's Customer Support and Reporting department consists of three teams: Customer Assistance, Data Reporting, and Business Support and Integration

#### Customer Assistance

The Customer Assistance team answers questions about all aspects of student financial aid for 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)

#### Data Reporting

TG's Data Reporting team is responsible for collecting and compiling loan status information from TG's lender and school customers and reporting current loan information to the Department of Education (or Federal government).  
(800) 801-8416  
[good.data@tgslc.org](mailto:good.data@tgslc.org)

#### Business Support and Integration

TG's Business Support and Integration group provides technical support, customer needs assessment, solution development, tool integration, file transfer and TG data warehouse administration, customer training on the use of TG's electronic tools, customer technical troubleshooting, user management, and profile support.  
(800) 332-1455  
[product.support@tgslc.org](mailto:product.support@tgslc.org)

### Ombudsman

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

### Relationship Management and Consulting

The Relationship Management and Consulting team serves TG's school and lender customers. The team responds to customer needs, provides on-site consulting, and works to enhance customer relationships.  
(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 calls through this toll-free number, used by Texas college-bound students, families, guidance counselors, and others seeking general information about planning and paying for higher education.  
(888) 311-8881  
[www.collegeforalltexas.com](http://www.collegeforalltexas.com)



# Financials

## Contents

Management's Discussion and Analysis.....	27
Independent Auditors' Report.....	33
Balance Sheets .....	34
Statements of Revenue and Expenses and Changes in Fund Equity.....	35
Statements of Cash Flows .....	36
Notes to Consolidated Financial Statements.....	37

# Management's Discussion and Analysis

This section of the Texas Guaranteed Student Loan Corporation (TG) financial report presents discussion and analysis of its financial performance during the fiscal year ended September 30, 2010 and 2009, and should be read in conjunction with TG's consolidated financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- Upon its enactment in March 2010, the Health Care and Education Reconciliation Act (2010 Act) amended the Higher Education Act of 1965, discontinuing the origination of federal student loans under the Federal Family Education Loan Program (FFELP) after June 30, 2010 leaving the William D. Ford Federal Direct Loan Program (FDLP) as the primary federal student loan program. As a result, TG's loan guarantees decreased to \$2.4 billion, net of cancellations, in fiscal year 2010 from a record setting \$9.6 billion in fiscal year 2009. The most immediate impact will be a significant reduction, followed by elimination of future Operating Fund's Loan Processing and Issuance Fees (LPIF) revenue and Federal Fund's Federal Default Fees (FDF). However, guaranty agencies, including TG, will be allowed to continue servicing their respective residual FFELP portfolios, receiving related Operating Fund Operating Revenues, including; Account Maintenance Fees (AMF), Default Aversion Fees (DAF), and Recovery Revenue, insofar as law and regulations permit.
- The Ensuring Continued Access to Student Loans Act (ECASLA), adopted in 2008, provided lenders the option to sell ("put") to The U.S. Department of Education (ED) eligible FFELP loans originated between May 1, 2007 and June 30, 2010 by established annual deadlines, the last of which, September 30, 2010 was extended by ED to October 15, 2010. Such "put" loans are removed from the guarantor's portfolio and are no longer eligible for guarantor service fees. Loans "put" from TG's portfolio totaled \$8.3 billion and \$3.6 billion in fiscal years 2010 and 2009, respectively. Under the ED extended deadline, subsequent to September 30, 2010, an additional \$2.1 billion loans have been "put" from TG's portfolio to ED. In addition, TG-guaranteed loans placed by lenders into the ED-backed "A Plus Loans" conduit facility, totaling \$2.1 billion at September 30, 2010, are also at risk of being "put" in the event of defined significant delinquency or failure of the facility to refinance.
- Rehabilitation loan recoveries which require the defaulted borrower to make a specified number of on-time payments to qualify, rebounded in fiscal year 2010 as lenders recovered from prior year credit market challenges, purchasing eligible defaulted loans typically at a discount. This collection method upon which TG retains 18.5% plus cost produced \$162.9 million and \$39.4 million of gross recoveries in fiscal years 2010 and 2009, respectively.
- TG committed to pay the required FDF equal to 1% of loan disbursement from the Operating Fund into the Federal Fund on behalf of its borrowers, since its inception in July 2006 through the culmination of FFELP loan originations in June 2010 totaling \$56.2 million and \$81.2 million in fiscal years 2010 and 2009, respectively, and \$235 million since inception. Although minimal, FDF will continue to be paid in fiscal year 2011 as second disbursements are made on FFELP loans originating prior to July 1, 2010.
- TG continues to authorize the annual expenditure of up to 5% of its available Operating Fund balance for public benefits. In addition to administrative costs, expenditures include \$4.8 million and \$2.1 million in Charley Wootan scholarships, and \$5.6 million and \$8.0 million in competitive-based education-related grants, in fiscal years 2010 and 2009, respectively. TG has expended \$40.6 million since the inception of its public benefits programs.
- Governmental Accounting Standards Board Statement No. 51 (GASB51), *Accounting and Financial Reporting for Intangible Assets*, became effective for TG October 1, 2009 and specifies recognition and measurement of intangible assets including internally developed computer software costs, which were previously expensed by TG as incurred. Under GASB 51 such costs incurred during the application development stage are capitalized and amortized over the software's useful life, typically five years subject to impairment. As of September 30, 2010, capitalized internally developed software costs totaled \$6.1 million, including \$3.5 million in costs not yet subject to amortization pending development completion and implementation.
- Education Assistance Services, Inc. (EAS), a wholly owned for-profit subsidiary of TG, began start-up of operations in fiscal year 2009 after being dormant for almost five years. EAS is a collection agency, with its primary source of revenue being commissions earned on the collection of defaulted student loans. During fiscal year 2010, commission revenue totaled \$0.6 million and expenditures, including capital, totaled \$2.1 million.
- Transfers reflect the reversal on appeal of a settlement in favor of the Federal Fund from ED's 2009 audit of TG's 1998 Operating and Federal Fund establishment.

## 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 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 for FFELP loans originated before July 1, 2010 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 and receives FDF. In addition to payment of refundable DAF to the Operating Fund, this fund maintains an allowance for the non-reinsured portion of future default claims against the existing guaranteed loan portfolio. Although not an operating entity, the Federal Fund derives revenue from FDF, recoveries of the non-reinsured portion of previous defaults, refunds of default aversion fees in the event of loan default, interest on loans repurchased by lenders, and interest earned on invested 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 examples include the Allowance for Non-reinsured Loan Defaults, which is a historical loan segment performance-based estimate of the future non-reinsured component of claims recorded upon student loan guarantee; and 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.



**Operating Expenses** decreased \$1.6 million or 2% when compared to fiscal year 2009. Increases in planned personnel-related costs and rehabilitation-driven higher collector incentives and collection agency commissions, were offset by reductions in employee performance awards and operational costs affected by the 2010 Act driven discontinuation of FFELP origination-related activities. In addition, \$6.1 million in software development costs, which includes contract labor totaling \$3.0 million, was capitalized for the first time in fiscal year 2010 pursuant to GASB51. These decreases are partially offset by \$2.0 million in EAS operating expenses consolidated in fiscal year 2010. Fiscal year 2009 Operating Expenses decreased \$0.5 million or 1% when compared to fiscal year 2008. Budgeted personnel cost increases in salaries and wages, merit raises, and benefits, were offset by reductions in sales incentives and employee performance awards. Non-personnel related expenses were also down as outsourced collection agency costs were impacted by the shift to lower-commissioned Federal Direct Consolidation recoveries. In contrast, development project costs, which were not subject to capitalization at the time, were up \$1.6 million in fiscal year 2009 as a result of several major projects initiating in the latter part of fiscal year 2008, carrying over into fiscal year 2009.

**Nonoperating Revenue (Expense)** changed \$10.7 million or 18% in fiscal year 2010, primarily due to a \$25.0 million FDF expense reduction resulting from the 2010 Act's discontinuation of FFELP loan originations after June 30, 2010, partially offset by reductions in investment portfolio earnings. By comparison, nonoperating revenue (expense) decreased \$26.8 million or 82% in fiscal year 2009 primarily from a record guarantee loan disbursement volume driven FDF expense increase totaling \$27.3 million, with Public Benefit increases offset by investment portfolio results.

#### Federal Fund

**Current Assets** increased \$39.6 million or 11% from September 30, 2009 and \$82.4 million or 31% from September 30, 2008, due primarily to investment of FDF received from the Operating Fund totaling \$56.2 million in fiscal year 2010 and \$81.2 million in fiscal year 2009. In addition, due to higher claims payments associated with TG's previously increasing portfolio, reinsurance receivable from ED was higher at each successive fiscal year end.

**Other Noncurrent Assets** were up \$4.1 million or 31% in fiscal year 2010 and up \$3.5 million or 37% in fiscal year 2009 from an increase in estimated future DAF refunds due to the Federal Fund resulting from each year's DAF payments.

**Current Liabilities** increased \$9.8 million or 20% in fiscal year 2010, and \$25.9 million or 106% in fiscal year 2009 from Operating Fund ED-paid-DAF refund receipts awaiting establishment of a settlement mechanism with ED. Fiscal year end rehabilitation recoveries payable to ED also contributed to the 2009 increase.

**Noncurrent Liabilities** increased by \$21 million or 9% in fiscal year 2010. The Allowance for Non-reinsured Loan Defaults was reduced by \$34 million of incurred loan loss related to claims paid, while allowance estimate refinements to more closely integrate with TG's portfolio behavior model, increased the reserve. In fiscal year 2009 the Allowance for Non-reinsured Loan Defaults was reduced by \$29 million of incurred loan loss related to claims paid, while the allowance estimate, anticipating ECASLA "puts", increased the reserve by only \$9 million.

**Fund Equity** increased \$12.8 million or 15% in fiscal year 2010 from 2010 Act impacted lower FDF receipts and a refined, increased Allowance for Non-reinsured claims estimate. By comparison, Fund Equity increased \$80 million in fiscal year 2009 from FDF receipts derived from record FFELP loan disbursement volumes.

**Operating Revenues** were down by \$20.4 million or 24% due primarily to the decrease in FDF, partially offset by higher Recovery Revenue, the result of default claims reinsured at less than 100%. In fiscal year 2009, Operating Revenues improved by \$24.2 million or 41%, the increase attributed primarily to gains in FDF revenue from the record high guaranteed loan disbursements. In addition, increases in non-reinsured recovery revenue in 2009, also the result of default claims reinsured at less than 100%, were more than offset by reductions in repurchases and respective loan interest due to the subrogation of bankruptcy loans.

**Operating Expenses** increased \$42.1 million or 212% in fiscal year 2010 from a refinement in the Allowance for Non-reinsured Loan Defaults estimate to more closely integrate with TG's portfolio behavior model increasing the Provision for Loan Defaults expense. This was partially offset by a decrease in DAF expense paid to the Operating Fund, which benefited from improved DAF refund performance. In comparison, Operating Expenses decreased \$119.9 million or 86% in fiscal year 2009 due primarily to the 2008 impact in establishing an Allowance for Non-reinsured Loan Defaults upon the reintroduction of less than 100% reinsurance. The decrease in Operating Expenses was partially offset by an increase in DAF paid to the Operating Fund of \$6.0 million, net of anticipated future refunds.

**Nonoperating Revenue (Expense)** decreased \$2.2 million or 15% in fiscal year 2010 due to reduced FDF receipts invested at lower market yields, coupled with a decline in investment market valuations. Nonoperating revenue increased \$7.3 million or 96% in fiscal year 2009 due to interest earned on the growing FDF driven portfolio and increased market valuations.

#### CAPITAL ASSETS AND LONG TERM DEBT

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. The margin facility was temporarily accessed by TG's Operating and Federal Fund on several occasions, ranging from one to eleven consecutive days, to facilitate cash management activities. TG also maintains a \$5.0 million unsecured line of credit with its depository institution, renewed in September 2010, expiring September 30, 2011, unless earlier termination of the depository relationship, which has not been accessed.

*GASB 51 Accounting and Financial Reporting for Intangible Assets*, became effective for TG October 1, 2009 and specifies recognition and measurement of intangible assets including internally developed computer software costs, which were previously expensed by TG as incurred. Under GASB 51 such costs incurred during the application development stage are capitalized and amortized over the software's useful life, typically five years subject to impairment. As of September 30, 2010, capitalized internally developed software costs totaled \$6.1 million, including \$3.5 million in costs not yet subject to amortization pending development completion and implementation.

#### SIGNIFICANT KNOWN FACTS, DECISIONS, OR CONDITIONS

Upon its enactment in March 2010, the 2010 Act amended the Higher Education Act of 1965, discontinuing the origination of federal student loans under FFELP after June 30, 2010 leaving FDLP as the sole federal student loan program. As a result, TG's loan guarantees decreased to \$2.4 billion, net of cancellations, in fiscal year 2010 from a record setting \$9.6 billion in fiscal year 2009. The most immediate impact will be a significant reduction, followed by elimination of future Operating Fund's LPIF revenue and Federal Fund's FDF. However, guaranty agencies, including TG will be allowed to continue servicing their respective residual FFELP portfolios, receiving related Operating Fund Operating

Revenues, including; AMF, DAF, and Recovery Revenue, insofar as law and regulations permit. TG's fiscal year 2011 Operating Fund budget anticipates continuing operating revenues of approximately \$109 million and a reduction of operating expenses corresponding to the cessation of loan origination guarantee activities.

ECASLA, adopted in 2008, provided lenders the option to "put" to ED eligible student loan originated between May 1, 2007 and June 30, 2010 by established annual deadlines, the last of which, September 30, 2010 was extended by ED to October 15, 2010. Such "put" loans are removed from the guarantor's portfolio and are no longer eligible for guarantor service fees. Loans "put" from TG's portfolio totaled \$8.3 billion and \$3.6 billion in fiscal years 2010 and 2009, respectively. Under the ED extended deadline, subsequent to September 30, 2010, an additional \$2.1 billion loans have been "put" from TG's portfolio to ED.

The student loan industry supported by ED has established the "A Plus Loans" conduit program, in which non-consolidation FFELP loans originated subsequent to September 30, 2003 meeting certain eligibility criteria, may be sold into short-term commercial paper backed facilities. Such loans are subject to "put" to ED if the underlying commercial paper fails to refinance or upon individual loans reaching a defined level of delinquency through September 2014. This conduit "put" would have similar impact to TG as described previously. As of September 30, 2010, \$2.1 billion of TG's portfolio is in this conduit.

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.

#### CONTACTING TG'S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, business associates, 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@tgslc.org, or to TG's Controller, Mark Zarsky at (512) 219- 4617 or mark.zarsky@tgslc.org.

# Independent Auditors' Report

## Board of Directors

Texas Guaranteed Student Loan Corporation:

We have audited the accompanying consolidated 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, 2010 and 2009, 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. 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 opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TG as of September 30, 2010 and 2009, 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.

The management's discussion and analysis on pages 27 through 32 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, TX

December 7, 2010

## Consolidated Balance Sheets (in 000's)

	September 30, 2010			September 30, 2009		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Assets</b>						
Current Assets:						
Cash & Cash Equivalents	\$ 4,223	\$ 184	\$ 4,407	\$ 12,953	\$ 17,968	\$ 30,921
Receivables						
Due from Department of Education	4,503	54,324	58,827	19,342	45,931	65,273
Accrued Interest & Other	4,595	2,221	6,816	2,976	1,917	4,893
Investments	388,940	335,854	724,794	392,200	282,074	674,274
Interfund Receivables, Payables	527	(527)		(4,591)	4,591	
Other Current Assets	2,033	-	2,033	1,563	-	1,563
<b>Total Current Assets</b>	<b>404,821</b>	<b>392,056</b>	<b>796,877</b>	<b>424,443</b>	<b>352,481</b>	<b>776,924</b>
Noncurrent Assets:						
Capital Assets, Net	43,028		43,028	39,259		39,259
Interfund Default Aversion						
Fee Refund Allowance	(17,110)	17,110		(13,050)	13,050	
Other Noncurrent Assets, Net	50	-	50	72	-	72
<b>Total Noncurrent Assets</b>	<b>25,968</b>	<b>17,110</b>	<b>43,078</b>	<b>26,281</b>	<b>13,050</b>	<b>39,331</b>
<b>Total Assets</b>	<b>\$ 430,789</b>	<b>\$ 409,166</b>	<b>\$ 839,955</b>	<b>\$ 450,724</b>	<b>\$ 365,531</b>	<b>\$ 816,255</b>
<b>Liabilities and Fund Equity</b>						
Current Liabilities:						
Accounts Payable and Accrued Liabilities	\$ 8,291	\$ 147	\$ 8,438	\$ 7,994	\$ 447	\$ 8,441
Due to Department of Education		22,350	22,350		22,948	22,948
Due to Department of Education-						
Default Aversion Fee Refunds		37,818	37,818		27,078	27,078
Note Payable	1,871	-	1,871	1,784	-	1,784
<b>Total Current Liabilities</b>	<b>10,162</b>	<b>60,315</b>	<b>70,477</b>	<b>9,778</b>	<b>50,473</b>	<b>60,251</b>
Noncurrent Liabilities:						
Due to Department of Education Default						
Aversion Fee Refund Allowance	57,830		57,830	72,249		72,249
Note Payable	2,636		2,636	4,507		4,507
Allowance for Non-reinsured						
Loan Defaults		251,320	251,320		230,280	230,280
Other	882	-	882	1,405	-	1,405
<b>Total Noncurrent Liabilities</b>	<b>61,348</b>	<b>251,320</b>	<b>312,668</b>	<b>78,161</b>	<b>230,280</b>	<b>308,441</b>
<b>Total Liabilities</b>	<b>71,510</b>	<b>311,635</b>	<b>383,145</b>	<b>87,939</b>	<b>280,753</b>	<b>368,692</b>
Fund Equity:						
Net Assets Invested in Capital						
Assets, net of related debt	38,521		38,521	32,968		32,968
Restricted Net Assets		97,531	97,531		84,778	84,778
Unrestricted Net Assets	320,758	-	320,758	329,817	-	329,817
<b>Total Fund Equity</b>	<b>359,279</b>	<b>97,531</b>	<b>456,810</b>	<b>362,785</b>	<b>84,778</b>	<b>447,563</b>
<b>Total Liabilities &amp; Fund Equity</b>	<b>\$ 430,789</b>	<b>\$ 409,166</b>	<b>\$ 839,955</b>	<b>\$ 450,724</b>	<b>\$ 365,531</b>	<b>\$ 816,255</b>

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

Consolidated Statements of Revenue and Expenses and Changes in Fund Equity (in 000's)

	Fiscal Year Ended September 30, 2010			Fiscal Year Ended September 30, 2009		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Operating Revenues</b>						
Loan Processing and Issuance Fee	\$ 22,355	\$ -	\$ 22,355	\$ 32,472	\$ -	\$ 32,472
Account Maintenance Fee	16,823		16,823	19,426		19,426
Default Aversion Fee (net of \$4,737 and \$4,375 refund provision)	12,868		12,868	13,162		13,162
Recovery Revenue	73,699	6,984	80,683	50,484	2,225	52,709
Other Revenue	1,250	54	1,304	1,746	242	1,988
Federal Default Fee	-	56,213	56,213	-	81,179	81,179
<b>Total Operating Revenues</b>	<b>126,995</b>	<b>63,251</b>	<b>190,246</b>	<b>117,290</b>	<b>83,646</b>	<b>200,936</b>
<b>Operating Expenses</b>						
Operations	83,300		83,300	84,846		84,846
Provision for Loan Defaults		52,720	52,720		8,502	8,502
Default Aversion Expense (net of \$8,415 and \$6,199 anticipated refunds)		9,190	9,190		11,337	11,337
Other Expenses	-	1	1	-	2	2
<b>Total Operating Expenses</b>	<b>83,300</b>	<b>61,911</b>	<b>145,211</b>	<b>84,846</b>	<b>19,841</b>	<b>104,687</b>
<b>Operating Income</b>	<b>43,695</b>	<b>1,340</b>	<b>45,035</b>	<b>32,444</b>	<b>63,805</b>	<b>96,249</b>
<b>Nonoperating Revenues (Expenses)</b>						
Federal Default Fee Expense	(56,213)		(56,213)	(81,179)		(81,179)
Public Benefits	(10,468)		(10,468)	(10,087)		(10,087)
Net Increase in the Fair Value of Investments	2,964	4,789	7,753	14,982	6,672	21,654
Investment Interest	15,403	7,993	23,396	17,322	8,287	25,609
Net Gain on Sale of Assets	-	-	-	1	-	1
Interest Expense	(255)	(1)	(256)	(340)	(5)	(345)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>(48,569)</b>	<b>12,781</b>	<b>(35,788)</b>	<b>(59,301)</b>	<b>14,954</b>	<b>(44,347)</b>
<b>Income (Deficit)</b>	<b>(4,874)</b>	<b>14,121</b>	<b>9,247</b>	<b>(26,857)</b>	<b>78,759</b>	<b>51,902</b>
Transfer	1,368	(1,368)	-	(1,368)	1,368	-
<b>Change in Fund Equity</b>	<b>(3,506)</b>	<b>12,753</b>	<b>9,247</b>	<b>(28,225)</b>	<b>80,127</b>	<b>51,902</b>
<b>Fund Equity, Beginning</b>	<b>362,785</b>	<b>84,778</b>	<b>447,563</b>	<b>391,010</b>	<b>4,651</b>	<b>395,661</b>
<b>Fund Equity, Ending</b>	<b>\$ 359,279</b>	<b>\$ 97,531</b>	<b>\$ 456,810</b>	<b>\$ 362,785</b>	<b>\$ 84,778</b>	<b>\$ 447,563</b>

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

Consolidated Statements of Cash Flows (in 000's)

	Fiscal Year Ended September 30, 2010			Fiscal Year Ended September 30, 2009		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
<b>Cash Flows from Operating Activities:</b>						
Claims Payments	\$ -	\$ (817,797)	\$ (817,797)	\$ -	\$ (719,047)	\$ (719,047)
Claims Reinsurance Received	-	775,839	775,839	-	682,444	682,444
Defaulted Loan Collections	-	290,029	290,029	-	161,203	161,203
ED Share of Defaulted Loan Collections	-	(225,897)	(225,897)	-	(131,085)	(131,085)
Operating Fund Share of Defaulted Loan Collections	57,148	(57,148)	-	27,894	(27,894)	-
Fees Received	72,431	58,741	131,172	72,374	93,100	165,474
Proceeds from Other Revenues	260	54	314	2,033	243	2,276
Payments to Suppliers for Goods and Services	(37,932)	(302)	(38,234)	(37,903)	-	(37,903)
Payments to Employees	(42,262)	-	(42,262)	(45,495)	-	(45,495)
<b>Net Cash Provided By Operating Activities</b>	<b>49,645</b>	<b>23,519</b>	<b>73,164</b>	<b>18,903</b>	<b>58,964</b>	<b>77,867</b>
<b>Cash Flows from Non-Capital Financing Activities:</b>						
Proceeds from Margin Facility	5,822	8,839	14,661	318	43,662	43,980
Principal Payments on Margin Facility	(5,822)	(8,839)	(14,661)	(318)	(43,662)	(43,980)
Interest Paid	(1)	(1)	(2)	(3)	(5)	(8)
Federal Default Fees Paid	(59,317)	-	(59,317)	(80,433)	-	(80,433)
Public Benefits	(10,468)	-	(10,468)	(10,087)	-	(10,087)
<b>Net Cash Used In Non-Capital Financing Activities</b>	<b>(69,786)</b>	<b>(1)</b>	<b>(69,787)</b>	<b>(90,523)</b>	<b>(5)</b>	<b>(90,528)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>						
Proceeds from Sale of Assets	1	-	1	5	-	5
Purchases of Property, Plant and Equipment	(7,543)	-	(7,543)	(2,545)	-	(2,545)
Principal Payments on Note Payable	(1,784)	-	(1,784)	(1,702)	-	(1,702)
Interest Paid	(260)	-	(260)	(343)	-	(343)
<b>Net Cash Used In Capital and Related Financing Activities</b>	<b>(9,586)</b>	<b>-</b>	<b>(9,586)</b>	<b>(4,585)</b>	<b>-</b>	<b>(4,585)</b>
<b>Cash Flows from Investing Activities:</b>						
Purchases of Investments	(137,474)	(174,496)	(311,970)	(105,912)	(233,136)	(339,048)
Proceeds from Maturity or Sale of Investments	143,697	125,505	269,202	167,556	169,838	337,394
Interest Received	14,774	7,689	22,463	18,076	8,452	26,528
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>20,997</b>	<b>(41,302)</b>	<b>(20,305)</b>	<b>79,720</b>	<b>(54,846)</b>	<b>24,874</b>
Increase (Decrease) in Cash and Cash Equivalents	(8,730)	(17,784)	(26,514)	3,515	4,113	7,628
<b>Cash and Cash Equivalents, Beginning</b>	<b>12,953</b>	<b>17,968</b>	<b>30,921</b>	<b>9,438</b>	<b>13,855</b>	<b>23,293</b>
<b>Cash and Cash Equivalents, Ending</b>	<b>\$ 4,223</b>	<b>\$ 184</b>	<b>\$ 4,407</b>	<b>\$ 12,953</b>	<b>\$ 17,968</b>	<b>\$ 30,921</b>
Operating Income	\$ 43,695	\$ 1,340	\$ 45,035	\$ 32,444	\$ 63,805	\$ 96,249
Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:						
Depreciation	3,777	-	3,777	3,525	-	3,525
Other	22	-	22	22	-	22
Change in Assets & Liabilities:						
Receivables	13,848	(8,392)	5,456	(2,638)	(7,192)	(9,830)
Other Assets	(469)	-	(469)	(50)	-	(50)
Interfund Receivables, Payables	3,414	(310)	3,104	2,701	(3,446)	(745)
Accounts Payable & Accrued Liabilities	(223)	(301)	(524)	(2,049)	351	(1,698)
Due to Department of Education	(14,419)	10,142	(4,277)	(15,052)	25,576	10,524
Allowance for Non-Reinsured Loan Defaults and Other Costs	-	21,040	21,040	-	(20,130)	(20,130)
<b>Total Adjustments</b>	<b>5,950</b>	<b>22,179</b>	<b>28,129</b>	<b>(13,541)</b>	<b>(4,841)</b>	<b>(18,382)</b>
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 49,645</b>	<b>\$ 23,519</b>	<b>\$ 73,164</b>	<b>\$ 18,903</b>	<b>\$ 58,964</b>	<b>\$ 77,867</b>

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

# Notes to Consolidated 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 should it liquidate, and to pursue its obligations in that capacity would satisfy all of TG's 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.

Upon its enactment in March 2010, the Health Care and Education Reconciliation Act (2010 Act) amended the Higher Education Act of 1965, discontinuing the origination of federal student loans under the Federal Family Education Loan Program (FFELP) after June 30, 2010 leaving the William D. Ford Federal Direct Loan Program (FDLP) as the primary federal loan program. However, guaranty agencies, including TG will be allowed to continue servicing their respective residual FFELP portfolios.

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

	Sept. 30, 2010	Sept. 30, 2009
Four Year	\$ 1,345,759	\$ 6,963,710
Two Year	211,732	559,330
Proprietary	882,190	2,058,750
Consolidation		7,100
Total	\$ 2,439,681	\$ 9,588,890

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

	Sept. 30, 2010	Sept. 30, 2009
Four Year	\$ 11,331,224	\$ 17,312,101
Two Year	1,210,874	1,623,165
Proprietary	1,678,952	3,257,323
Consolidation	9,433,083	9,952,378
Total	\$ 23,654,133	\$ 32,144,967

The Ensuring Continued Access to Student Loans Act (ECASLA), adopted in 2008, provided lenders the option to sell ("put"), to ED eligible student loan originated between May 1, 2007 and June 30, 2010 by established annual deadlines, the last of which, September 30, 2010 was extended by ED to October 15, 2010. Such "put" loans are removed from the guarantor's portfolio and are no longer eligible for guarantor service fees. Loans "put" from TG's portfolio totaled \$8.28 billion and \$3.58 billion in fiscal years 2010 and 2009, respectively. Under the ED extended deadline, subsequent to September 30, 2010, an additional \$2.07 billion loans have been "put" from TG's portfolio to ED.

**Subsidiary:** In fiscal year 1995, TG established Education Assistance Services, Inc. (EAS) as a for-profit, wholly-owned subsidiary for the furtherance of its student loan and higher education mission. EAS began start-up of operations in fiscal year 2009 after being dormant for almost five years and with \$1.88 million of investment from TG through September 30, 2010. EAS operates as a collection agency, with its primary source of revenue being commissions earned on the collection of defaulted student loans. The Operating Fund financial statements reflect the financial position, results of operations and cash flows of TG consolidated with that of EAS eliminating all inter-company balances and transactions. Selected EAS financial data by fiscal year is as follows (*in 000s*):

	Sept. 30, 2010	Sept. 30, 2009
Current Assets	\$ 549	\$ 107
Capital Assets	224	124
Total Liabilities	84	64
Stockholder's Equity	689	167
Operating Revenues	620	
Operating Expenses	1,979	320
Net Deficit	1,359	320

EAS operations have generated deferred tax assets which have been fully reserved, including \$6.81 million in Net Operating Loss carryforwards expiring from 2021 to 2030.

## 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 costs related to financial aid awareness initiatives, 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.

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

Custodial Credit Risk - To minimize credit risk for cash on deposit, deposit balances exceeding \$25 thousand in the Operating Fund and \$50 thousand in the Federal Fund are invested daily into a third party U.S. Government and Agency Money Market Mutual Fund. Money Market Mutual funds total \$3.1 million and \$3.43 million for the Operating fund and \$15.0 million and \$10.7 million for the Federal Fund at September 30, 2010 and 2009 respectively. Remaining balances, if any, are subject to \$250 thousand FDIC insurance and at least \$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, consistent with Texas Public Funds Investment Act provisions, is authorized to invest in: US Government obligations, including agencies and instrumentalities, State of Texas direct obligations, certificates of deposit of financial institutions with Texas main or branch offices, as well as, subject to certain restrictions, obligations of states, agencies, counties, cities, and other political subdivisions of any state; certain collateralized mortgage obligations; commercial paper; direct and reverse repurchase agreements; SEC registered no-load money market and mutual funds and investment pools. Individual investment maturities are limited to a maximum of 10 years from date of purchase, and may be collateralized using longer dated investments. Government direct-issue mortgage-backed securities may carry a stated final maturity up to 30 years with an average life not greater than 10 years. Repurchase agreement maximum maturities are limited to 120 days. 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, pre-qualifying 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. Investments are predominantly AAA rated with the exception of four AA rated U.S. Agency Obligations. All Municipal Bonds, with the exception of one \$2.8 million security, are at least A rated by one or more rating agency.

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 and 40 years for buildings. Purchased software is capitalized in accordance with the capital asset policy. Governmental Accounting Standards Board Statement No. 51 (GASB 51), *Accounting and Financial Reporting for Intangible Assets*, became effective for TG October 1, 2009 and specifies recognition and measurement of intangible assets including internally developed computer software costs, which were previously expensed by TG as incurred. Under GASB 51 such costs incurred during the application development stage are capitalized and amortized over the software's useful life, typically five years subject to impairment. Previously internal development costs associated with software utilized in TG operations were expensed as incurred.

**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 the Operating Fund's personnel, facility, contractual obligations, travel, maintenance, development and depreciation costs and the Federal Fund's Provision for Loan Defaults and Default Aversion Expense. 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 is paid quarterly by ED to TG's Operating Fund equal to 0.40% of non-consolidation FFELP loans guaranteed and disbursed. Loan disbursement typically occurs after guarantee and in two installments. The 2010 Act's discontinuance of FFELP originations reduces and will ultimately eliminate this revenue source.

Account Maintenance Fee (AMF) – AMF is paid quarterly by ED to TG's Operating Fund equal to 0.06% of TG's fiscal year end guarantee portfolio's original principal balance outstanding.

Default Aversion Fee (DAF) – DAF is limited to 1% of delinquent loan principal and interest when reported to TG by the holder for the first time under regulatory required Default Aversion Assistance Request (DAAR), refundable in the event of loan default. Reserves for future DAF refunds have been established according to estimated future defaults. Anticipated future refunds total \$74.94 million and \$85.29 million at September 30, 2010 and 2009, respectively. As of September 30, 2010, the Federal Fund had received \$37.82 million in refunds from the Operating Fund applicable to DAF fees originally paid by and refundable to ED.

Recovery Revenue - Upon default claim payment, TG is statutorily required to pursue collection on behalf of the federal government, receiving commissions based upon collection method; 16% for borrower payments, 10% for consolidation collections, and 18.5% plus cost for rehabilitation collections. TG collected approximately \$556 million and \$455 million on defaulted student loans, which includes loans collected through federal income tax offsets and Federal Direct Loan Program consolidations of defaulted student loans in fiscal year 2010 and 2009, respectively.

Federal Default Fee (FDF) – A fee equal to 1% of guaranteed FFELP student loan disbursements must be deposited into the Federal Fund. FDF can be paid from student loan proceeds or any other non-Federal source. TG's Operating Fund paid FDF on behalf of its borrowers since the fee's July 2006 inception. The 2010 Act's discontinuance of FFELP originations reduces and will ultimately eliminate this revenue source.

**Interfund Activities:** Interfund activity depicts transactions between TG's Operating and Federal Funds as stipulated in the legislation, regulation and requirements governing FFELP.

Interfund Receivables, Payables – The interfund balance is primarily related to September FDF due the Federal Fund, offset by September net Recovery Revenue and DAF due the Operating Fund.

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

Transfer – Represents the fiscal year 2009 settlement in favor of the Federal Fund and subsequent fiscal year 2010 reversal from successful appeal of ED's 2009 audit of TG's 1998 Operating and Federal Funds' establishment.

**Public Benefits Program:** TG has authorized the annual expenditure of up to 5% of its available Operating Fund balance for public benefits. Expenditures include \$4.8 million and \$2.1 million in Charley Wootan scholarships, and \$5.6 million and \$8.0 million in competitive-based education-related grants, in fiscal years 2010 and 2009, respectively, excluding administrative costs.

**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, anticipated Allowance for Non-reinsured Loan Defaults and Default Aversion Fee Refund Allowance based upon historical loan segment performance. 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. 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 2010 or 2009.

**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 years ended September 30, 2010 and 2009; accordingly no accrual for income taxes is included in the financial statements.

**Reclassification:** Reclassification of certain prior year amounts have been made to conform with current year presentation.

### 3] REINSURANCE

TG paid claims totaling approximately \$818 million and \$719 million fiscal year to date 2010 and 2009, including default claims totaling \$803 million and \$708 million, respectively. Claims paid are eligible for reinsurance depending upon annual default rates ("Trigger Rates") and the underlying loan origination date. Annual default rates are calculated by dividing claims paid during the year, after adding back loan rehabilitations, by the original guarantee amount of loans in repayment at the preceding fiscal year end. The annualized default rate is 2.99% and 3.40% for fiscal years 2010 and 2009, respectively. Claims at or exceeding 5% and 9% Trigger Rates result in reduced reinsurance generally at 85% and 75% respectively. As a result, TG's Federal Fund established an Allowance for Non-reinsured Loan Defaults equal to the net present value of the unreinsured portion of all estimated future claims on its existing guaranteed student loan portfolio. The Allowance for Non-reinsured Loan Defaults estimate was refined in fiscal year 2010 to more closely integrate with TG's portfolio behavior model, which increased the allowance. The estimated allowance at September 30, 2010 and September 30, 2009 totaled \$251.32 million and \$230.28 million, respectively.

#### 4] INVESTMENTS

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

	September 30, 2010				September 30, 2009			
	Operating Fund	Duration	Federal Fund	Duration	Operating Fund	Duration	Federal Fund	Duration
Investments								
U.S. Treasury Notes	\$ 54,557	1.45	\$ 28,631	2.58	\$ 53,748	3.99	\$ 20,809	1.76
U.S. Agency Obligations								
FHLB	44,351	3.40	88,432	2.59	64,506	3.48	72,055	3.31
FHLMC	53,505	2.65	53,846	3.75	41,115	2.87	29,279	3.40
FNMA	102,273	2.39	58,272	1.86	99,898	2.91	65,099	2.50
FFCB	47,221	3.38	18,318	4.16	42,902	4.73	12,120	5.80
FICO			17,293	3.50	3,954	3.97	21,311	4.27
GNMA	11,599	3.72			1,441	3.67		
FAMC			10,986	2.74			6,477	2.35
Other					3,583	4.73	3,953	2.68
Total Agency	258,949	2.86	247,147	2.86	257,399	3.31	210,294	3.27
Municipalities	29,459	2.37	3,861	1.60	30,126	3.56		
Corporate Bonds	45,975	1.18	56,215	1.20	50,927	1.90	50,971	2.15
Total	\$ 388,940	2.42	\$ 335,854	2.54	\$ 392,200	3.26	\$ 282,074	2.95

#### 5] CAPITAL ASSETS

Capital Assets include the following (in 000s):

	Sept. 30, 2008	Additions	Deletions	Sept. 30, 2009	Additions	Deletions	Sept. 30, 2010
Operating Fund							
Land	\$ 3,315			\$ 3,315			\$ 3,315
Building & LH Imp.	34,075	\$ 52		34,127	\$ 13		34,140
Furniture & Equipment	12,171	878	\$ (141)	12,908	593	\$ (115)	13,386
Software	7,776	1,068		8,844	823		9,667
Software Construction					6,118		6,118
Vehicles	74			74			74
Capital Assets	57,411	1,998	(141)	59,268	7,547	(115)	66,700
Accumulated Depreciation	(16,623)	(3,525)	139	(20,009)	(3,777)	114	(23,672)
Capital Assets, Net	\$ 40,788	\$ (1,527)	\$ (2)	\$ 39,259	\$ 3,770	\$ (1)	\$ 43,028

Operating Fund Capital Assets include \$0.11 million and \$0.10 million in accrued purchases at fiscal year-end 2010 and 2009, respectively.

#### 6] ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	September 30, 2010		September 30, 2009	
	Operating Fund	Federal Fund	Operating Fund	Federal Fund
Trade Payables	\$ 3,107	\$ 147	\$ 2,914	\$ 447
Compensated Absences	1,933		1,654	
Performance Awards	3,045		3,199	
Other	206		227	
Total	\$ 8,291	\$ 147	\$ 7,994	\$ 447

#### 7] SHORT-TERM FINANCING

**Margin Facility:** TG has 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 1.625% at September 30, 2010, 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 2010 and 2009, from a minimum of 1 day to a maximum of 11 days to facilitate cash management.

There is no outstanding balance under this facility at September 30, 2010 and 2009.

**Line of Credit:** In September 2010, TG renewed its \$5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest at the institution's prime rate plus 1% which totaled 4.25% at September 30, 2010. The facility, which expires September 30, 2011 unless earlier termination of the depository relationship, has not been accessed.

#### 8] NONCURRENT LIABILITIES

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

	Sept. 30, 2008	Additions	Payments/Deletions	Sept. 30, 2009	Additions	Payments/Deletions	Sept. 30, 2010	Current Portion
<b>Operating Fund</b>								
Due to ED:								
DAF Refund	\$ 87,301	\$ 2,359	\$ (17,411)	\$ 72,249		\$ (14,419)	\$ 57,830	
Notes Payable:								
Building Note	7,993		(1,702)	6,291		(1,784)	4,507	\$ 1,871
Other	8,978	5,413	(8,133)	6,258	\$ 4,747	(5,145)	5,860	4,978
<b>Federal Fund</b>								
Allowance for Loan Defaults	250,410	9,281	(29,411)	230,280	54,605	(33,565)	251,320	

**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 except in the final six months.

Future note payments are as follows (in 000s):

Fiscal Year	Principal	Interest	Total
2011	\$ 1,871	\$ 174	\$ 2,045
2012	1,961	83	2,044
2013	675	7	682
Total	\$ 4,507	\$ 264	\$ 4,771

**Other:** Other non-current liabilities consist primarily of accrued compensated absences and amounts due under TG's corporate performance award. 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 generally based on 9.0% of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately \$39.1 million and \$36.6 million, respectively, in the Plan year ended June 30, 2010, and approximately \$36.5 million and \$35.2 million, respectively, in Plan year ended June 30, 2009. Total TG contributions, in accordance with this Plan requirement, were approximately \$3.2 million and \$3.1 million for the years ended September 30, 2010 and 2009, respectively. Plan amendments are subject to the Plan's Board of Trustees' approval and TG's Board of Directors' ratification. Eligible employees may also elect to participate in the TG sponsored 403b plan through payroll deduction. Other than certain administrative costs, the 403b plan is entirely employee funded.

## 10] LEASE COMMITMENTS

TG obtains various equipment under operating lease agreements. Rent expense for fiscal years 2010 and 2009 was approximately \$0.58 million and \$0.63 million, respectively. Future minimum lease payments under the agreements are as follows (in 000s):

Fiscal Years	
2011	\$ 25
2012	13
Total	\$ 38

## 11] CREDIT RISK

TG's credit risk is principally inherent in student loan guarantees as follows: Original Principal Outstanding guaranteed student loans, including loans transferred to TG, are composed of 48% four-year schools, 7% proprietary schools, 5% two-year schools, and 40% consolidation loans at September 30, 2010. Based upon the historical default characteristics of this portfolio, an Allowance for Non-reinsured Default Claims of \$251.32 million is estimated at September 30, 2010. Assuming all outstanding guaranteed loans default simultaneously resulting in the highest Trigger Rate, and therefore minimum reinsurance, the maximum credit risk exposure to TG approximates \$5.73 billion at September 30, 2010, net of federal reinsurance.

## 12] CONTINGENCIES

The student loan industry supported by ED has established the "A Plus Loans" conduit program, in which non-consolidation FFELP loans originated subsequent to September 30, 2003 meeting certain eligibility criteria, may be sold into short-term commercial paper backed facilities. Such loans are subject to "put" to ED if the underlying commercial paper fails to refinance or upon individual loans reaching a defined level of delinquency through September 2014. This conduit "put" would have similar impact to TG as described previously. As of September 30, 2010, \$2.1 billion of TG's portfolio is in this conduit.

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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