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JOHN F. REMONDI
Vice Chairman &
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June 3, 2009

The Honorable Dina Titus
319 Cannon House Office Building
Washington, DC 20515

Dear Representative Titus:

Thank you for the opportunity to clarify my recent testimony on suggested reforms of the federal student loan programs. Please find my answers to your questions below.

1. *What do you anticipate the fee-for-service amount will be? Second, who ultimately pays the fee-for-service? Will costs be passed on to the student? If so, that seems counterproductive to the needs of the average family in finding a way to pay for higher education. Will costs be passed on to the institute of higher education? Again, this seems counterproductive. Surely it would incentivize schools to go to direct lending. Further, how would this help schools keep the rising costs of tuition and fees down? Will the federal government pay the fee-for-service? If so, that seems counterproductive to the goal of reducing subsidies, a goal you state in your testimony that you agree with. An added cost of a fee-for-service also seems to inhibit the savings of the Administration's plan that can be used to increase Pell grants, something you also say you agree with.*

We propose a market-based fee, to be paid by the federal government, for the services attendant to origination of federal student loans. To ensure an orderly transition to a new program, we propose an initial fee of $75 per loan. This fee is what is already being paid by the government to loan originators for loans sold to the Department of Education under the authority granted by the Ensuring Continued Access to Student Loan Act (ECASLA). Under ECASLA, the $75 fee was designed under strict "no net cost to the taxpayer" requirements.

The fee will not be passed on to students or schools. To the contrary, by using the existing loan origination infrastructure and not requiring schools to convert to Direct Lending, no school will be faced with conversion and administration costs that might otherwise have been passed on to students.

Lender subsidies were historically employed to compensate lenders a fair market value for holding assets which, by design, generate artificially low returns due to caps on student-paid interest rates. Sallie Mae supports an end of lender subsidies and moving to a model of federal student loan ownership.

We believe that a model built on the Administration's proposal that includes the benefits of lender-provided origination services, paid for on a fee-for-service basis, will drive tens of millions of dollars for increased Pell Grant funding, while guaranteeing seamless implementation and retaining high-quality services.

2. *I would imagine that for most hard-working Americans trying to pay for college, a subsidy to a lender and a fee-for-service appear to be quite similar in their effect. Would you please elaborate more on your fee-for-service proposal, including the costs to all stakeholders, and how exactly a "fee-for-service" would work?*

There are costs associated with the origination of federal student loans. Moving toward a Direct Lending only model means that those costs will be borne by some combination of the government, the institutions of higher learning themselves or students if those costs are passed on in the form of higher tuition or fees.

We support modifications to the Administration's proposal that would retain the loan origination services that 75 percent of colleges and universities prefer, and that would ensure that the costs of loan originations would be borne by the government, the ultimate owner of the loan assets.

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We also recommend a requirement that, after the initial transition period, the Department establish a process to set origination fees via market mechanisms designed to preserve broad participation of loan originators, including smaller, regional, state and non-profit entities.

Thank you again for the opportunity to clarify my testimony.

Sincerely,

John F. Remondi