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State should get an independent review of intriguing Sallie Mae offer (Editorial)

The board of PHEAA, Pennsylvania's state-run student loan program, appeared this winter to close the door as definitively as it could on a \$1 billion partnership bid by industry giant Sallie Mae. Directors of the Pennsylvania Higher Education Assistance Agency even adopted a resolution in December saying PHEAA never would be sold to a for-profit corporation. It was an extreme and questionable step to take, since no crystal ball exists to predict forever the future of student-loan programs.

State lawmakers need to look beyond PHEAA's rhetoric - calling it a "takeover" instead of a partnership - and do a more careful analysis. The House Appropriations Committee plans a hearing today to give officials of the Reston, Va.-based Sallie Mae the opportunity to explain its Dec. 20 offer to pay the state \$500 million up front and \$100 million a year for five years.

The offer is intriguing: PHEAA's board would retain its policymaking authority, while Sallie Mae would operate the student loan operations. Pennsylvania is a \$3 billion student-loan market, and Sallie Mae already has 750 employees in its Wilkes-Barre office.

Before the Legislature decides to act, it should arrange for an independent review, something PHEAA so far declines to do. PHEAA is the largest originator of student loans in the state.

As a nonprofit with 2,300 employees, PHEAA doesn't have as much incentive to run its operations efficiently. In contrast, Sallie Mae is a for-profit company that must take into consideration not only students and schools but also its shareholders. Also, taxpayers would benefit because a for-profit company generates tax revenue.

An independent review also is important because of an overlap of interests between the student financial aid agency and the Legislature. Sixteen of PHEAA's 20 board members also serve in the Legislature.

The only fair way to proceed is for state lawmakers to arrange for an independent review of Sallie Mae's offer. If it can provide high-level service and reduce the cost of processing loans, we need to know.