Prepared Statement of

Barry W. Goulding
Senior Vice President,
Sallie Mae

Wednesday, June 6, 2007
10:00 a.m.

United States Senate
Committee on Banking, Housing and Urban Affairs

538 Dirksen Senate Office Building
Washington, D.C.

Chairman Dodd, Ranking Member Shelby and Members of the Committee, on behalf of Sallie Mae's over 12,000 employees, thank you for giving us this opportunity to describe how we are helping millions of students and families plan and pay for one of the most significant investments of a lifetime -- a college education. We commend you for holding this hearing on this important issue.

As the nation's leading provider of saving, planning and financing solutions for college, we appreciate the opportunity to talk with you about student loans generally and the increasingly important role of private credit in helping make college more accessible. Over the last decade, college tuition increases have dramatically outpaced the growth in federal grants and guaranteed student loan limits. Increasingly, non-guaranteed, credit-based student loans are helping families close the gap between stagnant federal and state financial aid resources, limited family resources and the price tag for a college degree. Sallie Mae is proud to be a leader in making these credit-based loans available, which can make the difference in whether or not a student attends college.

At the same time, the growth in the private credit student loan market raises important consumer and policy issues. Consumers, schools, lenders and policy makers all share an interest in making sure that students have access to college, complete their academic programs and successfully transition to the workplace. In an effort to do our part, Sallie Mae advises students to:

- Minimize their total borrowing by maximizing savings for college through 529 plans or other vehicles.
- Follow the "1-2-3 approach" to paying for college. After tapping personal financial resources, students should first take full advantage of "free" money (such as scholarships and grants); low-cost federal student loans, second; and, only as needed to close the gap between available funds and the cost of college - private or alternative loans, third.
- Take out only those loans they really need and do not "over borrow" beyond their needs.
- Understand how their loans work before they are obligated under their loans.
- Use programs and tools that help them manage their debt and meet their obligations after completing their studies.

This morning I want to describe how we help families pay for college, explain why students are increasingly turning to alternative forms of credit to pay for college, and let you know what we are doing to both reduce the need for private education loans and to help our customers repay their loans after they leave school.

About Sallie Mae

Congress created Sallie Mae as a Government Sponsored Enterprise ("GSE") in 1972 when the federal student loan program was still in its infancy to serve as a secondary market, provide liquidity for banks and to encourage them to participate in the federal student loan program. From its creation, Sallie Mae was a privately-owned firm backed by private capital. Sallie Mae became a publicly traded company on the New York Stock Exchange in 1984.

As the student loan marketplace has grown and evolved over time, so has Sallie Mae. Our initial role as a loan secondary market and servicer kept us focused on banks as our primary customer. In the 1990s, we expanded that focus to deliver student loans to students and schools. Over the past decade, Sallie Mae has invested hundreds of millions of dollars in technology to make it easier for students, parents and schools to apply for, receive, track and repay their student loans. As a result of these investments a student can apply for and receive funds from a student loan in 24 hours instead of the weeks many of us may have spent waiting for student loan checks to arrive on campus when we were in college. More importantly, vast improvements in the loan delivery system have made it easier for borrowers to understand the process, helping to reduce default rates to historic lows.

In 1996, Congress enacted legislation to permit Sallie Mae to reorganize as a fully state-chartered entity, a process that concluded in December 2004 with the dissolution of the Student Loan Marketing Association, our GSE subsidiary. Sallie Mae has continued its focus on student loans, both federal and private, since the dissolution of its GSE subsidiary. In April 2007, the company announced that it entered into an agreement to be acquired by an investor group led by J.C. Flowers, Inc. and including JPMorganChase, Bank of America and Friedman, Fleischer and Lowe.

While our organizational structure and the student loan marketplace continue to evolve, our commitment to our customers – students, schools and taxpayers – remains steadfast. We are proud of our history of innovation, including creating the first student loan consolidation program and being the first company to offer savings to students for making regular, on-time payments. Going forward, Sallie Mae will continue to innovate on behalf of our customers to make college more accessible. We will also continue our work with Congress and key stakeholders in the financial aid community to provide low-cost student loans in an open and transparent manner that places the needs and interests of students and their families at the forefront.

Today, Sallie Mae is the nation's leading private sector provider of higher education financing managing over $150 billion in guaranteed and non-guaranteed student loans for 10 million student and parent customers. In addition, we manage more than $17 billion in 529 college-savings plans, and over 7.5 million families use our Upromise program to help save for college through rewards earned on everyday purchases across the nation.

Sallie Mae makes about 11% of new federal student loans in our own name each year and holds approximately 27% of all outstanding federal student loans. Our employees work in major facilities in 14 states, including places like Arcade, New York; Indianapolis, Indiana; Mt. Laurel, New Jersey; Cincinnati, Ohio; Lynn Haven, Florida; and, Wilkes-Barre, Pennsylvania.

With 10 million borrower customers, 5,300 school clients, hundreds of lender partners and several guarantor clients, we are proud to be a vital provider of higher education financing solutions. In fact, numerous national observers have recognized Sallie Mae's record of accomplishment and excellence:

- **U.S. Department of Commerce** awarded Sallie Mae the Presidential "Ron Brown Award for Corporate Leadership."
- **Business Ethics** magazine ranked Sallie Mae among the "100 Best Corporate Citizens."
- **Business Week** magazine ranked Sallie Mae in the top 15 cash givers in their list of "Top Corporate Philanthropists."

- **Fortune** magazine named Sallie Mae one of its "Most Admired Companies."
- **Working Mother** magazine named Sallie Mae one of the "Top 100 Companies for Working Moms."
- **Washingtonian** magazine and **Indianapolis Monthly** recognized Sallie Mae as a "Great Place to Work."
- The **National Association of Female Executives** named Sallie Mae as one of the "Top 30 Companies for Executive Women."
- **GovernanceMetrics International** awarded Sallie Mae a perfect "10" score for corporate governance. Of 1,600 global companies ranked, only 17 received this rating.
- The **U.S. Department of Education** gave Sallie Mae its "Exceptional Performance" designation for meeting or exceeding government standards in administering loans under the Federal Family Education Loan Program.

In addition to investing in the nation's financial aid delivery system, we have also invested millions of dollars in helping students and families understand the financial aid process. For example, we created one of the industry's first websites to provide free, comprehensive and objective information to families about planning and paying for college. *Forbes* magazine has recognized the site, www.CollegeAnswer.com, six times as "Best of the Web" in the College Planning category. Sallie Mae also established and funded a charitable organization, The Sallie Mae Fund, to help open doors to higher education for all students, prepare families for their college investment, and bridge the financial aid gap when no one else can. Hundreds of our employees have traveled the country to lead free financial aid workshops, help families complete complicated federal financial aid paperwork and answer questions that students and families have about how to plan, save and pay for college.

Research conducted by The Sallie Mae Fund in recent years demonstrates that those who need financial aid the most – minority and first generation students from low-income families – understand it the least. We have made special efforts to educate these populations about how best to navigate the financial aid maze. For the last three years, The Sallie Mae Fund's "Paying for College" bus tour has been on the road taking information about college financial aid directly into over hundreds of communities, reaching over 100,000 families and presenting information in English and Spanish. In addition, as part of Sallie Mae's growth, we have entered into new strategic acquisitions that have, in aggregate, provided $2 billion in funding for five independent foundations dedicated to improving higher education.

How Families Pay for College

While our primary business is providing and servicing federally guaranteed student loans, as well as non-guaranteed "private loans" to help families meet any gap between available funds and higher education costs, Sallie Mae is more than just a student loan company. We understand that paying for college is a challenge for most Americans, and college is often the single biggest lifetime investment a family makes, other than the purchase of a home.

Families and young adults must not only provide for their every day expenses but must also invest in their futures by saving for a first-time home purchase, financing education for themselves and/or their children, and preparing for retirement. As a result, financial education, financial literacy and saving for college are more important than ever in meeting these competing financial demands. Today, the conversation about <u>paying</u> for college at Sallie Mae starts where it should with <u>saving</u> for college. Through the efforts of our Upromise subsidiary, that conversation can now begin as early as birth and can be as easy as automatic savings through rebates on everyday purchases. Upromise manages more than $17 billion in 529 college-savings plans in 10 states – Arkansas, Colorado, Idaho, Iowa, Missouri, Nevada, New York, North Carolina, North Dakota and Pennsylvania - and assists more than 7.5 million members save money for college by earning rebates on regular purchases. Tax-advantaged 529 plans are clearly the best way for families to save for college and we applaud Congress for extending the tax incentives for consumers to save for college.

We also know that paying college bills once or twice a year can strain family cash flows. That is why Sallie Mae offers tuition payment plans to help families divide annual or semi-annual tuition payments into more manageable monthly payments. Last year, more than 300,000 families used our tuition payment plans to help pay over $2 billion in tuition and fees at 800 schools. That is $2 billion families did not have to borrow in student loans.

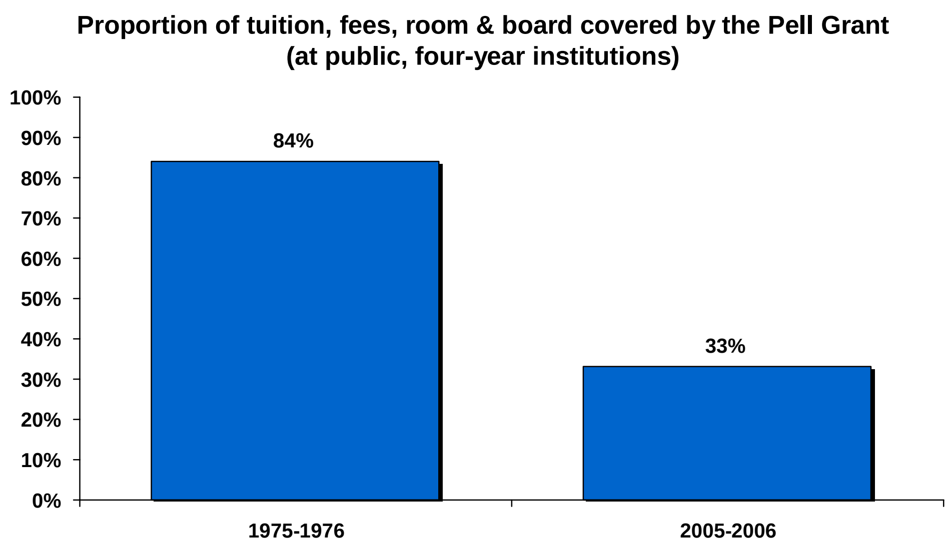
Students are also working more during the academic year. Today, 78% of students work during the academic year. And those students who work are working more hours than ever before. Students also rely on credit cards. Today, more than half of dependent undergraduates have credit cards and carry a median balance of $1,000. By graduation, credit card debt makes up nearly 10% of an average students' total indebtedness.

For many students and families, however, saving for college, managing tuition payments and working during college is not enough to pay the full price of a college degree. Through our marketing, community relations and borrower communications, Sallie Mae counsels students who need financial aid to take full advantage of "free money" first – i.e., scholarships, state and federal grants, low-cost federal student loans second, and third, private loans, as needed to close the gap between available funds and the cost of college. One example of the kind of information we make available to families to help them plan and pay for college is a free guide entitled *The Financing*

College Guide Featuring Sallie Mae's 1-2-3 Approach to Paying for College which lays out this approach to obtaining financial aid for college.

When the Higher Education Act was passed in 1965, lawmakers envisioned that grant aid would cover much of the cost of postsecondary education. For a time that was true. As illustrated in the chart below, the purchasing power of Pell Grants has fallen as the rate of growth in Pell Grant funding has been outpaced by the rise in college costs. For example, in the 1975-76 academic year the maximum federal Pell Grant covered 84 percent of tuition, fees, room and board for a student attending the average public four-year college. Last academic year, the same Pell Grant covered only 33 percent of student's costs at an average four-year public college.

Declining Purchase Power of the Pell Grant



Source: College Board, Trends in Student Aid, 2006; National Association of Student Financial Aid Administrators.

Federal Student Loans

After exhausting all of the "free money" available to them, the second step for students with unmet financial need is to apply for federal student loans. As college costs have risen and the purchasing of grant aid has declined, federal student loans have become the single largest source of federal financial aid, providing $57 billion to 7.7 million students and parents during the last academic year. Part of the reason for the growth of federal student loans is their favorable terms. Today, federal student loans are available to any eligible student, regardless of their credit history and without any collateral, income or co-signer. These loans, which are subsidized and guaranteed by the federal government, also carry the very best rates and terms available to college students. As such they are and should be the first choice for students who must borrow to help pay for college.

Interest rates and terms of federal student loans are set by Congress. Today, the nominal interest rate charged on federal student loans made to undergraduate and graduate students – which are called Stafford loans – is a fixed 6.8% regardless of the lender. Under the federal student loan program, parents of undergraduate students are also eligible to borrow the full cost of attendance (e.g., tuition, room and board, etc.) through PLUS loans. The interest rates in this program are also set under a statutory formula established by Congress. Today, the interest rate on PLUS loans made in the FFEL program is 8.5%. Last year, Congress expanded eligibility for PLUS loans to graduate and professional students.

Today, there are 3,500 lenders providing federal student loans to students and families at each of the nation's 5,300 postsecondary institutions. While interest rates on federal Stafford loans are set by Congress, competition among private-sector loan providers has reduced the cost of borrowing for college, as the U.S. Department of Education recognized in its recent Notice of Proposed Rulemaking. As part of this competition, many lenders pay federally mandated origination fees on behalf of borrowers and offer interest rate discounts and other types of discounts for graduating, on-time payment, using automatic debit, etc. The result of competition among lenders for student loan business is that many borrowers pay less than the statutory interest rate on their federal student loans.

Nationally, 80 percent of federal student loans are made each year through the FFEL program. In fact, 4,250 schools participate in the FFEL program, compared to 750 that participate in the other major federal student loan program – the William D. Ford Federal Direct Loan program. More than 300 schools participate in both programs. Under “Direct Lending” the federal government makes federal student loans directly to students but the program is serviced by private contractors. In contrast to the lender choices available to students on campuses offering FFELP loans, students attending schools offering only Direct Loans are generally required by their schools to take out only those federal student loans offered by the Direct Loan program without the benefit of competition. As a result, students at Direct Loan schools are unable to take advantage of origination fee discounts or other interest rate reductions offered by private lenders.

Because there are literally thousands of lenders who offer federal student loans across the nation, many schools create lists of “preferred lenders” that they recommend to students at their schools. Financial aid offices frequently select their preferred lenders through a competitive Request for Proposal (RFP) process. Regardless of the lender(s) recommended by a particular school, under federal law, any student at any school that participates in the FFEL program is free to take out a federal student loan with the lender of his or her choice. The result of preferred lender lists is, therefore, that lenders are competing to offer the best terms and services to students and schools but students in the FFEL program are free to choose whichever lender they want to do business with.

When a preferred lender list is created through careful analysis by financial aid professionals it can help students and parents select a lender without relying on mass marketing materials. There is clearly room for direct-to-consumer marketing in the student loan arena, but all stakeholders have an interest to make sure that such communications are clear and factual. We were pleased to see that Chairman Miller recently asked the Federal Trade Commission to examine unscrupulous marketing practices in the student loan arena. We share his concerns and have expressed similar concerns to federal regulators in recent years.

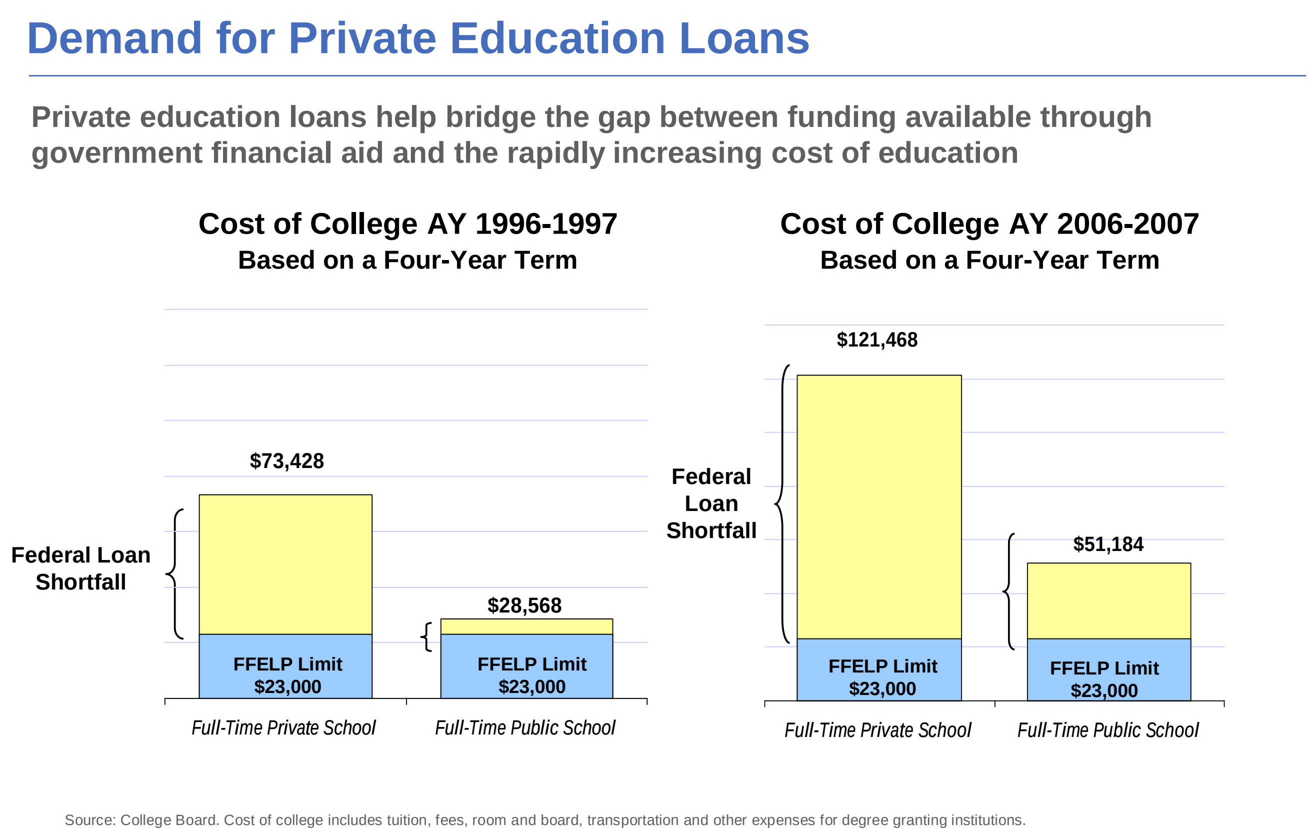
We also support efforts undertaken by Chairman Kennedy and others to strengthen transparency in the process of selecting lenders as part of the preferred lender process. It is important that students are fully informed that they are free to take out a federal student loan with the lender of their choice and that all parties to a student loan transaction – schools, guarantors and lenders -- act consistently to preserve the principle of borrower choice.

We applaud legislative proposals designed to encourage students to determine their eligibility to apply for low-cost federal student loans before seeking more costly private loans. Indeed, as described below, given the growing importance of private loans to many families, we believe that it is imperative that any student who takes out a private loan at any postsecondary institution be fully informed about the importance of exhausting grant aid and lower cost federal student loans. This disclosure is so important that all lenders and marketers who make or market private education loans should be required to disclose the availability of low-cost federal student loans, not just those who provide student loans on a preferred lender list.

Federal student loans are subject to strict statutory limits. Today, a freshman can only borrow $2,625 per academic year, sophomores are limited to $3,500 per academic year, and juniors and seniors may take out only $5,500 per academic year. Even though Congress has raised first-year loan limits to $3,500 and second year limits to $4,500 per academic year beginning July 1, 2007, undergraduates are limited to borrowing no more than $23,000 during their entire undergraduate years.

Private Student Loans and How the Loan Process Works

In recent years, as college costs have risen, grant aid has not kept pace, and federal loan limits have stagnated, the College Board reports that the use of, and need for, private education loans has increased, although our recent experience indicates that market growth is slowing.



According to the College Board, five years ago students across the country took out $4.3 billion in private education loans in a single academic year. Last year, that number had grown to nearly $17 billion. Direct-to-consumer loans, home equity loans and other forms of unsecured consumer credit used for higher education likely make the total amount of non-guaranteed borrowing significantly higher than the College Board estimate. To give you some perspective, as I stated earlier, federal student loans are the top source of federal financial aid. Ten years ago, private education loans represented only 5 percent of federal student loan volume. Today, private education loan volume equals about 22 percent of federal student loan volume, and that does not account for the estimated 25 percent of college students who are using credit cards to pay for some or all of college. Over the past year we have seen a significant slowing of the growth in private education loans at both undergraduate and graduate levels.

Important factors in underwriting private education loans, like any private credit product (such as an unsecured consumer loan, a credit card, automobile loan or a mortgage), are a borrower's individual credit history and whether the borrower has a co-signer with a good credit history. Other considerations include academic progress, school-specific default history and the competitive landscape. Unlike mortgages and automobile loans, private education loans are not secured by any fixed asset.

If students have obtained all of the "free money" available to them, borrowed the maximum amount of federal student loans, do not have a parent who is willing or able to take out a PLUS loan, or if they have no other sources of funds for college (e.g., working additional hours, reducing their class loads, delaying graduation, mortgaging other assets, etc.), they may pay the remaining cost of attendance using private, credit-based, education loans. In these cases, students have essentially three choices:

(1) Take out a private education loan with a co-signer. If a student's parents are unable or unwilling to take out a low-interest federal PLUS loan to cover the outstanding cost of attendance, a student can obtain a private education loan with a parent or third party as a co-signer. This approach generally offers the next best financing

alternative to federal student loans as many parents or third-parties have established credit histories that may improve the rates and terms available to a borrower.

(2) Take out a private education loan without a co-signer. Students who have exhausted federal financial aid, whose parents are unable or unwilling to take out a PLUS loan or co-sign a private education loan, or who do not have the ability to tap into home equity, may take out a private education loan using their own credit history to obtain the loan. While the terms and conditions of these loans are generally less favorable than federal student loans or co-signed private education loans, these loans may be the best option for students with limited credit history.

(3) Work more hours, deplete savings, mortgage available assets, reduce hours of attendance, change schools, delay graduation, do not attend or drop out of school. For those students who have exhausted all federal financial aid (or other sources of financial aid) and who do not wish to take out a private education loan or do not have a parent who is willing to take out a federal PLUS loan or co-sign a private education loan, they may be forced to make lifestyle changes that could affect their ability to successfully complete their education.

Many lenders provide private education loans today. The rates and terms of these loans vary, as do the credit criteria, across lenders. Some lenders only provide education loans to individuals without credit challenges. Some lenders only make loans to borrowers who meet certain income thresholds. Others provide private education loans at rates and terms designed to provide access to postsecondary education for borrowers who may have less than stellar credit.

Regulation of Private Education Loans

The market for private education loans is heavily regulated. In fact, some might argue that a private education loan is more heavily regulated than the federal student loan marketplace. For example, as consumer finance instruments, private loans are made by regulated banks, over which, as this Committee knows, there is significant oversight and monitoring. And, unlike federal student loans, the federal Truth-In-Lending Act applies to private education loans. In addition, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and other federal and state lending and consumer protection laws govern private education loans.

Obtaining a Student Loan From Sallie Mae

At Sallie Mae we originate federal student loans in our own name and also provide origination services, loan servicing and loan purchase agreements to other financial institutions. During the 2005-2006 academic year, Sallie Mae originated more than $22 billion in student loans on more than 5,000 campuses. Of these, $15 billion were federal student loans and $7 billion were private education loans. Sallie Mae sponsors and/or services private education loan programs that are made available to students attending colleges and universities across the nation. As of March 31, 2007, Sallie Mae owned nearly $24 billion in private education loans. These private education loans represent approximately 16% of our total loan portfolio.

An analysis of our customers who have entered repayment demonstrates the effectiveness of the "1-2-3" approach. At the end of 2006, 85% of our customers had only federal student loans with Sallie Mae compared to 4% of customers who had only private loans with Sallie Mae. 11% of our customers had both federal and private education loans.

At Sallie Mae, we designed our private education loans to mirror federal student loans in many respects. For example, like federal student loan customers, students who take out private education loans can, and often do, borrow to cover living expenses while they are in school. Like federal student loan customers, students with private education loans can, and often do, delay making any payments until after they complete their studies. We provide borrowers, while they are in school, with quarterly statements reflecting their interest costs and encourage them to pay the interest on their student loans while in school, if possible, to reduce their future obligations. Like federal student loans, we offer students a six-month grace period after graduation before they begin making payments. Like federal student loans, we understand that students usually have little or no income while they are in school so our private education loans have no income requirements or debt-to-income ratio. And we give borrowers 15 years to pay back their private loans. The result is that lenders take 100% of the repayment risk on flexible private education loans made to people with limited credit histories on which they will not get repaid for several years. In the long-run, however, we believe that these loans are generally good investments for students and lenders because they represent an investment in human capital. Like federal student loans, this flexibility allows students to concentrate on their studies, not their debt.

While we have been successful in mirroring many of the characteristics of guaranteed student loans, we cannot mirror federal loan rates or fees. Absent the borrower subsidies and guarantee in federal student loans, lenders are forced to price private education loans using a risk-based model. A borrower's individual credit history and whether the borrower has a co-signer with a good credit history are important factors in determining the rates and terms on private education loans, like any private credit product, such as an unsecured consumer loan, a credit card, automobile loan or a mortgage. Today, the median interest rate across our entire private student loan portfolio is Prime plus 2% and the overwhelming majority of our customers are successfully managing their private education loans.

At Sallie Mae, our commitment to our customers continues well after their loan is disbursed. Once a student completes their studies, in addition to standard repayment plans, we offer several options to help borrowers manage the repayment of their student loans. As anyone who has ever had student loans understands, it is harder to repay student loans early after graduation than it is after being in the workforce for several years. Sallie Mae offers flexible repayment plans that permit borrowers to reduce their monthly payment amount. And, borrowers who cannot make any payments at all due to extenuating circumstances can temporarily suspend making payments. We encourage our customers who are having difficulties to contact us so that we can explore ways to get them the help they need, particularly since student loan customers must understand that the decisions they make during repayment can often increase the overall cost of borrowing.

The private student loan market is growing, evolving and responding to consumer demands. For our part Sallie Mae has made a number of pro-consumer changes to our private loan program. We:

- Expanded our existing disclosures to encourage potential borrowers to max out their federal student loans before taking out private loans. Prospective borrowers are encouraged at various points in the borrowing process to seek low-cost federal loans before taking out a private loan.
- Created additional safeguards to prevent students from inadvertently borrowing more than the total cost of attendance.
- Capped private loan interest rates and fees.
- Introduced a private loan consolidation program to help borrowers lower their monthly payments. Over 75% of those who use this program lowered the interest rate on their private loans after consolidation.

- Launched an educational campaign to provide counseling tools to help borrowers understand debt before they ever take out a loan, manage debt and protect their credit score.

Student Loan Marketing Practices

Finally, Mr. Chairman, I want to comment on the recent attention on the student loan market. Business ethics is of the highest importance to Sallie Mae. Even before recent scrutiny of the student loan market, Sallie Mae adopted a “Business Courtesies and Gifts” policy to guide our employees on acceptable practices. This included guidance on state ethics laws affecting interactions with employees of state schools and this policy was distributed to all employees. In addition, each of our employees participates in annual “Code of Business Conduct” training.

We are deeply concerned about certain practices of a few student loan providers that have been described in recent media reports. As you may be aware, Sallie Mae recently entered into an agreement with the New York Attorney General to adopt a Student Loan Code of Conduct. This Code of Conduct, to which the top five FFELP lenders have also agreed, now governs our student loan marketing practices across the nation and has set a new standard for open and fair competition. In reviewing Sallie Mae’s business practices, New York Attorney General Andrew Cuomo acknowledged that Sallie Mae did not participate in any of the most egregious activities that have been described in recent media reports, such as revenue sharing between lenders and schools on private loans, offering stock to financial aid administrators or providing cash payments to schools as a quid pro quo for specific loan volume. Simply put, Sallie Mae is committed to a fair and open student loan market that helps to make college more accessible to students and their families. That is why Congress created Sallie Mae 35 years ago and we pledge to honor that history as our company evolves.

Conclusion

Thank you Mr. Chairman for the opportunity to be here today to participate in this important discussion. As a leader in the industry, we are committed to working with the Congress to help more families pay for one of the most significant investments of a lifetime – a college education.

# # #