



SALLIE MAE'S SUCCESS TOO COSTLY?

Does The Lender's Success Come At Too Steep A Cost To Students And Taxpayers?

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MAY 05 CORRESPONDENT
DANIEL SCHORN



It's May, the season when millions of college students are scrambling to find a way to pay next year's tuition. Most will borrow, and the odds are good those loans will come from a company called Sallie Mae.

When Sallie Mae was created in 1972 as a quasi-governmental agency, its purpose was to encourage private banks to loan to students who were considered to be a credit risk. It did not make the loans itself.

But nine years ago Sallie Mae severed its ties to the government and became a private lender, much like a bank. That transformation has proved lucrative for Sallie Mae, to say the least. Since 1995, the company's stock price has gone up almost 2,000 percent.

The question is: does Sallie Mae's success come at too steep a cost to students and taxpayers?

Correspondent Lesley Stahl reports.

Graduation is a day of achievement and promise. But for two-thirds of every graduating class, the future includes serious debt. That can spiral out of control, as it did for Alan Collinge. "I graduated with degrees in aerospace engineering in 1999. I borrowed about \$45,000 for school. Since that time, my student loan debt has exploded to where currently I owe about \$103,000," Collinge explains.

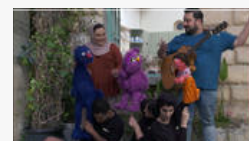
In and out of work, Collinge has struggled since he got his undergraduate degree. Sallie Mae let him defer payment on his loans for a while, but that meant compounding interest. When he finally defaulted, his loan was turned over to a guarantor. Collinge knew that sometimes credit card companies will reduce the debt. He hoped the guarantor would do the same.

"And I was refused at every step in the way," Collinge says.

Asked why, Collinge says: "I don't know why. They just refused. They said no. They said you will pay the penalty you will pay the fees. You will pay the interest on the penalties and fees."

For some borrowers, the system is unforgiving. But it has worked well for lenders like Sallie Mae, which has 10,000 employees in 19 states and manages \$123 billion in student loans.

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Sallie Mae declined to give 60 Minutes an on-camera interview, saying they didn't think they'd get a fair shake.

"If you just can't pay, why does it make sense to squeeze you if you can't do it?" Stahl asks Collinge.

"Well, the student lenders know that at the end of the day if they run out if they've exhausted their opportunities for you, the government's going to pay them," he says. "They're still going to make money. They're guaranteed."

"Guaranteed" because Congress, wanting to help students who otherwise would not qualify for a loan, created "the guaranteed loan program" for private lenders, under which the government covers most of the student loans made by Sallie Mae.

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