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OPINION COMMITTEE

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May 26, 2009

RQ-0803-GA

The Honorable Greg Abbott
Attorney General of Texas
Opinion Library – Mail Code 061
P.O. 12548, Capitol Station
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Dear General Abbott:

Please accept this letter as a request for an opinion regarding a private loan proposal made to Texas State Technical College. The facts are as follows:

BRAZOS has submitted the enclosed PROPOSAL FOR PRIVATE LOAN PROGRAM. Under this proposal, the private lender would share the risk of default with TSTC. This proposal is intended to support a certificate program. No TSTC funds would ever be at risk. The worst case scenario under a 100% default rate would have the effect of TSTC discounting the tuition for the program all the way down to zero.

I would be glad to provide further explanation should that be necessary in your analysis.

Respectfully submitted,

Ray Rushing

RR/ps
Enclosure

# BRAZOS PROPOSAL FOR PRIVATE LOAN PROGRAM

**Executive Summary**

Brazos Higher Education Service Corporation, Inc. ("Brazos") proposes to make funding available for private education loans to students attending Texas State Technical College ("TSTC"). The program consists of a risk-sharing component in which the holder of the loan and TSTC share in the risk of defaults.

Initially, Brazos proposes to launch this loan as a pilot program, with a focus on the students enrolled in the SubSea Robotics program. The program may be expanded in the future to cover other programs.

**Background:**

Brazos is an entity that has been involved in financing education for almost 30 years and has been a key participant in the student loan industry. Brazos acts as a servicer and administrative agent for a number of other not-for-profit entities which have been a powerful force in student lending for over 30 years. Brazos has developed and managed numerous private loan programs and has the ability to bring qualified, able parties to a private loan program.

Given recent turmoil in the credit markets, schools and students have been left with gaps in their funding for higher education and/or with no potential funding. In keeping with its not-for-profit mission, Brazos has sought to develop a program that is viable in today's markets and will allow it, working closely with colleges and universities, to continue to assist students achieve their goals through higher education.

**Proposal:**

The program being proposed requires a close collaboration and risk-sharing model between Brazos, the holder of the loan and TSTC as follows:

Brazos will bring to the table a qualified bank ("Lender") to underwrite and fund the cost of the SubSea Robotics program for students of the program pursuant to an agreed upon Program Manual. The Lender will remit the cost of tuition to TSTC and TSTC will credit the student's account for the full amount of loan proceeds that it received. A not-for-profit entity which is managed by Brazos ("Holder") will purchase the loan from the Lender anywhere from 1 – 7 days after the loan has been disbursed. TSTC will, immediately upon receipt, deposit a pre-determined percentage, of the amount of loan proceeds it receives from the Lender into an Escrow account to be held pursuant to an Escrow Agreement until such time as the borrower begins making payments to the principal. The loan will require interest only payments by the borrower beginning thirty (30) days after disbursement. Repayment of principal by the borrower beings thirty (30) days after completion of the program.

At the time the student has repaid the principal in an amount equal to the percentage of funds retained by TSTC that were not placed in the Escrow account, for each additional dollar of principal repaid by the student a dollar will be released from the Escrow account and distributed to the Holder and TSTC pursuant to an agreed upon allocation. If a loan defaults, the amount of the defaulted loan will be charged against the Escrow account and used to repay the Holder and, in turn, the entity that provided the liquidity to purchase the loan. If defaults run higher than expected, the Escrow account may be depleted and any defaults above the amount in the Escrow account are covered 100% by the Holder of the loans.

**Example**: Assuming that the agreed upon percentage calls for a 60% hold back for a $10,000 loan:

- $10,000 paid to TSTC by Lender for Borrower Tuition (TSTC credits Borrower with $10,000 toward tuition)
- $6000 (60%) paid by TSTC into the Escrow account.
- $4000 (40%) retained by TSTC

If the borrower does not default but pays 100% of the principal on the loan, Holder and TSTC split, 50/50 (TBD), the amounts held in the Escrow account. TSTC recovers $3000 from the Escrow and, in total, has received $7000 ($4000 initially received and $3000 split from Escrow) toward the $10,000 in tuition credited to the borrower. Thus, TSTC has subsidized 30% of the borrower's tuition. As defaults increase, the percentage of the borrower's tuition that is, in essence, subsidized by TSTC, increases.

This example made certain assumptions for illustrative purposes only. The level to which TSTC subsidizes tuition is dependent upon expected defaults, actual defaults, and negotiated percentages of hold-back and hold-back sharing.

TSTC will work closely with Brazos and the Holder to provide higher levels of reporting and information on the borrowers in the program than is normally required in a private loan program. This will allow for Brazos to prepare more robust and more predictive reporting and analysis so as to assist the parties in continued analysis and development of the program so as to assist in minimizing the losses to all involved as the program develops and moves forward.

**Conclusion**:

We look forward to continued discussions with you regarding this program.

All questions regarding this Proposal should be directed to:

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