Withdrawal/Redaction Sheet
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	re: discussion draft (36 pages)	n.d.	P5
002. letter	William Arceneaux to Frank Newman re: Sallie Mae (partial) (1 page)	03/17/1995	P6/b(6)
003. letter	William Arceneaux to Frank Newman re: Sallie Mae (partial) (1 page)	03/17/1995	P6/b(6)
004. letter	Harry McPherson to Bill Galston (2 pages)	03/17/1995	P5
005. memo	From: Pratiricia Smith re: SMLA--FYI (1 page)	04/11/1995	P5

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

FOLDER TITLE:
Sallie Mae [3]

2011-0255-S
rc223

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

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b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
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THE WHITE HOUSE
WASHINGTON

2/14

Virginia, Darcy —

Here are my comments on the Sallie Mae draft. It's a nice job. Unfortunately, it's hard for me to go outside the 4 corners of the document to find issues, but I've done my best. Good luck.

Ellen

THE WHITE HOUSE
WASHINGTON

2/14

Bill -

Here's a copy of my Sallie Mae comments that we sent to Treasury. Most are technical, although there are issues about e.g. keeping the Sallie Mae Board around & the degree of Treasury approval of Sallie's activities, that raise bigger policy issues.

E

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

02-Mar-1995 02:35pm

TO: William A. Galston
TO: Ellen S. Seidman
TO: Kenneth S. Apfel

FROM: Patricia A. Smith
Office of Mgmt and Budget, LVE

CC: Barry White
CC: Douglas L. Steiger

SUBJECT: SLMA

In the March 3 issue of the Chronicle of Higher Education, Larry Hough supported the Goodling bill because he believes that a cap on direct lending is necessary to insure fair competition between the two loan systems.

Barry believes even more strongly now that Administration support of SLMA privatization should be tied to full implementation of direct lending, and that if Congress were to separate SLMA privatization from the Administration proposal for accelerating implementation of direct lending, he will consider recommending that the Administration withdraw its support for privatization.

SALLIE MAE LEGISLATION

INSERT A IN SUBSECTION 2(a) "FINDINGS", page 4

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

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

(Renumber remaining subsections)

INSERT B, PURPOSES SUBSECTION 2(b), "PURPOSES", page 5

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

(5) to terminate the Association as a Government-sponsored enterprise on or before December 31, 2004.

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3/21

FAXES TO:	Bill Galston	456-2878
	Ellen Seidman	456-2223
	Barry White	395-4875
	Leo Kornfeld	708-7157
	Don Feuerstein	708-8404
	Tom Wolanin	401-1438

FROM: Jill Ouseley Jill

SUBJECT: SLMA Board Draft Letter

At Darcy's request, I have redrafted this proposed letter for signature of SLMA Board Chairman Arceneaux, supporting the privatization of SLMA and the continuing expansion of Federal direct student lending. I have tried to blend the suggestions of Working Group members in this draft. Please give me a call (622-2630) or fax (622-0244) with any changes.

We are assuming that SLMA will want to see the Administration's bill, before they would be willing to sign a letter.

I am also faxing a copy of Chairman Arceneaux' letter to Frank Newman, following their telephone conversation.

D R A F T 3/21/95

Letters to Chairs and Rankings, House and Senate Education Full Committees and Subcommittees, cc: Secretary Riley, Secretary Rubin. Signature of the Chairman.

I am writing on behalf of the Board of Directors of the Student Loan Marketing Association to express the Board's support for legislation to permit Sallie Mae to restructure itself into a completely private business entity. The Board also actively supports the phase-in of the Federal direct student loan program, which would occur over the next several years under current law to accommodate a growing proportion of federally assisted student credit. I am particularly anxious to clarify Sallie Mae's position, since incorrect assumptions about our views may affect Congressional deliberations on these important issues.

As you know, the Sallie Mae was created in 1972 as Government-sponsored enterprise (GSE) to serve as an efficient secondary market for federally guaranteed student loans. We believe Sallie Mae has more than fulfilled its statutory purpose of making student credit broadly available. I note also that Sallie Mae's success in the guaranteed student loan business has facilitated the development of competition for market share in the guaranteed student loan financing industry -- most recently in the form of privately issued asset-backed securities.

Government higher education policy has changed greatly in recent years, however, as the Government has sought ways to trim spending and reduce the Federal deficit. In this connection, the Federal direct student loan program was begun as a pilot program in 1992 and was expanded in the Omnibus Budget Reconciliation Act of 1993 to reduce the cost of student credit subsidies.

Under current law, direct loans would replace the loan guarantee program gradually over time. The Board believes that the transition to direct lending is an opportunity for Sallie Mae to make a transition from GSE status to completely private status. Legislation that would permit Sallie Mae to restructure as a private entity, without links to the Federal Government, and to expand and diversify Sallie Mae's business operations -- in a financially safe and sound manner -- would be in the best interests of the Sallie Mae shareholders, students, and the general taxpayer.

The Board of Directors therefore wishes to provide assurance that Sallie Mae will actively support implementation of the direct student loan program and expansion of that program within the limits of the law. In particular, the corporation does not support rigid legal limits on the growth of the program. At the same time, the corporation will continue to market as effectively as possible all its services relating to the guaranteed student loan program and to continue to serve all our customers, especially schools, students and primary lenders, with the high quality service for which the company is known. In this connection, active participation in the direct student loan program would be a natural area for Sallie Mae to pursue as a private entity to take advantage of Sallie Mae's extensive experience and competitive advantage in marketing and servicing student loans.

It is essential that Sallie Mae continue to respond -- as it always has -- to changes in the external environment. The direct student loan program has proven to be an effective way for the government to make funds available to students and a formidable competitor to the guaranteed student loan program. The time is right for Congress to enact legislation that phases out Sallie Mae's status as a GSE and permits the shareholders and the Board to take the successor corporation into new businesses as an entirely private entity. Therefore, we strongly support the legislative approach to privatization that the Administration is transmitting to Congress.

Sincerely,

William Arceneaux

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Clinton Library

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SallieMae

STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007
202-298-2500

WILLIAM ARCENEAUX
Chairman of the Board

March 17, 1995

The Honorable Frank Newman
Under Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania, N.W.
Room 3326
Washington, D.C. 20220

Dear Frank:

Please know that I want to be as helpful as possible in the matter we discussed yesterday. Should you reach a point in this process where you believe that Board-Level involvement might assist in overcoming a hurdle or impasse, don't hesitate to call on me. Call anytime you think I can be helpful. I can be reached at (504)389-9885 (office), P6/(b)(6) (home), or (504)389-0149 (fax).

[002]

Sincerely,

Bill

William Arceneaux

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON. D.C. 20202-______

STUDENT FINANCIAL ASSISTANCE PROGRAMS
OFFICE OF THE SENIOR ADVISOR TO THE SECRETARY

TELEFAX MESSAGE COVER SHEET

DATE: 3/21

NUMBER OF PAGES (INCLUDING COVER): 3

NUMBER OF RECEIVING FAX: 456-2878

ADDRESSEE:

NAME: Bill Galston

ORGANIZATION: White House

OFFICE PHONE:

FROM:

NAME: Omer Waddles / Leo Kornfeld

PHONE: (202) 708-8391 FAX: (202) 708-7157

MESSAGE: Sallie Mae Article

Sallie Mae Eyes Expansion Beyond Its Charter

Political concerns over student loans may frustrate the corporation's plans

By . Zook

WASHINGTON

THE Student Loan Marketing Association and the Clinton Administration are working on legislation to transform the federally ... corporation into a business.

The leadership at Sallie Mae, as the association is known, wants to ... into areas of business from which it is now blocked by the company's narrowly defined Con... final charter. Sallie Mae executives are exploring a number of new ventures, they say, that would provide new services to help colleges manage their finances and student operations.

To ... that goal, however, the association must negotiate a com... array of political and financial ...

"It's not a slam dunk," said Lawrence A. Hough, president ... chief executive officer of Sallie ...

The Republican Congressional leadership has endorsed the idea of selling off government operations, and there is no organized opposition to Sallie Mae's plan. But many politicians and student-aid experts say that Congress must proceed ... ously to avoid destabilizing the private student-loan industry.

Then ... is the matter of direct lending—the Administration-program to provide federal ... directly to students ... their colleges, bypassing banks and other financial agencies, including Sallie Mae. Sallie Mae has ... a leading opponent of direct lending.

CAPPING DIRECT LENDING

The problem for Sallie Mae now is that Republicans, led by Rep. William F. Goodling of Pennsylvania, are trying to put a ceiling on direct lending. That could create a ... need for Sallie Mae's founding mission as a purchaser of guaranteed student loans from lending institutions, a function that is referred to as providing a secondary ...

"If direct lending is stopped *à la* ... lending, Congress may not want to move along with anything that looks like it is related to the wind-down of the guaranteed-loan program," said Robert Shireman, legislative director for Sen. Paul Simon, Democrat of Illinois. Mr. Shireman said that Senator Simon, a past critic of some Sallie Mae business practices, supported privatization.

Rough drafts of the legislation have begun to circulate among Administration officials. Sallie Mae and Education Department officials believe that a formal proposal will move to Capitol Hill by summer.

UNANSWERED QUESTIONS

Key Congressional aides in both parties say their bosses are open to the idea in principle. But they add that too many unanswered questions remain to stake out definitive positions yet.

Pamela Devitt, staff director for the Senate education subcommittee, said it was unclear whether the timing was right and whether it might be better to keep Sallie Mae's current status, but allow it to do more things.

Mr. Hough said that both public and corporate interests could be served by releasing Sallie Mae from its ties to the federal government. Further, he said that Sallie Mae could better serve higher education by making its financial and computer-processing muscle available for other functions that colleges now handle themselves.

"Our franchise is in higher education," Mr. Hough said. "Another reason to support Sallie Mae's privatization is that there are few national companies with the resources we have that want to address issues in higher education."

Sallie Mae officials want to eliminate the corporation's standing as one of six "government-sponsored enterprises." Congress created those six corporations to insure the flow of capital to serve public needs in the financial markets, such as the financing of homes, farms, and college educations. Those corporations now have combined assets totaling more than $1-trillion.

Lawrence A. Hough: "There are few national companies with the resources we have to address issues in higher education."

Like that of a private corporation, Sallie Mae's stock is publicly traded. Sallie Mae also raises cash through the financial markets. Through most of its 23 years, Sallie Mae was a very attractive investment because of the implicit backing of the federal government for the loans it purchased; its bonds enjoy the premium AAA rating reserved for federally backed securities. During the 1980's, Sallie Mae's assets multiplied eightfold.

STOCK HAS PLUNGED

That expansion has been tempered in the last two years, as the Clinton Administration's push for direct lending eroded half of the corporation's market value. Since it peaked in January 1993 at just over $73 a share, Sallie Mae stock has plunged, and now floats in the mid- to high 30's. (See accompanying chart.)

The explosive growth proved to be highly profitable for Sallie Mae's executives—to the point that the seven-figure salaries of Mr. Hough and his chief lieutenants drew some fire on Capitol Hill. Among the most vocal critics was Senator Simon, making his support for privatization even more noteworthy.

The corporation's charter is specific: Congress determines which areas of business Sallie Mae and ... enterprises can enter. But government protections afforded to these and other federally regulated corporations could eventually put them at risk, according to Thomas H. Stanton, a Washington lawyer who is an authority on government-sponsored enterprises.

"As markets and technologies evolve, the legally protected niche ... turn into a ... trap," Mr. Stanton wrote in an essay published last year in a collection called *Global Risk-Based Capital Regulations* (Irwin Professional Publishing). "Banks, thrifts, and government-sponsored enterprises suddenly find themselves losing market share because their enabling laws prevent them from providing the kinds of new services offered by competitors."

Mr. Stanton declined to ... ment on the current negotiations because he is working on the matter with the Education Department.

Some of the loudest calls for proceeding slowly come from for-profit and not-for-profit financial interests. John E. Dean, special counsel to the Consumer Bankers Association, said that that organization supports privatization, with ... provisos.

"There are a number of people in the student-loan business who are supportive of privatization, but those same people recognize that there a lot of unanswered questions," Mr. Dean said. "The only way to get those answers is to have in-depth hearings."

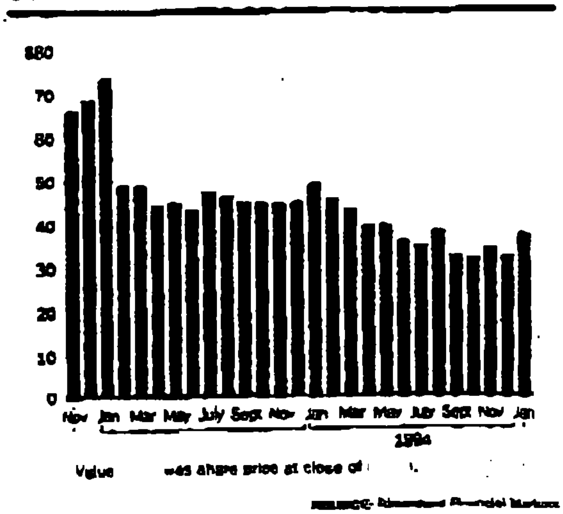
Floyd E. Stoner, director of legislative operations for the American Bankers Association, said that his members were most concerned that a privatized Sallie Mae ... gain the authority to issue student loans directly without working within the constraints of a federal bank charter.

A NEW, PRIVATE ENTITY

Officials at several state and regional secondary-market agencies said that they backed privatization. That may be related, some Congressional aides said, to a bill offered last year to convert the tax status of those agencies from not-for-profit to for-profit. The aides predicted that the bill would be resurrected if the privatization effort proceeded.

Mr. Hough's model for transforming Sallie Mae would make the existing corporation a subsidiary of a new, private entity. The subsidiary would retain the duties of the government-sponsored enterprise during a phase-out period of six to eight years. From the outset, the parent corporation would be free to

How Sallie Mae's Stock Price Has Changed Since President Clinton's Election



Value ... was share price at close of ... .

SOURCE: Bloomberg Financial Markets

Student Loan Marketing Association

FOUNDED: 1973, under law enacted by Congress.

MISSION: Buys student loans from banks and manages them during the repayment period. It is the nation's largest owner and manager of guaranteed student loans.

MANAGEMENT: Lawrence A. Hough is its president and chief executive officer. Seven of its 21-member board of directors are appointed by President Clinton. The remaining members are elected by stockholders. Seven board members must be affiliated with educational institutions, another seven ... represent lending institutions.

NET INCOME IN 1994: ... 8-million, ... 6 per ... from 1993.

enter into any business that it

Mr. Hough said he envisioned Sallie Mae using its vast capital re- to expand the range of services that it offers to colleges. Making use of the corporation's state-of-the-art technological and computer-processing prowess are the likely places to start. He sed such campus functions as management of student records, distance learning, and financing high-tech expansions as possible new ventures.

A central piece of Mr. Hough's for privatization is that Sallie Mae has served its purpose. Congress created Sallie Mae to buy from banks so that the banks would have the funds to finance more loans. Now, there are 42 state regional secondary markets the country.

Sallie Mae and a working group of the Clinton Administration are now focusing on a core set of issues. Foremost among them is trying to make the privatization process cost as little as possible. Thomas R. Wolanin, Deputy Assistant y of Education for legisla

"Congress may not want to move along with anything that looks like it is related to the wind-down of the guaranteed-loan program."

tive affairs and a member of the working group, said that preliminary budget estimates placed the in the hundreds of millions of dollars.

HIGH-PAID LOBBYISTS

The wild card in the process appears to be the connection between privatization and the nascent di- loan program.

The privatization issue can be to advantage by either side in the direct-lending debate. While the Administration is committed to privatization, Mr. Wolanin said that its first priority was to move toward nationwide direct lending as quickly as possible.

Sallie Mae's legislative efforts, by some of Washington's highest-paid lobbyists, are focused on the privatization issue. Mr. Hough said he supported the Goodling bill because he believed that a cap on direct lending was necessary to insure fair competition between the two loan systems.

Another primary matter involves the question of an "exit fee"—whether Sallie Mae should be required to compensate the public for the growth it enjoyed with the help of federal backing and, if so, how much. Mr. Hough said those considerations must be balanced with insuring the financial viability of the privatized Sallie Mae.

"Exit fees draw on the same capital that is needed to protect the institution from these kinds of insolvencies," Mr. said. "So what do you think is the more inant public-policy ! I think the Administration understands

Backers Offer New Financing Ideas for Threatened Cultural Agencies

WASHINGTON

Supporters of the National Endowment for the Arts and the National Endowment for the Humanities last week proposed new ways to finance the two agencies. The ideas came at a Senate hearing to start the reauthorization process for the endowments.

Among the suggestions were a voluntary income-tax checkoff similar to one used for financing political campaigns; a merger of the two agencies; and a seven-year plan to provide billions of dollars to create self-operating endowments that would then no longer receive federal subsidies.

Sen. Christopher J. Dodd, a Connecticut Democrat and a member of the committee, endorsed another suggestion. He proposed an extension of copyright royalties to provide money for the agencies.

Copyrights ready to expire—by law 50 years after the creator's death—could be extended for a fixed period or auctioned off by the government, with profits going to the agencies.

One Republican Senator, John Ashcroft of Missouri, called the "interesting," saying it "a tax on artists to support art."

Others said the proposal might hurt non-profit or low-budget groups that make artistic use of materials after copyrights have expired. One opponent of the endowments, the cultural analyst Laurence Jarvik, blasted the proposal as "a punitive tax on the creative."

BIPARTISAN OPPOSITION

There was bipartisan opposition to turning the endowments into self-supporting entities, which Christopher Reeve, an actor, advocated. He said artists wanted to end what has become an annual ritual of going to Congress "to grovel" for money for the endowments.

Sen. Edward M. Kennedy, a Democrat, said such a proposal would cost billions in appropria- that lawmakers would reject. Sen. Slade Gorton, a Republican from Washington, reacted skeptically to Mr. Reeve's position that "true endowments" could be monitored by peer-review

In response to Mr. Gorton's concern, Mr. Reeve said Congress should provide the subsidies, but was ill prepared to set standards for how the money is used.

Several lawmakers and speakers said any cuts at the agencies should affect individual artists rather than museums and other institutions. Cuts hitting institutions d be avoided, they said, with be- moaning the $5-million in reductions in each endowment's current budget that a House pro- posed last week. —PATRICK HEALY

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

Date: 3/21/95 **Fax #:** 456-2878

Sent to: Bill Galston

Attention:

From: Tom Wolanin

Number of Pages (including cover sheet): 2

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

GOALS 2000

COMMENTS:

In-school interest subsidy

600 INDEPENDENCE AVE., SW, ROOM 6337 OFFICE NUMBER (202) 401-1028
WASHINGTON, D.C., 20202-3100 FAX NUMBER (202) 401-1438

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

MEMORANDUM

3/21/95

To: Bill Galston, Gene Sperling, Ken Apfel

From: Tom Wolanin TW

Re: In-school interest subsidy estimate

We have been working closely with Congressman Petri (R, WI) and his staff on direct loans. Petri is the most (and thus far the only) articulate and effective defender of direct loans among Republicans in the House. In the course of working together Petri asked us to give him some technical assistance by scoring his comprehensive student loan bill. This is a bill that Petri has been introducing for 15 years in various forms. Its salient features are: 100% direct lending, encouragement of collections through IRS, mandatory participation in income contingent repayment for all borrowers, elimination of the in-school interest subsidy and replacement of the in-school interest subsidy with lower interest rates during repayment for low-income borrowers.

Budget Service here at the Dept. has prepared the estimate requested by Congressman Petri. One of the most salient features of the estimate is a new projection for the savings resulting from the elimination of the in-school interest subsidy - $17 billion. The increase in this estimate from the $12 billion we have all been using is accounted for by updated projections of interest rates and loan volume.

We assume that CBO will update their estimates along the same line, and I wanted you to have a heads up about this substantial new number that is likely to be in circulation soon with respect to the in-school interest subsidy.

I also wanted you to be aware that we are planning to share this estimate with Congressman Petri in the next few days as informal technical assistance from the Department. Please let me know if you have any concerns about our sharing this number with Congressman Petri as part of our unofficial cost estimate of his bill.

cc: Barry White
Frank Holleman

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF LEGISLATION AND CONGRESSIONAL AFFAIRS

622-0244
456-2878
456-2223

Date: 3/22/95 **Fax #:** 395-4875

Sent to: Jill Ouseley, Bill Galston, Ellen Seidman,

Attention:

From: Tom Wolanin

Number of Pages (including cover sheet): 1

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

GOALS 2000

COMMENTS: I strongly agree with Barry White's comments on the draft letter from SLMA transmitted this a.m. We have no need to concede anything to SLMA on privatization unless + until SLMA is on board with the Administration's policy of preserving + expanding direct loans.

600 INDEPENDENCE AVE., SW, ROOM 6337 WASHINGTON, D.C., 20202-3100
OFFICE NUMBER (202) 401-1028 FAX NUMBER (202) 401-1438

CC: Barry White

UNITED STATES DEPARTMENT OF EDUCATION

WASHINGTON, D.C. 20202-______

STUDENT FINANCIAL ASSISTANCE PROGRAMS
OFFICE OF THE SENIOR ADVISOR TO THE SECRETARY

TELEFAX MESSAGE COVER SHEET

DATE: 3/20/95

NUMBER OF PAGES (INCLUDING COVER): 2

NUMBER OF RECEIVING FAX: 456-2878

ADDRESSEE:

NAME: Bill Galston

ORGANIZATION: ______

OFFICE PHONE: ______

FROM:

NAME: Lina for Leo Kornfeld.

PHONE: (202) 708-8391 **FAX:** (202) 708-7157

MESSAGE:

MEMORANDUM

UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

DATE: March 20, 1995

TO: Bill Galston
Ellen S. Seidman
Darcy Bradbury
Barry White

FROM: Leo Kornfeld
Senior Advisor to the Secretary Leo

I like Barry White's letter. I think Ellen's concerns regarding Barry's paragraph are appropriate however, the thoughts in Barry's letter should remain, in my opinion, after some editing.

Ellen's second paragraph is excellent and should be included. Furthermore, I suggest we emphasize that, if the President's proposal for 100% is not legislated, SLMA endorses the concept that institutions should have the opportunity to select the loan program suited to their institution and not based on an arbitrary cap on the program.

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

22-Mar-1995 08:39am

TO: (See Below)

FROM: Barry White
Office of Mgmt and Budget, LVE

SUBJECT: Proposed changes to 3/21 SLMA Bd ltr draft

In general, this is a nice blend of my brute force approach and more gentlemanly (gentlepersonly?) language befitting a board chairman. We need to push this effort fast, so I'm particularly glad Treasury took the initiative to meld the myriad communiques of the last few days. A short meeting might be the best next step. I'm free after 4:30 today and about any time Thursday morning; I'd be happy to host a meeting here if that suits, or go to anybody else's place. Others' schedules?

FIRST PARAGRAPH. End the SEDOND SENTENCE after "direct student loan program." This deletes the remaining words that sound like support of current law and opposition to the President's proposal for a faster ramp up. Perhaps we can't ask for an endorsement of the fast ramp up, but neither do I want implied criticism.

SECOND PARAGRAPH. I don't see the need or the point for the LAST SENTENCE, Sallie Mae patting itself on the back for "privately issued asset-backed securities." This is not germane and suggests that we attach some virtue to this event that I am not aware supports our policy goals. Delete it and move directly to the next paragraph.

THIRD PARAGRAPH. The LAST SENTENCE ("reduce the cost of credit subsidies") is not a sufficient statement of the purpose of creating direct lending. Saving money is always good, but that was not the primary purpose of the Clinton initiative, nor is it appropriate in this context to refer to the macro-legislative vehicle as if budget had been the main focus. End the sentence after "... as a piolot program in 1992" and replace the rest with:

"The Student Loan Reform Act of 1993 replaced the pilot with a phase-in of direct lending in order to expand student repayment options, simplify and improve program administration at the Federal and school level, and lower costs."

FOURTH PARAGRAPH, SECOND SENTENCE. The phrase "is an opportunity" suggests that there are other opportunities, a view we do not want to encourage. Replace with: "... represents the right time."

FIFTH PARAGRAPH. At the end of the FIRST SENTENCE, strike "within the limits of the law." We only operate within such limits at all times; the phrase could be read as opposition to the President's proposed law change.

The point of the SECOND SENTENCE is to oppose the Goodling/Kassebaum bills, but current law also has "rigid legal limits," and so does the Administration's proposal. A small modification would have it read:

"In particular, the corporation does not support legislative proposals to restrict the growth of direct lending in any way."

The THIRD SENTENCE is way too broad. We know on the record that Sallie Mae interprets its authority to "market as effectively as possible" as a license to subborn school decisions to joint direct lending, and to offer improper inducements. Sallie Mae's consent decree-like withdrawal of certain practices ("we say we didn't do it but we agree we won't do it again") is the reality here. This sentence replaces my earlier more aggressive, perhaps infelicitously phrased, shot at their behavior. A compromise might read:

"At the same time, the corporation will continue to carry out its responsibilities as the leading student loan secondary market to support efficient provision of new student loans as long as the law provides for such loans, and to maintain a market for and to service previously issued guaranteed loans."

The LAST SENTENCE, asserting a role for Sallie Mae in the direct student loan program, is particularly inappropriate. Sallie Mae can now and would in the future have the same opportunity to bid for direct loan servicing contracts as any other financial services company. We do not envision or support any preferential role and should not, by virtue of offering this draft, signal to Sallie Mae any such desire on the part of the Administration. This sentence should be deleted.

LAST PARAGRAPH. The SECOND SENTENCE should end after "...to make funds available to students." Strike the "formidable competitor" language. We are not in a competition here, we are supporting the President's goal of replacing guaranteed with direct lending. We do not want to fall prey to Sallie Mae's political goal of a casting the issue as the need for a "level playing field." No Marquess of Queensbury rules.

Distribution:

TO: William A. Galston
TO: Ellen S. Seidman
TO: FAX (9-401-1438,Tom Wolanin)

SBMA Working Group

NAME	Telephone #	FAX
Barry White	395-4532	395-4875
Don Feuestein	260-0438	708-8404
Leo Kornfeld	708-8391	708-7157
Ellen Seidman	456-2802	456-2223
Bill Galston	456-2999	456-2878
Tom Wolanin	401-1028	401-1438

D R A F T 3/23/95

Letters to Chairs and Rankings, House and Senate Education Full Committees and Subcommittees, cc: Secretary Riley, Secretary Rubin. Signature of the Chairman.

I am writing on behalf of the Board of Directors of the Student Loan Marketing Association to express the Board's support for legislation to permit Sallie Mae to restructure itself into a completely private business entity. The Board also actively supports the phase-in of the Federal Direct Student Loan program. I am particularly anxious to clarify Sallie Mae's position, since incorrect assumptions about our views may affect Congressional deliberations on these important issues.

As you know, the Sallie Mae was created in 1972 as government-sponsored enterprise (GSE) to serve as an efficient secondary market for federally guaranteed student loans. We believe Sallie Mae has more than fulfilled its statutory purpose of making student credit broadly available. Government higher education policy has changed greatly in recent years, however, as the government has sought ways to trim spending and reduce the federal deficit.

Under current law, direct loans would replace the loan guarantee program gradually over time. The Board believes that the transition to direct lending is an opportunity for Sallie Mae to make a transition from GSE status to completely private status. Legislation that would permit Sallie Mae to restructure as a private entity, without links to the Federal Government, and to expand and diversify Sallie Mae's business operations would be in the best interests of the Sallie Mae shareholders, students, and the general taxpayer.

The Board of Directors therefore wishes to provide assurance that Sallie Mae will actively support implementation of the Direct Student Loan program and expansion of that program. In particular, the corporation does not support rigid legal limits to restrict the growth of direct lending. At the same time, the corporation will continue to carry out its responsibilities as a leading student loan secondary market to support efficient provision of new student loans as long as the law provides for such loans and to maintain a market for and service outstanding student loans.

It is essential that Sallie Mae continue to respond -- as it always has -- to changes in the external environment. The Direct Student Loan program has proven to be an effective way for the government to make funds available to students. The time is right for Congress to enact legislation that phases out Sallie Mae's status as a GSE and permits the shareholders and the Board to take the successor corporation into new businesses as an entirely private entity. Therefore, we strongly believe that the phase-in of the Direct Student Loan program should proceed quickly and support legislation to permit Sallie Mae to restructure into a completely private business corporation.

Sincerely,

William Arceneaux

STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007-3871
202-333-8000

TIMOTHY G. GREENE
Executive Vice President
General Counsel

March 23, 1995

VIA FACSIMILE

Ms. Darcy Bradbury
Deputy Assistant Secretary
Federal Finance
Department of Treasury
Room 2234
1500 Pennsylvania Ave., NW
Washington, DC 20220

Dear Darcy:

Per your request, I am transmitting herewith a copy of the resolution in support of Sallie Mae's rechartering efforts, unanimously adopted by Sallie Mae's Board of Directors at last week's meeting. Let me know if you or Mr. Newman have any further questions on this matter.

Sincerely,

Timothy G. Greene

Enclosure

Sallie Mae Board of Directors' Meeting
March 18, 1995

No. 3/95-_/_-018

<u>Draft</u>

RESOLUTION

(Resolution Directing Sallie Mae to seek Fully Private Status)

WHEREAS, This Board of Directors has from time to time considered the rechartering of the corporation, and

WHEREAS, The corporation has held discussions with the United States' Departments of Education and Treasury, as well as the Office of Management and Budget, and the National Economic Council relative to the feasibility of rechartering, and

WHEREAS, The corporation has conducted extensive studies relative to the feasibility of such rechartering, and

WHEREAS, There appears to be an opportunity to advance rechartering with the support of the U.S. Congress and the Administration.

NOW, THEREFORE, BE IT RESOLVED, That this Board of Directors does hereby, unanimously affirm its prior-stated views that it is in the best interest of the shareholders and the corporation to pursue rechartering and does direct the management of this corporation to pursue a strategic course which will result in the establishment of the corporation as a state chartered entity and as no longer subject to the provisions of Section 1087-2 of the Higher Education Act of 1965, as amended, and

FURTHER RESOLVED, That this Board instructs management to aggressively pursue opportunities within its present statutory configuration, and

FINALLY RESOLVED, That the President and Chief Executive Officer, the Executive Vice President and General Counsel, or their designees be, and hereby are, authorized to take all such actions as are consistent herewith.

Withdrawal/Redaction Marker
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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. letter	William Arceneaux to Frank Newman re: Sallie Mae (partial) (1 page)	03/17/1995	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

Sallie Mae [3]

2011-0255-S
rc223

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]

03/21/95 12:39 ☎9 202 6220404 DEPSEC TREAS 002/002
03/17/95 13:32 LA ASSOC OF INDEP COLLEGES → 9 202 6220404 NO. 555 P02

SallieMae

STUDENT LOAN MARKETING ASSOCIATION
1050 Thomas Jefferson Street, N.W.
Washington, D.C. 20007
202-298-2500

WILLIAM ARCENEAUX
Chairman of the Board

March 17, 1995

The Honorable Frank Newman
Under Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania, N.W.
Room 3326
Washington, D.C. 20220

Dear Frank:

Please know that I want to be as helpful as possible in the matter we discussed yesterday. Should you reach a point in this process where you believe that Board-Level involvement might assist in overcoming a hurdle or impasse, don't hesitate to call on me. Call anytime you think I can be helpful. I can be reached at (504)389-9885 (office), P6/(b)(6) (home), or (504)389-0149 (fax).

[003]

Sincerely,

Bill

William Arceneaux

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. letter	Harry McPherson to Bill Galston (2 pages)	03/17/1995	P5

COLLECTION:
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Gaynor McCown (Subject Files)
OA/Box Number: 7321

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To. Bill Galston

From: Barry White

Same draft 4/4/95

DRAFT 3/23/95

Letters to Chairs and Rankings, House and Senate Education Full Committees and Subcommittees, cc: Secretary Riley, Secretary Rubin. Signature of the Chairman

I am writing on behalf of the Board of Directors of the Student Loan Marketing Association to express the Board's support for restructuring Sallie Mae into a completely private business entity. I am particularly anxious to clarify Sallie Mae's position, since incorrect assumptions about our views may affect Congressional deliberations on this important issue.

As you know, Sallie Mae was created in 1972 as a government -sponsored enterprise (GSE) to serve as an efficient secondary market for federally guaranteed student loans. We believe Sallie Mae has more than fulfilled its statutory purpose of making student credit broadly available. However, Federal higher education policy has changed greatly in recent years.

Under current law, direct loans would gradually replace much of the loan guarantee program over time. The Board believes that this transition to direct lending underscores the need for Sallie Mae to make the transition from GSE status to completely private status. Restructuring Sallie Mae as a private entity, without links to the Federal Government, and diversifying its business operations, would be in the best interest of colleges and students, Sallie Mae shareholders, and the general taxpayer.

There are two federal student loan programs in law, the Federal Direct Student Loan program and Federal Family Education Loan program. The latter represents Sallie Mae's core business and the corporation will continue to carry out its responsibilities as a leading student loan secondary market to support efficient provision of new student loans as long as the law provides for such loans and to maintain a market for and service outstanding student loans. Sallie Mae can perform these responsibilities without government sponsorship.

It is essential that Sallie Mae continue to respond -- as it always has -- to changes in the external environment. The time is right for Congress to phase out Sallie Mae's status as a GSE and permit the shareholders and the Board to recharter the successor corporation as an entirely private entity. Please find attached a resolution supporting privatization which was unanimously adopted by the Sallie Mae Board of Directors on March 18, 1995.

Sincerely,

William Arceneaux

Proposed legislation to be reviewed before letter is finalized. Linkage to direct lending needs to be discussed.

Darcy asked for add'n of sentence supporting implementation of FDSL under current law or at least not opposing.

395-4875

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. memo	From: Pratiricia Smith re: SMLA--FYI (1 page)	04/11/1995	P5

COLLECTION:

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

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Sallie Mae

COMMITM

VISION

SOLUTIONS

1993 Annual Report

RESPONSE

FUTURE

SERVICE