

SUBJECT: Proprietary and trade school information to student loan applicants

COMMITTEE: Higher Education — committee substitute recommended

VOTE: 7 ayes — Rangel, Ogden, Gallego, Goolsby, Harris, Kamel, Reyna

0 nays

2 absent — Moreno, Rodriguez

WITNESSES: None

BACKGROUND: The Texas Guaranteed Student Loan Corporation (TGSLC) is a nonprofit corporation that was created in 1979 by the Legislature. The TGSLC is responsible for carrying out federal higher education loans programs in Texas. Since 1981 TGSLC has guaranteed approximately \$6 billion in loans to students attending over 1,200 postsecondary institutions. The TGSLC reports that 80 percent of loans are repaid.

Student loans are guaranteed by the federal government, which in 1996 plans to impose a fee on states whose postsecondary institutions have student loan-default rates higher than 20 percent.

The TGSLC maintains student default rate information for all postsecondary schools and has turned this information over to the Texas Higher Education Coordinating Board during the last two years. The coordinating board maintains graduation rates for all postsecondary institutions.

DIGEST: CSHB 1697 would require the coordinating board to collect student loan information, graduation rate and placement rate information from certain postsecondary educational institutions (proprietary and trade schools) and to prepare this information for distribution to students at the institutions.

The trade school and proprietary institutions (those covered by Education Code sec. 57.02) and student loan entities would be required to report the information, and student loan entities would be required to provide this information to student loan borrowers.

The bill would take effect on September 1, 1995, and would require the coordinating board to prepare the required information for student borrowers by September 1, 1996.

**SUPPORTERS
SAY:**

The default rate for Texas student borrowers attending four-year public higher education institutions has averaged 11 percent, and the rate for students in two-year institutions is about 20 percent. However, loan default rates for students attending private trade schools or proprietary schools have averaged 35-40 percent. The TGSLC reported that 46 percent of students who obtained loans to attend proprietary schools were in default in January, 1994, which amounted to over \$543 million dollars.

The high default rate for students attending trade and proprietary schools may be attributed at least in part to low job-placement results among the students. Cosmetology schools had the highest default rate, nearly 51 percent. The rate would be even higher, but many of these schools have gone out of business or have been closed under a 1991 federal law that cracked down on schools with high default rates, requiring rates of 20 percent or less for three consecutive years.

Beginning in 1996 federal law will require each state to repay a fee to the federal government for postsecondary institutions that have a 20 percent default rate. The TGSLC, using 1993 default rates, estimates these fees would cost the state \$16 million over three years, because private vocational and technical schools that go out of business are not liable for default loans. A student loan "truth in lending" program was recommended by the Texas Performance Review in *Gaining Ground*.

Providing default loan, graduation and placement information to Texas students attending trade or vocations schools would help students make more informed choices on their decision to attend a particular school. As a result, defaults on student loans should decrease.

**OPPONENTS
SAY:**

The information this bill would require is already required by the Texas Education Agency (TEA), the coordinating board and the TGSLC. Students considering trade and vocational schools already are provided with the graduation rate, placement rate and default rate prior to enrollment.

Approximately 80 percent of students who attend trade schools are at-risk students. Obtaining a trade allows students to become productive members of society. The state should not try to scare them away from these schools.

NOTES:

The committee substitute deleted a requirement in the original version for all higher education institutions to report certain information to student borrowers.