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June 24, 2013

Federal Housing Finance Agency
Office of the Director
400 Seventh Street SW
Washington, DC 20024

Dear Acting Director DeMarco:

I am writing to request information about the role of the Federal Home Loan Banks in providing financing to institutions that offer high-interest private loans to students.

As you know, Congress established the Federal Home Loan Bank System to serve as a reliable source of funding to local banks and other community lenders that offer families home mortgages. It recently came to my attention, however, that a Fortune 500 corporation whose primary purpose is financing private student loans has been using the Federal Home Loan Bank credit facilities. Specifically, a Federal Home Loan Bank has been making available an $8.5 billion line of credit to Sallie Mae, a huge, highly-leveraged, publicly traded corporation that does not seem to originate any real estate mortgages but that is the largest provider of private education loans in the country.[1]

According to its corporate filings, Sallie Mae was initially able to borrow on that line of credit for 0.23%.[2] It was able to borrow at less than one-quarter of one percent interest because the government's sponsorship of the Federal Home Loan Banks allows them extraordinarily cheap access to capital. That government sponsorship, however, was intended to bolster the banks' support for the housing market – not to be a backdoor way to subsidize highly-profitable private student lenders. Once Sallie Mae borrows the money, initially paying .23% interest, it makes fixed-rate student loans at 25-40 times higher than that.[3] Last year, Sallie Mae reported about $2.5 billion in interest income from its private student loan business.[4]

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[1] SLM Corp. (Sallie Mae), 2012 Annual 10-K, Filed 2/26/13.
https://investor.shareholder.com/slm/secfiling.cfm?filingID=1193125-13-76990&CIK=1032033.
As of the close of trading on June 21, 2013, SLM Corp. had a market capitalization of $10.1 billion.
Google Finance, SLM Corp, 6/21/13 https://www.google.com/search?q=sallie+mae+market+capitalization.

[2] SLM Corp. (Sallie Mae), 2009 Annual 10-K, Filed 2/26/10.
http://www.sec.gov/Archives/edgar/data/1032033/000095012310018176/w76911e10vk.htm.

[3] Sallie Mae, "Choose the Smart Option Student Loan," https://www.salliemae.com/landing/sosl_int_DirectPlus/.
The rate Sallie Mae pays on this credit line has increased slightly over time, but it still averaged only .34% in 2012.
SLM Corp. (Sallie Mae), 2012 Annual 10-K, Filed 2/26/13.
https://investor.shareholder.com/slm/secfiling.cfm?filingID=1193125-13-76990&CIK=1032033.

[4] Sallie Mae, "Sallie Mae Reports Fourth-Quarter and Full-Year 2012 Financial Results," 1/16/13.
https://www.salliemae.com/assets/about/investors/shareholder/earnings-info/2012/SLM4Q12EarningsRelease_11613_Final.pdf.

As you know, private student loans carry high interest rates and are difficult to restructure when students are struggling to meet their payments. Increasingly, experts cite mounting student debt as limiting personal spending and a growing threat to our economy. In addition, according to recent reports from the Consumer Financial Protection Bureau, student loan debt poses a significant barrier for Americans trying to buy their first homes.[5] It is deeply worrisome that the Federal Home Loan Banks may be undermining their mission by extending billions of dollars in cheap credit to private student lenders.

I would appreciate the FHFA providing the following information to clarify the extent to which Federal Home Loan Banks have been financing institutions that provide private student loans:

(1) All guidance provided to the Federal Home Loan Banks from the FHFA on funding private student lenders or their subsidiaries;

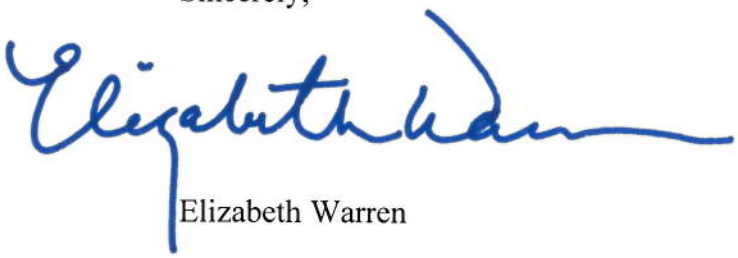
(2) Any analysis that the FHFA maintains on the impact of student loan debt on homeownership;

(3) Details of the line of credit extended to Sallie Mae or its subsidiary, HICA Education Loan Corporation, including all disbursements and interest rates charged;

(4) Details of lines of credit extended to any other financial institutions (or subsidiaries of such institutions) that are substantially engaged in offering private loans to students.

I appreciate your attention to this issue, and I hope that you contact my office if you have any questions or to discuss this matter further.

Sincerely,



Elizabeth Warren

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[5] *See, e.g.*, Consumer Financial Protection Bureau, "CFPB report highlights student debt as a roadblock to opportunity for consumers," 5/8/13. http://www.consumerfinance.gov/pressreleases/report-highlights-student-debt-as-a-roadblock-to-opportunity-for-consumers/.