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Privatizing a Government Sponsored Enterprise: Lessons from the Sallie Mae Experience

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Abstract

The topic of Government Sponsored Enterprise (GSE) privatization is at least two decades old. In the early 1980s, HUD studied the feasibility of privatizing Fannie Mae and Freddie Mac. In 1986, Freddie Mac's Advisory Committee (the pre-cursor to its Board of Directors) discussed the subject. In the mid-1990s, privatization was re-visited when HUD published a series of background papers on the topic. There are many challenges associated with privatizing large, complex and politically powerful entities such as Fannie Mae and Freddie Mac (hereafter referred to as the housing GSEs along with the Federal Home Loan Banks). Fortunately, a model for such an action exists. The Student Loan Marketing Association (Sallie Mae) was privatized through an Act of Congress in 1996. Sallie Mae re-organized under a holding company charter with a GSE and non-GSE subsidiaries. The GSE activities were limited and terminated on December 29, 2004 almost four years ahead of schedule. This paper will describe the rationale for privatization, the constraints to the process, the reorganization structure and the effect of privatization on Sallie Mae and the student loan market. The key elements of the privatization process and structure will be highlighted with comments offered on the applicability to Housing GSEs today.

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