May 29, 2008

Members of the Legislative Audit Committee:

Texas Southern University (University) had sufficient policies and procedures in place to monitor and prevent defaults of federally backed student loans. Specifically:

- The University provided entrance and exit counseling for students.
- The University provided financial literature to students.
- The University communicated information about students at greater risk of future student loan defaults to administrative offices and departments across campus.
- The University reported accurate student enrollment data to the U.S. Department of Education.
- The University utilized various federal reports to monitor and assist students who either defaulted on their student loans or were at risk of defaulting.
- The University surveyed previous students to identify their reasons for not returning to the University and the causes of student loan defaults.

The University’s fiscal year 2005 default rate for federally backed student loans was 10.30 percent, which is the most recent default rate available from the U.S. Department of Education. The fiscal year 2005 default rate for colleges and universities in Texas was 5.90 percent, and the fiscal year 2005 default rate for colleges and universities in the United States was 4.60 percent. Federally backed student loans are guaranteed by the federal government, and a student’s default on these loans does not have a financial impact on the University.

Currently, the University is not in jeopardy of being sanctioned by the U.S. Department of Education because of its default rate. Under U.S. Department of Education policies, if an institution’s federally backed student loan default rate is equal to or higher than 25 percent for the 3 most recent years available, the institution will lose Federal Family Education Loan, Direct Loan, and Federal Pell Grant program eligibility.

SAO Report No. 08-034
for the remainder of the fiscal year and the next 2 fiscal years. Also, if the most recent student loan default rate is higher than 40 percent, the institution will lose Federal Family Education Loan and Direct Loan eligibility for the remainder of the fiscal year and for the next 2 fiscal years. The University’s highest student loan default rate in the last 3 years available was 14 percent, which was in fiscal year 2004.

Student Loan Default Management and Prevention

The University uses the Cohort Default Rate Guide published by the U.S. Department of Education as its policies and procedures for default management and prevention activities. However, the guide does not include University-specific procedures, and the University does not have any other policies or procedures for default management and prevention.

The U.S. Department of Education also publishes a Sample Default Prevention and Management Plan, which lists nine areas of activities that institutions should implement to manage and try to prevent student loan defaults. Institutions are not required to have a default prevention and management plan unless they are participating in the Federal Family Education Loan program for the first time or have undergone a change in ownership. Within the resources available to it, the University performs activities in all nine areas. Specifically:

- **Entrance and Exit Counseling:** Students are required to participate in entrance and exit counseling to receive a federal student loan. The University provided students entrance counseling in a group setting or through a third-party online service. The University provided exit counseling to students on a one-on-one basis based on available resources and the time of year; however, some students complete the exit counseling online.

- **Financial Literacy for Borrowers:** The University provided information about financial literacy during students’ entrance and exit counseling sessions. This information is also available to students online and in the University’s financial aid office.

- **Communication across Campus:** Students are required to obtain multiple signatures on a withdrawal form before they can officially withdraw from the University. This ensures that the dean of a student’s department, the University’s comptroller, and the University’s financial aid office are aware that a student is leaving the University. Students who withdraw are more likely to default on their student loans. The University’s financial aid office also works closely with other student service offices, such as the admissions office and the registrar’s office.

- **Timely and Accurate Enrollment Reporting:** Institutions are required to report changes in student’s enrollment status within 30 days of a change to the National Student Loan Data System. In previous years, the University reported enrollment data eight times during an academic year through a third-party provider. Due to weaknesses in the third-party provider’s reporting process, the University did not report enrollment changes in a timely manner during the 2006-2007 academic year. As a result, the University changed its reporting processes and is scheduled to report enrollment information directly to the National Student Loan Data System approximately 15 times between February 2008 and January 2009.

---

1 The U.S. Department of Education’s fiscal year is October 1 through September 30.
National Student Loan Data System Date Entered Repayment Report: The University reviewed this report, which lists students who are scheduled to enter repayment, on a monthly basis and compared the information with the data in its financial aid system. If the data did not match, the University made corrections by reporting enrollment changes to the National Student Loan Data System. This report contains students’ names; Social Security numbers; loan guarantee dates; dates of any missed payments; days delinquent, if any; date the loan entered repayment; date the student exited the University; and the loan lender’s number.

Late Stage Delinquency Assistance: The University provided assistance to student loan servicers or guarantors on a monthly basis. The University sent a 30-day, 60-day, 90-day, or 120-day letter, as appropriate, to students who were delinquent in their federally backed student loan payments. The University used a standard letter template provided by the guaranty agency (the Texas Guaranteed Student Loan Corporation).

Loan Record Detail Report Data Review: The University used this report, which contains students’ names, Social Security numbers, loan amounts, terms, and interest rates, to work with former students who are having trouble repaying their student loans.

Analyze Defaulted Loan Data to Identify Defaulter Characteristics: Each semester, the University sends non-returning students a survey to determine why they did not return, as well as to create a profile of the typical non-returning student and his or her potential for defaulting on student loans. It then compiles this information and provides it to departments across campus. In the surveys conducted during the spring semesters of 2002 through 2006, respondents cited the inability to afford the tuition and fees as the number one reason for not continuing their enrollment. Other reasons cited included health-related problems, unexpected expenses, lack of financial aid, and other circumstances.

Recommendation

The University should develop formal, in-house policies and procedures that include University-specific processes and detailed procedures.

The University agrees with the recommendation in this report, and its responses are included in the attachment. We appreciate the cooperation we received from the University. If you have any questions, please contact Verma Elliott, Audit Manager, or me at (512) 936-9500.
Members of the Legislative Audit Committee  
May 29, 2008  
Page 4

Sincerely,

John Keel, CPA  
State Auditor

Attachment

cc: Members of the Texas Southern University Board of Regents  
   Mr. Glenn O. Lewis, Chair  
   Mr. Richard Salwen, Vice Chair  
   Mr. Enrique Javier Loya, Secretary  
   Mr. Gary Bledsoe  
   Mr. Samuel Bryant  
   Mr. Richard C. Holland  
   Mr. Richard Knight, Jr.  
   Ms. Curtistene McCowan  
   Ms. Tracey McDaniel  
   Mr. Larry Taylor  
   Dr. John M. Rudley, President
Texas Southern University’s Response

May 19, 2008

Mr. John Keel, CPA
State Auditor
Robert E. Johnson Building
1501 N. Congress Avenue
Austin, TX 78701

Dear Mr. Keel:

In response to the recommendation in the Audit Report on Student Loan Default Rate Prevention and Management Activities, we concur that Texas Southern University should develop formal, in-house policies and procedures that include University-specific processes and detailed procedures. Therefore, we provide the following attachment—“Default Management Plan”.

Sincerely,

[Signature]

John M. Rudley, President

Attachment (1)
DEFAULT MANAGEMENT PLAN
TEXAS SOUTHERN UNIVERSITY
DEFAULT REDUCTION MANAGEMENT PLAN

Texas Southern University has made a commitment to create and maintain a Loan Default Reduction/Prevention plan as outlined below. The plan will incorporate items from Appendix D, as defined by federal regulation in the Federal Register.

PURPOSE:

Texas Southern University's default management plan and procedures have been established for the following purposes:

1. Safeguarding the University's Financial Aid Office's student loan processing operation that allows students the opportunity to finance their education with federal financial aid funding;
2. Reducing the University's cohort default rate on Federal Family Education loans;
3. Educating and informing current and former students of their Right and Responsibilities as a Federal Family Educational Loan recipient;
4. To inform student of basic consumer debt responsibility; the consequences of defaulted student loans on their credit history.

POLICY:

All rules and procedures set forth in Texas Southern University's Default Reduction/Prevention Management Plan will be followed and adhered to by all entities conducting business with the University. Entities covered includes, University staff, students, guaranty agencies and lending institutions doing business with the University's Financial Aid Office. All action judged to be inappropriate to the University's efforts to prevent possible student loan defaults is prohibited.

DEFAULT PREVENTION/REDUCTION MEASURES

A. Measures to Reduce Defaults by Dropouts

Admission Policies: Texas Southern University is an accredited higher education institution that provides equal education opportunity to all graduate accredited American high schools, international student with comparable training and mature adults who have successfully passed the GED examination. Although, the University has an open admission's policy related to the admission criteria listed above. The institution does not admit students under the ability to benefit criteria. In addition, all entrants must demonstrate their ability to successfully handle all college level requirements. Beginning with 2008-09, Admissions standards have restructured and students with a GED are no longer admissible without special consideration through an Admission Committee. The American College Test (ACT) or Scholastic Aptitude Test (SAT) is required. All transfer students have to submit transcripts of all previous college work.

Academic Counseling: The University maintains the General University Academic Counseling Center (GUAC) which was created to enhance and support the academic
performance of all entering freshman, continuing sophomores, transfer students, student with undeclared majors and students preparing to complete the TASP (Texas Academic Skill Program) examination.

Improvement of curricula, facilities, materials, equipment, qualifications and size of faculty and other aspects of the University’s education programs: The University will comply with this measure. TSU will always strive to reduce the size of classes and increase the faculty/student ration to better serve its student body population.

Refund- Pro Rata Policy: The institution has a written pro rata refund policy included in its policies and procedures manual and has confirmed that it is fair and equitable under the requirements of Texas state law.

B. Implementation or Expansion of Job Placement Programs:

Texas Southern University has in place a Career Placement Center that offers:

1. Career counseling to present and former students
2. Provide employment contacts for student employers through on campus interviews, cooperative education and internship programs;
3. Offer seminars on job hunting skills. The Career Placement Center continues to have agencies available in an effort to expand the placement program.

The University’s catalog gives a description of all accrediting boards for program at the school. The accrediting agencies are (SACS, TEA & TAC, NCATE, ABA, AALL, ACPE, CSWE & NAIT) have endorsed all programs offered that facilitate our students job placement.

The University has a long standing relationship with the federal, state and local Government and private sector employers that have produced many employment opportunities for graduates. The Texas Employment commission is a Permanent fixture for research opportunities for students. Additionally, the Placement office continues to look for opportunities to increase the awareness of potential employers looking for recent and former college graduate employees.

C. Measure to improve borrowers’ understanding and responsibility of loan repayment obligations.

In compliance with the Department of Education requirements pertaining to comprehensive default reduction regulation of June 5, 1995 as part of and increase effort to reduce the default rate of Federal Stafford Loan and Federal Unsub borrowers Texas Southern University has established a student loan borrower Entrance and Exit Counseling component into its Financial Aid Office’s operation. The counseling component strives to ensure that all student loan borrowers are:

1. Informed of their Rights and Responsibility as Federal Family Educational Loan recipients;
2. Understand their obligation to repay their student loans.
3. Additionally, the Financial Aid Office and Office of the Registrar coordinate activities with lending and guarantee agencies for preloan assistance and submissions of Student Status Confirmation Reports (SSCR).
Counseling Efforts

The University uses several methods to communicate the importance of default prevention during entrance counseling sessions. Before the release of loan proceeds entrance counseling is required of all new freshman, new borrowers and transfer students enrolled at Texas Southern University for the semester with a full time Financial Aid Counselor and or via online. During theses the following information is provide via verbal instruction and the assistance of audio visuals via online. In addition, on line counseling sessions are available. Each participant is distributed information packets with literature on FTEI programs.

Information covered in the Entrance Counseling session is listed below:

- Difference between a Subsidized and Unsubsidized loan;
- Importance of maintaining academic eligibility for financial aid;
- Information on the purpose of a (6) six month grace period;
- Repayment Options: Income Sensitive Repayment plan, Loan Consolidation;
- Student obligation to notify lenders and Guarantee Agencies when they move, change their name, telephone number, transfer to a new school, change their social security number or drop below half-time status;
- Information on Deferments and Forbearance is covered along with steps on how to obtain them;
- Consequences of a Defaulted Loan and the penalties are outlined for the borrower;
  - An update interest rate is quoted when applicable;
  - A sample repayment schedule is provided.

Exit Counseling Sessions:

Exit Counseling is conducted by the Financial Aid Office and on line with the purpose of reviewing information to Federal Family Education Loan participants who are graduating or withdrawing from the University about their repayments obligations, Rights and Responsibility.

The Financial Aid Office works in cooperation with the Registrars office to identify students who have applied for graduation or totally withdraws from the University to conduct Exit Counseling sessions.

Students who withdraw Mid-Term during the semester:

Complete their Exit Counseling requirement during the process of their withdrawal from the University. For graduating students notification is sent to all students who have received a Federal Family Education loan during their matriculation at Texas Southern University to attend a scheduled Exit Counseling Session. For students' that cease to be enrolled on at least a half-time basis, a written and/or electronic notification informing the student of the requirement to complete exit counseling. On line sessions are also available.

Graduating students:
Exit counseling sessions are conducted several weeks before graduation. During these sessions information is provided via verbal instruction and the assistance of audio-visual. Each participant is distributed information packets with literature on the FFEL program.

Information covered in the Exit Counseling sessions is listed below:

- Difference between a Subsidized and Unsubsidized loan;
- Importance of maintaining academic eligibility for financial aid;
- Information on the purpose of a 6 month grace period;
- Repayment Options: Income Sensitive Repayment plan, Loan Consolidation;
- Student obligation to notify lenders and Guarantee Agencies when they move, change their name, telephone number, transfer to a new school, change their social security number or drop below half-time status;
- Information on Deferments and Forbearance is covered along with steps on how to obtain them;
- Consequences of a Defaulted Loan and the penalties are outlined for the borrower;
  - An updated interest rate is quoted when applicable;
  - A sample repayment schedule is provided.

D Pre-claim Assistance to Lenders and Guarantee Agencies

The Financial Aid Office and the Office of the Registrar work in coordination to ensure that the Student Status Conformation Report request are complete and submitted in 30 days as set forth by Federal Regulation 34 CFR 682.610© (1).

E Reinstatement of a Default Student for Financial Aid

The University requires documentation from the student to prove that he/she is eligible for financial aid assistance. This documentation could be a paid in-full letter, consolidation letter, a discharged letter, loan recall notices form the lender, guarantor or the school. If a student cannot produce this documentation listed for clearance then no financial aid will be granted until an official clearance letter and verified.

Additionally, the University will identify and create programs to address continued changes in the prevention of student loan defaults.