State of Student Aid and Higher Education in Texas

April 2006

By Marlena Creusere and Carla McQueen
TG Research and Analytical Services
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We would like to acknowledge Robin McMillion, Matt Steiner, and Jeff Webster for their contributions to this publication.
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TO: Colleagues

FROM: Sue McMillin, President and CEO

RE: 2005 State of Student Aid and Higher Education in Texas

TG’s vision is to be the premier source of information, financing, and assistance to help all families and students realize their education and career dreams. In support of this vision, I am pleased to provide you with TG’s latest issue of The State of Student Aid and Higher Education in Texas. The publication offers Texas policymakers, their staffs, and members of the student financial aid community an overview of key facts that describe student financial aid in Texas.

Our changing economy rewards workers who can think critically, solve problems creatively, and who can master technical skills in multiple areas. Postsecondary education nurtures and hones these abilities, and success in college is the best predictor of later financial success and other quality-of-life benefits.

Texas will experience profound demographic changes in the coming years. The state’s population growth is being fueled by a dramatic increase in young Hispanics, a group that historically has been underrepresented in higher education. The economic vitality of the state will largely depend on how thoroughly financial barriers to education are removed. As the largest provider of student aid in Texas, TG plays a significant role in helping students achieve their educational goals.

Both the Texas Legislature and the U.S. Congress understand the importance of providing access to college and have sought to ensure that qualified students can get a college education. The State of Student Aid and Higher Education in Texas serves as a resource for those in search of information concerning demographic changes, educational attainment, college costs, financial aid programs, and student debt.

Please direct your questions and comments about this report to George Torres, assistant vice president for congressional/legislative relations at (512) 219-4503 or george.torres@tgslc.org, or to Jeff Webster, assistant vice president for research and analytical services at (512) 219-4504 or jeff.webster@tgslc.org. TG would like you to consider us a primary resource for information about the types and levels of the major student financial aid programs that are currently available to Texas students and families, and how Texas compares to the nation as a whole.

Sincerely,

Sue McMillin
President and CEO
TG

TG was established by the 66th Texas Legislature in 1979 to administer the Federal Family Education Loan Program (FFELP) for the State of Texas on behalf of the U.S. Department of Education. The FFELP is a partnership among colleges and universities, private lending institutions, state entities, and nonprofit guarantors and servicers. The FFELP is the largest source of student financial aid funding in the country and in Texas, providing 35 percent of all student financial aid nationwide and 63 percent of all of the state and federal financial aid awarded each year in Texas.
# Glossary of Terms

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Academic Year</td>
<td>Usually a twelve-month period that, depending on the school, begins in August and ends the following July. However, for cost purposes, an Academic Year is considered to be a nine-month period that begins in September and ends the following May.</td>
</tr>
<tr>
<td>Award Year</td>
<td>A twelve-month period beginning July 1 and ending June 30 of the following year.</td>
</tr>
<tr>
<td>Average</td>
<td>Often called the mean, the average is a common statistical method used to calculate central tendency. The average is found by adding all numbers together and dividing the total by the sum of the numbers.</td>
</tr>
<tr>
<td>Borrower</td>
<td>An individual to whom a federal loan is made.</td>
</tr>
<tr>
<td>Claim</td>
<td>A request that the lender (or lender’s service) files with the guarantor for reimbursement of its losses on a Federal Stafford, SLS, PLUS, or consolidation loan due to the borrower’s death, disability, default, or bankruptcy; school closure; or false certification of the borrower’s eligibility.</td>
</tr>
<tr>
<td>Cohort Default Rate</td>
<td>The percentage of Stafford and SLS loan borrowers who default before the end of the fiscal year following the fiscal year in which they entered repayment on their loans. The Department of Education calculates this rate annually to determine the default experience of students who attended a particular school during a particular period of time. Unless otherwise specifically indicated, the cohort default rate includes the FFELP cohort default rate or the weighted average cohort rate.</td>
</tr>
<tr>
<td>Collections</td>
<td>Amounts collected by guaranty agencies or the federal government from borrowers after default claims are paid to lenders.</td>
</tr>
<tr>
<td>Collection Recovery Rate</td>
<td>The amount of loan collections for a fiscal year divided by the balance of accumulated defaults at the beginning of the fiscal year.</td>
</tr>
<tr>
<td>Cure</td>
<td>Reinstatement of a loan's guarantee upon completion of a prescribed series of loan collection activities; also the process by which the loan's guarantee is reinstated.</td>
</tr>
<tr>
<td>FFELP</td>
<td>Federal Family Education Loan Program authorized by Title IV, part B of the Higher Education Act of 1965, as amended, including the Federal Stafford, Federal PLUS, Federal SLS, and Federal Consolidation Loan Programs. These loan programs are funded by lenders, guaranteed by guarantors, and reinsured by the federal government. The programs are defined individually in 34 CFR 668.</td>
</tr>
<tr>
<td>Fiscal Year</td>
<td>A twelve-month period beginning October 1 and ending September 30 of the following year. Fiscal Year 2002, for example, begins Oct. 1, 2001, and ends Sept. 30, 2002. Fiscal-year-to-date (FYTD) is the FY time period but is shorter than the entire twelve months.</td>
</tr>
<tr>
<td>Guarantee</td>
<td>A conditional legal obligation, as defined in an agreement by and between a guarantor and a lender, for the guarantor to reimburse the lender for some portion of a loan that is not repaid by the borrower due to default, death, disability, bankruptcy, borrower ineligibility, false certification of borrower eligibility, or school closure.</td>
</tr>
<tr>
<td>Indebtedness</td>
<td>How many TG student loan dollars a student owes upon leaving school.</td>
</tr>
</tbody>
</table>
Glossary of Terms (continued)

**Median**
A statistical measurement used to calculate the middle most number within a range of numbers. Using the median is a preferred statistical method for central tendency when skewed, or distorted, distributions of numbers occur.

**Weighted for Enrollment**
An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by total enrollment, such that schools with higher enrollments are given greater weight. Nationally, the cost of tuition, fees, books, and supplies is weighted by the number of full-time undergraduates and remaining costs are weighted by the number of undergraduates living off-campus, reflecting the expenses of students living off-campus, but not at home with parents. For Texas, all costs are weighted by total enrollment because data on the number of full-time undergraduates and the number of undergraduates living off-campus are not available.
Texas Demographics
Texas Population is Growing Rapidly

The Texas population is growing rapidly. In 2000, Texas had 20.8 million people. The Texas State Data Center, also known as the Office of the State Demographer, developed three forecasts for population growth for Texas to 2040. The forecasts share identical assumptions on death and fertility rates, but differ on rates of net migration into the state. The zero scenario, which is provided primarily for comparison purposes, assumes no net migration into the state and demonstrates the population change that would occur as a result only of births and deaths. The 0.5 scenario assumes half the net migration into the state as was recorded in the 1990s, and the 1.0 scenario assumes that net migration stays the same as the rate recorded in the 1990s. Because of a post-2000 slowdown in the rate of population growth compared to the 1990s, a fourth forecast was added in 2004. This forecast, which reflects the migration pattern of the 2000-2002 period, produces projected values that are generally lower than for the 1.0 scenario, but higher than for the 0.5 scenario.

For most areas of the state, the State Demographer suggests that the 2000-2002 scenario may be most appropriate for short-term planning purposes (i.e., 2-10 years), but that the 0.5 scenario is the most appropriate for long-term planning. This recommendation is based on the fact that patterns from the recent past are most likely to characterize the immediate future, while growth rates under the 1.0 scenario and 2000-2002 scenario are sufficiently high that they are unlikely to continue over extended periods of time. The 2000-2002 scenario indicates that population will grow by about 22 percent between 2000 and 2010, or to 25.4 million people. The 0.5 scenario indicates that population will grow by about 72 percent between 2000 and 2040, or to 35.7 million people.

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For the first time in more than a century, Whites do not make up a majority of the Texas population. In 2003, White non-Hispanics comprised 49.5 percent of the Texas population. As recently as 2000, they made up 53.1 percent of the state. Hispanics, the fastest growing ethnic group in the state as well as in the nation, comprise 35.3 percent of the population in Texas, and African Americans make up 10.8 percent. In 2000, the White population was projected to lose its majority standing in 2005 or 2006, but that appears to have happened sooner than expected. Most of the population growth in Texas in the next 40 years will continue to come from non-White ethnic groups. Under the 0.5 scenario, which assumes net migration into the state of half the 1990 to 2000 rate*, Whites are projected to fall to 32.2 percent of the population by 2040 and Hispanics are projected to increase to 52.6 percent, with the African American proportion of the population decreasing slightly to 9.5 percent.

* The State Demographer suggests that the .5 scenario is the most appropriate for long-term planning.
Ethnic Composition of Texas Varies by Region

Over half of the population in Texas lives in just 2 of the 7 regions of Texas — the Gulf Coast, which had 6 million people in 2000, and the Metroplex, which had 5.5 million. The least populous region is West Texas which had 1.2 million people.

The racial/ethnic composition of the population varies greatly by region. East Texas (74.1 percent) and the Panhandle (69.5 percent) have the highest concentration of Whites, while the Rio Grande (87.5 percent) and West Texas (60.5 percent) have the highest percent of Hispanics. African Americans are most concentrated in East Texas (16.5 percent), the Gulf Coast (16.0 percent) and the Metroplex (13.6 percent). Central Texas most closely resembles the overall state composition. Ethnicity by region is not available for 2001 and beyond.

Median household income declined in Texas and the U.S. between 2001-2002* and 2002-2003* and declined again in 2003-2004*. In 2002-2003*, median household income was $41,249** in Texas and $44,514** in the U.S. By 2003-2004*, those figures had dropped to $40,826** and $44,436**, respectively. In Texas, this represented a decrease of $423 in annual income. Once again, Texas had the largest decrease in median household income among the six largest states. U.S. median household income decreased by $78. Whites in the U.S. continue to outearn African Americans and Hispanics. African American household income in the U.S. is 62 percent that of White household income, and Hispanic household income is 70 percent. A similar earnings gap also exists in Texas, where in 1999 median household income was $47,162 for Whites, $29,305 for African Americans, and $29,873 for Hispanics. Income by race and ethnicity is not available by state for 2000 and beyond.

* Two-year average

** In 2004 dollars

One-fourth of Texans Lack Health Insurance

About 15.7 percent of Americans lacked health insurance in 2003-2004*, up from 15.4 percent in 2002-2003*, and 14.9 percent in 2001-2002*. The percentage is even higher in Texas. One-fourth (24.8 percent) of Texans lacked insurance in 2003-2004*, the highest rate of any state in the nation, although down slightly from 25.2 percent in 2002-2003*. Only two other states-Oklahoma and New Mexico-have 20 percent or more of their population without insurance. People are most likely to lack insurance between ages 18 and 24, the traditional years for going to college. Nearly one-third (31.4 percent) of 18 to 24 year olds in the U.S. lack health insurance, and the rate has climbed from 30.2 percent a year earlier. Insurance coverage by age is not available by state.

* Two-year average


State of Student Aid and Higher Education in Texas, April 2006
The poverty rate in the United States has risen for the fourth straight year. An average of 12.6 percent of people in the U.S. lived in poverty in 2003-2004*, an increase from 12.3 percent in 2002-2003* and 11.9 percent a year earlier. The poverty rate is higher in Texas and is also increasing. About 16.7 percent of Texans lived below the poverty level in 2003-2004*, an increase from 16.3 percent in 2002-2003* and 15.3 percent in 2001-2002*. In 2002-2003* Texas had the sixth highest poverty rate among the 50 states, but now Texas has the fourth highest rate, having surpassed both Arkansas and West Virginia in the percent of people who live in poverty. In 2004, poverty was defined as having an income of $19,157 or less for a family of four with two children, or $9,827 or less for an individual.

### People in Poverty, States with Highest Rates (Two-year Average, 2003-2004)

<table>
<thead>
<tr>
<th>State</th>
<th>2003-2004 Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Mexico</td>
<td>17.3%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>17.3%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>16.8%</td>
</tr>
<tr>
<td>Texas</td>
<td>16.7%</td>
</tr>
</tbody>
</table>

Texas continues to have the highest poverty rate among the six largest states. The Texas poverty rate is more than 2 percentage points higher than the next highest large state, New York. All of the six largest states saw an increase in the rate of poverty in 2003-2004 with the exception of Florida and Illinois. Pennsylvania had the largest increase in the rate of poverty and Texas had the second largest.

### People in Poverty, Largest States (Two-year Average)

<table>
<thead>
<tr>
<th>State</th>
<th>2002-2003 Rate</th>
<th>2003-2004 Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>12.3%</td>
<td>12.6%</td>
</tr>
<tr>
<td>California</td>
<td>13.1%</td>
<td>13.2%</td>
</tr>
<tr>
<td>Texas</td>
<td>16.3%</td>
<td>16.7%</td>
</tr>
<tr>
<td>New York</td>
<td>14.2%</td>
<td>14.6%</td>
</tr>
<tr>
<td>Florida</td>
<td>12.6%</td>
<td>12.2%</td>
</tr>
<tr>
<td>Illinois</td>
<td>12.7%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Pennsylvania</td>
<td>10.0%</td>
<td>10.9%</td>
</tr>
</tbody>
</table>

* Two-year average

Poverty rates for different ethnic groups in Texas are substantially more likely to live in poverty than Whites. In 1999, about 7.7 percent of White non-Hispanics in Texas were living in poverty versus 23.4 percent of African Americans and 25.4 percent of Hispanics. Where one lives also affects the odds of being poor. In the Metroplex, about a tenth of people live in poverty whereas in the Rio Grande Valley more than a third live in poverty. Differences in poverty rates by ethnicity persist when broken out by region. Throughout the state, Hispanics and African Americans are substantially more likely — in some areas three or four times more likely — to live in poverty than Whites. For all three ethnic groups, poverty rates are lowest in the more urbanized regions (Metroplex, Central Texas, and Gulf Coast) and highest in the less urbanized regions (Rio Grande Valley, East Texas, and the Panhandle). The overall poverty rate in 1999 was 15 percent in Texas and 11.8 percent in the U.S.

Poverty rates have risen in the new century. In 2003-2004*, an average of 16.7 percent of people in Texas and 12.6 percent in the U.S. were living below the poverty level. Poverty rates by region and ethnicity are not available for 2000 and beyond. In 1999, poverty was defined as having an annual income of $16,895 or less for a family of four with two children, or $8,667 for an individual. For 2004, the poverty threshold was $19,157 and $9,827, respectively.

*Two-year average

More Than One-fifth of Texas Children Live in Poverty

In 1999, Texas had the 7th highest child poverty rate in the United States. Texas now has the 5th highest rate, and the highest rate among the six largest states. Over one-fifth — 23.2 percent — of Texas children lived in poverty in 2004, a decrease from 24 percent in 2003, but an increase from 22 percent in 2002. The child poverty rate for the U.S. in 2004 was 17.8 percent, an increase from 17.6 percent in 2003. In 11 of the 50 states, 20 percent or more of children live in poverty. Children who grow up in poverty and who are successful at going on to college will most likely arrive at the doors of higher education with little financial assistance from their family and a high need for financial aid. In 2004, poverty was defined as having an annual income of $19,157 or less for a family of four with two children, or $9,827 or less for an individual.

As with the poverty rate for individuals, the poverty rate for children in Texas varies widely by ethnicity and region. Nearly a third of African American children and Hispanic children in Texas live in poverty, with poverty rates of 30 percent and 31.2 percent, respectively. The lowest child poverty rates are for Whites, at 8.3 percent statewide. Child poverty rates also vary by region, with the Metroplex (14.4 percent) having the lowest rates and the Rio Grande Valley (43.9 percent) having the highest rates. Whites in the Metroplex have the lowest poverty rate (6.1 percent), while the highest rate is for Hispanic children in the Rio Grande Valley (45.7 percent). African Americans in East Texas (41.0 percent) and the Panhandle (42.1 percent) have child poverty rates above 40 percent. Child poverty rates by region are not available for 2000 and beyond. In 1999, poverty was defined as having an annual income of $16,895 or less for a family of four with two children, or $8,667 for an individual. For 2004, the poverty threshold was $19,157 and $9,827, respectively.

Texas’ Future Dependent on the Education of its non-White Population

By 2040, Texas will have about 2 million more children under age 18, and 1 million more adults ages 18 to 24 — the traditional college age population — than in 2000. The population ages 25 to 64 will grow by about 7.5 million, while the ranks of those age 65 and older will swell by more than 4 million. Despite the increase in the number of children and young adults, people age 24 and under will actually drop from 39 percent of the population to 31 percent, while people age 65 and older will increase from 10 percent to 18 percent. As Texas changes from a majority-Anglo to a majority-Hispanic state and experiences an increase in the percentage of the population which is elderly, a significant difference emerges with respect to population by age. In 2040, 62 percent of children, 59 percent of 18 to 24 year olds, and 57 percent of 25 to 44 year olds, will be Hispanic. By contrast, 47 percent of those 65 and older will be White. The African American population will remain relatively stable, at 9 percent to 11 percent of each age group. Increasingly, the future of Texas — including its economic prosperity as well as the expertise needed to run its business, government, and infrastructure — will depend on the education of its non-White populations, which historically have had lower incomes, higher rates of poverty, and less likelihood of attending and completing college than Whites.

* Based on the .5 scenario, which assumes half the net migration into the state as was recorded from 1990 to 2000. The State Demographer

Section 2

Texas College Readiness
A High School Curriculum of Academic Intensity and Quality Boosts College Success for Disadvantaged Students

Students whose parents have either low incomes or educational levels are significantly less likely to enroll in college than students from more advantaged backgrounds. But access to a high school curriculum of high academic intensity (as measured by the number of non-remedial courses completed in core subjects*) and quality (as measured by the number of Advanced Placement** courses completed and the highest level of math achieved) can play a key role in their success. The relationship between high school math and college enrollment is particularly striking: Just 27 percent of 1992 high school graduates in the U.S. whose parents did not go to college had enrolled in a four-year institution by 1994, but the rate jumped to 64 percent of students who took at least one math course beyond Algebra II.*** Taking higher-level math most likely reflects a lifetime of high expectations, previous success with math, and a willingness to take challenging courses, attributes which are key to college enrollment and which students may have acquired from parents, teachers, other role models, or on their own.

The quality of the high school curriculum also affects degree completion. A Department of Education study found that the intensity and quality of a student’s high school curriculum has a bigger impact on bachelor’s degree completion than either the student’s high school test scores or Grade Point Average (GPA). The study also found that the impact on degree completion is even greater for Hispanic and African American students-whose college graduation rates in Texas are 20 to 25 percentage points lower than Whites’-than for White students. In fact, of all pre-college curricula, the highest level of math taken in high school has the strongest influence on degree completion. In Texas, 86 percent of public high schools offer at least one math course beyond Algebra II. Data on the number and types of courses offered, the qualifications of the teachers teaching them, and the percent of students taking them are not available.

* English, math, science, and social studies.

** Advanced Placement (AP) classes are offered in many, but not all, U.S. high schools. Students who score at a certain level on the end-of-year AP exam may be eligible to receive college credit before entering college.

*** The customary middle and high school math sequence is Algebra I, Geometry, and Algebra II. Higher math courses include Pre-Calculus, Calculus, Trigonometry, and Statistics.
Texas Ranks Last in High School Completion

In 2004, 22 percent of people age 25 and older in Texas had not finished high school, the highest percent of any state in the nation. In the U.S., 15 percent of adults have not finished high school. In 2002, the figures were 22 percent and 16 percent respectively, indicating that the gap in high school completion in Texas versus the U.S. has widened. Among the six largest states, all except Texas have seen a decrease since 2002 in the percent of people who have not finished high school. The disparity in completion rates cannot be explained by immigration: California and Florida have larger foreign-born populations than Texas (26 percent, 17 percent, and 14 percent, respectively), yet both states have a smaller proportion of adults who have not finished high school than Texas.

In addition, there are wide disparities in the completion rates of different ethnic groups. Although these disparities exist in many areas of the country, they are particularly daunting for Texas, which is gradually becoming a “minority-majority” state.

- Hispanics, who comprised a third of the Texas population in 2000 and who are projected to comprise more than half by 2040, are the least likely to obtain a high school diploma. Almost half of Hispanics age 25 and older have not finished high school.
- About 14 percent of African Americans in Texas have not completed high school. This is a higher percent than for Whites, but lower than for Hispanics and represents an improvement over 2003 when 17 percent of African Americans had not finished high school.
- Among the six largest states, Texas ties for second in the completion rate of Whites, ranks first for African Americans, and ranks last for Hispanics.

Texas High School Promotion Rates Are Low

Texas has a higher proportion of people age 25 and older who have not finished high school than any other state in the nation — 22 percent, versus 15 percent in the U.S. A primary reason is the inability of Texas to move more children successfully through school, a problem which is evident in enrollment and graduation figures at Texas public high schools. Consider that, in Texas:

- there were 366,895 freshmen in 2001-2002, but only 300,329 sophomores a year later
- there were 293,235 sophomores in 2001-2002, but only 265,789 juniors a year later

The numbers continue to decrease, though less sharply, at each grade level throughout high school. The decrease cannot be attributed to migration out of state, as the state's population is growing. The extent to which students are dropping out versus being held back is uncertain, but both should cause concern: students who drop out have fewer chances for success than those who graduate, and students who are held back have a higher likelihood of dropping out. When each column on the right in the graph above is divided by the column to its left — that is, when enrollment by grade (or, for 12th grade, the number of regular graduates) is divided by enrollment at the appropriate level one year earlier — the above promotion rates* are revealed:

Thus, a 9th grader in Texas has an 82 percent chance of being promoted to 10th grade, and a 10th grader has a 91 percent chance of being promoted to 11th grade. With each grade, chances for success improve, such that if a student reaches 12th grade he or she is almost certain to graduate. But the lower promotion rates in the early years take their toll: overall, a freshman in Texas has only about a 68 percent* chance of graduating with a regular high school diploma in four years.

* The Cumulative Promotion Index (CPI) was developed by the Urban Institute using the U.S. Department of Education’s Common Core of Data. CPI is not an “education pipeline,” rather, CPI estimates the likelihood that a 9th grader in a particular district or school will complete high school with a regular diploma in four years by representing graduation as a process composed of four grade-level promotions: 9th to 10th grade, 10th to 11th grade, 11th to 12th grade, and 12th to diploma. The cumulative promotion rate is derived by multiplying the four grade-level promotion rates together. For the U.S., the cumulative promotion rate for 2001-2002 was 71 percent.
Percent of Texas High School Graduates Who Enroll in College Immediately After High School Increases Slightly

Although the number of students enrolled in college in Texas has been increasing in recent years, the 2000 U.S. Census revealed that a smaller percentage of the Texas population participates in higher education than in other large states and the U.S. as a whole. About 8 percent of the Texas population age 18 and over was enrolled in higher education in 2000, versus 10.4 percent for California, 9.1 percent for New York, and 8.4 percent for the nation.

In 2000, Texas set the goal of "closing the gaps" in participation and success in higher education by 2015 by increasing the number of students enrolled and the number of degrees awarded. Although increasing the percentage of high school graduates who go on to college is not an official "closing the gaps" goal, the Texas Higher Education Coordinating Board (THECB) reports that the percent entering college in the summer or fall immediately after high school graduation* inched upward from 2000 to 2003: about 44 percent of all 2003 Texas high school graduates enrolled in a Texas public college or university by that fall. The percent of Whites who enrolled exceeded the percent of non-Whites by 13 to 14 percentage points. However, for both African Americans and Hispanics, the percent enrolling in college immediately after high school has increased since 2000.

* Includes only Texas high school graduates who enrolled in a Texas public college or university. Data on students who enrolled at private institutions are not available.

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**Percent of Texas High School Graduates Enrolling in College Immediately After Graduation**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>43%</td>
<td>44%</td>
</tr>
<tr>
<td>African American</td>
<td>36%</td>
<td>38%</td>
</tr>
<tr>
<td>Hispanic</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>White</td>
<td>50%</td>
<td>51%</td>
</tr>
</tbody>
</table>

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Many Students Entering Texas Colleges and Universities Need Remediation

Percent of First-year Students Entering Texas Public Two-year Colleges and Four-year Universities Who Received Remediation

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Four-year public universities</td>
<td>31%</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Two-year public colleges</td>
<td>43%</td>
<td>47%</td>
<td>51%</td>
</tr>
</tbody>
</table>

Percent of First-year Students Entering Texas Public Two-year Colleges in the Fall Who Were Retained the Following Spring

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Full-time students</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receiving remediation</td>
<td>77%</td>
<td>77%</td>
<td>78%</td>
</tr>
<tr>
<td>Not receiving remediation</td>
<td>79%</td>
<td>78%</td>
<td>79%</td>
</tr>
<tr>
<td><strong>Part-time students</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receiving remediation</td>
<td>61%</td>
<td>62%</td>
<td>65%</td>
</tr>
<tr>
<td>Not receiving remediation</td>
<td>66%</td>
<td>68%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Students entering public higher education in Texas for the first time who did not pass all three sections* of the College Readiness Texas Academic Skills Program (TASP) or an alternative test must take remedial classes. Students can be exempted from the TASP test if they a) scored high enough on the SAT, ACT, or another college entrance test, or b) graduated from a Texas high school under the Recommended curriculum** with a Grade Point Average of 3.5 or higher on a 4.0 scale. In fall 2002, 30 percent of students entering public four-year universities for the first time needed remediation, down from 31 percent who entered in 2000. Of students entering public two-year colleges for the first time, 51 percent needed remediation, up from 43 percent who entered in 2000. For the U.S. as a whole, 20 percent of freshmen entering four-year public universities in fall 2000, and 42 percent entering two-year public colleges, required remediation, down from 21 percent and 40 percent, respectively, in fall 1995.

For Texas students receiving remediation, retention rates appear to be good. About 78 percent of the full-time students needing remediation at public colleges in fall 2002 were retained the following spring, almost identical to the retention rate of students not needing remediation.

* Reading, math, and writing.

** The Recommended curriculum requires 4 credits of English, 3 each of math and science, 3.5 of social studies, and 2 of foreign language. In 2003, 64 percent of Texas public high school graduates graduated with the Recommended curriculum, up from 15 percent in 1999. In 1999 the Legislature mandated this curriculum as the default for all high school students beginning with freshmen entering in 2004.

How a Dream Dies: Low Family Income Affects Student Expectations

Gaining access to and persisting in college is a sequential process, the academic portion of which is often referred to as an "education pipeline" consisting of five stages: 1) having educational expectations in middle school or earlier, 2) preparing academically in high school, 3) taking college entrance exams and applying, 4) enrolling and making financial and other arrangements after being accepted, and 5) persisting to degree completion. At each step along the way, the gap between students from high-income and low-income families grows. A study in the late 1990s indicates that, even among high school graduates who take college-preparatory courses, get good grades, and score well on aptitude tests, children from low-income families lag behind their high-income counterparts in enrolling for and completing a college degree. And the gap is not just one of attendance, but of expectations as well, a gap that widens at every stage of education, from eighth grade onward. The gap in expectations may affect not only higher education, but K-12 as well, as teens who have little hope of furthering their education beyond high school are unlikely to take more challenging courses while they are in high school.

Impact of Family Income on High School Graduates (College-Qualified Only*)

Don't expect to finish college  Expect to finish college
High-income (family income more than $75,000/year)  Low-income (family income less than $25,000/year)

<table>
<thead>
<tr>
<th>Stage</th>
<th>High Income</th>
<th>Low Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expect in 8th grade to finish college</td>
<td>95%</td>
<td>70%</td>
</tr>
<tr>
<td>Plan in 12th grade to attend four-year college</td>
<td>88%</td>
<td>63%</td>
</tr>
<tr>
<td>Take entrance exam and apply</td>
<td>91%</td>
<td>62%</td>
</tr>
<tr>
<td>Enroll in a four-year college</td>
<td>83%</td>
<td>52%</td>
</tr>
<tr>
<td>Complete a Bachelor's degree</td>
<td>62%</td>
<td>21%</td>
</tr>
</tbody>
</table>

* High school graduates who took college-preparatory courses, got good grades, and scored well on aptitude tests.

Profile of Texas College Students
Most Undergraduates in Texas Attend Two-year Institutions

The number of undergraduates at public two-year institutions in Texas far exceeds the number at public four-year institutions, especially for freshmen. In fact, 78 percent of all freshmen attending Texas public institutions of higher education in fall 2003 were enrolled at two-year colleges (up from 76 percent in fall 2000), and only 22 percent were enrolled at four-year universities.

At public four-year universities, about 81 percent of students are undergraduates, but their distribution across grade levels is not consistent: seniors made up the largest proportion of undergraduates in fall 2003 while sophomores represented the smallest proportion. The lower number of sophomores relative to the other levels reflects the fact that students who leave higher education are most likely to do so during or just after their freshman year*. The higher number of seniors indicates that some students may be classified as seniors for more than one year.

Private four-year universities enrolled a total of about 115,700 students in the fall of 2003. Data on the percent who were undergraduates, and their distribution across grade levels, are not available.

* About 74 percent of full-time, first-time freshmen who entered a Texas public university in the fall of 2002 were retained at that institution in fall 2003 and 26 percent were not retained.
More Than Half of Undergraduates in Texas Attend School Part-time

About 36 percent of undergraduates* attending institutions of higher education in Texas in Award Year (AY) 2003-2004 attended full-time/full-year, 9 percent attended full-time/part-year, and 55 percent attended part-time. Full-time/full-year students are those who took a full course load, usually 12 or more credit hours in the fall and spring semesters, for at least nine months between July 1, 2003 and June 30, 2004. Full-time/part-year students also took a full course load, but for less than nine months, and part-time students did not take a full course load. Full-time/full-year attendance is higher at four-year institutions than at two-year: over one-half of undergraduates at Texas four-year universities attended full-time/full-year whereas at two-year colleges fewer than one-fourth of students attended full-time/full-year. Reasons for less than full-time attendance vary, but may be related to the student’s need to work or to keep college costs down. Full-time/full-year attendance is a good deal lower in Texas than in the U.S.

* Data on students who attended for-profit institutions are not available.

One-half of Undergraduates in Texas Are Independent of Their Parents, and One-fourth Are Parents Themselves


<table>
<thead>
<tr>
<th></th>
<th>Dependent</th>
<th>Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>U.S.</td>
<td>52%</td>
<td>48%</td>
</tr>
</tbody>
</table>

*Data on students who attended for-profit institutions not available.


<table>
<thead>
<tr>
<th></th>
<th>Dependent</th>
<th>Independent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-year public colleges</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Four-year public universities</td>
<td>38%</td>
<td>62%</td>
</tr>
<tr>
<td>Four-year private universities</td>
<td>37%</td>
<td>63%</td>
</tr>
</tbody>
</table>

**Excludes students who attended more than one institution.

Just over one-half of undergraduates* attending institutions of higher education in Texas are independent of their parents and one-fourth (26 percent) are parents themselves, of whom over half (14 percent) are single parents. The U.S. Department of Education defines an independent undergraduate as someone who is age 24 or older, is married, has dependents to support, is a veteran, or an orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. A higher proportion of undergraduates in Texas are independent of their parents than in the U.S., and a slightly higher proportion are parents.

There is considerable variation in dependency status between universities and community colleges: at four-year public and private universities in Texas, a little under two-thirds of undergraduates are dependent and one-third are independent. At two-year public colleges, however, those proportions are reversed: nearly two-thirds of undergraduates at community colleges are independent of their parents.

* Data on students who attended for-profit institutions not available.

Two-thirds of Undergraduates in Texas Come From Modest Income Backgrounds

Most Texas undergraduates come from modest income backgrounds. About a third of dependent undergraduates* have parents whose total income is less than $40,000 per year and another third have parents whose income is between $40,000 and $79,999. Independent students are a bit more likely to come from low-income backgrounds: 38 percent earn less than $20,000 per year**. The U.S. Department of Education defines an independent undergraduate as someone who is age 24 or older, is married, has dependents to support, is a veteran, or an orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 49 percent of undergraduates in Texas are dependent and 51 percent are independent.

* Data on students who attended for-profit institutions not available.

** Income for independent students includes spouse’s income if any. About 42 percent of independent undergraduates in Texas are married.

Over Four-fifths of Texas Students Receiving Aid to Meet Costs Have Family Incomes Under $40,000

A student’s financial need is considered to be equal to the total Cost of Attendance* minus his or her Expected Family Contribution (EFC)**. In Award Year (AY) 2003-2004, about 541,000 undergraduate and graduate students at Texas colleges and universities received some type of need-based aid***, 266,000 applied for aid but did not receive it, and 335,000 did not apply. Of students receiving aid, 78 percent received aid only to meet the difference between cost and EFC and the rest borrowed at least in part to replace EFC — that is, in addition to need-based aid, they also took out non-need-based loans. The larger and needier of the two groups, students receiving aid only to meet costs, consisted of 424,441 students (including both dependent and independent students****), 83 percent of whom had an income of under $40,000. The average EFC of these students was $1,453 and the average unmet need — the costs not covered by family income or aid, including both grants and loans — was $5,189***** or over three times the Expected Family Contribution.

The need of Texas students is almost certain to rise. Median household income in Texas declined between 2001-2002 and 2002-2003, and declined again in 2003-2004 by $423. In addition, the proportion of children under 18 living in poverty has increased from 22 percent in 2002 to 23.2 percent in 2004.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses for a full-time student for 9 months. Data come from the Texas Higher Education Coordinating Board (THECB) and are based on 15 credit hours in the fall and spring semesters.

** EFC is determined through a federal formula that takes into account family income, size, and number of children in college. The average amount that families actually contribute toward educational expenses is unknown.

*** Students may not have received aid either because they did not qualify, missed the deadline, were offered loans but turned them down, or attended institutions which had depleted their funds. Data suggest that while the majority of U.S. undergraduates who do not apply for aid are upper-income students who do not need it, about a fifth are from low- or moderate-income families, indicating the number of Texas students who need aid may be higher.

**** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent.

***** Data on unmet need come from the THECB and may be higher than unmet need from the National Postsecondary Student Aid Study (NPSAS) because THECB data reflect the average and not the median and also include graduate students, who have higher costs than undergraduates.

Low-income students in Texas are less likely to attend four-year institutions than are their higher-income counterparts. Among dependent undergraduates* whose parents make less than $40,000 per year, about 46 percent attend two-year public colleges and 43 percent attend four-year public or private universities. But the proportion attending four-year institutions rises to 49 percent for students whose parents make between $40,000 and $79,999, and to 53 percent for those who parents make $80,000 or more. Meanwhile, students who are considered financially independent** of their parents, who make up just over half of undergraduates in the state, choose two-year over four-year institutions by a two-to-one margin.

* Excludes students who attended for-profit institutions or more than one institution.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates in Texas are married.
Transfer Rates from Two-year to Four-year Institutions in Texas Vary by Attendance Status and Remediation

Students enrolled at two-year institutions pursue higher education for a variety of reasons. Some enter a community college intending to transfer later to a university to obtain a bachelor's degree. For others, an associate's degree or certificate is the ultimate goal, and still others take courses out of personal interest or to improve job skills, without intending to obtain a degree.

The Texas Higher Education Coordinating Board (THECB) tracks the rate at which first-time freshmen attending Texas public two-year institutions transfer to Texas public four-year institutions. Among students who do not receive remediation*, about 30 percent of full-time freshmen transfer within three years of entering a two-year institution and 33 percent of part-time freshmen transfer within five years. Transfer rates for students who do receive remediation are lower. Because the THECB allows longer transfer times for part-time students and students receiving remediation, the overall transfer rate for all students entering in the same year is not available for recent years**. However, this much is known about the 280,000 freshmen who were enrolled at Texas public two-year institutions in the fall of 2000:

- 48,666 were first-time, full-time freshmen,
- 26,282 were first-time, full-time freshmen not receiving remediation, and,
- 7,957 (30 percent of 26,282) transferred to a Texas public four-year institution by the fall of 2003.

* Students entering higher education in Texas for the first time who did not pass the College Readiness Texas Academic Skills Program (TASP) or an alternative test must take remedial classes. Students can be exempted from the TASP test if they scored high enough on the SAT, ACT, or another college entrance test, or if they graduated from a Texas high school under the Recommended curriculum with a GPA of 3.5 or higher. Statewide, 51 percent of students entering public two-year colleges for the first time in fall 2002 needed remediation, up from 43 percent who entered in 2000.

** The most recent year for which an overall transfer rate is available is for students entering in the fall of 1996. About 22 percent of the students who entered higher education for the first-time at a Texas public two-year institution in fall 1996 transferred to a Texas public four-year institution within the number of years specified by their attendance and remediation status during their first year (see graph above).

One-third of Undergraduates in Texas Are the First in Their Families to Pursue Education Past High School

About 35 percent of undergraduates* in Texas come from families in which the parents have a high school diploma or less, slightly higher than in the United States. These “first-generation” college students are a good deal more likely to be independent of their parents than students whose parents have some education beyond high school: 43 percent of independent** undergraduates in Texas are first-generation students compared to 27 percent of dependent undergraduates. First-generation students are also more likely to be concentrated at two-year schools. About 42 percent of students at two-year public colleges are the first in their families to pursue education beyond high school compared to 29 percent and 23 percent, respectively, of undergraduates at public and private four-year universities.

* Data on students who attended for-profit institutions not available.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are independent and 51 percent are dependent.


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<table>
<thead>
<tr>
<th>Highest Education Level</th>
<th>Texas</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>High school diploma or less</td>
<td>35%</td>
<td>41%</td>
</tr>
<tr>
<td>Some college or vocational training</td>
<td>24%</td>
<td>33%</td>
</tr>
<tr>
<td>Bachelor’s degree or higher</td>
<td>42%</td>
<td>25%</td>
</tr>
</tbody>
</table>

***Data on students who attended for-profit institutions not available.

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**Highest Education Level of Parents of Undergraduates** in Texas by School Sector (AY 2003-2004)**

<table>
<thead>
<tr>
<th>School Sector</th>
<th>High school diploma or less</th>
<th>Some college or vocational training</th>
<th>Bachelor’s degree or higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-year public colleges</td>
<td>42%</td>
<td>26%</td>
<td>32%</td>
</tr>
<tr>
<td>Four-year public universities</td>
<td>29%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Four-year private universities</td>
<td>22%</td>
<td>19%</td>
<td>59%</td>
</tr>
</tbody>
</table>

**Excludes students who attended more than one institution.

More Than 40 Percent of Undergraduates in Texas Are Age 24 or Older


- **Texas**:
  - Age 15-23: 57%
  - Age 24-29: 21%
  - Age 30 or older: 22%

- **U.S.**:
  - Age 15-23: 59%
  - Age 24-29: 16%
  - Age 30 or older: 25%

*Data on students who attended for-profit institutions not available.

Age of Undergraduates* in Texas by School Sector (AY 2003-2004)

- **Two-year public colleges**:
  - Age 15-23: 48%
  - Age 24-29: 24%
  - Age 30 or older: 28%

- **Four-year public universities**:
  - Age 15-23: 67%
  - Age 24-29: 19%
  - Age 30 or older: 14%

- **Four-year private universities**:
  - Age 15-23: 69%
  - Age 24-29: 11%
  - Age 30 or older: 20%

*Excludes students who attended more than one institution.

About 57 percent of Award Year (AY) 2003-2004 undergraduates* in Texas were under the age of 24 and 43 percent were age 24 or older**. In the U.S. as a whole, 59 percent were under the age of 24. In Texas, undergraduates age 24 and older are split fairly evenly between the 24 to 29 year old age group and the 30 and older age group. In the U.S., older undergraduates are somewhat more common.

Age breakdown by school sector in Texas yields some interesting results. Although more than two-thirds of undergraduates at both private and public universities are under the age of 24, at private universities the remainder tend to be age 30 or older whereas at public universities the remainder tend to be between ages 24 and 29. At public two-year colleges, by contrast, one-half of students are under age 24 and the other half are over age 24. However, for those over age 24, the age distribution tends to resemble private rather than public universities—that is to say, at both community colleges and private universities, undergraduates who are over the age of 24 are more likely to be age 30 or older than are their counterparts at public universities.

* Data on students who attended for-profit institutions are not available.

** Age as of Dec. 31, 2003.

Nine Out of Ten Undergraduates in Texas Live Off-campus


<table>
<thead>
<tr>
<th></th>
<th>On-campus</th>
<th>Off campus</th>
<th>With parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Texas</td>
<td>11%</td>
<td>62%</td>
<td>27%</td>
</tr>
<tr>
<td>U.S.</td>
<td>26%</td>
<td>58%</td>
<td>16%</td>
</tr>
</tbody>
</table>

*Data on students who attended for-profit institutions not available. Excludes students who attended more than one institution.

Housing Status of Undergraduates* in Texas by School Sector (AY 2003-2004)

<table>
<thead>
<tr>
<th></th>
<th>On-campus</th>
<th>Off campus</th>
<th>With parents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Two-year public colleges</td>
<td>1%</td>
<td>32%</td>
<td>67%</td>
</tr>
<tr>
<td>Four-year public universities</td>
<td>18%</td>
<td>24%</td>
<td>58%</td>
</tr>
<tr>
<td>Four-year private universities</td>
<td>44%</td>
<td>48%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Excludes students who attended more than one institution.

Just one undergraduate* out of ten in Texas lives on-campus. Almost two-thirds live off-campus and another one-fourth live with parents. Students who live on-campus must pay room and board and students who live off-campus must pay food and housing. By contrast, most students who live with parents do not have to pay room and board, although it is possible that some might be expected to help financially with household expenses. Undergraduate housing patterns in Texas are similar to the U.S. as a whole, with the exception that students in Texas are less likely to live on-campus than their counterparts in the U.S.

On-campus living in Texas is most common at four-year private universities. The percent of undergraduates at these institutions who live on-campus is only slightly lower than the percent who live off-campus, with a much smaller percentage of students living with parents. By contrast, at four-year public universities only 18 percent of undergraduates live on-campus versus more than one-half who live off-campus. Undergraduates at two-year public colleges are somewhat more likely to live with parents than their counterparts at public universities, but at both types of public institutions, off-campus living is more common than either on-campus or with parents.

* Data on students who attended for-profit institutions are not available.

Section 4

Cost of Education and Source of Aid in Texas
The cost to an institution of educating a student is generally higher than the tuition he or she is charged. In Award Year (AY) 2000-2001, educational and general expenditures at public four-year degree-granting institutions in the U.S. averaged $21,622 per full-time equivalent student, two-thirds of which consisted of instruction, academic and institutional support, student services, and operation and maintenance of the physical plant. Costs not covered by revenue from state, federal, and other sources are usually passed on to the student as tuition and fees, which, in AY 2000-2001, averaged $3,487* at U.S. public four-year universities. Funding cuts are the main reason for tuition increases: from 1980 to 2000, the proportion of revenue at public institutions** that came from state funding declined from 46 percent to 36 percent while the proportion from tuition and fees increased from 13 percent to 18 percent.

*Weighted for enrollment. (An institution’s costs are multiplied by its enrollment. The sum of costs for all schools is then divided by total enrollment, such that schools with higher enrollments are given greater weight. See glossary for further clarification.)

** Includes revenue at both two-year and four-year institutions. Revenue at four-year institutions only is not available.

Texas Public Four-Year University Total Costs Exceed the National Average

The tuition and fees charged to students, along with living expenses and books and supplies, constitute a school's cost of attendance, or “sticker price.” Weighted for enrollment*, two semesters of full-time** undergraduate education at Texas public four-year universities averaged $16,677 in Academic Year 2005-2006, or $686 more than in the U.S. Total expenses in Texas have exceeded the national average for several years. Tuition and fees in Texas are lower than the nation, but all other expenses exceed national costs. The primary expense facing students, however, is not tuition and fees, but food and housing, which make up 40 percent of the budget. These costs are not discretionary: students must eat, and unless they live with parents — and 76 percent of Texas public university undergraduates do not — they must pay rent. Together, food, housing, and transportation comprise half the student budget, while tuition and fees comprise a third. Total costs have risen by $908 in Texas and $783 in the U.S. since 2005, with most of the increase due to hikes in tuition and fees.

“Sticker price” is the starting point for determining financial aid: from the sticker price, the student’s expected family contribution *** is subtracted to arrive at the student’s need. Once need is determined, an aid package, consisting primarily of grants and loans, can be developed. What students actually pay for college depends on a number of factors, including the aid they receive and how frugally they live as well as their attendance and work patterns. To cut costs, many students attend part-time, work long hours, or both. In AY 2003-2004, 45 percent of public university graduates in Texas attended less than full-time/full-year — that is, they either took fewer than 12 hours per semester or did not attend two semesters — and 75 percent worked while enrolled, of whom 28 percent worked full-time****. Full-time work and part-time attendance are associated with lower graduation rates and with each other: 69 percent of Texas public university undergraduates who work full-time while enrolled attend less than full-time/full year.

*An institution’s costs are multiplied by its enrollment. The sum of costs for all schools is then divided by undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for further clarification.

**For cost purposes, full-time enrollment both in Texas and the nation is considered to be 15 hours per semester for two semesters.

*** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2003-2004, 64 percent of public four-year university undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

****35 or more hours per week.

Texas Public Two-Year Colleges Continue to Cost Less Than the National Average

The average cost for two full-time\* semesters at Texas public two-year colleges, weighted for enrollment**, averages $10,451 in Academic Year 2005-2006. This is $1,241 less than the 2005-2006 national average and a decrease of $470 from the Texas average in 2004-2005. Tuition, fees, books, and supplies costs have increased in Texas since the 2004-2005 academic year, but total costs have decreased due to a decrease of $631 in food and housing expenses. This drop primarily stems from six schools that reported one-year decreases of over $3,500 in living expenses.

The "sticker price" of a school is the total cost of attendance for a student, which includes tuition and fees, books and supplies, and living expenses. The student's financial need is determined by subtracting the expected family contribution*** from the "sticker price," which is the basis for determining financial aid packages. This package consists primarily of grants and loans. The actual amount that students pay for college depends upon factors such as how much and what type of aid they received, how frugally they live, the number of credit hours they take, and whether or not they work. To save money, students may choose to attend school part-time or work long hours, or both. In AY 2003-2004, 80 percent of public two-year college students in Texas attended less than full-time/full-year, which is fewer than 12 hours per semester or not attending two semesters. Also, 77 percent worked while enrolled, with 42 percent working full-time****. Working full-time and attending part-time are associated with lower completion rates. Ninety percent of Texas two-year college students who work full-time while enrolled attend less than full-time/full-year.

*An institution's costs are multiplied by its enrollment. The sum of costs for all schools is then divided by undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.

**For cost purposes, full-time enrollment both in Texas and the nation is considered to be 15 hours per semester for two semesters.

*** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2003-2004, 80 percent of public two-year college undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

****35 or more hours per week.

Costs at Texas Private Four-Year Universities Rise by Smallest Amount in Years

From 2001-2002 to 2004-2005, total costs at private universities in Texas increased by more than $1,000 per year, mostly due to hikes in tuition and fees. This year’s increase, at $28, was considerably smaller than in recent years. Weighted for enrollment*, the total cost of undergraduate education at Texas private four-year universities for two full-time** semesters averaged $25,947 in AY 2005-2006. This is considerably less than the national "sticker price," at $32,070, mainly because tuition and fees in Texas are $4,790 less than the national tuition and fees. Nationally, costs at private universities increased by less than $1,000 per year during the first few years of the new century, but have increased by more than $1,000 for the last two years. About 10 percent of students in higher education in Texas in AY 2005-2006 attended four-year private universities, versus 41 percent who attended four-year public.

In AY 2003-2004, 41 percent of private university undergraduates in Texas attended less than full-time/full-year, meaning they either took fewer than 12 hours per semester or did not attend two semesters. Seventy-four percent of private university students worked while enrolled, of whom 28 percent worked full-time***. Full-time work and part-time attendance are both associated with lower graduation rates. Seventy-eight percent of Texas private undergraduates who work full-time while enrolled attend less than full-time/full-year. Working more hours and enrolling in fewer hours are strategies some students may use to cut the costs of education. Students also may receive an aid package, which primarily consists of grants and loans. The student’s need is determined, by subtracting the expected family contribution**** from the “sticker price,” in order to determine what kind of financial aid package they should receive. The “sticker price” is the total cost of education, which includes tuition and fees, books and supplies, and living expenses.

*An institution’s costs are multiplied by its enrollment. The sum of costs for all schools is then divided by undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for further clarification.

**For cost purposes, full-time enrollment both in Texas and the nation is considered to be 15 hours per semester for two semesters.

** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown. In AY 2003-2004, 57 percent of private four-year university undergraduates in Texas reported that they got no help from their parents in paying tuition and fees.

****35 or more hours per week.

The Cost of Going to College Continues to Rise, but the Rate of Increase Has Slowed

Public funding cuts and inflation are the primary factors driving college cost increases. Like other labor-intensive industries, higher education is limited in its ability to capitalize productivity gains through enhanced technology: professors cannot teach or grade papers much faster than they did 30 years ago, so to reduce the cost of labor — by far colleges’ biggest expense — schools must either increase the number of students per professor or hire less qualified staff, both of which lower the quality of education. When funding lags (state appropriations for higher education in Texas decreased 1.7 percent from AY 2003-2004 to AY 2004-2005), schools tend to pass cost increases on to students. Weighted for enrollment,* tuition and fees** at Texas public four-year universities rose by $724 in 2003-2004, $557 in 2004-2005, and $552 in 2005-2006. The total cost or “sticker price” has risen by $1,209, $1,039, and $908, respectively in those years, which means that the rate of increase has slowed — a trend also found at the national level. The increased cost of providing an education is reflected in the fact that from 2000-2001 to 2005-2006, tuition and fees at private universities, which do not receive public funds and are not subject to cuts in state funding, have risen by a larger amount than at public universities — $4,083 and $2,494, respectively.

“Sticker price” is the starting point for determining financial aid. What students actually pay for college depends on a number of factors, including the aid they receive and how frugally they live as well as their attendance and work patterns. To cut costs, many students attend part-time, work long hours, or both. In AY 2003-2004, 64 percent of all undergraduates in Texas attended less than full-time/full year — that is, they either took fewer than 12 hours per semester or did not attend two semesters — and 76 percent worked while enrolled, of whom 35 percent worked full-time***. Full-time work and part-time attendance are associated with lower completion rates and with each other: 82 percent of Texas undergraduates who work full-time while enrolled attend less than full-time/full year.

Change in Costs for Students Living Off-Campus in Texas: Dollar and Percent Change from AY 2004-2005 to AY 2005-2006 (Costs Weighted for Enrollment*)

<table>
<thead>
<tr>
<th></th>
<th>Public 4-year</th>
<th>Public 2-year</th>
<th>Private 4-year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollar</td>
<td>Percent</td>
<td>Dollar</td>
</tr>
<tr>
<td>Tuition and fees (15 hrs./semester)</td>
<td>$552</td>
<td>11%</td>
<td>$77</td>
</tr>
<tr>
<td>Books and supplies</td>
<td>$35</td>
<td>4%</td>
<td>$83</td>
</tr>
<tr>
<td>Food and housing</td>
<td>$205</td>
<td>3%</td>
<td>-$631</td>
</tr>
<tr>
<td>Transportation</td>
<td>$62</td>
<td>4%</td>
<td>-$23</td>
</tr>
<tr>
<td>Other</td>
<td>$54</td>
<td>3%</td>
<td>$24</td>
</tr>
<tr>
<td>Total Change</td>
<td>$908</td>
<td>6%</td>
<td>-$470</td>
</tr>
</tbody>
</table>

Change in Costs for Students Living Off-Campus in the U.S.: Dollar and Percent Change from AY 2004-2005 to AY 2005-2006 (Costs Weighted for Enrollment*)

<table>
<thead>
<tr>
<th></th>
<th>Public 4-year</th>
<th>Public 2-year</th>
<th>Private 4-year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dollar</td>
<td>Percent</td>
<td>Dollar</td>
</tr>
<tr>
<td>Tuition and fees (15 hrs./semester)</td>
<td>$365</td>
<td>7%</td>
<td>$112</td>
</tr>
<tr>
<td>Books and supplies</td>
<td>$41</td>
<td>5%</td>
<td>$28</td>
</tr>
<tr>
<td>Food and housing</td>
<td>$299</td>
<td>5%</td>
<td>$162</td>
</tr>
<tr>
<td>Transportation</td>
<td>$59</td>
<td>5%</td>
<td>$29</td>
</tr>
<tr>
<td>Other</td>
<td>$19</td>
<td>1%</td>
<td>$8</td>
</tr>
<tr>
<td>Total Change</td>
<td>$783</td>
<td>5%</td>
<td>$339</td>
</tr>
</tbody>
</table>

*An institution’s costs are multiplied by its enrollment. The sum of costs for all schools is then divided by undergraduate enrollment, such that schools with higher enrollments are given greater weight. See glossary for clarification.
**For cost purposes, full-time enrollment both in Texas and the nation is considered to be 15 hours per semester for two semesters.
***35 or more hours per week.

Food and Housing for Some Students May Be Higher Than Estimated

Food and housing make up about 40 percent of the cost of attending a public university in Texas. These costs are not discretionary: students must eat, and unless they live with parents or other relatives — and 76 percent of Texas public university undergraduates do not — they must pay rent. But students do have some discretion in their choices. The stereotype of the undergraduate who drives an SUV coexists with that of the student who shares an apartment with six roommates, eats instant noodles, and frequents thrift shops. But do institutions’ room and board estimates make for a pampered or a thrifty lifestyle?

Using their knowledge of housing located in areas popular with students, Texas universities estimate the cost of food and housing that is modest, but adequate. For the 2005-2006 Academic Year (AY), this estimate is $6,322*, or $702 per month. The U.S. Department of Agriculture (USDA) estimates the minimum dietary needs of an adult can be met on $208 per month provided that all food is prepared at home, an unlikely scenario for young adults. Subtracting $208 from $702 leaves $494 for rent and utilities. The addition of one small pepperoni pizza per week, however, would raise the monthly food budget to $233,** leaving $469 for rent and utilities.

The U.S. Department of Housing and Urban Development (HUD) estimates the average nine-month cost of rent and utilities for a one-bedroom unit in the counties and Metropolitan Statistical Areas (MSAs)*** where Texas public universities are located to be $4,764, or $529 per month. Sharing housing lowers the cost: a shared one-bedroom costs $265 per person and a shared two-bedroom costs $322. These data indicate that a thrifty student who cooks and shares housing will indeed be able to stay within the institutional room and board estimate of $702 per month. However, a student who lives alone for whatever reason will probably not be able to stay within the estimate. Single parent students face additional costs.

The following table shows the average USDA and HUD Food and Housing Costs for Two Semesters (9 Months) for Counties and MSAs*** Where Texas Public Universities Are Located (AY 2005-2006):

<table>
<thead>
<tr>
<th></th>
<th>Student sharing 1–bedroom</th>
<th>Student sharing 2–bedroom</th>
<th>Student living alone in 1–bedroom</th>
<th>Single parent student with 1 child in 2–bedroom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>$1,872</td>
<td>$1,872</td>
<td>$1,872</td>
<td>$2,848</td>
</tr>
<tr>
<td>Housing</td>
<td>$2,382</td>
<td>$2,899</td>
<td>$4,764</td>
<td>$5,799</td>
</tr>
<tr>
<td>Total</td>
<td>$4,254</td>
<td>$4,771</td>
<td>$6,636</td>
<td>$8,647</td>
</tr>
</tbody>
</table>

*$6,692 when weighted for enrollment; see Glossary for clarification. ** Based on the cost at Conan’s Pizza near the University of Texas at Austin, December 2005. *** A Metropolitan Statistical Area is a geographic area of 50,000 or more inhabitants.

Non-Traditional Students May Face Additional Expenses

The “traditional” undergraduate who enrolls full-time right after graduating from high school, depends on parents for support, is single with no children, and either does not work or works part-time, is now the exception rather than the rule. Just 30 percent of U.S. undergraduates fit this description in the 2003-2004 Academic Year (AY). The majority of undergraduates are “non-traditional” students who, in addition to tuition, fees, and living expenses, often must pay for medical insurance and child care.

Like everyone else, students get sick or become injured. With limited financial resources, an illness or injury could threaten the ability of the student to remain in school unless affordable health insurance is available. Yet 31 percent of 18 to 24 year olds (the traditional college age group), 26 percent of 25 to 34 years olds (the age of many non-traditional students), and 14 percent of 45 to 64 years olds (the group most likely to have children in college) lacked health insurance in 2004. In addition, 25 percent of all Texans lacked insurance, the highest rate of any state in the country. All public universities in Texas offer health insurance for their students, but none pays the premium. Weighted for enrollment**, the average premium for one year of student health insurance in AY 2004-2005 was $828.

A second item which institutions do not include in the average student budget, but which is an expense faced by many students, is child care. About one-fourth of all Texas undergraduates are parents, and 14 percent are single parents. The amount of care needed depends on the number and age of the children, and the course load of the student. Weighted for enrollment**, care for one child for 30 hours per week averages $268 per month, or $2,412 for a nine-month Academic Year.***

* The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent.

** An institution’s costs are multiplied by its enrollment. The sum of costs for all schools is then divided by total enrollment, such that schools with higher enrollments are given greater weight. See Glossary for clarification.

*** Child care costs come from the Children’s Defense Fund’s 2000 survey of child care resource and referral agencies and reflect the average cost for a 4 year old and a 12 month old for family and center-based care.

Texas is Highly Dependent on the Federal Government for Student Aid

College students receive financial aid from three major sources: the federal government, the state government, and the colleges and universities they attend. Of these three, the federal government’s contribution is primary. Nationally, the federal government provided 71 percent of the generally available direct financial aid* for undergraduate and graduate students in Award Year 2003-2004. In Texas, the federal government’s role is much larger, accounting for 86 percent of aid, an increase from 83 percent a year earlier.

Texas’ state government provided 6 percent of generally available aid** in 2003-2004, a decrease from 7 percent in AY 2002-2003. Nationally, state governments provided 7 percent of aid.

Texas colleges and universities, through institutional grants***, provided a much smaller percentage of financial aid than colleges in other states. Texas institutions provided 8 percent of aid versus 22 percent for colleges nationally.

* Direct student aid includes aid that is generally available, goes directly to students, and derives from state and federal appropriations, plus institutional grants. All aid shown in graphs is for Award Year 2003-2004 with the exception of private institutional grant aid in Texas, which is for Award Year 2002-2003. Data on private institutional grant aid in Texas for Award Year 2003-2004 are not available.

**The State of Texas, like other state governments, also supports public institutions through direct appropriations and tuition waivers.

*** Includes the Texas Public Educational Grant (TPEG) for Award Year 2003-2004 as well as private institutional aid reported to the Independent Colleges and Universities of Texas (ICUT) for Award Year 2002-2003. Data on private institutional aid in Texas for Award Year 2003-2004 are not available.
Texas Students Are Highly Dependent on Loans

The increase in the percent of student aid in the U.S. which is allocated to loans virtually mirrors the decrease in the percent allocated to grants. In 1991-1992, loans accounted for 47 percent of direct* financial aid to undergraduate and graduate students in the U.S. and grants accounted for 51 percent. But by Award Year (AY) 2003-2004, loans accounted for 57 percent of aid in the U.S. and grants accounted for 42 percent. One year earlier those figures were 56 percent and 43 percent, respectively.

Texas college students rely even more heavily on loans, both now and in the past. In AY 2003-2004, 66 percent of aid in Texas came from loans and 33 percent came from grants, including state and institutional grants*. One year earlier, 62 percent of aid came from loans and 37 percent came from grants.

Most student loans in Texas are Stafford loans, which are part of the Federal Family Education Loan Program, or FFELP. The maximum subsidized** Stafford loan that a first-year student can receive is $2,625 for a student who is dependent on his or her parents and $6,625 for a student who is independent***.

* Direct student aid includes aid that is generally available, goes directly to students, and derives from state and federal appropriations, plus institutional grants. All aid shown in second set of graphs is for Award Year 2003-2004 with the exception of private institutional grant aid in Texas, which is for Award Year 2002-2003. Data on private institutional grant aid in Texas for Award Year 2003-2004 are not available.

** Subsidized loans are for students who demonstrate financial need. The Department of Education pays the interest on subsidized loans while a student is in school and for the first six months after the student leaves school.

*** The U.S. Department of Education defines an independent student as age 24 or older, married, with dependents to support, a veteran, orphan or ward of the court, or a graduate student. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent.

Section 5

Grant Aid and Net Price in Texas
More Than Half of Undergraduates in Texas Do Not Receive Grant Aid

Grants (including scholarships) may be awarded to students on the basis of financial need, merit in academics, athletics, or other areas, a combination of need and merit, or other factors. Unlike loans, grants do not have to be repaid, thus, grants lower the cost of attending college for students who receive them. In Award Year (AY) 2003-2004, about 46 percent of undergraduates in Texas* received some form of grant aid, with a median** of $2,500 in total grants received by those who received them. In the U.S. as a whole, 49 percent of undergraduates received grants with a median of $2,799 received. The largest source of grant aid is the federal government: 27 percent of undergraduates in Texas received a federal grant, with a median of $2,531 received. In most cases this was a Pell Grant, which is the largest need-based grant program in the country. The second largest source of grants was from schools themselves: about 16 percent of Texas undergraduates received institutional grants***. The third largest source was from outside entities such as private foundations or employers. The state of Texas represented the smallest source of grant aid: just 9 percent of Texas undergraduates received a state grant*** compared to 15 percent nationwide. For federal, state, and private grants, the median received by Texas students was almost the same as in the U.S. However, for institutional grants, the median in Texas was a good deal smaller.

* Data on students who attended for-profit institutions are not available.

** A median is the point at which 50 percent of students received more and 50 percent received less. A median represents a typical student better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

*** The percent of undergraduates in Texas receiving institutional grant aid may actually be higher than shown and the percent receiving state grant aid may be lower. This is due to the fact that the Texas Public Educational Grant (TPEG) was reported in the National Postsecondary Student Aid Study (NPSAS) as a state grant rather than an institutional grant. TPEG comes from a school’s own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting.

Low-income Independent Undergraduates in Texas Receive Less Median Grant Aid Than High-income Dependent Undergraduates

About 49 percent of undergraduates in Texas* are dependent on their parents and 51 percent are independent.** In the 2003-2004 Award Year (AY), just under half of students in both groups received some form of grant aid including scholarships, but the amounts they received varied, with dependent students from high-income families actually receiving larger median grants than independent students with low incomes. Among both dependent and independent undergraduates, about two-thirds of low-income students, two-fifths of middle-income, and one-fourth of high-income, received grants. Median grant aid*** was highest ($3,600) for dependent students whose parents make under $40,000. However, the second highest amount was not for low-income independent students, but for high-income dependent: students whose parents make $80,000 or more received a median of $3,000 in grants compared to $2,785 for independent students making less than $20,000. Independent students, regardless of income, tend to select modestly-priced two-year institutions over four-year by a two-to-one margin, but it is not known whether some students receive less grant aid because they attend less expensive schools, or whether they attend less expensive schools because they receive less grant aid. By lowering their educational expenses, students reduce their eligibility for aid. While grant aid opens access to higher education, it also provides many higher-income students with increased choice in selection from a diverse array of colleges.

* Data on students who attended for-profit institutions are not available.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. Independent students’ income includes spouse’s, if any. About 42 percent of independent undergraduates in Texas are married.

*** A median is the point at which 50 percent of grant recipients received more and 50 percent received less. A median represents a typical student grant better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

Undergraduates at Private Universities in Texas Are Twice as Likely to Receive Grants as Students at Community Colleges

Undergraduates at private universities in Texas, which enroll just one-tenth of all higher education students in the state, are twice as likely to receive grants, including scholarships, as students at community colleges. At four-year private universities, 75 percent of undergraduates received some form of grant aid in the 2003-2004 Award Year (AY), with a median of $5,850 received by those who received grants. At four-year public universities about half of undergraduates received grant aid with a median of $3,000 received, and at two-year public colleges 38 percent of students received grants with a median of $1,880. Public institutions tend to be less expensive than private, and two-year institutions tend to be less expensive than four-year. In addition, 80 percent of students at two-year public colleges attend less than full-time/full-year, which reduces costs, versus 45 percent and 41 percent, respectively, at public and private universities. However, it is not known whether some students receive fewer grants because they attend less than full-time or whether they attend less than full-time because they receive fewer grants.

* A median is the point at which 50 percent of recipients received more in grants and 50 percent received less. A median represents a typical student better than an average because students who received large grants skew the average, making it a less reliable gauge than the median.

** Weighted for enrollment, the total AY 2003-2004 cost of attendance (tuition and fees, books and supplies, food and housing, transportation, and personal expenses) for a full-time student was $24,693 at private universities in Texas, $14,730 at public universities, and $10,428 at public two-year colleges. Data come from the Texas Higher Education Coordinating Board and are based on 15 credit hours in the fall and spring semesters.

*** Full-time/full-year students are those who took a full course load, usually 12 or more credit hours in the fall and spring semesters, for at least nine months between July 1, 2003 and June 30, 2004. Students who attended less than full-time/full-year either took a full course load but for less than nine months, or did not take a full course load.

Three-fourths of Grant Aid in Texas Comes from the Federal Government

The largest grant program in Texas and the nation is the federal Pell Grant, which is only for undergraduate students who demonstrate financial need. Pell, which provides three-fourths of the grant aid in Texas, has grown significantly since the late 1990s, an indication of the need of Texas students. In Award Year (AY) 2003-2004, $837 million in Pell grants was distributed at colleges and universities in Texas and $145 million was distributed at for-profit schools, for a total of $982 million.

The second largest source of grant aid in Texas is institutional aid. In AY 2002-2003, private colleges and universities gave out $332 million in institutional aid to undergraduate and graduate students. Data on AY 2003-2004, and the amount awarded to undergraduates only, are not available.

TPEG (Texas Public Educational Grant) is funded through schools’ own resources and is also considered an institutional grant. In AY 2003-2004, $107 million was distributed in TPEG awards to undergraduate and graduate students. Data on total institutional aid given by all public colleges and universities, and the amount given just to undergraduates, are not available.

State grants comprise the smallest source of grant aid in Texas. There are three main state grants, of which the largest is the TEXAS (Towards EXcellence, Access, and Success) Grant. TEXAS Grant recipients must graduate from high school with a Recommended* diploma, enroll in an undergraduate program in a Texas college or university within 16 months, and maintain a Grade Point Average (GPA) of 2.5 on a 4.0 scale to remain eligible for the grant. In AY 2003-2004, $156.6 million in TEXAS Grants was awarded, a decrease of about $8 million from the previous year. In AY 2004-2005, more than 31,000 needy students — over one-third of those eligible to receive a TEXAS Grant — did not receive one.

TEG (Tuition Equalization Grant) is a state grant for students attending private colleges and universities in Texas. In AY 2003-2004, $70.5 million in TEG was awarded to undergraduate and graduate students, a decrease of $12 million over the previous year.

TEOG (Texas Educational Opportunity Grant, formerly TEXAS Grant II) is also a state grant and was begun in 2001. It assists undergraduates attending public two-year schools. In AY 2003-2004, $5 million was awarded for TEOG.

*The Recommended diploma requires an additional credit each of science and social studies and two of foreign language. In 2003, 64 percent of Texas high school graduates graduated with a Recommended diploma or higher, up from 15 percent in 1999.

Grant Recipients in Texas are Ethnically Diverse

Enrollment by Ethnicity (Fall 2003)

- African American: 11%
- Hispanic: 26%
- White: 55%
- Other: 8%

Grant Recipients by Ethnicity (Award Year 2003-2004)

- Pell Grant: 45%
  - Whites: 20%
  - African American: 15%
  - Hispanic: 35%
  - Other: 6%

- Texas Public Educational Grant (TPEG): 40%
  - Whites: 27%
  - African American: 15%
  - Hispanic: 40%
  - Other: 6%

- Tuition Equalization Grant (TEG): 46%
  - Whites: 46%
  - African American: 21%
  - Hispanic: 21%
  - Other: 6%

- Texas Grant I: 44%
  - Whites: 35%
  - African American: 15%
  - Hispanic: 39%
  - Other: 6%

- Texas Grant II: 39%
  - Whites: 35%
  - African American: 15%
  - Hispanic: 39%
  - Other: 6%

Award Amount by Ethnicity (Award Year 2003-2004)

Allocation of grant aid in Texas reflects the ethnic diversity of the state. Fifty-nine percent of Pell Grant and Texas Grant recipients, and 62 percent of TEOG (formerly Texas Grant II) recipients, are either Hispanic or African American. Percentages for the Tuition Equalization Grant (TEG) and Texas Public Educational Grant (TPEG) are somewhat less — 39 percent and 45 percent, respectively. There appears to be little difference in ethnic breakdown of recipients in comparison to the amount awarded.

The Value of the Federal Pell Grant Continues to Decline

The buying power of the largest grant program in the U.S. as well as in Texas, the federal Pell Grant, has declined over the last three decades. Originally designed as the foundation for student aid packaging, the Pell Grant is only allocated to undergraduates and only to the neediest of undergraduates. But in Award Year (AY) 2004-2005, the average Pell Grant in the U.S., at $2,469, covered about 20 percent of the average “fixed cost” (defined as tuition and fees plus room and board) for undergraduates at public four-year universities, down from a little under 50 percent in the mid-1970s. Overall Pell funding has been increasing in recent years, but the number of recipients is also increasing due to, among other things, a decline in median household income (from $44,514 in the U.S. in 2002-2003* to $44,436 in 2003-2004*), an increase in the percent of people in poverty (from 11.9 percent in 2001-2002* to 12.6 percent in 2003-2004*) and an increase in the cost of attending college. The average Pell Grant per student has not kept pace with rising costs. In AY 2004-2005, the average Pell in the U.S. fell by $78, but at four-year public universities total costs (defined as tuition and fees, food and housing, books and supplies, transportation, and personal expenses) rose by $998 in the U.S. and $1,039 in Texas.

The buying power of the Pell Grant is lower in Texas than in the rest of the nation. In AY 2004-2005, the average Pell Grant covered about 16.2 percent of the average total cost of attendance at a public university in the U.S., and 15.7 percent of the cost in Texas.

### Change in Average Pell Grant Over Previous Award Year and Increase in the Average Total Cost of Two Semesters of Full-time Attendance at a Public Four-year University in Texas and the U.S.

<table>
<thead>
<tr>
<th>Award Year</th>
<th>Change in Average Pell Grant</th>
<th>Increase in Cost in Texas</th>
<th>Increase in Cost in U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>$138</td>
<td>$831</td>
<td>$755</td>
</tr>
<tr>
<td>2003-2004</td>
<td>$37</td>
<td>$1,209</td>
<td>$713</td>
</tr>
<tr>
<td>2004-2005</td>
<td>-$78</td>
<td>$1,039</td>
<td>$998</td>
</tr>
<tr>
<td>2005-2006</td>
<td>not available</td>
<td>$908</td>
<td>$783</td>
</tr>
</tbody>
</table>

### Percent of Average Total Cost of Two Semesters of Full-time Attendance at a Public Four-year University in Texas Which is Covered by the Average Pell Grant (AY 2004-2005)

- Percent of total cost covered by average Pell: 16%
- Percent of total cost not covered by average Pell: 84%

* Two-year average.

In Award Year (AY) 1996-1997, Texas spent only $48 million in state grant aid. Among the six largest states, Texas ranked last, spending less than half what was spent by the next lowest state, Florida. Then, with the establishment of the TEXAS (Toward EXcellence Access, & Success) Grant* program in 1999, state grant aid began to increase. By AY 2002-2003, the amount that Texas allocated in grants had risen to $266 million, but the following year total state grant aid decreased to $248 million**, which means that Texas still ranks last. In AY 2003-2004 Texas spent only a little more than a third of what was spent by California, and a little over a fourth of what was spent by New York. For AY 2004-2005, funding for the largest state grant program, the TEXAS Grant, was $166 million, essentially the same as two years earlier. The Texas Higher Education Coordinating Board (THECB) estimates that in AY 2004-2005 more than 31,000 students — over one-third of those eligible for the TEXAS Grant — did not receive one. Meanwhile, both enrollments and financial need in the state continue to increase: for Texas students who received aid only to meet costs and not to replace family income, average unmet need for AY 2003-2004 — the costs not covered by family income or aid including both grants and loans — was $5,189, up from $4,972 a year earlier.

Student grant aid may be based on financial need, academic merit, a combination of need and merit, or other factors. In Texas, almost all (98 percent) of state grant aid is based on student need.

* To receive a TEXAS Grant a student must graduate from a Texas public or private high school with a Recommended or Distinguished diploma rather than the minimum, enroll in higher education in Texas within 16 months, and maintain a Grade Point Average (GPA) of 2.5 on a 4.0 scale to maintain eligibility.

**State grant aid does not include institutional aid, such as the Texas Public Educational Grant (TPEG). Institutional grant aid comes from the school’s own revenue sources, such as tuition, fees, and returns on investments, and is often viewed as a form of tuition discounting. TPEG reported to the National Association of State Student Grant and Aid Programs (NASSGAP) for AY 2003-2004 has been subtracted from NASSGAP’s state grant aid data for Texas.

Many Eligible Students Are Not Receiving the TEXAS Grant

The Texas Legislature created the TEXAS (Toward EXcellence, Access, and Success) Grant in 1999 to help needy undergraduates pay tuition and fees comparable to what one would spend at a typical public four-year or two-year institution in Texas. To qualify, students must graduate from high school with a Recommended* diploma rather than the minimum and enroll in a college or university in Texas within 16 months. Initially, only 15 percent of Texas high school graduates had taken the courses to qualify for the TEXAS grant. With greater public awareness, and a 2001 law mandating the Recommended diploma as the default for entering high school freshmen beginning in 2004, the percentage of students graduating with a Recommended diploma increased to 64 percent in 2003.

The program seemed to work: more needy students were taking the tougher courses and money became available to help them pay for college. However, state funding has remained flat, while the average grant amount has risen since (1) it is pegged to average tuition and fees for undergraduates at Texas public institutions, which have risen sharply since the program was created, and (2) the number of eligible students has exceeded expectations. Over 68,000 new and returning** needy students received a TEXAS Grant in Award Year (AY) 2002-2003, but only 64,000 students got a grant in AY 2003-2004 and about 56,000 in AY 2004-2005. The Texas Higher Education Coordinating Board (THECB) reports that 31,000 needy students-over one-third of those eligible-did not receive a TEXAS Grant in AY 2004-2005. As tuition and fees increase and more students graduate with the college prep curriculum, the amount needed to fully fund TEXAS Grants will increase to $542 million by AY 2010-2011 according to the THECB.

*The Recommended curriculum better prepares students for college than the minimum curriculum by requiring one additional credit each in science and social studies, and two in foreign language (three for Distinguished diploma).

**TEXAS Grant recipients are eligible to continue to receive the grant if they maintain an overall Grade Point Average (GPA) of 2.5 on a 4.0 scale.

Sources: TEXAS Grant requirements: Texas House Bill 713, 76th Legislature (1999); Percent of students graduating with a Recommended diploma: Texas Education Agency, Academic Excellence Indicator System (http://www.tea.state.tx.us/perfreport/aeis/index.html); TEXAS Grant shortfall and projections: Texas Higher Education Coordinating Board, THECB, "TEXAS Grant Program Projections as of May 2004" (internal memo); Recommended diploma mandate: Texas House Bill 1144, 77th Legislature (2001) (http://www.capitol.state.tx.us/tlo/billtext/HB1144FHTM); TEXAS Grant amount: THECB, "Bentson Report" (unpublished tables).
Net Price of Attendance for Low-income Undergraduates in Texas is More Than $5,400

The net price of attendance for a student at an institution of higher education is defined as the student’s total cost of attendance* minus the total grants and scholarships he or she receives. In the 2003-2004 Award Year (AY), the median** net price*** of attendance for low-income students was $5,430 for dependent students whose parents make under $40,000, and $5,520 for independent students making under $20,000****. This was the amount that students or their families had to cover through work, loans, or savings. The amount that dependent students had to cover rose with parental income, perhaps reflecting the fact that students from higher-income families are more likely to attend higher-cost institutions than students whose parents make less money. For independent undergraduates, however, net price was actually higher for low-income students than for high-income. The median net price of $5,520 for those making less than $20,000, who represent 38 percent of all independent undergraduates, represented more than one-fourth of the income of someone making $20,000.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for 9 months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.

** A median is the point at which 50 percent of students had a higher net price and 50 percent had lower. A median represents a typical student better than an average because students who had a high net price skew the average, making it a less reliable gauge than the median.

*** The median net price (i.e. cost of attendance minus grants and scholarships) is not equivalent to the Texas Higher Education Coordinating Board’s (THECB’s) weighted cost of attendance minus grants and scholarships because THECB costs have been weighted for enrollment and are based on 15 credit hours per semester, whereas costs in the National Postsecondary Student Aid Study (NPSAS), from which median net price is derived, have not been weighted for enrollment and are based on 12 credit hours per semester.

**** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students’ income includes spouse’s, if any. About 42 percent of independent undergraduates in Texas are married.

The net price of attendance for a student at an institution of higher education is defined as the student’s total cost of attendance* minus the total grants and scholarships he or she receives. At public institutions, which enroll 90 percent of all students in Texas, the median** net price of attendance*** for the 2003-2004 Award Year (AY) was $4,113 at two-year institutions and $9,513 at four-year institutions. For private four-year universities, net price was $12,865. These are the amounts that students (or, for dependent students, their parents) had to cover through work, loans, or savings.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses, for a full-time student for 9 months. Full-time students in the National Postsecondary Student Aid Study (NPSAS) are those who took 12 or more credit hours in the fall and spring semesters. For students who took fewer hours, costs have been adjusted to reflect what they would have been if they had taken 12 hours.

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Loans, Unmet Need, and Work
Three-fourths of Undergraduates in Texas Do Not Take Out Loans

A little over one-fourth of undergraduates in Texas* took out a loan to pay for their education during Award Year (AY) 2003-2004, and three-fourths did not. Loans from the federal government dwarfed those from other sources, with about 20 percent of undergraduates taking out subsidized loans and 15 percent taking out unsubsidized.** Only 2 percent of students had parents who took out a federal PLUS loan, and only 5 percent of students took out loans from outside entities such as private foundations or employers. Loans from the state or schools themselves are the smallest source of loans: fewer than 1 percent of undergraduates in Texas took out loans from these two sources. The two most common loans, subsidized and unsubsidized, provide the smallest median*** amount per student, in part because their maximum limits are capped**. By contrast, borrowers who take out private or PLUS loans tend to take out relatively large amounts. The median PLUS loan itself is more than double that of the federal subsidized loan.

Some students may be reluctant to take out loans due to the fear that they won't be able to repay them. The students who may have the most trouble repaying loans are those who don't complete their education. About 6.1 percent of borrowers at Texas four-year public universities who took out federal loans through Texas Guaranteed (TG) and who entered repayment in Fiscal Year (FY) 2002 defaulted on their loans before the end of FY 2003, but this ranged from 1.6 percent of students who graduated, to 10.8 percent of those who withdrew from school without graduating.

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* Data on students who attended for-profit institutions are not available.

** Subsidized loans are for students who demonstrate financial need. The federal government pays the interest on them while the student is in school and for the first six months after the student leaves school. Unsubsidized loans are not need-based and the student must pay the interest. The maximum federal loan for a first-year student is capped at $2,625 for dependent students and $6,625 for independent. PLUS loans, which are unsubsidized, are only for parents of dependent students. The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent.

*** A median is the point at which 50 percent of students had a higher loan amount and 50 percent had lower. A median represents a typical student better than an average because students who had a high loan amount skew the average, making it a less reliable gauge than the median.

Low-income Independent Undergraduates in Texas Take Out More in Loans Than High-income Dependent Undergraduates

Undergraduates in Texas who are dependent on their parents are more likely to take out loans than undergraduates who are independent, but independent undergraduates take out larger loans. Students who are independent of their parents and who make under $20,000 per year took out a median of $5,798 in loans in the 2003-2004 Award Year (AY), versus $5,500 taken out by dependent students whose parents make $80,000 or more. Interestingly, independent students in Texas tend to select modestly-priced two-year institutions over more expensive four-year institutions by more than a two-to-one margin. The larger amounts for independent undergraduates may be due in part to the fact that the largest source of student loans, federal loans, are capped for first-year students at $2,625 for dependent students, but $6,625 for independent. Students may use loans not only to pay tuition and fees, but other costs as well, such as food, housing, and transportation. Other adults must also pay these expenses, but students who wish to progress through school in a timely manner must forego full-time employment in order to pursue their studies.

* Data on students who attended for-profit institutions are not available.

** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates in Texas are married.

*** A median is the point at which 50 percent of students had a higher loan amount and 50 percent had lower. A median represents a typical student better than an average because students who had high loan amounts skew the average, making it a less reliable gauge than the median.

The amount that Texas undergraduates* take out in loans dwarfs what they receive in grants. When broken down by income, the only group for whom the median** loan amount is only a few hundred dollars higher than the median grant amount is for dependent*** students whose parents make less than $40,000. For dependent students whose parents make between $40,000 and $79,999, and for all independent students regardless of income***, the median loan is more than twice as large as the median grant.

* Data on students who attended for-profit institutions are not available.

** A median is the point at which 50 percent of students had a higher amount and 50 percent had lower. A median represents a typical student better than an average because students who had high amounts skew the average, making it a less reliable gauge than the median.

*** The U.S. Department of Education defines an independent undergraduate as age 24 or older, married, with dependents to support, a veteran, or orphan or ward of the court. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. In Texas, 49 percent of undergraduates are dependent and 51 percent are independent. Independent students' income includes spouse's, if any. About 42 percent of independent undergraduates are married.

One-half of Undergraduates at Universities in Texas Take Out Loans Versus 9 Percent of Students at Community Colleges

A little over one-half of undergraduates* at four-year private universities in Texas and almost one-half at four-year public universities took out loans during the 2003-2004 Award Year (AY). By contrast, just 9 percent of students at two-year public colleges took out loans, and the median amount** they borrowed was a good deal lower than for undergraduates at four-year institutions. Two-year institutions tend to be less expensive than four-year, but there may be other reasons why community college students borrow less. First, 42 percent of two-year students are the first in their family to attend college, versus 29 percent and 22 percent, respectively, at public and private universities. These "first-generation" students may be reluctant to take out student loans because they have not experienced a parent completing college. Second, 51 percent of incoming students at Texas public two-year colleges need remediation, which increases the amount of time necessary to earn a degree and begin repaying a loan, versus only 30 percent of incoming students at public four-year universities. Finally, it should be kept in mind that many community college students either do not intend to earn a bachelor's degree or do not go on to earn that degree. Only about 22 percent of students entering Texas public two-institutions in fall 1996 transferred to a Texas public four-year institution within the number of years specified by their attendance and remediation status their first year.*** Since few students attending two-year schools earn a bachelor's degree — and reap the financial benefits of the higher earning capacity associated with a four-year degree — their lower debt level appears to reflect a lower investment in their educational pursuits.

* Data on students who attended for-profit institutions are not available.

** A median is the point at which 50 percent of students had a higher amount and 50 percent had lower. A median represents a typical student better than an average because students who had high amounts skew the average, making it a less reliable gauge than the median.

*** The Texas Higher Education Coordinating Board (THECB) tracks the percent of full-time students not receiving remediation who transfer within 3 years, full-time receiving remediation who transfer within 4 years, part-time not receiving remediation who transfer within 5 years, and part-time receiving remediation who transfer within 7 years, with an overall rate for 1996 of 22 percent. Overall rates for more recent years are not available.
Unmet Need for Low-income Undergraduates in Texas Exceeds $3,300

Unmet need is defined as the student’s total cost of attendance* minus his or her Expected Family Contribution** and all financial aid including both grants and loans. About 76 percent of Texas undergraduates*** who are dependent on their parents and whose parents make under $40,000 per year had unmet need in the 2003-2004 Award Year (AY), with a median**** unmet need of $3,396. This is the amount that students must cover through work or savings, or that their parents must cover through additional work and savings over and above what they are already contributing to their child’s education. Unmet need was slightly lower for students whose parents make between $40,000 and $79,999 and for students whose parents make $80,000 or more, but the proportion of students with unmet need in these two income groups — 36 percent and 11 percent, respectively — was a good deal lower than for lower-income students. For undergraduates who are independent of their parents*****, unmet need among the lowest-income students — those making under $20,000 — was $3,598. Unmet need for independent students with higher incomes was lower than for dependent students with higher incomes, perhaps due to the fact that independent students, regardless of income, attend two-year institutions by a two-to-one margin. The proportion of independent undergraduates with unmet need was 76 percent, 55 percent, and 13 percent, respectively, across the three income brackets.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses for a full-time student for 9 months. Data on college costs as they relate to unmet need come from the National Postsecondary Student Aid Study (NPSAS) 2004 and are for students who took 12 or more credit hours in the fall as well as the spring semesters. For students who took less than 12 hours, costs have been adjusted.

** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown.

*** Data on students who attended for-profit institutions are not available.

**** A median is the point at which 50 percent of students had a higher unmet need and 50 percent had lower. A median represents a typical student better than an average because students who had high unmet need skew the average, making it a less reliable gauge than the median.

***** The U.S. Department of Education defines an independent student as age 24 or older, married, with dependents to support, a veteran, orphan or ward of the court, or graduate student. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 49 percent of undergraduates in Texas are dependent and 51 percent are independent. Income of independent students includes spouse's income if any. About 42 percent of independent undergraduates are married.

Unmet need is defined as the student’s total cost of attendance* minus his or her Expected Family Contribution** and all financial aid including both grants and loans. Just under half of undergraduates in Texas*** had unmet need in the 2003-2004 Award Year (AY), ranging from a median**** of $2,840 at two-year public colleges, to $4,245 and $4,601, respectively, at four-year public and private universities. This is the amount that students must cover through work or savings, or, for dependent undergraduates***** that their parents must cover through additional work or savings over and above what they are already contributing to their child’s education. Interestingly, although the average total cost of attendance at a four-year private university in Texas is almost $10,000 higher than at a public university ($24,693 versus $14,730, respectively, for AY 2003-2004), unmet need was only a few hundred dollars higher.

* Tuition and fees, books and supplies, food and housing, transportation, and other expenses for a full-time student for 9 months. Data on college costs as they relate to unmet need come from the National Postsecondary Student Aid Study (NPSAS) 2004 and are for students who took 12 or more credit hours in the fall as well as the spring semesters. For students who took less than 12 hours, costs have been adjusted.

** EFC is determined through a federal formula that takes into account family income and size as well as the number of children in college. The average amount that families actually contribute to educational expenses is unknown.

*** Data on students who attended for-profit institutions are not available.

**** A median is the point at which 50 percent of students had a higher unmet need and 50 percent had lower. A median represents a typical student better than an average because students who had high unmet need skew the average, making it a less reliable gauge than the median.

***** The U.S. Department of Education defines an independent student as age 24 or older, married, with dependents to support, a veteran, orphan or ward of the court, or graduate student. Students who do not meet these criteria, but who receive no financial support from their parents, may also be considered independent. About 49 percent of undergraduates in Texas are dependent and 51 percent are independent.

Source: Costs for AY 2003-2004: Texas Higher Education Coordinating Board (THECB) "2003-2004 College Student Budgets" (costs have been weighted for enrollment); All other: U.S. Department of Education, National Center for Education Statistics, "National Postsecondary Student Aid Study (NPSAS) 2004" (http://www.nces.ed.gov/das/).
Students Work Long Hours: Three-fourths of Undergraduates in Texas Work While Enrolled in School

Work is the chosen financing method for the majority of students. Research suggests that the students who are the most likely to remain in school are those who work fewer than 15 hours per week while enrolled. In Texas, three-fourths of undergraduates* worked while enrolled in school in the 2003-2004 Award Year (AY), and 35 percent worked full-time**, with an average of 31 hours worked per week among those who worked. Students at Texas two-year public colleges, who make up a majority of undergraduates in the state, are far more likely to work full-time than their counterparts at public and private four-year universities, but the percent who work 15 or more hours per week remains high at all three types of institutions: 71 percent, 67 percent, and 59 percent, respectively. About 31 percent of Texas undergraduates who work define their primary role not as a student, but as “an employee enrolled in school”, while 69 percent describe themselves as “a student working to meet expenses”. Among the latter group — those who consider their primary role to be student — 65 percent say the main reason they work is to pay tuition, fees, or living expenses, while 22 percent say they work mainly to earn spending money. Although on-campus employment is strongly associated with modest work hours, 93 percent of working undergraduates in Texas work off-campus.

* Data on students who attended for-profit institutions are not available.

** 35 or more hours per week.

Work Affects Attendance: Texas Undergraduates Who Work Full-time Usually Attend Part-time

While many students may consider work to be a logical method for financing a college education, too much work can jeopardize attendance, persistence, and degree completion, starting with the choice of which type of school to attend. The more that students work, the less likely they are to attend a school from which they can obtain a bachelor’s degree: undergraduates in Texas* who work part-time are about as likely to choose a four-year institution as a two-year institution, but students who work full-time** choose two-year schools by more than a two-to-one margin.

In addition to affecting school choice, long work hours can affect attendance intensity. Students who enroll on a full-time basis and devote most of their time to school are more likely to complete a degree in a timely manner than students who go to school part-time. In Texas, 36 percent of undergraduates in Award Year (AY) 2003-2004 attended school full-time/full-year — that is, they took a full course load, usually 12 or more credit hours, for at least nine months. Students who attend less than full-time/full-year either take a full course load but for less than nine months, or do not take a full course load. Not surprisingly, the students who are most likely to attend full-time are those who work modest hours: 55 percent of Texas undergraduates who work less than 15 hours per week attend school full-time. By contrast, more than four-fifths who work full-time attend school less than full-time.

* Data on students who attended for-profit institutions are not available.

** 35 or more hours per week.


State of Student Aid and Higher Education in Texas, April 2006
Research suggests that the students who are the most likely to remain in school are those who work fewer than 15 hours per week. Interestingly, students who work modest hours are even more likely to remain in school than students who don’t work at all, perhaps because they learn to manage their time more effectively than students who don’t work: 67 percent of freshmen who began postsecondary education in the U.S. in 1995 and who worked 1 to 14 hours per week their first year were still enrolled in a four-year school three years later. By contrast, fewer than half of freshmen who worked 35 or more hours per week their first year were still enrolled three years later, and only 14 percent were enrolled in a four-year school. Data on Texas undergraduates are not available.

Work Affects Completion: Only 8 Percent of U.S. Freshmen Who Work Full-time Their First Year Complete a Bachelor’s Degree in Six Years

Most undergraduates take more than four years to complete a bachelor’s degree*. Reasons for this phenomenon vary, but include the following: (1) pursuing a degree that requires more than 120 credit hours, (2) pursuing more than one degree, (3) changing the degree plan or major, (4) taking extra courses beyond those needed to graduate, (5) leaving or “stopping out” of school for a while, and, (6) transferring from one institution to another. For students who work full-time, degree completion can take even longer, or not occur at all: only 8 percent of students who began postsecondary education in the U.S. in 1995 and who worked 35 or more hours per week their first year had obtained a bachelor’s degree by 2001, compared to 57 percent of those who worked only 1 to 14 hours per week. Among those who worked full-time their first year, over half—52 percent — had left higher education by 2001 without obtaining a certificate or degree of any kind. Data on Texas undergraduates, and on undergraduates who worked full-time while enrolled in higher grade levels, are not available.

* Students in the U.S. who received bachelor’s degrees in AY 1999-2000 and who had not stopped out of school for more than six months averaged 55 months from first enrollment to degree completion, with the number varying from 51 months for students who attended only one institution to 59 months for those who attended two.

In earlier generations, some students paid their entire way through school and still managed to carry a full course load, but that is no longer feasible. How many hours would students need to work in order to pay their way through school today? From 1964 to 1981, a time in which the minimum wage increased fairly regularly, an industrious undergraduate could have paid for a year of education at a public university-including tuition, food, and housing-by working about 24 hours per week at a minimum wage job.

But in the early 1980s, as the cost of education began to climb and minimum wage increases became less frequent, the number of work hours needed to pay for education began to rise. By 1988 a student working at the then-minimum wage of $3.35 per hour would have had to work 39 hours per week to put himself or herself through school. The number of work hours needed to pay for an undergraduate education continued to inch upward in the 1990s, then rose again sharply at the turn of the century. By 2002, as a result both of increased costs and stagnant wages, a student working at the minimum wage of $5.15 per hour would have had to work 55* hours per week every week of the year in order to pay the tuition, fees, and living expenses associated with two semesters of attendance at a public university. Obviously, few, if any, full-time students can work 55 hours per week and maintain satisfactory academic progress. Students who use work as the primary method for financing their education often must make choices which jeopardize their ability to complete their studies.

*Postsecondary Education Opportunity estimated the 2002-2003 student budget at public universities at $13,779. The current minimum wage is $5.15 per hour, with 6.2 percent taken out for Social Security. At a net of $4.83 per hour, a full-time student with no other financial aid or assets would have to work 2,852 hours per year, or 55 hours per week, to put himself or herself through school.
Texas College Attainment
College Graduates Earn Far More Than High School Graduates Earn and Have Substantially Less Unemployment

The U.S. Census Bureau reports that higher levels of education are closely associated with higher average earnings. Average 2003 earnings for workers age 25 to 64 with less than a high school diploma were $21,599, $9,000 less than for workers with a high school diploma. The gap in earnings between the two groups widened from $8,100 the year before. The attainment of a college degree has an even greater impact on earnings. Graduates with a four-year degree averaged $53,781 in earnings in 2003, and those with a professional degree earned over $118,000.

More evidence for the economic strength of education comes from the U.S. Bureau of Labor Statistics. For August 2005, the unemployment rate of workers age 25 and over who had not completed high school stood at 7.0 percent. Unemployment decreases with additional education. The unemployment rate for high school graduates was 4.5 percent, while the unemployment rate for those with a bachelor's degree and higher was 2.4 percent. Despite weaker economic conditions than in the late 1990s, today's labor market continues to reward workers with higher levels of education.

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Better Educated Workers Have Higher Worklife Earnings

The difference in the salary earned by higher- and lower-educated workers compounds over a lifetime. The estimated earnings during the worklife (approximately 40 years) of a full-time worker who didn’t complete high school are about $1 million dollars. Completing high school increases earnings by about a quarter of a million dollars, and completing a bachelor’s degree raises worklife earnings to over $2 million. Post-graduate education pays off even more: workers with a professional degree, such as doctors and lawyers, can expect over the course of their worklives to earn over twice what workers with a bachelor’s degree will earn.

Higher Educational Attainment Levels Lead to Lower Economic Costs and More Civic Engagement

People with less education often have fewer choices in life, and are more likely to depend on government services than the rest of the population: 7.0 percent of high school dropouts were unemployed in August 2005, versus 2.4 percent of college graduates, and average 2003 earnings for this group were $21,599.

Raising educational levels of all groups will not only benefit individuals, but will benefit society as a whole through higher incomes, more tax revenue, and fewer people on public assistance. A well-educated citizenry also is more likely to play an active role in the civic life of the nation.

College Completion Rates in Texas Are Lower Than in the U.S., Though the Gap is Not as Wide as for High School Completion Rates

Texas scores lower than the nation in the percent of people who have completed a bachelor’s degree or higher, although the gap between Texas and the U.S. is not as wide as the gap in the percent who have completed high school. U.S. Census Bureau data show that about 25 percent of Texans age 25 and older have obtained a bachelor’s degree or higher, compared to 28 percent in the U.S. The percent of Texans with a bachelor’s degree or higher fell slightly from 26 percent in 2002. Among the six largest states, Texas ties for last place (with Pennsylvania) in the percent with a bachelor’s degree or higher.

By ethnicity, U.S. Census Bureau data also show that:

- Just as Hispanics in Texas are the least likely to complete high school, they are also the least likely to complete a bachelor’s degree. Fewer than one in ten Hispanics age 25 and older has a bachelor’s degree or higher, compared with over one in three Whites.

- Although the percent of African Americans who have completed high school is 6 percentage points lower than for Whites, the percent who have completed college is 13 percentage points lower. However, the gap in college completion rates between Whites and African Americans has fallen from 19 percentage points in 2003.

- Among the six largest states, Texas ranks third in the percent of Whites with a degree, ties for second (with New York) for African Americans, and ranks last for Hispanics.

Educational attainment levels in the different regions of Texas vary dramatically. In the Metroplex, 28 percent of people age 25 and older have a bachelor’s degree or higher. Educational attainment levels in Central Texas and the Gulf Coast region are only slightly lower. In Central Texas, home to the state’s two flagship universities, 26 percent of adults have a bachelor’s degree or higher, and in the Gulf Coast region 24 percent of people have a bachelor’s degree or higher. But educational attainment levels drop off in other areas of the state. East Texas, West Texas, and the Panhandle all record lower levels of educational attainment, and in the Rio Grande Valley the percentage of college graduates is less than half that in the Metroplex.

Graduation Rates in Texas Are Rising but Remain Stratified by Ethnicity and Gender

College graduation rates in Texas are rising, but remain stratified by ethnicity and gender. About 53 percent of first-time, full-time freshmen who entered a Texas public university in 1997 obtained a bachelor’s degree from that or another Texas public university within six years, but the rate varied from 60 percent of Whites to 40 percent of Hispanics and 35 percent of African Americans, and from 58 percent of females to 47 percent of males. The 10-year graduation rate for Whites and African Americans is 8 percentage points higher than their six-year graduation rate, and the 10-year rate for Hispanics is 13 percentage points higher. Only 23 percent of freshmen in Texas graduate in four years. Most undergraduates in the U.S. take more than four years to complete a bachelor’s degree*. Reasons for this vary, but include: 1) pursuing a degree that requires more than 120 credit hours; 2) pursuing more than one degree; 3) changing the degree plan or major; 4) taking extra courses beyond those needed to graduate; 5) leaving or “stopping out” of school for brief periods of time; and, 6) transferring from one institution to another. In addition, many students, in order to cut costs, attend school part-time, work long hours, or both. In AY 2003-2004, 45 percent of public university undergraduates in Texas attended school less than full-time/full year — that is, they either took fewer than 12 hours per semester or did not attend two semesters — and 75 percent worked while enrolled, of whom 28 percent worked full-time**. Full-time work and part-time attendance, both of which are associated with lower graduation rates, are also associated with each other: 69 percent of Texas public university undergraduates who work full-time while enrolled attend less than full-time/full year.

* Bachelor’s degree recipients in AY 1999-2000 who had not stopped out of school averaged 55 months from first enrollment to degree completion.

** 35 or more hours per week.


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### First-time, Full-time Freshmen Who Entered a Texas Public University and Who Received a Bachelor’s Degree Within Six Years, by Ethnicity and Gender

<table>
<thead>
<tr>
<th>Entered Year</th>
<th>Total</th>
<th>White</th>
<th>African American</th>
<th>Hispanic</th>
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<td>48%</td>
<td>57%</td>
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<tr>
<td>Entered 1993</td>
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<td>58%</td>
<td>65%</td>
<td>34%</td>
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<td>Entered 1994</td>
<td></td>
<td>57%</td>
<td>60%</td>
<td>39%</td>
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<tr>
<td>Entered 1995</td>
<td></td>
<td>28%</td>
<td>34%</td>
<td>39%</td>
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<tr>
<td>Entered 1996</td>
<td></td>
<td>36%</td>
<td>39%</td>
<td>40%</td>
</tr>
<tr>
<td>Entered 1997</td>
<td></td>
<td>47%</td>
<td>47%</td>
<td>40%</td>
</tr>
</tbody>
</table>

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### First-time, Full-time Freshmen Who Entered a Texas Public University in 1992 and Who Received a Bachelor’s Degree Within Six and Ten Years, by Ethnicity

- **Graduated within 6 years**
- **Graduated within 10 years**

<table>
<thead>
<tr>
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<td>Whites</td>
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<td>50%</td>
<td>54%</td>
<td>56%</td>
<td>57%</td>
</tr>
<tr>
<td>Hispanics</td>
<td>36%</td>
<td>37%</td>
<td>34%</td>
<td>39%</td>
<td>47%</td>
<td>53%</td>
</tr>
<tr>
<td>African Americans</td>
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<td>47%</td>
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<td>40%</td>
</tr>
<tr>
<td>Females</td>
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<td>54%</td>
<td>49%</td>
<td>49%</td>
<td>50%</td>
<td>51%</td>
</tr>
<tr>
<td>Males</td>
<td>44%</td>
<td>36%</td>
<td>32%</td>
<td>34%</td>
<td>35%</td>
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State of Student Aid and Higher Education in Texas, April 2006
THECB Reports Texas Meeting Overall Higher Education Targets, but Not Meeting Targets for Hispanic Enrollment

Although the number of students enrolled in college in Texas has been increasing, the 2000 U.S. Census revealed that a smaller percentage of the population participates in higher education than in other large states and the U.S. as a whole. About 8 percent of the Texas population age 18 and over was enrolled in higher education in 2000, versus 8.4 percent for the U.S. and 10.4 percent for California. Faced with lagging enrollments, and a shortfall in the number of degrees and certificates awarded, in 2000 Texas set the goal of “closing the gaps” in participation and success in higher education by 2015. The state aims to achieve this goal by increasing the number of students enrolled by 500,000 (due to projected population increases, this goal has since been revised upward), and increasing the number of degrees and certificates awarded by 50 percent.

In July 2005, the Texas Higher Education Coordinating Board (THECB) reported that the state has met its 2005 intermediate target for overall enrollment, but has not met its target for Hispanic enrollment. Hispanic enrollment is increasing, but below the rate needed to meet the 2005 target. Although the large number of White students has significantly increased total enrollment, the percent enrollment increase for Whites was only 10.7 percent between fall 2000 and fall 2004. African American enrollment rose by 27.5 percent during the same period. Hispanic enrollment rose by 30.3 percent, but, because of the magnitude of growth needed to reach Hispanic enrollment targets, the impressive increase for Hispanic students is not sufficient to reach the interim 2005 enrollment target. Texas is averaging an additional 18,000 Hispanic college students annually and needs to average an additional 23,500. The THECB also reported that the state has achieved its 2005 target for the total number of degrees and certificates awarded, and is on track to reach the target set for bachelor’s degrees.

### Progress Toward Texas Success Targets for 2005

<table>
<thead>
<tr>
<th>Percent of Targeted Increase for 2005 Achieved</th>
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</thead>
<tbody>
<tr>
<td>Total enrollment</td>
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<tr>
<td>African American enrollment</td>
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<tr>
<td>Hispanic enrollment</td>
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<tr>
<td>White enrollment</td>
</tr>
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</table>

### Progress Toward Texas Success Targets for 2005

<table>
<thead>
<tr>
<th>Percent of Targeted Increase for 2005 Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total certificates and degrees</td>
</tr>
<tr>
<td>Bachelor’s degrees</td>
</tr>
<tr>
<td>Associate’s degrees</td>
</tr>
</tbody>
</table>

State Loans
Volume for the Largest State Loan Program, HHL-CAL, Has Been Dropping

The State of Texas offers three loan programs for students in general studies: the Hinson-Hazlewood College Access Loan (HHL-CAL), the Hinson-Hazlewood Loan-Stafford (HHL-Stafford), and the Texas B-On-Time Loan*. HHL-CAL, for which recipients do not have to demonstrate financial need, has the highest loan volume of the three. HHL-CAL volume grew rapidly in the 1990s, but has fallen in recent years. In Award Year (AY) 1994-1995, $27.9 million in HHL-CAL dollars was lent to 7,593 students. Loan volume rose modestly for the next few years, then shot up by 61 percent in 1996-1997. Volume rose more slowly after that, then peaked at $56.9 million in 1999-2000. Volume fell slightly the following year, and sharply the year after that. In 2002-2003, a total of $37.8 million in HHL-CAL dollars was lent to 7,237 students, a decrease of 34 percent in volume since the peak year of 1999-2000. In AY 2003-2004, volume rose to $40.4 million. It is not known if this represents a new trend, or just a leveling off of the recent drop in volume.

HHL-CAL volume appears to have dropped in recent years due not to a decrease in demand, but to an increase in the number of lenders offering alternative student loans with more favorable terms. For example, the HHL-CAL requires a cosigner regardless of the borrower’s age, has an aggregate limit of $45,000 per borrower, and must be repaid within 10 years. By contrast, the fall 2002 Greentree Gazette, the business magazine for higher education, lists 29 loans available to students in general studies, 4 of which require a cosigner, 2 of which have a limit of $45,000 or less, and 3 of which must be paid back within 10 years.

*The Texas B-On-Time Loan is a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates within four years (five years for architecture or engineering) with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale.
In Award Year (AY) 2002-2003 and AY 2003-2004, the bulk of Hinson-Hazlewood-College Access Loan (HHL-CAL) volume went to students in public rather than private institutions. This was a change from previous years. About 56 percent of all HHL-CAL loan volume in Award Year 2003-2004 went to students in public four-year universities and 38 percent went to students in private four-year universities. Students attending private universities, which tend to cost more than public universities, made up about 10 percent of student enrollment in Texas in fall 2003. In AY 1993-1994 about 24 percent of HHL-CAL loan volume went to students in public universities and 75 percent went to students in private universities. Those percentages narrowed slightly throughout the 1990s, then began to narrow more rapidly in the early part of the current decade. The percent of HHL-CAL loan volume going to students in public universities has increased steadily, from 41 percent in AY 2000-2001, to 56 percent in AY 2003-2004.

In Award Year (AY) 2003-2004, 52 percent of the Hinson-Hazlewood College Access Loan (HHL-CAL) dollars* went to students attending schools in the Central Texas Region. Although Central Texas comprises only 27 percent of Texas enrollment, it is home to the state’s two flagship universities, the University of Texas at Austin and Texas A&M University. The Panhandle also received a higher percentage of HHL-CAL dollars than it represented in student enrollment. Regions which received a smaller percentage than their share of enrollment were the Gulf Coast and West Texas. East Texas and the Metroplex received about the same percentage of HHL-CAL dollars as they represented in student enrollment. The Rio Grande Valley, the region with the lowest level of educational attainment in Texas, received no HHL-CAL loan dollars in AY 2003-2004, and also did not receive any HHL-CAL dollars the previous three years.

*Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $40.4 million in HHL-CAL loan volume for Award Year 2003-2004, $30.9 million, or 76 percent, is reported in the Financial Aid database.
Texas has nine Historically Black Colleges and Universities (HBCUs) and 38 Hispanic-serving institutions (HSIs). The U.S. Department of Education defines HBCUs as institutions in which 25 percent or more of the student body is African-American. Hispanic-serving institutions are defined as those in which 25 percent or more of the student body is Hispanic and 50 percent or more of that Hispanic population is low-income. In 2003-2004, HBCUs and Hispanic-serving institutions comprised 27 percent of total Texas enrollment and received 13 percent of Hinson-Hazlewood College Access Loan (HHL-CAL) dollars*, about the same as one year earlier.

*Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $40.4 million in HHL-CAL loan volume for Award Year 2003-2004, $30.9 million, or 76 percent, is reported in the Financial Aid database.

HHL-CAL Dollars Are Fairly Evenly Distributed by Race and Ethnicity

While White students receive a somewhat higher percentage of Hinson-Hazlewood College Access Loan (HHL-CAL) dollars than they represent in the student population, and African Americans and Hispanics receive a somewhat lower percentage, HHL-CAL dollars* are distributed fairly evenly overall relative to the diversity of enrollment in Texas. The average loan for each group varies only slightly, with African American students receiving about 4.5 percent less per HHL-CAL loan than White students.

*Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $40.4 million in HHL-CAL loan volume for Award Year 2003-2004, $30.9 million, or 76 percent, is reported in the Financial Aid database.

Only Half of State’s HHL-Stafford Loan Program Is Based on Need, and Volume Has Been Dropping

The State of Texas administers the Hinson-Hazlewood Loan-Stafford (HHL-Stafford), in addition to the Hinson-Hazlewood College Access Loan (HHL-CAL) and the Texas B-On-Time Loan*. In Award Year (AY) 2003-2004, a little over half (54 percent) of HHL-Stafford volume went to students who demonstrated financial need. The rest went to students who did not demonstrate need.

Unlike the HHL-CAL, whose loan volume rose by over $40 million in the 1990s before peaking in AY 1999-2000, HHL-Stafford volume has been steadily dropping for nearly a decade. After reaching a high of $54 million in AY 1993-1994, HHL-Stafford volume fell every year by 10 to 40 percent, reaching a low of $5.5 million in AY 2002-2003. The spike upward to $6.4 million in AY 2003-2004 represented the first increase in volume in ten years. In 2003, the Texas Legislature limited future HHL-Stafford loans to only those students who have borrowed or who will borrow on other state loans.

*The Texas B-On-Time Loan is a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates within four years (five years for architecture or engineering) with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale.


State of Student Aid and Higher Education in Texas, April 2006
The Majority of HHL-Stafford Dollars Goes to Students at Public Universities

Like the Hinson-Hazlewood-College Access Loan (HHL-CAL), the majority of Hinson-Hazlewood Loan-Stafford* (HHL-Stafford) volume goes to students at public universities. Four-year public schools represented 41 percent of enrollment in fall 2003 and received 52 percent of HHL-Stafford loan volume. Four-year private universities, which are more expensive than public universities, receive more in HHL-Stafford volume than they represent in enrollment, and two-year public colleges, which are lower-cost institutions than either public or private universities, receive less. As a proportion of total volume, public universities have seen a modest decrease over the last three years and public colleges and private universities have seen modest increases, while the proportion allocated to students at medical institutions has dropped from 19 percent to 1 percent.

*In 2003, the Texas Legislature limited future HHL-Stafford loans to only those students who have borrowed or who will borrow on other state loans.

Hinson-Hazlewood Loan-Stafford* (HHL-Stafford) dollars are distributed more evenly by region than Hinson-Hazlewood-College Access Loan (HHL-CAL) dollars. Students in Central Texas, the Panhandle, and the Metroplex receive about the same percentage of HHL-Stafford dollars as they represent in student enrollment, students in East Texas receive more, and students in the Gulf Coast, West Texas, and the Rio Grande Valley receive less.

As with HHL-CAL loans, West Texas and the Rio Grande Valley are the regions which received the least amount of HHL-Stafford dollars in Award Year 2003-2004. Although these two regions comprised 12 percent of student enrollment, West Texas and the Rio Grande Valley together accounted for 2 percent of HHL-Stafford loan volume.

*In 2003, the Texas Legislature limited future HHL-Stafford loans to only those students who have borrowed or who will borrow on other state loans.

The Proportion of HHL-Stafford Dollars Going to HBCUs and HSIs Has Risen

![Bar chart showing the percentage of enrollment and HHL-Stafford loan volume for HBCUs and HSIs compared to other institutions.]

Information on the ethnicity of Hinson-Hazlewood Loan-Stafford* (HHL-Stafford) recipients is not available; however, information is available on Historically Black Colleges and Universities (HBCUs) and Hispanic-serving institutions (HSIs). The nine HBCUs and 38 HSIs in Texas receive somewhat less in HHL-Stafford funds than they represent among the student population, but the proportion they receive has risen from 7 percent to 18 percent. The U.S. Department of Education defines HBCUs as institutions in which 25 percent or more of the student body is African American. Hispanic-serving institutions are defined as those in which 25 percent or more of the student body is Hispanic, and 50 percent or more of those Hispanics are low-income. In Award Year (AY) 2003-2004, HBCUs and Hispanic-serving institutions comprised 27 percent of total Texas enrollment and received 18 percent of HHL-Stafford funds. In AY 2002-2003, those figures were 29 percent and 7 percent, respectively.

*In 2003, the Texas Legislature limited future HHL-Stafford loans to only those students who have borrowed or who will borrow on other state loans.

First-year Students Receive One-fourth of HHL-Stafford Volume

In Award Year (AY) 2003-2004, the percentage of Hinson-Hazlewood Loan-Stafford* (HHL-Stafford) dollars distributed by grade level matched fairly evenly the percentage of total Texas Guaranteed (TG) loan dollars distributed by grade level. This has been true for several years; however, there is one notable change from the previous year: in AY 2003-2004, first-year students received 3 percent more in HHL-Stafford volume than they received in TG volume. One year earlier they received 6 percent less than they represented.

*In 2003, the Texas Legislature limited future HHL-Stafford loans to only those students who have borrowed or who will borrow on other state loans.

Most Volume for Texas’ Newest State Loan, the B-On-Time Loan, Goes to Students at Public Universities

In 2003, the Texas Legislature created the B-On-Time (BOT) Loan, a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale and also graduates within four years* after entering a four-year institution or within two years after entering a two-year institution. In Award Year (AY) 2003-2004, the first year in which B-On-Time awards were allocated, a total of $4.062 million in BOT aid was allocated to 1,663 students. About 61 percent of this aid went to students at public four-year universities, 32 percent to students at private four-year universities, and 7 percent to students at public two-year colleges.

It is not certain how many students will be able to benefit from the loan forgiveness component of the B-On-Time Loan, as most students in the U.S. take longer than four years to graduate.** About 23 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 1999 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 53 percent.

* Five years for architecture or engineering majors.

** Bachelor’s degree recipients in the U.S. in AY 1999-2000 averaged 55 months from first enrollment to degree completion.

Students in the Rio Grande Valley and the Metroplex regions of Texas receive a higher percentage of Texas B-On-Time (BOT) loan volume* than they do of either of the other two main state loans, the Hinson-Hazlewood College Access Loan (HHL-CAL) and the Hinson-Hazlewood Loan-Stafford (HHL-Stafford). However, students in the West Texas and Gulf Coast regions receive a good deal less in BOT loan volume** than they represent in enrollment, just as they also receive a lower proportion of either of the other two state loans. In particular, West Texas receives only 1 percent of BOT loan volume — the same percentage of HHL-CAL volume and HHL-Stafford volume that it receives — although it represents 6 percent of enrollment. Students in the Rio Grande Valley also represent 6 percent of enrollment but receive 8 percent of BOT loan volume, a good deal higher than for the other two state loans.

* In 2003, the Texas Legislature created the B-On-Time (BOT) Loan, a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale and also graduates within four years after entering a four-year institution (five years for architecture or engineering) or within two years after entering a two-year institution. It is not certain how many students will be able to benefit from the loan forgiveness component of the loan, as most students in the U.S. take longer than four years to graduate. About 23 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 1999 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 53 percent.

** Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $4.06 million in BOT loan volume for Award Year 2003-2004, $3.7 million, or 91 percent, is reported in the Financial Aid database.

B-On-Time Loan Volume Is Distributed Fairly Evenly by Race and Ethnicity, but Average Amounts Vary Considerably

In Award Year (AY) 2003-2004, about 57 percent of B-On-Time (BOT)* loan volume went to White students, 16 percent to African American students, and 20 percent to Hispanic students**. African American students received a bit more than they represent as a proportion of total enrollment in the state and Hispanic students received a bit less. Average loan amounts by ethnicity vary a good deal more for BOT loans than they do for the state’s largest loan program, the Hinson-Hazlewood College Access Loan (HHL-CAL). The average loan for a White student is 20 percent higher than the average loan for an African American student and 27 percent higher than the average loan for an Hispanic student.

* In 2003, the Texas Legislature created the B-On-Time (BOT) Loan, a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale and also graduates within four years after entering a four-year institution (five years for architecture or engineering) or within two years after entering a two-year institution. It is not certain how many students will be able to benefit from the loan forgiveness component of the loan, as most students in the U.S. take longer than four years to graduate. About 23 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 1999 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 53 percent.

** Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $4.06 million in BOT loan volume for Award Year 2003-2004, $3.7 million, or 91 percent, is reported in the Financial Aid database.

HBCUs and HSIs Comprise 27 Percent of Enrollment and Receive 21 Percent of B-On-Time Loan Dollars

Texas has nine Historically Black Colleges and Universities (HBCUs) and 38 Hispanic-serving institutions (HSIs). The U.S. Department of Education defines HBCUs as institutions in which 25 percent or more of the student body is African-American. Hispanic-serving institutions are defined as those in which 25 percent or more of the student body is Hispanic and 50 percent or more of that Hispanic population is low-income. In 2003-2004, HBCUs and Hispanic-serving institutions comprised 27 percent of total Texas enrollment and received 21 percent of B-On-Time (BOT)* loan dollars**.

* In 2003, the Texas Legislature created the B-On-Time (BOT) Loan, a no-interest loan which may be forgiven entirely upon graduation if the borrower graduates with a Grade Point Average (GPA) of at least 3.0 on a 4.0 scale and also graduates within four years after entering a four-year institution (five years for architecture or engineering) or within two years after entering a two-year institution. It is not certain how many students will be able to benefit from the loan forgiveness component of the loan, as most students in the U.S. take longer than four years to graduate. About 23 percent of first-time, full-time freshmen who entered Texas public four-year universities in fall 1999 graduated within four years, but the average GPA for these students is unknown. The six-year graduation rate in Texas is 53 percent.

** Includes only the amounts reported in the Texas Higher Education Coordinating Board’s Financial Aid Database. The Financial Aid Database primarily records aid that was based on financial need, but may include some amounts that were not based on need. Of the $4.06 million in BOT loan volume for Award Year 2003-2004, $3.7 million, or 91 percent, is reported in the Financial Aid database.

Section 9

TG
One of TG's primary responsibilities is to protect lenders against borrower default. This enables lenders to make loans to students who have no credit history, collateral, or assurance of success in their program of study. The chart above displays loan volume by fiscal year, which begins in October and ends in September of the following year.

From Fiscal Year (FY) 1997-2001, TG's gross loan volume increased an average of seven percentage points annually. During this period loan demand tapered off and the Federal Ford Direct Loan program was established, taking a percentage of the Texas and national markets.

Since FY 2001, however, TG has experienced considerable increases, averaging 22 percent growth annually. Although growth has slowed down a little this year compared with the last several years, the 11 percent increase TG experienced in FY 2005 is still impressive. The following explanations likely explain this growth TG has experienced since 2001: (1) an increase in the number of borrowers, including substantial growth outside of Texas resulting from TG's national marketing efforts; (2) disparate growth between the costs of education and individual or family incomes; and (3) an unpredictable economy that may have caused workers to seek additional training while searching for new employment.

The number of Texas Guaranteed (TG) borrowers increased 13 percent in Fiscal Year (FY) 2004, marking the fourth straight year with double-digit growth. This increase can be attributed to many factors: (1) more people are seeking higher education; (2) family and individual income levels have not kept up with education costs, resulting in more students having to borrow to attend school; (3) an unstable economy, such as the one seen in recent years, can positively affect college attendance as workers seek additional training while searching for new employment; and (4) TG's national marketing efforts have brought in many new borrowers from outside of Texas.
The number of schools and originating lenders working with TG to provide student aid increased again in Fiscal Year (FY) 2005. Although the number of participating lenders has increased steadily since FY 1997, an increase in the number of participating schools has occurred only in recent years. Growth in both sectors most likely resulted from recent advancements in technology (especially electronic interface capabilities between TG and schools/lenders) as well as TG’s expansion into other states. Prior to FY 2002, the number of participating schools steadily decreased due primarily to increased oversight, with the result that many proprietary schools became ineligible for federally guaranteed student loans.

Top School Volume Increases, % of Total Decreases

Gross loan volume for TG’s top twenty schools increased by more than 114 million dollars in Fiscal Year (FY) 2005, a 7 percent increase from the previous fiscal year. This is the first year that over half (50.2 percent) of TG volume occurred at smaller schools.

**TG Top Originating School Volume, FY 2005 Gross**

<table>
<thead>
<tr>
<th>School</th>
<th>Loans (In Thousands)</th>
<th>Amount (In Millions of $)</th>
<th>% of TG Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. University of Texas at Austin</td>
<td>41.9</td>
<td>235.2</td>
<td>6.5</td>
</tr>
<tr>
<td>2. University of North Texas</td>
<td>35.0</td>
<td>159.7</td>
<td>4.4</td>
</tr>
<tr>
<td>3. University of Houston</td>
<td>27.8</td>
<td>142.6</td>
<td>4.0</td>
</tr>
<tr>
<td>4. University of Texas at San Antonio</td>
<td>33.0</td>
<td>137.7</td>
<td>3.8</td>
</tr>
<tr>
<td>5. Texas A&amp;M University</td>
<td>27.5</td>
<td>135.1</td>
<td>3.7</td>
</tr>
<tr>
<td>6. Texas Tech University</td>
<td>27.6</td>
<td>121.4</td>
<td>3.4</td>
</tr>
<tr>
<td>7. University of South Florida</td>
<td>42.2</td>
<td>105.0</td>
<td>2.9</td>
</tr>
<tr>
<td>8. University of Texas at Arlington</td>
<td>18.6</td>
<td>78.5</td>
<td>2.2</td>
</tr>
<tr>
<td>9. Baylor University</td>
<td>13.7</td>
<td>76.8</td>
<td>2.1</td>
</tr>
<tr>
<td>10. Texas Southern University</td>
<td>17.6</td>
<td>74.6</td>
<td>2.1</td>
</tr>
<tr>
<td>11. Texas Woman’s University</td>
<td>16.6</td>
<td>65.8</td>
<td>1.8</td>
</tr>
<tr>
<td>12. Southern Methodist University</td>
<td>7.9</td>
<td>61.9</td>
<td>1.7</td>
</tr>
<tr>
<td>13. Sam Houston State University</td>
<td>15.3</td>
<td>60.0</td>
<td>1.7</td>
</tr>
<tr>
<td>14. Texas Christian University</td>
<td>7.7</td>
<td>55.7</td>
<td>1.5</td>
</tr>
<tr>
<td>15. Stephen F. Austin State University</td>
<td>14.8</td>
<td>54.9</td>
<td>1.5</td>
</tr>
<tr>
<td>16. University of Texas at El Paso</td>
<td>14.0</td>
<td>54.8</td>
<td>1.5</td>
</tr>
<tr>
<td>17. University of Texas at Dallas</td>
<td>10.4</td>
<td>50.7</td>
<td>1.4</td>
</tr>
<tr>
<td>18. Prairie View A&amp;M University</td>
<td>9.8</td>
<td>43.3</td>
<td>1.2</td>
</tr>
<tr>
<td>19. Tarleton State University</td>
<td>10.5</td>
<td>42.6</td>
<td>1.2</td>
</tr>
<tr>
<td>20. Westwood College</td>
<td>10.6</td>
<td>41.3</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>402.5</strong></td>
<td><strong>1797.6</strong></td>
<td><strong>49.8</strong></td>
</tr>
</tbody>
</table>

In the rural areas of the state, TG’s Fiscal Year (FY) 2005 loan volume remains concentrated among a few schools. In regions that contain the state’s largest cities, however, loan volume is more widely distributed. In the East Texas region, for example, five schools account for 90 percent of regional loan volume, while in the Gulf Coast and the Metroplex the five schools with the largest loan volume account for a little more than half of regional volume. This is most likely due to the greater number of school choices that exist in the more urbanized regions of the state.

Four-Year Public Schools Account for Most Loan Volume

In Fiscal Year (FY) 2005, four-year public schools accounted for 64 percent of TG’s gross loan volume, about the same as the 65 percent posted the previous fiscal year. Two-year school volume increased (+1%), while four-year private and proprietary showed no changes from the previous fiscal year.

Comparing Texas regions reveals distinct differences. The three most northern regions (Panhandle, Metroplex and East) show the highest percentage of four-year private school volume, while the highest concentration of four-year public school volume appears along the coast and in West Texas. Two-year school volume appears consistent across regional lines, except for a higher percentage in East Texas. Proprietary school volume is relatively low in most regions except for West Texas and the Rio Grande Valley, where it is considerably higher than other areas.

<table>
<thead>
<tr>
<th>Region</th>
<th>Four-Year Public</th>
<th>Four-Year Private</th>
<th>Two-Year</th>
<th>Proprietary</th>
</tr>
</thead>
<tbody>
<tr>
<td>West</td>
<td>$95 Million 76%</td>
<td>$204 Million 59%</td>
<td>$9 7%</td>
<td>$21 17%</td>
</tr>
<tr>
<td>Central</td>
<td>$580 Million 63%</td>
<td>$203 Million 22%</td>
<td>$102 11%</td>
<td>$40 4%</td>
</tr>
<tr>
<td>East</td>
<td>$76 Million 57%</td>
<td>$250 Million 32%</td>
<td>$45 6%</td>
<td>$55 7%</td>
</tr>
<tr>
<td>Gulf Coast</td>
<td>$526 Million 76%</td>
<td>$67 Million 10%</td>
<td>$53 7%</td>
<td>$50 7%</td>
</tr>
<tr>
<td>Rio Grande</td>
<td>$65 Million 78%</td>
<td>$6 7%</td>
<td>$12 15%</td>
<td></td>
</tr>
</tbody>
</table>

In Fiscal Year (FY) 2005, four-year public schools accounted for 64 percent of TG’s gross loan volume, about the same as the 65 percent posted the previous fiscal year. Two-year school volume increased (+1%), while four-year private and proprietary showed no changes from the previous fiscal year.

Comparing Texas regions reveals distinct differences. The three most northern regions (Panhandle, Metroplex and East) show the highest percentage of four-year private school volume, while the highest concentration of four-year public school volume appears along the coast and in West Texas. Two-year school volume appears consistent across regional lines, except for a higher percentage in East Texas. Proprietary school volume is relatively low in most regions except for West Texas and the Rio Grande Valley, where it is considerably higher than other areas.

<table>
<thead>
<tr>
<th>School Type</th>
<th>Amount (in Millions)</th>
<th>% of Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Four-Year Public</td>
<td>$1,973</td>
<td>64%</td>
</tr>
<tr>
<td>Four-Year Private</td>
<td>$644</td>
<td>21%</td>
</tr>
<tr>
<td>Two-Year</td>
<td>$279</td>
<td>9%</td>
</tr>
<tr>
<td>Proprietary</td>
<td>$191</td>
<td>6%</td>
</tr>
</tbody>
</table>

TG Regional Volume Corresponds to Enrollment

For the most part, TG’s gross loan volume corresponds to enrollment levels across Texas regions. Central Texas, the Panhandle, and the Metroplex account for a greater loan volume proportion than their student population, while West Texas, Rio Grande Valley, East Texas, and the Gulf Coast receive somewhat less. Specifically, the Rio Grande Valley and West Texas comprised 12 percent of enrollment in Academic Year (AY) 2004-2005, yet received only 7 percent of TG loan volume.

Texas has nine Historically Black Colleges and Universities (HBCU) and 38 Hispanic Serving Institutions (HSI). According to the U.S. Department of Education, African-Americans comprise 25 percent or more of the student body at an HBCU. HSIs are defined as those schools in which 25 percent or more of the student body is Hispanic, of which 50 percent or more must be low-income. HBCU and HSI schools accounted for 26 percent of total Texas enrollment in fall 2004 while generating 23 percent of Fiscal Year 2005 TG loan volume.

TG lender volume was more widely distributed in Fiscal Year (FY) 2005. While the largest 20 lenders continue to provide about three-fourths of total TG loan volume, smaller lenders made market gains this past year. The top five lenders accounted for about half of TG volume in FY 2005, down from over two-thirds in FY 2004.

### TG Top Originating Lender Volume, FY 2005 Gross

<table>
<thead>
<tr>
<th>Lender</th>
<th>Loans (In Thousands)</th>
<th>Amount (In Millions of $)</th>
<th>% of TG Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bank of America</td>
<td>132.7</td>
<td>509.7</td>
<td>14.1</td>
</tr>
<tr>
<td>2. Wells Fargo Education Financial Services</td>
<td>118.6</td>
<td>499.4</td>
<td>13.8</td>
</tr>
<tr>
<td>3. Bank One</td>
<td>73.5</td>
<td>295.8</td>
<td>8.2</td>
</tr>
<tr>
<td>4. Chase (JPMorgan Chase Bank)</td>
<td>69.8</td>
<td>289.6</td>
<td>8.0</td>
</tr>
<tr>
<td>5. Citibank</td>
<td>47.0</td>
<td>194.7</td>
<td>5.4</td>
</tr>
<tr>
<td>6. Educaid (Wachovia Education Finance)</td>
<td>28.3</td>
<td>118.1</td>
<td>3.3</td>
</tr>
<tr>
<td>7. Frost National Bank</td>
<td>19.8</td>
<td>84.1</td>
<td>2.3</td>
</tr>
<tr>
<td>8. University Federal Credit Union</td>
<td>14.5</td>
<td>80.5</td>
<td>2.2</td>
</tr>
<tr>
<td>9. SLM Education Credit Finance Corp.</td>
<td>16.1</td>
<td>74.0</td>
<td>2.1</td>
</tr>
<tr>
<td>10. Plains Capital Bank</td>
<td>18.2</td>
<td>70.3</td>
<td>1.9</td>
</tr>
<tr>
<td>11. Student Loan Xpress, Inc.</td>
<td>15.5</td>
<td>63.3</td>
<td>1.8</td>
</tr>
<tr>
<td>12. Access Group</td>
<td>7.2</td>
<td>60.6</td>
<td>1.7</td>
</tr>
<tr>
<td>13. First Financial Bank</td>
<td>14.4</td>
<td>53.5</td>
<td>1.5</td>
</tr>
<tr>
<td>14. Suntrust Education Loans</td>
<td>15.2</td>
<td>49.0</td>
<td>1.4</td>
</tr>
<tr>
<td>15. College Loan Corporation</td>
<td>10.0</td>
<td>48.2</td>
<td>1.3</td>
</tr>
<tr>
<td>16. Compass Bank</td>
<td>10.8</td>
<td>44.3</td>
<td>1.2</td>
</tr>
<tr>
<td>17. Texas Bank</td>
<td>10.3</td>
<td>41.6</td>
<td>1.2</td>
</tr>
<tr>
<td>18. Parker College of Chiropractic</td>
<td>3.1</td>
<td>35.8</td>
<td>1.0</td>
</tr>
<tr>
<td>19. Union Bank &amp; Trust</td>
<td>8.5</td>
<td>35.7</td>
<td>1.0</td>
</tr>
<tr>
<td>20. Texas State Bank</td>
<td>10.2</td>
<td>34.6</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>643.9</strong></td>
<td><strong>2,682.9</strong></td>
<td><strong>74.3</strong></td>
</tr>
</tbody>
</table>

School location influences which lender students choose to finance their education, according to the above map of TG's Fiscal Year (FY) 2005 volume. Specifically, five different lenders occupied the top volume position in at least one of the state's seven regions. This, combined with the fact that only two lenders were among the top five lenders in every region, suggests that lender choice varies across regional lines. Interestingly, the region with the highest volume (Central) was also the one for which the top five lenders accounted for one of the smallest proportion of the region's market share.

Fewer TG Loans Are Being Sold

After lenders provide the capital for a student loan, they have the option of (a) retaining the loan, or (b) selling it to a financial institution called a secondary market. The graphs above reveal the following regarding secondary markets: a) roughly 80 percent of students who left school in Fiscal Year (FY) 2003 had their student loans sold, marking the fifth straight year showing a decrease in the percentage of loans sold from the previous fiscal year; and b) each of the top four loan holders for students leaving school in Fiscal Year (FY) 2003 has seen its assets increase by at least 75 percent since FY 2000. The chart below reveals that among the top ten loan holders for students leaving school in FY 2004, four are originating lenders. This may explain the decreasing percentage of loans sold over the past five years.

### TG’s Top Loan Holders (Borrowers Leaving School in FY 2004)

<table>
<thead>
<tr>
<th>Current Holder</th>
<th>Loans (In Thousands)</th>
<th>Amount (In Millions of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sallie Mae</td>
<td>246.8</td>
<td>832.0</td>
</tr>
<tr>
<td>2. Wells Fargo Educational Financial Services</td>
<td>74.8</td>
<td>271.2</td>
</tr>
<tr>
<td>3. Brazos Higher Education Authority</td>
<td>78.1</td>
<td>263.8</td>
</tr>
<tr>
<td>4. Panhandle Plains Higher Education Authority</td>
<td>63.4</td>
<td>190.1</td>
</tr>
<tr>
<td>5. LoanStar</td>
<td>59.7</td>
<td>189.8</td>
</tr>
<tr>
<td>6. North Texas Higher Education Authority</td>
<td>44.5</td>
<td>165.7</td>
</tr>
<tr>
<td>7. Citibank</td>
<td>26.6</td>
<td>96.4</td>
</tr>
<tr>
<td>8. Educaid</td>
<td>23.0</td>
<td>81.6</td>
</tr>
<tr>
<td>9. Bank of America Texas, N.A.</td>
<td>21.2</td>
<td>74.7</td>
</tr>
<tr>
<td>10. COSTEP/South Texas Higher Education Authority</td>
<td>23.1</td>
<td>62.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>661.3</strong></td>
<td><strong>2,227.9</strong></td>
</tr>
</tbody>
</table>

Top Loan Holders Compare Similarly Across Regions

After lenders provide the capital for a student loan, they have the option of (a) retaining the loan, or (b) selling it to a financial institution called a secondary market. With the exception of the Panhandle and Rio Grande regions, the top loan holder for students leaving school in Fiscal Year (FY) 2004 was the same across all regions: Sallie Mae (see map above). The only other holder that occupied a top five position in each Texas region was Wells Fargo Educational Financial Services. Note that the top loan holders for each region often control much more of the market share (to a much greater degree than originating lenders) than their nearest competitor, sometimes holding three times more volume than the next holder.

Top Servicers See Volume Grow, Market Share Drop

After lenders provide the capital for a student loan, they often delegate billing and account maintenance responsibilities to another institution called a servicer. Sallie Mae continued to be the largest servicer of TG student loans. Five years ago the top three servicers maintained almost 81 percent of the TG market; in FY 2005, the top three servicers administered only 45 percent. Finally, the past five fiscal years saw significant growth for four of the top five servicers, with each seeing their portfolio increase by at least 88 percent.

### TG Top Servicers (Borrowers Leaving School FY 2000–2005 includes originating lender)

<table>
<thead>
<tr>
<th>Servicer</th>
<th>Loans (In Thousands)</th>
<th>Amount (In Millions of $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sallie Mae Servicing Corporation</td>
<td>321.9</td>
<td>1,194.4</td>
</tr>
<tr>
<td>Wells Fargo Educational Financial Services</td>
<td>155.5</td>
<td>629.6</td>
</tr>
<tr>
<td>LoanStar Systems, Inc.</td>
<td>100.5</td>
<td>376.9</td>
</tr>
<tr>
<td>Affiliated Computer Services</td>
<td>82.3</td>
<td>351.8</td>
</tr>
<tr>
<td>Panhandle Plains Student Loan Center</td>
<td>97.8</td>
<td>345.9</td>
</tr>
<tr>
<td>EFSI</td>
<td>77.3</td>
<td>299.3</td>
</tr>
<tr>
<td>EdFinancial Services</td>
<td>55.5</td>
<td>246.5</td>
</tr>
<tr>
<td>Citibank, N.A.</td>
<td>58.1</td>
<td>239.2</td>
</tr>
<tr>
<td>NelNet Academic Loan</td>
<td>45.9</td>
<td>184.3</td>
</tr>
<tr>
<td>COSTEP Servicing Agent</td>
<td>36.8</td>
<td>120.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,031.6</strong></td>
<td><strong>3,988.4</strong></td>
</tr>
</tbody>
</table>

Regional Servicers Vary More Than Before

A servicer is an entity that maintains accounts and corresponding billing responsibilities for lenders after a student loan has been disbursed. Three servicers occupy the top volume position in at least one of the state's seven regions (see map below). This suggests, as is the case with gross loan volume, that where a borrower attends school may influence who administers his or her loan after departure from higher education. The top servicers no longer maintain a presence in all regions. For example, only two servicers appear on each of the top five regional lists below, whereas as many as four have appeared in recent years.

Student Debt in Texas
Median borrower indebtedness' (MBI) among TG borrowers more than doubled from Fiscal Year (FY) 1993 to FY 1999, primarily due to students becoming eligible for larger amounts of student loans\(^2\), the introduction of unsubsidized loans, and grant aid not keeping pace with increasing college costs. Student loans, along with money from part-time jobs and other forms of credit, frequently filled the gap between insufficient aid and higher costs. Many students paid for education and living expenses with credit cards and/or private loans at higher interest rates. Others increased the number of hours they devoted to work, sometimes jeopardizing their ability to keep pace academically.

Since FY 1999, MBI has leveled off and, in FY 2003, decreased for only the second time. MBI increased slightly in FY 2004, although not to the level of FY 2002. The recent reauthorization of the Higher Education Act (HEA) includes an increase in loan limits for first- and second-year Stafford loan borrowers. Therefore, it is likely that MBI will rise in the future; however, this effect will not be seen immediately.

\(^1\) A median is the point at which 50 percent of students borrowed less and 50 percent borrowed more. It represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower’s experience with student loans.

\(^2\) Freshman borrowers did not have their loan limits raised in 1993. They remain bound by the same annual loan limits ($2,625 for dependent students and $6,625 for independent students) that have been in place since 1986.

Median Borrower Indebtedness Remains the Same for Four-Year Schools, Increases for Short-Term Programs

In Fiscal Year (FY) 2004, median borrower indebtedness (MBI) of TG borrowers in four-year private and four-year public schools remained effectively at the same level as in FY 2003. However, the MBI for borrowers attending two-year and proprietary schools – school sectors with traditionally high default rates – increased between FY 2003 and FY 2004.

As one would expect, median borrower indebtedness (MBI) remains highest among borrowers who attended four-year universities. Beginning in 1993, students became eligible for larger loan amounts while the caps on borrowing were relaxed in a way that corresponded to the grade level of the student. Those in the higher grades became eligible for a greater loan amount than those in the lower grades, and so students attending four-year schools accrued larger debts than those attending shorter-term programs. However, the increase in loan limits approved in the recent reauthorization of the Higher Education Act (HEA) will particularly affect the overall MBI for two-year and proprietary schools, as the limits were increased only for Stafford loans borrowed during the first and second year of school.

1 A median represents a typical student debt better than an average since certain heavy borrowers — such as law and medical students — skew the average indebtedness statistic, making it a less reliable gauge of a representative borrower’s experience with student loans.
Median Borrower Indebtedness Trends Vary by Enrollment Status

From Fiscal Year (FY) 1993 to FY 1996 median borrower indebtedness (MBI) increased for all students regardless of whether the borrower completed his or her program of study. Since FY 1997, MBI has varied according to enrollment status. For graduated TG borrowers, MBI increased 58 percentage points from FY 1997 to FY 2001 before dropping in each of the following two years. However, MBI for TG borrowers who graduated before entering repayment increased between FY 2003 and FY 2004. In contrast, the MBI for borrowers who withdrew remained the same between 1999 and 2003, but decreased in 2004. Given the recently approved increases in loan limits, a rise in the MBI of borrowers who drop out of school will likely occur. Notably, a risk factor for defaulting on a student loan is withdrawal from school before program completion, in particular, during the first year. Because the changes in loan limits affect borrowers in their first two years of school, an increase in MBI could have the most significant impact for the borrowers at a higher risk for defaulting, those who withdraw from school.

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2 Some schools report enrollment updates to the National Clearinghouse while others report directly to the U.S. Department of Education (ED). Clearinghouse members, which constitute the majority of participating TG Schools, tend to report significantly more borrowers than ED as being "withdrawn", as opposed to "graduated", when they leave school. This will affect statistics reported according to enrollment status, although it is likely that the cohort size of each group listed above is large enough to minimize the chances of misinterpreting the data.

Looking at median borrower indebtedness among TG borrowers who either graduated, withdrew, or enrolled less than half-time in Fiscal Year (FY) 2004, we see that students who attended school in Central Texas or the Panhandle left with the highest debt load. Regions with few four-year schools and/or many two-year or proprietary schools had lower indebtedness (i.e. Rio Grande and West Texas) while regions with large four-year private school enrollments (i.e. the Metroplex and East Texas) had high MBI levels. The regions with the greatest increase in MBI were the Panhandle, Metroplex, and Rio Grande, with an increase of 8 percent in each of the three regions. The overall MBI for the state is $8,500.

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Federal programs accounted for most student loans in Award Year 2003-2004. In Texas, 98 percent of all student loans derive from federal programs. Texans have demonstrated a preference for the Federal Family Education Loan Program (FFELP), which relies on a public/private partnership of lenders, a state guarantor, and the federal government to provide loans to students.

Loan Choice Differs by Ethnicity

The major federal student loan program in Texas — the Federal Family Education Loan Program (FFELP) — serves a more ethnically diverse population than the Federal Direct Student Loan Program (FDSLSP). The subsidized options for both FFELP and FDSLSP, which require demonstrated financial need, serve a higher percentage of African American and Hispanic students than the unsubsidized option (which has no financial need requirement), but both options of FFELP serve a more diverse population than both options of FDSLSP. Data are not available for students who attend for-profit schools.

Defaults and Collections
As calculated by the U.S. Department of Education (ED), TG’s cohort default rate\(^1\) dropped .7 percentage point to 6.3 in Fiscal Year (FY) 2003. This marks the lowest rate in corporate history.

The lower rate can be attributed to several factors, including TG’s enhanced program review and default prevention. TG provides assistance to institutions in developing a whole-campus approach to supporting students in making wise borrowing decisions. Such default aversion activities include increasing education of the responsibilities associated with the acquisition of student loan debt, identifying borrowers at a high risk for defaulting, and augmenting the proactive strategies for limiting the likelihood of default. Another factor contributing to the decrease in default rates is the more frequent granting of forbearances, the temporary cessation or reduction of payments on a loan during a period in which a borrower is experiencing difficulties, such as economic hardship or illness. When used appropriately, forbearances are a useful approach to decreasing the likelihood that a borrower defaults on a student loan.

\(^1\) The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2003 cohort default rate, for example, is based on students who entered repayment during FY 2003 and subsequently defaulted before the end of FY 2004.
TG Cohort Default Rate Closer to National Average

TG's cohort default rate\(^1\) dropped to 6.3 percent in Fiscal Year (FY) 2003, marking the fourth time in five years that TG has pulled within two percentage points of the national average.

Although this rate represents the lowest in TG history, it continues to be higher than the national average. TG operates primarily within Texas where graduation rates lag behind national averages and proportionately less state grant money is available for needy students. In addition, compared to the nation as a whole, Texas has a higher proportion of borrowers with some of the strongest predictors of whether a student defaults – low GPA, part-time attendance, and full-time employment. The release of TG's Integrated Default Assistance (IDA) - a web-based tool that will help schools and lenders more effectively focus default prevention resources - should help continue to narrow the gap between TG and the national rate.

\(^1\) The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2003 cohort default rate, for example, is based on students who entered repayment during FY 2003 and subsequently defaulted before the end of FY 2004.

Overall, TG two-year and proprietary school borrowers defaulted at over twice the rate of four-year private and public schools in Fiscal Year (FY) 2003. Each school type saw a decrease in its cohort default rate\(^1\) from the previous year. Two-year schools experienced the greatest proportional decrease from FY 2002, dropping from 11.7 percent to 8.7 percent.

\(^1\) The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2003 cohort default rate, for example, is based on students who entered repayment during FY 2003 and subsequently defaulted before the end of FY 2004.
A borrower who graduates is much more likely to pay back his or her student loan than one who withdraws. This pattern exists for borrowers regardless of school type, with the greatest disparity resting in four-year public schools, the largest sector in Texas served by TG. A four-year public school graduate, for example, is nearly five times less likely to default than someone who withdrew from the same school.

¹ The cohort default rate is the percentage of students with loans entering repayment in a given fiscal year who default on their obligations before the end of the next fiscal year. The FY 2003 cohort default rate, for example, is based on students who entered repayment during FY 2003 and subsequently defaulted before the end of FY 2004.
Default Claims Increase

From FY 1998 to FY 2000, TG default claims dropped due to statutory changes that extended the filing date for defaults by three months. From FY 2000 to FY 2002, claim amounts increased by 111 million dollars due to, among other things, (1) a change in default aversion request policies between Texas Guaranteed and participating lenders, and (2) an unstable economy. Despite an increase in the number of borrowers entering repayment, FY 2003 and FY 2004 claim amounts remained steady, probably due to TG's enhanced program review and default prevention efforts. However, there was a spike of 119 million dollars in the dollar amount of claims in FY 2005, resulting at least partially from a shift in TG's portfolio. More specifically, the percentage of consolidation loans in TG's portfolio has recently increased significantly, as a result of a change in policy and a push towards consolidation of loans after interest rates dropped. Traditionally, consolidation loans are for larger amounts than are other student loans. Thus, even though the number of actual claims effectively did not change between FY 2004 and FY 2005, the amount paid in default claims rose considerably.

Many Defaulted Borrowers Make Good On Their Debt

Since TG’s inception, over half of the borrowers with default claims have paid off their debt or are currently in repayment. Specifically, nearly 54 percent have all of their claims paid-in-full, while another three percent appear to have made a payment in the last three months. Twenty-five percent have at least one claim in collections, meaning there have been no payments made during the last 90 days. The claims of eighteen percent are not collectible due to death, disability, bankruptcy-discharge and subrogation (i.e. assumed possession) by the U.S. Department of Education.

TG Recovery Rates Increase

In order to prevent defaults, TG assists lenders in “curing” delinquent loans. A cure involves contacting borrowers (via phone calls, letters, etc.) in an effort to bring them back into repayment before the loan defaults.

If these efforts fail and the loan defaults, TG tries to bring the borrower into repayment using numerous collection strategies. These include letters, phone calls, credit reporting, professional license denial, wage garnishment, and state warrant holds. Using these strategies, TG’s collection recovery rate\(^1\) has grown steadily. FY 2005 marked the largest single year rise in the last decade, an increase from 25 percent in FY 2004 to 29 percent in FY 2005.

\(^1\) Collection recovery rates are the amount of loan collections in a given fiscal year divided by the balance of accumulated defaults at the beginning of that year.

TG Collection Amounts Maintain Pace

TG's collection amount has grown steadily over the last ten years. Following a drop in 2001, collections have increased over the last four years, with Fiscal Year (FY) 2005 showing the highest amount collected to date.
