



SALLIE MAE, INC.
12061 Bluemont Way
Reston, VA 20190

December 14, 2004

Mr. Richard E. Willey
President and Chief Executive Officer
Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street
Harrisburg, PA 17102

Dear Mr. Willey:

This letter follows our several conversations over the past year about the student loan market in Pennsylvania and proposes a bold partnership designed to strengthen our two organizations, bring even better service to students and schools and add over one billion dollars of financial resources to the Commonwealth's higher education efforts.

We propose to combine the sale of PHEAA's non-financial assets to Sallie Mae (and an indirect interest in PHEAA's financial assets) with a five-year, annually renewable guarantor and loan servicing contract. Consideration would be in the form of an up-front cash payment of \$500 million and five annual payments of \$100 million each. Sallie Mae would assume operating control of PHEAA while the PHEAA Board of Directors would retain policy control. A streamlined PHEAA management group would oversee the servicing contract with Sallie Mae. PHEAA's student benefit programs would remain unchanged. In fact, student discounts and grants could be increased very significantly for the foreseeable future if the deal proceeds were so applied. Management of the state grant programs could be retained by PHEAA or otherwise outsourced to avoid the appearance of any conflict of interest.

Sallie Mae would agree to keep total state employment levels at or above the approximately 2,800 persons today employed by the two entities. This workforce would enjoy the same generous package of benefits and stock options that are shared by rank and file employees throughout our organization.

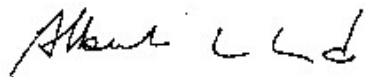
The contract would contemplate specific growth targets so that PHEAA's guarantee business and earnings will grow throughout the original and extended contract term. We have an unbroken record of success in executing numerous transactions in the student loan industry where we have acted as marketing agent or retained a purchased brand and greatly enhanced market penetration. For example, at America's largest guarantor, USA Funds, we have increased their annual guarantee growth from 4% to more than 15% per year. After our 1999 Nellie Mae acquisition, its loan origination volume increased from \$200 million annually to over \$1 billion. In the aggregate, our strategic transactions with non-profit student loan businesses have also provided

nearly \$2 billion of up-front funding for five separate higher education foundations across the country.

Under the proposed transaction, PHEAA could immediately infuse significant cash into the Commonwealth's higher education system by releasing the current and future value trapped inside PHEAA today. We read that budget strains have caused Pennsylvania to reduce its support of its public universities (including my alma mater, Penn State) and student grants cover a shrinking portion of soaring tuition costs. A Sallie Mae transaction would significantly improve the Commonwealth's higher education financial picture.

Dick, each of our organizations has a long and prominent history in Pennsylvania and in the past we have partnered in significant transactions. We recognize that we are putting forward today a much broader partnership concept. We will be happy to furnish details of this offer to you and your agents, explore possible alternative structures and negotiate terms. We encourage you to engage professional investment counsel to assist your Board and other interested Commonwealth parties in evaluating the proposal in a timely manner. We appreciate the difficulty of maintaining confidentiality in this circumstance, particularly to the extent your Board deliberations are open to the public. As you know well, we operate in the intersection of the public and private sectors and our transactions attract appropriately intense scrutiny. We welcome that scrutiny and look forward to discussing this transaction with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Albert L. Lord". The signature is written in a cursive, slightly slanted style.

Albert L. Lord

cc: PHEAA Board of Directors