30

Change and opportunity for students

TG CELEBRATES **30 YEARS** IN HIGHER EDUCATION

2009 TG ANNUAL REPORT

TG™

Contents

Introduction

TG CELEBRATES **30 YEARS** IN HIGHER EDUCATION

Measures of corporate strength come in many forms. It is a measure of TG's strength that, during a challenging time in the nation's economy, not to mention the student loan industry, TG has experienced success in its initiatives, stability in its financial base, and growth in its efforts to help families and students pursue a higher education.

These accomplishments bear witness to TG's belief in the value of serving the higher education community. For almost three decades, TG has worked to promote college access and student success. That mission marked many of TG's efforts in the last year. It will continue to provide a cornerstone for our business in years to come. This Annual Report helps to illustrate how TG's mission guides all of our endeavors, from training services and policy guidance to financial literacy tools and default prevention services.

By diligently pursuing our mission, building on our business strengths, and expanding our knowledge of the technology, methods, and environment that provide the framework for the delivery of student financial aid, TG continued to enhance its role as an advocate for student loan borrowers throughout the nation.

To TG's *stakeholders*

A FEW WORDS COME TO MIND WHEN WE LOOK BACK ON THE LAST FISCAL YEAR: CHANGE, OPPORTUNITY, AND GROWTH.

MS. DORA ANN VERDE
Chair, TG *Board of Directors*

SUE McMILLIN
TG *President and CEO*

As we reach our 30th year of service in support of higher education for students and families, we are witnessing a transition to a new administration. With this change, the student loan industry continued to evolve. The federal government has worked to sustain access to funds for higher education in these challenging economic times, and to examine the structure and costs of the student loan program.

The Pew Charitable Trust reported that enrollment rates for institutions of higher education have continued to increase, as almost 11.5 million young adults aged 18 to 24 enrolled in either a 2- or 4-year college in October. As enrollment rates have grown, the student population continued to diversify. And as the industry has evolved, participants have prepared to respond in order to increase educational access and awareness for students and families throughout the nation.

Throughout these changes, TG continued its commitment to delivering the highest quality products and services, focusing its efforts on promoting opportunities that have the greatest effect on students and their families.

One of TG's fundamental goals has remained to provide students with the skills necessary to effectively manage their personal finances. We recognize that students continue to face increasing levels of debt, not only as they invest in higher education, but also as they manage the financial challenges presented by the current economy. We worked throughout the year to reach more students with our financial literacy tools and resources, which include the launch of an online forum for professionals involved in promoting financial literacy and the introduction of a new training materials on money management for undergraduate and graduate students.

We have also continued to provide schools and lenders with products and services that help them support students and families in accessing higher education and managing educational debt. We introduced List Assist℠, a new survey tool that

TG'S **VISION**

Our vision is to be the premier source of information, financing, and assistance to help all families and students realize their educational and career dreams.

can help schools add objectivity to their lender list evaluation process, enhanced AdvanTG Web™ (TG's flagship student loan management system) and educated many borrowers about the new Income-Based Repayment program that could provide more affordable repayment options.

As we pursued these efforts, we maintained our strong financial position as a national guarantor. By the conclusion of last fiscal year, TG made total guarantees of more than $10.3 billion. TG has guaranteed more than $71 billion in Federal Family Education Loan Program (FFELP) loans since its inception, representing almost 4.4 million borrowers. And we were able to help borrowers resolve 418,124 delinquent loans, averting approximately $4.2 billion in potential student loan defaults.

We recognize that much of our success is due to attributes such as perseverance, organizational strength, and expertise in student borrower needs. We will continue to use these attributes to build a path into the future.

We offer TG's Annual Report for FY 2009 both as a record of our continued successes and as a demonstration of our ongoing commitment to support the needs of students and families. We recognize that by maintaining a focus on our vision, we will continue to make a difference for future generations.

Sue McMillin
TG President and CEO

Ms. Dora Ann Verde
Chair, TG Board of Directors

TG *Board of Directors*

Ms. Dora Ann Verde
Chair
San Antonio

Mr. Ivan A. Andarza
Vice Chair
Austin

Ms. Yvonne Batts
Secretary
Abilene

Mr. Steven "Wroe" Jackson
Austin

Dr. F.H. "Skip" Landis
College Station

Dr. Richard M. Rhodes
El Paso

Dr. Michael J. Savoie
Justin

Dr. Connie S. Sitterly
Fort Worth

Mr. Welcome W. Wilson, Jr.
Houston

Mr. Phil W. Worley
Bruni

The Honorable Susan Combs
State Comptroller of Public Accounts
Austin

TG *Senior Management Team*

Sue McMillin
President and Chief Executive Officer

Lloyd Dodge
Senior Vice President, Information Technology

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

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

Kim Alexander
Vice President, Customer Focus

Phillip Cervin
Vice President, Collections

Rinn Harper
Vice President, Operations

Carol Lindsey
Vice President, Policy and Compliance

John Zanot
Vice President, Marketing and Product Management

TG *Celebrates 30 Years of Student Success*

Perseverance, Strength, and Expertise

Change is essential for growth and development. In the past year, change was a significant theme in the student loan industry, presenting challenges and opportunities for growth. And, more than anything, it has demonstrated how TG's vision has been, and will continue to be, essential to TG's efforts at providing college access for students across the nation.

TG held strong to its vision and resolve to serve as an advocate for students and families in pursuit of higher education. By demonstrating perseverance, building on its strengths, and providing valued expertise, TG served an essential role to a growing and diversifying student population.

In FY 2009, TG continued to help a growing number of students access funds to begin or continue postsecondary education. TG guaranteed more than 10 percent of all federal student loan funds awarded to students across the nation, and almost 80 percent of all federal student loan funds awarded in Texas. TG guaranteed the second highest dollar amount in FFELP loan volume in the nation, for Stafford and PLUS loans combined. TG demonstrated strength in its financial health as well; TG's federal fund reserve ratio continued to grow, and remains the best among the largest guarantors and second among all guarantors. Throughout the year, TG enhanced and added products and services while serving more students. And, for the fourth consecutive year, TG subsidized the federal default fee for federal Stafford, PLUS, and Grad PLUS loans, thereby delivering more savings to borrowers.

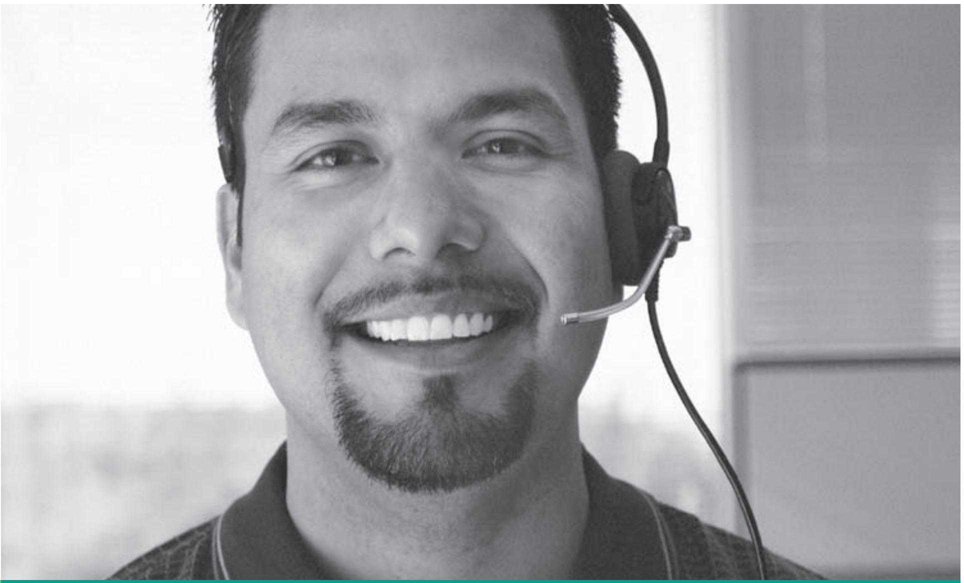
Looking back over the past 30 years, it is clear these successes resulted from several key factors. TG persisted in delivering exceptional service and products to families, students, and other industry participants. TG has built and expanded upon its resources to create offerings that improve financial access to higher education to increasing numbers of students. And, TG has built upon decades of experience to offer expertise to an expanding base of customers.

30 YEARS OF STUDENT SUCCESS

1994

TG creates borrower advocate

TG established an ombudsman to serve as an impartial liaison between borrowers and lenders to help resolve issues that borrowers alone would be less likely to navigate.



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Preventing default and serving as an advocate for borrowers

Building awareness for a new repayment program

In July, a new student loan repayment plan, Income-Based Repayment (IBR), became available to qualifying FFELP and Federal Direct Loan Program (FDLP) borrowers. Unlike other repayment plans, which may require a one-size-fits-all payment amount, IBR establishes a monthly payment that looks at each borrower's unique situation by considering his or her income, family size, and federal student loan debt.

To help inform borrowers about IBR, TG provided several convenient resources, including a Web page that offers answers to frequently asked questions about the repayment plan, and a calculator tool to help borrowers estimate monthly payments based on variables related to eligibility criteria. TG also sent letters to borrowers with TG-guaranteed loans who might be eligible for the new repayment plan.

In FY 2009,
TG processed applications that resulted in more than

$8.5 million

in teacher loan forgiveness for 1,240 teachers.

Assisting eligible teachers with loan forgiveness

A large cohort of teachers applying for loan forgiveness through the federal Teacher Loan Forgiveness Program became eligible to receive benefits in the last fiscal year. TG's customer assistance team processed applications to forgive more than $8.5 million in loans for 1,240 teachers.

TG's default prevention team helped almost 418,200 borrowers avoid default on more than

$4.2 billion

in student loans in FY 2009.

Offering online account management for borrowers

When students graduate or leave school, they often have multiple priorities to manage: finding a job, relocating to a new city or town, and, of course, repaying any student loans they borrowed. Sometimes, demands on time can make it hard for borrowers to stay current on their loan obligations. In 2009, TG introduced a new account management tool, myTG℠, that allows borrowers to manage their TG accounts online and stay on track to repayment.

Using myTG, borrowers can view a summary of their TG-guaranteed loans, access detailed account information on each loan, and review payment histories for any defaulted loans. The tool also offers access to other information and forms on default prevention, deferments and forbearances, rehabilitation, and loan discharge and forgiveness.

Helping schools analyze default trends and communicate with borrowers

In 2009, TG introduced an enhanced version of its default management tool — the Integrated Default Assistant™ (IDA™). IDA is an online interactive application that helps schools, lenders, and servicers address their default aversion goals for TG-guaranteed loans. Among other things, IDA helps schools identify borrowers at risk of defaulting on their student loans, and facilitates communication with these borrowers. IDA offers the ability to forecast a 3-year cohort default rate for a school's TG-guaranteed loans, and to generate letters in English or Spanish for borrowers at risk of default.

Assisting borrowers back into repayment

Each month, TG's default prevention team performs work vital to students and parents, especially as economic uncertainty affects more borrowers entering repayment. Default prevention offers borrowers guidance through thousands of conversations conducted via telephone and e-mail. Over the course of the fiscal year, the team helped almost 418,200 borrowers avoid default on over $4.2 billion in student loans.

Promoting the value of higher education, and supporting student persistence and success

Building awareness of education among secondary students and their families

This year, members of the TG Ambassador Program worked with students and parents at more than 140 events. TG's ambassadors regularly provide families with financial aid knowledge and personal inspiration that can make college seem possible. They attend financial aid fairs and college preparation workshops at high schools, colleges, community centers, and faith-based venues, offering short presentations and answering questions, describing the benefits of postsecondary education, and explaining the financial aid and admissions processes. TG also hosted the annual Free Application for Federal Student Aid (FAFSA) telethon, a multiple-day event that promotes completion of the FAFSA to students and their families throughout Texas.

Informing higher education professionals about student persistence and success

TG held three Student Success Symposia for community colleges, independent colleges, and public universities interested in improving student persistence and success. These symposia, which provided unbiased training for industry practitioners interested in improving student enrollment, retention, and graduation rates across the academic community, were offered in three locations across the nation. The symposia offered comprehensive enrollment management planning, including some practical steps for serving students.

In 2009, TG published four quarterly issues of the *Enrollment Management Journal: Student Access, Finance, and Success in Higher Education*, a scholarly publication developed in collaboration with the University of Nebraska–Lincoln. This refereed journal publishes substantive articles on enrollment management research and offers strategies for improving student access and success.

Encouraging access through funding and research

TG awarded competitive grants through its Public Benefit Grant Program for the fifth consecutive year, as part of the corporation's primary philanthropic initiative. For the 2008–09 academic year, TG awarded more than $5.5 million in competitive grants to 51 institutions and nonprofit organizations to advance college access, student retention, and educational research. TG continues to administer this program based solely on merit and need, and without regard to our business or any form of *quid pro quo* consideration.

TG also awarded grants through its Charley Wootan Grant Program. During the 2008–09 academic year, TG distributed almost $2 million in need-based grants to 648 students nationwide, providing up to $4,245 per student. TG has awarded nearly $8 million since 2000, when it established the program in honor of the late Dr. Charley V. Wootan, a former chair of TG's Board of Directors.

During the 2008–09 academic year,
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Promoting successes and best practices in financial aid

This year, TG published four issues of *TG Connection*, TG's industry magazine on financial aid trends and issues. Distributed to more than 3,000 financial aid and higher education professionals throughout the nation, this year's issues focused on such topics as serving students during tough economic times, nurturing local communities, building fulfilling careers and boosting morale in financial aid offices, and making a difference in the educational lives of students.

TG produces a variety of publications to inform student loan borrowers about their options and obligations, and to help students and families finance and access a higher education. In FY 2009, TG printed more than 4.4 million pieces of information, and fulfilled more than 5,000 orders, an increase of over 60 percent over the previous year.

30 YEARS OF STUDENT SUCCESS

2001

TG selected for VFA

TG was selected to participate in one of the Voluntary Flexible Agreements (VFAs) with the Secretary of Education, authorized by the Higher Education Amendments of 1998. These agreements between approved guarantors and the Department were designed to allow guarantors to identify and demonstrate more efficient and effective means of managing the FFELP.

Improving financial literacy efforts, and encouraging effective repayment practices

Making smart decisions about managing money is becoming ever more important for students. Average student loan debt has doubled over the past decade, and a majority of students now have credit cards and accumulate thousands of dollars in additional debt by the time they graduate. More and more, colleges and universities are recognizing the need to teach students basic skills for financial survival and success.

Bringing practitioners together to collaborate on financial literacy

To support colleges and universities in teaching students basic financial skills, TG held two financial literacy symposia in 2009. The symposia brought together experts from the higher education community to discuss strategies for developing on-campus financial literacy programs. Both events were recorded and posted on TG's Positive+Balance Community℠, an online forum for financial aid professionals and educators seeking financial literacy solutions and program support.

TG launched the Positive+Balance Community℠ this fiscal year to support institutions and organizations working to improve financial literacy skills among secondary and postsecondary students, and more than 390 members joined the community. Forum members can download financial literacy courses, presentations, and training

Positive+Balance Community℠

www.PositiveBalance.org

aie

www.AIE.org

materials prepared by TG and other organizations. They may also post their own program content for peer feedback, or use the site to collaborate with other institutions in developing new materials. As a one-stop resource, the online forum hosts a Community Blog section, provides the latest news regarding financial literacy, and offers recommended Web links that include sites specifically geared to students seeking financial literacy information and other government resources.

Offering families and students convenient money management and higher education resources

To inaugurate a new academic year for its college- and career-planning Web site, TG unveiled a redesign of *Adventures In Education* (AIE™). The site features reorganized content corresponding to the stages of preparing for college and career, including planning and paying for college, finding a job, and managing money. AIE's information and resources are packaged in a new design that emphasizes interactive learning. In FY 2009, *Adventures In Education* had more than 5 million page views, averaging more than 14,000 page views per day. More than 9,000 students subscribed to *AIEmail*, a weekly electronic newsletter, and more than 1,500 high school counselors participated in the Counselors Network, a collaborative tool to share information and best practices for supporting students.

To support the continuing needs of financial literacy trainers and professionals, TG introduced many new training presentations through the comprehensive Positive+Balance™ financial literacy training program. Topics range from understanding advertising and consumer spending to dealing with debt after college.

Delivering products and services that enhance access to higher education

Providing families and students with answers to their questions

TG's customer assistance team offers comprehensive loan support, answering questions about every phase in the life of a loan. The team acts as the Texas Financial Aid Information Center for Texas families and students. TG offers the Center in collaboration with the Texas Higher Education Coordinating Board at no cost to the State of Texas. For the fiscal year, TG's customer assistance earned a customer satisfaction score of 4.83 out of 5.0.

Providing training to enhance industry knowledge

TG offers industry and skill development programs to its customers and industry-based organizations through the TG Speakers Bureau and TG's Positive+Balance™ workshop series. TG Speakers Bureau programs are available on a variety of regulatory, industry, and professional development topics. TG presented more than 150 sessions at various events in the last year, in over 30 states and the District of Columbia. Positive+Balance also had another successful year, providing information to session trainees at more than 80 events across the nation.

Each year, TG also hosts the TG Annual Training Conference, a multiple-day event bringing together financial aid professionals for training on a variety of topics including industry trends, student loan administration, TG products and services, and professional development. In FY 2009, the TG Annual Training Conference received a customer satisfaction score of 4.43 out of 5.0.

TG understands that schools face multiple challenges in constructing a training plan for staff members who are new to financial aid. Timing, cost, and staffing seem to present the greatest issues. To address this situation, TG introduced "Financial Aid for Rookies," a series of Web-based, on-demand modules providing schools with a flexible way to access financial aid training. Designed to save school administrators time and travel expenses, these training programs allow financial aid professionals to enhance their skills at their convenience, from their office.

Offering helpful tools to manage the student loan process

Students and parents face many decisions when financing a higher education. A lender list can be a valuable resource that helps them with one important step: choosing a lender. Many schools recognized the value of a lender list, and were looking for an easier way of capturing information to create such a list.

To help schools with this process, TG introduced List Assist℠, a new lender survey tool. List Assist provides an automated, online process for creating and managing surveys. List Assist helps schools query lenders and compare information electronically, tailor surveys to focus on the needs of students, tabulate scores, and even print reports to evaluate lender responses. For lenders, it provides a convenient way for responding to requests for information (RFIs) and — for lenders registered with TG — serves as a tool for tracking and managing survey requests from multiple schools. Within the first six months, more than 140 schools subscribed to List Assist.

www.tgslc.org

TG also launched a revised and redesigned version of its corporate Web site, *TG Online*. Crafted to provide financial aid information in a more efficient way, the improved Web site maintains the full inventory of TG tools and publications, including *School Fact Sheets, Shoptalk*, and financial literacy resources. The site also helps families and students learn more about federal student loan programs, including how to apply for federal student aid and how to manage student loan debt.

In FY 2009, *TG Online* had more than 3.9 million page views. More than 450 articles were published in *Shoptalk*, TG's weekly electronic industry newsletter, and more than 250 school fact sheets and 150 lender fact sheets provided visitors with helpful information on schools and lenders working with TG in the FFELP.

Offering tools that simplify loan processing and reporting

To support borrowers, TG provides a suite of tools to help schools originate, manage, and disburse student loans. TG's flagship tool, AdvanTG Web™, offers schools the ability to track and report on loan origination and disbursements, and TG Loans By Web™ is a Web-based interface that allows borrowers to accept loans.

In 2009, TG unveiled enhancements to both products. Modifications to AdvanTG Web simplified change transaction management and opened loan processing to any combination of FFELP lender, school, and guarantor. TG Loans By Web was enhanced to offer an option to e-sign a promissory note in cases where the lender does not provide the service or prefers that TG provide it.

Managing record levels of loan guarantees

FY 2009 brought many changes to lender program participation levels, and TG's guarantee, support, and reporting team continued to work to connect borrowers with available lenders. TG's loan guarantee operations team processed a net guarantee volume of 1,879,483 loans. The biggest processing dollar volume day was on August 10, when the dollar volume exceeded $187 million. On August 24, TG guaranteed 38,508 loans, the most loans in a single day in its history.

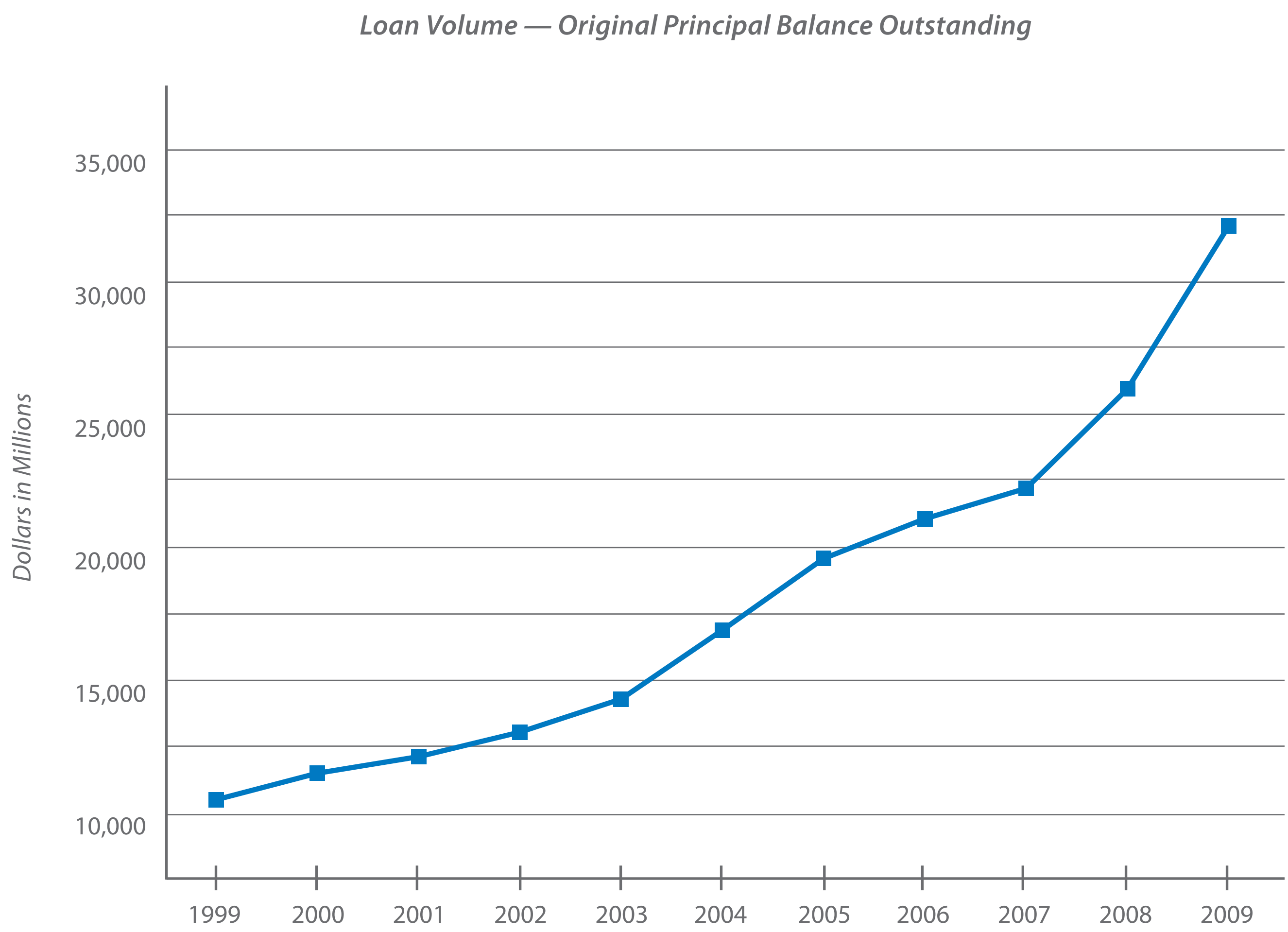
30 YEARS OF STUDENT SUCCESS

1996

TG helps launch *Mapping Your Future*®

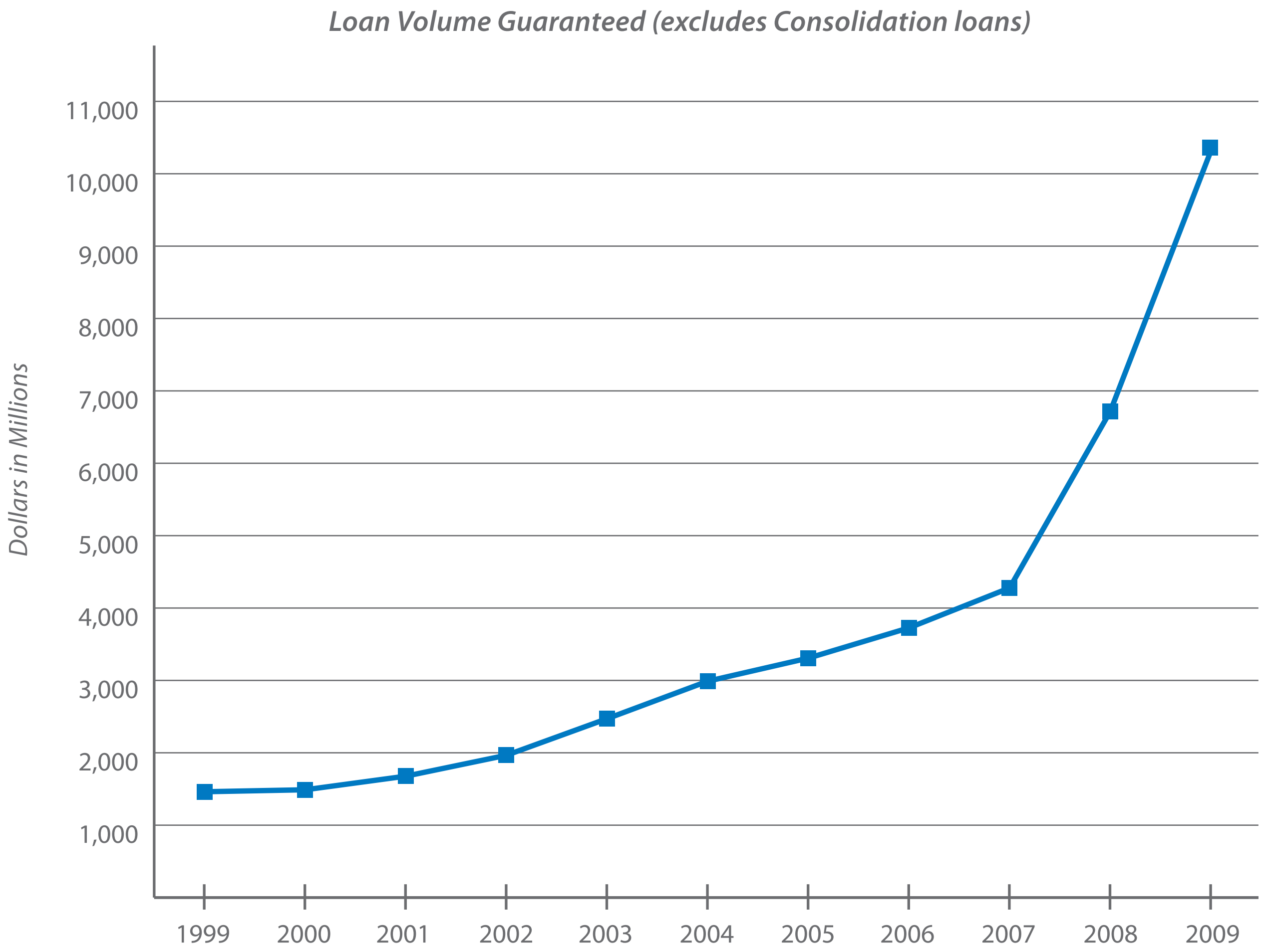
TG played an important role in the founding of *Mapping Your Future*®, used by many schools throughout the student loan industry for the management of online student loan counseling.

Guarantee Volume



Total loans TG holds, including all balances outstanding, through FY 2009:

$32,144,967,000



TG total gross loan volume for FY 2009 (excluding Consolidation loans)

$10,328,641,752

TG *Timeline*

30 years

1979
Texas Legislature passes HB 38 to create TG

1980
Inaugural meeting of TG's Board of Directors

Joe McCormick named TG's first president and chief executive officer (CEO)

1981
TG guarantees its first student loan

1986
TG's cumulative guarantee amount reaches $1 billion

1987
TG introduces new loan guarantee mainframe system

1988
TG hosts first default conference for financial aid professionals

1989
TG receives a successful initial review by the Texas Sunset Advisory Commission

TG's Loan Information Network Clearinghouse (LINC) software becomes available

1994
TG publishes first edition of *School Fact Sheets*

1995
Texas Legislature grants TG authority to guarantee loans for other states

TG debuts award-winning *Adventures In Education* Web site for families and students seeking information on planning for college and careers

1996
TG serves as founding co-sponsor for *Mapping Your Future®*

TG Loans By Phone℠ debuts

TG hosts the first ever FAFSA Teleconference, a program broadcast and distributed throughout Texas to provide students and families with step-by-step instructions on preparing the Free Application for Federal Student Aid

1997
TG achieves cumulative loan volume of $10 billion

TG forms the Council for the Management of Educational Finance, the first industry committee of schools, lenders, servicers, secondary markets, and TG focused on student debt management

2002
TG launches AdvanTG Web™ — its premier Web-based loan management product

TG establishes a delinquency prevention call center unit to focus on borrowers in grace and early repayment

2003
TG is the first guarantor to announce its ability to process PLUS Loan Application and Master Promissory Note (MPN)

2004
Sue McMillin named TG president and CEO

TG collaborates with industry participants to publish the first *English-Spanish Glossary of Student Financial Aid and Higher Education*

TG introduces the Integrated Default Assistant™, or IDA™, a versatile tool for tracking and managing TG cohort default rate performance

2005
TG establishes the Center for Financial Aid Policy in Community Colleges

TG launches Positive+Balance™, a financial literacy and debt management training program

The Texas Legislature reauthorizes TG's continuation after a successful second review by the Texas Sunset Advisory Commission, and mandates that TG become even more involved in educational outreach and awareness activities in Texas

TG

1982
TG begins processing PLUS loans

1983
More than $400,000 in defaulted loans are recovered

1984
Lender participants expand to 673, offering statewide access to funding for higher education

1985
TG fully automates its preclaims (now known as default prevention) and claims operations, installs a new database management system, and converts to more efficient accounting software

1990
Shoptalk, TG's award-winning newsletter for financial aid professionals, debuts

TG is among the first FFELP industry participants to hire dedicated default aversion consultants to provide training, support, and assistance directly to schools

1991
The first TG conference is held in Austin

TG launches the Texas Electronic Exchange Network (TexNet) system, which allows electronic funds transfer (EFT)

1992
TG guarantees loan for millionth borrower

Dan Pearson named interim TG president and CEO

1993
Milton G. Wright named TG president and CEO

1998
AdvanTG™ (desktop) premieres

TG pilots Instant Guarantee, which evolves into TG Loans By Web™

1999
TG launches *TG NetWorks*, an electronic publication delivering late-breaking industry news and information directly to a subscriber's personal computer

2000
TG develops an integrated version of the *Common Manual* and provides it to the FFELP community

2001
U.S. Department of Education grants TG's proposal to operate under a Voluntary Flexible Agreement (VFA)

TG introduces the Speakers Bureau, a team of student financial aid, higher education, and professional development trainers and experts available to schools for training programs and speaking engagements

2006
TG celebrates 25 years of guarantees; TG's Public Benefit Grant Program awards more than $1.8 million to 20 institutions and nonprofit organizations

TG begins hosting the FAFSA Telethon, a statewide awareness campaign broadcast through television networks to inform families and students about the availability of financial aid, and access to higher education, to both English- and Spanish-speaking audiences

2007
TG launches Versatile Routing, a TG proprietary service that simplifies and enhances guarantee processing, routing, and reporting for lenders that use a single lender identification number (LID) with multiple servicers to obtain TG loan guarantees

2008
TG publishes the first issue of *Enrollment Management Journal: Student Access, Finance, and Success in Higher Education*, a new scholarly, refereed publication developed in collaboration with the University of Nebraska – Lincoln

2009
TG launches the Positive+Balance Community℠, a social networking site created to foster dialogue among financial aid professionals who are developing and managing financial literacy initiatives

Advisory Committees* for FY 2009

LENDER ADVISORY COMMITTEE

Nanci Twardowski
(Lender Chair)
Access Group
Wilmington, Delaware

Joe Burnett
First National Bank Texas
Killeen, Texas

Katherne Carson
(Statutory Representative)
Texas Higher Education Coordinating Board
Austin, Texas

Amanda Dickinson
(President, Association of Texas Lenders for Education)
First National Bank Texas
Killeen, Texas

Paige Hendricks
Edamerica
West Monroe, Louisiana

Memory Keeler
Sallie Mae
Crockett, Texas

Sherry Schroeder
Aggieland Credit Union
College Station, Texas

Brian Sunshine
Nelnet
Salado, Texas

Joe Vargas
Security Service Federal Credit Union
San Antonio, Texas

Zack Workman
Herring Bank
Amarillo, Texas

SCHOOL ADVISORY COMMITTEE

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

Toni Bryant
Schreiner University
Kerrville, Texas

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

Carolyn Cunningham
University of North Texas
Denton, Texas

Laura Elizondo
Texas A&M International University
Laredo, Texas

Karen LaQuey
Wayland Baptist University
Plainview, Texas

Lisa McGaha
University of Texas Southwestern Medical Center at Dallas
Dallas, Texas

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

Rick Moreno
Laredo Community College
Laredo, Texas

Joe Pettibon
Texas A&M University
College Station, Texas

Rick Renshaw
(President, Texas Association of Student Financial Aid Administrators)
Dallas County Community College District
Dallas, Texas

Peggy Rogers
ATI Technical Training Center
Dallas, Texas

Jackie Stevens
Parker College of Chiropractic
Dallas, Texas

Albert Tezeno
Texas Southern University
Houston, Texas

John Wood
The Ocean Corporation
Houston, Texas

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Linda Gonzalez-Hensgen
(Chair)
El Paso Community College
El Paso, Texas

JimAnn Batenhorst
South Plains College
Levelland, Texas

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

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

Henry Garcia
Del Mar College
Corpus Christi, Texas

Noé C. Ortiz
Alamo Community College District
San Antonio, Texas

Bill Spiers
Tallahassee Community College
Tallahassee, Florida

David Ximenez
Tarrant County College
Fort Worth, Texas

Anafe Robinson
Pierce College
Woodland Hills, California

TG USERS GROUP

Rhonda Beauchamp
Texas State Technical College – Waco
Waco, Texas

Stephen Brower
Hardin-Simmons University
Abilene, Texas

Cindi Pedersen
Bethel College
Mishawaka, Indiana

Mary Teel
Texas A&M University
College Station, Texas

Nancy VanBoskirk
University of North Texas Health Science Center
Fort Worth, Texas

Grace Zapata
St. Philip's College
San Antonio, Texas

Lenders

Jason Lolley
Sallie Mae
Lynn Haven, Florida

Vicki Smith
Panhandle-Plains Student Loan Center
Canyon, Texas

COUNCIL FOR THE MANAGEMENT OF EDUCATIONAL FINANCE

Jeannie Gage
(Co-chair and At-Large Member)
Texas A&M University – Corpus Christi
Corpus Christi, Texas

Phillip Wambsganss
(Co-Chair)
North Texas Higher Education Authority, Inc.
Arlington, Texas

Lynn Barnes
Texas A&M University
College Station, Texas

Terry Bazan
Austin Community College
Austin, Texas

Darlene Brasington
Affiliated Computer Services, Inc.
Canyon, Texas

Brent Cejda
(At-Large Member)
University of Nebraska – Lincoln
Lincoln, Nebraska

Jeff Dennis
(National School Representative)
Southern Wesleyan University
Central, South Carolina

Michelle Enriquez
Wachovia Education Finance
Austin, Texas

Shanna R. Hollis
(TASFAA Representative)
Texas Wesleyan University
Fort Worth, Texas

Melet Leafgreen
Texas Christian University
Fort Worth, Texas

Desiree Nelson
(ATLE Representative)
San Antonio Federal Credit Union
San Antonio, Texas

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

Jennifer Phillips
Western Technical College
El Paso, Texas

Robert Sheridan
University of Houston – Downtown
Houston, Texas

Bill Spiers
(National School Representative)
Tallahassee Community College
Tallahassee, Florida

Brian Sunshine
Nelnet
Salado, Texas

* Committee membership as of September 30, 2009
** Permanent positions

Resources

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(800) 252-9743
(512) 219-5700

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Round Rock, TX 78683-3100

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301 Sundance Parkway
Round Rock, TX 78681

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

TG Web Sites
www.tgslc.org
www.AIE.org
www.positivebalance.org

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

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

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

Customer Assistance
The Customer Assistance team answers questions about all aspects of the FFELP for a wide range of TG customers: borrowers, schools, lenders and servicers, prospective students, and their families.
(800) 845-6267
(512) 219-4633 — fax
cust.assist@tgslc.org

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

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

Guarantee, Support, and Reporting
Guarantee, Support, and Reporting (GSR) includes the Loan Guarantee Operations, Product Support, and Data Reporting teams. GSR works with TG borrowers and business customers to process loan guarantees and disbursement changes. The team is also responsible for federal reporting on loans and provides technical support for TG's products and services.
Loan Guarantee Operations — (800) 446-5616
lgo.helps@tgslc.org

Product Support — (800) 332-1455
product.support@tgslc.org

Data Reporting — (800) 801-8416
good.data@tgslc.org

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

Relationship Management and Consulting
The Relationship Management and Consulting team serves TG's school and lender customers. The team responds to customer needs, provides on-site consulting, and works to enhance customer relationships.
(800) 892-1357
(512) 219-4989 — fax
relationship.management@tgslc.org

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

Financials

Contents

Management's Discussion and Analysis

This section of the Texas Guaranteed Student Loan Corporation (TG) financial report presents discussion and analysis of its financial performance during the fiscal years (FY) ended September 30, 2009 and 2008, and should be read in conjunction with TG's financial statements, which follow this section.

Financial Highlights

- Loan guarantees in fiscal year 2009 totaled $9.6 billion as compared to $7.4 billion in fiscal year 2008, net of cancellations, an increase of 30% and an all-time record for TG loan guarantees, with most of the gains in the FDF-subsidy-sensitive national market.

- In January 2009, the new Federal Administration released a proposal in connection with its 2010 budget, and in June 2009, the Student Aid and Fiscal Responsibility Act of 2009 (HR 3221) was introduced by the majority party, which would effectively eliminate the origination of federal student loans under the Federal Family Education Loan Program (FFELP), and leave the William D. Ford Direct Loan Program (FDLP) as the primary federal loan program after June 30, 2010. If enacted, guaranty agencies, including TG would be permitted to continue servicing their respective residual FFELP portfolios, insofar as law and regulation would permit. TG continues to work in alliance with other guarantor colleagues to establish a similar role for the guaranty agency to assure these services are available in all federal loan programs, regardless of funding source. The outcome of these efforts is unknown at this time, and the elimination of the FFELP, is currently only a legislative proposal.

- Under temporary Ensuring Continued Access to Student Loans Act (ECASLA) provisions, which extend until September 30, 2010, $3.5 billion in eligible non-consolidation TG loans have been sold or "put" to the U.S. Department of Education (ED) by lenders through September 30, 2009, and no longer earn guarantor service fees. In addition, loans placed by lenders into ECASLA participation or in the ED-backed "A Plus Loans" conduit facility totaling $1.6 billion and $1.8 billion, respectively, at September 30, 2009, are also at risk of being "put."

- In recent months, several lenders have withdrawn from FFELP. Accordingly, TG has established a fully functional Lender of Last Resort (LLR) program, under which TG would make LLR loans as a FFELP lender, using up to $50 million of its own funds for these purposes; after which, TG would use federal funds from U.S. Treasury advances to make LLR loans, as necessary. LLR loans made with federal advances would not enter the guarantor portfolio and therefore would not earn guarantor services fees. Through September 30, 2009, the LLR process has remained inactive.

- Rehabilitation lenders were adversely impacted by recent credit market challenges curtailing this recovery activity upon which TG retains 18.5% plus cost. TG maintained its gross collections volume using other available collections options for borrowers including lower commission direct consolidation loans. The rehabilitation market appears to be rebounding, though typically at a discount.

- TG has committed to pay the required Federal Default Fee (FDF) equal to 1% of loan disbursement from the Operating Fund into the Federal Fund on behalf of its borrowers, since its inception in July 2006 through June 2010. In fiscal years 2009 and 2008, Operating Fund expenditures totaled $81 million and $54 million, respectively.

- TG has authorized the annual expenditure of up to 5% of its available Operating Fund balance for public benefits. Expenditures include $3.4 million and $1.8 million in Charley Wootan scholarships, and $6.7 million and $6.1 million in competitive-based education-related grants, in fiscal years 2009 and 2008, respectively.

- Education Assistance Services, Inc. (EAS), a wholly owned for-profit subsidiary of TG, began start-up of operations in fiscal year 2009 after being dormant for almost five years. EAS will act as a third-party collection agency, with its primary source of revenue being commissions earned on the collection of defaulted student loans. As of September 30, 2009, EAS expenditures, including capital, totaled more than $0.28 million.

- Transfers reflect the pending settlement in favor of the Federal Fund from ED's recent audit of TG's 1998 Operating and Federal Fund establishment. The finding is currently under appeal.

- TG's Voluntary Flexible Agreement (VFA) was terminated by ED effective January 1, 2008.

Overview of the Financial Statements

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

TG is comprised of two funds: the Operating Fund and the Federal Fund. These distinct funds are defined in the Federal legislation which governs the FFELP within which TG functions as a guarantor. The Operating Fund, which is the property of TG, reports the guarantor activities as specified in the law including loan guarantee and supporting systems, guarantee maintenance, delinquency and default prevention, claims processing, and default recoveries, as well as financial aid awareness and related outreach activities. Operating Fund revenues are derived principally from "life of the student loan" activities funded by ED. The Federal Fund, which is considered to be the property of the United States, reports TG's student loan insurance activity and receives FDF. In addition to payment of refundable DAF to the Operating Fund, without the VFA, this includes establishing an allowance for the non-reinsured portion of future default claims against the existing guaranteed loan portfolio. Under the VFA, Federal Fund net assets at VFA inception were set aside in escrow, with TG receiving advance funding of 100% of eligible lender claims, and ED paying refundable DAF directly to the Operating Fund. Although not an operating entity, the Federal Fund derives revenue from FDF, recoveries on non-VFA defaults, refunds of non-VFA default aversion fees in the event of loan default, interest on loans repurchased by lenders, and interest earned on non-escrowed assets. Interest on VFA escrowed assets is not Federal Fund revenue, and serves to increase both the VFA escrow as well as the Liability Payable from escrowed assets.

TG's funds are reported as proprietary component units of the State of Texas, and as such are accounted for using the flow of economic resources measurement focus and accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recognized when the liability is incurred, regardless of the timing of the related cash flow, similar to private sector companies. The most significant examples include the Allowance for Non-reinsured Loan Defaults, which is a historical loan segment performance-based estimate of the future non-reinsured component of claims recorded upon student loan guarantee; and the Default Aversion Refund Allowance, for which an estimated refund liability is recorded upon fee billing, in recognition of the long-term obligation to refund the fee in the event of subsequent loan default.

Condensed Financial Information (in 000s)

	Operating Fund			Federal Fund		
	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2009	Sept. 30, 2008	Sept. 30, 2007
Fund Equity						
Current Assets	$ 424,443	$ 466,919	$ 463,584	$ 352,481	$ 270,107	$ 226,927
Capital Assets	39,259	40,788	38,600	-	-	1
Other Non-current Assets	(12,978)	(9,405)	(2,761)	13,050	9,499	4,667
Total Assets	450,724	498,302	499,423	365,531	279,606	231,595
Current Liabilities	9,778	12,878	25,407	50,473	24,545	15,795
Non-current Liabilities	78,161	94,414	99,576	230,280	250,410	138,527
Total Liabilities	87,939	107,292	124,983	280,753	274,955	154,322
Fund Equity:						
Invested in Capital Assets	32,968	32,795	28,984	-	-	1
Restricted	-	-	-	84,778	4,651	77,272
Unrestricted	329,817	358,215	345,456	-	-	-
Total Fund Equity	$ 362,785	$ 391,010	$ 374,440	$ 84,778	$ 4,651	$ 77,273

	Operating Fund			Federal Fund		
	2009	2008	2007	2009	2008	2007
Changes in Fund Equity						
Operating Revenues:						
Non-Recovery	$ 66,806	$ 47,183	$ 79,684	$ 81,421	$ 58,978	$ 38,309
Recovery	50,484	87,307	79,752	2,225	461	397
Total	117,290	134,490	159,436	83,646	59,439	38,706
Operating Expenses:						
Operations	80,735	82,896	76,684	11,339	5,405	3
Development Projects	4,111	2,474	2,838	-	-	-
Provision Loan Defaults	-	-	-	8,502	134,286	-
Total	84,846	85,370	79,522	19,841	139,691	3
Operating Income	32,444	49,120	79,914	63,805	(80,252)	38,703
Non-operating Rev(Exp):						
Investments	32,304	29,561	23,509	14,959	7,637	3,833
FDF Expense	(81,179)	(53,834)	(34,477)	-	-	-
Public Benefits	(10,087)	(7,892)	(5,040)	-	-	-
Other	(339)	(385)	(498)	(5)	(7)	(7)
Total	(59,301)	(32,550)	(16,506)	14,954	7,630	3,826
Income (Deficit)	(26,857)	16,570	63,408	78,759	(72,622)	42,529
Transfer	(1,368)	-	-	1,368	-	-
Change in Fund Equity	$ (28,225)	$ 16,570	$ 63,408	$ 80,127	$ (72,622)	$ 42,529

Overall Financial Analysis

TG has grown its combined total assets by more than $38 million, or 5%, in fiscal year 2009 and by $47 million, or 6.5% in fiscal year 2008, while decreasing combined liabilities by $14 million or 4% in fiscal year 2009, as compared to increases of $103 million in fiscal year 2008. Even while funding $91 million in FDF and Public Benefits from operating results, assets grew primarily from nonoperating investment earnings and higher market valuations in 2009 as compared to TG's operational performance in 2008. Liabilities decreased in 2009 primarily from the reduced Allowance for Non-reinsured Loan Defaults and lower Operating obligations at fiscal year-end, partially offset by an increase in recoveries due to the Department of Education. Liabilities increased in 2008 from the establishment of the post-VFA Allowance for Non-reinsured Loan Defaults, partially offset by amounts no longer due ED upon termination of the VFA's weekly advance claim funding. The resulting $52 million increase and $56 million decrease in combined Fund Equity in fiscal years 2009 and 2008, respectively, are driven primarily by investment earnings and the establishment of the post-VFA Allowance for Non-reinsured Loan Defaults, respectively.

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

Individual Fund Financial Analysis

Operating Fund

Current Assets were down more than $42.5 million from September 30, 2008, due primarily to a $46.7 million decrease in Investments whose maturities, in part, funded the FDF subsidy. In comparison, current assets increased by $3.3 million or 1% in fiscal year 2008, due to the second quarter transition from the VFA to the statutory guarantor financing model restricted revenues and FDF driven Interfund Receivables, Payables.

Capital Assets decreased in fiscal year 2009 by $1.5 million as purchases of $2 million were more than offset by depreciation. Fiscal year 2008 capital assets increased $2.2 million from predominantly information technology purchases.

Other Non-current Assets decreased by $3.6 million or 37% in fiscal year 2009 and $6.6 million or 240% in fiscal year 2008 from increases in estimated future post-VFA DAF refunds due to the Federal Fund.

Current Liabilities decreased $3.1 million or 24% from September 30, 2008, as sales incentives were not awarded and the corporate performance award was decreased. Current liabilities in fiscal year 2008 decreased $13 million or 50%, leaving a comparable $13 million for accounts payable, accrued liabilities and the current portion of notes payable between fiscal years 2008 and 2007. This reduction results from the 2008 recognition into revenue of $6.2 million Delinquency Prevention Fees (DPF) and $7.6 million Recovery fees collected, but deferred in prior years, pending resolution of rate change applicability under the now terminated VFA.

Noncurrent Liabilities decreased by $16.3 million or 17% in fiscal year 2009, and by $5.2 million or 5% in fiscal year 2008, as the estimated VFA DAF refund allowance is paid to ED upon underlying loan default. Improvement in DAF default rates in fiscal year 2009, primarily on consolidation loan volume, further reduced the Default Aversion Fee Refund Allowance. In contrast, the fiscal year 2008 obligation was increased for expected future DAF refunds based on higher default rates.

Operating Revenues decreased $17.2 million or 13% in fiscal year 2009. Non-recovery revenue, including Loan Processing and Issuance Fee (LPIF) and Account Maintenance Fee (AMF) revenues increased $11.1 million and $2.3 million, respectively, over fiscal year 2008 due to record annual loan guarantees, particularly in national loan volume. End of year portfolio-based AMF is reduced by loans "put" to ED by lenders under ECASLA provisions. Due to VFA termination, DPF ceased as a revenue source after totaling $9.3 million in the first quarter of fiscal year 2008. Gross DAF revenue decreased from $22 million to $17.5 million in fiscal year 2009 due to $9.6 million in VFA DAF during the first quarter of fiscal year 2008. Net DAF revenue, however, is up when compared to fiscal year 2008 benefitting from improved refund performance, particularly on prior years' consolidation volume, most billed while under the VFA. Although gross collections were up slightly in fiscal year 2009 when compared to fiscal year 2008, net recovery revenue is down almost $36.8 million or 42%, in-line with expectations as lower commission direct consolidation loans were substituted for rehabilitation loan sales, which were limited by recent credit market challenges. In addition, recovery revenue in the first quarter of fiscal year 2008 included VFA performance and the resulting higher retention rates. Operating revenues in fiscal year 2008 decreased by $25 million as record loan guarantee volume gains were offset by statutory rate reductions and the loss of TG's performance-based VFA after the first fiscal quarter. DAF decreased $32 million in fiscal year 2008 as post-VFA standard rates were reduced from 1.25% to 1% without the prospect of rebilling or increased performance rates, and default performance reductions necessitated increases in the DAF refund allowance. Increases in Loan Processing Issuance Fees (LPIF) and AMF primarily from a 70% national market increase resulting in guaranteed loan disbursements totaling $5.33 billion, up from $3.79 billion in fiscal year 2007, were offset by a statutory AMF rate decrease from 0.10% to 0.06% in fiscal year 2008. Reductions in DPF, which were eliminated post-VFA, were offset by the recognition of prior-year fees previously deferred pending VFA rate change applicability. Despite post-VFA Recovery commission rate decreases from 20% to 10% for consolidation and 23% to 16% for cash collections, Recovery Revenue increased $7.5 million in fiscal year 2008 from an $82 million increase in gross collection volume and the recognition of prior year fees previously deferred pending VFA rate change applicability.

Operating Expenses decreased $0.5 million or 1% in fiscal year 2009, a result of lower Operation expenses and higher Development Project costs. Operations expense totaled $80.7 million and $82.9 million in fiscal years 2009 and 2008, respectively, down $2.2 million in comparison. Fiscal year 2009 budgeted personnel cost increases in salaries and wages, merit raises, and benefits, were offset by reductions in sales incentives and employee performance awards. Non-personnel related expenses were also down as outsourced Collection agency costs were impacted by the shift to lower-commissioned Federal Direct consolidation recoveries. In contrast, Development Project costs were up $1.6 million in fiscal year 2009 as a result of several major projects initiating in the latter part of fiscal year 2008, carrying over into fiscal year 2009.

In fiscal year 2008, Operating Expenses increased $6.2 million or 8%, driven primarily by a budgeted $4.9 million increase in personnel costs, including merit raises, benefits and additional customer- and delinquency-focused positions, as well as a $1.0 million increase in employee performance awards.

Non-operating Revenue (Expense) decreased $26.8 million or 82% in fiscal year 2009 primarily from a record guarantee loan disbursement volume driven FDF expense increase totaling $27.3 million, with Public Benefit increases offset by investment portfolio results. By comparison, nonoperating revenue (expense) decreased $16 million in fiscal year 2008, also primarily from a volume-driven FDF Expense increase, which was partially offset by investment portfolio results. The FDF Expense increased directly in proportion with the $1.5 billion guaranteed loan disbursement increase on guaranteed loan volume gains in fiscal year 2008. TG's Public Benefit program continued to expand by $2.9 million toward its funding maximum of 5% available fund balance. Offsetting these expense increases, higher market valuations of TG's held-to-maturity investment portfolio at fiscal year-end 2008 from the recent economic downturn, resulted in a $9.2 million improvement in the net change in fair value of investments, while interest increased $1.9 million in fiscal year 2008 due to the operating income driven investment portfolio increases.

Federal Fund

Current Assets increased $82.4 million or 31% from September 30, 2008, due primarily to investment of FDF received from the Operating Fund totaling $81.2 million. In addition, reinsurance due from the Department of Education was higher by $7.2 million at the end of September 30, 2009, as compared to September 30, 2008, due to higher claims paid and less reinsurance advanced from ED at fiscal year-end 2009. In comparison, current assets increased $43 million or 19% in fiscal year 2008, primarily from the $54 million in FDF-paid by TG's Operating Fund and $8.2 million interest earned on investments no longer VFA escrowed, offset by post-VFA non-reinsured portion of default claim payments and DAF payments to the Operating Fund. ED's post-VFA in-arrears funding of claim reinsurance results in $39 million of the current asset increase being amounts due from ED.

Other Noncurrent Assets were up $3.5 million or 37% in fiscal year 2009 and $4.8 million or 104% in fiscal year 2008 from an increase in estimated future post-VFA DAF refunds due to the Federal Fund. This increase in fiscal year 2008 was partially offset by the write-off of $1.8 million in decade-old recovery commissions due from ED deemed un-collectible since they were not settled by VFA transition.

Current Liabilities increased $25.9 million or 106% in fiscal year 2009, the result of $13.2 million in VFA DAF refund receipts from the Operating Fund, awaiting establishment of a post-VFA settlement mechanism with ED. In addition, rehabilitation recoveries payable to ED at September 30, 2009, totaled $12.3 million. By comparison, Current Liabilities increased by $8.8 million or 56% in fiscal year 2008 due to the Federal Fund's $13 million receipt of VFA DAF refunds from the Operating Fund, partially offset by a lack of September rehabilitations resulting in a net $4.9 million decrease in amounts due ED from September collections activity.

Non-current Liabilities decreased by more than $20 million or 8% in fiscal year 2009. The Allowance for Non-reinsured Loan Defaults was reduced by actual loan loss totaling $29 million, while estimates of future loan defaults, reported as Provision for Loan Default expense, increased the reserve by $9 million. The future loan default estimate is impacted by ECASLA "put" and conduit loan volume reducing the total loan portfolio base upon which loans could default. Comparatively, in fiscal year 2008, Non-current Liabilities increased $112 million or 81% with the establishment of a post-VFA Allowance for Non-reinsured Loan Defaults. While default claims under the VFA were 100% reinsured by ED, post-VFA reinsurance reverts to the statutory rates in effect at loan guarantee ranging from 95% to 100%, with the majority of TG's portfolio carrying 95% reinsurance. The allowance represents management's estimate of the non-reinsured portion of projected future default claims against TG's existing $32 billion guaranteed loan portfolio based upon historical loan segment performance. This allowance increase was partially offset by eliminating, at VFA escrow transition, $6.9 million in Federal Section 422 Advances whose payment is no longer reasonably probable.

Fund Equity increased $80 million in fiscal year 2009 from FDF receipts, the result of record guaranteed loan disbursement volumes in fiscal year 2009. By comparison, Federal Fund Equity decreased $73 million in 2008 from the establishment of the post-VFA Allowance for Non-reinsured Loan Defaults. Management has continually monitored this potential obligation throughout the operation of the VFA, and has always been aware that upon termination of the VFA, the 100% reinsurance would give way to the statutory re-insurance rates. Therefore the magnitude of the allowance and its impact upon Federal Fund Equity in fiscal year 2008 was anticipated.

Operating Revenues improved by $24.2 million or 41%, the increase attributed primarily to gains is FDF revenue totaling $81.2 million, from the record high guaranteed loan disbursements in fiscal year 2009. Increases in non-reinsured recovery revenue, the result of default claims reinsured at less than 100% subsequent to the VFA, were more than offset by reductions in repurchases and respective loan interest due to the subrogation of bankruptcy loans. By comparison, Operating Revenues increased $21 million or 54% in fiscal year 2008 primarily from FDF related to TG's increase in guaranteed loan disbursements.

Operating Expenses decreased $119.9 million or 86% in fiscal year 2009 due primarily to a $125.8 million decrease in the Provision for Loan Defaults from the establishment of the post-VFA allowance in fiscal year 2008 which resulted in a significant adjustment to prior year provision expense totaling more than $134 million. The decrease in Operating Expenses was partially offset by an increase in post VFA DAF paid to the Operating Fund of $6.0 million, net of anticipated future refunds. DAF, under the VFA, was billed to and paid by ED, while post-VFA fees are incurred and paid by the Federal Fund. Accordingly, the Federal Fund incurred a full year of DAF expense in fiscal year 2009 compared to three quarters DAF expense in fiscal year 2008. In fiscal year 2008, Operating Expenses increased $140 million in fiscal year 2008 primarily from the post-VFA provision for future non-reinsured loan defaults, $95 million of which relates to loans guaranteed prior to fiscal year 2008, while $39 million relates to fiscal year 2008 loan guarantees. Also contributing to the increase is $13 million post-VFA DAF paid to the Operating Fund, net of $7.1 million expected future refunds.

Nonoperating Revenue (Expense) increased $7.3 million or 96% in fiscal year 2009 due to interest earned on the growing FDF driven portfolio and increased market valuations. However, $3.5 million in VFA investment interest and net market value gains in first quarter fiscal year 2008 were escrowed and not reported as revenue. By comparison, Non-operating Revenue (Expense) increased $3.8 million, or nearly doubled in fiscal year 2008, as all post-VFA investment earnings were recognized into income rather than a portion remaining within the VFA escrow.

Capital Assets and Long Term Debt

TG continues to provide stand-by liquidity under a Prime Broker margin facility with borrowing capacity up to 95% of the investment portfolio fair value. The margin facility was temporarily accessed by TG's Operating and Federal Fund on several occasions, ranging from one to four consecutive days, to facilitate cash management activities. TG also maintains a $5 million unsecured line of credit with its depository institution, renewed in April 2009, expiring September 30, 2010, unless earlier termination of the depository relationship, which has not been accessed.

Significant Known Facts, Decisions, or Conditions

In January 2009, the new Federal Administration released a proposal in connection with its 2010 budget, and in June 2009, the Student Aid and Fiscal Responsibility Act of 2009 (HR 3221) was introduced by the majority party, which would effectively eliminate the origination of federal student loans under the FFELP, and leave the DL as the primary federal loan program after June 30, 2010. If enacted, guaranty agencies, including TG would be permitted to continue servicing their respective residual FFELP portfolios, insofar as law and regulation would permit. TG continues to work in alliance with other guarantor colleagues to establish a similar role for the guaranty agency to assure these services are available in all federal loan programs, regardless of funding source. The outcome of these efforts is unknown at this time, and the elimination of the FFELP, is currently only a legislative proposal.

Recent credit market challenges have and may continue to negatively affect TG and its operations. Recent statutory reductions in FFELP lender subsidies, coupled with lender liquidity difficulties, have resulted in some lenders exiting the student loan market. In an effort to mitigate this obstacle and assure access, ECASLA was adopted in May, 2008 and extended in October 2008. This Act has provided lenders, operating under specified terms, with the option to sell participation interests in student loan portfolios originated between May 1, 2007 and June 30, 2010 or to "put" or sell these loans outright to ED. Consolidation loans are not eligible. While participation loans retain their guarantee, "put" loans do not, resulting in the removal of "put" loans from the guarantor's portfolio and elimination of the possibility of future revenues from those loans. The "put" deadline for eligible loans fully disbursed on or before fiscal year end 2009 was September 30, 2009, and eligible fully-disbursed academic year 2009/2010 loans have a September 2010 "put" deadline. Participated loans can ultimately be "put" to ED, if required or desired by the lender under similar deadlines. While the extent of the use of the "put" and loan participation devices, and their resulting impact on future TG results of operations, cannot be determined, as of September 30, 2009, $3.5 billion of TG's guaranteed loan portfolio had been "put" and $1.6 billion is in participation.

The student loan industry supported by ED has recently introduced the "A Plus Loans" conduit program, in which non-consolidation FFELP loans originated subsequent to September 30, 2003, meeting certain eligibility criteria may be sold into short-term commercial paper backed facilities. Such loans are subject to "put" to ED if the underlying commercial paper fails to refinance or upon individual loans reaching a defined level of delinquency though September 2014. This conduit "put" would have similar impact to TG as described previously. As of September 30, 2009, $1.8 billion of TG's portfolio is in this conduit.

In recent months, several lenders have withdrawn from FFELP, accordingly, TG has established a fully functional Lender of Last Resort (LLR) program, under which TG would make LLR loans as a FFELP lender, using up to $50 million of its own funds for these purposes; after which, TG would use federal funds from U.S. Treasury advances to make LLR loans, as necessary. LLR loans made with federal advances would not enter the guarantor portfolio and therefore would not earn guarantor services fees. Through September 30, 2009, the LLR process has remained inactive.

TG, by action of its Board of Directors, has committed to pay on behalf of the student borrowers, the Federal Default Fee required for each loan it guarantees through June 2010 from its Operating Fund. Given current volume estimates, this commitment could approach $58 million and $15 million in fiscal years 2010 and 2011, respectively.

TG provides a unified student loan funding service (EFT), which upon participant approval, draws funds from participating lenders, while simultaneously distributing the funds to participating schools using commercial bank overnight Automated Clearing House (ACH) transactions. While rare, failure of a participating lender to fund its draw would result in an overdraft position in TG's ACH clearing account. EFT daily volume is typically less than $10 million. However, during January and August 2009 peaks, there were eight days with disbursements exceeding $100 million, the highest single day being $190 million.

FFELP lenders purchase of rehabilitation recovery loans had been impacted by economic circumstances in fiscal year 2009, recently rebounding, though typically at a discount.

In May, 2006, an employee of a company which TG engaged to devise a document management system lost a device which contained non-public information of a portion of TG's borrowers. At that time, TG undertook remediation measures and statutorily-required notification to the affected borrowers. At this time TG, has not received any credible report of any information theft regarding any affected borrower arising from the incident, and does not currently anticipate any resulting litigation which would have a material adverse financial impact on TG.

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

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

Contacting TG's Financial Management

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

Independent Auditors' Report

Board of Directors
Texas Guaranteed Student Loan Corporation:

We have audited the accompanying consolidated financial statements of the Texas Guaranteed Student Loan Corporation (TG), a component unit of the State of Texas, as of and for the years ended September 30, 2009 and 2008, which collectively comprise TG's basic financial statements as listed in the table of contents. These financial statements are the responsibility of TG's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of TG as of September 30, 2009 and 2008, and the respective changes in financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 28 through 35 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP
Austin, Texas
November 25, 2009

Balance Sheets (in 000s)

	September 30, 2009			September 30, 2008		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Assets						
Current Assets:						
Cash & Cash Equivalents	$ 12,953	$ 17,968	$ 30,921	$ 9,438	$ 13,855	$ 23,293
Receivables						
Due from Department of Education	19,342	45,931	65,273	16,418	38,739	55,157
Accrued Interest & Other	2,976	1,917	4,893	4,015	2,082	6,097
Investments	392,200	282,074	674,274	438,862	212,104	650,966
Interfund Receivables, Payables	(4,591)	4,591	-	(3,327)	3,327	-
Other Current Assets	1,563	-	1,563	1,513	-	1,513
Total Current Assets	424,443	352,481	776,924	466,919	270,107	737,026
Non-current Assets:						
Capital Assets, Net	39,259	-	39,259	40,788	-	40,788
Interfund Default Aversion Fee						
Refund Allowance	(13,050)	13,050	-	(9,499)	9,499	-
Other Non-current Assets, Net	72	-	72	94	-	94
Total Noncurrent Assets	26,281	13,050	39,331	31,383	9,499	40,882
Total Assets	$ 450,724	$ 365,531	$ 816,255	$ 498,302	$ 279,606	$ 777,908
Liabilities and Fund Equity						
Current Liabilities:						
Accounts Payable and Accrued Liabilities	$ 7,994	$ 447	$ 8,441	$ 11,176	$ 96	$ 11,272
Due to Department of Education	-	22,948	22,948	-	10,599	10,599
Due to Department of Education —						
Default Aversion Fee Refunds	-	27,078	27,078	-	13,850	13,850
Note Payable	1,784	-	1,784	1,702	-	1,702
Total Current Liabilities	9,778	50,473	60,251	12,878	24,545	37,423
Non-current Liabilities:						
Due to Department of Education						
Default Aversion Fee Refund Allowance	72,249	-	72,249	87,301	-	87,301
Note Payable	4,507	-	4,507	6,291	-	6,291
Allowance for Non-reinsured Loan Defaults	-	230,280	230,280	-	250,410	250,410
Other	1,405	-	1,405	822	-	822
Total Non-current Liabilities	78,161	230,280	308,441	94,414	250,410	344,824
Total Liabilities	87,939	280,753	368,692	107,292	274,955	382,247
Fund Equity:						
Net Assets Invested in Capital Assets,						
net of related debt	32,968	-	32,968	32,795	-	32,795
Restricted Net Assets	-	84,778	84,778	-	4,651	4,651
Unrestricted Net Assets	329,817	-	329,817	358,215	-	358,215
Total Fund Equity	362,785	84,778	447,563	391,010	4,651	395,661
Total Liabilities & Fund Equity	$ 450,724	$ 365,531	$ 816,255	$ 498,302	$ 279,606	$ 777,908

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

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

	Fiscal Year Ended September 30, 2009			Fiscal Year Ended September 30, 2008		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Operating Revenues						
Loan Processing and Issuance Fee	$ 32,472	$ -	$ 32,472	$ 21,336	$ -	$ 21,336
Account Maintenance Fee	19,426	-	19,426	17,077	-	17,077
Delinquency Prevention Fee	-	-	-	9,334	-	9,334
Default Aversion Fee						
(net of $4,375 and $24,540 refund provision)	13,162	-	13,162	(2,494)	-	(2,494)
Recovery Revenue	50,484	2,225	52,709	87,307	461	87,768
Other Revenue	1,746	242	1,988	1,930	5,144	7,074
Federal Default Fee	-	81,179	81,179	-	53,834	53,834
Total Operating Revenues	117,290	83,646	200,936	134,490	59,439	193,929
Operating Expenses						
Operations	80,735	-	80,735	82,896	-	82,896
Development Projects	4,111	-	4,111	2,474	-	2,474
Provision for Loan Defaults	-	8,502	8,502	-	39,246	39,246
Provision for Loan Defaults — Post VFA Transition	-	-	-	-	95,040	95,040
Default Aversion Expense						
(net of $6,199 and $7,114 anticipated refunds)	-	11,337	11,337	-	5,348	5,348
Other Expenses	-	2	2	-	57	57
Total Operating Expenses	84,846	19,841	104,687	85,370	139,691	225,061
Operating Income (Deficit)	32,444	63,805	96,249	49,120	(80,252)	(31,132)
Non-operating Revenues (Expenses)						
Federal Default Fee Expense	(81,179)	-	(81,179)	(53,834)	-	(53,834)
Public Benefits	(10,087)	-	(10,087)	(7,892)	-	(7,892)
Net Increase (Decrease) in the						
Fair Value of Investments	14,982	6,672	21,654	9,239	(599)	8,640
Investment Interest	17,322	8,287	25,609	20,322	8,236	28,558
Net Gain (Loss) on Sale of Assets	1	-	1	31	-	31
Interest Expense	(340)	(5)	(345)	(416)	(7)	(423)
Total Non-operating Revenues (Expenses)	(59,301)	14,954	(44,347)	(32,550)	7,630	(24,920)
Income (Deficit)	(26,857)	78,759	51,902	16,570	(72,622)	(56,052)
Transfer	(1,368)	1,368	-	-	-	-
Change in Fund Equity	(28,225)	80,127	51,902	16,570	(72,622)	(56,052)
Fund Equity, Beginning	391,010	4,651	395,661	374,440	77,273	451,713
Fund Equity, Ending	$ 362,785	$ 84,778	$ 447,563	$ 391,010	$ 4,651	$ 395,661

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

Statements of Cash Flows (in 000s)

	September 30, 2009			September 30, 2008		
	Operating Fund	Federal Fund	Total	Operating Fund	Federal Fund	Total
Cash Flows from Operating Activities:						
Net Cash Used In Non-Capital Financing Activities	$ -	$ 682,444	$ 682,444	$ -	$ 647,086	$ 647,086
Collection of Defaulted Loans	-	161,203	161,203	-	271,287	271,287
Fees Received (Paid)	100,268	65,206	165,474	129,206	(25,067)	104,144
Proceeds from Other Revenues	2,033	243	2,276	2,355	6,934	9,289
Claims Payments	-	(719,047)	(719,047)	-	(705,066)	(705,066)
Collection Payments to Department of ED	-	(131,085)	(131,085)	-	(204,905)	(204,905)
Payments to Suppliers for Goods and Services	(37,903)	-	(37,903)	(39,113)	(288)	(39,401)
Payments to Employees	(45,495)	-	(45,495)	(43,609)	-	(43,609)
Net Cash Provided By (Used In) Operating Activities	18,903	58,964	77,867	48,839	(10,014)	38,825
Cash Flows from Non-Capital Financing Activities:						
Proceeds from Margin Facility	318	43,662	43,980	8,310	59,037	67,347
Principal Payments on Margin Facility	(318)	(43,662)	(43,980)	(8,310)	(59,037)	(67,347)
Interest Paid	(3)	(5)	(8)	(1)	(7)	(8)
Federal Default Fees Paid	(80,433)	-	(80,433)	(55,095)	-	(55,095)
Public Benefits	(10,087)	-	(10,087)	(7,892)	-	(7,892)
Net Cash Used In Non-Capital Financing Activities	(90,523)	(5)	(90,528)	(62,988)	(7)	(62,995)
Cash Flows from Capital and Related Financing Activities:						
Proceeds from Sale of Assets	5	-	5	50	-	50
Purchases of Property, Plant and Equipment	(2,545)	-	(2,545)	(4,595)	-	(4,595)
Principal Payments on Note Payable	(1,702)	-	(1,702)	(1,623)	-	(1,623)
Interest Paid	(343)	-	(343)	(384)	-	(384)
Net Cash Used In Capital and Related Financing Activities	(4,585)	-	(4,585)	(6,552)	-	(6,552)
Cash Flows from Investing Activities:						
Purchases of Investments	(105,912)	(233,136)	(339,048)	(132,624)	(154,473)	(287,097)
Proceeds from Maturity or Sale of Investments	167,556	169,838	337,394	139,064	147,551	286,615
Interest Received	18,076	8,452	26,528	20,250	9,853	30,103
Net Cash Provided By (Used In) Investing Activities	79,720	(54,846)	24,874	26,690	2,931	29,621
Increase (Decrease) in Cash and Cash Equivalents	3,515	4,113	7,628	5,989	(7,090)	(1,101)
Cash and Cash Equivalents, Beginning	9,438	13,855	23,293	3,449	20,945	24,394
Cash and Cash Equivalents, Ending	$12,953	$17,968	$30,921	$9,438	$13,855	$23,293
Operating Income (Deficit)	$32,444	$63,805	$96,249	$49,120	$(80,252)	$(31,132)
Adjustments to Reconcile Operating Income to Net Cash Provided By (Used In) Operating Activities:						
Depreciation	3,525	-	3,525	2,900	1	2,901
Other	22	-	22	22	-	22
Change in Assets & Liabilities:						
Receivables	(2,638)	(7,192)	(9,830)	2,458	(36,950)	(34,492)
Other Assets	(50)	-	(50)	(213)	-	(213)
Interfund Receivables, Payables	2,701	(3,446)	(745)	11,163	(9,902)	1,261
Accounts Payable & Accrued Liabilities	(2,049)	351	(1,698)	(60)	(232)	(292)
Due to Department of Education	(15,052)	25,576	10,524	(16,551)	8,983	(7,568)
Allowance for Non-Reinsured Loan Defaults and Other Costs	-	(20,130)	(20,130)	-	108,338	108,338
Total Adjustments	(13,541)	(4,841)	(18,382)	(281)	70,238	69,957
Net Cash Provided By (Used In) Operating Activities	$ 18,903	$ 58,964	$ 77,867	$ 48,839	$ (10,014)	$ 38,825

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

Notes to Financial Statements

1] Organization and Operations

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

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

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

	Sept. 30, 2009	Sept. 30, 2008
Four-Year	$ 6,963,710	$ 5,029,500
Two-Year	559,330	456,530
Proprietary	2,058,750	1,230,300
Consolidation	7,100	662,810
Total	$ 9,588,890	$ 7,379,140

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

	Sept. 30, 2009	Sept. 30, 2008
Four-Year	$ 17,312,101	$ 12,636,551
Two-Year	1,623,165	1,465,887
Proprietary	3,257,323	1,794,989
Consolidation	9,952,378	10,102,504
Total	$ 32,144,967	$ 25,999,931

Subsidiary: In fiscal year 1995, TG established Educational Assistance Services, Inc. (EAS) as a for-profit, wholly-owned subsidiary for the furtherance of its student loan and higher education mission. While EAS has been dormant since January 2004, during fiscal year 2009, TG invested an additional $316,000 to fund EAS's upcoming loan collections operations.

2] Significant Accounting Policies

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

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

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

Voluntary Flexible Agreement: ED terminated TG's Voluntary Flexible Agreement (VFA), effective January 1, 2008, at which time, TG reverted to the currently effective statutory guarantor funding model.

In March 2001, TG entered into a VFA with ED as provided for in Reauthorization. TG's VFA increased the focus upon borrower delinquency and default prevention, and included the following feature: the escrow of all Federal Reserve cash, cash equivalents, and investments; 100% by ED of reinsurance of default claims paid during the VFA; continued loan processing and portfolio maintenance revenues as provided under HEA; creation of a new delinquency prevention-focused fee; and the establishment of a performance-based fee structure for default aversion and collection activities.

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

Custodial Credit Risk — To minimize credit risk for cash on deposit, TG employs a two-tiered sweep approach with deposit balances exceeding $0.5 million and $5 million in the Operating and Federal funds respectively invested daily into a third-party U.S. Government and Agency instrument money market mutual fund and remaining amounts being swept into U.S. Government and Agency instrument overnight repurchase agreements. Prior to December 2008, only the repurchase strategy was employed. Money market mutual funds and repurchase agreements totaled $3.4 million and $1.78 million for the Operating fund and $10.7 million and $16.0 million for the Federal Fund at September 30, 2009, and 2008, respectively. In support of TG's unified student loan funds service (EFT), TG maintains $10 million in a demand deposit account at TG's EFT ACH processing financial institution which is fully insured under a third-party surety bond, expiring in July 2010. Remaining balances, if any, are subject to FDIC and SIPC insurance and at least $3 million in pledged collateral.

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

TG's Operating Fund, consistent with Texas Public Funds Investment Act provisions, is authorized to invest in: U.S. Government obligations, including agencies and instrumentalities, State of Texas direct obligations, certificates of deposit of financial institutions with Texas main or branch offices, as well as, subject to certain restrictions, obligations of states, agencies, counties, cities, and other political subdivisions of any state; collateralized mortgage obligations; commercial paper; direct and reverse repurchase agreements; SEC registered no-load money market and mutual funds and investment pools. Individual investment maturities are limited to a maximum of 10 years from date of purchase, and may be collateralized using longer dated investments. Government direct-issue mortgage-backed securities may carry a stated final maturity up to 30 years with an average life not greater than 10 years. Repurchase agreement maximum maturities are limited to 120 days. Average maturities will depend upon cash flow requirements of TG and the safety, liquidity, and yield parameters set forth in TG's policy.

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

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

Credit Risk — TG minimizes credit risk, the risk of loss due to the failure or downgrade of the security issuer or backer, by: limiting investments to investment grade securities as authorized by TG's investment policy, pre-qualifying the financial institutions and brokers/dealers with which TG will do business, and diversifying the investment portfolio so that potential losses on individual securities will be minimized. Investments are predominantly AAA rated with the exception of four AA rated U.S. Agency Obligations. All Municipal Bonds are A rated by at least one rating agency.

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

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

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

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

Classification of Operating and Non-Operating Revenues and Expenses: Program revenues and expenses related to FFELP and other education-related activities as determined by TG are classified as operating, the primary components of which include the revenues further described in this note, as well as the Operating Fund's personnel, facility, contractual obligations, travel, maintenance, development and depreciation costs and the Federal Fund's Provision for Loan Defaults and Default Aversion Expense. Consistent with GASB Statement Number 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, operating revenues and expenses exclude financing, investing and capital assets disposition activities. Other revenues and expenses which do not meet the operating categorization requirements are also classified as non-operating.

Revenue Recognition:

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

Account Maintenance Fee (AMF) — AMF is paid quarterly by ED to TG's Operating Fund equal to 0.06% of TG's fiscal year end guarantee portfolio's original principal balance outstanding. VFA status did not impact AMF rates.

Delinquency Prevention Fee (DPF) — Post-VFA, TG is no longer eligible for DPF. Under the VFA, TG's Operating Fund received monthly DPF from ED, at an annual base rate of 0.042% of TG's beginning of year loans in repayment portfolio, with performance rate increases up to 0.10% based upon reductions in annual Default Aversion Assistance Requests (DAAR), relative to loans in repayment. TG performed at the third level for the first three months of fiscal year 2008, resulting in a fee rate of 0.085 percent.

Default Aversion Fee (DAF) — Post-VFA, DAF is limited to 1% of delinquent loan principal and interest when reported to TG by the holder for the first time under regulatory required Default Aversion Assistance Request (DAAR), refundable in the event of loan default. Under the VFA, DAF equaled 1.25% of a regulatory required DAAR, with potential increases up to 4% based upon monthly cohort cure rate performance, paid by ED. DAF earned, previously billed to and paid by the Department of Education under the VFA, are payable post-VFA by the Federal Fund to the Operating Fund, net of refunds. Reserves for future DAF refunds have been established according to defaults anticipated on pre-VFA, VFA, and post-VFA DAARs. Anticipated future refunds total $85.29 million and $96.80 million at September 30, 2009, and 2008, respectively. As of September 30, 2009, the Federal Fund had received $27.08 million in refunds from the Operating Fund applicable to DAF fees billed under the VFA, which are refundable to ED.

Recovery Revenue — Upon default claim payment, TG is statutorily required to pursue collection on behalf of the Federal government. TG collected approximately $455 million and $454 million on defaulted student loans, which includes loans collected through Federal income tax offsets and Federal Direct Loan Program consolidations of defaulted student loans in fiscal years 2009 and 2008, respectively. Post-VFA recovery revenue rates are reduced to 16% for borrower payments, 10% for consolidation collections, and 18.5% plus cost for rehabilitation collections. Based upon recovery performance under the VFA, TG retained 23% of borrower payments, 20% consolidation collections, and 20% plus cost of rehabilitation collections, in the first three months of fiscal year 2008.

Federal Default Fee (FDF) — A fee equal to 1% of guaranteed student loan disbursement must be deposited into the Federal Fund. FDF can be paid from student loan proceeds or any other non-Federal source. TG's Operating Fund has paid FDF on behalf of its borrowers since the fee's July 2006 inception and is committed to continue through June 2010.

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

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

Interfund Default Aversion Fee Refund Allowance — This interfund balance consists of the anticipated refunds due the Federal Fund related to pre-VFA and post-VFA DAF.

Transfer — Represents the pending finding settlement in favor of the Federal Fund from ED's 2009 audit of TG's 1998 Operating and Federal Fund's establishment. The finding is currently under appeal.

Public Benefits Program: TG has authorized the annual expenditure of up to 5% of its available Operating Fund balance for public benefits. Expenditures include $3.4 million and $1.8 million in Charley Wootan scholarships, and $6.7 million and $6.1 million in competitive-based education-related grants, in fiscal years 2009 and 2008, respectively.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management estimates include useful lives in depreciating Capital Assets, anticipated Allowance for Non-reinsured Loan Defaults and Default Aversion Fee Refund Allowance based upon historical loan segment performance. Actual results could differ from those estimates.

Risk Management: In addition to FFELP guarantee activity risks, TG is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; job-related illnesses or injuries to employees; and natural disasters, for which it carries commercial insurance at levels consistent with that of the prior fiscal year. Risk retention is substantially confined to customarily nominal policy deductibles, with the exception of typically higher deductible limits for directors' and officers' liability, and umbrella coverage, as well as the retrospective rating of job-related illnesses or injuries to employees' policy premiums, which have outperformed the industry standard for three of the last four years. Resulting risk management liabilities, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There were no claims that exceeded insurance coverage in fiscal years 2009 or 2008.

Income taxes: As an organization described in Internal Revenue Code (IRC) section 501(c)(3), TG is exempt from federal and state income tax on income from activities related to its exempt purpose. No material amounts of unrelated income were earned in the fiscal year ended September 30, 2009, and 2008 accordingly no accrual for income taxes is included in the financial statements.

3] Reinsurance

TG paid default claims totaling approximately $708 million and $697 million fiscal year to date 2009 and 2008, respectively. Under the VFA, claims paid prior to January 1, 2008, were eligible for 100% reinsurance. Claims paid post-VFA are eligible for reinsurance depending upon annual default rates ("Trigger rates") and the underlying loan origination date. Annual default rates are calculated by dividing claims paid during the year, after adding back loan rehabilitations, by the original guarantee amount of loans in repayment at the preceding fiscal year end. The annualized default rate is 3.40% and 3.32% for FY2009 and FY2008 respectively. Claims at or exceeding 5% and 9% Trigger rates result in reduced non-VFA reinsurance as follows: 95%/85%/75% for loans disbursed after September 30, 1998, 98%/88%/78% for loans disbursed after September 30, 1993, and 100%/90%/80% for loans disbursed on or before September 30, 1993. As a result, TG's Federal Fund established an Allowance for Non-reinsured Loan Defaults equal to the net present value of the unreinsured portion of all estimated future claims on its existing guaranteed student loan portfolio. The estimated allowance at September 30, 2009, and September 30, 2008, totaled $230.28 million and $250.41 million, respectively.

4] Investments

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

	September 30, 2009				September 30, 2008			
	Operating Fund	WAM*	Federal Fund	WAM*	Operating Fund	WAM*	Federal Fund	WAM*
Investments								
U.S. Treasury Notes	$ 53,748	3.99	$ 20,809	1.76	$ 116,661	3.84	$ 56,043	1.78
U.S. Agency Obligations								
FHLB	64,506	3.48	72,055	3.31	71,262	3.58	34,102	2.46
FHLMC	41,115	2.87	29,279	3.40	67,765	4.87	22,894	4.47
FNMA	99,898	2.91	65,099	2.50	116,567	5.69	67,901	3.25
FFCB	42,902	4.73	12,120	5.80	29,932	5.73	21,120	5.71
FICO	3,954	3.97	21,311	4.27	-	-	-	-
GNMA	1,441	3.67	-	-	1,723	5.59	-	-
FAMC	-	-	6,477	2.35	-	-	6,243	3.36
Other	3,583	4.73	3,953	2.68	3,249	5.74	3,801	3.70
Total Agency	257,399	3.31	210,294	3.27	290,498	5.05	156,061	3.60
Municipalities	30,126	3.56	-	-	31,703	4.57	-	-
TLGP (Corp.Bonds)	50,927	1.90	50,971	2.15	-	-	-	-
Total	$ 392,200	3.26	$ 282,074	2.95	$ 438,862	4.71	$ 212,104	3.13

*WAM is weighted average maturities.

5] Capital Assets

Capital Assets include the following (in 000s):

	Sept. 30, 2007	Additions	Deletions	Sept. 30, 2008	Additions	Deletions	Sept. 30, 2009
Operating Fund							
Land	$ 3,315	-	-	$ 3,315	-	-	$ 3,315
Building	33,512	$ 563	-	34,075	$ 52	-	34,127
Furniture & Equipment	10,543	2,902	$ (1,274)	12,171	878	$ (141)	12,908
Software	6,157	1,619	-	7,776	1,068	-	8,844
Vehicles	51	23	-	74	-	-	74
Capital Assets	53,578	5,107	(1,274)	57,411	1,998	(141)	59,268
Accumulated Depreciation	(14,978)	(2,900)	1,255	(16,623)	(3,525)	139	(20,009)
Capital Assets, Net	$ 38,600	$ 2,207	$ (19)	$ 40,788	$ (1,527)	$ (2)	$ 39,259

Operating Fund Capital Assets include $0.10 million and $0.65 million in accrued purchases at fiscal year end 2009 and 2008, respectively.

6] Accounts Payable and Accrued Liabilities

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

	September 30, 2009		September 30, 2008	
	Operating Fund	Federal Fund	Operating Fund	Federal Fund
Trade Payables	$ 2,914	$ 447	$ 2,908	$ 96
Compensated Absences	1,654	-	1,677	-
Incentives	3,199	-	6,478	-
Other	227	-	113	-
Total	$ 7,994	$ 447	$ 11,176	$ 96

7] Short-Term Financing

Margin Facility: TG has an agreement with its investment Prime Broker providing borrowing capacity, with certain exceptions, at 95% of its U.S. Treasury and U.S. Agency investment portfolio fair value, and up to 95% of other portfolio investments, subject to Federal Reserve regulations. Outstanding balances bear interest at the Broker Call Rate minus 3/8% or 1.625% at September 30, 2009, with payments required to the extent that outstanding principal and interest exceeds the borrowing capacity level.

The facility was accessed several times in fiscal year 2009 and 2008, typically on a one-day basis to facilitate cash management. There is no outstanding balance under this facility at September 30, 2009, and 2008.

Line of Credit: In April 2009, TG renewed its $5 million, no commitment fee, unsecured line of credit with its depository institution, bearing interest at the institution's prime rate plus 1.5%. The facility, which expires September 30, 2010, unless earlier termination of the depository relationship, has not been accessed.

8] Non-Current Liabilities

Non-current liabilities include the following net of the Current Portion (in 000s):

	Sept. 30, 2007	Additions	Payments/ Deletions	Sept. 30, 2008	Additions	Payments/ Deletions	Sept. 30, 2009	Current Portion
Operating Fund								
Due to ED:								
DAF Refund	$ 90,563	$ 17,426	$ (20,688)	$ 87,301	$ 2,359	$ (17,411)	$ 72,249	-
Notes Payable:								
Building Note	9,616	-	(1,623)	7,993	-	(1,702)	6,291	$ 1,784
Other	8,358	8,237	(7,617)	8,978	5,413	(8,133)	6,258	4,853
Federal Fund								
Escrowed Assets	138,527	3,545	(142,072)	-	-	-	-	-
Allowance for Loan Defaults	-	275,837	(25,427)	250,410	9,281	(29,411)	230,280	-

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

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

	Principal	Interest	Total
Fiscal Year			
2010	$1,784	$260	$2,044
2011	1,871	174	2,045
2012	1,961	83	2,044
2013	675	7	682
2014 & After	-	-	-
Total	$6,291	$524	$6,815

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

9] Retirement Benefits

TG maintains a defined contribution retirement plan, the TGSLC Money Purchase Pension Plan and Trust (the Plan), which covers substantially all employees. While employees do not contribute to the Plan, TG's contributions to the Plan are generally based on 9.0% of gross annual salaries, net of forfeitures. Total payroll and covered payroll was approximately $36.5 million and $35.2 million, respectively, in the Plan year ended June 30, 2009, and approximately $33.1 million and $31.6 million, respectively, in Plan year ended June 30, 2008. Total TG contributions, in accordance with this Plan requirement, were approximately $3.1 million and $2.7 million for the years ended September 30, 2009, and 2008, respectively. Plan amendments are subject to the Plan's Board of Trustees' approval and TG's Board of Directors' ratification.

10] Lease Commitments

TG obtains various equipment under operating lease agreements. Rent expense for fiscal years 2009 and 2008 was approximately $0.63 million and $0.62 million, respectively. Future minimum lease payments under the agreements are as follows (in 000s):

Fiscal Years	
2010	$170
2011	25
2012	13
Total	$208

11] Credit Risk

TG's credit risk is principally inherent in student loan guarantees as follows: Original Principal Outstanding guaranteed student loans, including loans transferred to TG, are composed of 54% four-year schools, 10% proprietary schools, 5% two-year schools, and 31% consolidation loans at September 30, 2009. The proprietary school increase is primarily attributable to TG's single largest participating school. Based upon the historical default characteristics of this portfolio, an Allowance for Non-reinsured Default Claims of $230.28 million is estimated at September 30, 2009. Assuming all outstanding guaranteed loans default simultaneously resulting in the highest Trigger rate, and therefore minimum reinsurance, the maximum credit risk exposure to TG approximates $7.88 billion at September 30, 2009, net of Federal reinsurance.

12] Contingencies

In January 2009, the new Federal Administration released a proposal in connection with its 2010 budget, and in June 2009, the Student Aid and Fiscal Responsibility Act of 2009 (HR 3221) was introduced, which would effectively eliminate the origination of federal student loans under the FFELP, and leave the FDLP as the primary federal loan program after June 30, 2010. If enacted, guaranty agencies, including TG would be permitted to continue servicing their respective residual FFELP portfolios, insofar as law and regulation would permit. TG continues to work in alliance with other guarantor colleagues to establish a similar role for the guaranty agency to assure these services are available in all federal loan programs, regardless of funding source. The outcome of these efforts is unknown at this time, and the elimination of the FFELP, is currently only a legislative proposal.

Recent credit market challenges have and may continue to negatively affect TG and its operations. Recent statutory reductions in FFELP lender subsidies, coupled with lender liquidity difficulties, have resulted in some lenders exiting the student loan market. In an effort to mitigate this obstacle and assure access, the Ensuring Continued Access to Student Loans Act (ECASLA), was adopted in May 2008 and extended in October 2008. This Act has provided lenders, operating under specified terms, with the option to sell participation interests in student loan portfolios originated between May 1, 2007, and June 30, 2010, or to "put" or sell these loans outright to ED. Consolidation loans are not eligible. While participation loans retain their guarantee, "put" loans do not, resulting in the removal of "put" loans from the guarantor's portfolio and elimination of the possibility of future revenues from those loans. The "put" deadline for eligible loans fully disbursed on or before fiscal year end 2009 was September 30, 2009, and eligible fully-disbursed academic year 2009/2010 loans have a September 2010 "put" deadline. Participated loans can ultimately be "put" to ED, if required or desired by the lender under similar deadlines. While the extent of the use of the "put" and loan participation devices, and their resulting impact on future TG results of operations, cannot be determined, as of September 30, 2009, $3.5 billion of TG's guaranteed loan portfolio had been "put" and $1.6 billion is in participation.

The student loan industry supported by ED has recently introduced the "A Plus Loans" conduit program, in which non-consolidation FFELP loans originated subsequent to September 30, 2003, meeting certain eligibility criteria, may be sold into short-term commercial paper backed facilities. Such loans are subject to "put" to ED if the underlying commercial paper fails to refinance or upon individual loans reaching a defined level of delinquency though September 2014. This conduit "put" would have similar impact to TG as described previously. As of September 30, 2009, $1.8 billion of TG's portfolio is in this conduit.

In recent months, several lenders have withdrawn from FFELP, accordingly, TG has established a fully functional Lender of Last Resort (LLR) program, under which TG would first access funds available through its one participating lender to make loans; after which TG would make LLR loans as a FFELP lender, using up to $50 million of its own funds for these purposes; after which, TG would use federal funds from U.S. Treasury advances to make LLR loans, as necessary. LLR loans made with federal advances would not enter the guarantor portfolio and therefore would not earn guarantor services fees. Through September 30, 2009, the LLR process has remained inactive.

TG, by action of its Board of Directors, has committed to pay on behalf of the student borrowers, the Federal Default Fee required for each loan it guarantees through June 2010 from its Operating Fund. Given current volume estimates, this commitment could approach $58 million and $15 million in fiscal years 2010 and 2011 respectively.

TG provides a unified student loan funding service (EFT), which upon participant approval, draws funds from participating lenders, while simultaneously distributing the funds to participating schools using commercial bank overnight Automated Clearing House (ACH) transactions. While rare, failure of a participating lender to fund its draw would result in an overdraft position in TG's ACH clearing account. EFT daily volume is typically less than $10 million. However, during January and August 2009 peaks, there were eight days with disbursements exceeding $100 million, the highest single day being $190 million.

FFELP lenders purchase of rehabilitation recovery loans had been impacted by economic circumstances in fiscal year 2009, recently rebounding, though typically at a discount.

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

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

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