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**PHEAA sees another challenge**

**The state Legislature considers bills reducing the agency's power.**

**By Brett Marcy**

HARRISBURG – Pennsylvania's student loan servicing business may be off the auction block for now, but it's not off the hook.

State lawmakers say they're not yet ready to sell the assets of Pennsylvania Higher Education Assistance Agency to the agency's largest rival **Sallie Mae** for \$1 billion. Instead, some lawmakers want to wrest power from PHEAA in order to open up the market to more competition.

"PHEAA, I look at it as a monopoly," said state Sen. Raphael Musto, D-Pittston Township, one of five co-sponsors of a Senate bill to dramatically reduce PHEAA's competitive edge. "PHEAA has everyone shut out. If it's best for the students and for parents, then I'd like to take a look at it."

The Senate bill, which was introduced earlier this month, would address many of **Sallie Mae**'s loudest complaints. A companion bill in the House is also expected to be introduced in coming weeks.

"It looks like the intent of this legislation is to weaken us in any way possible until we can't compete," said Roger Nick, vice president of legislative and board affairs for PHEAA. "That's not going to help Pennsylvania students."

He said the effect of the bill could be worse than selling to **Sallie Mae** because it would gradually chip away at PHEAA's loan business to the point where **Sallie Mae** would win over the market without paying a cent to the state.

"It reduces the level of competition," Nick said. "If we're no longer a factor, there's very little to keep **Sallie Mae** or anyone from commandeering the market."

The bill calls for PHEAA to relinquish control of the Pennsylvania State Grant program, which is funded by the state legislature and administered by PHEAA. **Sallie Mae** has complained that colleges mistakenly believe the grant is funded by PHEAA, giving the agency a competitive advantage over **Sallie Mae**, which does not administer the grant.

The bill also would rename the program to the Legislative Education Assistance Program and force PHEAA to pay \$16 million annually to the Department of Education so that the department could take over administration of the grants.

In addition, the bill would require PHEAA to provide access to its loan servicing system to any lender with more than \$1 million in student loans at Pennsylvania colleges and universities.

"These bills would open competition for the benefit of students, schools and taxpayers and would ensure that every available dollar goes to help students pay for college," said **Sallie Mae** spokeswoman

Martha Holler.

Officials at PHEAA said the agency opposes the entire thrust of the bill, claiming it is intended to bolster **Sallie Mae**'s position in Pennsylvania at the expense of PHEAA's performance.

The bill's prime sponsor, state Sen. Robert Wonderling, R-Harleysville, said he opposes the sale of PHEAA but believes more competition is needed.

"What we're doing is trying to find the sweet spot in competition in higher education assistance," Wonderling said. "We ought to find any way to reduce the cost of higher education for Pennsylvania students . . . If a way to do that is by injecting competition in the marketplace, we ought to explore that and do that."

The student loan market is already competitive, said Rachael Lohman, Wilkes University's financial aid director.

"We do business with **Sallie Mae**, even though we primarily use PHEAA," Lohman said. "PHEAA and their lending partners have been offering discounts to the students of Pennsylvania for a number of years, so you've got a history there."

Musto said he supports exploring the sale of PHEAA to Reston-Va.-based **Sallie Mae**. The private, for-profit company, which employs about 750 workers in its Wilkes-Barre office, offered \$1 billion for PHEAA's loan business last December.

**Sallie Mae** had pledged to keep all of its Wilkes-Barre workers, as well as PHEAA's 2,100 Harrisburg employees if the sale went through, but it wasn't enough. PHEAA's board of directors promptly rejected the offer.

That wasn't the end of it, though. PHEAA's board may control the agency's policy issues, but it's the state legislature that has the ultimate say on whether to sell or retain the student loan business.

The state House is looking to hire an independent firm to appraise PHEAA to determine its true market value.

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