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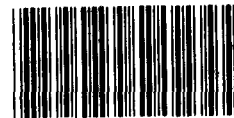
United States  
General Accounting Office  
Washington, D.C. 20548

Human Resources Division

B-251401

December 1, 1992

The Honorable Terry Sanford  
United States Senate



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Dear Senator Sanford:

In a recent letter, you asked that we respond to several issues that one of your constituents raised about certain activities of the Student Loan Marketing Association (Sallie Mae). Sallie Mae is a federally chartered corporation that buys and holds guaranteed student loans. Sallie Mae's buying and holding of loans provides lenders that make loans an opportunity to sell them. Lenders then have additional capital to make more loans. This process ensures eligible students access to these loans. Your constituent raised the question of whether Sallie Mae is exceeding its statutory authority in conducting these activities. Specifically, the concerns centered on the nature of Sallie Mae's participation in the CollegeCredit program.

CollegeCredit is sponsored by the College Board, the Teachers Insurance Annuity Association-College Retirement Equities Fund (TIAA-CREF), and Sallie Mae. Through postsecondary institutions, CollegeCredit makes financial aid--mostly guaranteed student loans--available to eligible borrowers. A primary issue is whether Sallie Mae is functioning as an originating lender--actually disbursing funds to borrowers--or is limiting its activities to buying and servicing loans as a secondary lender.<sup>1</sup> Other issues raised in the constituent's letter included assessing current and future competition in guaranteed student loan programs, analyzing Sallie Mae's cost of funds, and identifying policy issues related to the above.

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<sup>1</sup>Loan servicing generally includes accounting for loans, collecting principal and interest payments, and following up with borrowers whose loans are delinquent or in default. Servicing arrangements depend on contractual terms between Sallie Mae and each lender.

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Aspects of the CollegeCredit program, including Sallie Mae's role, are currently in litigation. Therefore, as agreed with your office, we limited our work to determining if Sallie Mae's activities were consistent with its authority as provided by the Higher Education Act of 1965, as amended. On October 8, 1992, we briefed your office on our preliminary findings, and this letter summarizes and expands on that briefing.

#### BACKGROUND

Sallie Mae, authorized in 1972 by the Higher Education Act, as amended, is a for-profit corporation owned and controlled by private stockholders to operate a secondary market for guaranteed student loans. It raises funds by selling debt securities to investors and raising equity capital (issuing stock). Its funds are used to (1) purchase student loans from banks and other financial institutions; (2) make loans to financial institutions so they can make additional student loans; (3) guarantee student loan revenue bonds; and (4) invest in academic facility bonds, student loan revenue obligations, and other liquid assets. Unless directed by the Secretary of Education, Sallie Mae is generally not authorized to make (originate) student loans.

To respond to the issues your constituent raised, we reviewed those provisions of the law related to Sallie Mae's operations. We also obtained and reviewed material discussing CollegeCredit in light of Sallie Mae's role.

#### COLLEGE CREDIT ACTIVITIES CONSISTENT WITH STATUTORY AUTHORITY

Sallie Mae's role in CollegeCredit is similar to activities it conducts with other lending institutions and, on the record before us, appears consistent with its statutory authority. Section 439(d)(1)(E) of the Higher Education Act, as amended, generally provides Sallie Mae broad authority to conduct activities to support the credit needs of students. This section also provides Sallie Mae the authority to undertake other activities with regard to student loans that are not insured or guaranteed, to the same extent that it has responsibilities for guaranteed loans. Subsections (i) and (ii) prohibit Sallie Mae from carrying out activities that replace or compete with lending programs being offered by other organizations.

Sallie Mae's principal activities as a partner in the CollegeCredit program consist of (1) being the secondary

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market purchaser of guaranteed student loans that have been made by other entities, and (2) servicing loans that are (a) made and retained by other organizations and (b) made by other lending institutions and subsequently sold to Sallie Mae. Sallie Mae does not originate (that is, it does not disburse funds to borrowers) loans under the CollegeCredit program, although it generally services them from the time they are made. These servicing activities may include the process of making loans--as a servicer and not as an originating lender--for lending organizations that are participating in CollegeCredit. These activities are generally the same types of services it offers other lenders that participate in guaranteed student loan programs.

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Should you wish to discuss this information further, please call me on (202) 512-7014.

Sincerely yours,



Linda G. Morra  
Director, Education and  
Employment Issues