
OFFICE OF GOVERNOR RONNIE MUSGROVE
INTEROFFICE MEMORANDUM

TO: GOVERNOR
FROM: RILEY
SUBJECT: MEETING WITH USA FUNDS AND SALLIE MAE: DEFAULT STUDENT LOAN COLLECTIONS
DATE 1/10/02
CC: RENICK
PROSPERE
KINNEY

Peyton, Suzanne Sharpe (IHL's Chief of Staff) and I met with representatives of USA Funds and Sallie Mae on Tuesday, January 8, to discuss resolving the issue of Mississippi not having a designated student loan guarantor and bringing some of the collection business back to Mississippi. Representatives of Franklin Collection Service and Smith Rouchon, as well as Mr. Lee Abraham, also attended the meeting due to their interest in the collections business.

According to Sharpe, Mississippi's designated guarantor is selected via your signing an Executive Order designating said guarantor, IHL approves a contract with the guarantor and the US Department of Education gives approval. USA Funds served as Mississippi's guarantor until approximately 2 years ago when we pulled their designation due to their lack of favor for directing some of the business to Mississippi. USA Funds has continued to serve as the unofficial Mississippi guarantor. USA contracts with Sallie Mae to manage the default loans portion of USA's portfolio. Sallie Mae then sub-contracts with collection agencies to collect on these default loans. These collection agencies have to meet certain criteria as determined by USA Funds in order to comply with Federal Reserve Fund requirements.

In a prior meeting attended by Peyton and Suzanne, 75 representatives of lending institutions, banks and colleges/universities expressed extreme pleasure for USA Funds' operations and the existing arrangements for financial aid in Mississippi. Suzanne has cautioned me that this office could receive extreme negative press and comments from these organizations if we were to designate another guarantor.

According to Carl Darlstrom, President and CEO of USA Funds, USA is willing to put some collection functions in Mississippi via sub-contracts with Sallie Mae and is willing to put additional volume into the Mississippi collection agency contingent upon their positive performance. USA Funds wants to continue the programs they currently offer to Mississippians and to add the following:

- ScholarShop – a program directed towards 4th-12th graders

- Support a college prep/financial aid/education program of IHL's choosing
- Designate a Mississippi collection agency as a sub-contractor to Sallie Mae
- Send a collaborative letter from USA and IHL to the universities and colleges informing them that your office resolved the designated guarantor situation

A Mississippi collection agency chosen to sub-contract with Sallie Mae will have to be licensed in all 50 states because Sallie Mae will direct a fixed percentage of its total defaulted loans portfolio to the collection agency and the holders of these loans will reside throughout the United States. Sallie Mae will dictate the fees earned by the collection agency, with the potential for \$500,000 per quarter in bonuses. It is unlikely that Sallie Mae would select more than one Mississippi collection agency as a sub-contractor because Sallie Mae likes to leverage its portfolio to a smaller group of collectors.

As to next steps, it is Peyton and my recommendation, based on USA Funds and Sallie Mae's willingness to do business with a Mississippi sub-contractor collection agency, that you issue an Executive Order designating USA Funds as the guarantor and that we enter into a new Memorandum of Understanding with the company. This MOU will have to provide that Sallie Mae will sub-contract with a Mississippi collection agency. Sallie Mae can then conduct site visits to interested Mississippi collection agencies, educate them on specific system requirements, and then select the Mississippi collection agency. Sallie Mae estimated that actual operations start within 5-6 months in Mississippi.

As you know, Mr. Abraham has been extremely interested in obtaining economic development opportunities through this initiative. It is Peyton and my opinion that Mr. Abraham realized during the course of our meeting that he does not have the resources necessary for collection operations. These resources are not simply limited to finances, but include expertise and licensure as well. However, we did discuss the potential for a Mississippi collection agency to direct some litigation work or other work to Mr. Abraham. Franklin Collections specifically expressed willingness to explore this option. In addition, Peyton and I can work with Steve and MDA to identify some opportunities for Mr. Abraham to put 30-40 people to work in his Highway 82 building across from Valley State.

Mitch Beard did call me yesterday following his dinner with Fritz Strack of Sallie Mae following our Tuesday meeting. Beard simply stated that the potential level of business for a Mississippi collection agency is not what he anticipated, but he is still extremely interested. Sallie Mae will direct approximately 5% of its \$125 million/month default portfolio to the Mississippi collection – roughly \$6 million/month or \$75 million/year.

Please advise me and Peyton as to the next steps you would like us to take on this matter. Thank you.