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# SLM Corporation

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## Table of Contents

- **Introduction**
- **Chapter 1** The Founding of Sallie Mae: Origins and Intent
- **Chapter 2** Designing a Secondary Market: Early Strategies
- **Chapter 3** Growth and Expansion in the 1980s
- **Chapter 4** Federal Oversight: Regulation and Governance
- **Chapter 5** Public Ownership and Early Stock Offerings
- **Chapter 6** Broadening the Mission: Expanding Loan Products
- **Chapter 7** Policy Shifts and Congressional Influence
- **Chapter 8** The Push for Privatization
- **Chapter 9** The SLMA Reorganization Act of 1996
- **Chapter 10** Becoming SLM Corporation: The Path to Independence
- **Chapter 11** Strategic Acquisitions: Nellie Mae and USA Group
- **Chapter 12** The Federal Student Loan Industry: A Changing Landscape
- **Chapter 13** Turbulent Times: Crisis and Legal Controversies
- **Chapter 14** The Financial Crisis and Government Intervention
- **Chapter 15** Managing Risk: Governance, Scandal, and Settlement
- **Chapter 16** SLM and the Investor Community: Value and Growth
- **Chapter 17** The Navient Split: Rationale and Execution
- **Chapter 18** Sallie Mae Today: Private Loan Focus and Consumer Banking
- **Chapter 19** Modern Products and Services: Serving Students and Families
- **Chapter 20** Financial Performance in the 21st Century
- **Chapter 21** Regulatory Evolution: Federal Reform and Sallie Mae
- **Chapter 22** Leadership and Corporate Culture
- **Chapter 23** Community Impact: The Sallie Mae Fund and CSR
- **Chapter 24** Navigating the Future: Strategy and Opportunities
- **Chapter 25** The Legacy of SLM Corporation

## Introduction

The story of SLM Corporation—better known to generations of Americans as Sallie Mae—is intricately woven into the fabric of the nation’s approach to education funding, financial services, and innovation in consumer banking. Established during a period of great social and economic change, Sallie Mae emerged as a response to the increasing need for accessible higher education in the United States. Born from a congressional mandate in 1972, the company set out to provide a critical backbone for the federal student loan marketplace—an effort that would ultimately shape the educational possibilities of millions.

From these beginnings as the Student Loan Marketing Association, Sallie Mae functioned as a government-sponsored enterprise, playing a pivotal role in enabling banks and other lenders to participate in federal student loan programs. By purchasing student loans and providing crucial liquidity, the company quickly became central to the nation’s framework for college finance. Over its first decades, Sallie Mae’s growth was rapid, fueled by strong demand for higher education funding and the stability afforded by its hybrid public-private status.

However, the company’s story is far from simple. Legislative changes, market shifts, and regulatory pressures pushed Sallie Mae to evolve—first into a publicly owned entity and eventually into a fully privatized corporation. This transformation was marked by strategic acquisitions, attempts at mergers, encounters with legal and ethical scrutiny, and a continual need to adapt to new economic realities. The splitting off of its loan servicing arm in 2014 created two distinct entities: Sallie Mae continuing as a private lender and Navient taking on the government portfolio, signifying another fundamental shift in its history.

In recent years, Sallie Mae has embraced a modern identity, expanding beyond purely student loans into a more diversified array of consumer financial products and services. Through high-yield savings accounts, credit cards, innovative banking solutions, and support for college planning, Sallie Mae seeks to remain relevant amid the changing needs and financial landscapes faced by American families. Leadership transitions, continued commitment to corporate social responsibility, and evolving federal policy have all kept the company in sharp focus, both for investors and critics alike.

This book tells the complete story of Sallie Mae and SLM Corporation—from its origins as a government partner to its present role as the leading private provider of education loans. By examining key milestones, strategic decisions, market challenges, and future prospects, we aim to illuminate not just a company's journey, but also the

broader narrative of financial access and opportunity in America. Through this lens, the reader will better understand how SLM Corporation continues to influence the ways in which students and families achieve their educational and professional dreams.

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## **CHAPTER ONE: The Founding of Sallie Mae: Origins and Intent**

The year is 1972. Richard Nixon is in the White House, the Vietnam War is winding down, and the United States is grappling with a shifting economic and social landscape. Amidst this backdrop, a quiet yet profound revolution was taking place in higher education. More Americans than ever before were seeking college degrees, driven by a growing belief in education as a pathway to prosperity and social mobility. However, a significant hurdle remained: financing this ambitious pursuit. While the Guaranteed Student Loan Program (GSLP), established by the Higher Education Act of 1965, offered a federal safety net, there was a persistent issue with the flow of funds. Banks and other financial institutions, though eager to support students, often found their capital tied up in long-term, low-interest student loans, limiting their ability to issue new ones. This created a bottleneck in the system, threatening to stifle the very access to education that the GSLP was designed to promote.

It was in response to this pressing liquidity problem that the U.S. Congress, on June 23, 1972, enacted legislation to create the Student Loan Marketing Association, soon to be widely known as Sallie Mae. This new entity was conceived as a government-sponsored enterprise (GSE), a hybrid organization designed to operate with the efficiency of a private company while serving a public purpose. The core mission was clear: to provide a secondary market for federally insured and guaranteed student loans. In essence, Sallie Mae would act as a crucial intermediary, purchasing student loans from originators and thereby freeing up capital for lenders to make even more loans. This innovative approach aimed to inject much-needed fluidity into the student loan market, ensuring that financial institutions had a greater incentive to participate in the GSLP.

The establishment of Sallie Mae marked a pivotal moment, fundamentally transforming how students could finance their higher education. Before its arrival, while federal guarantees existed, the mechanism for recycling capital back into the system for new loans was less robust. The new GSE status bestowed upon Sallie Mae certain operational advantages, including exemptions from state and local taxes. However, these benefits came with a trade-off: its business activities were initially constrained by its federal charter, keeping its focus squarely on supporting the federal student loan market.

The structure of this new organization was carefully crafted to reflect its unique blend of public and private interests. The original pool of voting stockholders was purposefully restricted by Congress to include only banks and colleges that were

eligible to participate in its programs. This ensured that the institutions directly involved in student lending had a voice in Sallie Mae's governance. The board of directors mirrored this tripartite involvement, with representatives from financial institutions, educational institutions, and government appointees, including a chairperson chosen by the President of the United States.

When Sallie Mae officially commenced operations in 1973, it wasted no time in implementing its foundational services. Its primary offerings were twofold: direct loan purchases and what were termed "warehousing advances." Through loan purchases, Sallie Mae bought existing student loans from lenders, providing them with immediate cash flow. This was a significant relief for lenders, as it mitigated the risk of tying up their funds in long-term, fixed-rate loans and encouraged them to continue making new student loans. The warehousing advances, on the other hand, involved Sallie Mae lending money to financial institutions to originate new student loans, using existing loans or other government securities as collateral. This effectively gave lenders lines of credit to continue their lending activities.

These mechanisms were critical in fulfilling Sallie Mae's mandate to make student loans more liquid. The knowledge that they could sell off their student loan portfolios to Sallie Mae meant that lenders were less hesitant to commit capital to these loans in the first place. This was particularly important given the nature of student loans under the GSLP, which were designed for higher-risk borrowers but came with federal guarantees to mitigate lender losses.

The initial financing for Sallie Mae came from Washington, D.C., banks, and later in 1973, the company began repaying these loans through the sale of federally guaranteed securities. In 1974, Sallie Mae made its first issue of common stock, raising \$24 million in capital, though initially, the sale of this stock was restricted to banks or educational institutions. The intention was clear: to foster a robust and self-sustaining secondary market that would bolster the existing Guaranteed Student Loan Program, ultimately facilitating broader access to higher education for American students.

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