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Sides Hurling the 'G' Word

Sallie Mae and its student-loan rival accuse one another of improprieties.
By Brett Marcy

HARRISBURG - Greed.

It is considered a dirty word in corporate America and has often been used to define the corporate mentality at companies such as Enron, Worldcom, Tyco and Rite Aid - all of which were marred by infamous accounting scandals.

And the accusation of greed is central in the feud between two of the nation's largest student-loan servicing businesses - Sallie Mae, also known as SLM Corp., and the Pennsylvania Higher Education Assistance Agency, aka PHEAA.

PHEAA and Sallie Mae have tossed out words such as "greed" and "monopoly" to disparage each other. It's all part of an escalating war of words between the student-loan industry giants during the past several months.

"Sallie Mae Executive Greed" reads the headline on Page One of PHEAA's 57-page booklet explaining why its board of directors rejected Sallie Mae's $1 billion buyout offer. After that is a list of multi-million dollar compensation packages for Sallie Mae's top executives.

Albert Lord, Sallie Mae's vice chairman and chief executive officer in 2003 received $41.8 million in total compensation, including stock options exercised, according to a survey by The Washington Post. That survey showed Sallie Mae's second-in-command, Thomas J. Fitzpatrick, president and chief operating officer, receiving $27.8 million.

That placed Lord and Fitzpatrick as second and fourth, respectively, on The Washington Post's survey of executive compensation in the Washington, D.C., region.

It's the epitome of "corporate greed," argue PHEAA officials.

But Sallie Mae officials counter that the salaries are not extraordinary.

"It's like throwing a boulder in a glass hut," Sallie Mae spokesman Tom Joyce said of PHEAA's criticism. "Our CEO and president's salaries are in the bottom quartile of … similar financial services companies."

He added that "roughly 95 percent" of Sallie Mae's top-executive compensation is non-cash, meaning they are paid largely in stock options. It gives those executives incentive to improve the company's financial performance, because if the company does well, the stock prices will rise and the executives will benefit, he said.

Joyce instead suggested PHEAA examine its own salary structure.

“They’re a state agency. Their compensation should be set against other state agencies.”

The top 100 highest-paid employees of PHEAA combined make more than $11 million a year.

Fifty-two of those employees make $100,000 a year or more - and that doesn’t include bonuses or incentives, which can nearly double their total compensation. Seven PHEAA executives make more than $200,000 a year.

PHEAA President and Chief Executive Officer Richard E. Willey will draw the agency’s highest salary this year at $273,640. Directly below him are six executive vice presidents, each making $206,241.

“I think it’s rather hypocritical of them to be charging Sallie Mae with greed,” said Matthew J. Brouillette, president of The Commonwealth Foundation, a Harrisburg-based fiscally conservative think tank. “Greed isn’t necessarily a bad thing, if it means making profits. But if you don’t face competition in the marketplace, greed is bad because they don’t face any of the consequences of their actions.”

He said PHEAA holds an unfair monopoly on the student-loan business in Pennsylvania, because of its status as a state agency. With the state as guarantor for its debts, PHEAA can operate without fear of financial collapse, Brouillette said.

However, PHEAA spokesman Keith New said the agency’s salaries, while high for a state agency, are considerably lower than its competitors in the private sector.

“I think the most obvious comparison … just on the merits alone is to compare us versus Sallie Mae,” New said. “We are not a typical state agency. … We have become self-sufficient. We have become a profit-generator for the state."

It’s unfair to compare the salaries of Sallie Mae’s top executives with PHEAA’s executives, Brouillette said, because PHEAA’s employees enjoy job security that few private-sector employees have.

“I think this is most unfair to Sallie Mae because they can go under as a result of competition,” Brouillette said. “They’re not protected by the state.”

Nine of the top 10 highest-paid state employees were on the PHEAA payroll in 2002, according to a salary survey conducted by the Harrisburg Patriot-News. The chancellor of the State System of Higher Education took the top spot that year and was the only non-PHEAA employee on the list.

New does not argue with those facts. Indeed, PHEAA’s executives are among the highest paid state employees. PHEAA must offer competitive compensation to attract the best and brightest executives, he said.

“We are public-service-minded, so there would never be any intention to raise salaries to compare with Sallie Mae,” New said. “But we have to compete with these folks. We have to be able to attract and retain top talent.”

Joyce said he understands PHEAA needs to offer competitive salaries, but he said the agency should also do right by its shareholders - the taxpayers.

“Their operating expenses on a per-loan basis versus our operating expenses on a per-loan basis are much higher than ours,” Joyce said. “They are at least two to three times less efficient than we are.”

That’s why Brouillette believes PHEAA should do more to open the student-loan market in Pennsylvania.

“That’s the problem with monopoly situations. You don’t have the initiative to streamline the way you do business.”

PHEAA officials dispute the contention that Sallie Mae is a more efficient operation, but said it is true that cost-efficiency is not the agency’s top priority.

“Sallie Mae measures effectiveness not in quality of service, but in cost-effectiveness,” New said.

“Our priority when it comes to service is not saving money to benefit the shareholders, as it is with Sallie Mae. Our priority is providing the best service, period."