

**Below are responses to the exact questions asked by *60 Minutes* of Sallie Mae prior to the May 7, 2006 program.**

**How much of your loan portfolio is government-guaranteed loans? What percentage of your profit comes from government-guaranteed loans? How much of your profit is from private loans?**

- Total FFELP loans, or government-guaranteed loans, represent 87% of our total managed student loan portfolio. Roughly half of our revenue comes from the net interest income on federally guaranteed student loans, and as Sallie Mae diversifies, this number declines each year. Every lender who makes consumer loans like private education loans, bears greater credit risk than government guaranteed loans. As a result, private education loans earn higher spreads – averaging 4.83% in the fourth quarter of 2005 versus a spread of 1.31% in the fourth quarter of 2005 for the managed guaranteed student loan portfolio.

Source: <http://www2.salliemae.com/investors/stockholderinfo/earningsinfo/>  
(Pages 5, 25, 28 Fourth-Quarter Supplemental Financial Information)

<http://www2.salliemae.com/NR/rdonlyres/03DFF673-6D03-4776-BC58-E39CBEC04AB0/4378/CreditSuisse031306Finalpdf.pdf>

- At a time when college costs continue to rise, grant aid remains stagnant and higher education grows in importance in the global economy, both guaranteed loans and private education loans are playing an increasingly important role in opening the doors of college.

Sources: [http://www.collegeboard.com/prod\\_downloads/press/cost05/trends\\_aid\\_05.pdf](http://www.collegeboard.com/prod_downloads/press/cost05/trends_aid_05.pdf)

[http://www.collegeboard.com/prod\\_downloads/press/cost05/education\\_pays\\_05.pdf](http://www.collegeboard.com/prod_downloads/press/cost05/education_pays_05.pdf)

- The amount that students can borrow under federal student loan programs has not kept pace with the cost of college. In fact, federal student loan limits were increased modestly for freshmen and sophomore students for the first time in decades in the Deficit Reduction Act of 2005. However, these loan limit increases do not go into effect until 2007 and the total amount that a student can borrow during their undergraduate career was kept at \$23,000.

Source: <http://ifap.ed.gov/dpceletters/attachments/GEN-06-02A.pdf>

- As for the importance of loans given today's college costs, The Institute for Higher Education Policy, in partnership with the National Association of Student Financial Aid Administrators, found the following: "While the ability to choose which college to attend has been one of the hallmarks of U.S. higher education, the reality is that federal student aid—the main source of assistance to students—is much less effective than it used to be in promoting choice. Federal aid's limitations in supporting choice have therefore led many students to turn to private loans and other sources of external support as a major vehicle to allow them to choose the college that they wish to attend."

Source: <http://www.nasfaa.org/PDFs/2003/Pvtloansfinal.PDF>

**Do you feel that Sallie Mae's dealings with student borrowers is what was intended by Congress in its creation of the Government-Guaranteed Loan Program?**

The student loan business is highly regulated. The rules are set by Congress and enforced by the U.S. Department of Education. Since all Americans pay the cost when a borrower defaults on their student loan, these rules are particularly detailed with respect to delinquent and defaulted student loans. All participants in this industry are bound by these requirements.

Our success and reputation depends on how well we serve our borrowers. Our success is also closely associated with our commitment to helping borrowers and their families navigate every step of the complicated financial aid process.

That said, we offer a variety of repayment tools to help borrowers successfully repay their loans, including graduated repayment, income-sensitive repayment, extended repayment, deferments, loan consolidation and forbearances. We also provide telephone and Web counseling to borrowers, and assist with exit counseling.

Independent observers, such as Fitch Ratings assigned its highest attainable rating to our loan origination and servicing operations.

Sources:

<http://studentaid.ed.gov/PORTALSWebApp/students/english/difficulty.jsp?tab=repaying>

<http://biz.yahoo.com/bw/060127/20060127005468.html?.v=1&printer=1>

**Several people we've talked to say that Sallie Mae has no risk with the loans issued under the Government-Guaranteed loan program. And therefore they say, Sallie Mae has little incentive to work with a student in danger of defaulting on a guaranteed loan. These same critics point out that Sallie Mae owns collection agencies, and therefore earns additional profits on some defaulting loans – the ones Sallie Mae collects on.**

No one – not students, not schools, not taxpayers and not lenders – benefits when a borrower defaults. In fact, under the rules established by Congress and enforced by the Department of Education, everyone loses if a borrower defaults. Obviously, defaulting on any type of loan is bad for a borrower's credit rating. To avoid the high rate of student loan defaults that occurred in the 1980s and early 1990s, the Department of Education monitors the default rates at each school. And, it costs taxpayers real money if a borrower defaults.

The only way that any lender earns money on a loan is if it goes into repayment and stays in repayment. Simply put, we lose money if a borrower defaults. Even if we collect on a defaulted

loan, we make only about one-third of what we would have made on that loan if it had stayed in repayment.

The student loan default rate is the lowest in the program's history and has been declining year after year for the past decade. The default rate was as high as 22.4 percent in 1992; today that rate is 4.5 percent. That means that more than 95 percent of student loan borrowers are paying their loans back.

In addition, the efforts we make to help borrowers avoid defaulting on their loans on behalf of guarantors and the Department of Education generates billions in taxpayer savings that are used to finance future federal student loans. We are proud that, according to the Department of Education, we provide default prevention services to the top three performing guarantors – and six of the top 11. We are equally proud that our employees' efforts on behalf of federal taxpayers have earned us a No. 1 or 2 performance ranking for the past eight years among the 10-12 private collection agencies that collect defaulted student loans for the Department of Education.

Sources: <http://www.ed.gov/offices/OSFAP/defaultmanagement/cdr.html>

<http://www.fsacollections.ed.gov/contractors/default.htm>

<http://www.fsacollections.ed.gov/contractors/pca2004/Performance/index.htm>

<http://www.fsacollections.ed.gov/contractors/ga/stats/12162005.htm>

**Government studies say that for the taxpayer, the Direct Loan Program is up to 10 times cheaper than the guaranteed loans handed out by Sallie Mae. We've been told one reason that so many universities go with Sallie Mae instead of the Direct Loan program is because Sallie Mae offers incentives, including the School-as-Lender program.**

- Government studies acknowledge federal scoring methodologies are incomplete and do not account for important items such as the administrative costs associated with administering the Direct Loan program, the significant tax revenue produced by private lenders, and the risks associated with interest rate swings.

Sources:

*“While subsidy cost estimates include many of the federal costs associated with FFELP and FDLP loans, they do not capture all federal costs and revenues associated with the loan programs. Consideration of all federal costs and revenues of the loan programs would be an important component of a broader assessment of the costs and benefits of the two programs.”* Government Accountability Office, September 2005.

*“The government does not really ‘make money’ providing student loans—the subsidy calculations under the Credit Reform Act are not designed to fully capture the economic*

*costs to the government of the assistance that the student loan programs provide, nor do they capture all of the effects of the programs on federal spending and revenues.”*  
Congressional Budget Office, November 2005.

- FFELP loans have cost taxpayers less than loans made directly by the U.S. Department of Education. After correcting for obvious flaws in current budget methodology, as well as others identified by government and non-partisan congressional agencies, the FFELP has cost taxpayers \$2.16 *less* per \$100 lent than the Federal Direct Loan Program. Specifically, FFELP loans from 1994 to 2002 are estimated to have cost the government \$7.00 for every \$100 in loans, as compared to \$9.16 for Direct Loans.

Sources: <http://www.studentloanfacts.org/news/White+Paper.htm>

(Note: The quote above is from the updated White Paper to be released this week)

- Even the Department of Education’s own Inspector General concluded in 1999 that in any given year either FFELP or FDLP total costs may be greater and could not answer the question of whether the FFELP or FDLP is more expensive. What the Inspector General did conclude is that the Department of Education’s cost to manage the Direct Loan program is 31 percent higher than what it would cost the private sector to manage the same loan program.

Source: *Study of Cost Issues- Federal Family Education Loan Program Federal Direct Loan Program, March 1999 CN S13-70001*

- Government cost estimates ignore the Direct Loan program’s actual performance. Since 1994, the Direct Loan program has received almost \$15.9 billion *less* in fees and interest payments from borrowers than it has paid the U.S. Treasury in interest. In the last five out of six years, the FFELP program has actually cost the government less than the Direct Loan program in actual dollars. And, the program has borrowed \$104 billion from the Treasury, yet it expects only \$87.5 billion in loans will be repaid.

Sources: <http://www.gao.gov/new.items/d04567r.pdf>

*(FFELP Costs from Student Loan Accounts from the President’s Budget Appendix, “Summary of Program Costs and Offsets” from the budgets for fiscal 1997 to 2005; “Selected Program Costs and Offsets” from fiscal 2006 budget; FDLP Costs: GAO-04-567R FDLP Cost Estimates; fiscal 2004 amounts from p. 371, Fiscal 2006 President’s Budget Appendix and p. 367 of Fiscal 2007 President’s Budget Appendix; administrative expenses only reported in FY 2006 Appendix, other years’ administrative expenses estimated based on 2004 share of total administrative expenses.)*

- More than 80 percent of schools voluntarily choose the FFELP for the financing needs of their students and families.

Sources: <http://www.studentloanfacts.org/statedata/>

<http://www.fp.ed.gov/PORTALSWebApp/fp/commsearch/community.jsp>

- Fewer than 100 schools serve as lenders nationally, and Sallie Mae has fewer than 25 school-as-lender relationships out of the approximately 6,000 schools we serve. Meanwhile, more than 600 schools have left Direct Lending since 1997.
- Eighty-six percent of financial aid administrators from former Direct Loan schools say the private-sector FFEL program is a better program for their students. Nearly three-fourths believe the FFEL program better satisfies their institution's needs. These and other findings were independently confirmed in testimony before the House Committee on Government Reform on May 26, 2005.
- We believe that schools value choice – both between the two federal student loan programs, and among FFELP lenders. The competition between Direct Lending and FFELP – and among FFELP lenders – has fueled vast improvements in the delivery of student loans. The result has been a more streamlined delivery of aid, better service to schools, increased benefits to students, and reduced cost for taxpayers. Competition generates ever-improving service at competitive prices.

Sources: [http://www.studentloanfacts.org/NR/rdonlyres/5B1629A8-DD7C-4534-A1B8-B9336B1C111B/3437/FinalASLPResearchReport\\_71308.pdf](http://www.studentloanfacts.org/NR/rdonlyres/5B1629A8-DD7C-4534-A1B8-B9336B1C111B/3437/FinalASLPResearchReport_71308.pdf)

<http://reform.house.gov/GovReform/Hearings/EventSingle.aspx?EventID=27417>

**Sallie Mae opposed an amendment introduced by Congressmen Petri and Miller that would allow the Direct Loan program to offer their own incentives such as grants. Why did Sallie Mae oppose this legislation?**

Sallie Mae – along with other lenders – opposed the STAR Act for the same reasons it is opposed by most colleges and universities. After an in-depth analysis of the STAR Act conducted by hundreds of financial aid administrators, the Board of Directors of the National Association of Student Financial Aid Administrators voted to oppose the legislation.

The STAR Act would – for the first time in the history of financial aid – make a student's eligibility for additional grant aid conditioned upon which student loan program a school happens to select – rather than a student's financial need. The STAR Act was nothing more than an attempt to prop up the Direct Loan program by legalizing direct payments to certain schools and not others. Any such action by a FFELP participant is strictly prohibited under the law.

Source:

<http://www.nasfaa.org/publications/2005/greauthorizationrecommendations070805.html>

**According to the president's budget, the federal government paid almost 40 billion dollars to subsidize the government guaranteed loan program from 1992-1995. How much of that went to Sallie Mae?**

A few points:

- First, it is not clear what the source of the \$40 billion is. The President's budget from fiscal 2006 has a table with \$39 billion in "subsidy" costs for fiscal 1992 to 2005 (not 1995). It is critical to note that these numbers are *projections*, not real numbers.
- The \$39 billion figure from page 371 of the President's FY 2006 budget is referred to as the "subsidy" cost of the loan program, which is the budget term for the estimate in today's dollars of the cost to the federal government of the loans made in a fiscal year over the life of these loans.<sup>1</sup> In the student loan program, the life of these loans can stretch to 30 years. So, the \$39 billion on page 371 of the President's budget represents the amount that has been set-aside to pay for loans made from 1992 to 2005 over the next 30 years. Most of this money is still sitting in the budget account. Page 370 of the President's budget from this year shows that the FFELP account has **\$23.2 billion** that has not been expended.<sup>2</sup> This is one more piece of evidence that shows the estimated costs of the program never materialize.
- As we have discussed, the budget forecasts are highly unreliable and very sensitive to changes in interest rates, discount rates and other assumptions. Small changes in interest rates or a myriad of other factors can make a big difference in these projections. As NASFAA states in its recent study on the budget process: "[S]mall changes can make such big differences is all the more reason to remember that in many instances federal budget items are only estimates."
- Our problem with these estimates is that they traditionally overestimate the cost of FFELP and underestimate the cost of Direct Lending.
  - An analysis of the credit data from President's budget for 2007 finds that, for loans disbursed from 1994 to 2002 (years in which there are both FFELP and Direct Loans and for which there is some loan performance), the difference between the "subsidy" cost for FFELP and Direct Lending has been reduced to one-fifth the original difference (from 13.2% to 2.7%). That is, for those years, the President's budget currently estimates that the difference is less than 3 cents on the dollar.
  - This difference evaporates when important missing costs are included (administrative, tax revenue generated and appropriate market risk). These missing costs are irrefutable, confirmed repeatedly by independent government sources (Government Accountability Office, the Congressional Budget Office, and, most recently, NASFAA).
- I believe that the issue you are trying to get to is the actual payments that the federal government makes. These payments are frequently made to lenders, such as Sallie Mae, but the ultimate beneficiary is the student borrower.

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<sup>1</sup> Note that the term "subsidy" has a specific budget meaning under the rules of Federal Credit Reform and should not be confused with government subsidies paid on behalf of borrowers.

<sup>2</sup> Budget of the United States Government, Fiscal Year 2007—Appendix, page 370, Federal Family Education Loan Program Financing Account. Sum of lines 24.40 (unobligated balances, end of year) and 74.40 (obligated balances, end of year).

- The largest payments associated with the FFELP are overwhelmingly due to interest payments, or subsidies, paid on behalf of subsidized Stafford borrowers while they are in school. These payments are not a portion of any “profit” made by Sallie Mae or other lenders in the program. Although the payments are made to the loan holder, the beneficiary is the student, who does not have to pay interest on their loan while they are in school. This is similar to Medicare where a payment is made to the physician, but the beneficiary is the patient.
- A second portion of the projections you cite are default costs. The government generally pays 98 percent on loans that default. Clearly, the costs to taxpayers stemming from borrowers who default are not payments made to lenders. In the information I previously sent to you I stated that a loan provider, including Sallie Mae, **loses** money when borrowers default. Even if we collect on a defaulted loan, we make only about one-third of what we would have made on that loan if it had stayed in repayment.
  - Interestingly, since 1992, the FFELP program has collected \$5 billion more on defaulted loans than it has actually paid out; last year it collected \$4 billion while paying out \$3.9 billion on defaulted loans. This is one of the many reasons why the projections made by the government in the President’s budget are re-calculated each year.
- The final portion of the amount is comprised of special allowance payments (SAP). SAP payments are made to lenders to make up the difference between the borrower rate and the market rate. Over 40% of these payments from 1995 to 2005 were in fiscal year 2005, largely for the very low rate on Consolidation Loans. That is, the government is making up the difference between 2.875% Consolidation Loan and market rates – no lender would ever make a 2.875% loan for 30 years. Borrowers got to consolidate at these very low rates because the federal government was making up the difference on those loans (currently paying half the interest).
  - It is also important to note that SAP payments have generally averaged well below \$500 million for most of the years you reference. Last year was also an anomaly not only due to the unexpected consolidation phenomenon but also because a large portion of the SAP was due to a loophole that allowed certain lenders to grow an older class of loans that earned 9.5%. The projections made in the President’s last two budgets (FY06 and FY07) do not take into account the legislative changes resulting from the Deficit Reduction Act of 2005. For example, the Deficit Reduction Act ended the 9.5% loophole and made other forward-looking cuts to lenders.
- All of the costs above are offset by fees paid by lenders and borrowers. Lenders have paid more than \$7 billion in origination and holding fees since 1995.
- Looking at the cash payments, you can see that the FFEL program has been a remarkable deal for the taxpayer. As a percentage of outstanding volume, FFELP has been cheaper than

Direct Lending in every year but one.

- In straight dollar terms, FFELP has been cheaper in five out of 11 years even though it is three times the size of Direct Lending. Since 1995, the net cash cost of FFELP has been \$26 billion over the last 11 years, whereas the Direct Loan program has been \$20 billion (with far less volume).
- In conclusion, I would re-emphasize the importance of reading pages 9-12 of the *NASFAA Monograph: A Primer on the Federal Budget Process*. This paper represents an independent voice that helps explain the complexities of the estimates made in the President's budget and underscore why the \$40 billion you cite is not a real number.