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# Privatizing Federal Credit Programs: Why Sallie Mae?

J. Kevin Corder, Susan M. Hoffmann

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## Abstract

The federal government subsidizes lending to a number of borrowers—notably students, farmers, and homeowners. Government-sponsored enterprises issue the securities that channel capital to many of these privileged borrowers. One of the largest of these enterprises, the Student Loan Marketing Association (Sallie Mae), is scheduled to be wholly privatized by September 30, 2008. What explains the privatization of this enterprise? To identify distinctive features of Sallie Mae that permitted or abetted privatization, we investigate the structure, related capital market innovations, and growth of three government-sponsored enterprises. We conclude that a unique structural feature of Sallie Mae may explain the pace of privatization. The core asset of Sallie Mae, the student loan, is guaranteed and subsidized by the government. The case of Sallie Mae is an instructive yet poorly understood example of how the federal government can leverage private-sector assets and incentives to achieve public policy missions.

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