FOIA Number: 2017-1074-F

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[Sallie Mae]

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SALLIE MAE

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

30-May-1996 11:11am

TO: Paul R. Dimond
TO: Barry White
TO: Kenneth S. Apfel
TO: Gene B. Sperling

FROM: Ellen S. Seidman
National Economic Council

SUBJECT: Sallie Mae

I spoke to Jill and Gene while I was over at Treasury, and also spoke to Jerry HAwke. They now know the state of play with the conference. Jill is going to try to draft a letter -- which we will of course see before it goes anywhere -- from Hawke (not Rubin) that essentially says: "this is a side issue. If you reach agreement on all other issues and don't change this deal, it is an arrangement with respect to Sallie Mae privatization that we can support. But this in no way represents any opinion on any other part of the bill." I'm not sure they can write it, but it's worth a try.

Sallie Mae is giving signals that they don't think the CAREERS bill is going anywhere either. Jill, in fact, thinks they really want the letter so they can try to put the package on another vehicle.

Gene has a call in to Wolanin, and I've urged them to try to connect as soon as possible.

Ellen

EXECUTIVE OFFICE OF THE PRESIDENT

30-May-1996 09:10am

TO: Kenneth S. Apfel

FROM: Paul R. Dimond
National Economic Council

CC: Ellen S. Seidman
CC: Barry White
CC: Gene B. Sperling

SUBJECT: RE: Sallie Mae

Ken,

Thanks for confimring my instincts on this. We are at a very critical juncture here: virtually all of the D's on the House and Senate Committee are ready to line-up full force behind the POTUS letter. But, as you know, Senator Pell is a possible problem; and on the floor, we need to make sure that Senate D's will stand together with us. The R's still are trying to act as if POTUS will sign anything -- so any letter from Administration now suggesting any part of bill is getting better surely is the wrong signal.

In fact, the D's asked at least Riley and Reich to communicate directly with Senator Kassebau, and Representatives Goodling, McKeon, and Rigggs so that they understand precisely how strong the POTUS is -- and can't claim, disingenuously, "Gee, this letter doesn't really mean that the President is serious about his concerns......" It might be even better to have Laura do this on behalf of the WH so that there is no confusion.

We will also need to decide how to contact Pell (and any other fence-sitters on the Committe) plus Daschle, Breaux, Nunn, etc. to make sure that we have all of the Sneate D's with POTUS.

Ken, will you convene a meeting of the principals or journey folk to get the ducks in a row on this as soon as possible?

Thanks

Dimond.

P,S, I'm back Monday about 11:00.

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

30-May-1996 08:06am

TO: Kenneth S. Apfel

FROM: Barry White
Office of Mgmt and Budget, HRD

CC: Paul R. Dimond
CC: Ellen S. Seidman
CC: Gene B. Sperling

SUBJECT: RE: Sallie Mae

I'm glad Treasury is happy, but lets remember that this is not solely a Treasury issue. Education is the agency with the programmatic stake here, not Treasury. So let's find out what the Education take is on this deal before we consider sending a letter in support of any part of the job training bill.

I left a message with Tom Wolanin at ED to get in touch with Treasury to get the machinery moving. I'll follow up a little later this morning.

THE WHITE HOUSE

WASHINGTON

April 18, 1996

MEMORANDUM FOR GENE SPERLING

FROM: Ellen Seidman

SUBJECT: Sallie Mae

Attached, for your information, is information about the Sallie Mae situation: (i) a set of draft talking points and Q&As that OMB has has produced; (ii) Jerry Hawke's most recent letter to Sallie Mae's Chairman, Larry Hough, saying there had to be a date certain for liquidation and providing some reasoning; and (iii) a Dow wire story covering Jerry's letter.

As a matter of good government, non-corporate welfare, and playing fair with the market, the point that the government, not Sallie Mae, gets to choose when it's time to end GSE status is absoluely essential. So far, Sallie Mae has won every round of the "negotiations," largely because they're far more interested in the outcome than anyone else is. If we're going to succeed in getting this principle established, which will be even more important should a more clever GSE like Fannie Mae ever become surplussage, we need to elevate the debate beyond the Labor Committees.

As I mentioned this morning, however, it will be important that the Administration is all together on this. I hope you can help. Ken Apfel is scheduling a meeting for Monday, to which you are being invited, to discuss this.

April 18, 1996

Note for: Tom Wolanin
Don Fueurstein
Leo Kornfeld
Jill Ouseley
Ellen Seidman
Bob Shireman
Clayton Spencer

From: Pat Smith and Barry White

Subject: Draft Sallie Mae paper and Qs and As

Here is the promised draft for your consideration. Thanks to Jill Ouseley and Don Fueurstein for their input.

Don's piece is especially interesting. Though not in the style we would use, it may be worth showing to interested parties. We ask him to circulate it directly to those at our meeting.

Note that there are a number of blanks that need filling in by Treasury or Education. Please get your edits back to Pat Smith as soon as you can, today if possible. There is movement among Republicans on the Conference so the time for action is now.

You will get a call today for a "next steps" meeting with Apfel on Monday. We'd like to be able to send out to you a revised version based on your inputs by Friday afternoon, to help inform Monday's meeting.

DRAFT April 17, 1996

THE PRIVATIZATION OF SALLIE MAE MUST ONLY BE DONE WITHOUT GIVING AWAY THE GOVERNMENT'S RIGHT TO SET PUBLIC POLICY

ISSUE: Legislation to convert Sallie Mae (the Student Loan Marketing Association), now a Government-Sponsored Enterprise (GSE) to a private company, must include a date certain by which the process is complete and Sallie Mae no longer enjoys enormous benefits under Federal law that no longer serve a public policy purpose.[1]

SUMMARY

- Sallie Mae was created by Congress in 1972 to provide a secondary market to provide capital liquidity to banks to induce them to make guaranteed student loans. In exchange for performing this function, Sallie Mae was granted extensive benefits worth tens of millions of dollars annually that lower its cost of money and give it competitive advantages in the marketplace. Benefits include: Exemption from State and local taxes; exemption from SEC registration; preferential treatment of its debt under Federal banking laws.

  In the eyes of financial markets, Sallie Mae carries an implicit Federal guarantee in the event of financial instability, that lowers its cost of borrowing and raises the value of its shares significantly [quantify?].

- The Administration, Sallie Mae, and the House of Representatives all agree that **Sallie Mae successfully met the goals set in 1972 and it should no longer be a GSE.**

  -- Sallie Mae itself proposed privatization to the Administration based on its analysis, with which the Administration agrees, that its purpose has been fulfilled.

- Rather than propose to liquidate Sallie Mae, however, the Administration, mindful of concerns of private investors, carefully negotiated with Sallie Mae an orderly approach to privatization, but during House consideration, a key provision was changed, at Sallie Mae's behest, that waives Congress' right to legislate an orderly process.

- **The issue now is whether Congress should transfer to private shareholders the sole right to decide whether Sallie Mae retains huge benefits from the taxpayers, even though all agree that no public purpose would be served by that.**

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[1] The Sallie Mae provisions are included in the House version of the job training consolidation legislation -- "CAREERS" -- which has been before a conference committee of the House Education and Economic Opportunity Committee and the Senate Labor and Human Resources Committee since [October?] of 1995. The companion Senate bill did not include a privatization provision.

Sallie Mae's purpose -- the original "contract."

- Sallie Mae was created by Congress in 1972 to solve a critical public policy problem: Student access to loan capital for college education. Banks would not provide it without collateral or credit histories, which most students did not have. The Federal government therefore gave banks guarantees against student default, but many banks remained reluctant to participate because there was no secondary market in which they could sell loans and recoup capital for new lending. Thus, Sallie Mae was authorized in law as a shareholder-owned, Government-Sponsored Enterprise with a series of special benefits provided solely in order to help it create this secondary market.

  -- Sallie Mae benefits included: a line of credit from Treasury (used until the early 1980s when Sallie Mae became so successful, it was no longer needed. Sallie Mae borrowed and repaid $XXX billion); exemption from State and local taxes; special treatment for Federal taxes **[ED/Treasury: a phrase to explain]**; preferential treatment for its debt under banking laws; [others to highlight?].

- With these benefits, Sallie Mae created the market and bank participation mushroomed. College costs were rising rapidly and Congress provided increasingly easy access to loans that were now more readily available. Sallie Mae quickly gained a commanding position in the student loan secondary market (it holds about one third of all loans, or $[____ billion in loans) and is now extremely profitable.

  -- By the end of 1992, SLMA shareholders had invested $750 million, but had made in excess of $3 billion in after-tax profits.

- Sallie Mae is an unqualified success. But the conditions that led to its creation no longer exist.

Changes in the guaranteed loan environment make Sallie Mae unnecessary: smarter banks; more secondary markets; securitization; automation.

- Banks now know, as few did in 1972, that guaranteed student loans are a sound, profitable investment that they want to make, liquidity notwithstanding. While most banks still sell loans to avoid servicing costs, the guaranteed return they enjoy is now a larger factor in their portfolio decisions.

- There are now [___] other secondary markets, where there were virtually none in 1972. If Sallie Mae were competing with these markets without its special government benefits, other companies would capture a larger share of the market.

- Banks now can get nearly the same low cost money advantage that Sallie Mae has through its special Federal benefits, by virtue of securitizing loans -- i.e., packaging loans into trusts which investors buy shares in.

- Dramatic advances in computer technology have lowered the cost of servicing student loans dramatically. Sallie Mae's one-time competitive advantage in processing is now matched by many others -- though this is a business a private Sallie Mae would compete for with some success, based on its experience.

The "date certain" requirement is key to an acceptable privatization.

- Unless there is a statutory date for dissolution of the GSE, the desire to maximize the value of their common shares would motivate SLMA shareholders to vote "no" on privatization in order to retain their government subsidy in perpetuity.

- As evidenced by the very few number of GSEs that exist, the conditions that lead Congress to grant extraordinary benefits to these shareholder-owned companies are very rare. The conditions and purposes are set in each one's authorizing law. Once all agree that the purpose has been achieved and the conditions no longer exist, it is not rationale for Congress to perpetuate special benefits.

- Once the purposes are achieved and the conditions changed, special benefits for Sallie Mae only distort private markets and prevent open competition for business. The Administration cannot condone that situation.

- The Administration's proposal provides a date certain for a shareholder vote, and if the vote is against privatization, then there would be an orderly termination of the company. The proposal provides a full 15 years to complete the process.

- In addition, with so much potentially at risk during this process, the Administration proposes enhancement of Treasury's current "safety and soundness" regulatory authorities and the resources to carry them out.

SEE THE FOLLOWING QUESTIONS AND ANSWERS FOR ADDITIONAL INFORMATION

QUESTIONS AND ANSWERS ON SALLIE MAE PRIVATIZATION

Q. Direct Loans. Isn't this issue really just another phase of the dispute between the Republican majority in Congress and the Administration over whether the bank-based guaranteed loan program or the direct loan program should control lending to students and their parents for postsecondary education?

A. The effective implementation of the successful Federal Direct Student Loan Program has certainly reduced the market for Sallie Mae loan purchases, which may have played into Sallie Mae's decision to propose privatization. But the issue now before Congress has nothing to do with the presence or absence of direct lending. It is solely a matter of whether the Government decides when public policy calls for the continuation of taxpayer-subsidized special benefits to a shareholder-owned GSE, or the private shareholders make the decision.

Q. Corporate profits and compensation. Is it fair to say that Sallie Mae wants to keep the right to privatize because that way, it can maintain its profits and its executives their compensation for the maximum period?

A. The Administration does not oppose Sallie Mae profits, nor the decision by Sallie Mae's board to award substantial compensation to its officers. Sallie Mae's Federal legislation gives it the same ability that any successful company would have to make money and compensate officers. Sallie Mae itself proposed to privatize based on the need no longer existing for its statutory mission.

Q. Relationship to other GSEs. Is the privatization of Sallie Mae the first step towards privatizing Fannie Mae and other GSEs?

A. Sallie Mae proposed to the government that it be privatized because its purpose had been accomplished. No such determination has been made for any other major GSE.

There is no connection between the Administration's support for privatization of SLMA and the study that the Treasury is performing of the housing GSEs. Unlike SLMA, neither Fannie Mae nor Freddie Mac has requested to be privatized and no determination has been made that GSEs are not needed in the secondary market for home mortgages.

The only other GSE involved in privatization is the small, uniquely different College Construction Loan Insurance Association, a State-regulated insurance company which enjoys none of the benefits that other GSEs have -- its GSE status is based primarily on its original partial capitalization with a one-time Federal stock purchase. Connie Lee aggressively seeks privatization, with the Administration's full support.

Q. Special benefits. What exactly are the special benefits that Sallie Mae has as a GSE?

A. A list adapted from the report of the Secretary of the Treasury on GSEs, May 1990, shows the following benefits:

Low interest loans from Treasury. From 1972 to 19XX, Sallie Mae borrowed and repaid, $xxx billion. Thereafter, its success gave it the ability to borrow in financial markets at such advantageous rates, the Treasury borrowing ended.

Exemption of corporate earnings from State and local income taxes. A company of comparable size and type might typically pay $xxx million [Treasury?] per year in State and local taxes.

Eligible for Federal Reserve open market purchases.

Eligible to collateralize public deposits (all U.S. government; most State and local).

Exempt from SEC registration (1933 Act)

Treatment as government securities for purposes of SEC act of 1934.

Eligible for unlimited investment by national banks and State bank Federal Reseve members.

Eligible for unlimited investment by regulated thrifts.

Exemption of interest paid from State income tax.

Q. Source of Sallie Mae profit on student loans. What is it about Sallie Mae that makes it so profitable?

A. Some of Sallie Mae's profits come from related business revenue and money management. The guaranteed loan program is profitable for all loan holders primarily because of the following: All loan holders, whether lenders or secondary markets, are guaranteed a rate of return adjusted quarterly based on the 91-day T-bill, plus a fixed number of percentage points (now 3.1); if T-bill rates rise to the extent that this return would be exceeded by the borrower's statutorily set interest rate, the noteholder receives a "special allowance" from the Federal government to make up the difference. SLMA's most recent report indicates that their net student loan income earned on student loans (after servicing costs) on Dec. 31, 1995, was 7.26%, and that their cost of funds was 5.77%, leaving them a spread of 1.49%. Sallie Mae reported end of 1995 profits of $xxxxx.

DEPARTMENT OF THE TREASURY
WASHINGTON

April 16, 1996

UNDER SECRETARY

Mr. Lawrence A. Hough
President and CEO
Sallie Mae
1050 Thomas Jefferson St., N.W.
Washington, D.C. 20007

Dear Larry:

We have received a copy of your letter to Senator Kassebaum stating that you were "surprised and disappointed" by Secretary Rubin's March 26 letter to the Senator concerning the Sallie Mae legislation.

Secretary Rubin's letter simply stated once again the Administration's strong, fundamental policy objection to the privatization provision that was passed by the House. As you know, we have objected to this provision from the start because it would give Sallie Mae shareholders, rather than the Federal government, the right to determine whether Sallie Mae should be privatized. I had hoped that, after my letter to you dated August 29, 1995, and our meetings with you last year, you would have directed your efforts to developing, for inclusion in this legislation, an acceptable statutory procedure for privatizing the company in the event your shareholders disapproved a management plan. We believe this would be the most constructive approach, since all of the parties to the privatization debate have recognized that there is no longer a need for Sallie Mae to function as a GSE.

While the Administration has not wavered from its fundamental public policy position, we have agreed to substantial compromises that would facilitate an orderly wind-down of the Government-sponsored enterprise's business activities. We have suggested extending the period of time that the shareholders have to vote in order to allow for the possibility of several votes. We have also agreed to an extended transition period ending in 2011, during which the GSE would gradually reduce its business activities, prior to transferring its remaining assets and liabilities to a defeasance trust. We continue to believe that the Administration's proposal is a reasonable, measured approach that preserves the integrity of the government's prerogative to privatize a GSE that is no longer needed, while at the same time ensuring that privatization will occur in an orderly way.

In fact, there is strong reason to believe that, unless there is a statutory date for dissolution of the GSE, Sallie Mae shareholders would be likely to reject reorganizing the company as an ordinary state-chartered business corporation. I note in the proxy statement dated April 20, 1995, the Committee to Restore Value at Sallie Mae, which obtained enough shareholder proxies to elect 8 members to the Sallie Mae Board of Directors, stated that one of its purposes was to "undertake a comprehensive review of measures that can be taken to maximize the value of the common stock to the Company's shareholders, including a review of the Company's business and use of capital, and other strategic considerations."

There is also reason to believe that, given a choice simply between retaining or relinquishing the GSE charter, the Sallie Mae shareholders might well conclude that their own financial interests would be better served by retaining a government subsidy. Thus, for Congress to enact legislation leaving the privatization choice to shareholders, with no more than an option for Congress "to address the future of Sallie Mae" at some indeterminate later date, as you have urged, would be an empty gesture.

We believe the responsible course is for Congress to give shareholders the opportunity to agree on a reorganization plan, but to accompany that with a clearly defined procedure that would bring about an orderly wind-down of the GSE if shareholders should reject management's reorganization plan. Among other things, such an approach would give shareholders a fair and fully informed basis on which to evaluate the management plan, since the alternative would be spelled out in the law. By contrast, to ask shareholders to vote on a reorganization plan without any basis for projecting what Congress might do if the plan were rejected presents them with an incomplete picture of the alternatives. Of course, if, having both options before them, shareholders were to conclude that adoption of a privatization plan were a preferred method for maximizing the value of the common stock, the alternative of a statutorily prescribed privatization would become academic.

As I stated in my letter to you of August 29, 1995, we are confident that if we work together we can develop statutory language that would provide an orderly and satisfactory procedure for privatizing the company. The inclusion of such language in the current legislation is, in our view, absolutely essential, and we would welcome the opportunity to discuss such an approach further with you.

Sincerely,

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

06487 CM:CM 04/18-13:48

U.S. Treasury/Sallie Mae Privatization Squabble Escalates

By John Connor

WASHINGTON (Dow Jones)--Sallie Mae said Treasury's insistence that any bill to privatize the firm should require it to turn in its government charter even if its shareholders reject the privitization option "threatens to scuttle" efforts to make Sallie a completely private company.

But Treasury called its position "absolutely essential," saying there is "strong reason to believe that, unless there is a statutory date for dissolution of the GSE (government-sponsored enterprise), Sallie Mae shareholders would be likely to reject reorganizing the company as an ordinary state-chartered business corporation."

The crossfire marks an escalation in a tiff between Treasury and Sallie Mae that could doom Sallie Mae privatization legislation this year.

Sallie Mae, the Student Loan Marketing Association, is a shareholder-owned, government-chartered firm that was created to provide liquidity for student loans. Sallie's management favors it becoming a completely private firm, but insists its stockholders have the final say in the matter.

The Treasury Department also favors privatizing the firm, but believes strongly, as Secretary Robert Rubin said in a letter last month, that "the operations of an unneeded GSE should cease over time even if the shareholders decide not to privatize."

Sallie Mae Chairman Lawrence Hough, in a recent letter to Congress, said the firm was "surprised and disappointed" by Rubin's stand. Hough said Treasury's insistence on a forced GSE termination provision in any final Sallie Mae privatization bill ignores many compromises negotiated thus far in the legislative process.

(MORE) DOW JONES NEWS 04-18-96
1348EDT

06489 CM:CM 04/18-13:52

Treasury/Sallie Mae-2: Hawke Says Wind-Down Of GSE Essential

Noting Treasury's position would require Sallie Mae to be "forcibly wound-down" from its GSE status even if its shareholders disapprove a reorganization plan, Hough said this "serves no one's best interest," could de-stabilize a key student loan program, "cause potential student loan access problems," and scuttle cooperative efforts to privatize the company.

But John Hawke, Treasury Under Secretary for Domestic Finance, fired off a letter responding to Hough in which he said that inclusion of legislative language providing for the orderly wind-down of the GSE even if shareholders reject privatization is "absolutely essential" in any privatization bill.

Hawke said there is "reason to believe that, given a choice simply between retaining or relinquishing the GSE charter, the Sallie Mae shareholders might well conclude that their own financial interests would be better served by retaining a government subsidy."

Treasury has forwarded draft amendments to the Senate including a "date certain" for dissolution of Sallie Mae's GSE charter if the company's shareholders reject privatization. Under a House-passed bill, Sallie Mae would continue as a GSE if its shareholders rejected privatization.

Hawke told Sallie Mae's Hough: "We believe the responsible course is for Congress to give shareholders the opportunity to agree on a reorganization plan, but to accompany that with clearly defined procedures that would bring about an orderly-wind down of the GSE if shareholders should reject management's reorganization plan."

(END) DOW JONES NEWS 04-18-96

1352EDT

THE WHITE HOUSE

WASHINGTON

April 18, 1996

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FROM: **Ellen Seidman**

SUBJECT: **Sallie Mae**

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Q. Corporate profits and compensation. Is it fair to say that Sallie Mae wants to keep the right to privatize because that way, it can maintain its profits and its executives their compensation for the maximum period?

A. The Administration does not oppose Sallie Mae profits, nor the decision by Sallie Mae's board to award substantial compensation to its officers. Sallie Mae's Federal legislation gives it the same ability that any successful company would have to make money and compensate officers. Sallie Mae itself proposed to privatize based on the need no longer existing for its statutory mission.

Q. Relationship to other GSEs. Is the privatization of Sallie Mae the first step towards privatizing Fannie Mae and other GSEs?

A. Sallie Mae proposed to the government that it be privatized because its purpose had been accomplished. No such determination has been made for any other major GSE.

There is no connection between the Administration's support for privatization of SLMA and the study that the Treasury is performing of the housing GSEs. Unlike SLMA, neither Fannie Mae nor Freddie Mac has requested to be privatized and no determination has been made that GSEs are not needed in the secondary market for home mortgages.

The only other GSE involved in privatization is the small, uniquely different College Construction Loan Insurance Association, a State-regulated insurance company which enjoys none of the benefits that other GSEs have -- its GSE status is based primarily on its original partial capitalization with a one-time Federal stock purchase. Connie Lee aggressively seeks privatization, with the Administration's full support.

Q. Special benefits. What exactly are the special benefits that Sallie Mae has as a GSE?

A. A list adapted from the report of the Secretary of the Treasury on GSEs, May 1990, shows the following benefits:

Low interest loans from Treasury. From 1972 to 19XX, Sallie Mae borrowed and repaid, $xxx billion. Thereafter, its success gave it the ability to borrow in financial markets at such advantageous rates, the Treasury borrowing ended.

Exemption of corporate earnings from State and local income taxes. A company of comparable size and type might typically pay $xxx million [Treasury?] per year in State and local taxes.

Eligible for Federal Reserve open market purchases.

Eligible to collateralize public deposits (all U.S. government; most State and local).

Exempt from SEC registration (1933 Act)

Treatment as government securities for purposes of SEC act of 1934.

Eligible for unlimited investment by national banks and State bank Federal Reseve members.

Eligible for unlimited investment by regulated thrifts.

Exemption of interest paid from State income tax.

Q. Source of Sallie Mae profit on student loans. What is it about Sallie Mae that makes it so profitable?

A. Some of Sallie Mae's profits come from related business revenue and money management. The guaranteed loan program is profitable for all loan holders primarily because of the following: All loan holders, whether lenders or secondary markets, are guaranteed a rate of return adjusted quarterly based on the 91-day T-bill, plus a fixed number of percentage points (now 3.1); if T-bill rates rise to the extent that this return would be exceeded by the borrower's statutorily set interest rate, the noteholder receives a "special allowance" from the Federal government to make up the difference. SLMA's most recent report indicates that their net student loan income earned on student loans (after servicing costs) on Dec. 31, 1995, was 7.26%, and that their cost of funds was 5.77%, leaving them a spread of 1.49%. Sallie Mae reported end of 1995 profits of $xxxxx.

DEPARTMENT OF THE TREASURY
WASHINGTON
April 16, 1996

UNDER SECRETARY

Mr. Lawrence A. Hough
President and CEO
Sallie Mae
1050 Thomas Jefferson St., N.W.
Washington, D.C. 20007

Dear Larry:

We have received a copy of your letter to Senator Kassebaum stating that you were "surprised and disappointed" by Secretary Rubin's March 26 letter to the Senator concerning the Sallie Mae legislation.

Secretary Rubin's letter simply stated once again the Administration's strong, fundamental policy objection to the privatization provision that was passed by the House. As you know, we have objected to this provision from the start because it would give Sallie Mae shareholders, rather than the Federal government, the right to determine whether Sallie Mae should be privatized. I had hoped that, after my letter to you dated August 29, 1995, and our meetings with you last year, you would have directed your efforts to developing, for inclusion in this legislation, an acceptable statutory procedure for privatizing the company in the event your shareholders disapproved a management plan. We believe this would be the most constructive approach, since all of the parties to the privatization debate have recognized that there is no longer a need for Sallie Mae to function as a GSE.

While the Administration has not wavered from its fundamental public policy position, we have agreed to substantial compromises that would facilitate an orderly wind-down of the Government-sponsored enterprise's business activities. We have suggested extending the period of time that the shareholders have to vote in order to allow for the possibility of several votes. We have also agreed to an extended transition period ending in 2011, during which the GSE would gradually reduce its business activities, prior to transferring its remaining assets and liabilities to a defeasance trust. We continue to believe that the Administration's proposal is a reasonable, measured approach that preserves the integrity of the government's prerogative to privatize a GSE that is no longer needed, while at the same time ensuring that privatization will occur in an orderly way.

In fact, there is strong reason to believe that, unless there is a statutory date for dissolution of the GSE, Sallie Mae shareholders would be likely to reject reorganizing the company as an ordinary state-chartered business corporation. I note in the proxy statement dated April 20, 1995, the Committee to Restore Value at Sallie Mae, which obtained enough shareholder proxies to elect 8 members to the Sallie Mae Board of Directors, stated that one of its purposes was to "undertake a comprehensive review of measures that can be taken to maximize the value of the common stock to the Company's shareholders, including a review of the Company's business and use of capital, and other strategic considerations."

There is also reason to believe that, given a choice simply between retaining or relinquishing the GSE charter, the Sallie Mae shareholders might well conclude that their own financial interests would be better served by retaining a government subsidy. Thus, for Congress to enact legislation leaving the privatization choice to shareholders, with no more than an option for Congress "to address the future of Sallie Mae" at some indeterminate later date, as you have urged, would be an empty gesture.

We believe the responsible course is for Congress to give shareholders the opportunity to agree on a reorganization plan, but to accompany that with a clearly defined procedure that would bring about an orderly wind-down of the GSE if shareholders should reject management's reorganization plan. Among other things, such an approach would give shareholders a fair and fully informed basis on which to evaluate the management plan, since the alternative would be spelled out in the law. By contrast, to ask shareholders to vote on a reorganization plan without any basis for projecting what Congress might do if the plan were rejected presents them with an incomplete picture of the alternatives. Of course, if, having both options before them, shareholders were to conclude that adoption of a privatization plan were a preferred method for maximizing the value of the common stock, the alternative of a statutorily prescribed privatization would become academic.

As I stated in my letter to you of August 29, 1995, we are confident that if we work together we can develop statutory language that would provide an orderly and satisfactory procedure for privatizing the company. The inclusion of such language in the current legislation is, in our view, absolutely essential, and we would welcome the opportunity to discuss such an approach further with you.

Sincerely,

John D. Hawke, Jr.
Under Secretary of the Treasury
for Domestic Finance

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U.S. Treasury/Sallie Mae Privatization Squabble Escalates

By John Connor

WASHINGTON (Dow Jones)--Sallie Mae said Treasury's insistence that any bill to privatize the firm should require it to turn in its government charter even if its shareholders reject the privitization option "threatens to scuttle" efforts to make Sallie a completely private company.

But Treasury called its position "absolutely essential," saying there is "strong reason to believe that, unless there is a statutory date for dissolution of the GSE (government-sponsored enterprise), Sallie Mae shareholders would be likely to reject reorganizing the company as an ordinary state-chartered business corporation."

The crossfire marks an escalation in a tiff between Treasury and Sallie Mae that could doom Sallie Mae privatization legislation this year.

Sallie Mae, the Student Loan Marketing Association, is a shareholder-owned, government-chartered firm that was created to provide liquidity for student loans. Sallie's management favors it becoming a completely private firm, but insists its stockholders have the final say in the matter.

The Treasury Department also favors privatizing the firm, but believes strongly, as Secretary Robert Rubin said in a letter last month, that "the operations of an unneeded GSE should cease over time even if the shareholders decide not to privatize."

Sallie Mae Chairman Lawrence Hough, in a recent letter to Congress, said the firm was "surprised and disappointed" by Rubin's stand. Hough said Treasury's insistence on a forced GSE termination provision in any final Sallie Mae privatization bill ignores many compromises negotiated thus far in the legislative process.

(MORE) DOW JONES NEWS 04-18-96
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Treasury/Sallie Mae-2: Hawke Says Wind-Down Of GSE Essential

Noting Treasury's position would require Sallie Mae to be "forcibly wound-down" from its GSE status even if its shareholders disapprove a reorganization plan, Hough said this "serves no one's best interest," could de-stabilize a key student loan program, "cause potential student loan access problems," and scuttle cooperative efforts to privatize the company.

But John Hawke, Treasury Under Secretary for Domestic Finance, fired off a letter responding to Hough in which he said that inclusion of legislative language providing for the orderly wind-down of the GSE even if shareholders reject privatization is "absolutely essential" in any privatization bill.

Hawke said there is "reason to believe that, given a choice simply between retaining or relinquishing the GSE charter, the Sallie Mae shareholders might well conclude that their own financial interests would be better served by retaining a government subsidy."

Treasury has forwarded draft amendments to the Senate including a "date certain" for dissolution of Sallie Mae's GSE charter if the company's shareholders reject privatization. Under a House-passed bill, Sallie Mae would continue as a GSE if its shareholders rejected privatization.

Hawke told Sallie Mae's Hough: "We believe the responsible course is for Congress to give shareholders the opportunity to agree on a reorganization plan, but to accompany that with clearly defined procedures that would bring about an orderly-wind down of the GSE if shareholders should reject management's reorganization plan."

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