

# SallieMae

GOVERNMENT & INDUSTRY RELATIONS  
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April 13, 2007

Sent via electronic mail

The Honorable George Miller  
Chairman, Committee on Education and Labor  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Howard "Buck" McKeon  
Ranking Member, Committee on Education and Labor  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Ruben Hinojosa  
Chairman, Subcommittee on Higher Education,  
Lifelong Learning and Competitiveness  
U.S. House of Representatives  
Washington, DC 20515

The Honorable Ric Keller  
Ranking Member, Subcommittee on Higher Education,  
Lifelong Learning and Competitiveness  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairmen and Ranking Members:

On behalf of Sallie Mae, the nation's leading saving- and paying-for-college company, I respectfully submit the attached set of policy recommendations in response to your March 8, 2007 letter seeking the "best ideas for ensuring that the promise of the Higher Education Act is fulfilled for this generation of students and families and for those to come."

Sallie Mae believes this set of policy recommendations would help improve college access and affordability. By no means is this an exhaustive list nor does it represent a comprehensive strategy to address the country's college financing needs; but we do believe these recommendations have merit, and we are eager to discuss them with you and your staff and other higher education stakeholders.

As a company, we recommend that all higher education stakeholders come together to: (1) increase need-based financial aid; (2) address growing student loan debt levels; (3) increase college savings; and, (4) improve student loan repayment options to better help borrowers manage their obligations.

We enthusiastically endorse a significant increase in need-based grant aid. This should be accomplished by increasing the overall federal investment in higher education. In working to expand college access to our country's most needy students, we must not sacrifice the federal student loan programs and other need-based aid programs or millions of college students will experience higher costs and fewer options.

We applaud your efforts to improve the Higher Education Act through the regular reauthorization process, where stakeholders and higher education experts can help drive policies that are not exclusively budget-driven. Sallie Mae shares your commitment to improving higher education access and affordability, and we are eager to work with you and your staff to improve our country's social and economic future.

Sincerely,



Timothy J. Morrison  
Vice President, Federal Relations

*Sallie Mae*  
*College Affordability and Student Loan Improvement Recommendations*

**Overview**

College access and affordability is best achieved through a balanced system of need-based grant aid, low-cost student loans and family savings. Given recent trends, it is not surprising that after a year-long examination of the nation's higher education system, the U.S. Secretary of Education's Commission on the Future of Higher Education concluded that "need-based financial aid is not keeping pace with rising tuition and too many students are either discouraged from attending college by rising costs, or take on worrisome debt burdens in order to do so."

Moreover, qualified students from families of modest means are far less likely to go to college than their affluent peers with similar qualifications. While about one-third of whites have obtained bachelor's degrees by age 26-30, for example, just 18 percent of blacks and 10 percent of Latinos in the same age cohort have earned degrees by that time.

To help address these and other growing concerns regarding college access and affordability, Sallie Mae, the nation's leading saving- and paying-for-college company, recommends that higher education stakeholders come together to: (1) increase need-based financial aid; (2) address growing student loan debt levels; (3) increase college savings; and, (4) improve student loan repayment options to better help borrowers manage their obligations.

As a company, we enthusiastically endorse a significant increase in need-based grant aid. Our enthusiastic endorsement, however, comes with the following caution: *Any increased federal investment in need-based aid must not come at the expense of the federal student loan or other need-based aid programs or millions of college students who rely on these important programs will experience higher costs and fewer options.*

The Federal Family Education Loan (FFEL) Program is by far the largest single source of financial assistance available to American families. We anticipate this will continue to be the case for generations to come. As a result, the program's importance to the overall college financing structure of this country cannot be overstated.

According to the Commission on the Future of Higher Education, "Our year-long examination of the challenges facing higher education has brought us to the uneasy conclusion that the sector's past attainments have led our nation to unwarranted complacency about its future."

The same can be said of the federal guaranteed student loan program. For the past decade, there has been an unwarranted complacency about the future of the FFEL program by federal policymakers. Since 1992, every major piece of higher education-related legislation enacted by Congress has reduced the incentives designed to attract private capital into the program. Most recently, the Deficit Reduction Act of 2005 cut \$12 billion from the federal student loan program, the bulk of which came from the federal payments made to private lenders for the services they provide to students, parents, and colleges and universities. The student loan program shouldered one-third of the overall budget cuts, a highly disproportionate reduction considering that student loans represent less than 1 percent of federal entitlement spending. Cuts

of this magnitude not only impact private lenders' ability to invest in student loans, they impact the services and benefits lenders provide to students and schools. This decade-long trend must end if we, as a nation, are going to be prepared for the changing landscape of higher education.

Along with increasing need-based aid and strengthening the student loan program, helping more families save for college is equally important. Implementing creative ways to increase college savings would go a long way towards reducing the loan amounts currently required by today's students and adult learners. Finally, we believe that student loan repayment and deferment options should be enhanced to help assist student loan borrowers who experience undue hardship managing their obligations.

What follows is a set of policy recommendations that Sallie Mae believes would help improve college access and affordability. By no means is this an exhaustive list nor does it represent a comprehensive strategy to address the country's college financing needs, but we do believe these recommendations have merit and we are eager to discuss them with higher education stakeholders and gather input on how to improve upon them.

### **Recommendation #1: Significantly increase Pell Grant funding.**

*Rationale: In 1965, President Lyndon B. Johnson said, "Education is the key to opportunity in our society, and the equality of educational opportunity must be the birthright of every citizen." The Higher Education Act of 1965 was enacted upon this principle -- every qualified student, despite their economic circumstance, must be given the opportunity to pursue a higher education. According to The College Board, "In the 1970s and the 1980s most aid programs were designed to increase access to college for students who would otherwise be unable to afford to enroll. In recent years, student aid programs have been focused increasingly on affecting students' choice of institutions and on reducing the financial strain on middle-income families."*

*From 1995 to 2005, average tuition and fees at private four-year colleges and universities rose 36 percent after adjusting for inflation. Over the same period, average tuition and fees rose 51 percent at public four-year institutions and 30 percent at community colleges.*

*Between 2001 and 2005, the percentage of undergraduate funding in the form of grants decreased from 50 to 46 percent. The percentage in the form of loans increased from 43 to 46 percent. Over the same period, the percentage of graduate student funding in the form of grants decreased from 29 to 22 percent. The percentage in the form of loans increased from 68 to 76 percent.*

*While funding for Pell Grants has risen from \$8.8 billion in 2001 to \$13 billion in 2006, the maximum award has remained largely stagnant. We believe that the Pell Grant program plays a unique role in promoting economic and social mobility in the United States. No other federal program is more important to expanding access to higher education and we endorse a much broader federal investment to support the program.*

**Recommendation #2:** Encourage employers to offer student loan repayment as part of a comprehensive benefits package by providing tax benefits to employees who utilize this option. Extend tax benefits to individuals who assist others by paying off education-related debt.

- Ensure there is no tax liability for employees who benefit from employer-assisted student loan repayment.
- Provide tax advantages/incentives for individuals to pay off student loan debt on behalf of others (family members or non-family members).

*Rationale: A strong U.S. economy requires a skilled and well-educated workforce that is prepared to meet the challenges presented by a rapidly changing global economy. Ninety percent of the fastest-growing jobs in the new knowledge-driven economy will require some postsecondary education. Growing numbers of non-traditional and first-generation college students spanning all socioeconomic backgrounds will require access to low-cost student loans in order to improve educational opportunities across-the-board, which is the key to creating a workforce that will thrive in the new knowledge-driven world economy.*

*Sallie Mae believes that U.S. companies, facing global competitive pressures, would rally behind creative ideas to encourage private employers to make college saving and financing a priority. We believe targeted federal tax incentives would drive employers to provide student loan repayment as part of their employee benefit packages. If companies offered student loan repayment as an option for employees, all parties would benefit. Employers would attract and retain highly-skilled employees and new college graduates with student loan debt would gain immediate assistance at the time they need it most -- early in their careers.*

*We also believe that targeted tax incentives for individuals could prompt them to devote personal resources towards helping erase or reduce the student loan obligations of family members and others in need.*

**Recommendation #3:** Expand higher education-related tax savings provisions to ensure families continue to be rewarded for saving for college.

- Create a federal tax deduction for contributions made to 529 college savings plans.
- Ensure there is no tax liability to employees whose employers provide matching contributions to 529 plans.

*Rationale: One of the best ways to increase college affordability is to encourage families to save. Section 529 college saving plans, available nationwide, have proven to be one of the most effective ways to help families plan ahead for the cost of college and minimize the reliance on loans. In some instances, individuals can save for college with as little as \$25 per month.*

*These plans allow participants to save money in a special account in which the earnings grow income tax deferred and when used to pay for qualified higher education expenses will be federal income tax-free.*

*In many states, a participant can receive special state incentives, including state tax deductions and exemptions, based on their participation in the in-state program. Sallie Mae believes similar incentives should be expanded at the federal level.*

**Recommendation 4:** Improve and enhance student loan repayment, deferment and forbearance options with particular focus on borrowers who experience hardship.

- Expand Income Contingent Repayment (ICR) to FFELP.
- Create an interest only repayment option.
- Ensure borrower forbearance is used to avoid default and reduce hardship by requiring borrowers to complete an online counseling course provided by lenders and certify they are aware of the availability of ICR in order to get a third year of forbearance. For any additional forbearance beyond three years the borrower would be required to repeat the same process.
- Improve/expand eligibility requirements for economic hardship deferment.
- Help borrowers who experience catastrophic life events that make meeting loan obligations overly burdensome by providing authority to the Secretary of Education to discharge loans on a case-by-case basis from funds appropriated to the U.S. Department of Education.

*Rationale: Overall, the student loan program is a remarkable success story. For 41 years, the federal guaranteed student loan program has helped make higher education possible for more than 50 million Americans. By leveraging global private financial markets and competing for the right to lend to students, the FFEL program brings value to students, schools, and taxpayers. The foundation of the FFEL program is choice. Schools can choose among numerous loan providers to determine the program and loan product that are right for them and their students. This choice has created a competitive marketplace for student loans, with students and schools as the beneficiaries of this competition. Competition among FFEL loan providers has resulted in lower loan costs for students, low default rates, and specialized loan services designed to meet the needs of schools, students, and parents. This past academic year (2005-2006), the FFEL program generated \$52.5 billion in new loans for more than 6.5 million students and their parents.*

*Today, private lenders manage an outstanding portfolio of loans totaling \$312 billion. Remarkably, as the outstanding portfolio has grown an astounding 518 percent over 15 years, the defaulted loan share has decreased from nearly 17 percent of the portfolio in 1990 to just over 6 percent in 2005. Furthermore, cohort default rates have dropped dramatically from 22 percent in 1992 to 5.1 percent in 2005.*

*However, as college costs continue to rise, growing numbers of student loan borrowers face undue challenges managing their student loan obligations. Despite being the most consumer-friendly debt product available to students and families -- with multiple repayment options and special programs to assist borrowers experiencing difficulty -- Sallie Mae believes the program can be improved to help borrowers better manage loan repayment.*