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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. list	Board members contact list (1 page)	08/29/1994	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

Sallie Mae [2]

2011-0255-S
rc222

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]

DISCUSSION DRAFT

A BILL

To amend Part C of Title IV of the Higher Education Act of 1965 to accelerate implementation of the Federal Direct Student Loan Program and to amend Part B of Title IV of the Higher Education Act of 1965 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.

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

SECTION 1. SHORT TITLE.

This Act may be cited as ["The Federal Direct Student Loan Acceleration and Student Loan Marketing Association Reorganization Act of 1993.]"

SEC. 2. FINDINGS AND PURPOSE.

(a) Findings.--The Congress hereby finds that the implementation of the Federal Direct Student Loan Program under Part C of Title IV of the Higher Education Act of 1965 creates an environment that no longer requires federal chartering on a long-term basis of a government-sponsored enterprise to serve as a secondary market and warehousing facility for guaranteed student loans.

(b) Purpose.--It is the purpose of this Act to provide for orderly termination of the existence of the Student Loan Marketing Association (the "Association") as a government-sponsored enterprise on or before December 31, 2004, and to authorize its reorganization as a nonfederally-chartered business corporation.

SEC. 3. IMPLEMENTATION OF FEDERAL DIRECT STUDENT LOAN PROGRAM.

(a) Subsection 453(a)(2)(C) and (D) are amended to read as follows:

> (C) for academic year 1996-97, loans made under this part shall represent 80 percent of the new student loan volume for such year; and
>
> (D) for academic year 1997-98, loans made under this part shall represent 100 percent of the new student loan volume for such year.

(b) Subsection 453(a) is repealed.

SEC. 4. REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION.

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

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

(a) Reorganization of the Association.--

(1) Authority to Reorganize.--The Association is authorized to carry out a reorganization pursuant to a plan of reorganization which is consistent with the provisions of this section (the "Plan"). [specify 2/3ds vote of Board?]

(2) Formation of the Holding Company. The Plan shall provide for (1) the formation by the Association, under the laws of any State of the United States or the District of Columbia, of a company ("Holding Company"); (2) the formation, under the laws of any State of the United States or the District of Columbia, of a company ("Shell Corporation") which shall be a wholly owned subsidiary of the Holding Company and which shall exist temporarily solely for the purpose of carrying out a reorganization pursuant to this section; (3) the merger of Shell Corporation into the Association; and (4) the issuance of stock purchase warrants or other instruments 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.

(2) Plan Approval. Upon adoption of the Plan by the Board of Directors of the Association, 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 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.

(3) Registration Statement. After adoption by the Board of any amendments required pursuant to paragraph (2) and formation of the Holding Company as provided in the Plan, the Holding Company shall file a registration statement, which shall include a proxy statement of the Association [require compliance with securities laws for purposes of proxy] and a prospectus of the Holding Company with the Securities and Exchange Commission to (i) register, pursuant to the Securities Act of 1933, as amended [15 U.S.C. § 77a-77aa (1988)], the common stock of the Holding Company into which the common stock of the Association shall be converted at the Effective Time and (ii) to solicit the approval of the Reorganization by the Association's common stockholders.

(4) Stockholder Approval. After adoption of the Plan by the Board of Directors and its approval by the Secretaries of the Treasury and Education, 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.

(5) 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 establish the Holding Company and Shell Corporation and to effect the Reorganization in accordance with this section, applicable state law, and the Plan.

(b) Effect of Reorganization.

(1) At the Effective Time, Shell Corporation shall be merged with and into the Association in accordance with and subject to the terms and conditions of this section and, following such merger, the Association shall be a wholly owned subsidiary of the Holding Company;

(2) At the Effective Time, each share of the Association's common stock issued and outstanding immediately prior to the Effective Time (other than shares

Held in the treasury of the Association) shall be converted into the right [?] to receive one share of common stock of the Holding Company and each outstanding option to purchase the Association's common stock shall be converted into the option to purchase an equal number of shares of the Holding Company's common stock:

(3) At the Effective Time, each share of Shell Corporation's common stock issued and outstanding immediately prior to the Effective Time shall be converted into one share of the Association's common stock;

(4) At the Effective Time, the separate existence of Shell Corporation shall cease:

(5) At the Effective Time, each share of the Holding Company's common stock issued and outstanding immediately prior to the Effective Time shall be retired and cancelled;

[(6) At the Effective Time, all treasury shares of the Association shall be retired and cancelled.]

(7) Ownership. Immediately after the Effective Time and as a result of the Reorganization, all of the common stock of the Association shall be owned by the Holding Company. All shares of preferred stock of the Association issued and outstanding immediately prior to the Effective Time shall remain the issued and outstanding preferred stock of the Association immediately after the

Effective Time.

(8) Holding Company Board of Directors. The number and composition of the Board of Directors of the Holding Company shall be determined as set forth in the Holding Company's charter or like instrument (as amended from time to time) or by-laws (as amended from time to time) and as permissible under the laws of the jurisdiction of its incorporation. The initial Board of Directors of the Holding Company serving after the Effective Time shall be elected by the common stockholders of the Holding Company. 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.

[(9) Association Board of Directors. Notwithstanding any other provision of Part B of Title IV of the Higher Education Act [20 U.S.C. § 1071 et seq.], after the Effective Time, the 14 directors of the Association elected by the Association's stockholders which immediately after the Effective Time shall be the Holding Company) shall no longer be required to meet the eligibility requirements set forth in section 439(c).]

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

(1) Continuation of Rights and Duties.--Except as specifically provided herein, 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) Transfer of Property.--Except as specifically provided herein, and subject to the approval of the Secretary of the Treasury, at the Effective Time or as soon as practicable thereafter, the Association shall use its best efforts to transfer to the one or more subsidiaries of the Holding Company, as directed by the Holding Company, all real and personal property of the Association (both tangible and intangible) other than the Remaining Property. Without limiting the foregoing, such transferred property shall include all right, title and interest in (I) direct or indirect subsidiaries of the Association (excluding any interest in any government-sponsored enterprise), (ii) contracts, leases, and other agreements, (iii) licenses and other intellectual property, and (iv) any other property of the Association. Notwithstanding the foregoing, nothing contained herein shall be construed to prohibit the Association from transferring Remaining Property from time to time to the Holding Company or its Subsidiaries, with the approval of the Secretary of the Treasruy and subject to the

provisions of subsection (9) below.

(3) Transfer of Personnel.--At the Effective Time [and with the approval of the Secretary of the Treasury] employees of the Association shall become employees of the Holding Company (or of the Subsidiaries), except that at least one executive officer of the Association shall remain an officer solely of the Association.

(4) Management and Operational Support. The Holding Company (and/or the Subsidiaries) shall provide all necessary and appropriate management and operational (including loan servicing) support to the Association, as requested by the Association. The Association may, however, obtain such management and operational support from other persons or entities. 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.

(5) Issuance of Obligations by the Association During the Transition Period.--The Association shall not issue new debt obligations after [June 30, 2000]. [Do we want a specific restriction on the ability to borrow to support assets such as the liquidity portofolio?] Notwithstanding the foregoing, nothing in this subsection

440(b) shall in any way whatsoever modify the attributes accorded the debt obligations of the Association by section 439 of Part B of Title IV of the Higher Education Act [20 U.S.C. § 1087-2], 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 440(b)(7).

(6) Limitation on Obligations Outstanding.-- [During the Transition Period, the total dollar amount outstanding of obligations of the Association issued pursuant to section 439 shall not exceed the sum of (1) the total dollar amount outstanding of all obligations of the Association on the effective date of the Student Loan Marketing Association Reorganization Act of 1995 and (2) the total dollar amount of the Association's additional investments in assets permitted to be acquired under Section 439(d), (e), (o), (p) and (q) of Part B of Title IV of the Higher Education Act of 1965, as amended.] <u>or</u> [After the Effective Time, the Association shall not incur indebtedness which at any given time would exceed the aggregate book value of its assets, to the extent such assets are permitted to be held under this subsection.]

(7) 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 additional assets other than (i) in connection with 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 June 30, 1997, and (ii) in connection with its serving as a lender of last resort pursuant to section 439 of Part B of Title IV of the Higher Education Act [20 U.S.C. § 1071 et seq..].

(8) 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.

(9) Dividends. The Association may pay dividends in the form of cash [or non-cash] distributions provided the following conditions are met:

(A) at the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of such declaration by the Board of Directors of the Association, the Association's capital would be in compliance with section 439(r) (4) [20 U.S.C. § 1087-2(r)(4)];

(B) the aggregate amount of dividends declared do not exceed--

(i) for calendar year 1996, an amount equal to 40 percent of excess capital of the Association as of the day before the Effective Time;

link to Sec. 3

(ii) for calendar year 1997, an amount equal to 20 percent of excess capital of the Association as of the day before the Effective Time; and

(iii) for calendar years 1998 through 2000, an amount equal to 10 percent of excess capital of the Association as of the day before the Effective Time for each year.

For purposes of this paragraph, excess capital means the Association's accumulated capital and retained earnings as of the day before the Effective Time. The Association shall certify to the Secretary of the Treasury the amount of excess capital, which shall be based upon audited financial statements of the Association as of the most recent quarter ending prior to the Effective Time.

(C) Non-cash distributions may be made only with the approval of the Secretary of the Treasury. [After the effective date of this Act, 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 calculating compliance with section 439(r)(4) [20 U.S.C. § 1087-2(r)(4)].

(10) Holding Company Activities.--During the Transition Period, Holding Company activities shall be limited to ownership of the Association and any other subsidiaries or other business entities that the Holding Company may form or acquire. All business activities shall be conducted through such subsidiaries or other business entities.

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

(12) 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 [15 U.S.C. § 77a-77aa (1988)], 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.

(13) 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) 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 ensure that the corporate separateness of the Association is maintained.

(d) **Termination of Association** - The Association shall dissolve and its separate existence shall terminate on the December 31, [2004], after discharge of its Remaining Obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to December 31, [2004] by notifying the Secretary of Education of its intention to dissolve, unless within 60 days of receipt of such notice the Secretary notifies the Association that it continues to be needed to serve as a lender of last resort pursuant to section 439 (q) of the Higher Education Act [20 U.S.C. § 1087-2 (q)]. On the Dissolution Date, the Association shall take the following actions:

(A)(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 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 Remaining 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 such Remaining Obligations in accordance with their terms. To the extent the Association cannot provide obligations in the amount required, the Holding Company shall be required to transfer 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 obligations assumed by the trust. Upon the fulfillment of the trustee's obligations under the trust, any remaining assets of the trust shall be transferred to the Holding Company and/or its Subsidiaries, as directed by the Holding Company.

[Should we require the trust sooner, especially given the passive nature of SLMA after reorganization? Are we sure that the capital requirements will ensure sufficient assets in SLMA to provide cash flow to pay obligations?]

(2) The Association shall make proper provision [under applicable state law (which, in the absence of any other applicable law shall be deemed the District of Columbia law)?] 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 obligations of the Holding Company as of the Dissolution Date.

(3) After compliance with paragraph (1) and (2) and with approval of the Secretaries of Education and Treasury, the Association shall transfer to the Holding Company and/or its Subsidiaries, as directed by the Holding Company, any remaining assets of the Association.

(h) Definitions.

For purposes of this Act -

(1) The term "Association" means the Student Loan Marketing Association;

(2) The term "Effective Time" means the effective time of the Reorganization as determined by the Board of Directors of the Association, which shall not be earlier than the date that stockholder approval is obtained pursuant to section 440 (a)(3) [20 U.S.C. § 1087-3(a)(3)] hereof and shall not be later than the date that is 18 months after the effective date of this Act;

(3) The term "Dissolution Date" shall mean December 31, [2004] or such earlier date as the Secretary of Education permits the transfer of Remaining Obligations in accordance with section 440(b)(5) [20 U.S.C. § 1087-3(b)(3)]; (4) The term Remaining Property" shall mean the following assets and

liabilities of the Association which are outstanding as of the Effective Time: (i) debt obligations issued by the Association, (ii) contracts relating to interest rate, currency or commodity positions or protections, (iii) investment securities owned by the Association, (iv) any instruments, assets or agreements described in section 439(d) of the Higher Education Act (including without limitation all student loans, forward purchase and lending commitments, warehousing advances, academic facilities obligations, letters of credit, standby bond purchase agreements, liquidity agreements, and student loan revenue bonds or other loans), and (v) except as specifically prohibited by this Act, any other nonmaterial assets or liabilities of the Association which the Association's Board of Directors determines to be necessary or appropriate to its operations.

(5) The term "Remaining Obligations" shall mean the debt obligations of the Association outstanding as of the Dissolution Date.

(6) The term "Subsidiaries" shall mean one or

more direct or indirect subsidiaries of the Holding Company other than the Association.

SEC. 4. AMENDMENTS TO SECTION 439

(a) Sec. 439 (r) of the Higher Education Act of 1965 is amended as follows:

(1) The heading of subsection (r) is amended to read:

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

(2) Subparagraph (1) is amended to read as follows:

(1) REPORTS BY THE ASSOCIATION.--

(A) [current reporting requirement.]

(B) Within 45 days of the end of each calendar quarter, the Association shall provide to the Secretary (1) financial statements of the Association and (2) a report showing the calculation of the capital ratio in a form and containing such information as is approved by the Secretary.

(C) Unconsolidated Reporting. After the Effective Time and prior to the Dissolution Date, all reporting of the Association under this section shall be on an unconsolidated basis. [Are we overriding GAAP? Do we need to say that explicitly? Will this raise questions for Holding Company reporting, for example, under SEC requirement?]

(D) Submission of Business Plan.--Within 90 days after the effective date of the Student Loan Marketing

Association Reorganization Act of 1995, and for each year thereafter until the Dissolution Date, the Association will submit to the Secretary of the Treasury the Association's business plan addressing business, funding, investment and capitalization assumptions and plans for the Transition Period. Within 30 days of any material change in the plan or in any of the assumptions on which the plan is based, the Association shall submit to the Secretary of the Treasury an amendment to the plan reflecting any such material change.

(E) 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 association 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.

(3) Subsection (2) is amended by adding at the end a new subparagraph (D) as follows:

(2) AUDIT BY SECRETARY OF THE TREASURY.--

(D) Reimbursement for Costs of Regulation.--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 439(r) and section 440.

[Purpose of audits may need to be expanded to cover more than financial safety and soundness.]

(4) Subsection (4) is amended to read as follows:

(4) CAPITAL STANDARD--.If the capital ratio is less than 3.0 and is greater than or equal to 2.0 percent at the end of the Association's most recent calendar quarter the Association shall, within 60 days of such occurrence, submit to the Secretary of the Treasury a capital restoration plan, in reasonable detail, that the Association believes is adequate to cause the capital ratio to equal or exceed 3.0 percent within 12 months, unless the Secretary determines that a longer period is acceptable.

(5) Subsection (5) is amended by

(1) revising subparagraph to read as follows:

"(B) If the Secretary of the Treasury does not approve a capital restoration plan as provided in subparagraph (a), then the Secretary shall notify to Association of it disapproval, stating the the reasons for disapproval, and shall provide the Association with an alternative capital restoration plan which the Association shall forthwith proceed with diligence to implement such plan."; and

(2) deleting subsection (C).

(6) Subsection (6) is amended to read as follows:

(6) SUBSTANTIAL CAPITAL RATIO REDUCTION.--

(A) ADDITIONAL PLAN REQUIRED.--If the capital ratio is less than 2.0 percent and is greater than or equal to 1.50 percent at the end of the Association's most recent calendar quarter, the Association shall submit to the Secretary of the Treasury within 60 days after such occurrence a capital restoration plan (or an appropriate modification of any plan previously submitted or adopted under paragraph (4) [or (5)] to increase promptly its capital ratio to equal or exceed 2.0 percent.

(B) If the Secretary of the Treasury does not approve a capital restoration plan as provided in subparagraph (a), then the Secretary shall notify to Association of its disapproval, stating the reasons for disapproval, and shall provide the Association with an alternative capital restoration plan which the Association shall forthwith proceed with diligence to implement.

(7) Subsection (7) is amended to read as follows:

(7) ACTIONS BY SECRETARY OF THE TREASURY.--If the capital ratio of the Association does not equal or exceed 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.-- [No change]

(B) RESTRICT GROWTH.--[No change]

(C) RESTRICT DISTRIBUTIONS--[No change]

(D) REQUIRE ISSUANCE OF NEW CAPITAL.--[No change]

(E) LIMIT EXECUTIVE COMPENSATION.--[No change]

(F) REQUIRE INJECTION OF NEW CAPITAL.-- Require the Holding Company to inject additional capital into the Association.

(9) Subparagraph (8) is amended to read as follows:

(8) Critical Capital Standard.--

(A) If the capital ratio is less than 1.50 percent at the end of the Association's most recent calendar quarter and the Association has already submitted a capital restoration plan to the Secretary of the Treasury pursuant to Paragraph (4), or (6)(A) (insert "or has adopted an alternative capital restoration plan pursuant to Paragraph (5)(B) or (6)(B)"), the Association shall forthwith proceed with diligence to implement the most recently proposed plan or most recently proposed alternative restoration plan with such modifications as the Secretary of the Treasury determines are necessary to cause the capital ratio to equal or exceed 3.0 percent within 12 months unless the Secretary determines that a longer period is acceptable.

(B) If the capital ratio is less than 1.50 percent at the end of the Association's most recent calendar quarter and the Association has not submitted a capital restoration plan to the Secretary of the Treasury pursuant to paragraph (5) or (6), the Association shall--

(i) within 14 days of such occurrence submit a capital restoration plan to the Secretary of the Treasury which the Association believes is adequate to cause the capital ratio to equal or exceed 3.0 percent within 12 months unless the Secretary of the Treasury determines that a longer period is acceptable.

(ii) forthwith proceed with diligence to implement such plan with such modifications as the Secretary of the Treasury determines are necessary to cause the capital ratio to equal or exceed 3.0 percent within 12 months, unless the Secretary of the Treasury and determines that a longer period is acceptable.

[Add authority to require liquidation]

(10) Subsection (9) is deleted.

(11) Subsection (11) is deleted.

(12) Subsection (13) is amended

(1) by adding: [Add definition dealing with how securitized assets will be treated for purposes of calculating the statutory ratio.]; and

(2) and by deleting subparagraph (C).

(13) By adding a new subsection (*) at the end as follows:

(*) Cease and Desist Authority.

(1) **Grounds for Issuance.**--The Secretary may issue and serve upon the Association, the Holding Company, or any director or executive officer thereof a notice of charges if, in the opinion of the Secretary, the Association, Holding Company, any Subsidiary [add throughout], director, or executive officer--

(A) is engaging or has engaged, or the Secretary has reasonable cause to believe that the Association, the Holding Company, director, or executive officer is about to engage, in an unsafe or unsound practice in conducting the business of the Association; or

(B) is violating or has violated, or the Secretary has reasonable cause to believe that the the Association, the Holding Company, director, or executive officer is about to violate any provision of this section or of section 440.

(2) Procedure.--

(A) Notice of Charges.--Any notice of charges shall contain a statement of the facts constituting the alleged violation or violations or the unsafe or unsound practice or practices, and shall fix a time and place at which a hearing will be held to determine whether an order to cease and desist therefrom should issue against the Association, the Holding Company, director, or executive officer.

(B) Date of Hearing.--Such hearing shall be fixed for a date not earlier than 30 days nor later than 60 days after service of such notice unless an earlier or a later date is set by the Secretary at the request of any party served.

(C) Failure to Appear Constitutes Consent.--Unless the party or parties so served appear at the hearing personally or by a duly authorized representative, such party or parties shall be deemed to have consented to the issuance of the cease-and-desist order.

(D) Issuance of Order.--In the event of such consent, or if, upon the record made at any such hearing, the Secretary shall find that any violation or unsafe or unsound practice specified in the notice of charges has been established, the Secretary may issue and serve upon the Association, the Holding Company, director, or executive officer an order requiring the Association, Holding Company, director, or executive officer to cease and desist from any such violation or practice and to take affirmative action to correct the conditions resulting from any such violation or practice.

(3) Authority to Limit Activities.--The authority to issue an order under this subsection or subsection (**) includes the authority to place limitations on the activities or functions of the Association, the Holding Company, or any director or executive officer thereof.

(4) Effective Date.--A cease-and-desist order shall become effective at the expiration of 30 days after the service of such order upon the Association, the Holding Company, director, or executive officer concerned (except in the case of a cease-and-desist order issued upon consent, which shall become effective

at the time specified therein), and shall remain effective and enforceable as provided therein, except to such extent as it is stayed, modified, terminated, or set aside by action of the Secretary or a court of competent jurisdiction.

(14) By adding a new subsection (**) as follows:

(**) TEMPORARY CEASE-AND-DESIST ORDERS.

(1) Grounds for Issuance; Scope.--Whenever the Secretary determines that any violation, threatened violation, or unsafe or unsound practice, specified in the notice of charges served upon the Association, the Holding Company, director, or executive officer pursuant to subsection (*), or the continuation thereof, is likely--

(A) to cause insolvency or significant dissipation of assets or earnings of the Association, or

(B) to weaken the condition of the Association prior to the completion of the proceedings conducted pursuant to subsection (*),

the Secretary may issue a temporary order requiring the Association, or any director or executive officer thereof, to cease and desist from any such violation or practice and to take affirmative action to prevent or remedy such insolvency, dissipation, or condition pending completion of such proceedings.

(2) Effective Date.--An order issued pursuant to

paragraph (1) shall become effective upon service upon the Association, Holding Company, director, or executive officer and, unless set aside, limited, or suspended by a court in proceedings authorized by subsection (?), shall remain effective and enforceable pending the completion of the proceedings pursuant to such notice and shall remain effective until such time as the Secretary dismisses the charges specified in such notice or until superseded by a cease-and-desist order issued pursuant to subsection (*).

(3) Incomplete or Inaccurate Records.--

(A) Temporary Order.--If a notice of charges served under subsection (*) specifies that the Association's books and records are so incomplete or inaccurate that the Secretary is unable, through the normal supervisory process, to determine the financial condition of that enterprise or the details or the purpose of any transaction or transactions that may have a material effect on the financial condition of that enterprise, the Secretary may issue a temporary order requiring--

a. the cessation of any activity or practice which gave rise, whether in whole or in part, to the incomplete or inaccurate state of the books or records; or

b. affirmative action to restore such books or records to a complete and accurate state, until the completion of the proceedings under subsection (*).

(B) Effective Period.--Any temporary order issued under subparagraph (A)--

(i) shall become effective upon service; and

(ii) unless set aside, limited, or suspended by a court in proceedings under subsection (d), shall remain in effect and enforceable until the earlier of--

(1) the completion of the proceeding initiated under subsection (*) in connection with the notice of charges; or

(2) the date the Secretary determines, by examination or otherwise, that the enterprise's books and records are accurate and reflect the financial condition of the Association.

(4) Judicial review.--Within 10 days after the Association, the Holding Company, director, or executive officer has been served with a temporary cease-and-desist order pursuant to this section, the Association, or any director or executive officer thereof, may apply to the United States district court for the judicial district in which the home office of the Association is located, or the United States District Court for the District of Columbia, for an injunction setting aside, limiting, or suspending the

enforcement, operation, or effectiveness of such order pending the completion of the administrative proceedings pursuant to the notice of charges served upon the enterprise, director, or executive officer under section 141(a), and such court shall have jurisdiction to issue such injunction.

(5) Enforcement.--In the case of violation or threatened violation of, or failure to obey, a temporary order issued pursuant to this section, the Secretary may, with the prior consent of the Attorney General and subject to the Attorney General's direction and control, apply to the United States district court for the judicial district in which the home office of the Association is located, or the United States District Court for the District of Columbia for an injunction to enforce such order, and, if the court finds any such violation, threatened violation, or failure to obey, it shall issue such injunction.

(b) Section 439 of the Higher Education Act of 1965 (20 U.S.C. 1001 et seq., hereinafter referred to as "the Act") is 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;

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

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

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

(E) 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 Student 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.

"(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) Notwistanding any other provision in this part, the Secretary shall pay the Association a fee, in an amount established by the Secretary, for making 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 subsections (r) and (s) as subsections (t) and (u), respectively; and

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

"(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 Student 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.

"(4) Notwithstanding any other provision in this part, the Secretary shall pay the Association a fee, in an amount established by the Secretary, 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."

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

"SEC. 441. (a) ADVANCES AUTHORIZED; PURPOSES.--The Secretary is authorized to make advances to one or more secondary markets described in subsection (b) from funds specified in subsection (c) to enable such secondary market to--

"(1) make loans as the lender-of-last-resort on terms consistent with the provisions in section 439 (q) (2) (including fees in lieu of interest and special allowances subsidies, and assignment on demand) regarding lender-of-last-resort loans by the Student Loan Marketing Association; or

"(2) purchase loans made under this part that are insured by a guaranty agency on terms consistent with the provisions in section 439 (r) (including fees in lieu of interest and special allowance subsidies, and assignment on demand) regarding such purchases by the Student Loan Marketing Association.

"(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)" 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. 5. REPEAL OF SECTION 439

Section 439 of Part B of Title IV of the Higher Education Act shall be repealed as of the Dissolution Date.

SEC. 6. EFFECTIVE DATE.

Except as otherwise indicated herein, the amendments made by this Act shall take effect on [__________].

STUDENT LOAN MARKETING ASSOCIATION PRIVATIZATION FIVE-YEAR ANALYSIS

DETERMINED TO BE AN ADMINISTRATIVE MARKING
INITIALS: RLCR DATE: 03/04/11
2011-0255-S

May 12, 1994

CONFIDENTIAL

This document contains confidential and proprietary business information and numerous assumptions that are subject to change based on economic, strategic, or other considerations.

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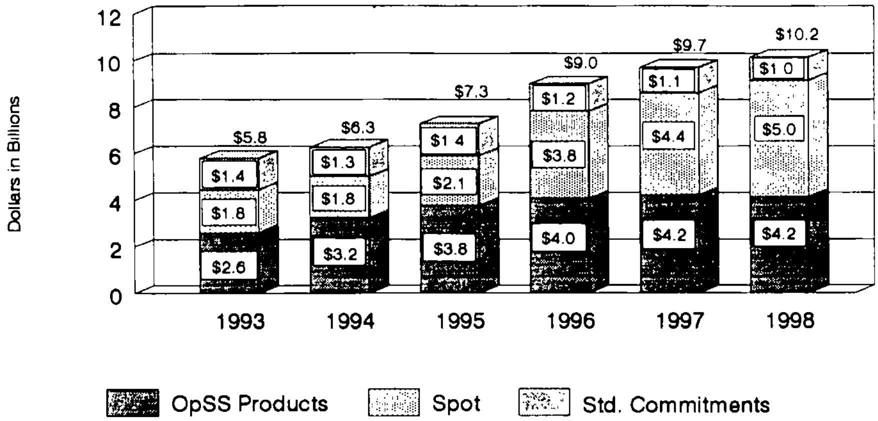
SECTION A:

BASE CASE

STUDENT LOAN MARKETING ASSOCIATION
STUDENT LOAN ACTIVITY
1993–1998

VOLUME SOURCES



LOAN ACTIVITY:

(in millions)	1993	1994	1995	1996	1997	1998
Loan Purchases	$5,795	$6,267	$7,287	$9,000	$9,705	$10,160
Loan Consolidations	380	470	520	570	610	640
Total Purchases	6,175	6,737	7,807	9,570	10,315	10,800
Capitalized Interest	477	560	640	760	820	850
Runoff	4,024	4,421	4,912	5,524	6,362	7,385
Net Increase	$2,628	$2,876	$3,535	$4,806	$4,773	$4,265
Gross Ending Balance	$26,783	$29,659	$33,194	$38,000	$42,773	$47,038

OTHER STATISTICS:

	1993	1994	1995	1996	1997	1998
% Loan Balance Subject to Offset Fee	8%	26%	39%	50%	58%	62%
% Loan Balance Subject to Floor Benefit	67%	58%	47%	36%	28%	25%
% Student Loan Portfolio Growth	11%	11%	12%	14%	13%	10%
Sallie Mae Market Share:						
Purchases as % of Available Outstandings	14%	13%	16%	21%	23%	24%
FFELP owned as % of Outstandings	35%	35%	39%	44%	47%	50%
FFELP Outstanding (in billions):						
Sallie Mae	$23.8	$26.3	$29.5	$34.0	$38.5	$42.6
Lenders and Other Secondaries	44.2	48.8	46.8	44.0	43.9	43.0
Total FFELP Outstanding	$68.0	$75.0	$76.3	$78.1	$82.4	$85.5
ExportSS:						
Dollars Originated (in millions)	$2,442	$2,685	$2,958	$3,272	$4,000	$4,300
% Growth	30%	10%	10%	11%	22%	8%

STUDENT LOAN MARKETING ASSOCIATION
BASE CASE ASSUMPTIONS
1993 – 1998

Program Assets

- o During this period Warehousing Advances grow by $3.0 billion ($1.0 billion from Agency Finance and $2.0 billion primarily from the ECAP program).
- o The Facilities balance grows at a rate of 16 percent per year from $1.8 billion in 1994 to $2.9 billion in 1998, earning spreads of 65 basis points on taxable loans (3 year life) and 225 basis points on tax-exempt loans (8 year life). Seventy percent of the growth comes from the tax-exempt portfolio.
- o Letter of Credit income in the Agency Finance market increases from $11.3 million in 1994 to $16.5 million by 1998.

Investment Portfolio

- o Portfolio balances are maintained at 1994 levels of $9.0 billion with spreads declining from 43 basis points in 1994 to 24 basis points by 1998 due to the less favorable LIBOR funding environment.

Cost of Funds

- o Term T-Bill cost of funds rises from 1994 Plan of 22 basis points to 47 basis points by 1998 while the average term remains at four years. LIBOR cost of funds rises from (30) basis points to (25) basis points by 1998.

Operating Expenditures

- o Operating Expenditures rise 5% annually over the 1994 base of $114.1 million (before Cybermark costs).

Capital

- o Dividends remain at $1.40 per year to maintain a dividend payout ratio of 25%.

STUDENT LOAN MARKETING ASSOCIATION
EARNINGS ANALYSIS
1993 – 1998

	Net income (Dollars in millions)					
	1993	1994	1995	1996	1997	1998
BASE EARNINGS	$390.1	$382.7	$386.3	$430.8	$477.9	$525.2
STUDENT LOAN SPREAD REDUCTIONS						
Legislative changes						
Offset fee	(0.8)	(9.3)	(19.5)	(30.2)	(41.4)	(51.4)
Special allowance reduction	–	–	(0.3)	(6.7)	(14.4)	(20.7)
Consolidation loan rebate	(0.3)	(5.2)	(12.0)	(19.7)	(27.9)	(36.4)
Consolidation loan origination fee	(0.8)	(3.3)	(3.7)	(3.8)	(4.0)	(4.2)
Default risk sharing	–	–	(1.7)	(5.2)	(10.7)	(17.2)
Subtotal	(2.0)	(17.8)	(37.3)	(65.7)	(98.4)	(129.9)
Product related borrower benefits	(3.0)	(7.5)	(11.9)	(15.9)	(20.1)	(24.1)
RUNNING RATE, BEFORE FLOOR EARNINGS	385.1	357.4	337.2	349.2	359.4	371.2
FLOORS EARNED AT PLAN T-BILL	45.0	96.9	57.9	22.5	7.6	0.0
NET INCOME	$430.1	$454.3	$395.1	$371.7	$367.0	$371.2

OTHER STATISTICS:

	1993	1994	1995	1996	1997	1998
ROA	0.97%	0.96%	0.77%	0.66%	0.60%	0.55%
ROE	40.26%	33.50%	29.10%	26.14%	23.16%	21.20%
CORE MARGIN (before floor income)	1.59%	1.43%	1.24%	1.18%	1.11%	1.05%
CAPITAL RATIO	2.75%	3.04%	2.75%	2.75%	2.75%	2.75%
T-BILL	3.08%	3.50%	4.50%	5.00%	5.50%	6.00%

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF INCOME
1993 – 1998
(Dollars in millions)

	1993	1994	1995	1996	1997	1998
Interest income on loans:						
Insured student loans	$1,941.9	$2,080.6	$2,466.7	$2,754.8	$3,243.2	$3,771.7
Deferred income	(20.2)	(20.7)	(23.2)	(26.3)	(29.8)	(33.2)
Premium amortization	(42.7)	(49.1)	(56.7)	(66.6)	(83.6)	(101.9)
ExportSS costs	(35.9)	(55.3)	(61.8)	(66.4)	(76.0)	(79.3)
Servicing costs	(199.6)	(220.0)	(248.7)	(273.5)	(307.9)	(334.0)
Insured student loans, net	1,643.4	1,735.5	2,076.3	2,322.0	2,746.0	3,223.3
Warehousing advances	302.5	320.3	467.8	509.7	583.1	695.9
Academic facilities financings	71.0	104.4	128.8	139.8	164.2	188.2
Total interest income on loans	2,017.0	2,160.2	2,672.9	2,971.6	3,493.2	4,107.3
Student loan revenue bonds	31.3	26.6	17.9	15.9	12.9	9.6
Income from investments	348.1	428.7	529.6	566.7	622.4	682.2
Total interest income	2,396.3	2,615.6	3,220.4	3,554.2	4,128.6	4,799.1
Interest expense	1,692.1	1,859.2	2,556.0	2,924.2	3,510.5	4,178.7
NET INTEREST INCOME	704.3	756.4	664.4	630.1	618.0	620.5
Other operating income	21.1	13.2	14.7	16.1	17.7	19.5
Operating expenses:						
Salaries and employee benefits	62.3	64.7	68.0	70.9	73.2	76.0
Other	47.1	54.9	53.4	55.7	57.5	59.7
Total operating expenses	109.4	119.7	121.4	126.6	130.7	135.7
Income before tax	616.0	649.9	557.6	519.6	505.1	504.2
Federal income tax	186.0	195.6	162.6	147.9	138.1	133.0
NET INCOME	$430.0	$454.3	$395.1	$371.7	$367.0	$371.2
Net income	430.0	454.3	395.1	371.7	367.0	371.2
Preferred stock dividend	10.7	10.7	10.7	10.7	10.7	10.7
Earnings available for common stockholders	$419.4	$443.6	$384.4	$361.0	$356.3	$360.5

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED BALANCE SHEETS
1993 – 1998
(Dollars in millions)

	1993	1994	1995	1996	1997	1998
ASSETS						
Loans:						
Insured student loans, net	$26,804	$29,671	$33,168	$37,943	$42,669	$46,868
Warehousing advances						
Taxable	6,906	7,463	8,005	8,676	9,554	10,505
Tax–exempt	128	128	122	122	55	55
Total warehousing advances	7,034	7,591	8,126	8,798	9,608	10,559
Academic facilities financings	1,359	1,787	2,307	2,151	2,558	2,912
Total loans	35,197	39,049	43,601	48,892	54,835	60,339
Student loan revenue bonds	532	299	279	241	184	141
Other investments	9,712	10,610	10,203	10,242	10,273	10,359
Other assets	1,068	987	1,281	1,364	1,523	1,727
Total assets	$46,509	$50,945	$55,364	$60,738	$66,814	$72,566
LIABILITIES						
Short–term notes	$13,619	$10,137	$16,511	$18,648	$25,707	$26,060
Long–term notes	30,925	38,322	36,014	39,017	37,773	42,911
Other liabilities	685	937	1,318	1,404	1,498	1,601
Total liabilities	45,229	49,396	53,842	59,069	64,979	70,572
STOCKHOLDERS' EQUITY						
Preferred stock	214	214	214	214	214	214
Voting common stock	25	25	25	25	25	25
Additional paid–in capital	524	524	524	524	524	524
Retained earnings	2,064	2,395	2,678	2,945	3,210	3,482
Unrealized gain on stripped treasuries	–	334	334	334	334	334
Common stock held in Treasury	1,546	1,943	2,252	2,372	2,471	2,584
Total stockholders' equity	1,280	1,549	1,522	1,669	1,835	1,994
Total liabilities and stockholders' equity	$46,509	$50,945	$55,364	$60,738	$66,814	$72,566

STUDENT LOAN MARKETING ASSOCIATION

BASE CASE

- Liquidation value is calculated below at various discount rates:

Discount Rate	Present Value Per Common Share
7.00%	$42
8.00%	40
9.00%	37
10.00%	35

Year	Net Income	Assets	2.75% Capital	Return To Shareholders
1994	$444	$51,000	$1,549	$295
1995	384	55,400	1,524	410
1996	361	60,700	1,669	215
1997	356	66,800	1,837	188
1998	361	72,500	1,994	204
1999	440	65,400	1,799	635
2000	389	59,600	1,639	549
2001	355	55,700	1,532	462
2002	324	51,000	1,403	453
2003	282	45,700	1,257	428
2004	236	40,100	1,103	390
2005	187	34,200	941	349
2006	132	27,700	762	311
2007	98	26,300	723	137
2008	89	25,000	688	125
2009	83	21,000	578	193
2010	67	16,800	462	183
2011	50	12,600	347	166
2012	33	8,400	231	380

SECTION B:

PRIVATIZATION SCENARIO

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ASSUMPTIONS
1993 – 1998

Structure/Equity Requirements

- o The creation of a holding company with a GSE and non-GSE subsidiary occurs January 1, 1995. At this point GSE liabilities are no longer issued.

- o After this date, assets in excess of GSE liabilities are transferred to the non-GSE subsidiary. Equity in the GSE is maintained at the legislated capital ratio of 2.00%. The remaining equity is transferred to the non-GSE subsidiary where a capital ratio of approximately 5.00% is maintained. Assets are transferred as GSE liabilities mature.

Asset Levels

- o The 30 basis point offset fee is no longer due on loans purchased by the non-GSE subsidiary.

- o Warehousing Advances decline as the increased cost of funds limits lending opportunities, with the exception of loans to colleges and agencies. We estimate maintaining a portfolio of loans to these entities of $2 billion, earning at a spread of 50 basis points.

- o Net new Facilities Financings volume is estimated at $300 million per year.

- o Currently, tax-exempt assets are governed by equity. Under privatization, holdings of tax-exempt assets are limited to 2% of total assets.

- o The Investment Portfolio is maintained for liquidity purposes only, at a spread of 20 basis points.

Funding Costs

- o In the current market environment, there is an approximately 40 basis point spread differential between Corporate and GSE debt issuances with similiar terms. However, this incremental cost is mitigated by the removal of the offset fee (30 basis points).

Other

- o Operating expenses rise 5% annually over the 1994 base.

- o State taxes are paid by the non-GSE subsidiary at 6%.

- o The following statements consolidate the non-GSE and GSE into one entity for reporting purposes.

STUDENT LOAN MARKETING ASSOCIATION
EARNINGS ANALYSIS
1993 – 1998

	Net income (Dollars in millions)					
	1993	1994	1995	1996	1997	1998
BASE EARNINGS	$390.1	$382.7	$386.3	$430.8	$477.9	$525.2
STUDENT LOAN SPREAD REDUCTIONS						
Legislative changes						
Offset fee	(0.8)	(9.3)	(19.5)	(30.2)	(41.4)	(51.4)
Special allowance reduction	–	–	(0.3)	(6.7)	(14.4)	(20.7)
Consolidation loan rebate	(0.3)	(5.2)	(12.0)	(19.7)	(27.9)	(36.4)
Consolidation loan origination fee	(0.8)	(3.3)	(3.7)	(3.8)	(4.0)	(4.2)
Default risk sharing	–	–	(1.7)	(5.2)	(10.7)	(17.2)
Subtotal	(2.0)	(17.8)	(37.3)	(65.7)	(98.4)	(129.9)
Product related borrower benefits	(3.0)	(7.5)	(11.9)	(15.9)	(20.1)	(24.1)
PRIVATIZATION CHANGES						
Lower Assets			(23.7)	(25.1)	(30.3)	(38.8)
Reduction of offset fee			5.5	18.8	32.4	44.4
Cost of funds			(6.6)	(21.9)	(41.5)	(65.7)
State tax			(3.7)	(8.7)	(11.7)	(14.0)
Subtotal			(28.4)	(36.9)	(51.1)	(74.2)
RUNNING RATE, BEFORE FLOOR EARNINGS	385.1	357.4	308.7	312.2	308.3	297.0
FLOORS EARNED AT PLAN T-BILL	45.0	96.9	57.9	22.5	7.6	0.0
NET INCOME	$430.1	$454.3	$366.6	$334.8	$315.8	$297.0

OTHER STATISTICS:

	1993	1994	1995	1996	1997	1998
ROA	0.97%	0.96%	0.88%	0.78%	0.66%	0.57%
ROE	40.26%	33.50%	24.35%	19.02%	15.87%	13.51%
CORE MARGIN (before floor income)	1.59%	1.43%	1.45%	1.44%	1.31%	1.18%
CAPITAL RATIO	2.75%	3.04%	4.26%	4.25%	4.26%	4.27%
T-BILL	3.08%	3.50%	4.50%	5.00%	5.50%	6.00%

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF INCOME
1993 – 1998
(Dollars in millions)

	1993	1994	1995	1996	1997	1998
Interest income on loans:						
Insured student loans	$1,941.9	$2,080.6	$2,475.1	$2,788.8	$3,302.0	$3,854.9
Deferred income	(20.2)	(20.7)	(23.2)	(26.3)	(29.8)	(33.2)
Premium amortization	(42.7)	(49.1)	(56.7)	(66.6)	(83.6)	(101.9)
ExportSS costs	(35.9)	(55.3)	(61.8)	(67.2)	(77.4)	(81.7)
Servicing costs	(199.6)	(220.0)	(248.7)	(277.7)	(315.5)	(346.6)
Insured student loans, net	1,643.4	1,735.5	2,084.8	2,351.0	2,795.8	3,291.6
Warehousing advances	302.5	320.3	294.6	126.9	138.0	146.0
Academic facilities financings	71.0	104.4	121.1	124.2	128.5	128.9
Total interest income on loans	2,017.0	2,160.2	2,500.5	2,602.1	3,062.2	3,566.5
Student loan revenue bonds	31.3	26.6	17.9	15.9	12.9	9.6
Income from investments	348.1	428.7	181.1	236.3	263.8	275.8
Total interest income	2,396.3	2,615.6	2,699.4	2,854.3	3,338.9	3,851.8
Interest expense	1,692.1	1,859.2	2,061.6	2,251.2	2,753.4	3,282.3
NET INTEREST INCOME	704.3	756.4	637.8	603.1	585.5	569.5
Other operating income	21.1	13.2	7.4	8.1	8.9	9.7
Operating expenses:						
Salaries and employee benefits	62.3	64.7	68.0	70.9	73.2	76.0
Other	47.1	54.9	53.4	55.7	57.5	59.7
Total operating expenses	109.4	119.7	121.4	126.6	130.7	135.7
Income before tax	616.0	649.9	523.7	484.6	463.6	443.5
Federal income tax	186.0	195.6	157.1	149.8	147.8	146.5
NET INCOME	$430.0	$454.3	$366.6	$334.8	$315.8	$297.0
Net income	430.0	454.3	366.6	334.8	315.8	297.0
Preferred stock dividend	10.7	10.7	10.7	10.7	10.7	10.7
Earnings available for common stockholders	$419.4	$443.6	$356.0	$324.1	$305.1	$286.3

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION BALANCE SHEET
1994 – 1998

GSE

	1994	1995	1996	1997	1998
Student Loans	$29,670	$29,328	$24,349	$16,240	$6,874
Advances	7,591	2,075	0	0	0
Facilities	1,787	0	0	0	0
Investments	10,610	200	200	200	200
Student Loan Revenue Bonds	300	0	0	0	0
Receivables	987	1,044	727	509	235
Total Assets	$50,945	$32,647	$25,276	$16,949	$7,308
Existing Debt (Pre 1/01/94)	$26,751	$16,165	$9,855	$3,939	$771
New Debt (1994 issues)	21,708	14,675	14,151	12,151	6,151
Payables	937	1,154	765	520	240
Stockholders' Equity	1,549	653	506	339	146
Total Liabilities and Stockholders' Equity	$50,945	$32,647	$25,276	$16,949	$7,308
Capital Ratio	3.04%	2.00%	2.00%	2.00%	2.00%

NEWCORP

	1995	1996	1997	1998
Student Loans	$3,840	$13,594	$26,429	$39,995
Advances	47	2,122	2,055	2,055
Facilities	1,821	1,816	1,815	1,810
Investments	3,422	4,129	4,198	4,041
Student Loan Revenue Bonds	279	241	184	141
Receivables	237	637	1,014	1,492
Total Assets	$9,646	$22,538	$35,694	$49,533
Debt	$8,331	$20,371	$32,815	$45,893
Payables	164	640	978	1,361
Stockholders' Equity	1,150	1,527	1,901	2,279
Total Liabilities and Stockholders' Equity	$9,646	$22,538	$35,694	$49,533
Capital Ratio	11.93%	6.78%	5.33%	4.60%

COMBINED

	1994	1995	1996	1997	1998
Student Loans	$29,670	$33,168	$37,943	$42,669	$46,868
Advances	7,591	2,122	2,122	2,055	2,055
Facilities	1,787	1,821	1,816	1,815	1,810
Investments	10,610	3,622	4,329	4,398	4,241
Student Loan Revenue Bonds	300	279	241	184	141
Receivables	987	1,281	1,364	1,523	1,727
Total Assets	$50,945	$42,292	$47,814	$52,643	$56,841
Existing Debt	$26,751	$16,165	$9,855	$3,939	$771
New Debt	21,708	23,006	34,522	44,966	52,044
Payables	937	1,318	1,404	1,498	1,601
Stockholders' Equity	1,549	1,803	2,033	2,240	2,425
Total Liabilities and Stockholders' Equity	$50,945	$42,292	$47,814	$52,643	$56,841
Capital Ratio	3.04%	4.26%	4.25%	4.26%	4.27%

STUDENT LOAN MARKETING ASSOCIATION

EXISTING BUSINESS

- The following schedule lays out the cash flows on the existing student loan business and identifies the available capital for new businesses:

Year	Net Income	Assets	Required Capital	Shareholder Dividend Paid	Shareholder Capital Invested
1994	$444	$51,000	$1,549	$112	$0
1995	357	42,300	1,803	103	0
1996	325	47,800	2,033	95	0
1997	306	52,600	2,240	99	0
1998	287	56,900	2,425	99	0
1999	389	48,400	2,420	97	297
2000	339	44,200	2,210	85	464
2001	302	41,200	2,060	76	377
2002	277	37,400	1,870	69	398
2003	236	32,300	1,615	59	432
2004	198	26,900	1,345	50	419
2005	148	21,200	1,060	37	396
2006	94	15,000	750	24	381
2007	61	13,700	685	15	111
2008	53	12,700	635	13	90
2009	42	10,064	503	11	163
2010	31	7,428	371	8	155
2011	21	5,032	252	5	136
2012	10	2,396	120	3	259

STUDENT LOAN MARKETING ASSOCIATION

NEW BUSINESSES

o Capital available from the existing business is invested to attain a 15% ROE, which generates the following earnings:

Year	Net Income	Common Dividend
1994	$0	$0
1995	0	0
1996	0	0
1997	0	0
1998	0	0
1999	0	0
2000	0	0
2001	45	7
2002	114	17
2003	176	26
2004	251	38
2005	338	51
2006	433	65
2007	535	80
2008	647	97
2009	732	110
2010	828	124
2011	946	142
2012	1,075	161

STUDENT LOAN MARKETING ASSOCIATION

TOTAL ENTITY

Discount Rate	Present Value Per Common Share
7.00%	$47
8.00%	41
9.00%	36
10.00%	31

Year	Net Income	Common Dividend
1994	$444	$112
1995	357	103
1996	325	95
1997	306	99
1998	287	99
1999	389	97
2000	339	85
2001	347	83
2002	391	86
2003	412	85
2004	449	88
2005	486	88
2006	527	89
2007	596	95
2008	700	110
2009	774	121
2010	859	132
2011	967	147
2012	1,085	164

Net Income Growth Rate
6%
−20%
−9%
−6%
−6%
36%
−13%
2%
13%
5%
9%
8%
8%
13%
17%
11%
11%
13%
12%

Bill Galston

STUDENT LOAN MARKETING ASSOCIATION

DETERMINED TO BE AN
ADMINISTRATIVE MARKING
INITIALS: RLCR DATE: 03/04/11
2011-0255-S

May 12, 1994

~~CONFIDENTIAL~~

This document has been prepared by Sallie Mae for the exclusive purpose of discussions with representatives of the Department of the Treasury and other select federal officials. It contains confidential and proprietary business information and numerous assumptions that are subject to change based on economic, strategic, or other considerations.

STUDENT LOAN MARKETING ASSOCIATION

BACKGROUND

- Direct loans will be funding some 60 percent of all new student loans by 1998. At this point, there will be an estimated $85 billion of FFELP loans outstanding.

- Rising rates will eliminate floor income.

- The appendix document focuses solely on Sallie Mae's current business. A brief discussion of new products and services will occur at the end of this presentation.

STUDENT LOAN MARKETING ASSOCIATION

STUDENT LOAN VOLUMES

- Student loan purchases are projected at $45.2 billion over the five year period.

- At year–end 1998, Sallie Mae owns 50 percent of outstanding FFELP loans.

STUDENT LOAN MARKETING ASSOCIATION

STUDENT LOAN YIELDS

- Student loan yields will be reduced by nearly one–third due to:
  - 30 basis point offset fee (8/93),
  - 2 percent risk sharing (10/93),
  - 50 basis point loan origination fees (10/93),
  - 60 basis point reduction in interim SAP (7/95).

STUDENT LOAN MARKETING ASSOCIATION

OTHER ASSUMPTIONS

- Servicing fees decline slightly from 79 basis points of average loan balance in 1994 to 75 basis points by 1998.

- Base General and Administrative costs increase 5 percent per year through 1998.

BASE CASE

STUDENT LOAN MARKETING ASSOCIATION

BASE CASE: LIQUIDATION

- Direct loan implementation is 100 percent after 1998. Assets mature annually until final pay out in 2013.
- $5.7 billion of existing FFELP loans (15 percent of the $45 billion loans available) are purchased from 1999–2001.
- Warehousing Advances decline as the total FFELP loans held by lenders pay off.
- Investment Portfolio, ECAP advances and facilities volume remain outstanding until liquidation.
- Equity is maintained at 2.75 percent of assets, distributing dividends to shareholders as assets decline.
- General and administrative costs drop to a maintenance level, then continue to decline 5 percent per year.

STUDENT LOAN MARKETING ASSOCIATION

BASE CASE

o Liquidation value is calculated below at various discount rates:

Discount Rate	Present Value Per Common Share
7.00%	$41
8.00%	38
9.00%	36
10.00%	34

Year	Net Income	Assets	2.75% Capital	Return To Shareholders
1994	$398	$51,000	$1,549	$249
1995	326	55,400	1,524	352
1996	338	60,700	1,669	192
1997	348	66,800	1,837	180
1998	361	72,500	1,994	204
1999	440	65,400	1,799	635
2000	389	59,600	1,639	549
2001	355	55,700	1,532	462
2002	324	51,000	1,403	453
2003	282	45,700	1,257	428
2004	236	40,100	1,103	390
2005	187	34,200	941	349
2006	132	27,700	762	311
2007	98	26,300	723	137
2008	89	25,000	688	125
2009	83	21,000	578	193
2010	67	16,800	462	183
2011	50	12,600	347	166
2012	33	8,400	231	380

PRIVATIZATION

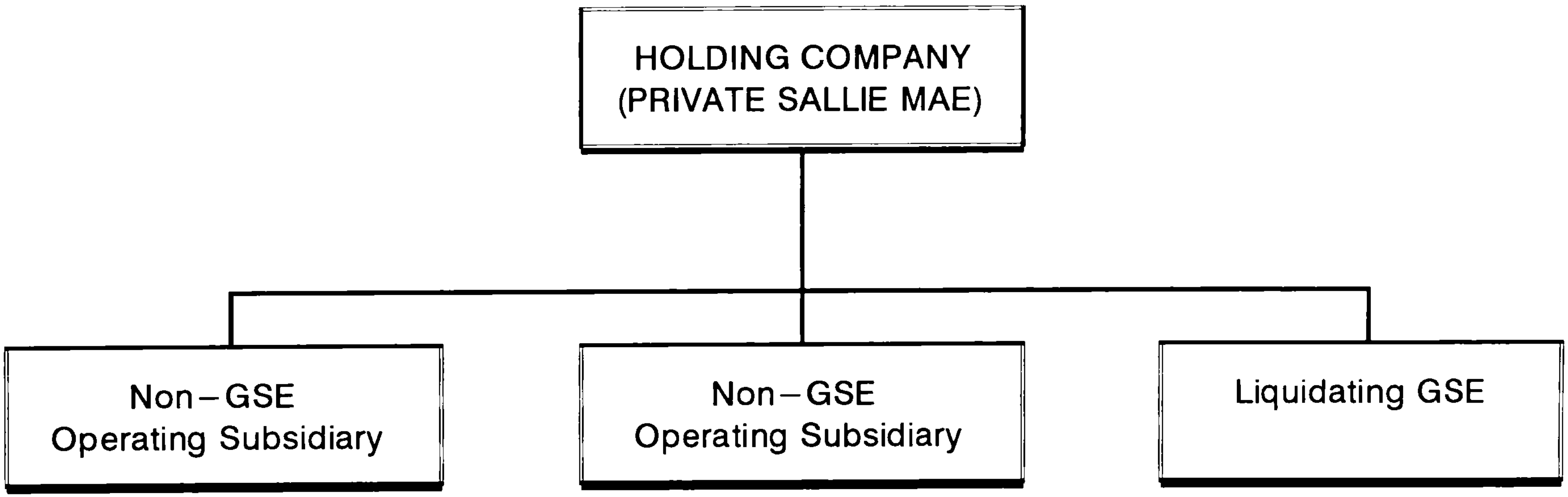
STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

OBJECTIVES

- Protect GSE bondholders.
- Create new investor base.
- Introduce diversification strategy.
- Maintain/increase FFELP support.
- Successful Privatization.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

HOLDING COMPANY STRUCTURE



STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

HOLDING COMPANY MODEL

- Create new state–chartered company.
- Exchange GSE shares for Newco shares.
- Preserve GSE as controlled subsidiary subject to existing charter limits.
- Segregate capital and old/new businesses.
- Transfer personnel and non–financial assets.
- Intercompany contracts.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

PROCESS

- Legislative process
- Shareholder approval/"IPO".
- 5 year transition period.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

ASSETS

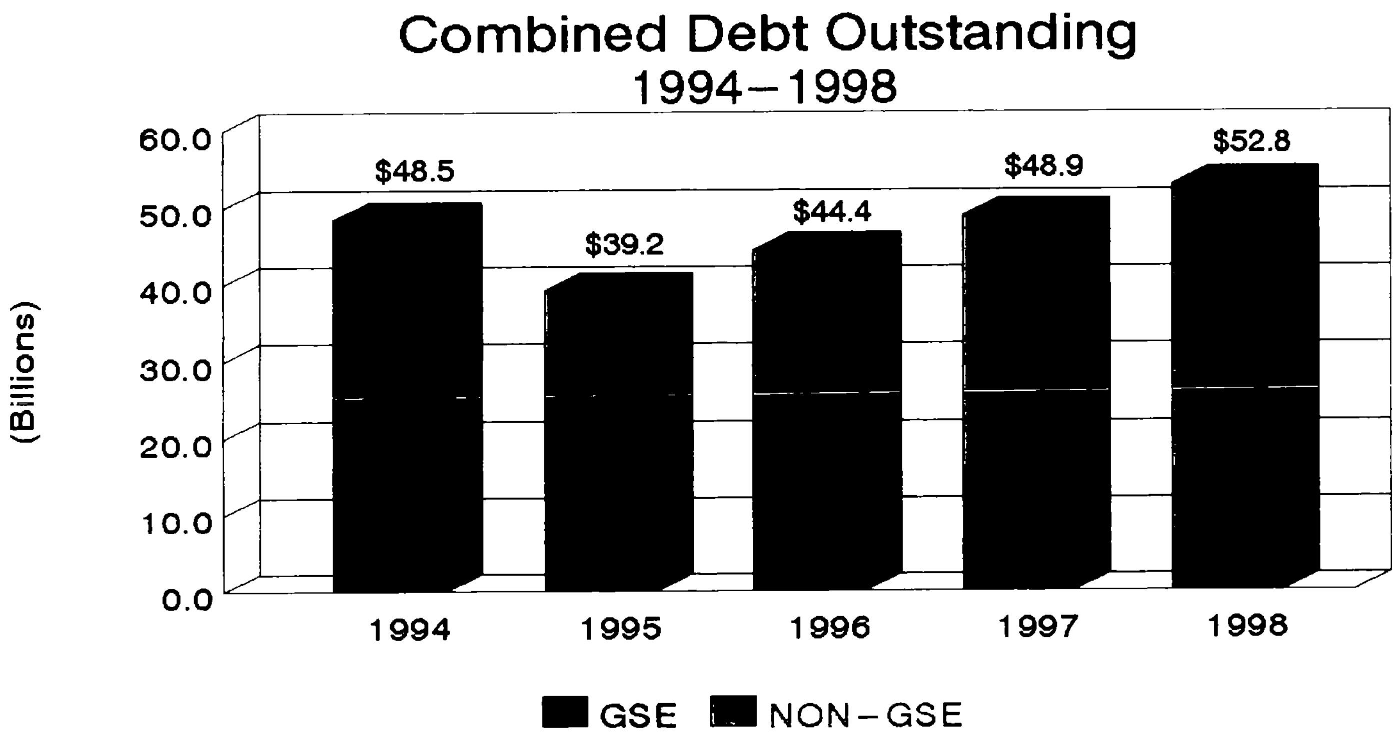
- Warehousing advance business, which relies on credit spreads, will be significantly downsized.
- Academic Facilities Financing growth continues.
- The investment portfolio declines substantially. The spread declines to 20 basis points.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

FUNDING COSTS

- This plan assumes, on average, higher funding costs on AA rated Corporate versus GSE debt issuances with similar terms.
- Assuming an average maturity of 2 years, $73 billion of funding is required over the 4 year period.
- The offset fee is no longer due on loans purchased by the non-GSE subsidiary.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS



STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

CAPITAL ADEQUACY

- Equity in the GSE is maintained in accordance with safety and soundness regulations.
- A minimum capital ratio of 5 percent in the non–GSE is required to support a targeted AA credit rating.
- Elimination of the investment portfolio and credit based products helps create capital.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS
(dollars in millions)

CAPITAL ANALYSIS

		Capital Ratios	
		All-In	Non-GSE
Capital at 1/1/95	$ 1,549	3.04%	–
Earnings Net of Preferred Dividends	1,186		
Potential Capital at 12/31/98	2,735	4.81%	5.23%
Common Dividends	(297)		
Projected Capital at 12/31/98	$ 2,438	4.29%	4.63%

STUDENT LOAN MARKETING ASSOCIATION

EXISTING BUSINESS

- The following schedule lays out the cash flows on the existing student loan business and identifies the available capital for new businesses:

Year	Net Income	Assets	Required Capital	Shareholder Dividend Paid	Shareholder Capital Invested
1994	$398	$51,000	$1,549	$112	$0
1995	299	42,300	1,773	75	0
1996	302	47,800	2,000	75	0
1997	298	52,600	2,223	75	0
1998	287	56,900	2,438	72	0
1999	389	48,400	2,420	97	310
2000	339	44,200	2,210	85	464
2001	302	41,200	2,060	76	377
2002	277	37,400	1,870	69	398
2003	236	32,300	1,615	59	432
2004	198	26,900	1,345	50	419
2005	148	21,200	1,060	37	396
2006	94	15,000	750	24	381
2007	61	13,700	685	15	111
2008	53	12,700	635	13	90
2009	42	10,064	503	11	163
2010	31	7,428	371	8	155
2011	21	5,032	252	5	136
2012	10	2,396	120	3	259

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

INVESTMENT IN NEW BUSINESSES

- As an ongoing entity, we target reinvesting earnings to achieve a 15 percent return on equity. This is achieved through a mix of fee based services and asset driven spread products.

- Due to capital shortages, the ability to invest in new businesses is limited until 1999.

- A two-year time frame is required to attain the required return on the investment.

- 15 percent of these earnings are returned to the shareholder, the remainder is reinvested.

STUDENT LOAN MARKETING ASSOCIATION

NEW BUSINESSES

- o Capital available from the existing business is invested to attain a 15% ROE, which generates the following earnings:

Year	Net Income	Common Dividend
1994	$0	$0
1995	0	0
1996	0	0
1997	0	0
1998	0	0
1999	0	0
2000	0	0
2001	46	7
2002	116	17
2003	178	27
2004	253	38
2005	341	51
2006	436	65
2007	538	81
2008	651	98
2009	736	110
2010	833	125
2011	951	143
2012	1,080	162

STUDENT LOAN MARKETING ASSOCIATION

TOTAL ENTITY

Discount Rate	Present Value Per Common Share
7.00%	$44
8.00%	38
9.00%	33
10.00%	29

Year	Net Income	Common Dividend	Net Income Growth Rate
1994	$398	$112	−5%
1995	299	75	−25%
1996	302	75	1%
1997	298	75	−1%
1998	287	72	−4%
1999	389	97	36%
2000	339	85	−13%
2001	348	83	3%
2002	393	86	13%
2003	414	86	5%
2004	451	88	9%
2005	489	88	8%
2006	530	89	8%
2007	599	96	13%
2008	704	111	18%
2009	778	121	11%
2010	864	133	11%
2011	972	148	13%
2012	1,090	165	12%

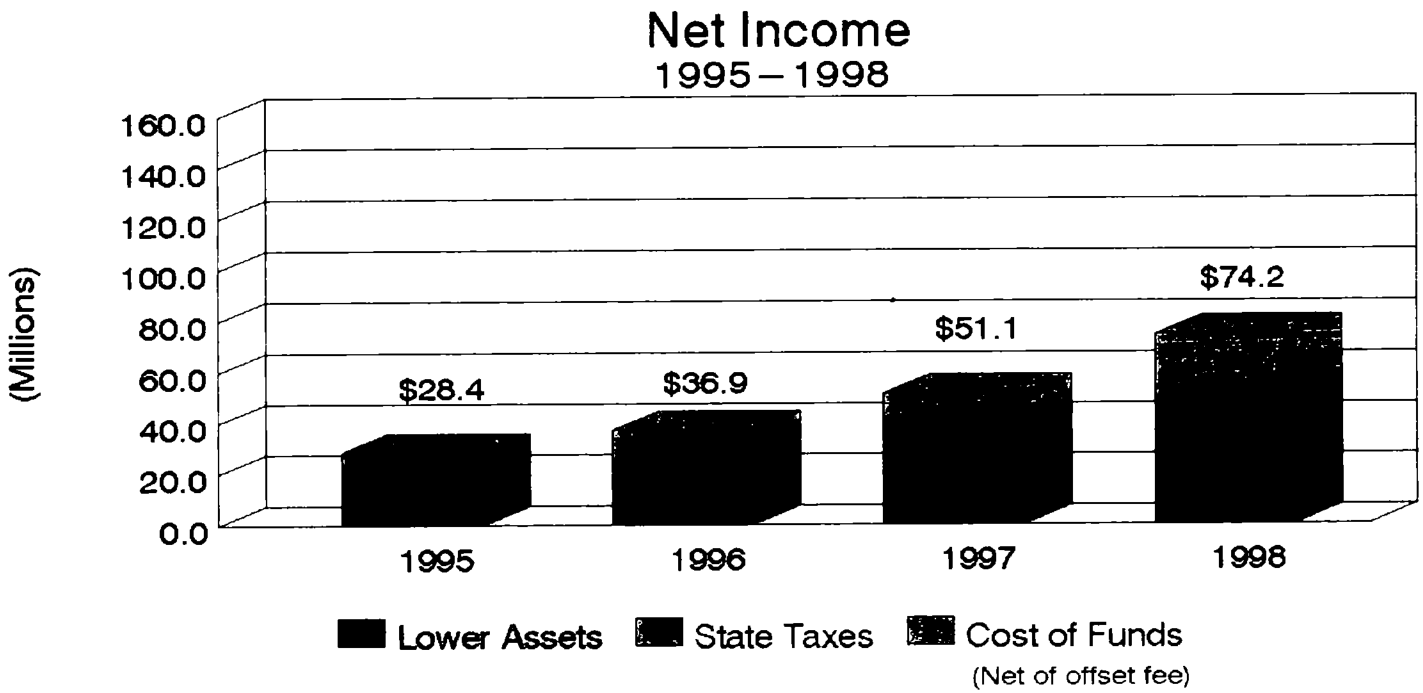
STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

SHAREHOLDER CONCERNS

- Higher capital requirements.
- Higher funding costs.
- What are "New Markets"?
- Reduction of legislative risk.
- Administration's committment to re-chartering.

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

Cost of Privatization



Total 4 year cost = $190.6 million

STUDENT LOAN MARKETING ASSOCIATION
PRIVATIZATION ANALYSIS

OTHER OPPORTUNITIES

- Securitization.
- Third party servicing/Other transaction related servicing.
- Broker/Dealer activities.
- Workforce training.
- Alternative loan products.

BERGER, SHAPIRO & DAVIS, P.A.
ATTORNEYS AT LAW
SUITE 400
100 NORTHEAST THIRD AVENUE
FORT LAUDERDALE, FLORIDA 33301

Telephone
(305) 525-9900

Facsimile
(305) 523-2872

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OA/Box Number: 7321

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Sallie Mae [2]

2011-0255-S
rc222

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]

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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]
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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

BERGER, SHAPIRO
& DAVIS, P.A.
ATTORNEYS AT LAW

October 26, 1994

VIA TELECOPIER AND FEDERAL EXPRESS

Mr. Harold Ickes
Deputy Chief of Staff
West Wing
The White House
Washington, D. C.

Mr. William Gallston
Domestic Policy Advisor
to the President
West Wing
The White House
Washington, D. C.

Mr. William Webster
Director of Presidential
Scheduling
West Wing
The White House
Washington, D.C.

Mr. Jack Quinn
Chief of Staff
Office of the Vice President
Old Executive Office Building
Washington, D.C.

Mr. Greg Simon
Chief Domestic Policy Advisor
to the Vice President
Office of the Vice President
Old Executive Office Building
Washington, D.C. 20050

Re: Worker Re-training

Gentlemen:

As I have discussed with each of you in turn, enclosed please find the same thoughts on worker re-training and the need for capital formation to enable our business to borrow money to re-train their workers to compete in the global economy. Sallie Mae can play a role in this private capital formation.

100 NORTHEAST THIRD AVENUE, SUITE 400, FORT LAUDERDALE, FLORIDA 33301
TELEPHONE (305) 525-9900, FACSIMILE (305) 523-2872

Bill Arceneaux, Chairman of the Board of Sallie Mae, is an enormous resource on this issue and I recommend you contact him directly should you have any questions on the enclosed material. His address and telephone number is as follows:

Mr. William Arceneaux
President
Louisiana Association of Independent
Colleges and Universities
650 North 10th Street
Baton Rouge, LA 70802-4507
Telephone: 504-389-9885
Telecopier: 504-389-0149

As always, feel free to contact me directly should you have any questions or comments.

Very truly yours,

Mitchell W. Berger

MWB:bmc
Enclosure

cc: Mr. William Arceneaux

PERSPECTIVES ON WORKFORCE TRAINING AND RELATED SALLIE MAE SUPPORT CAPABILITIES

1. **What is the definition of workforce training?**

   In the open market, workforce training takes many forms including unstructured on-the-job training; structured training programs sponsored by employers for their employees; and employee-initiated continuing occupational education. It encompasses employee orientation training, "soft" skills training (i.e., teamwork, communication, organizational behavior, total quality, etc.) and "hard" technical skills training (i.e., statistical process control, computer skills, machining, engineering processes, etc.)

   Sallie Mae's workforce training-related product and service development efforts are principally focused on supporting employer-sponsored structured training programs designed to upgrade or expand incumbent worker job skills and improve workers' on-the-job performance and productivity.

2. **Why is workforce training in the national interest?**

   In an era which the half-life of job-related knowledge and skills is shrinking due to the rapid pace of technology advancement, every individual and group has a meaningful stake in supporting ongoing occupational training opportunity for America's laborforce. More specifically, broad-based public and private sector investment in the development of a cogent, organized and accessible lifelong learning system and job skill training programs for workers is in the national interest for several compelling reasons:

   - Development and maintenance of a skilled and adaptable laborforce is essential to maintaining our nation's competitive standing in the global economy. Faced with increasing competition from existing and emerging domestic and foreign competitors, heightened consumer demand to continuously improve product and service quality and shrinking profit margins, U.S. companies are dependent on their workers' ability to rapidly adapt to and master new and increasingly sophisticated business technologies, protocols and processes for their continued survival and success. In turn, workers need ongoing opportunity for and access to job skills training to enable them to effectively address this challenge.

- More and more states and localities pursuing economic development opportunities are finding that such opportunities are conditioned on the presence of an adequate supply of skilled labor. With the narrowing of the skills gap that has historically existed between the U.S. laborforce and many of its foreign counterparts, the question of states' ability to attract and maintain jobs for their residents will become more acute in the absence of increased investment in worker training.

- For American workers, sustained access to job skill upgrade training translates into a proven and measurable improvement in career earnings potential and employment security. From the standpoint of the Federal government, these outcomes are desirable as they produce increased federal income tax revenue, reduce draws on unemployment insurance and welfare funds, and result in improvement in Americans' overall standard of living.

3. **<u>What is the potential role of Sallie Mae in workforce training</u>?**

Today, it is commonly acknowledged that the workforce training enterprise in the U.S. is fragmented, disorganized and underfunded. Existing public-sector funding programs are limited and frequently bound up in bureaucratic red tape. Small to mid-size businesses in particular have difficulty assessing funds to pay for training. Also, in the absence of a comprehensive, consolidated training resource information source training buyers have difficulty identifying appropriate training providers, and training providers and materials suppliers lack efficient and cost effective channels for making their services and products known to prospective consumers.

Backed by its national presence and reach, its proven systems and financial product and market development capabilities, its extensive network of business relationships with higher education and financial institutions, and its considerable financial strength, Sallie Mae is well positioned to help break down existing impediments to effective workforce training delivery. Specifically, Sallie Mae could provide valuable support to the workforce training enterprise by:

- Designing, organizing and channeling private sector-based funds into new training finance programs that enable business to engage worker training support services on an as needed, timely basis. Finance program design concepts include both standard commercial credit and government-sponsored loan program models.

- Creating and administering finance programs targeted to colleges, universities and other training providers to fund the development of training curricula, the purchase of training equipment, the construction of contract education training facilities, and the implementation of distance learning systems.

- Creating and administering finance and investment programs targeted to training materials developers to support the development and deployment of new training technologies and tools.

- Working with business, labor and the training provider community to cooperatively design, build and subsequently administer a comprehensive training resource information system to facilitate training provider/buyer matching and training provider service tracking.

- Supplying other value-added support services and products that address the training needs assessment, training plan development, training evaluation support needs of the business community.

4. **What changes would have to be made to Sallie Mae's charter to allow the Corporation to meaningfully support the workforce training enterprise?**

Existing statutorily-imposed limits on Sallie Mae's operating authorities effectively preclude the Corporation from providing a meaningful level of product and service support for workforce training. Current initiatives are limited to R&D efforts and piloting a handful of small lending programs in which Sallie Mae serves a secondary market role.

The Corporation has sought and received support for a privatization proposal from the current Administration and expects that rechartering legislation will be presented to Congress in early 1995. It is anticipated that any rechartering process would be completed over a period of several years. In conjunction with this process, Sallie Mae will need interim authority to engage in a broader array of education-related business activities including workforce training-related finance and service product delivery. Proposed legislative language authorizing Sallie Mae to engage in workforce training support businesses which has been vetted with key oversight committees of Congress and the Administration appears on Exhibit I.

Exhibit I

DRAFT LEGISLATIVE LANGUAGE

Not withstanding limitations on its operating authorities expressed in Section 349 of the Higher Education Act as amended, (the "Act") the Association is authorized to support or offer lending programs for the purpose of promoting and financing skill-based education and training to–

(i) individual workers for the cost of training to improve workers' skills and prospects for career advancement and reemployment;

(ii) labor and business associations to develop and deliver training services and programs for their members;

(iii) employers for employer investment in employee training and education;

(iv) postsecondary education institutions and other training providers to facilitate training services and programs;

(v) developers and suppliers of training materials and equipment for the development and production of training materials and equipment.

The Association may also offer support services and products related to the activities described above including the development and maintenance of consulting services to assess training needs, a national training referral service, and integrated job counseling and listing services. Nothing in this subparagraph shall be deemed to authorize the Association to make student loans which are insured under Title IV of the Act.

WORKFORCE TRAINING FINANCE RATIONALE AND PURPOSE STATEMENT

AUGUST 18, 1994

Since 1972, Sallie Mae has functioned as the nation's leading financial intermediary for education credit; attracting, facilitating and maintaining growing levels of private capital investment in loans both to individuals pursuing postsecondary education and to postsecondary education institutions to finance the rehabilitation and new construction of educational, training and other campus facilities. Today, the Corporation's customer base includes 1500 financial institutions, over 200 education institutions and over 3.5 million individuals pursuing traditional academic degree studies and programs of occupational training; both on a full and less than full time basis.

In the over 20 years since Sallie Mae was established, American's needs for education and training beyond compulsory primary and secondary education levels have changed and expanded substantially. Today, a high school or even a college education does not insure a secure and lasting platform for gainful employment through retirement age. Instead, driven largely by the ever-increasing pace of technology advancement in the workplace, individuals' needs for ongoing occupational skill and knowledge enhancement opportunity is growing exponentially. Increasing recognition of this need is evident in both the high level of national and state government policy attention accorded to the development and promotion of lifelong learning support systems and increasing employer focus on and investment in worker training and education.

In an effort to remain informed of and responsive to changing education funding needs, Sallie Mae has devoted over two years to researching lifelong learning conditions and trends. Research results clearly show that U.S. business has become a major purchaser of training services, spending over $40 billion annually to provide American workers with continuing education and training required to build and maintain the knowledge and skills they need to remain productive on the job. However, findings also confirm that, as the training delivery market is in the infant stages of development and is highly fragmented, businesses often find it difficult to identify and access both the financial and technical support resources they need to develop and implement effective training programs. Indeed, research findings also show that current business needs for training outstrip business resources available to fund training expenses. By playing the role it has historically fulfilled in the FFELP, Sallie Mae will make a significant contribution to the development of more organized, accessible, and responsive training delivery and funding support systems.

To help address identified market needs in the context of its resources, capabilities and mission to support the credit needs of students, Sallie Mae has developed a state-supported training finance program model and is working on several purely private sector-based financing alternatives, all of which are designed to facilitate U.S. business investment in worker training. Implementation of these programs will expand resources available to fund worker training programs and, at the same time, improve occupational education and training opportunity and access for the Nations' incumbent workforce.

Training finance programs under development by Sallie Mae are founded on partnerships between Sallie Mae and commercial lenders under which participating lenders perform loan origination and servicing functions and Sallie Mae provides secondary market support; sharing in loan risk and enabling recycling of available funds into new loans. This role conforms with Sallie Mae's existing program delivery and support authorities and mirrors current education loan program financing activity of the Corporation.

In a 1994 Price Waterhouse survey of over 1060 U.S. business leaders' current and projected worker training and education practices and plans over 95% recognized training as as strategic component of their business plan. Over 40% of businesses' CEOs indicated they would find new training finance programs useful. Through the implementation of new innovative training finance programs that channel private sector funds into the training and education enterprise, Sallie Mae is serving as a facilitator to bring the Nations' business and lending communities together to focus on the legitimacy, importance and economic benefit of investment in workforce training. The goal and end result of this initiative will be to increase funds available to expand lifelong learning opportunity and, correspondingly, to improve long-term employment security for the Nations' growing adult learner population.

SALLIE MAE
WORKFORCE TRAINING RESOURCE INFORMATION NETWORK OVERVIEW

MARKET BASIS FOR INFORMATION NETWORK DEVELOPMENT/SALLIE MAE RESPONSE

Today, more and more companies are recognizing that their employees represent a valuable business asset that requires regular attention and maintenance to preserve its value. A 1994 national survey of business and industry practices and views on workforce training confirmed that U.S. businesses are spending over $40 billion a year on workforce training and expect to increase their training activity and expenditures over the next several years. In seeking workforce training support, employers are looking for cost-effective training solutions that are tailored to their specific workforce development needs and goals, and result in measurable improvement in worker productivity and performance.

In response to growing business demand for training support, new training providers and resources are emerging every day. Likewise, the existing array of training curricula and delivery modes and methods is expanding exponentially. Today, the range of choice among both training providers and methods that is available to companies is considerable--and often bewildering.

In the absence of a single, easily accessible source of comprehensive information on training providers and resources, employers--particularly those just setting up training programs and those attempting to implement consistent training programs across multiple company locations--are finding it difficult to identify and select training programs, providers, and tools that are best suited to their particular needs and objectives.

In the above-referenced survey, 69% of company CEOs indicated that a single source of comprehensive information on training providers would be very useful to them. An almost equal percentage of company CEOs expressed a strong desire for information that would help them assess the relative quality of alternative training programs and resources. To address this need and a corresponding need among training providers for both improved access to information on existing training curricula and training tools and cost-effective channels for broadly advertising their services, Sallie Mae has committed resources to develop a training resource information system and companion information collection and delivery network that will:

- Enable both purchasers and providers of training to easily access and obtain relevant, detailed and up-to-date information on training providers and consultant services, training programs and training delivery systems and tools;

- Provide training providers and materials suppliers with an affordable and efficient means of making their services known nationally;

- Enable membership associations and other not-for-profit organizations engaged in providing training-related support services to offer a new value-added service to their members and constituents; and

- Enable independent administrators of workforce training information databases to link into and become a part of a national information system that offers integrated service billing support and shared revenue benefits.

ADDITIONAL SYSTEM FEATURES

In addition to detailed information on the location, nature, features and cost of training resources, it is envisioned that Sallie Mae's core information system will include a training program quality indicator component to further aid training purchasers in selecting appropriate training providers and consultants. It is expected that, over time, the system will also support deployment of additional training support and marketing services.

SYSTEM/NETWORK SERVICES DELIVERY

System information access will be made available on both an annual subscription and fee-for-service basis. It is anticipated that Sallie Mae's system access fees will be tiered, based upon subscriber type and system service level. System services delivery will be accomplished on both a direct basis (i.e., one-on-one linkups between subscribers and Sallie Mae) and through intermediaries which may include government agencies, trade and other membership associations, education institutions, and other service delivery partners.

Parties whose information will be listed in the system database(s) will encompass training providers including colleges, universities and trade schools; independent training contractors; training materials suppliers such as publishers, video producers, multimedia authors and CBT developers; and training consultants specializing in training needs assessment, training implementation and training outcome evaluation. Planned ancillary service options for this group will include optional promotion materials imaging and delivery to prospective consumers.

GENERAL SYSTEM PARAMETERS

The proposed system will be PC-based with the host component residing on a LAN/WAN topology. Various interoperability schemes including high-speed asynchronous dial-up services and client/server are contemplated. In either case, the system will employ a front-end application to facilitate access, information searches, and, possibly, data input. Sallie Mae will conduct a comparison of the various commercial products, the public domain applications in use on the Internet, and custom products developed internally and select the most appropriate options for installation and use. The system will utilize multiple database sources with input and output linkages to a Sallie Mae-administered host.

SYSTEM STRUCTURING GOALS

- Common User Application (CUA) compatible standards for interface design and program functionality
- Easy navigability with flexible controls to accommodate end-user preferences
- High degree of local utility through structured query expression building and preformatted reports
- Open systems protocols for remote access and data transfer
- Methods to locate non-structured data such as text files and graphical images
- Automated/facilitated data input from various distributed data sources using normalized data elements

NATIONAL ALLIANCE OF BUSINESS

PREPARED REMARKS OF LABOR SECRETARY ROBERT B. REICH BEFORE NATIONAL ALLIANCE OF BUSINESS, SEPT. 27, 1994

TOWARD A NEW SOCIAL COMPACT: THE ROLE OF BUSINESS

Not long ago we all worried about restoring America's "competitiveness." American industry, it seemed, was short-sighted, slow-footed, and dim-witted, and the American economy on an inexorable decline. Europe and Japan — the inefficiencies of the past seared away by World War II — were charging past us.

Now let me read you something that appeared in this city's own *Dallas Morning News*, two and a half weeks ago: "The United States has climbed to the top of a list of the world's most competitive economies, displacing Japan." The source is the World Economic Forum, a respected Swiss association that each year charts the economic performance of industrial nations.

What gives? Were the experts crazy then? Are they crazy now? Has everything changed completely in just a few years?

Well, for one thing, the United States is enjoying an economic recovery, while other advanced economies are still struggling to come out of recessions. But beyond the transitory ups and downs is the more fundamental success of American business in restructuring itself and investing in new equipment, with the result that productivity growth since 1990 has been averaging a healthy two percent a year. Factory productivity alone has leapt over 5 percent during the past year.

And yet, are we really competitive? What do we mean by "competitiveness" anyway? Rarely has a term of public discourse gone so directly from obscurity to meaninglessness without any intervening period of coherence. Surely the ultimate test of competitiveness should be the standard of living of Americans. And not just the average American: averages don't always reveal the most telling realities. Shaquille and I have an average height of six feet.

The reality is that American incomes have barely edged upward, and most Americans find themselves on the same downward track they've been on for fifteen years. And although over 4 million new jobs have been added to the American economy, 8 million Americans are still unemployed and 4 million are working part-time who would rather have full-time jobs.

Broad trends that have accelerated since the mid-1970s are splitting America's middle class into three new groups: An *underclass* largely trapped in center cities, increasingly isolated from the core economy; an *overclass* of those who are positioned to profitably ride the waves of change; and in between, the largest group, an *anxious class*, most of whom hold jobs but who are justifiably uneasy about their own standing and fearful for their children's futures.

For much of this century, Americans of diverse backgrounds and conditions were bound together by two powerful forces. One was the threat of Soviet aggression. The looming presence of a rival "superpower" stoked our sense of shared purpose. The other was a growing economy. Our sense of common destiny was nourished by the certainty that a rising economic tide would lift all Americans.

Today, in almost opposite fashion, each of these once-sturdy bonds have come undone. The Cold War ended dramatically. We watched it on CNN. And now, we welcome the newly liberated world it has wrought. But America's middle class crumbled quietly. We watched it happen day by day, but somehow never really *saw* it. And now, we confront its consequences.

Over the next few months, I will be talking about what government and individuals can do to boost more Americans into a new middle class. But this morning, I want to address the special role of the private sector. This is both because the private sector is the most formidable force for recreating America's middle class, and because a clear-eyed calculation of corporate interests must reckon such a renewal as vital for long-term business success.

Let me first address the cause of the disintegration of the middle class. What divides the over, the under, and the anxious classes is both the quality of their formal educations and their capacity and opportunity to learn throughout their working lives. Skills have always been relevant to earnings, of course. But they have never been as important as they are today. Today, skills shape the fundamental fault line running through the American workforce. Only fifteen years ago, a male college graduate earned 49 percent more than a man with only a high school degree. That's a sizable difference, to be sure. But it's a divide small enough for both men to occupy terrain each would call middle class. Now shift to the present. In 1972, a male college graduate out-earned his high school graduate counterpart by 83 percent — a difference so great that they no longer inhabit common territory or share common prospects. Women are divided along similar, though slightly less stark, lines.

Use a different lens and the picture sharpens further. Traditionally, membership in the American middle class included not only a job with a steadily increasing income, but a bundle of benefits that came with employment. Once again, we see a widening gap, related to education and skills. Employer-sponsored health coverage for workers with college degrees has declined only slightly, from 79 percent in 1979 to 76 percent in 1993. But for high school graduates, rates have fallen further: 68 percent to 60 percent over the same period. And rates for high-school dropouts have plunged — from an already low 52 percent in 1979 to only 36 percent last year. Retirement will only harden these divisions. Nearly two out of every three workers with college degrees get pension coverage on the job. More than three out of four high dropouts do not.

But earnings and benefits don't even tell the complete story. Merely getting a job and holding on to it depend ever more on skills. In the 1970s, the average unemployment rate for people who had not completed high school was 7 percent. By the 1980s, this rate grew to 11 percent; by 1993 it had passed 12 percent. Job loss for high school graduates has followed a comparable trajectory. By contrast, the unemployment rate for workers with at least a college degree has remained around 3 percent.

In a seeming paradox of today's economic news, financial markets fret that unemployment is too *low* to contain inflation, even while 8 million willing American workers remain jobless. Part of the answer to the apparent contradiction is that markets for highly skilled labor *are* becoming tight in many parts of the economy, creating the conditions that can kindle inflation worries. But millions of less-skilled workers remain idle or underemployed. This wasted workforce is walled off by skill barriers from the leading edges of the economy where capacity constraints loom. The best way to expand the economy's capacity and lower the level of unemployment needed to bridle inflation is to dismantle these walls by preparing underutilized workers for more productive work.

When flashed on a screen in a hotel ballroom, bar graphs and trend lines have a certain innocuous quality. They're abstract, and they're fleeting. Click a button and the numbers vanish. But as they take hold in the neighborhoods and workplaces of America, these forces are ominous. Consider the physical separation they have already helped forge. The overclass has moved to elite suburbs — occasionally into their own gated communities or residential compounds policed by their own security forces. The underclass finds itself quarantined in surroundings that are unspeakably bleak, and often violent. And the anxious class is trapped, too — not only by houses and apartments often too small for growing families, but also by the frenzy of effort it takes to preserve their standing, with many families needing two or three paychecks to deliver the living standard one job used to supply.

In other words, even as America's economic tide continues to rise, it no longer lifts us all. Only a small portion of our population benefited from the economic growth of the 1980s. The restructuring and capital investments launched during the 1980s and continuing through the 1990s have improved the productivity and competitiveness of American industry, but not the prospects of most Americans. And the people left behind have unleashed a wave of resentment and distrust — a wave buffeting government, business, and other institutions that the anxious class believes has betrayed them.

Consider the striking turnaround in public opinion. In 1975, according the Gallup poll, 40 percent of the American public said it had confidence in Congress. Today, the figure is 18 percent. In 1975, more than a third of Americans said they had confidence in big business. Today, only a one-quarter do. Nearly every institution in this country — public schools, newspapers, television, labor unions, even organized religion — have suffered declines in public esteem. Nearly every leader in society has become a lightning rod for public frustration.

This creates fertile soil for the demagogues and conspiracy theorists who often emerge during anxious times. People in distress, people who fear their future, naturally cling to what they have and often resist anything that threatens it. People who feel abandoned — by a government that has let them slide or a company that has laid them off — respond to opportunists peddling simplistic explanations and sinister solutions. Why are you having trouble making ends meet? We're letting in too many immigrants. Why are you struggling to pay your bills? Affirmative action tilts things in favor of African-Americans and Hispanics. Why is your job at risk? Our trade policies have not been sufficiently protectionist.

Such sentiment transcends ideological divisions. Conspiracy theorists on the left concoct stories of a cabal of corporate puppeteers pulling the strings of global trade; those on the right spin tales of a President who orchestrates murder. Talk radio, that otherwise sparkling tribute to free expression, has taken on a newly malevolent edge — elevating ratings by escalating rage. And odd alliances have formed to repel the notion that free trade can produce middle class prosperity. Recall the recent debate over NAFTA, from which I still carry scars.

So what's the solution? We can't turn back the clock and return to the safe old world of routine mass production that dominated post-war America. Efforts to do so — say, by keeping foreign investment and goods outside our borders or by stifling technological advances — would not resurrect the old middle class. They would only inhibit the ability of every American to prosper amid change.

The real solution is to give all Americans a stake in economic growth, to ensure that everyone benefits from our newfound competitiveness. That way, we can grow together — and increase our capacity for non-inflationary growth. 12 million unemployed or underemployed Americans, and millions more whose wages are stagnant or declining must be puzzled at talk of an overheating economy. We can do better than that. This economy will not be at full capacity until we tap the potential of all our citizens to be more productive.

We must together build a new middle class — a middle class based on the power of ordinary workers to add ever more value because they have the skills to do so.

Individuals and families shoulder much of the responsibility here, of course. Ultimately, they must face the realities of the new economy, and ensure that they and their children have the basic intellectual tools to prosper in it. Government has a role, too. It can clear away some of the obstacles — improving the quality of public education, setting skills standards, and smoothing the transition from school to work and from job to job.

But individuals, however resourceful, and governments, however reinvented, can't build a new middle class on their own. Business has an indispensable role to play. And let me put the issue cleanly: Unless business joins in rebuilding America's middle class — training and empowering ordinary workers to be productive and innovative — this task cannot succeed. I recognize the stakes this sets. But I believe that business *will*, in the end, find the motives to fulfil its central role. There are two good economic reasons for business to enlist: First, the members of America's imperiled middle class are key productive assets. Second, they form the majority of most companies' customers. Consider each of these reasons in turn.

It is no news to business leaders that a skilled workforce can be a strategic trump card. Other elements of a business can be replicated by competitors — machines, processes, raw materials, access to cheap labor around the world. But a skilled, flexible workforce that can create value in ways that matter in the marketplace can offer enduring competitive advantage.

Companies throughout America are demonstrating that success often hinges on treating workers as assets to be developed, not costs to be cut. And they're doing it with front line workers who are not necessarily four-year college graduates. In my travels around the country, I have seen the pattern again and again; at an electro-galvanizing steel plant in Cleveland, a telephone assembly plant in Atlanta, an insurance company in Hartford, an accounting firm in Chicago, a machine-tool company in Rochester. Many of the companies represented here in this room are among the pioneers of this approach to creating profits and productivity in the new economy. In the process, you have helped create the vanguard of this new middle class: technician workers with training beyond high school, but not necessarily a college degree.

Lew Platt, the CEO of Hewlett-Packard, told me the other day about HP's integrated circuit plant in San Jose. Yields had been too low, the reject rate too high, even after HP had installed state-of-the-art machinery. What was the problem? HP discovered that its front-line workers in San Jose, most of them without college degrees, knew a lot about what wasn't working in the plant. What they needed was an extra increment of training and the authority to implement their solutions on the spot. HP decided to try a campaign of training for the San Jose electronics workers — thousands of them — and it transformed these front-line workers into technicians. It worked. Quality improved dramatically, yields jumped, and the plant became enormously competitive. Not only did HP turn its plant around, it also added thousands of workers to the ranks of the new middle class.

So my first reason for optimism that business will play its part in building a new middle class based on skills is that workforce investments often make excellent business sense, and business increasingly knows this.

The second reason also affects the bottom line, if a bit less directly. For most American companies, their major market remains American consumers. In the 1950s and 1960s, the American consumer market was the most buoyant in the world. Selling into a prosperous, sophisticated home-country market gave American companies a world-beating edge in industry after industry. Company profits and middle class incomes climbed in tandem. Mass production spawned the middle class; the middle class fueled mass production. But since the mid 1970s — as incomes stagnated, divisions widened, and America's mass market fragmented — the U.S. market has become less dominant as a commercial launching pad. A revitalized middle class means stronger domestic demand and a better proving ground for global business success.

These are good reasons for business to invest in human capital, but apparently not reason enough. A new survey by the Bureau of Labor Statistics found that not quite half of all establishments provide *any* formal training in job skills. Other recent data show that employers tend to concentrate training investments on workers who are *already* skilled. A third of young workers with college degrees receive work-related training. But only one out of six workers with a high school degree got such training, and only one out of ten high school dropouts.

When nations are wise and lucky — as America has been for much of its history — an implicit social compact knits together business success, rising living standards, and pro-business politics. But the erosion of the old middle class poses a threat to the bargain that has paid off so well for so many American citizens and American companies. Business success no longer automatically brings rising living standards for all. There is a danger that the interests of corporations playing on a global scale will be seen as distant from the interests of American citizens, that higher rates of productivity will not be understood to mean higher living standards for ordinary Americans. As most Americans find themselves working harder for less, and the American dream recedes, the much-vaunted competitiveness of the American economy seems like a cruel hoax.

Now is the time to renew the compact among American businesses, American government, and American working men and women. Now is the time to reknit the connections between the two defining national traditions of free enterprise and broadly shared middle class prosperity.

The Clinton Administration is pledged to deliver on government's side of this new compact. This Administration's commitment to building a new middle class already has produced results — but perhaps because many were born in bipartisan harmony rather than partisan discord they have gone unnoted. Political conflict is a far more exciting spectator sport.

An additional 130,000 children each year can now be made ready to learn through Head Start. About 120,000 disadvantaged students participated in this year's summer job program. Almost a half million young Americans will be entering youth apprenticeships. Three and a half million Americans each year will gain the option of repaying their education loans as a percentage of future income. Twenty thousand young Americans — more than ever served in the Peace Corps even at its height — will be working on national service projects in their communities. Fifteen million working families with modest incomes have gotten the tax relief necessary to make work pay. And — with your help — we've begun transforming the old unemployment system, built for another era and another economy, into a modern *reemployment* system. This year alone more than half a million permanently laid-off Americans will get the help they need to find new and better jobs.

This Administration has made bold moves, in addition, to get the nation's economic house in order. Consider the record: The deficit, as a portion of GDP, is at its lowest level in fifteen years, and is projected to remain there even without additional spending cuts. Government payrolls are being reduced by 250,000 workers. Inflation is low, and there are scant signs of overheating. We are committed to free trade. Thanks to the North American Free Trade Agreement, our exports to Mexico are now growing at three times the rate of exports to the rest of the world. Soon, Congress will approve the latest GATT agreement, opening even more markets to more American services as well as goods. And no Administration has been more vigorous in promoting American business overseas — from Saudi Arabia's $6 billion aircraft purchase, to Brazil's $1.5 billion contract with Raytheon, to the Commerce Secretary's recent mission to China, to the Energy Secretary's mission to Pakistan.

Today, this Labor Secretary embarks on a mission as well. This mission is to American business, and Dallas is my first stop. The aim of my mission is to stress the urgency of the other side of this compact. For the future prosperity and stability of this nation, American business must reciprocate by investing in American workers.

How should this be done? What should be the specific contents of this compact? I cannot predict the exact provisions. Obviously, one means of committing American business to workforce investment would be through a simple requirement that firms spend a small portion of their payrolls upgrading the skills of all employees.

The administration is not advancing such an option as a formal policy proposal because we are not convinced it is the best way to achieve the goal of stepped-up investments in worker skills. Flat requirements like this can invite endless legal pirouettes, resulting in ever more intrusive regulation. I hope we can discover together a better way — voluntary commitments to, and disclosure of, such workforce investments; cooperative agreements among firms in an industry to share the costs of basic skill training; agreements between large firms and their smaller suppliers and customers to do so; employee education as an object of collective bargaining; awards or certifications for businesses that invest substantially in their workers; collaborations between high schools and companies to hire school-to-work apprentices; shifts in the tax code to create added incentives for workforce training. These and other approaches — alone or in combination — may be more effective than a uniform requirement. But if we cannot develop a superior approach, it would certainly be better to embrace that method than to abandon the goal. Let's get to work on the options.

You in the National Alliance of Business, and the broader business community you represent, have already accomplished a great deal, and ought to be proud of your achievements. But the centrifugal forces that are pulling America apart call for even greater resolve. We can build a new middle class, and new ladder into it for the underclass. You and I know its possible. We've glimpsed its beginnings. But without the redoubled energies of American business — without the fundamental understanding that no task is more central to our future — the sturdy middle class that was once our country's defining quality will continue its steady erosion.

So as I launch my mission to American business, I ask that you lend your resolve to the creation of a new compact — for profitability, for shared prosperity, for an easing of economic anxiety and the social tensions it spawns. Join in the debate over the terms of that compact, and the business role in building workplace skills. And commit yourselves to renewing the American dream, to nurturing a new middle class that is even more inclusive than the old, and equipped to master the challenges of the new economy.