Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. letter	Felix Baxter to Timothy Greene re: Sallie Mae (4 pages)	03/16/1995	P5
002. memo	Harry McPherson to Bill Galston (5 pages)	09/16/1994	P5
003. memo	Tom Wolanin to Bill Galston re: Sallie Mae privatization (2 pages)	01/27/1995	P5

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Gaynor McCown (Subject Files)
OA/Box Number: 7321

FOLDER TITLE:

Sallie Mae [1]

2011-0255-S
rc649

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- **P1** National Security Classified Information [(a)(1) of the PRA]
- **P2** Relating to the appointment to Federal office [(a)(2) of the PRA]
- **P3** Release would violate a Federal statute [(a)(3) of the PRA]
- **P4** Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- **P5** Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
- **P6** Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

- **C.** Closed in accordance with restrictions contained in donor's deed of gift.
- **PRM.** Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
- **RR.** Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- **b(1)** National security classified information [(b)(1) of the FOIA]
- **b(2)** Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- **b(3)** Release would violate a Federal statute [(b)(3) of the FOIA]
- **b(4)** Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- **b(6)** Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- **b(7)** Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- **b(8)** Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- **b(9)** Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

6337 DC
6-5330 Am
6-2572 Phil

Sallie Mae

[Notes written on folder's cover]

URGENT

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

5/15/95

LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 1312

FILE NO: 817

Total Page(s): 7

TO: Legislative Liaison Officer - See Distribution below:

FROM: Janet FORSGREN (for) Janet L. Forsgren
Assistant Director for Legislative Reference

OMB CONTACT: Connie BOWERS 395-3803
Legislative Assistant's line (for simple responses): 395-7362

SUBJECT: **REVISED** EDUCATION,TREASURY Proposed Draft Bill: Accelerated Direct Loan Program Implementation and Student Loan Marketing Association (Sallie Mae) Reorganization Act of 1995

DEADLINE: 5:00 p.m., today Monday, May 15,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: Attached is the proposed Congressional transmittal letter to accompany the draft bill that you are reviewing. The letter was drafted by ED for joint transmittal by ED and Treasury.

AGENCIES:
228-TREASURY - Richard S. Carro - (202) 622-1146

EOP:
Ellen Seidman
Bill Galston
Paul Dimond
Ken Apfel
Barry White
Lisa Fairhall
Pat Smith
Doug Steiger
Clarissa Cerda
David Levine
Dan Chenok
Alan Rhinesmith
Julie Sonier
Harry Meyers
Marcia Occomy
Bob Damus
Art Stigile
Lydia Muniz
Chris Lewis
Josie Dade
Janet Forsgren
Jim Murr

ID:202-395-6148 MAY 15.95 2:16 No.003 P.01

RESPONSE TO
LEGISLATIVE REFERRAL MEMORANDUM

LRM NO: 1312
FILE NO: 817

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Connie BOWERS 395-3803
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: ______________________________ (Date)

______________________________ (Name)

______________________________ (Agency)

______________________________ (Telephone)

SUBJECT: **REVISED** EDUCATION,TREASURY Proposed Draft Bill: Accelerated Direct Loan Program Implementation and Student Loan Marketing Association (Sallie Mae) Reorganization Act of 1995

The following is the response of our agency to your request for views on the above-captioned subject:

______ Concur

______ No Objection

______ No Comment

______ See proposed edits on pages ________

______ Other: ______________________

______ FAX RETURN of ____ pages, attached to this response sheet

5/15/95
1:45 pm

Honorable Newt Gingrich
Speaker of the House of Representatives
Washington, DC 20515

Dear Mr. Speaker:

Enclosed for the consideration of the Congress is a legislative proposal entitled "The Accelerated Direct Loan Implementation and Student Loan Marketing Association Reorganization Act of 1995."

This proposal would, among other things, amend the Higher Education Act of 1965 (20 U.S.C. 1001 et seq., hereinafter referred to as "the Act") to accelerate the transition from the Federal Family Education Loan (FFEL) Program to the William D. Ford Federal Direct Loan Program so that by academic year 1997-1998, Direct Loans represent 100 percent of new student loan volume. Then, once full implementation of the Direct Loan Program is achieved, the bill would provide for the orderly termination of the Government-Sponsored Enterprise (GSE) status of the Student Loan Marketing Association (Sallie Mae) by December 31, 2004, and authorize its reorganization as a business corporation without a Federal charter. Finally, as part of the systematic phase-out of guaranty agency operations during the transition from the FFEL Program to the Direct Loan Program, the Secretary of Education would be required to recall at least $1.1 billion in reserves held or controlled by guaranty agencies in fiscal years 1996 through 2000.

If enacted, these proposals would continue the much-needed transformation of the way the Federal Government does business in the area of student financial assistance, as begun by the enactment of the Student Loan Reform Act of 1993 (P.L. 103-66), which authorized the current phase-in of the Direct Loan Program. Accelerating that phase-in would enable students at more institutions to enjoy the benefits of direct lending--with its efficiency, convenience, lower costs, and reliance on competitively bid servicing contracts--more quickly. The privatization of Sallie Mae is a logical extension of the transition to direct lending, as are the provisions in this proposal concerning the recall of FFEL reserve funds and measures to ensure the availability of loan capital during that transition.

Additionally, the privatization of Sallie Mae is an important step for the Government--which would be, for the first time, removing its ties to a major financial GSE. We are committed to ensuring that the privatization of Sallie Mae is achieved in an orderly fashion that protects access to student loans during the transition from guaranteed to direct lending, and ensures the continued financial safety and soundness of the GSE as it winds down its operations.

Accelerating the phase-in of Direct Loans

Under this proposal, Direct Loans would account for 80 percent, rather than 50 percent, of new student loan volume for academic year 1996-1997, and 100 percent of new volume for academic year 1997-1998 and succeeding academic years, rather than 50 percent (plus demand) for academic year 1997-1998 and 60 percent (plus demand) for academic year 1998-1999. This acceleration, in combination with the recovery of Federal advance funds held by guaranty agencies, would save an additional $5.2 billion in outlays through fiscal year 2000, as compared to savings resulting from the current phase-in schedule.

One of the reasons for these savings is that the Direct Loan Program uses competitively bid servicing contracts, which promote a partnership with the private sector that puts foremost the interests of borrowers and schools rather than the financial interests of subsidy-receiving lenders and guaranty agencies. Under the FFEL Program, lenders and guaranty agencies receive statutorily-mandated payments to perform (or contract out) loan services. These payments are not related to their actual costs of performing these services. In fiscal year 1995 alone, for example, the Department of Education estimates that it will pay banks more than $600 million in special allowance payments that ensure that banks receive a guaranteed rate of return. This subsidy is not necessary under the Direct Loan Program.

Apart from the cost savings, however, there are substantial programmatic benefits that would be available to more students, their parents, and participating institutions more quickly through accelerating the phase-in of direct lending. These benefits include a simpler and speedier process for obtaining loans, a single holder of the loan throughout its life, and flexible repayment options, including income contingent repayment. The structure of the Direct Loan Program does not suffer from the many delays, inefficiencies, and confusion inherent in the complicated interrelationships among the many lenders, guaranty agencies, secondary markets, and loan servicers in the FFEL Program. As a result, participating institutions can improve the level of their service to students, and borrowers have a lower risk for errors and inadvertent defaults, as well as increased debt management options, which encourage Americans to pursue postsecondary education and the careers of their choice, including lower-paying careers such as public service.

Accelerating the phase-in of direct lending would also build upon the successes enjoyed by the Department of Education in managing this program, and allow the Department to shift its administrative resources from FFEL and focus them on direct lending, thereby reducing the need for costly duplicative systems to oversee the two programs simultaneously. The Department of Education places a high priority on managing the Direct Loan Program efficiently, and we are pleased to report that its performance is viewed very favorably by Direct Loan borrowers and participating institutions alike.

Privatizing Sallie Mae

The proposal would authorize Sallie Mae, with stockholder approval, to change its status from a GSE to an ordinary business corporation pursuant to a reorganization plan that would be reviewed by the Secretaries of the Treasury and Education. Under this reorganization, which must occur within 18 months of the date of enactment of the bill, Sallie Mae, the GSE, would become a wholly-owned subsidiary of the ordinary business corporation (the "Holding Company") during a transition period, which would end with the dissolution of Sallie Mae no later than December 31, 2004. Under this proposal, Sallie Mae would be dissolved as of that date even if the stockholders did not approve its reorganization as an ordinary business corporation. As of the dissolution date, any outstanding Sallie Mae debt would be transferred to a trust, together with enough United States-backed obligations held by Sallie Mae to pay all principal and interest on the debt, with the Holding Company responsible for making up any shortfall of obligations transferred.

During the transition period, Sallie Mae could issue new debt obligations, provided that these obligations mature no later than the dissolution date, but its business activities would be restricted to existing contractual commitments, to serving as a lender-of-last-resort (LLR) in the FFEL program, under a proposed expansion of its current LLR authority, and to purchasing FFEL loans under new authority proposed by this bill. The bill would authorize the Secretary of Education to advance funds to Sallie Mae for these new LLR and loan purchasing activities. Other eligible secondary markets would also be authorized to make LLR loans and to purchase loans. These provisions are designed to ensure continued student loan access during the privatization process.

The bill would ensure that Sallie Mae's separate corporate identity is preserved during the transition period, and would insulate it from any financial risk that the Holding Company may experience during that time. Sallie Mae would be permitted to transfer excess capital to the Holding Company, subject to certain restrictions. Those restrictions include limitations, that are tied to the phase-in of direct lending, on the total amount of the excess capital that Sallie Mae has amassed before the reorganization that it may distribute.

Other measures in this proposal that are intended to ensure the financial safety and soundness of Sallie Mae during the transition period include provisions that would amend the Secretary of the Treasury's oversight authority, add additional reporting requirements, and increase the GSE's minimum capital ratio (along a requirement that the Holding Company contribute capital if Sallie Mae falls below that minimum).

Additional concerns addressed in the proposed privatization are the need to ensure its budget neutrality, as well as provide compensation that reflects the significant benefits the Federal Government has provided to Sallie Mae and its stockholders through GSE status for more than two decades. Therefore, as a condition of being allowed to reorganize as a private business corporation, Sallie Mae would be required to compensate the Federal Government for the loss of revenues that it would have paid to the Federal Government under current law,if it had continued its GSE status. Additionally, the proposal would authorize the issuance of stock purchase warrants, or other instruments, to the United States, so that it may participate in the gains of the Holding Company.

<u>Recall of advances</u>

As part of the overall plan to wind down guaranty agency operations during the ongoing transition from the FFEL Program to the Direct Loan Program, this legislative proposal would require the Secretary to recover from the reserve funds held by guaranty agencies at least $1.1 billion by fiscal year 2000. In addition to furthering this transition, recovering reserve funds is fully consistent with the current role of the guaranty agency in the FFEL Program--because the Secretary of Education is the ultimate insurer of all FFEL guarantees, a guaranty agency functions more like a loan servicer than a guarantor. As a result, guaranty agencies' need for reserve funds to protect against losses is diminished.

The proposal would authorize the Secretary of Education to establish a required level of reserve funds for each guaranty agency. These reserve amounts would be set at levels designed to meet the needs of the FFEL Program, assist in the transition to Direct Loans, and protect the Federal fiscal interest. In addition, the Secretary would be authorized to establish an alternative to reserves as a means of providing financial support to guaranty agencies; one such alternative could be a system providing working capital to guaranty agencies on a case-by-case basis. This authority would give the Secretary of Education the flexibility to address the changing needs of the guaranty agencies and the FFEL and Direct Loan systems during the transition.

Consistent with the proposed recovery of reserve funds, this legislative proposal also contains a conforming amendment that would greatly reduce the amount of funds guaranty agencies need to have on hand to discharge their insurance obligations. Under this amendment, a guaranty agency would have the option of filing its claim for reimbursement with the Secretary of Education within 45 days after the guaranty agency discharges its insurance obligation on the loan, provided that the guaranty agency has sufficient funds on hand to discharge such obligation, or within 45 days after the guaranty agency approves a claim that would discharge its insurance obligation on the loan. Under the second option, the guaranty agency would be prohibited from discharging its obligation until the guaranty agency has received reimbursement from the Secretary.

(The bill language is still being reviewed for this.)

<u>Other provisions to ensure access to loan capital</u>

As we have noted previously, a central consideration for both the accelerated phase-in schedule for direct lending and the privatization of Sallie Mae is continued access to student loans during both of these important transitions. In addition to the other loan access safeguards, discussed above in the context of the Sallie Mae privatization, this proposal would also authorize the Secretary of Education to resume providing Federal loan insurance (instead of merely reinsuring loans that have been insured by guaranty agencies) as necessary to ensure students continued access to loan capital. These provisions would ensure that the Secretary of Education has the flexibility needed to address loan access issues in an orderly manner and to assist in the transition from guaranteed to direct lending.

<u>Pay-As-You Go Requirement</u>

The Omnibus Budget Reconciliation Act of 1990 requires that all revenue and direct spending legislation meet a pay-as-you-go requirement. That is, no such bill should result in an increase in the deficit, and if it does, it will trigger a sequester if not fully offset.

<u>[remaining PAYGO materials to be added RB; savings of $5.2 billion]</u>

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

LRM NO: 1291

FILE NO: 817

URGENT

5/11/95

LEGISLATIVE REFERRAL MEMORANDUM

Total Page(s): _____

TO: Legislative Liaison Officer - See Distribution below: Connie Bowers for

FROM: Janet FORSGREN (for)
Assistant Director for Legislative Reference

OMB CONTACT: Connie BOWERS 395-3803
Legislative Assistant's line (for simple responses): 395-7362

SUBJECT: EDUCATION,TREASURY Proposed Draft Bill: Accelerated Direct Loan Program Implementation and Student Loan Marketing Association (Sallie Mae) Reorganization Act of 1995

DEADLINE: 1:00 p.m. Monday, May 15,1995

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President.

Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: The transmittal letter will be circulated separately.

AGENCIES:
-Executive Office of the President - EOP Review Only, See Distribution -

EOP:
Ellen Seidman
Bill Galston
Paul Dimond
Ken Apfel
Barry White
Lisa Fairhall
Pat Smith
Doug Steiger
Clarissa Cerda
David Levine
Dan Chenok
Alan Rhinesmith
Harry Meyers
Marcia Occomy
Bob Damus
Dick Emery
Sue Lind
Art Stigile
Chuck Konigsberg
Lydia Muniz
Chris Lewis
Josie Dade
Janet Forsgren
Jim Murr

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM	LRM NO: 1291 FILE NO: 817

If your response to this request for views is simple (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet.

If the response is simple and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

(1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter.

Please include the LRM number shown above, and the subject shown below.

TO: Connie BOWERS 395-3803
Office of Management and Budget
Fax Number: 395-6148
Branch-Wide Line (to reach legislative assistant): 395-7362

FROM: May 13, 1995 (Date)
Bill Galston (Name)
Domestic Policy Council (Agency)
6-2999 (Telephone)

SUBJECT: EDUCATION,TREASURY Proposed Draft Bill: Accelerated Direct Loan Program Implementation and Student Loan Marketing Association (Sallie Mae) Reorganization Act of 1995

The following is the response of our agency to your request for views on the above-captioned subject:

X Concur – full speed ahead!

_____ No Objection

_____ No Comment

_____ See proposed edits on pages __________

_____ Other: ____________________________

_____ FAX RETURN of ____ pages, attached to this response sheet

****
*** ACTIVITY REPORT ***
****

TRANSMISSION OK

TX/RX NO.	4186
CONNECTION TEL	56148
CONNECTION ID	
START TIME	05/13 12:17
USAGE TIME	00'30
PAGES	1
RESULT	OK

A BILL

To amend the Higher Education Act of 1965 to provide for the full implementation of the William D. Ford Federal Direct Loan Program by Fiscal Year 1997, to provide for orderly termination of the status of the Student Loan Marketing Association as a government-sponsored enterprise and its reorganization as a nonfederally-chartered business corporation, to require the return of certain Federal funds held in reserve by guaranty agencies under the Federal Family Education Loan Program, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SEC. 1. SHORT TITLE.

This Act may be cited as "The Accelerated Direct Loan Program Implementation and Student Loan Marketing Association Reorganization Act of 1995."

SEC. 2. FINDINGS AND PURPOSE.

(a) Findings.--The Congress hereby finds that--

(1) the William D. Ford Federal Direct Loan Program provides substantially greater benefits to borrowers, participating institutions of higher education, and

taxpayers than the Federal Family Education Loan Program, including--

(A) a simpler and speedier process through which to obtain loans, which, by reducing processing time and using electronic data and funds transfers, improves the level of service to students, and frees institutional administrative personnel for more important duties, such as counseling students regarding financial aid;

(B) flexible repayment options, including income contingent repayment, which, by varying loan repayments in relation to income encourages Americans to pursue post-secondary education and mitigates the impact of student loan repayments on students' decisions about whether to pursue lower-paying careers, such as public service;

(C) a single holder throughout the life of the loan, which enables the borrower to send one payment, or a single request deferment or forbearance, for all Direct Loans to one place, regardless of the number of loans or where they were originated; and

(D) the elimination of the delays, inefficiencies, and confusion inherent in the complicated interrelationships of the many lenders, guaranty agencies, secondary markets, and loan services the Federal Family Education Loan Program;

(2) the Department of Education's performance in managing the Direct Loan phase-in is viewed very favorably by borrowers and participating institutions alike, and the Department has demonstrated its commitment to the Direct Loan program and devoted the necessary resources--through hiring or reassigning personnel, increased training and technical assistance, and upgraded technology--to ensure the program's success and the Department's capacity to manage a full-scale student loan program;

(3) accelerating the phase-in of the Direct Loan Program would achieve significant additional savings compared to the phase-in schedule in current law; would make the benefits of the Direct Loan Program available to large numbers of students, their parents, and participating institutions far more quickly than under the current schedule; and would enable the Department to focus more resources on the Direct Loan Program more quickly, rather than dividing those resources between the duplicative systems needed to oversee two large student loan programs simultaneously, one guaranteed and one direct.

(4) full implementation of the Direct Loan Program creates an environment that no longer will require a government-sponsored enterprise to serve as a secondary market and warehousing facility for Federal Family Education Loans, following a transition period during which the

Student Loan Marketing Association will continue to carry out its statutory responsibilities.

(5) authorizing the Student Loan Marketing Association (hereinafter referred to as the "Association") to reorganize as an ordinary business corporation, without ties to the Federal Government, will demonstrate the effectiveness of a public-private partnership to create a viable public-purpose secondary market entity, the Federal support for which can be discontinued, once the secondary market has been established;

(6) termination of the Association as a Government-sponsored enterprise will set a precedent for converting other Government-sponsored enterprises to completely private status;

(7) over $1.5 billion in Federal funds are held or controlled by guaranty agencies (or their transferees) as reserves under the Federal Family Education Loan Program;

(8) reserves under that program were intended to assist in the establishment of the guaranty agency system, and to ensure that the guaranty agencies would be financially able to carry out their responsibilities in connection with the guarantees issued by such agencies;

(9) section 432(o) of the Higher Education Act of 1965 clarifies that the Secretary is the ultimate insurer of all guarantees under that program, eliminating the underlying

need for most reserve funds; and

(10) the orderly transition from the Federal Family Education Loan Program to the William D. Ford Federal Direct Loan Program would be benefitted by systematically phasing out many guaranty agency operations and the recall by the Secretary of Education of most reserve funds in the manner that the Secretary determines would best meet the needs of the Federal Family Education Loan Program, assist in the transition to the William D. Ford Federal Direct Loan Program, and protect the Federal fiscal interest.

(b) Purposes.--It is the purpose of this Act--

(1) to accelerate the transition from the Federal Family Education Loan Program to the William D. Ford Federal Direct Loan Program so that by academic year 1997-1998, Direct Loans will provide 100 percent of the new student loan volume under both programs, and no new loan guarantees will be made by the Secretary under the Federal Family Education Loan Program after June 30, 1997;

(2) to require, as part of the systematic phase-out of guaranty agency operations during the transition from the Federal Family Education Loan Program to the William D. Ford Federal Direct Loan Program, the Secretary of Education to recall at least $1.1 billion in reserves held or controlled by guaranty agencies (or their transferees) over the period fiscal years 1996 through 2000;

(3) to authorize the Association to reorganize as an ordinary business corporation, without Government sponsorship, after a transition period, during which the Association's business, operations, and assets would be transferred to a new State- or District of Columbia-chartered corporation; and

(4) to provide for orderly termination of the Association as a Government-sponsored enterprise on or before December 31, 2004.

TITLE I--DIRECT LOAN PROGRAM AMENDMENTS

SEC. 101. ACCELERATION OF DIRECT LOAN IMPLEMENTATION SCHEDULE.

Section 453(a) of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq., hereinafter in this Act referred to as "the Act") is amended--

(a) in paragraph (2) by amending subparagraphs (C) and (D) to read as follows:

"(C) for academic year 1996-1997, loans made under this part shall represent 80 percent of the new student loan volume for such year; and

"(D) for academic year 1997-1998 and succeeding academic years, loans made under this part shall represent 100 percent of the new student loan volume for such years."; and

(b) in paragraph (3), by striking out "subparagraphs (C) or (D)" and inserting in lieu thereof "subparagraph (C)".

SEC. 102. TAX TREATMENT OF INCOME CONTINGENT DIRECT LOANS.

(a) Section 455(e)(4) of the Act is amended--

(1) by inserting immediately following the paragraph heading the subparagraph designation "(A)"; and

(2) by adding at the end thereof the following new subparagraph:

"(B) If, after 25 years of repayment, there is a balance (which may consist of unpaid principal, accrued interest, and any fees, late charges, and collection costs assessed on such loan) remaining on a loan made under this part that is being repaid pursuant to income contingent repayment, such remaining balance shall be canceled, and such amount canceled shall not be considered income for purposes of the Internal Revenue Code of 1986."

(b) Section 108(f) of the Internal Revenue Code of 1986 is amended--

(1) by inserting the subparagraph designation "(A)" immediately after "pursuant to";

(2) by striking out the period at the end thereof and inserting in lieu thereof a semicolon and "or (B) section 455(e)(4) of the Higher Education Act, under which any balance remaining after 25 years of repayment on a loan made

under part D of title IV of such Act that is being repiad pursuant to income contingent repayment shall be cancelled.".

TITLE II -- REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION

SEC. 201. REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION.

Part B of Title IV of the Act is amended by adding at the end thereof the following new section:

"SEC. 440. REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION THROUGH FORMATION OF HOLDING COMPANY.

"(a) Reorganization of the Association.--

"(1) Authority to Reorganize.--The Student Loan Marketing Association (hereinafter referred to as the 'Association') is authorized to carry out a restructuring of the common stock ownership of the Association, as set forth in a plan of reorganization adopted by the Board of Directors (the 'Plan') (the terms of which shall be consistent with this section) so that all of the outstanding common shares of the Association shall be directly owned by an ordinary business corporation chartered under the law of any of the 50 States or the District of Columbia (the "Holding

Company"). The reorganization shall occur as of the effective time set forth in the Plan (the "Effective Time"), which shall be no later than the date that is 18 months after the date of enactment of the Accelerated Direct Loan Program Implementation and Student Loan Marketing Association Reorganization Act of 1995. The Plan may provide for a merger of a wholly-owned subsidiary of the Holding Company with and into the Association, which would have the effect provided in the Plan and the law of the jurisdiction in which such subsidiary is incorporated, and the conversion of the common shares of the Association, at the Effective Time, to common shares of the Holding Company on a one-for-one basis, consistent with applicable State or District of Columbia law.

"(2) Issuance of Warrants to the United States.--The Association is authorized to issue to the United States, and the Plan shall provide for the issuance of, stock purchase warrants or other instruments, in such amounts and on such terms and conditions as are acceptable to the Secretary of the Treasury, under which the United States may participate in the gains of the Holding Company or its security holders.

"(3) Plan Review and Amendment.--Upon adoption of the Plan by the Board of Directors of the Association, "(4) the Plan shall be submitted to the Secretary of the Treasury and the Secretary of Education. The Secretary of the Treasury and the Secretary of Education, in their sole discretion, may require the Board to adopt such amendments as are necessary or appropriate to ensure the continued safety and soundness of the Association, consistency with the provisions of this section, and the ability of the Association to continue to fulfill the purposes for which it was formed until its dissolution.

"(5) Stockholder Approval.--

"(A) After adoption of the Plan by the Board of Directors with any amendments required in accordance with paragraph (3), the Plan shall be submitted to the common stockholders of the Association for their approval. The Reorganization shall occur at the Effective Time, provided that the Plan has been approved by the affirmative votes, cast in person or by proxy, of the holders of a majority of the shares of the common stock of the Association.

"(B) Notwithstanding section 439(l), any proxy solicitation of common stockholders of the Association shall be conducted in accordance with section 14 of the Securities Exchange Act of 1934 and rules and regulations thereunder.

"(6) Board Authority.--The Board of Directors of the Association may take or cause to be taken all such action as is consistent with this section and as it deems necessary or appropriate to effect the Reorganization in accordance with this section, applicable State law, and the Plan.

"(b) Operation of Association and Holding Company During Transition.--

"(1) Continuation of Rights and Duties.--Except as specifically provided in this section, during the period from the Effective Time until the Dissolution Date (the 'Transition Period'), the Association shall continue to have the rights, privileges, duties and obligations set forth in, and shall be subject to the limitations and restrictions of, section 439, and the Association shall continue to carry out the purposes for which it was formed.

"(2) Management and Operational Support.--The Holding Company (or its subsidiaries other than the Association) shall provide all necessary and appropriate management and operational (including loan servicing) support to the Association, as requested by the Association. The Association may also obtain such management and operational support from other persons or entities. Loan servicing agreements between the Association and the Holding Company or any of its Subsidiaries shall be on terms no less favorable to the Association than the Association could obtain from an unrelated third-party and shall be subject to the approval of the Secretary of the Treasury and the Secretary of Education.

"(3) Issuance of Obligations by the Association During the Transition Period.-- After the Effective Time, the Association shall not issue debt obligations which mature later than December 31, 2004. Nothing in this subsection shall modify the attributes accorded the debt obligations of the Association by section 439, regardless of whether such debt obligations are incurred prior to, or at any time following, the Effective Time, or are transferred to a trust in accordance with subsection (c).

"(4) Restrictions on New Business Activity or Acquisition of Assets by Association.--After the Effective Time, the Association shall not engage in any new business activities or acquire any new assets other than in connection with--

"(A) contractual commitments for future student loan purchases or warehousing advances or pursuant to letters of credit or standby bond purchase agreements in either case which are outstanding as of the Effective Time;

"(B) serving as a lender of last resort pursuant to subsection 439(q); and

"(C) purchases of loans pursuant to section 439(r).

"(5) Limitation on Liquidity Portfolio.--The Association's portfolio of liquid assets and cash equivalents may not exceed five percent of total assets, except with the prior written approval of the Secretary of the Treasury and the Secretary of Education.

"(6) Restrictions on Transactions with Affiliates.--The Association shall not extend credit to the Holding Company or any of its affiliates, nor guarantee or provide any credit enhancement to any obligations of the Holding Company or any of its affiliates.

"(7) Dividends.--

"(A) After the Effective Time, the Association make cash or non-cash distributions provided that--

"(i) amounts required to be paid under subsection (d) have been paid;

"(ii) immediately after payment of such

distributions, the Association's capital is in compliance with section 439(s)(4); and

"(iii) the Secretary of Education and the Secretary of the Treasury have approved the Association's certification under subparagraph (C) below.

"(B) The aggregate amount of distributions from Excess Capital, as defined below in subparagraph (D), may not exceed--

"(i) through December 31, 1997, a percentage of Excess Capital equal to the percentage provided under subsection 453(a)(2)(B) of the Act;

"(ii) through December 31, 1998, a percentage of Excess Capital equal to the percentage provided under subsection 453(a)(2)(C) of the Act or, if applicable, such higher percentage determined by the Secretary under subsection 453(a)(3);

"(iii) through December 31, 1999, a percentage of Excess Capital equal to the percentage provided under subsection 453(a)(2)(D) of the Act or, if applicable, such higher percentage determined by the Secretary under subsection 453(a)(3); and "(iv) for calendar years 2000 through 2004, to the extent that any Excess Capital has not been paid out under the preceding subparagraphs, such higher percentages of Excess Capital as may be approved by the Secretary of Education and the Secretary of the Treasury, in their discretion, after taking into account the volume of new student loans that are being made pursuant to Part C of this title, the financial condition of the Association, and its ability to fulfill its obligaitons under this seciton.

"(C) Prior to any distribution, the Association shall certify to the Secretary of the Treasury that the payment of the dividend will be in compliance with this paragraph and shall provide copies of all calculations needed to make such certification. The calculation of Excess Capital shall be based upon audited financial statements of the Association as of the most recent quarter ending prior to the Effective Time.

"(D) For purposes of this paragraph, "Excess Capital" means stockholders' equity as of the day before the Effective Time that is in excess of the amount required to comply with the capital ratio as defined in subsection 439(s).

"(E) After the Effective Time, any distribution of non-cash assets by the Association to the Holding Company shall be valued at book value on the date the Association's Board of Directors approved such distribution for purposes of the distribution and for calculating compliance with section 439(s)(4).

"(8) Holding Company Activities.--During the Transition Period, Holding Company activities shall be limited to ownership of the Association and any other subsidiaries. All business activities shall be conducted through such subsidiaries.

"(9) Holding Company Name.--The names of the Holding Company and any other direct or indirect subsidiary of the Holding Company other than the Association may not contain the words "Student Loan Marketing Association", or "Sallie Mae", or any variations thereof.

"(10) Registration Statement.--For the purposes of determining whether the Holding Company is a registrant entitled under 17 C.F.R. § 239.13, or any successor regulation, to use SEC Form S-3, or any successor form, for registration of its securities under the Securities Act of 1933, as amended, the

Holding Company shall be deemed to have met the conditions set forth in Instruction I(A)(3) of 17 C.F.R. §239.13.

"(11) Separate Operation of Corporations.--

"(A) The funds and assets of the Association shall at all times be maintained separately from the funds and assets of the Holding Company or any of its other subsidiaries and may be used solely by the Association to carry out its purposes and to fulfill its obligations.

"(B) The Association shall maintain books and records that clearly reflect the assets and liabilities of the Association, separate from the assets and liabilities of the Holding Company or any of its other subsidiaries.

"(C) The Association shall maintain a corporate office that is physically separate from any office of the Holding Company or any of its subsidiaries.

"(D) The Holding Company may not transfer or pledge the stock of the Association without the prior approval of the Secretary of the Treasury.

"(E) The Holding Company may not cause or agree to the liquidation of the Association nor cause the Association to file a petition for bankruptcy under Title 11 of the United States Code without the prior approval of the Secretary of Education and the Secretary of the Treasury.

"(F) No director of the Association that is appointed by the President pursuant to section 439(c)(1)(A) may serve as a director of the Holding Company.

"(G) At least one executive officer of the Association shall remain an officer solely of the Association.

"(H) The Secretary of the Treasury may order the Association or the Holding Company to take any action the Secretary determines to be necessary or appropriate to preserve the separate corporate identity of the Association and to maintain arms length relationships between the Association and the Holding Company, and between the Association and other subisidiaries of the Holding Company.

"(12) Tax Matters.--

"(A) Obligations purchased or acquired pursuant to sections 439 (d)(1)(B) and (C) that are--

"(i) purchased prior to the Effective Time and the income of which is exempt from taxation under the Internal Revenue Code of

1986, or

"(ii) acquired after the Effective Time in connection with contractual commitments for future purchases that are outstanding as of the Effective Time,

shall not be considered tax exempt obligations for purposes of section 265(a)(2) of the Internal Revenue Code of 1986 to the extent that the average outstanding amount of such obligations is less than or equal to the average stockholders' equity of the Association at the Effective Time.

"(B) The assets and indebtedness of the Association shall not be considered in any determination under section 265(a)(2) as to whether the Holding Company and its subsidiaries have incurred or continued indebtedness to purchase or carry tax-exempt obligations.

"(c) Termination of Association.--The Association shall dissolve, and its separate existence shall terminate on December 31, 2004, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date with the approval of the Secretary of Education and the Secretary of the Treasury. On the dissolution date, the Association shall take the following actions:

"(1) The Association shall, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Secretary of the Treasury, the Association and the appointed trustee, irrevocably transfer all outstanding debt obligations of the Association (the 'Transferred Obligations') to the trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the Transferred Obligations, money or direct non-callable obligations of the United States of America or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the Transferred Obligations in accordance with their terms. To the extent the Association cannot provide money or qualifying obligations in the amount required, the Holding Company shall be required to transfer money or qualifying obligations to the trust in the amount necessary to prevent any deficiency.

"(2) All money, obligations or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the Transferred Obligations assumed by the trust. Upon the fulfillment of the trustee's duties under the trust, any remaining assets of the trust shall be transferred to the Holding Company or its subsidiaries, or both, as directed by the Holding Company.

"(3) The Association shall make proper provision for all other obligations of the Association, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association then outstanding. Any obligations of the Association which cannot be fully satisfied shall become liabilities of the Holding Company as of the date of dissolution.

"(4) After compliance with paragraphs (1), (2) and (3), and with approval of the Secretary of Education and the Secretary of the Treasury, the Association shall transfer to the Holding Company or its subsidiaries, or both, as directed by the Holding Company, any remaining assets of the Association.

"(d) Compensation for Lost Federal Revenues.--To offset the loss of revenues that would have been paid to the Federal Government if the Association retained its status as a government-sponsored enterprise, the Association shall, as a condition of its reorganization as a private business corporation without a federal charter, pay to the Secretary (who may use such payment for any purpose for which funds under section 458 of the Act are available)--

"(1) $61,000,000 for fiscal year 1996;

"(2) $53,000,000 for fiscal year 1997;

"(3) $48,000,000 for fiscal year 1998;

"(4) $43,000,000 for fiscal year 1999; and

"(5) $46,000,000 for fiscal year 2000;

minus any amount paid by the Association pursuant to section 439(h)(7) for such fiscal year, except that in no case shall such subtraction result in a negative number.

"(e) The Secretary of Education or the Secretary of the Treasury, as appropriate, may request the Attorney General of the United States to bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this section or may, under the direction and control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance herewith.".

SEC. 202. AMENDMENTS TO SECTION 439.

(a) Sec. 439 of the Act of 1965 is amended--

(1) by amending subsection (c)(1)(A) to read as follows:

"(c) Board of Directors.--

"(1) Composition of Board; Chairman.--(A) The Association shall have a Board of Directors which shall consist of 11 persons, three of whom shall be appointed by the President and shall be representative of the general public. The remaining 8 directors shall be elected by the common stockholders of the Association entitled to vote pursuant to subsection (f) of this section. Five of the elected directors shall be affiliated with an eligible institution; and four of the elected directors shall be affiliated with an eligible lender.";

(2) by amending the heading of subsection (r) to read as follows:

"(r) SAFETY AND SOUNDNESS OF ASSOCIATION AND ORDERLY TRANSITION PURSUANT TO SECTION 440.--";

(3) in subsection (r) --

(A) by amending paragraph (1) to read as follows:

"(1) FINANCIAL REPORTING.--

"(A) The Holding Company shall promptly furnish to the Secretary of Education and the Secretary of the Treasury copies of all periodic financial reports publicly distributed by the Holding Company.

"(B) Within 45 days of the end of each

calendar quarter, the Association shall provide to the Secretary of the Treasury (i) financial statements of the Association and (ii) a report showing the calculation of the capital ratio in a form and containing such information as is approved by the Secretary.

"(C) The Association shall obtain such information and make and keep such records as the Secretary of the Treasury may from time to time prescribe concerning the Association's policies, procedures, or systems for monitoring and controlling financial risk to it resulting from the activities of any of its associated persons, to the extent such activities are reasonably likely to have a material impact on the financial condition of the Association, including its capital ratio, its liquidity, or its ability to conduct and finance its operations. The term "associated person" shall mean any person other than a natural person, directly or indirectly controlling, controlled by, or under common control with the Association.";

(B) in paragraph (2)--

(i) by amending subsection (A)(i) to read as follows:

"(i) appoint auditors or examiners to conduct audits of the Association from time to time to determine the condition of the Association for the purpose of assessing its financial safety and soundness and to determine whether the requirements of section 440 are being met."; and

(ii) by adding at the end thereof the following new subparagraph:

"(D) The Secretary may establish and collect from the Association an annual assessment in an amount sufficient to provide for reasonable costs and expenses of the Secretary to carry out the duties of the Secretary under this subsection and section 440.";

(C) in paragraph (3), in the second sentence, by striking out "and identify" and all that follows through the end thereof and inserting in lieu thereof a period;

(D) by amending paragraph (4) to read as follows:

"(4) If the capital ratio is less than 3.0 percent at the end of the Association's most recent calendar quarter, the Secretary of the Treasury may, until the capital ratio equals or exceeds 3.0 percent, take any one or more of the following actions:

"(A) Limit increase in liabilities.--Limit any increase in, or order the reduction of, any liabilities of the Association, except as necessary to fund student loan purchases and warehousing advances.

"(B) Restrict growth.--Restrict or eliminate growth of the Association's assets, other than student loans purchases and warehousing advances.

"(C) Restrict distributions.--Restrict the Association from making any capital distribution.

"(D) Required issuance of new capital.--Require the Association to issue new capital in any form and in any amount sufficient to restore at least a 1.75 percent capital ratio.

"(E) Limit executive compensation.--Prohibit the Association from increasing for any executive officer any compensation including bonuses at a rate exceeding that officer's average rate of compensation during the previous 12 calendar months and prohibiting the Board from adopting any new employment severance contracts.

"(F) Required contribution of new capital.--Require the Holding Company to contribute additional capital to the Association.";

(E) by striking out paragraphs (5) through (11);

(F) by redesignating paragraphs (12) and (13) as paragraphs (5) and (6) respectively.

(G) in paragraph (6) as redesignated by subparagraph (F) --

(i) by striking out subparagraph (A); and

(ii) by redesignating subparagraphs (B) and (C) as subparagraphs (A) and (B) respectively; and

(H) by adding at the end the following new paragraph--

"(7) The Secretary of the Treasury may request the Attorney General of the United States to bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this subsection or may, under the direction and control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance herewith.".

(b) Section 439 of the Act is further amended--

(1) in subsection (q) --

(A) in paragraph (1)(B), by striking out "to this subsection" and "paragraph (2)(A) of this subsection" and inserting in lieu thereof "to this paragraph" and "subparagraph (B)(i) of this paragraph", respectively;

(B) by redesignating paragraph (1), and subparagraphs (A) and (B) thereof, as subparagraph (A), and clauses (i) and (ii) thereof, respectively;

(C) by redesignating paragraph (2), and subparagraphs (A) and (B) thereof, as subparagraph (B), and clauses (i) and (ii) thereof, respectively;

(D) by redesignating paragraph (3) as subparagraph (C);

(E) by inserting immediately after the subsection heading the following: "(1) LENDER-OF-LAST-RESORT LOANS MADE BY THE ASSOCIATION FROM ITS OWN FUNDS.--;" and

(F) by adding at the end thereof the following new paragraph:

"(2) ADVANCES TO THE ASSOCIATION FOR LENDER-OF-LAST-RESORT SERVICES.--

"(A)(i) In order to ensure the availability of loan capital during the transition from the Federal Family Education

Loan Program under this part to the William D. Ford Federal Direct Loan Program under part D of this title, the Secretary is authorized to provide the Association with advance funds, with such restrictions on the use of such funds (including conditions relating to the time or times of repayment) as are determined appropriate by the Secretary, to enable the Association to make loans as the lender-of-last-resort whenever the Secretary determines that eligible borrowers are seeking and are unable to obtain loans under this part.

"(ii) Notwithstanding any other provision of law, the Secretary may provide such advances to the Association without regard to the availability of a lender-of-last-resort program of a guaranty agency operating in that State.

"(iii) The Association shall make such loans in accordance with this subsection and the requirements of the Secretary. The Secretary may require that the Association make loans to borrowers within a geographic area or for the benefit of students attending institutions of higher education that certify, in accordance with standards established by the Secretary, that their students are seeking and unable to obtain loans.

"(iv) Notwithstanding any other provision in this part, the Association shall be required to pay to the Secretary, at such intervals as the Secretary may specify, interest on the funds advanced pursuant to this paragraph in an amount equal to the interest paid by the borrowers of loans made pursuant to this paragraph. The Secretary may use such interest paid by the Association for any purpose for which funds under section 458 of the Act are available.

"(B) Loans made pursuant to this paragraph shall be insurable by the Secretary under section 429 with a certificate of comprehensive insurance coverage provided for under section 429 (b) (1).

"(C) Notwithstanding any other provision in this part, the Secretary shall pay the Association a fee, in an amount established by the Secretary in consultation with the Association, for making and servicing such lender-of-last-resort loans in lieu of interest and special allowance subsidies, and the Association shall assign such loans to the Secretary on demand. Upon such assignment, the portion of the advance represented by the loans assigned shall be considered repaid by the Association.

"(D) The Secretary may make the advances and pay the fees described in this paragraph from funds available under this part or under section 458 of the Act.";

(2) by redesignating subsection (r) as subsection (s); and

(3) by inserting immediately after subsection (q) the following new subsection:

"(r) ADVANCES TO THE ASSOCIATION FOR LOAN PURCHASES.--(1) Whenever the Secretary determines that it is necessary to the successful transition from the Federal Family Education Loan Program under this part to the William D. Ford Federal Direct Loan Program under part D of this title, the Secretary is authorized to provide the Association with advance funds, which the Association shall use to purchase loans made under this part that are insured by a guaranty agency.

"(2) Loans purchased pursuant to this subsection shall be insurable by the Secretary under section 429, with a certificate of comprehensive insurance coverage provided for under section 429(b)(1), in lieu of the insurance provided by a guaranty agency prior to such purchase.

"(3) Notwithstanding any other provision in this part, the Association shall be required to pay to the Secretary, at such intervals as the Secretary may specify, interest on the funds advanced pursuant to this subsection in an amount equal to the interest paid by the borrowers of loans made pursuant to this subsection. The Secretary may use such interest paid by the Association for any purpose for which funds under section 458 of the Act are available.

"(4) Notwithstanding any other provision in this part, the Secretary shall pay the Association a fee, in an amount established by the Secretary, in consultation with the Association, in lieu of interest and special allowance subsidies on the loans purchased under this subsection, and the Association shall assign such loans to the Secretary on demand. Upon such assignment, the portion of the advance represented by the loans assigned shall be considered repaid by the Association.

"(5) The Secretary may make the advances and pay the fees described in this subsection from funds available under this part or under section 458 of the

Act.".

SEC. 203. OTHER SECONDARY MARKETS.

Part B of Title IV of the Act is further amended by adding at the end thereof the following new section:

"SEC . 440A. ADVANCES TO SECONDARY MARKETS.

"(a) ADVANCES AUTHORIZED; PURPOSES.--In order to ensure the availability of loan capital during the transition from the Federal Family Education Loan Program under this part to the William D. Ford Federal Direct Loan Program under part D of this title, and to ensure the success of such transition, the Secretary is authorized to make advances to one or more secondary markets described in subsection (b), from funds specified in subsection (e), to enable such secondary market to--

"(1) make loans as the lender-of-last-resort, on terms described in subsection (c), whenever the Secretary determines that eligible borrowers are seeking and are unable to obtain loans under this part; or

"(2) purchase loans made under this part that are insured by a guaranty agency on terms described in subsection (d).

"(b) ELIGIBLE SECONDARY MARKET.--In order to be eligible to receive advances under this section, a secondary market must meet the definition of an eligible lender in section 435(d) and such other eligibility criteria as the Secretary may specify.

"(c) REQUIREMENTS FOR LENDER-OF-LAST RESORT LOANS MADE FROM ADVANCES.--

"(1)

"(A) The Secretary may place such restrictions on the use of advance funds provided by the Secretary under this section to a secondary market (including conditions relating to the time or times of repayment) as are determined appropriate by the Secretary.

"(B) Notwithstanding any other provision of law, the Secretary may provide such advances to a secondary market without regard to the availability of a lender-of-last-resort program of a guaranty agency operating in that State.

"(C) A secondary market shall make such loans in accordance with this subsection and the requirements of the Secretary. The Secretary may require that the secondary market make loans to borrowers within a geographic area, or for the benefit of students attending institutions of higher education that certify, in accordance with standards established by the Secretary, that their students are seeking and unable to obtain loans.

"(D) Notwithstanding any other provision in this part, the secondary market shall be required to pay to the Secretary, at such intervals as the Secretary may specify, interest on the funds advances pursuant to this paragraph in an amount equal to the interest paid by the borrowers of loans made pursuant to this paragraph.

"(2) Loans made pursuant to this paragraph shall be insurable by the Secretary under section 429 with a certificate of comprehensive insurance coverage provided for under section 429(b)(1).

"(3) Notwithstanding any other provision in thispart, the Secretary shall pay a secondary market a fee, in an amount established by the Secretary in consultation with the secondary market, for making and servicing such lender-of-last resort loans in lieu of interest and special allowance subsidies, and the secondary market shall assign such loans to the Secretary on demand. Upon such assignment, the portion of the advance represented by the loans assigned shall be considered repaid by the secondary market.

"(d) REQUIREMENTS FOR ADVANCES FOR LOAN PURCHASES.--

"(1) Loans purchased pursuant to this section shall be insurable by the Secretary under section 429, with a certificate of comprehensive insurance coverage provided for under section 429(b)(1), in lieu of the insurance provided by a guaranty agency prior to such purchase.

"(2) Notwithstanding any other provision in this part, the secondary market shall be required to pay to the Secretary, at such intervals as the Secretary may specify, interest on the funds advanced pursuant to this subsection in an amount equal to the interest paid by the borrowers of loans made pursuant to this subsection.

"(3) Notwithstanding any other provision in this part, the Secretary shall pay a secondary market a fee, in an amount established by the Secretary in consultation with the secondary market, in lieu of interest and special allowance subsidies on the loans purchased under this subsection, and the secondary market shall assign such loans to the Secretary on demand. Upon such assignment, the portion of the advance represented by the loans assigned shall be considered repaid by the secondary market.

"(e) SOURCES OF ADVANCE FUNDS.--The Secretary may make the advances and pay the fees described in this section from funds available under this part or under section 458 of the Act.".

SEC. 204. REPEAL OF SECTION 439.

Section 439 of the Act shall be repealed as of the date the Association is dissolved pursuant to section 440(c) of the Act, as added by section 201 of this Act.

TITLE III--FEDERAL FAMILY EDUCATION LOAN PROGRAM AMENDMENTS

SEC. 301. RECOVERY OF RESERVES.

(a) Section 422 of the Act is amended--

(1) in subsection (g)(1)--

(A) in the second sentence therein, by inserting "except as provided in subsection (h)," immediately after "However,";

(B) in the third sentence therein, by striking out "The reserves" and inserting in lieu thereof "Reserves not recovered pursuant to subsection (h)";

(C) by striking out subparagraph (A);

(D) in subparagraph (D), by striking out "subparagraph (A) or (B)" and inserting in lieu thereof "subparagraph (A)"; and

(E) by redesignating subparagraphs (B), (C), and (D) as subparagraphs (A), (B), and (C), respectively; and

(2) by adding at the end thereof the following new

subsection:

"(h) RECOVERY OF RESERVES IN FISCAL YEARS 1996 THROUGH 2000.--(1) Notwithstanding any other provision of law, the Secretary shall recover from the reserve funds held by guaranty agencies an aggregate amount that is not less than $350,000,000 for fiscal year 1996, $250,000,000 for each of fiscal years 1997 and 1998, $150,000,000 for fiscal year 1999, and $100,000,000 for fiscal year 2000, except that such annual minimum recovery amounts shall not apply once the Secretary has recovered $1.1 billion under this subsection. The Secretary shall establish criteria for selecting the guaranty agencies that shall be required to return reserve funds, as well as criteria for determining the amount of reserve funds (which shall include the value of any reserve fund assets, and may include reserve funds or assets held by, or under the control of, any other entity) that each guaranty agency selected by the Secretary shall be required to return. Except as provided in paragraph (3), funds returned to the Secretary under this subsection shall be deposited in the Treasury.

"(2) The criteria described in paragraph (1) shall be established by the Secretary after consulting with representatives of the higher education community, and shall be designed to meet the needs of the Federal Family Education Loan Program under this part, assist in the orderly transition from such program to the William D. Ford Federal Direct Loan Program under part D of this title, and protect the Federal fiscal interest.

"(3) If funds in excess of $1.1 billion in the aggregate are returned under this subsection, such excess funds shall be available to the Secretary for use in the orderly transition from the Federal Family Education Loan Program under this part to the William D. Ford Federal Direct Loan Program under part D of this title.".

(b) Section 428 of the Act is amended--

(1) in subsection (b)(1)(X), by striking out "maintains reserve funds determined by the Secretary to be sufficient in relation to such agency's guarantee obligations." and inserting in lieu thereof "maintains a level of financial strength that meets the requirements established by the Secretary pursuant to section 428(c)(9)(A)."; and

(2) in subsection (c)(9)--

(A) by amending the paragraph heading to read as follows: "FINANCIAL STRENGTH OF GUARANTY AGENCIES; TERMINATION OF GUARANTY AGENCY AGREEMENTS.--";

(B) by amending subparagraph (A) to read as follows:

"(A)(i) Notwithstanding any other provision of law, the Secretary is authorized to establish a required level of reserve funds for each guaranty agency that has entered into an agreement with the Secretary pursuant to this subsection. Such reserve requirements shall be designed to meet the needs of the Federal Family Education Loan Program under this part, assist in the orderly transition from such program to the William D. Ford Federal Direct Loan Program under part D of this title, and protect the Federal fiscal interest.

"(ii) If, in carrying out section 422(h), the Secretary determines that the needs of the Federal Family Education Loan Program under this part, the orderly transition from such program to the William D. Ford Federal Direct Loan Program under part D of this title, and the Federal fiscal interest would be better served by a method of providing financial support for guaranty agency operations other than the use of reserve funds, then, notwithstanding any other provision of law, the Secretary is authorized, after consulting with representatives of the higher education community and informing the Congress, to establish such alternate method in lieu of reserves. Such alternate method may include, but shall not be limited to, the provision of working capital to guaranty agencies on a case-by-case basis."; and

(C) in subparagraph (C)(i), by striking out "falls below the required minimum reserve level" and inserting in lieu thereof "fails to meet the financial strength requirements established by the Secretary pursuant to subparagraph (A)".

SEC. 302. FISL AMENDMENTS.

(a) section 421(a)(1) of the Act is amended--

(1) in subparagraph (a), by striking out the comma at the end thereof and inserting in lieu thereof a semicolon;

(2) in subparagraph (b), by adding at the end thereof the following: "or to a loan made under part D of this title;"; and

(3) in subparagraph (C), by striking out the comma and inserting in lieu thereof a semicolon.

(b) Section 423 of the Act is amended--

(1) in subsection (a), by striking out the period at the end thereof and inserting in lieu thereof a comma and "or to direct loans under part D of this title."; and

(2) in subsection (b)--

(A) in paragraph (2), by striking out "or" at the end thereof;

(B) in paragraph (3), by striking out the period at the end thereof and inserting in lieu thereof a semicolon and "or"; and

(C) by adding at the end thereof the following new paragraph:

"(4) for the insurance of loans made to student borrowers (or to parents, on behalf of students) in a State where there is no State or private non-profit student loan insurance program for student borrowers in that State with which the Secretary has an agreement under section 428(b), without regard to whether there is another State or private nonprofit student loan insurance program willing to operate in such State.".

(c) Section 424 of the Act is repealed.

(d) Section 425(b) of the Act is amended--

(1) by amending the subsection heading to read as follows: "DETERMINATION OF INSURANCE OBLIGATIONS OF THE SECRETARY.--"; and

(2) by amending paragraph (1) to read as follows:

"(1) LEVEL OF INSURANCE COVERAGE.--The insurance liability on any loan insured by the Secretary under this part shall be 98 percent of the unpaid principal and accrued interest on such loan."

SEC. 303. CONFORMING AMENDMENTS.

(a) Section 421(d) of the Act is amended by striking out "issued after June 30, 1994," and all that follows through the end thereof and inserting in lieu thereof "issued after June 30, 1997 on loans insured under a program of a State, or of a nonprofit private institution or organization, that meets the requirements of section 428(a)(1)(B).".

(b) Section 428(c)(1) of the Act is amended--

(1) in the fourth sentence therein, by inserting "that will be" immediately preceding "expended by it"; and

(2) in the fifth sentence therein, by striking out "45 days" and all that follows through the end thereof and inserting in lieu thereof "45 days after the guaranty agency approves a claim that would discharge its insurance obligation on the loan, and the guaranty agency shall not discharge such obligation until the guaranty agency has received from the Secretary reimbursement according to the provisions of this subsection.".

TITLE IV--EFFECTIVE DATES

SEC. 401. EFFECTIVE DATES.

The amendments made by this Act shall be effective upon enactment, except that--

(1) The amendments made by section 102 shall be effective

for loans made under part D of the Act on or after July 1, 1994; and

(2) The amendments made by sections 202(a) shall be effective as of the Effective Time specified in section 440(a)(1) of the Act (as added by section 201 of the Act.)

DRAFT OF May 10, 1995

SECTION-BY-SECTION ANALYSIS

Section 1. Section 1 provides that this Act may be cited as the "Accelerated Direct Loan Program Implementation and Student Loan Marketing Association Reorganization Act of 1995".

Section 2. Section 2 sets forth the findings and purpose of this Act.

TITLE I--DIRECT LOAN PROGRAM AMENDMENTS

Section 101. Section 101 of the bill would amend section 453(a) of the Higher Education Act of 1965 (20 U.S.C. 1001 *et seq.*; the "Act") to accelerate the phase-in of the William D. Ford Federal Direct Loan Program. Under this proposal, Direct Loans would account for 80 percent, rather than 50 percent, of new student loan volume for academic year 1996-1997, and 100 percent of new volume for academic year 1997-1998 and succeeding academic years, rather than 50 percent for academic year 1997-1998 and 60 percent for academic year 1998-1999 and succeeding academic years. Current law permits the Secretary to exceed the percentages specified for academic year 1996-1997 and beyond if warranted by institutional demand; the bill would explicitly require the faster phase-in of direct loans.

Accelerating the phase-in of the Direct Loan Program, together with the recall of guaranty agency reserves as proposed in section 301 of the bill, would save an additional $5.2 billion through fiscal year 2000, compared to the phase-in schedule in current law. In addition to these savings, under this proposal many students, their parents, and participating institutions would be able to enjoy the benefits of the Direct Loan Program far more quickly than under the current schedule. These benefits are described in the findings in section 2 of the bill, above.

Section 102. Section 102 would amend section 455(e)(4) of the Act to specify more clearly that remaining balances on income contingent Direct Loans are cancelled after 25 years of repayment, and that there is no tax liability resulting from that cancellation. Currently, the statutory maximum repayment period is 25 years, and there is an implicit forgiveness of amounts not repaid within that time period. However, without a statutory change, the borrower would then become liable for income taxes on the amount forgiven, because it would be considered income to the borrower at the time of forgiveness. It is illogical and inequitable to impose a potentially large tax liability on someone whose income has been insufficient to repay his or her income contingent Direct Loan in full over a 25 year period, and contrary to the intent underlying income contingent repayment. A corresponding amendment is made to section 108(f) of the Internal

Revenue Code of 1986.

TITLE II--REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION

Section 201. Section 201 would amend the Act to add a new section 440 to provide the Student Loan Marketing Association with the authority to change its status, after a transition period, to that of an ordinary business corporation without ties to the Federal Government.

Section 440 (a) would permit the restructuring of the common stock ownership of the Student Loan Marketing Association (the "Association") pursuant to a plan of reorganization (the "Plan") so that the Association would become a wholly-owned subsidiary of an ordinary business corporation which is chartered under the laws of any one of the 50 States or the District of Columbia (the "Holding Company"). The reorganization must be effective no later than 18 months after the date of enactment of the bill.

Section 440(a) provides for review of the Plan by the Secretary of Education and the Secretary of the Treasury, who may require amendments to the Plan that are necessary or appropriate to ensure the continued safety and soundness of the Association, consistency with the provision of section 440, and the ability of the Association to continue to fulfill its purposes until its dissolution, which is required to occur, as described below, no later than December 31, 2004.

After any required amendments to the Plan are adopted by the Board of Directors of the Association (the "Board"), the Plan is to be submitted to the common stockholders of the Association for their approval. The reorganization may occur at the time specified in the Plan (the "Effective Time") provided that the Plan is approved by the holders of a majority of the outstanding common stock of the Association. Shares may be voted in person or by proxy.

Section 440(b) contains the provisions applicable to operation of the Holding Company and the Association during the period from the Effective Time of the reorganization until dissolution of the Association (the "Transition Period"). Generally, the Association will continue to have the rights, privileges, duties and obligations set forth in section 439 of the Act and will continue to be subject to the limitations and restrictions of section 439. The Association is specifically required to continue to carry out the purposes for which it was formed.

Since personnel of the Association may be transferred to the Holding Company or other subsidiaries of the Holding Company as part of the reorganization, section 440(b)(2) requires the Holding Company to provide all necessary and appropriate management and operational support to the Association. Loan servicing agreements between the Association and the Holding Company or other subsidiaries of the Holding Company are required to be on an arms-length basis and are subject to the approval of the Secretary of the Treasury and the Secretary of Education. The Association is not precluded from obtaining management and operational support from other sources.

Section 440(b)(3) provides that, after the Effective Time of the reorganization, although the Association may continue to issue debt obligations under section 439, new debt must mature no later than December 31, 2004. Section 440(b)(3) also clarifies that debt issued by the Association, whether before or after the Effective Time, shall continue to have the attributes accorded to debt obligations of the Association by section 439. For example, such debt obligations will continue to be exempt from the securities laws and will continue to have the same tax treatment as provided by section 439.

Section 440(b)(4) places restrictions on new business activity of the Association after the Effective Time. The Association is precluded from engaging in any new business activity or acquiring any new assets other than in connection with (1) contractual commitments which are outstanding as of the Effective Time; (2) serving as lender of last resort pursuant to subsection 439(q); and (3) purchases of loans pursuant to section 439(r) as added by this bill.

Section 440(b)(5) limits the Association's liquidity portfolio to five percent of total assets, except with the prior written approval of the Secretary of the Treasury and the Secretary of Education.

Section 440(b)(6) precludes the Association from extending credit to, or providing credit enhancement for, the Holding Company or any of its other affiliates. This prohibition, as well as other provisions described below, are intended to insulate the Association from any financial distress or failure that the Holding Company may experience.

Section 440(b)(7) permits the Association to transfer excess capital to the Holding Company in the form of distributions, subject to certain restrictions. Distributions may be paid only after amounts required to be paid to compensate the United States for lost revenues, as described below, have been paid. The Association must be in compliance with its capital standard after payment of the distribution.

In addition to these restrictions, section 440(b)(7) provides certain limitations on the aggregate amount of distributions that may be paid from the amount of excess capital which the Association has as of the day before the Effective Time ("Excess Capital"). Through December 31, 1997, the aggregate amount of distributions paid from Excess Capital may not exceed a percentage of Excess Capital equal to the target for the Direct Student Loan Program provided in section 453(a)(2)(B). Similarly, through December 31, 1998, the aggregate amount of distributions paid from Excess Capital is tied to the target for the Direct Student Loan Program provided in section 453(a)(2)(C). Finally, through December 31, 1999, the aggregate amount of distributions paid from Excess Capital is tied to the target for the Direct Student Loan Program provided in section 453(a)(2)(D), or such higher percentage determined by the Secretary of Education under subsection 453(a)(3). To ensure that all of these restrictions are met, the Association is required to certify that the payment of any distribution will be in compliance with section 440(b)(7) and must provide copies of all relevant calculations. The Secretary of Education and the Secretary of the Treasury must approve the certification before the distribution is paid.

To further insulate the Association, section 440(b)(8) requires the Holding Company to conduct its new business through other subsidiaries.

Section 440(b)(9) precludes the Holding Company and its subsidiaries from using the names "Student Loan Marketing Association", "Sallie Mae", or any variations thereof. This is necessary to help ensure that persons dealing with the new company understand that they are dealing with a completely private entity and not the Association.

Section 440(b)(11) contains several requirements that are intended to insulate the Association from any financial distress or failure of the Holding Company or its new subsidiaries by ensuring that the separate corporate identity of the Association is preserved during the Transition Period and that persons dealing with the Holding Company or its new subsidiaries are dealing with completely private entities and not with the Association.

Section 440(b)(12) contains provisions which "grandfather" current tax treatment of the Association's portfolio for purposes of calculating the Association's interest expense deduction under section 265 of the Internal Revenue Code.

Section 440(c) provides for dissolution of the Association no later than December 31, 2004. The dissolution occurs on this date regardless of whether that shareholders of the Association have elected to reorganize as an ordinary private business corporation, as provided above. Any outstanding debt of the Association will be transferred to a trust along with full faith and credit obligations of the United States in an amount sufficient to pay all principal and interest on the debt obligations in accordance with their terms. To the extent that the Association does not have sufficient obligations to transfer to the trust, the Holding Company shall be required to make up any shortfall.

The Association is also required to make proper provision for all other obligations of the Association including the repurchase or redemption of any outstanding preferred stock of the Association. Any obligations not fully satisfied by the Association shall become liabilities of the Holding Company as of the date of dissolution.

As a condition of being given the ability to reorganize as a private business corporation, section 440(d) requires the Association to offset the loss of revenues that would have been paid to the Federal Government if the Association retained its status as a government-sponsored enterprise. The Association is required to pay specified amounts for fiscal years 1996 through 2000, minus any amount paid by the Association pursuant to section 439(h)(7) for such fiscal year. The Secretary may use such payments for any purpose for which funds under section 458 of the Act are available.

Section 440(e) provides that the Secretary of Education or the Secretary of the Treasury, as appropriate, may seek an injunction to enforce any provision of section 440, either by requesting that the Attorney General bring an action in the United States District Court for the District of Columbia or by bringing such an action under the direction and control of the Attorney General.

<u>Section 202</u>. Section 202(a) would amend certain provisions of section 439. Under section 401, these amendments would become effective as of the Effective Time of the reorganization. If the stockholders of the Association do not elect to reorganize, these amendments would have no effect.

First, section 202(a) would reduce the size of the Board of Directors of the Association, but would generally retain the proportion of elected directors to Presidentially-elected directors and the representation of eligible institutions and eligible lenders. The size of the Board would be reduced from 21 to 11 directors. The number of Presidential appointees would be reduced from seven to three. The remaining 8 directors would be elected by the common stockholders of the Association. Four of the elected directors would be affiliated with an eligible institution and four would be affiliated with an eligible lender.

Section 202(a) would also amend the oversight authority of the Secretary of the Treasury in several respects. In addition to the current requirement that the Association provide the Secretary of the Treasury with copies of publicly distributed periodic financial reports, the Association would also be required to provide the Secretary of the Treasury with quarterly financial statements and a quarterly report showing the calculation of the capital ratio set forth in section 439(r). This report must be in a form and containing such information as is approved by the Secretary of the Treasury. The Association would also be required to keep record concerning the Association's policies, procedures, or systems for monitoring and controlling financial risk to it resulting from the activities of any associated persons.

Section 202(a) would also amend section 439(r)(2) to authorize the Secretary of the Treasury to appoint auditors or examiners to conduct audits of the Association to determine its condition, to assess its financial safety and soundness, and to determine whether the requirements of section 440, as described above, are being met. Section 439(r)(2) is also amended to require the Association to pay an assessment to Treasury to cover reasonable costs and expenses to carry section 439 and section 440.

Section 202(a) would also amend section 439(r)(4) to increase the minimum capital ratio of the Association to 3.0 percent and to add to the enforcement authorities of the Secretary of the Treasury the ability to require a contribution of additional capital by the Holding Company in the event the Association's capital falls below the minimum ratio.

Finally, section 202(a) would add a new section 439(r)(7) to provide the Secretary of the Treasury the ability to seek an injunction to enforce any provision of subsection (r).

Next, section 202(b)(1) of the bill would amend sec tion 439(q) of the Act to add a new paragraph (2) that would authorize the Secretary of Education to provide the Association with advance funds to enable the Association to make loans as the lender-of-last-resort whenever the Secretary determines that eligible borrowers are seeking and are unable to obtain loans under this part. These advances, as well as the provisions in sections 202(b)(3) and 203 of the bill, as described below, are intended to assist in ensuring the availability of loan capital during the transition from the FFEL Program to direct lending. The advances (as well as the fees described below) would be made from funds available under the FFEL Program or section 458 of the Act, and would be subject to such restrictions on their use as the Secretary of Education determines are appropriate. The advances could be made regardless of whether there is a lender-of-last-resort program of a guaranty agency operating in that State.

Loans made by the Association using these advances would be subject to this proposed new subsection and any additional requirements by the Secretary of Education. The Association would be required to pay to the Secretary of Education interest on the funds advanced in an amount that equals the interest paid by the borrowers of the lender-of-last-resort loans made from the advances. The Secretary would be authorized to use that interest paid by the Association for any purpose for which funds under section 458 of the Act are available. Rather than interest and special allowance subsidies for loans made by the Association from these advances, the Secretary of Education would pay the Association a fee for making the loans, and the Association would be required to assign the loans to the Secretary of Education on demand. Upon such assignment, the portion of the advance represented by the loans assigned would be considered repaid by the Association.

Section 202(b)(2) of the bill would redesignate current section 439(r) of the Act as section 439(s). Section 202(b)(3) of the bill would add a new subsection (r) to section 439 of the Act that would authorize the Secretary to provide advance funds to the Association for the purchase of FFEL Program loans that are insured by a guaranty agency. The purchased loans would be insurable by the Secretary under section 429, with a certificate of comprehensive insurance coverage provided for under section 429(b)(1), in lieu of the insurance provided by a guaranty agency prior to the purchase.

As in section 202(b)(1) of the bill above, the Association would be required to pay the Secretary of Education interest on the funds advanced equal to the interest paid by the borrowers of the purchased loans, the Secretary would pay the Association a fee in lieu of interest and special allowance subsidies, and the loans assignable on demand by the Secretary of Education.

<u>Section 203</u>. Section 203 would add a new section 440A to Part B of Title IV of the Act that, consistent with the authorities described in section 202 of the bill in relation to the Association, would authorize the Secretary of Education to made advances to eligible secondary markets to enable such secondary markets to make loans as the lender-of-last-resort and to purchase loans. In order to be eligible to receive advances under this section, a secondary market must meet the definition of an eligible lender in section 435(d) and such other eligibility criteria as the Secretary of Education may specify.

<u>Section 204</u>. Section 204 would repeal section 439 as of the date the Association is dissolved.

TITLE III--FEDERAL FAMILY EDUCATION LOAN PROGRAM AMENDMENTS

Section 301. Section 301 of the bill would amend various provisions of part B of title IV of the Act to require the Secretary to recover from the reserve funds held by guaranty agencies not less than $1.1 billion in the aggregate in the fiscal years 1996 through 2000. This amount would be recalled over that five-year period as follows: not less than $350,000,000 would be recalled in fiscal year 1996, $250,000,000 in each of fiscal years 1997 and 1998, $150,000,000 in fiscal year 1999, and $100,000,000 in fiscal year 2000.

The recall of these reserve funds would be a component of the ongoing transition from the FFEL Program to the Direct Loan Program. While $1.1 billion in recalled reserves would be returned to the Treasury to reduce the deficit, the Secretary could use amounts recalled in excess of that sum for transition activities.

In addition to furthering the transition from guaranteed to direct student loans, the proposed recall of reserves is consistent with the current role of the guaranty agency in the FFEL Program. Section 432(o) of the Act, which was added by the Higher Education Amendments of 1992 (P.L. 102-325), clarifies that the Secretary is the ultimate insurer of all FFEL guarantees. Thus, guaranty agencies actually function more like loan servicers than guarantors, and their need for reserve funds to protect against losses is subsequently diminished.

The specific statutory changes that would be made by section 301 of the bill are as follows:

Section 301(a)(1) of the bill would amend section 422(g)(1) of the Act to make conforming changes and to eliminate subparagraph (A), a provision that currently authorizes the Secretary to direct a guaranty agency to return reserves that the Secretary determines are unnecessary to pay program expenses and contingent liabilities of the guaranty agency. This authority would be replaced by a new subsection (h), discussed below. This new recall authority would be part of the broader plan to wind down guaranty agency operations in the transition to Direct Loans, instead of authorizing the recall of reserves merely because they are "unnecessary" in an ongoing guaranty agency system.

Section 301(a)(2) of the bill would further amend section 422 to add a new subsection (h) that would require the Secretary to recall at least $1.1 billion in reserve funds, as described above. In order to select the guaranty agency that would be required to return reserve funds, and the amount that the agencies would be required to return, the Secretary will establish selection criteria and a formula to calculate the amount to be returned. These criteria and this formula would be established by the Secretary after consulting with the higher education community, and would be designed to meet the needs of the FFEL Program, assist in the transition to the Direct Loan Program, and protect the Federal fiscal interest.

Sections 301(b)(1) and (2)(A) of the bill would amend section 428(b)(1)(X) and the heading for section 428(c)(9) of the Act, respectively, to conform with the changes made by section 301(c)(2)(B) of the bill. Section 301(b)(2)(B) of the bill would completely revise section 428(c)(9)(A) of the Act, which currently describes the minimum reserve levels that guaranty agencies are required to maintain. Reserves at these levels are not consistent with the current role of the guaranty agency in the FFEL Program, and its potential for loss, as discussed above. Instead, this provision would be amended to authorize the Secretary, notwithstanding any other provision of law, to establish a required level of reserve funds for each guaranty agency. These reserve amounts would be set at levels designed to meet the needs of the FFEL Program, assist in the transition to Direct Loans, and protect the Federal fiscal interest.

This amendment would also authorize the Secretary, as part of the proposed recall of reserves, to establish an alternate method of providing financial support to guaranty agencies rather than through the use of reserve funds. Prior to establishing such an alternative (one example of which would be a system of providing working capital to guaranty agencies on a case-by-case basis) the Secretary would first be required to determine that the needs of the FFEL Program, the transition to Direct Loans, and the Federal fiscal interest would be better served by a method other than reserves, to consult with the higher education community and to inform the Congress. This provision would give the Secretary the flexibility to address the changing needs of the guaranty agencies and the guaranteed and Direct Loan systems during the transition.

Finally, section 301(b)(2)(C) of the bill would amend section 428(c)(9)(C)(i) of the Act to conform with the changes made in subparagraphs (A) and (B) of section 301(b)(2) of the bill.

<u>Section 302</u>. Section 302 of the bill would make several changes to Part B of Title IV of the Act that would enable the Secretary to resume providing Federal loan insurance (instead of merely reinsuring loans that have been insured by guaranty agencies) as necessary to ensure students continued access to loan capital and to assist in the transition from guaranteed to direct lending.

Section 302(a) of the bill would amend section 421(a)(1) of the Act to expand the purposes of Part B of Title IV of the Act to reflect that the Federal loan insurance program is intended to enable the Secretary of Education to provide loan insurance for students who do not have reasonable access to direct loans, not just access to a State or private nonprofit program of student loan insurance.

Section 302(b) would amend section 423 of the Act to permit the Secretary to issue certificates of insurance for the insurance of loans made to student borrowers (or their parents), in a State where there is no State student loan insurance program for student borrowers in that State with which the Secretary has an agreement under section 428(b), regardless of whether another State or private nonprofit student loan insurance program is willing to operate in the State. This amendment would provide the Secretary with the flexibility needed to address loan access issues in an orderly manner as part of the broader plan to wind down guaranty agency operations in the transition to direct lending.

Section 302(c) of the bill would repeal section 424 of the Act. Section 424 currently sets out limits on the amounts of loans that may be covered by Federal loan insurance, and specifies dates after which no further Federal loan insurance may be granted. These limits are inconsistent with the amendments proposed in this section of the bill to reactivate the Federal loan insurance program as an additional means of ensuring loan access.

Section 302(d) of the bill would amend Section 425(b) of the Act to specify that the level of insurance coverage provided by the Secretary on any loan covered by Federal loan insurance will be 98 percent of the unpaid principal and accrued interest on such loan. This amendment would make the level of insurance coverage for loans insured through Federal loan insurance consistent with the level of coverage for loans that are insured by guaranty agencies.

Section 303. Section 303(a) of the bill would make a conforming change to section 421(d) of the Act that would terminate the Secretary's authority to make new FFEL guarantees as of June 30, 1997. This termination would not affect the Secretary's authority to directly insure loans under section 427 of the Act.

Section 303(b) of the bill would make a conforming change to section 428(c)(1) of the Act to change the deadline for a guaranty agency to file its claim for reimbursement with the Secretary of Education to focus on the point at which the guaranty agency approves, rather than pays, a claim that would discharge its insurance obligation on a loan. Thus, under this amendment, the guaranty agency would be required to file its claim for reimbursement within 45 days after the guaranty agency approves a claim that would discharge its insurance obligation on the loan. In addition the guaranty agency would be prohibited from discharging its obligation until the guaranty agency has received reimbursement from the Secretary. This amendment conforms to the changes made concerning guaranty agency reserves in section 301, and would greatly reduce the amounts needed by guaranty agencies to have on hand to discharge their insurance obligations.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. letter	Felix Baxter to Timothy Greene re: Sallie Mae (4 pages)	03/16/1995	P5

COLLECTION:
Clinton Presidential Records
Domestic Policy Council
Gaynor McCown (Subject Files)
OA/Box Number: 7321

FOLDER TITLE:
Sallie Mae [1]

2011-0255-S
rc649

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

(including benefits and limitations of GSE status)

TREASURY DRAFT *
October 4, 1994

STUDY OF GSE STATUS OF THE
STUDENT LOAN MARKETING ASSOCIATION

First left prep

I. Introduction

A. What is SLMA? Brief overview of purpose, history, and current operations of SLMA — DED & Treas

B. Why is this study being performed?

1. Summary of key provisions of the Federal Direct Student Loan (FDSL) program in the Student Loan Reform Act of 1993 (the 1993 Act) — DED

2. Overview of the broad issues/questions raised by the 1993 Act regarding:

c ~~a~~. Fairness ~~SLMA management's responsibilities~~ to SLMA stockholders; — Treas

a ~~b~~. The Department of Education (DED) responsibilities for making credit available for post-secondary education through direct and guaranteed loans; and — DED

b ~~c~~. The Treasury responsibilities as the financial safety and soundness (FS&S) overseer of SLMA — Treas

II. Discussion of SLMA, the current GSE

A. Role of SLMA in the Federal Family Education Loan Program (FFELP) and the HHS HEAL loan program for health professionals: student and parent loans; consolidation loans; warehousing advances; loan processing services for FFELP loan originators; FFELP lender of last resort — DED

B. SLMA share of the FFELP market: potential change in SLMA market share during transition to 100% FDSL; will other lenders sell their portfolios to SLMA and leave the program? — DED

C. SLMA balance sheet and income statement 1985 to present: statistics and discussion; profile of outstanding debt and interest rate risk exposure (gap) analysis — Treas

D. SLMA corporate stock repurchase policies, management of earnings per common share, and dividend policies; recent trend in SLMA stock price — Treas

WORKING GROUP = Treasury, Education, OMB & NEC. SLMA would be asked for help on some sections.

E. Comparison of SLMA asset size, capitalization, rates of return, and stock repurchase and dividend policies with other financial services corporations Treas

III. SLMA management proposal to create a holding company (NEWCO) with SLMA the GSE (SLMA-GSE) as a subsidiary of NEWCO

SLMA

A. Proposed corporate structure during transition to completely private firm, timing of development of new businesses

B. Movement of assets, liabilities, and capital from SLMA-GSE to other parts of NEWCO

C. Movement of capital into SLMA-GSE from NEWCO to support FFELP prior to 100% FDSL or maintain minimum capital ratio

D. Proposed method for final liquidation of SLMA-GSE

IV. Financial and regulatory analysis of SLMA proposal

Treas w/ Cooperation of SLMA

A. Review of 5-year financial plan developed by SLMA

1. SLMA management financial plan and reasonableness of assumptions

2. Would avoidance by NEWCO of special .30% fee on SLMA-GSE holdings of FFELP loans purchased after ~~8/10/93 offset higher financing~~ and other costs incurred by NEWCO?

3. Sensitivity analyses, for example:

a. Probable net interest margin, ROE, ROA, and capital of SLMA-GSE in different interest rate environments

b. Impact of alternative corporate stock repurchase and and dividend policies on capital positions of SLMA-GSE and NEWCO during the transition to private status

c. Impact of FDSL on SLMA portfolio, etc., given assumptions about the proportion of total FFELP that will be financed through FDSL

d. Impact of Federal direct consolidation loan activity on SLMA portfolio and continuing responsibilities to FFELP

B. Maintenance of sufficient capital in SLMA-GSE to underwrite probable DED requirements for SLMA-GSE secondary market support for FFELP during the transition to 100% FDSL: how much is enough?

Treas w/ coop. of SLMA

C. Analysis of Treasury financial safety and soundness (FS&S) oversight of the SLMA-GSE subsidiary during the transition to private status: should the Treasury's FS&S oversight extend to the holding company or just to the GSE sub?

D. Changes statutory provisions needed during the transition to strictly private status to cover Treasury FS&S oversight responsibilities, SLMA capital requirements, SLMA reorganization plans, prohibition of use of SLMA name or logo by NEWCO and its non-GSE subsidiaries, ~~and~~ SLMA payment for Federal FS&S oversight.

V. Other options to phase out SLMA as a GSE. WORKING GROUP

VI. SLMA support for FFELP needed during the transition to 100% FDSL

A. SLMA services required by the DED during the transition to 100% FDSL; ~~costs and benefits to the Federal Government~~ of requiring the new, private SLMA to do anything

DED

Add DOL job training programs

B. What SLMA services would be required by DED if 50% of FFELP remained in the private market? 60%? 30%?

C. Are other ~~lenders~~ parties able to provide ~~secondary market~~ support for FFELP, if DED FDSL program achieves less than full coverage of student/parent financing needs?

D.

E. ~~D.~~ Analysis of possible exit fee

of the same quantity, cost and quality as SLMA

1. What benefits and costs have SLMA shareholders experienced from Government sponsorship? TREAS DED

2. Possible nonmonetary exit fee in the form of service commitments, etc.? DED

3. Is monetary exit fee necessary to ensure that any SLMA privatization legislation has a neutral impact on the Federal budget? OMB

VII What to do with SLMA stock + DED stock in Connie Lee?

~~VII~~ VIII Conclusions and recommendations for legislative action Working Group

TREAS. DRAFT LEGIS.

APPENDIX A. Proposed legislation to implement the recommended approach, with section-by-section analysis, and cover letter to the Chairs of the Education Committees and the House and Senate leadership to explain and advocate the proposal.

[It is envisioned that no formal study would be published. The draft legislation, section-by-section analysis, and cover letter would explain the Administration proposal and give some background. Congressional hearings will involve releasing supporting information. We could also provide working papers to the public on request, so long as release did not involve SLMA proprietary information.]

Working group supporting documents

APPENDIX B. Legal analysis

Treas

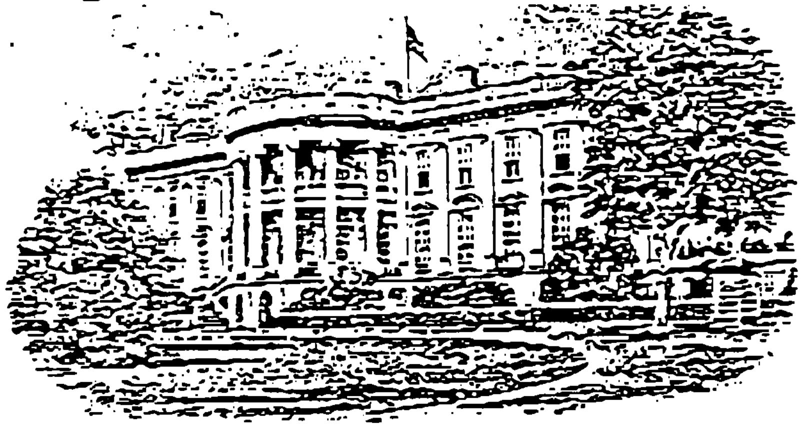
A. Legal principles of holding companies

1. Analysis of the relationship between parent and subsidiaries and affiliates

2. Firewalls among subsidiaries and affiliates

B. Could the Federal Government limit its "moral obligation" to SLMA-GSE in a holding company structure? Legal Balkanization of SLMA-GSE so that the other companies in the NEWCO structure will not be contaminated by the SLMA-GSE, or vice versa.

C. Exchange of stock of SLMA for stock of NEWCO: implications for the rights of current holders of SLMA stock? Federal income tax implications?



FAX TRANSMISSION

The National Economic Council
The White House

To: Bill Galston

Phone: FAX: 62878

From: Ellen Seidman

Phone: 202-456-2802 FAX: 202-456-2223

Date: 6 Oct 94

Time: 9:30

Pages to follow: 4

TREASURY DRAFT *
October 4, 1994

STUDY OF GSE STATUS OF THE STUDENT LOAN MARKETING ASSOCIATION

First draft prep DED + Treas

I. Introduction

A. What is SLMA? Brief overview of purpose, history, and current operations of SLMA

B. Why is this study being performed?

1. Summary of key provisions of the Federal Direct Student Loan (FDSL) program in the Student Loan Reform Act of 1993 (the 1993 Act) DED

2. Overview of the broad issues/questions raised by the 1993 Act regarding:

a. SLMA management's responsibilities to SLMA stockholders; Treas

b. The Department of Education (DED) responsibilities for making credit available for post-secondary education through direct and guaranteed loans; and DED

c. The Treasury responsibilities as the financial safety and soundness (FS&S) overseer of SLMA Treas

II. Discussion of SLMA, the current GSE

A. Role of SLMA in the Federal Family Education Loan Program (FFELP) and the HHS HEAL loan program for health professionals: student and parent loans; consolidation loans; warehousing advances; loan processing services for FFELP loan originators; FFELP lender of last resort DED

B. SLMA share of the FFELP market: potential change in SLMA market share during transition to 100% FDSL; will other lenders sell their portfolios to SLMA and leave the program? DED

C. SLMA balance sheet and income statement 1985 to present: statistics and discussion; profile of outstanding debt and interest rate risk exposure (gap) analysis Treas

D. SLMA corporate stock repurchase policies, management of earnings per common share, and dividend policies; recent trend in SLMA stock price Treas

Working Group = Treasury, Education, OMB & NEC. SLMA would be asked for help on some sections.

E. Comparison of SLMA asset size, capitalization, rates of return, and stock repurchase and dividend policies with other financial services corporations

Trees

III. SLMA management proposal to create a holding company (NEWCO) with SLMA the GSE (SLMA-GSE) as a subsidiary of NEWCO

A. Proposed corporate structure during transition to completely private firm, timing of development of new businesses

SLMA

B. Movement of assets, liabilities, and capital from SLMA-GSE to other parts of NEWCO

C. Movement of capital into SLMA-GSE from NEWCO to support FFELP prior to 100% FDSL or maintain minimum capital ratio

D. Proposed method for final liquidation of SLMA-GSE

IV. Financial and regulatory analysis of SLMA proposal

A. Review of 5-year financial plan developed by SLMA

Trees w/ cooperation of SLMA

1. SLMA management financial plan and reasonableness of assumptions

2. Would avoidance by NEWCO of special .30% fee on SLMA-GSE holdings of FFELP loans purchased after 8/10/93 offset higher financing costs incurred by NEWCO?

3. Sensitivity analyses, for example:

a. Probable net interest margin, ROE, ROA, and capital of SLMA-GSE in different interest rate environments

b. Impact of alternative corporate stock repurchase and and dividend policies on capital positions of SLMA-GSE and NEWCO during the transition to private status

c. Impact of FDSL on SLMA portfolio, etc., given assumptions about the proportion of total FFELP that will be financed through FDSL

d. Impact of federal direct consolidation loan activity on SLMA portfolio

Treas w/ coop. of SLMA

B. Maintenance of sufficient capital in SLMA-GSE to underwrite probable DED requirements for SLMA-GSE secondary market support for FFELP during the transition to 100% FDSL: how much is enough?

C. Analysis of Treasury financial safety and soundness (FS&S) oversight of the SLMA-GSE subsidiary during the transition to private status: should the Treasury's FS&S oversight extend to the holding company or just to the GSE sub?

D. Changes statutory provisions needed during the transition to strictly private status to cover Treasury FS&S oversight responsibilities, SLMA capital requirements, SLMA reorganization plans, prohibition of use of SLMA name or logo by NEWCO and its non-GSE subsidiaries, and SLMA payment for Federal FS&S oversight.

V. Other options to phase out SLMA as a GSE. WORKING GROUP

VI. SLMA support for FFELP needed during the transition to 100% FDSL

A. SLMA services required by the DED during the transition to 100% FDSL; costs and benefits to the Federal Government of requiring the new, private SLMA to do anything DED

B. What SLMA services would be required by DED if 50% of FFELP remained in the private market? 60%? 30%?

C. Are other lenders able to provide secondary market support for FFELP, if DED FDSL program achieves less than full coverage of student/parent financing needs?

D. Analysis of possible exit fee

1. What benefits and costs have SLMA shareholders experienced from Government sponsorship? TREAS/DED

2. Possible nonmonetary exit fee in the form of service commitments, etc.? DOL issues? DED

3. Is monetary exit fee necessary to ensure that any SLMA privatization legislation has a neutral impact on the Federal budget? OMB

VII. Conclusions and recommendations for legislative action Working Group

Tech. Draft Legis.

APPENDIX A. Proposed legislation to implement the recommended approach, with section-by-section analysis, and cover letter to the Chairs of the Education Committees and the House and Senate leadership to explain and advocate the proposal.

[It is envisioned that no formal study would be published. The draft legislation, section-by-section analysis, and cover letter would explain the Administration proposal and give some background. Congressional hearings will involve releasing supporting information. We could also provide working papers to the public on request, so long as release did not involve SLMA proprietary information.]

Working group supporting documents

APPENDIX B. Legal analysis

Treas

A. Legal principles of holding companies

1. Analysis of the relationship between parent and subsidiaries and affiliates

2. Firewalls among subsidiaries and affiliates

B. Could the Federal Government limit its "moral obligation" to SLMA-GSE in a holding company structure? Legal Balkanization of SLMA-GSE so that the other companies in the NEWCO structure will not be contaminated by the SLMA-GSE, or vice versa.

C. Exchange of stock of SLMA for stock of NEWCO: implications for the rights of current holders of SLMA stock? Federal income tax implications?

~~To: Jane~~
~~Fr. Leo~~
~~401-3130~~

##.EHEM, I/FIS, .US
Sallie Mae(SLM): New Clinton Administration Initiative May Undermine Valuation Case For The Stock
Eric I. Hemel (212) 703-6235
INDUSTRY: GSEs and Mortgage Finance

DATE: September 20, 1994
TYPE: Company Update

RECOMMENDATION: HOLD

FY Ending: December

	Price	52-wk Rng	EPS 93A	EPS 94E	EPS 95E	P/E 94E	P/E 95E	3Q 93A	3Q 94E
Curr.	$36	$50-33	4.83	4.80	4.80	7.5	7.5	$1.24	$1.09
Prior				5.20	5.75				

Div	Yld	Shs (MM)	5-Yr Proj Gwth	Mkt Val	P/Bk 2Q94	ROE 94E	P/CE 94E	P/CE 95E	12-Mo Price Tgt
1.40	3.9	80.1	10%	$3.07	2.10	29%	NM	NM	N/A

KEY POINTS:

- The Clinton Administration is contemplating an initiative that would entail inducing current borrowers who are gradually paying off guaranteed student loans to move their loans voluntarily into the Federal Government's direct lending program. If successful, the affect would be to melt away some of the student loans already on Sallie Mae's balance sheet by effectively refinancing them into direct loans from the government.

- A significant reason to buy Sallie Mae heretofore has been the view that the company's worst-case scenario "going out of business" value was X dollars, with the amount usually varying between $40 and $50. The stock market impact of the new initiative may be to cast doubts as to the exact worst-case scenario value of the company, and the reliability of any such estimates.

- Based on this development, and some concerns about Sallie Mae "privatization", we are shifting our recommendation from a Buy to a Hold.

DETAILS:

SUMMARY AND RECOMMENDATION

Critics of the Clinton Administration's decisiveness can point to Haiti, Bosnia, and welfare policy as examples of where the Administration has often lacked decisiveness. And they can point to health care and fiscal policy where the Administration-even when it knows what it wants-simply cannot achieve a legislative solution.

But there is one area where the Administration's decisiveness and ability to achieve its ends is beyond reproach-student lending. The

Administration knows that it wants to end the federally guaranteed student loan program. And, thus far, the Administration is batting a perfect 1.000 in securing legislation to achieve that objective.

Thus, we felt considerable alarm in recently learning about an initiative under consideration by the Clinton Administration that would further impair the interests of guaranteed student lenders-including Sallie Mae. Specifically, the initiative would entail inducing current borrowers who are gradually paying off guaranteed student loans—the bricks and mortar of Sallie Mae's balance sheet—to voluntarily refinance their loans into direct loans from the government. The purported advantage to some borrowers of this move would be a small reduction in interest rates, but more important to most borrowers would be the option of stretching out the maturity of the loans, thus reducing monthly payments. We want to emphasize that the success of the initiative will depend entirely on the voluntary response of borrowers; nobody would be mandated to switch his/her loan from one program to the other. Nevertheless, insofar as this initiative succeeds, the effect would be to melt away some of the student loans already on Sallie Mae's balance sheet by effectively refinancing them into direct loans from the government.

While the details of this new development appear somewhat murky, and its ultimate success in the marketplace equally uncertain, it is likely that this initiative will receive increasing public attention in the weeks ahead. A source we have relied on in recent years regarding Sallie Mae matters estimates that the odds exceed 75% that the Administration will launch the initiative between now and Election Day. How successful the initiative—if launched—will actually prove in persuading borrowers to switch their guaranteed loans to government direct loans is any body's guess. To use a metaphor, while we cannot predict the weather well enough to predict how hard it will rain, we feel reasonably confident that we are about to see some fairly dark storm clouds.

In light of this development, we are downgrading Sallie Mae from a Buy to a Hold. Admittedly, this change is more of a trading call than a judgment about long-term fundamentals; there is suddenly the possibility a negative development on the horizon which we doubt is fully captured in the price of the stock. But we are also painfully cognizant that if the Administration launches this initiative, and achieves some attrition of the company's guaranteed loan portfolio, then the strict valuation case for the stock would obviously be impaired. A significant reason to buy Sallie Mae heretofore has been the view that the company's worst-case scenario "going out of business" value was X dollars, with the amount usually varying between $40 and $50. The stock market impact of the new initiative may be to cast doubts as to the exact worst-case scenario value of the company, and the reliability of any such estimates.

A less immediate set of reasons for our downgrade stem from the recent revelation that the Administration is likely to support an as-of-yet unspecified scheme to "privatize" Sallie Mae. While Sallie Mae's stock rallied on the announcement of this development, we are not entirely comfortable with the implications. First, privatization would obviously raise questions regarding Sallie Mae's future funding costs and required capital levels; a 'private' Sallie Mae might face higher capital requirements than is now the case, with the obvious impacts on share repurchase levels. Second, we are not sure how we feel about Sallie Mae using privatization to delve into business areas where it has little or no prior direct experience. And finally, but most important, we are bothered by the total lack of detail regarding what the Administration is actually likely to propose, which may entail a substantial "exit" fee and other impediments on the company. One proposition we feel considerably certain of is that the Clinton Administration is not our friend on matters pertaining to Sallie Mae, and any offers to "help" the company should induce feelings of apprehension rather than enthusiasm.

The danger in our downgrade is that the stock is near its five-year bottom, and the current price presumably already reflects diminished investor expectations. Our bias is to stick with stocks that are "down and out", having missed some wonderful opportunities after failing to do so in the past. Nevertheless, we cannot heartily recommend Sallie Mae over the coming weeks (at least at yesterday's closing price) with the significant possibility that the Administration's initiative will become increasingly visible.

WHAT THE ADMINISTRATION IS ACTUALLY CONTEMPLATING

The vehicle that the Administration intends to use to achieve its new objective is called a consolidation loan. Consolidation loans have existed for years; they allow former students with loans from multiple lenders to consolidate their loans with one lender. They also allow couples to consolidate all of their loans with a lender to one of the two spouses.

The Clinton Administration's plan under consideration is to market a product called a "direct consolidation loan" which would allow borrowers to change the terms of their loans by consolidating their various loans and moving them to the Federal Government. Mechanically, the government would pay off the borrower's various loans in exchange for the new "direct consolidation loan." What is different here is that the new loan could have features more favorable to the borrower than the original guaranteed student loans.

Why Borrowers Might Make the Switch

First, the new loan might, in some instances, have a lower rate than the original loans. The details here remain somewhat unclear to us, but apparently about 20% of guaranteed student lenders hold loans with current interest rates of 9% or 10%. Under the direct program, these rates would be reduced to 8.25%. We doubt that this alone would result in major attrition of Sallie Mae's loan portfolio since few consolidated loans exceed $10,000 or so, and interest rate savings of less than two percentage points might not justify the hassle involved in loan consolidation. Still, this is one reason among several for the borrower to make the switch.

The second and most compelling reason for switching to a direct consolidation loan is that most borrowers can stretch out their repayment period by doing so. A large percentage of guaranteed student loans have ten-year repayment periods. Under direct lending, borrowers can use much longer time periods, in the extreme extending as long as thirty years. Thus, a large number of borrowers from the current guaranteed program can stretch out their payments, and reduce their monthly out-of-pocket expenses, by switching into a direct consolidation loan.

The third reason to switch—and the one we find most confusing—is that direct loan borrowers can make use of an income contingent repayment program under which monthly payment amounts vary with income. We do not understand how this will work in practice, but it is apparently a live option for direct borrowers, and might appeal to those whose incomes are low and monthly payment obligations burdensome.

THE MAGNITUDE OF THE POTENTIAL RESPONSE

Meaningful estimates of the impact of the initiative are virtually impossible because of two important hurdles between the launching of an initiative and actual borrower response. First, the Administration needs to market the direct consolidation loan concept successfully—which will prove challenging, to say the least. Second, the government must be able to execute both the consolidation process initially, as well as the subsequent day-to-day servicing of what might amount to several million loans. Each of these requirements warrants separate consideration.

Marketing the New Program

Apparently, there are currently approximately 25 million student loans outstanding. The Administration would need to do a bang-up job of marketing—attracting at least several million new customers—to achieve significant results from its contemplated initiative.

While we are not at all certain that the Administration will succeed in this regard, it is apparently intending to at least make significant marketing efforts if it goes ahead with the initiative. Apparently, a major advertising/public relations firm has been retained by the Department of Education to launch a publicity blitz for the new initiative. The White House is considering making the initiative the subject of President Clinton's speeches—presumably on college and university campuses—in the weeks between now and the November election. One public relations option under consideration—which we doubt will ever be pursued—would be to write all 25 million current student loan borrowers to inform them of the new option available to them.

If the Administration can market the new program successfully—*which is a very big if*— our best estimate that the features are sufficiently attractive to motivate ten to twenty percent of current guaranteed student loan borrowers to shift into a direct consolidation loan.

Thus, in theory, this initiative could result in attrition of ten to twenty percent of Sallie Mae's student loan portfolio if the marketing efforts prove maximally successful.

Servicing the New Loans

Skeptics about the practicality of government direct lending-including ourselves-have generally believed that the program was most likely to hit potholes when the government-and its contractors-started to service the loans of borrowers who have completed their education's. A frustrating aspect of the current direct lending program is that all loans are made to current students, and thus servicing the loans of graduates or drop-outs should not become highly burdensome until 1996 or 1997.

Direct consolidation loans-per the Clinton Administration's initiative-would, on the other hand, require immediate servicing. In this context, Sallie Mae backers can pin their hopes on the prospect that the new initiative might provide "the straw that breaks the camel's back" by proving earlior, rather than later, that the government-even with third party contractors-is not capable of handling the numerous processing requirements of student lending.

Clearly, watching for servicing breakdowns will become an immediate imperative for Sallie Mae analysts and investors if the new initiative generates significant loan volumes. Nevertheless, before concluding that the initiative is actually a positive for Sallie Mae's stock price, it is necessary to consider a couple of points.

First, the Clinton Administration is only likely to launch its initiative if has received some assurances that the servicing infrastructure is ready to start humming. The designated servicer for direct loans is a Fleet National subsidiary which has considerable experience in servicing guaranteed loans. We are told that the company has given the Administration assurances that it is ready to step up to the plate and begin to service large numbers of direct consolidation loans-starting now. This self-confidence may turn out to be misdirected. But this is not apparently a situation where the government is contemplating wild and crazy notions while private entities responsible for implementation are seeing chaos as the certain consequence.

Second, consolidation loans are relatively cost-effective to service insofar as they are larger loans-representing all of an individual's (or couple's) accumulated borrowings. A major problem in the student loan business generally is that loans-before consolidationhave average balances of only $3,000 or so, and the average borrower often has more than one loan. Thus, even minor servicing costs in absolute dollar terms can still amount to a significant percentage of average loan balances. Because consolidation loans are large-probably $10,000 or so on average-servicing can prove expensive in absolute dollar terms without "breaking the back" of the servicer in terms of the ratio of servicing costs to loan balances. In short, it is possible that servicing direct consolidation loans will appear relatively cost effective over the next year or so even though the direct lending program overall may appear cost-ineffective once smaller loans require extensive servicing several years from now.

EARNINGS ESTIMATES FOR SALLIE MAE: THE VARIABLES PROLIFERATE

Earnings estimates for Sallie Mae have moved dramatically downward over the past six or so months, largely due to an increase in short-term Treasuries. Sallie Mae's earnings over the last several years has become increasingly dependent on "floor income."

For those unfamiliar with the issue of floor income, an anomaly in the guaranteed student loan program has resulted in an economic earnings windfall for Sallie Mae over the last three years as short-term interest rates reached extremely low levels. Under the terms of student loans originated before 1992 (approximately two-thirds of Sallie Mae's portfolio), the rate Sallie Mae (and other lenders) receive on most loans is either 8%, which most students and graduates pay out of their own pocket, or 3.25% over the 91-day Treasury-bill rate—whichever is higher.

Since late 1991, T-bill rates have been at levels where it is the 8% figure, rather than the special allowance, that determines the rates paid on Sallie Mae's loans. For example, in 1993, when T-bill rates averaged approximately 3%, Sallie Mae earned about 5% above T-bills rather than the originally assumed 3.25% , and the company earned an economic benefit of approximately $300 million annually, translating into approximately $2.50 per share after tax (of which only $0.52 made its way through the reported income statement).

The last time we revised our 1995 estimate to $5.75, 91-day T-bills were 4.25%. With T-bill rates close to 4.75% today, straight arithmetic would induce us to lower our next year's estimate by approximately $0.70 per share, down to $5.05 (fine-tuners of estimates should be aware that even with T-bills at 4.75%, Sallie Mae earns approximately $0.20 annually from floor income due to a small proportion of loans with caps of 9% and 10%).

A second variable affecting earnings estimates is share repurchases. Sallie Mae is currently in the midst of a major repurchase program; we have been very aggressive in our assumptions heretofore in assuming that Sallie Mae ends 1995 with approximately 66 million shares outstanding (down from 82 million last June 30). We are concerned that we might have moderately overestimated share repurchasing volumes due to (1) failing to factor in any relationship between privatization and target capital levels and (2) the possibility that the company will reduce repurchases until the likelihood and effect of a Clinton Administration initiative—per the above—is better understood. Thus, we are now assuming that the company has 69 million shares outstanding at year-end 1995; the impact of this change lowers our 1995 estimate to $4.90.

Finally, the Clinton initiative could lower Sallie Mae's loans outstanding during the course of 1995. Without any precise knowledge of whether this will transpire, and if so, to what extent, we are casually guesstimating a resulting earnings reduction of $0.10, resulting in a final 1995 estimate of $4.80.

The virtual disappearance of floor income over the last several months also has an obvious impact on our 1994 estimate, which we are now reducing to $4.80.

Eric I. Hemel (212) 703-6235
Morgan Stanley & Co.
September 20, 1994
Last Written Report: Sallie Mae (SLM); 06/01/94
Step-Up in Share-Repurchase Activity Confirmed, But May Result in Lower Reported Earnings Growth

Morgan Stanley & Co. Incorporated and/or its affiliates make a market in the securities of Sallie Mae.

Morgan Stanley & Co. Incorporated and/or its affiliates or its employees have or may have a position or holding in the securities, options on securities, or other related investments of issuers mentioned herein.

Morgan Stanley & Co. Incorporated and/or its affiliates provided significant corporate finance services to Sallie Mae in connection with a transaction that was entered into or an offer to enter into a transaction that was made during the past six months.

To our readers in the United Kingdom: This publication has been issued by Morgan Stanley & Co. Incorporated and approved by Morgan Stanley & Co. International Ltd., a member of The Securities And Futures Authority. Morgan Stanley & Co. International Ltd. and/or its affiliates may be providing or may have provided significant advice or investment services, including investment banking for any company mentioned in this report. The investments discussed or recommended in this report may be unsuitable for investors depending on their specific investment objectives and financial position. Private investors should obtain the advice of their Morgan Stanley & Co. International Ltd. representative about the investments concerned. The price or value of the investments to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. Where an investment is denominated in a currency other than pounds sterling, changes in rates of exchange may have an adverse effect on the value, or price of, or income derived from the investment. Past performance is not necessarily a guide to future performance. Income from investments may fluctuate. This publication is disseminated in Singapore by Morgan Stanley Asia (Singapore) Pte Limited.

Additional information on recommended securities is available on request.

ED, Treasury May Endorse Sallie Mae's Privatization Wish

The Clinton administration is inclined to recommend that the Student Loan Marketing Association (Sallie Mae) obtain its long-sought freedom, two Cabinet members say.

"The most promising approach now under consideration is to restructure Sallie Mae ... into a completely private enterprise," Education Secretary Richard Riley and Treasury Secretary Lloyd Bentsen told congressional education leaders in a letter Tuesday.

But administration officials still would want Sallie Mae "to fulfill any responsibilities we decide are essential" during what they see as the transition from Family Education Loans (FEL) to Direct Student Loans (DSL).

ED is relying on Sallie Mae to ensure loans to students who can't find them elsewhere during the DSL phase-in, through a "lender-of-last-resort" agreement. Sallie Mae would step in to provide a loan if other lenders wouldn't.

Sallie Mae, a secondary market, is a government-sponsored enterprise Congress chartered in 1972 to pump student loan funds into the market by buying them from other holders.

Focus To Remain

Providing a secondary market will remain the company's "principal business" for years, regardless of any privatization efforts, Sallie Mae's President Lawrence Hough stressed in an interview yesterday.

Nonetheless, he said, he has "lots of ideas" on directions the company could take if freed from its "very narrow" congressional charter.

He declined to be specific, but said the company would try to enter markets where its marketing expertise, technological capability and financial processing strengths would make it competitive. The higher education arena would remain a focus, he said.

Congressional Concerns

As Tuesday's letter indicates, privatization would need congressional approval.

And one House aide said yesterday that any such proposal would be scrutinized carefully, especially to guarantee that Sallie Mae will be around to help in the DSL transition.

Ensuring taxpayers get some return on their investment for creating a successful company also will be an issue, he said.

Big Kid On The Block

Since its creation, Sallie Mae has become a major player in the student loan industry, calling itself the nation's largest source of funding and servicing support for student loans.

Yet, Congress's 1993 decision to phase in DSL threatens to dry up Sallie Mae's business.

Last year, Sen. Edward Kennedy, D-Mass., and Rep. William Ford, D-Mich., chairmen, respectively, of the Senate Labor and Human Resources and House Education and Labor committees, asked ED and Treasury to study privatization, which Hough has championed.

Tuesday's letter to the committees was an initial response to that request. Riley and Bentsen said they expect to submit specific legislative proposals by early next year.

Like Sallie Mae, other secondary markets around the country are searching to diversify in the new DSL age. But the head of a Washington, D.C., group representing 32 secondary markets said it's too early to tell if they would face competition from Sallie Mae.

"A lot depends on what the legislation actually says," said Bill Hansen, executive director of the Education Finance Council. --Mike Sherry

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

June 8, 1994

NOTE TO BILL GALSTON

Here is the joint reply in draft form as proposed by Treasury. Any comments?

Billy

DRAFT

June 7, 1994

Dear Chairman Ford:

On November 16, 1993, you wrote asking us to study the future of the Student Loan Marketing Association (Sallie Mae), in view of Congress' decision to substantially restructure the student loan program from a guaranteed to a direct loan program.

After extensive inter- and intra-agency consideration and the examination of a number of potential courses of action, we believe it is in the public interest to enact legislation to recharter Sallie Mae as a wholly private entity.

The maturation of the student loan industry and the reduction of the Federal Family Education Loan Program (FFELP) obviate the need for a government-sponsored enterprise (GSE) in the student loan market. We believe that whatever future liquidity and financing needs the FFELP program has can continue to be satisfied by a private Sallie Mae and other financing entities.

Our vision of a private Sallie Mae would entail a "leave-behind GSE," managed by the new private company, that would wind down the GSE by continuing to service the interests of the FFELP program. The student loan GSE would exist for as long as necessary to ensure the viability of the FFELP.

It is our intention to submit a legislative proposal in January 1995 which specifies the details of the proposed transition to privatization for consideration by the 104th Congress. We appreciate the opportunity to comment on this important matter and will look forward to working with you to bring it to resolution in the near future.

Secretary of Education

Secretary of Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON

1500 Pennsylvania Avenue, N.W.

ATTN: PHIL LINK
Per your Request

DOMESTIC FINANCE

FACSIMILE COVER SHEET

DATE 6-7-94

NUMBER OF PAGES TO FOLLOW: 1

TO: ~~Dave Longanecker~~
Phil Link

ADDRESSEE'S FAX NUMBER: ~~708-984-9707~~ 401-2854

FROM: ~~Darcy Bradbury~~
MATT T. Boggs

SENDER'S FAX NUMBERS: (202) 622-0265

SENDER'S CONFIRMATION NUMBER: ~~622-0037~~ 708-8200

COMMENTS/SPECIAL INSTRUCTIONS:
Per your Request

UNCLASSIFIED

LAW OFFICES
VERNER, LIIPFERT, BERNHARD, McPHERSON AND HAND
CHARTERED
SUITE 700
901-15TH STREET, N.W.
WASHINGTON, D.C. 20005-2301
(202) 371-6000

(202) 371-6026

May 23, 1994

Mr. William Galston
Deputy Assistant for
Domestic Policy
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Bill:

This is a follow-up to the memo I faxed to you on Friday, which included the Kennedy-Ford letter to Sec. Riley about Sallie Mae.

Two people in the Department of Education's Office of Postsecondary Education -- Larry Oxendine and Don Feuerstein -- are working on the Department's answer to Sen. Kennedy and Rep. Ford. I'm sure that they, and the Secretary and Assistant Secretary, will go over the issues in detail with people at Treasury, particularly in Frank Newman's office. All well and good: yet I hope that policy with respect to Sallie Mae will reflect White House-OMB views, as well as DOE's and Treasury. It is unlikely, but conceivable, that simultaneous with your efforts, and those of Ellen Seidman and Barry White, to help bring about the first privatization of a GSE, DOE and Treasury might respond in a way that did not robustly take advantage of the opportunity.

This concern is probably unfounded. But I urge you to weigh in to the answering process, if only to make sure that a good idea doesn't get lost in the details.

All best.

Sincerely,

Harry

Harry McPherson

LAW OFFICES
VERNER, LIIPFERT, BERNHARD, McPHERSON AND HAND
CHARTERED
SUITE 700
901-15TH STREET, N.W.
WASHINGTON, D.C. 20005-2301
(202)371-6000
TELECOPIER: (202)371-6279
TELEX 1561792 VERLIP UT

TELECOPIER COVER PAGE

DATE: May 20, 1994

TO: Bill Galston COMPANY NAME: The White House

FROM: Harry McPherson ORIGINATOR'S TEL. NO.: (202) 371-6026

TELECOPIER NO.: (202) 456-2878 TOTAL NO. OF PAGES 2 (INCLUDING COVER PAGE)

CONFIRMATION TEL. NO.: ________ CLIENT/MATTER NO.: 4067-001

****

****

SPACE FOR ADDITIONAL MESSAGE

Bill:

HERE'S THE LETTER I MENTIONED. IT MAY BE A PREDICATE FOR AN EXPRESSION OF ADMINISTRATION SUPPORT FOR PRIVATIZATION.

Harry

Congress of the United States

November 16, 1993

The Honorable Richard W. Riley
Secretary of Education
Federal Office Building 6
400 Maryland Avenue, S.W.
Washington, D.C. 20202

Dear Mr. Secretary:

As you know, the Administration's direct loan legislative proposal (Section 218 of S.920 and H.R.2055) called for a study by the Secretaries of Education and Treasury to "examine alternatives concerning the status, operations and purposes of the Student Loan Marketing Association during and after the transition from the Federal Family Education Loan program to the Federal Direct Student Loan program." The Conferees on Title IV of the Budget Reconciliation Act of 1993 decided not to include a provision requesting a study of the future of the Student Loan Marketing Association (Sallie Mae). The Conferees agreed, however, that the Senate Labor and Human Resources and House Education and Labor Committees would request a study of Sallie Mae.

We believe that a study of the future of Sallie Mae is important as the direct loan program is phased in. Therefore, we request that the Administration undertake a Sallie Mae study and that you report your findings and recommendations to our Committees within six months.

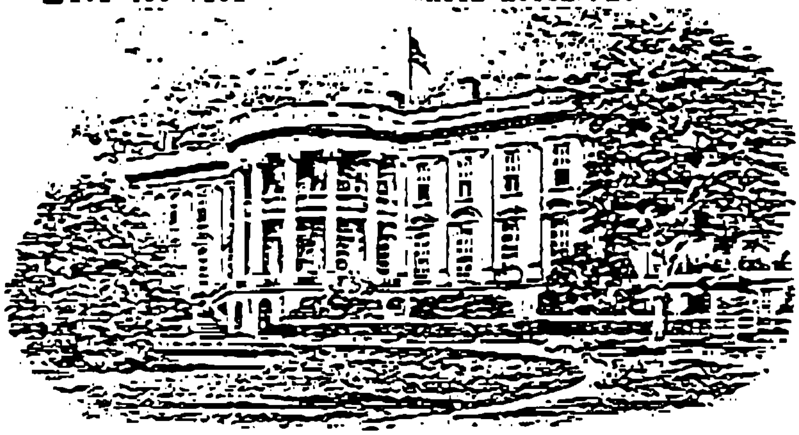
With kind regards,

Sincerely,

William Ford
Chairman
House Education and Labor Committee

Edward M. Kennedy
Chairman
Senate Labor and Human Resources Committee

cc: The Honorable Lloyd Bentsen
Secretary of the Treasury



FAX TRANSMISSION

The National Economic Council
The White House

DAVE LONGANECKER | Darcy Bradbury
To: Bill Galston | Barry White | Paul Dimond | Mary Eccles

708-5547 / 622-2037 708-9814 / 622-0265
Phone: 62620/54532 FAX: 62878/54875
~~62800~~/219-8271 ~~62223~~/219-7971

From: Ellen Seidman

Phone: 202-456-2802 FAX: 202-456-2223

Date: 7-14-94

Time: 0830

Pages to follow: 3

THE WHITE HOUSE

WASHINGTON

July 13, 1994

MEMORANDUM FOR DAVE LONGANECKER
DARCY BRADBURY

FROM: Ellen Seidman *Ell*

SUBJECT: Sallie Mae/Training/DOL

Attached is a short options paper I received yesterday from Mary Eccles at the Labor Department outlining potential activities Sallie Mae could pursue in the training area. You will recall that at our June 13 meeting, we discussed the potential for an "in kind" exit fee relating to training, and asked Labor to consider possibilities.

Mary's paper responds to that request. I have asked Mary to give some further thought to whether there are specific types of, e.g., demonstration projects, along the models suggested in the memo, that we might want Sallie Mae to pursue. These could be projects that we believe should have priority on a public policy basis even though they might not be the first ones Sallie Mae would choose to pursue because they might not be those with maximum likelihood of success or the largest potential market. Mary will work further on this. She can be reached at 219-8271.

My understanding was that the Education Department was to use the Labor Department input to further fashion our potential exit strategy on a programmatic basis, while Treasury is working on the financial issues. I hope the fact that we haven't heard anything recently means that everyone's busily at work on the project -- even in the midst of launching direct lending and new $100 bills. I would be interested in a status report. Please give me a call on 456-5359.

cc: Bill Galston
Barry White
Paul Dimond
Mary Eccles

Wendy—
Could you fax this out?
Longanecker is at Education
Bradbury - Treas 622-
Eccles - DOL - 219-7971
all others EOP

OPTIONS: NEW LINES OF BUSINESS FOR SALLIE MAE

At a meeting on June 13, NEC staff asked Assistant Secretary of Education David Longanecker to coordinate the preparation of options papers on several topics related to Sallie Mae. Below we describe an approach to the issue of additional activities for Sallie Mae to pursue that might help to facilitate training for incumbent workers.

Sallie Mae views its prospects as strongest in the areas of financing and providing an array of information and support services to employers. As it did in the early days of the student loan program, Sallie Mae would like to be able to develop programs with banks that encourage lending for incumbent worker training. It anticipates some growth in the numbers of employers that would attempt to borrow in order to offer workplace training and education programs.

A Price Waterhouse survey of over 2,300 businesses corroborates this view: while only 5 percent of employers currently borrow to pay for workforce training programs, about 60 percent doubted that they could obtain such loans if they needed them. And large majorities of the employers surveyed expected to need to increase their spending on training over the next five years. Because employers are more likely to borrow for workplace training when they purchase new equipment, companies engaged in upgrading their technology would be a potentially promising market for Sallie Mae to pursue.

Demonstration projects would offer a reasonable way to proceed in this case. We suggest providing legislative authority for Sallie Mae to test several approaches to the provision of financial services, each of which should be evaluated at a number of different locations to determine the most effective means of reaching small and medium-sized firms--the ones least likely to offer incumbent worker training--as well as workers who now lack opportunities to upgrade their skills.

Models might include:

1) partnerships with financial institutions in which Sallie Mae provides a secondary market and other services to encourage lending to employers for training. Sallie Mae would prepare the materials and guidelines, and recruit the banks which originate the loans. The banks would sell 40 to 60 percent of each loan to Sallie Mae, earning a fee for servicing the loan and possibly an origination fee. Sallie Mae's earnings would come from the spread between its cost of acquiring funds and the rate at which the proceeds could be lent. Sallie Mae would view these as short term assets to be held to term--probably less than two years. The possibility of bundling and securitizing some of these assets for resale does exist, but would not affect most of them. This approach would not rely on loan guarantees, interest subsidies, or other types of credit enhancement.

2) credit assurance provided by states, in the form of loan loss reserves or guarantees, to improve access to financing for companies which would otherwise not be considered credit-worthy. Sallie Mae currently has a pilot with this structure that is just getting underway in Connecticut. Several other states, including Massachusetts, Indiana, and Wisconsin, have expressed interest in a similar approach.

3) programs to administer and facilitate loans to employed workers in need of upgrade training. Sallie Mae anticipates that these would require a form of subsidy or loan guarantee to encourage broad access for workers at all pay levels. It also anticipates the need for an origination fee, to be split between Sallie Mae and the originating bank to provide a further incentive for incurring the additional risk. The administrative functions involved in this type of pilot would draw on Sallie Mae's capabilities in the area of servicing small loans.

Apart from financing, a range of information and consulting services might be offered to help employers assess their needs for workplace education and training programs, select appropriate providers, and evaluate the results. Sallie Mae is very interested in testing the market for such services, and we believe it ought to have the authority to do so. We do not know where Sallie Mae's expertise lies nor whether it will have the connections and credibility with employers to make a success of such endeavors. But we see no downsides to allowing Sallie Mae to test its entrepreneurial skills in this area--and believe the availability of higher quality information and support services could motivate many more employers to offer training to incumbent workers.

· Darcy
· David
· Barry
· Ellen - no exit fee
· Me

E X E C U T I V E   O F F I C E   O F   T H E   P R E S I D E N T

20-Jul-1994 04:51pm

TO: William A. Galston

FROM: Barry White
Office of Mgmt and Budget, LVE

SUBJECT: Sallie Mae

Sallie Mae is peppering me with bond market articles about their plan (leaked from somewhere) and just recently about Administration discussions about an exit fee. As to the latter, I certainly haven't been in any discussions, though I would be happy to participate.

Ellen Seidman circulated Labor's proposal to let Sallie Mae have authority to try some corporate financing facilitation as part of the privatization bill. I don't mind that, but it is surely nothing we could tout as a significant "in-kind exit fee."

I also know Longanecker met with Hough to discuss privatization recently. Hough said he would not openly oppose direct lending, and would cooperate with whatever David wanted from Sallie Mae. Hough pressed David to get the ED/Treasury letter out to Kennedy and Ford. You will recall that we discussed this letter at the last group meeting (a couple of months ago) and David promised to supply the draft. No draft yet.

David also promised to clarify, in legislative langauge, his "needs" from Sallie Mae during the transition, and, perhaps, an alternative privatization scheme. I have not seen anything.

Virginia Bradbury

I asked the Treasury drafter (Rutledge) if she was working on converting Sallie Mae's proposal into language we would consider (i.e., their stuff plus whatever Darcy wants, like safety and soundness amendments, plus some of what we had in last year's bill, like getting them out of Connie Lee). She said she hadn't been asked to but would consult with Darcy. I haven't heard anything back.

So all in all, what's up? Any way I can help, at least to get the letter out? Or are we deliberately not going to push this now?

Yr Humble and Obdt Svt.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. memo	Harry McPherson to Bill Galston (5 pages)	09/16/1994	P5

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Gaynor McCown (Subject Files)
OA/Box Number: 7321

FOLDER TITLE:

Sallie Mae [1]

2011-0255-S
rc649

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Level Playing Field for Consolidation Loans

Amendment:

Amend Section 428C(c)(1) of the Higher Education Act by (i) deleting the words "(B) or (C)" at the end of the first sentence of subparagraph (A) and substituting the words "(B), (C) or (D)" in their place and (ii) adding, at the end of paragraph (1), a new subparagraph (D) as follows:

"(D) A consolidation loan made on or after [September 30, 1994] shall bear interest at an annual rate on the unpaid principal balance of the loan that is equal to the lesser of (i) the weighted average of the interest rates on the loans consolidated, rounded upward to the nearest one-quarter of one percent, or (ii) 8.25 percent."

Rationale:

Current law distinctly disadvantages student borrowers who elect to consolidate their FFEL program loans under the FFEL program rather than seeking a Federal Direct Consolidation Loan. Under regulations issued by the Department of Education, the interest rate on Federal Direct Consolidation Loans is a variable rate, not to exceed 8.25 percent. Section 428C of the Act sets the interest for FFEL consolidation loans at a fixed rate equal to the weighted average of the interest rates of the loans being consolidated, rounded up to the next whole percent. There is no limitation on the interest rate. The rate may often be nine percent. As a result, student borrowers who choose to seek a consolidation loan from the private sector rather than from the federal government, either because they have good relationships with their lenders that they wish to continue or for other reasons, must pay for this election by paying more interest on their consolidation loan than those who make the opposite selection. Enactment of the proposed amendment would reduce some of the more egregious aspects of this penalty.

Passage would, in addition, be a step toward placing FFEL program consolidation loans on the same level playing field with Federal Direct Consolidation Loans consistent with the clear intention of the Congress that the same terms and conditions apply to FFEL program loans and direct loans.

Congress of the United States
House of Representatives
Washington, DC 20515

January 17, 1995

Mr. William Galston
Deputy Assistant to the President
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Bill:

As Members of Congress representing a large number of Sallie Mae employees, we feel that it would be a great opportunity for President Clinton to make the rechartering of Sallie Mae a highlight of his initiative to reduce government. We believe it is appropriate at this time to recognize Sallie Mae's success in fulfilling its Congressionally chartered mission and allow it to apply its skills to other enterprises.

Thus, we believe it is time for Sallie Mae to relinquish its status as a Government Sponsored Enterprise. Taking this initiative would fit well with the themes of reinventing and downsizing government that have become hallmarks of this Administration. We believe the public will respond favorably to this effort to make government "smaller". While becoming the finest servicer of student loans, Sallie Mae has assembled an impressive organization rife with the technological sophistication necessary to successfully compete in today's business climate. We, therefore, believe it would be economically beneficial for it to be free to enter into other endeavors, particularly in support of higher education.

Jan 25 2:30pm

We are, however, concerned that this issue has yet to be addressed by the Administration. In an effort to obtain the Administration's position and plan subsequent strategy, we would like to invite you to meet with us on ~~Thursday, January 19 at 4:00~~ pm in room 340 Cannon House Office Building. We feel strongly that this is a good policy issue for Democrats to embrace. Wednesday, January 25 @ 2:30 pm

Please contact Brady King with Congressman Chet Edwards at 225-6105 or Jason Altmire with Congressman Pete Peterson at 225-5235 for more information.

Sincerely,

Sam Gibbons, M.C. (maybe)

Chet Edwards, M.C. (yes)

Paul Kanjorski, M.C. (yes)

Pete Peterson, M.C. (yes)

~~Cong. Markey~~ (yes) Congressman Markey

· direct lending support · consolidation
· SM support

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

Date: 1/27/95 Fax #: 456-2878

Sent to: Bill Galston

Attention:

From: Tom Wolanin

Number of Pages (including cover sheet): 3

If there are any problems with this transmission, please contact me at: (202) 401-1028

COMMENTS: Sallie Mae

400 Maryland Avenue SW, Room 3153
Washington, DC 20202-3100

Office Number: (202) 401-1028
Fax Number: (202) 401-1438

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	Tom Wolanin to Bill Galston re: Sallie Mae privatization (2 pages)	01/27/1995	P5

COLLECTION:

Clinton Presidential Records
Domestic Policy Council
Gaynor McCown (Subject Files)
OA/Box Number: 7321

FOLDER TITLE:

Sallie Mae [1]

2011-0255-S
rc649

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.
PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).
RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]