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STEPHEN VOSS FOR THE WALL STREET JOURNAL

Al Lord Profited When College Tuition Rose. He Is Paying for It.

As chief executive of student-lending giant Sallie Mae, Al Lord helped drive up the costs of college. Now that he is footing tuition checks for his grandchildren, he said he has new sympathy for ordinary families.

By Josh Mitchell
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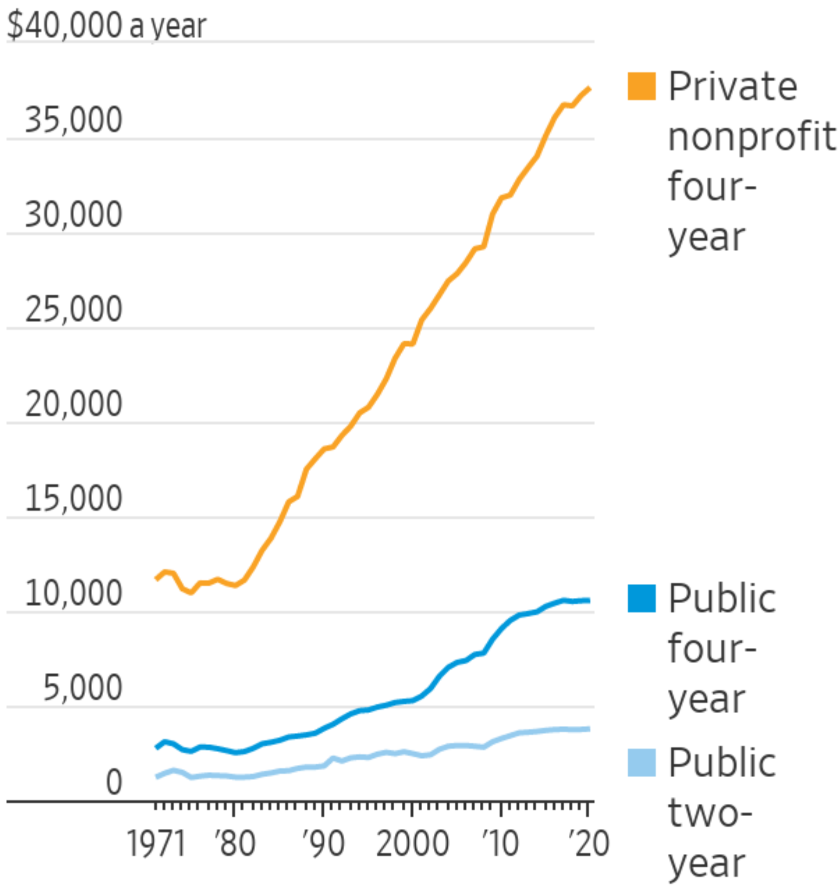
Al Lord, the former chief executive of student-loan giant Sallie Mae, has a complaint about higher education: The price of college is too damn high.

Paying for his grandchildren's education in recent years, he said, left him appalled at the tuition bills that land on his desk every semester. For those who know (or in some cases, revile) Mr. Lord, that is quite the twist. He led Sallie Mae through a time of wild success and near-collapse, a period when the company put in place new practices that drove a massive increase in student loan debt starting in the early 2000s.

The sting of high tuition hit him several years back when a grandson enrolled at the University of Miami, which currently charges $75,230 a year for tuition and room and board. That is a far cry from the $175 a semester Mr. Lord recalls paying for his own education at Penn State University in the 1960s. He has also paid for the education of three other grandchildren, to attend Villanova University, University of Miami and Davidson College. The bills have approached $200,000 a head.

“It’s criminal,” he said of what schools are charging these days. He has gained sympathy for families of lesser means. “Boy, am I sure glad we saved for my grandkids. If the average income is $40,000 or $50,000 or $60,000, I just don’t know how you do it.”

Average college tuition and fees*



*In 2020 dollars

Note: Years shown are the start of the school year.

Source: College Board

Few people had as close a perspective on the cost of college as Mr. Lord, who is now 75 years old. He said he watched with bewilderment for decades as colleges persistently raised their prices faster than inflation. Parents complained; investors and analysts predicted that schools would eventually be forced to stop. They never did. "They raise them because they can, and the government facilitates it," Mr. Lord said.

The irony is that for many years Sallie Mae was the government's partner, and Mr. Lord's business model—an unusual blend of capitalist finance and government subsidies—depended on those tuition increases. Mr. Lord acknowledges that many of the universities that charged high tuition were also effectively part of Sallie Mae's sales force. And few profited so handsomely from the tuition increases Mr. Lord now resents. At Sallie Mae's zenith, he said, his stock holdings were worth more than $300 million.

Mr. Lord retired as Sallie Mae's chief executive for the second time in 2013. Eight years later, he admits he and the company profited from the tuition that some families can no longer afford.

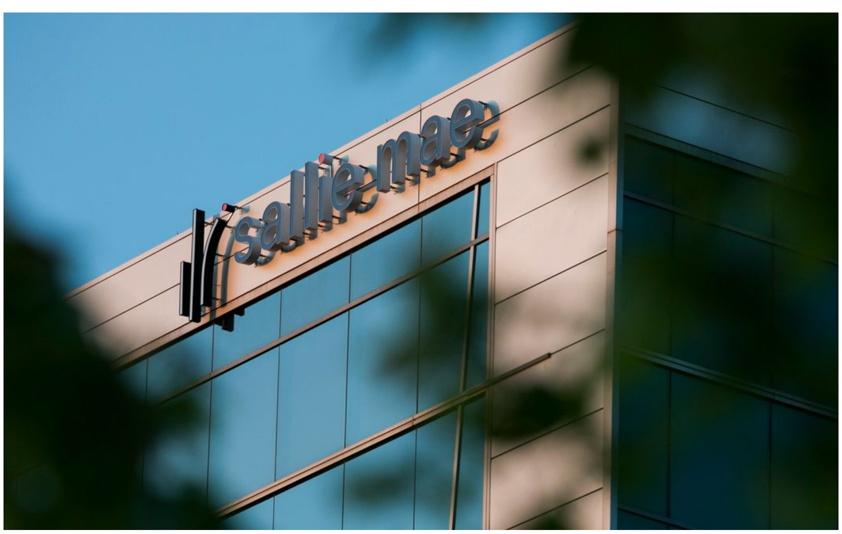
"There was no question in my mind I knew what was going on," Mr. Lord said on a recent evening, staring out the window of an office in his stone front house on a hill overlooking the Severn River in Annapolis, Md.

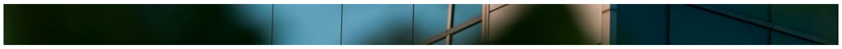
'They're going to take these profits from you'

Mr. Lord, who joined Sallie Mae as its accounting chief in 1981 after stints at a big accounting firm and a bank, was the eldest of three boys raised in a blue-collar family in Philadelphia. His father was a typesetter for the Philadelphia Inquirer. Raised for much of his childhood by a single mother, he and his two brothers shared a room in an apartment growing up.

As a teenager, he stocked shelves, bagged groceries and pushed shopping carts up a hill at the local grocery store to make money. He worked construction during summers. He also delivered newspapers. The money he earned—along with a few hundred dollars his father chipped in—was enough to cover tuition at Penn State, where he majored in accounting. He graduated in 1967.

With piercing blue eyes and a thin build, he said he exuded confidence and had no qualms about speaking his mind. To escape his modest upbringing, he wanted, above all, to make money.





Sallie Mae in the beginning used taxpayer money to ensure that banks made enough money on their student loans. Banks sold those loans to Sallie Mae for a profit.

PHOTO: KRISTOFFER TRIPPLAAR/SIPA USA/ASSOCIATED PRESS

The student-loan market was on the rise when he arrived at Sallie Mae. Formed by Congress in 1972 as the Student Loan Marketing Association, Sallie Mae used taxpayer money to ensure that banks earned enough on their student loans. Banks sold those loans to Sallie Mae for a profit and used the proceeds to lend even more. Schools were able to hike tuition since students now had expanded access to loans, and they benefited from a rise in Sallie Mae's market value. The for-profit corporation was owned by universities and banks and governed by a board partly appointed by the U.S. president.

On Mr. Lord's first day at Sallie Mae, he took home the company's financial documents and read them that evening. "You've got to be shitting me. This place is a gold mine," he said he recalls thinking.

With tuition rising, college enrollment increasing and the government essentially guaranteeing a 3.5% return on every student loan that Sallie Mae held—nearly double the average return that banks made on other products—he knew such a good deal likely wouldn't last. Congress agreed to cover any losses that Sallie Mae had while also paying the company an interest rate equal to the 91-day Treasury plus an additional 3.5 percentage points on each loan.

"They're going to take these profits from you," he said he remembers telling Sallie Mae's CEO, Ed Fox, at the time, referring to Congress. Mr. Fox said he also was of the same mind.

Mr. Lord, who became the company's chief financial officer in 1983, said he pushed for the company to find a new source of money—from investors—so it would no longer be at the mercy of Congress. Other company executives agreed with him. In 1983, the company started selling stock to the public, and less than a year later it joined the New York Stock Exchange. Enjoying a so-called implicit guarantee—the assumption among investors that the government would bail out the company in a crisis—it could borrow in private markets at low interest rates. It instantly became a hot stock.

President Bill Clinton dampened that momentum. In 1993 he called for Congress to sever its ties to Sallie Mae and the private banking industry in a bid to save hundreds of million in profits the government guaranteed to the company and banks each year. Congressional Democrats, in a compromise with Sallie Mae's defenders, authorized the Treasury Department to make student loans directly and gave schools the option to choose which loan program it would recommend to students. Sallie Mae's stock plummeted.

SLM share price

Source: FactSet

The change created chaos in Sallie Mae's executive suite. Mr. Lord, then Sallie Mae's CFO, and CEO Larry Hough clashed over how the company should respond to Mr. Clinton's challenge. Mr. Hough said he wanted to shift away from lending into other types of consumer products; Mr. Lord said he wanted the company to aggressively retake the student-loan market. Mr. Hough fired Mr. Lord in 1993.

In 1995, as Sallie Mae's stock languished, Mr. Lord organized Sallie Mae's biggest shareholders to attempt a takeover of the board. Mr. Lord said his pitch to the board was for Sallie Mae to lend directly to college students, and not simply buy loans from banks.

He said one of the main reasons he wanted to do that is because tuition was rising so quickly, and he had a sense the trend wouldn't end soon. Starting in the 1980s, colleges raised tuition at more than double the rate of inflation, Labor Department data show.

In 1997, the dissident group succeeded, with the shareholders appointing new board members who installed Mr. Lord as CEO, replacing Mr. Hough.

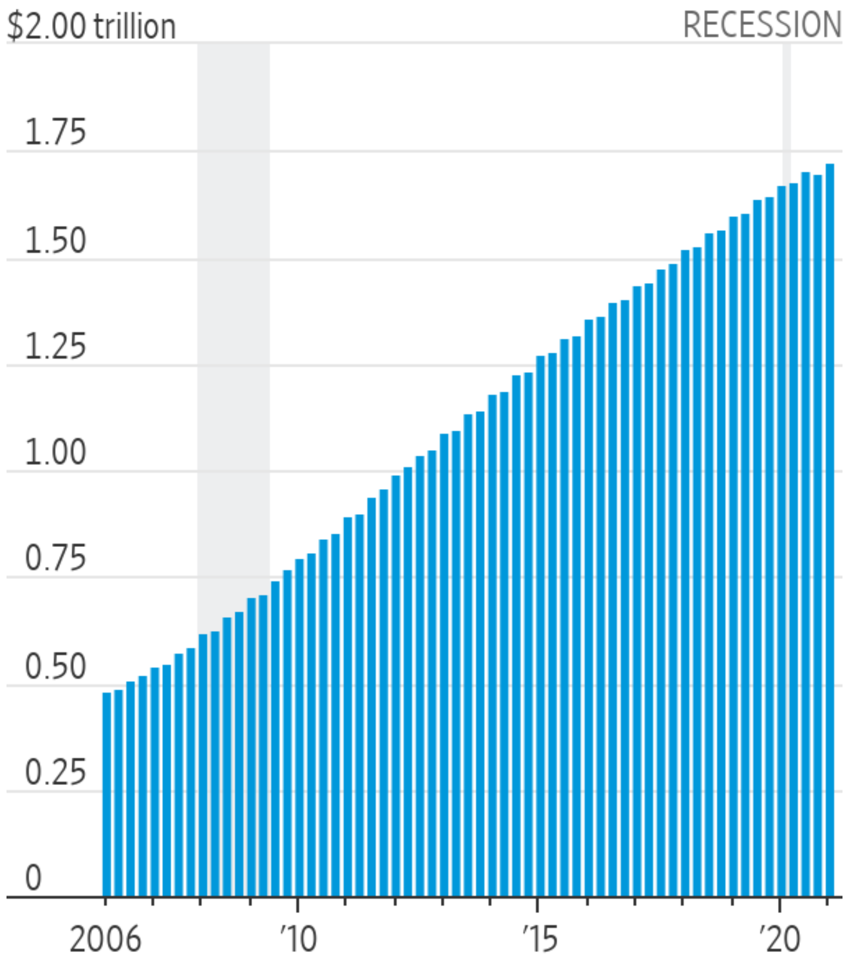
Mr. Lord was a brash CEO. He obsessed over keeping costs to a minimum. He said he told department heads to cut their budget each year by becoming more efficient. He would walk in on meetings and demand that at least one of the employees leave to get back to work. He also rode around in a personal chauffeured bus emblazoned with Penn State colors, and once ended a conference call with analysts by uttering an expletive.

Shrinking giant

As CEO, Mr. Lord promoted student debt as an investment for households and said despite tuition growth, a college education led to high-paying careers. “There seems to be a lot of noise about whether a college education is worth it,” he told Fox Business Network in 2011. “I would say it’s very much worth it.”

To boost the company’s stock value and reduce shareholders’ risk of losses, he turned to securitization—or bundling loans into one package and then selling pieces to investors. Any potentially problematic debt immediately came off Sallie Mae’s books.

Student loans outstanding



Source: Federal Reserve via St. Louis Fed

His challenge was to persuade schools to steer students to Sallie Mae or the banks—from which Sallie Mae still purchased student loans—instead of the Treasury Department. Sallie Mae promised schools that students would be able to borrow from an additional pot of money that came from private investors. That would allow students to borrow more—and thus schools to charge more.

The incentives worked. A year after Mr. Lord retired for the first time and became chairman, Sallie Mae stood as the single biggest student lender in 2006. It originated more than a quarter of all federally guaranteed loans; the next competitor originated 6%. Sallie Mae held $142 billion in student debt—roughly a third of all student debt. Its stock soared.

When a deal to sell Sallie Mae fell apart in 2007 and the value of the company plummeted, Mr. Lord said friends worried whether they should put him on suicide watch.

PHOTO: STEPHEN VOSS FOR THE WALL STREET JOURNAL

Sallie Mae's dominance wouldn't last. A 2007 deal to sell the company for $25 billion to an investor group fizzled when Congress cut the profits it guaranteed Sallie Mae and other banks under the federal program, slashing the company's profitability. Sallie Mae's value plummeted, as did Mr. Lord's stock in the company. Friends worried whether they should put him on suicide watch, Mr. Lord said.

Mr. Lord returned as CEO late that same year, just as the subprime mortgage crisis roiled financial markets. Congress infused the company with billions to ensure it continued to lend to students under the federal program, but in 2010 it took away the government's student-loan guarantee to banks. That left the Treasury Department as the biggest source of financing for college students. When Mr. Lord retired again three years later, Sallie Mae was a much smaller company making only private loans to students with no guarantee.

A spokesman for SLM Corp., Sallie Mae's corporate owner, pointed out that Sallie Mae is no longer involved in the federal student loan program. "Sallie Mae offers private student loans to those who have shown an ability to repay, an approach that continues to work for students and families," the spokesman said.

An epiphany

A year into retirement, Mr. Lord joined the board of his alma mater, Penn State. That is when, he said, he had an epiphany: Colleges were incredibly inefficient businesses, and the student-loan program enabled them.

He was stunned to learn how big Penn State's budget was, about $5 billion, and how quickly it grew. (Penn State's budget is currently $7.7 billion.) He recalled the athletic department requesting approval for a costly renovation of the football stadium to improve the experience for fans. Mr. Lord was aghast. "All they need to get fans is to win," Mr. Lord said.

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Mr. Lord said that after raising spending concerns at one board meeting, a fellow member— Kenneth Frazier, executive chairman of drugmaker Merck & Co.—took him aside in a hallway. "Al, this isn't your company. They don't think the way you're thinking," Mr. Frazier said, according to Mr. Lord. Mr. Lord said he replied: "That doesn't make it right." Mr. Frazier couldn't be reached for comment.

Mr. Lord declined to run for a second term on the board in 2017 after a statement he made to the Chronicle of Higher Education—he said he had been losing sympathy for the sexual-assault victims of Jerry Sandusky, longtime assistant to Penn State head coach Joe Paterno—drew ire. Mr. Lord said he was pressured to resign, but he said he had been planning on leaving the board before the incident.

It was also around that time that his grandchildren started attending college, which he said triggered thoughts about how he was able to work his way through school. "A thousand dollars or a $1,500-a-year education was in bounds," he said. "You could reach for it or pay for it, and I didn't take on any debt." In-state tuition and room and board at Penn State now costs as much as $36,278 a year.

As student debt approaches $2 trillion, congressional Democrats have called on President Biden to cancel a huge swath of it.

PHOTO: DREW ANGERER/GETTY IMAGES

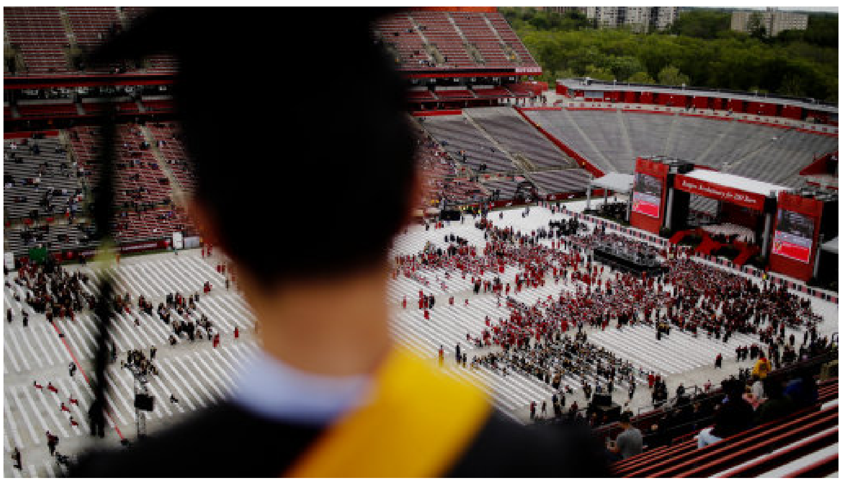
As student debt approaches $2 trillion and congressional Democrats call on President Biden to cancel a huge swath of it, he said he opposes proposals for free college and for forgiving student loans. "Are we trying to create deadbeats out of our young people at age 22?" he asked.

He does, however, admit he had a hand to play in the rising expense of higher education. At Sallie Mae, he said, he viewed his role as single-mindedly increasing the company's stock value, which prevented him from publicly raising concerns about high tuition. His responsibility was solely to shareholders, not to society at large, he said, and that meant catering to colleges.

"Our customer was almost every bit as much the college as it was the student," he said. "It didn't behoove me to lose 100% of the business for something that might make an iota of a difference. No one was looking to me for that kind of information."

—Adapted from "The Debt Trap" by Wall Street Journal reporter Josh Mitchell, to be published by Simon & Schuster Inc. on August 3.

Related Video



Tuition at America's public universities has nearly tripled since 1990. With President Biden looking to ease the burden for some students, experts explain how federal financial aid programs can actually contribute to rising costs. Photo: Storyblocks

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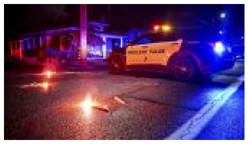

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