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**Student Loan Groups at Odds; Lawmakers Evaluating Sallie Mae's Offer to Buy Out PHEAA**  
**By Bill Toland**

Sallie Mae, the company that's attempting to buy out the Pennsylvania Higher Education Assistance Agency for \$1 billion, wooed lawmakers yesterday with claims that Pennsylvania's college students would be best served if the Virginia-based loan giant were allowed to run the agency called PHEAA.

A Sallie Mae executive said the deal, which would transfer most of PHEAA's employees and portfolio holdings to Sallie Mae, would create a more level playing field for companies competing for Pennsylvania borrowers, resulting in better products and cheaper loan costs for college-bound students.

In other words, the move would be good for both lenders and borrowers, according to Sallie Mae.

But PHEAA officials believe the buyout would actually reduce competition among lenders, and that the reduced competition would eventually allow Sallie Mae to increase the cost of borrowing.

Sallie Mae executive June McCormack also alleged that Pennsylvania's low-interest loan market is practically a PHEAA monopoly, because PHEAA is able to use its enormous market share to bully financial aid offices into using its products, instead of using loan agencies that are tied to Sallie Mae, or other banks.

"They feel like they don't have that choice," McCormack said.

But McCormack's suggestions were quickly challenged by state Rep. Tom Tangretti, D-Greensburg, who said that Sallie Mae's allegations were based on anecdotal reports from a handful of university loan officers.

"You can't come before this committee [and] make that kind of charge, and not have any documentation to verify it," Tangretti said.

The committee he mentioned was the House Appropriations Committee. Yesterday's was an informational hearing to gather testimony on the pros and cons of the proposed Sallie Mae buyout offer, which wasn't solicited by PHEAA or the state.

The single point of harmony to come out of the hearing was an agreement that the state would be wise to hire an outside firm to assess the true value of PHEAA and its business portfolio. That way, lawmakers can get a better sense of whether Sallie Mae's offer is a good one, or a low-ball proposal.

The offer, \$1 billion over five years, was made late last year, and PHEAA's governing board promptly rejected it. But that rejection was more of an opening salvo than an end to the bid, because ultimately the power to dismantle PHEAA or sell its assets to a competitor lies with the Legislature, not PHEAA's board.

"We are a creation of this General Assembly," said Dick Willey, PHEAA's chief executive officer.

Willey said McCormack's anecdotal allegations about PHEAA strong-arming its clients were "mystifying."

Many of the representatives quizzing McCormack doubted that the state's loan landscape would become more competitive by combining the assets of two of the state's largest loan agencies.

PHEAA is the largest originator of student loans in Pennsylvania, with 21 percent of the market, or \$661 million, in 2003. Sallie Mae is third-largest, with \$226 million in loan volume, or 7 percent. PNC Financial Services, of Pittsburgh, is second with \$527 million, or 17 percent.

PHEAA also guarantees 80 percent of the state's low-interest, federally subsidized loans.

McCormack said that the merger would remove one of the state's main barriers to competition -- the perception that a student who receives a state grant through PHEAA should also arrange loans through PHEAA.

She also said many colleges have arranged exclusive relationships with PHEAA, meaning that when a student walks into a financial aid office and asks for low-cost loan options, Sallie Mae isn't on the menu.

The proposed buyout would allow PHEAA to retain its board and name, but would allow Sallie Mae, formally called SLM Corp., to handle all the loan processing and other operations.

Sallie Mae also said PHEAA's worries about the eventual increase in borrowing costs to students are unfounded, because PHEAA's board would still be able to set the borrowing expenses.

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