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# The Economics of Sallie Mae

The Journal of Structured Finance Summer 2012, 18 ( 2 ) 65 - 76  
DOI: 10.3905/jsf.2012.18.2.065

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## Abstract

The Student Loan Marketing Association, “Sallie Mae,” was formed by the federal government in 1972 to facilitate a secondary market for student loans. Now an independent entity, SLM Corporation is the largest lender and servicer of student loans in the U.S. As Sallie Mae made the transition into being a dominant player in all facets of the student loan industry (including student loan asset-backed securities, debt collection, and guarantor servicing), two economic theories have emerged. The “market for lemons” and “capture theory” theories serve as useful illustrations in understanding SLM’s evolution and future prospects.

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