

Harrisburg Patriot-News
February 18, 2005

Sallie Mae takes bid for PHEAA to House; Panel leader praises state loan agency
By Jan Murphy

A private company's \$1 billion offer to take over the state's student-loan business is starting to look less attractive to some state lawmakers.

Representatives from the Pennsylvania Higher Education Assistance Agency persuaded several lawmakers to reject Sallie Mae's proposal during a seven-hour hearing yesterday.

Some lawmakers agreed that it is in the best interest of students to spur Sallie Mae, a for-profit company. PHEAA has argued Sallie Mae would force students to pay higher loan costs to boost profits because the Virginia company would have little competition.

"It's clear that PHEAA provides outstanding service to students, families and the commonwealth as a whole," said Rep. Brett Feese, R-Lycoming, chairman of the House Appropriations Committee, which held the hearing.

Feese said the next step is to decide "whether it is even worth the committee's time to look at the issue any further."

The House panel's hearing was the first legislative hearing on the proposal.

Sallie Mae is a giant in the national student-loan industry. It provides \$72 billion in student loans to more than 7 million customers nationwide.

But Sallie Mae provides only a small share of Pennsylvania's student-loan business. PHEAA is the dominant lender in the state, serving more than 4 million borrowers and managing \$33 billion in assets.

During the hearing, Julie McCormack, a Sallie Mae executive vice president, said PHEAA's dominance in the state is due in part to its two roles. The agency provides loans and runs the state's grant program, which offers aid to students that doesn't have to be repaid.

McCormack said PHEAA enjoys an unfair advantage because some colleges fear they will lose state aid if they give their student-loan business to Sallie Mae.

"We certainly encounter the perception from many schools in Pennsylvania that using PHEAA's loan products is the key to ensuring timely grant aid and avoiding unnecessary audits," McCormack said.

By separating PHEAA's grant and loan functions, she said, "schools would be free to use whichever loan provider they choose to do business with, which means more competition, lower cost and better services for students and schools in Pennsylvania."

Mike Wisniewski, La Salle University's financial services director, testified during the hearing that PHEAA told him the agency plans to audit the school -- two weeks after he told The Patriot-News that he preferred Sallie Mae as a loan provider. Most of La Salle's student loans are provided by Sallie Mae.

Wisniewski said colleagues warned him that PHEAA would seek retribution and that he should "be careful" about giving Sallie Mae its loan business.

PHEAA president and CEO Dick Willey said Wisniewski's accusations were "totally unsubstantiated" and denied that the agency uses threats to win loan business.

The agency's executive vice president, Vincent Racculia, added that all schools receiving grants are audited every two years and that the contact with La Salle was for a routine audit.

When asked about the idea of removing the grant administration responsibilities from the agency, Willey said one function could not easily be removed without affecting PHEAA's loan operation.

Some lawmakers questioned how allowing Sallie Mae to take over PHEAA would increase competition. Rep. John Myers, D-Philadelphia, was one of two lawmakers who were convinced keeping PHEAA intact was the way to go.

But Rep. Curt Schroder, R-Chester, said it was premature to make that statement. "I really think we owe it to the people of Pennsylvania to take an informed look at the offer and then make a decision," he said.

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