

**SLM CORPORATION**  
**SUPPLEMENTAL FINANCIAL INFORMATION**  
**THIRD QUARTER 2002**  
**(Dollars in millions, except per share amounts)**

The following supplemental information should be read in conjunction with SLM Corporation's (the "Company") press release of third quarter 2002 earnings, dated October 17, 2002.

Statements in this Supplemental Financial Information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve risks, uncertainties and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations; changes in the demand for educational financing or in financing preferences of educational institutions, students and their families; and changes in the general interest rate environment. For more information, see the Company's filings with the Securities and Exchange Commission.

**Results of Operations**

The following table presents the GAAP statements of income for the quarters ended September 30, 2002, June 30, 2002 and September 30, 2001 and for the nine months ended September 30, 2002 and 2001.

**Statements of Income**

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September 30, 2002</u>	<u>June 30, 2002</u>	<u>September 30, 2001</u>	<u>September 30, 2002</u>	<u>September 30, 2001</u>
Student loans.....	\$ 505	\$ 534	\$ 591	\$ 1,573	\$ 1,979
Advances/Facilities .....	14	15	24	48	77
Investments .....	<u>36</u>	<u>50</u>	<u>84</u>	<u>131</u>	<u>313</u>
Total interest income .....	555	599	699	1,752	2,369
Interest expense .....	<u>301</u>	<u>311</u>	<u>501</u>	<u>928</u>	<u>1,764</u>
Net interest income .....	254	288	198	824	605
Less: provision for losses .....	<u>34</u>	<u>27</u>	<u>15</u>	<u>83</u>	<u>42</u>
Net interest income after provision for losses..	<u>220</u>	<u>261</u>	<u>183</u>	<u>741</u>	<u>563</u>
Other income:					
Gains on student loan securitizations.....	18	14	27	76	55
Servicing and securitization revenue .....	121	180	119	496	433
(Losses) on sales of securities .....	(63)	(37)	(25)	(189)	(104)
Guarantor servicing and collection fees ....	85	78	75	243	188
Derivative market value adjustment.....	(366)	(177)	(553)	(255)	(604)
Other .....	<u>54</u>	<u>45</u>	<u>68</u>	<u>141</u>	<u>195</u>
Total other income .....	(151)	103	(289)	512	163
Total operating expenses .....	<u>174</u>	<u>168</u>	<u>184</u>	<u>509</u>	<u>522</u>
Income before income taxes and minority interest in net earnings of subsidiary .....	(105)	196	(290)	744	204
Income taxes .....	(43)	70	(99)	258	78
Minority interest in net earnings of subsidiary .....	-	-	<u>3</u>	-	<u>8</u>
<b>Net income</b> .....	(62)	126	(194)	486	118
Preferred stock dividends .....	<u>3</u>	<u>3</u>	<u>3</u>	<u>9</u>	<u>9</u>
Net income attributable to					

common stock.....	<u>\$ (65)</u>	<u>\$ 123</u>	<u>\$ (197)</u>	<u>\$ 477</u>	<u>\$ 109</u>
Diluted earnings per share .....	<u>\$ (.42)</u>	<u>\$ .78</u>	<u>\$ (1.25)</u>	<u>\$ 3.01</u>	<u>\$ .66</u>

Under generally accepted accounting principles (“GAAP”), the Company’s securitization transactions have been treated as sales. At the time of sale, the Company records a residual interest asset that equals the present value of the estimated future net cash flows from the portfolio of loans sold. In addition, the Company records a gain on student loan securitizations based on the approximate difference between the fair value and the carrying value of the assets sold. Fees earned for servicing the loan portfolios and interest earned on the residual interest asset are recognized over the life of the securitization transaction as servicing and securitization revenue. Income recognition is effectively accelerated through the recognition of a gain at the time of sale while the ultimate realization of such income remains dependent on the actual performance, over time, of the loans that were securitized.

Under the Higher Education Act, student loans earn the higher of a floating interest rate (indexed to the 91-day Treasury bill, commercial paper, 52-week Treasury bill or the constant maturity Treasury rate) or a fixed minimum interest rate. The Company generally finances its loan portfolio by entering into debt transactions at either a fixed rate or variable rate tied to the 91-day Treasury bill, commercial paper, 52-week Treasury bill, LIBOR or the constant maturity Treasury rate without minimum fixed rates. In order to manage the cash inflow characteristics of these assets with the cash outflow characteristics of the Company’s debt, the Company has primarily entered into two types of derivative transactions. First, the Company will often sell floor contracts to offset the floor on the student loan, for all or a portion of the estimated student loan life. The Statement of Financial Accounting Standards No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities,” does not recognize these floor contracts as effective hedges unless the terms of the sold floor contract match the terms of the embedded floor in the student loan asset. Since the Company sells a floor contract for a term shorter than the average life of the student loan or sells a floor contract on a securitized student loan, the floor contract must be marked-to-market with any changes in value reflected in the income statement, while the value changes in the embedded floor in the student loan assets are ignored. Second, to the extent that the Company has variable LIBOR-based debt, the Company will enter into basis swaps to better match the cash flows of the managed assets and liabilities. In this situation, SFAS 133 requires that the change in the value of the hedge effectively offsets both the change in the value of the asset and the change in the value of the liability. Because of the existence of a minimum rate in the assets or the off-balance sheet treatment of the liabilities, this effectiveness test cannot be met and as a result, these swaps are recorded at market value with subsequent changes in value reflected in the income statement.

In addition to evaluating the Company on GAAP-based data, management, credit rating agencies, lenders and analysts also evaluate the Company on certain non-GAAP performance measures. These non-GAAP performance measures treat securitization transactions as financings versus sales, eliminate the benefit of floor income, treat the Company’s hedging transactions as effective hedges and exclude certain gains or losses on sales of securities and derivatives and the amortization and changes in market value of goodwill and acquired intangible assets. Management refers to these pro-forma results as “core cash” results of operations. Management monitors the periodic “core cash” earnings of the Company’s managed student loan portfolio and believes that they provide a better measure of the Company’s student loan business.

The following tables present the “core cash” statements of income and the reconciliation of GAAP net income to “core cash” net income for the quarters ended September 30, 2002, June 30, 2002 and September 30, 2001 and the nine months ended September 30, 2002 and 2001.

**“Core Cash” Statements of Income**

	Quarters ended			Nine months ended	
	September 30, 2002	June 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Managed student loans .....	\$ 813	\$ 818	\$ 1,051	\$ 2,436	\$ 3,467
Advances/Facilities .....	14	15	24	48	77
Investments .....	<u>36</u>	<u>49</u>	<u>79</u>	<u>131</u>	<u>312</u>
Total managed interest income .....	863	882	1,154	2,615	3,856
Managed interest expense.....	<u>504</u>	<u>532</u>	<u>834</u>	<u>1,572</u>	<u>2,926</u>
Net managed interest income .....	359	350	320	1,043	930
Less: provision for losses .....	<u>35</u>	<u>35</u>	<u>21</u>	<u>97</u>	<u>59</u>
Net managed interest income after provision for losses .....	<u>324</u>	<u>315</u>	<u>299</u>	<u>946</u>	<u>871</u>
Other income:					
Guarantor servicing and collection fees .....	85	78	75	243	189
Other .....	<u>49</u>	<u>46</u>	<u>56</u>	<u>136</u>	<u>155</u>
Total other income .....	134	124	131	379	344
Total operating expenses .....	<u>169</u>	<u>162</u>	<u>173</u>	<u>492</u>	<u>490</u>
Income before income taxes and minority interest in net earnings of subsidiary .....	289	277	257	833	725
Income taxes .....	95	98	92	289	256
Minority interest in net earnings of subsidiary .....	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>8</u>
<b>“Core cash” net income</b> .....	194	179	163	544	461
Preferred stock dividends .....	<u>3</u>	<u>3</u>	<u>3</u>	<u>9</u>	<u>9</u>
“Core cash” net income attributable to common stock.....	<u>\$ 191</u>	<u>\$ 176</u>	<u>\$ 160</u>	<u>\$ 535</u>	<u>\$ 452</u>
“Core cash” diluted earnings per share .....	<u>\$ 1.21</u>	<u>\$ 1.11</u>	<u>\$ .99</u>	<u>\$ 3.37</u>	<u>\$ 2.72</u>

**Reconciliation of GAAP Net Income to  
"Core Cash" Net Income**

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September</u>	<u>June 30,</u>	<u>September</u>	<u>September</u>	<u>September</u>
	<u>30,</u>	<u>2002</u>	<u>30,</u>	<u>30,</u>	<u>30,</u>
	<u>2002</u>		<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>GAAP net income</b> .....	\$ (62)	\$ 126	\$ (194)	\$ 486	\$ 118
<b>"Core cash" adjustments:</b>					
Net interest income on securitized loans.....	130	221	137	559	456
Floor income on managed loans.....	(51)	(191)	(42)	(424)	(181)
Provision for losses on securitized loans.....	-	(8)	(6)	(14)	(17)
Gains on student loan securitizations.....	(18)	(14)	(27)	(76)	(55)
Servicing and securitization revenue.....	(121)	(180)	(119)	(496)	(433)
Losses on sales of securities .....	49	18	13	154	80
Goodwill and intangible amortization (A).....	6	6	11	17	31
Net impact of derivative accounting.....	400	230	580	371	640
Other.....	(1)	(1)	-	(3)	-
Total "core cash" adjustments .....	394	81	547	88	521
Net tax effect (B) .....	(138)	(28)	(190)	(30)	(178)
<b>"Core cash" net income</b> .....	<u>\$ 194</u>	<u>\$ 179</u>	<u>\$ 163</u>	<u>\$ 544</u>	<u>\$ 461</u>

(A) Goodwill amortized only prior to 2002.

(B) Such tax effect is based upon the Company's marginal tax rate for the respective period.

The "core cash" adjustment, "net impact of derivative accounting," represents the reversal of SFAS 133 income statement items and adjustments based upon accounting treatment for derivatives prior to SFAS 133. In the third quarter of 2002, the Company recognized \$400 million of net, pre-tax losses due to the net impact of derivative accounting under SFAS 133 versus \$230 million of net, pre-tax losses in the second quarter 2002 and \$580 million of net, pre-tax losses in the third quarter 2001. These adjustments are summarized as follows:

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September</u>	<u>June 30,</u>	<u>September</u>	<u>September</u>	<u>September</u>
	<u>30,</u>	<u>2002</u>	<u>30,</u>	<u>30,</u>	<u>30,</u>
	<u>2002</u>		<u>2001</u>	<u>2002</u>	<u>2001</u>
<b>Reversal of SFAS 133 income statement items:</b>					
Derivative market value adjustment in other income.....	\$ 366	\$ 177	\$ 553	\$ 255	\$ 604
Amortization of derivative items included in other comprehensive income at transition.....	-	1	(13)	1	(38)
<b>"Core cash" derivative adjustments:</b>					
Amortization of premiums on floor and cap hedges in net interest income .....	24	32	29	89	55
Reversal of amortization of floor revenue contracts de-designated as effective hedges on December 31, 2000 in net interest income .....	2	3	3	8	10
Reversal of impact of Eurodollar futures contracts in net interest income .....	(2)	(2)	(5)	(13)	(14)
Reversal of impact of Eurodollar futures					

contracts in gain/loss on sales of securities .....	<u>10</u>	<u>19</u>	<u>13</u>	<u>31</u>	<u>23</u>
<b>Total net impact of derivative accounting .....</b>	<b><u>\$ 400</u></b>	<b><u>\$ 230</u></b>	<b><u>\$ 580</u></b>	<b><u>\$ 371</u></b>	<b><u>\$ 640</u></b>

### Student Loan Spread and Net Interest Income

The following table analyzes the reported earnings from student loans on-balance sheet.

#### Student Loan Spread Analysis

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September</u>	<u>June 30,</u>	<u>September 30,</u>	<u>September</u>	<u>September</u>
	<u>30,</u>	<u>2002</u>	<u>2001</u>	<u>30,</u>	<u>30,</u>
	<u>2002</u>			<u>2002</u>	<u>2001</u>
<b>On-Balance Sheet</b>					
Student loan yields .....	5.28%	5.90%	6.57%	5.69%	7.40%
Consolidation loan rebate fees .....	(.41)	(.39)	(.30)	(.38)	(.29)
Offset fees .....	(.09)	(.11)	(.13)	(.10)	(.13)
Borrower benefits .....	(.08)	(.07)	(.07)	(.08)	(.07)
Premium amortization.....	<u>(.14)</u>	<u>(.26)</u>	<u>(.23)</u>	<u>(.22)</u>	<u>(.22)</u>
Student loan income .....	4.56	5.07	5.84	4.91	6.69
Student loan cost of funds .....	<u>(2.25)</u>	<u>(2.49)</u>	<u>(3.93)</u>	<u>(2.42)</u>	<u>(4.87)</u>
Student loan spread.....	<u>2.31%</u>	<u>2.58%</u>	<u>1.91%</u>	<u>2.49%</u>	<u>1.82%</u>
<b>Average Balance</b>					
On-balance sheet student					
loans.....	<u>\$ 43,862</u>	<u>\$ 42,268</u>	<u>\$ 40,180</u>	<u>\$ 42,835</u>	<u>\$ 39,526</u>

In periods of declining interest rates, the Company's on-balance sheet portfolio of student loans may be earning a fixed minimum borrower rate, while the Company's funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short-term interest rates. For loans where the borrower's interest rate is fixed to term, lower interest rates may benefit the spread earned on student loans for extended periods of time. For loans where the borrower's interest rate is reset annually, any benefit of a low interest rate environment will only enhance student loan spreads through the next annual reset of the borrower's interest rate, which occurs on July 1 of each year. Due to the low Treasury bill and commercial paper rates in the third quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$40 million in floor revenue on its on-balance sheet student loan portfolio in the third quarter of 2002 versus \$20 million in the year-ago quarter and \$81 million in the prior quarter. In addition, the Company earned \$11 million in floor revenue during the third quarter from securitized loans, which is recognized in servicing and securitization revenue. The decrease in student loan spread from the prior quarter and the increase from the year-ago quarter is primarily attributable to the volatility of the floor revenue mentioned above.

#### Net Interest Margin and Income

The net interest margin for the third quarters of 2002 and 2001 and the second quarter of 2002 was 2.11 percent, 1.65 percent and 2.42 percent, respectively. The increase in the net interest margin for the third quarter of 2002 versus the third quarter of 2001 is principally due to the increase in the percentage of average student loans to total average earning assets and the impact of floor income discussed previously in "Student Loan Spread Analysis." The net interest margin for the third quarter 2002 decreased by 31 basis points from the prior quarter. This decrease was primarily due to lower floor revenues mentioned above and the leveraged lease impairment charge that was

recognized during the quarter as a decrease to investment interest income of \$9 million. The Company recognized an impairment charge for its leveraged leases that have United Airlines (“UAL”) as a counter-party based on the financial condition of UAL.

## Average Balance Sheets

The following tables reflect the rates earned on assets and paid on liabilities for the quarters ended September 30, 2002, June 30, 2002 and September 30, 2001 and for the nine months ended September 30, 2002 and 2001.

	Quarters ended					
	September 30, 2002		June 30, 2002		September 30, 2001	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>						
Student loans .....	\$ 43,862	4.56%	\$ 42,268	5.07%	\$ 40,180	5.84%
Advances/Facilities .....	1,044	6.13	1,129	6.11	1,721	6.10
Investments .....	<u>4,458</u>	<u>3.73</u>	<u>5,339</u>	<u>4.00</u>	<u>6,818</u>	<u>5.01</u>
Total interest earning assets .....	49,364	<u>4.52%</u>	48,736	<u>4.98%</u>	48,719	<u>5.74%</u>
Non-interest earning assets .....	<u>4,385</u>		<u>4,679</u>		<u>4,428</u>	
Total assets .....	<u>\$ 53,749</u>		<u>\$ 53,415</u>		<u>\$ 53,147</u>	
<b>Average Liabilities and Stockholders' Equity</b>						
Six-month floating rate notes .....	\$ 3,062	1.77%	\$ 2,836	1.87%	\$ 4,011	3.82%
Other short-term borrowings .....	25,965	2.01	27,180	2.14	29,818	3.88
Long-term notes .....	<u>20,492</u>	<u>3.01</u>	<u>19,477</u>	<u>3.15</u>	<u>15,529</u>	<u>4.38</u>
Total interest bearing liabilities .....	49,519	<u>2.41%</u>	49,493	<u>2.52%</u>	49,358	<u>4.03%</u>
Non-interest bearing liabilities .....	2,450		2,016		2,367	
Stockholders' equity .....	<u>1,780</u>		<u>1,906</u>		<u>1,422</u>	
Total liabilities and stockholders' equity .....	<u>\$ 53,749</u>		<u>\$ 53,415</u>		<u>\$ 53,147</u>	
Net interest margin .....		<u>2.11%</u>		<u>2.42%</u>		<u>1.65%</u>

	Nine months ended			
	September 30, 2002		September 30, 2001	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>				
Student loans .....	\$ 42,835	4.91%	\$ 39,526	6.69%
Advances/Facilities .....	1,294	5.66	1,773	6.49
Investments .....	<u>5,053</u>	<u>3.73</u>	<u>7,359</u>	<u>5.73</u>
Total interest earning assets .....	49,182	<u>4.81%</u>	48,658	<u>6.54%</u>
Non-interest earning assets .....	<u>4,658</u>		<u>4,321</u>	
Total assets .....	<u>\$ 53,840</u>		<u>\$ 52,979</u>	
<b>Average Liabilities and Stockholders' Equity</b>				
Six-month floating rate notes .....	\$ 2,994	1.86%	\$ 4,387	4.64%
Other short-term borrowings .....	27,580	2.13	32,310	4.69
Long-term notes .....	<u>19,099</u>	<u>3.14</u>	<u>12,716</u>	<u>5.04</u>
Total interest bearing liabilities .....	49,673	<u>2.50%</u>	49,413	<u>4.77%</u>
Non-interest bearing liabilities .....	2,337		2,175	
Stockholders' equity .....	<u>1,830</u>		<u>1,391</u>	
Total liabilities and stockholders' equity .....	<u>\$ 53,840</u>		<u>\$ 52,979</u>	
Net interest margin .....		<u>2.29%</u>		<u>1.69%</u>

## “Core Cash” Student Loan Spread and Net Interest Income

The following table analyzes the reported earnings from the Company’s portfolio of managed student loans, which includes loans both on-balance sheet and off-balance sheet in securitization trusts.

### “Core Cash” Student Loan Spread Analysis

	Quarters ended			Nine months ended	
	September	June	September	September	September
	30, 2002	30, 2002	30, 2001	30, 2002	30, 2001
“Core cash” student loan yields .....	4.87%	5.10%	6.48%	5.05%	7.25%
Consolidation loan rebate fees .....	(.27)	(.25)	(.20)	(.25)	(.19)
Offset fees .....	(.05)	(.06)	(.07)	(.06)	(.08)
Borrower benefits .....	(.11)	(.11)	(.12)	(.11)	(.11)
Premium amortization .....	(.23)	(.28)	(.26)	(.26)	(.26)
Student loan income .....	4.21	4.40	5.83	4.37	6.61
Student loan cost of funds .....	(2.33)	(2.53)	(4.04)	(2.49)	(4.83)
“Core cash” student loan spread.....	<u>1.88%</u>	<u>1.87%</u>	<u>1.79%</u>	<u>1.88%</u>	<u>1.78%</u>
<b>Average Balances</b>					
On-balance sheet student loans .....	\$ 43,862	\$ 42,268	\$ 40,180	\$ 42,835	\$ 39,526
Securitized student loans .....	<u>32,705</u>	<u>32,250</u>	<u>31,370</u>	<u>31,790</u>	<u>30,631</u>
Managed student loans .....	<u>\$ 76,567</u>	<u>\$ 74,518</u>	<u>\$ 71,550</u>	<u>\$ 74,625</u>	<u>\$ 70,157</u>

In periods of declining interest rates, the Company’s managed portfolio of student loans may be earning a fixed minimum borrower rate, while the Company’s funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short-term interest rates in a manner similar to the Company’s on-balance sheet portfolio of student loans discussed in detail above under “Student Loan Spread Analysis.” Due to the low Treasury bill and commercial paper rates in the third quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$51 million of floor revenue, which is offset by \$37 million in hedge transaction losses, in the third quarter of 2002. In comparison, the Company realized \$42 million in floor revenue in the year-ago quarter, which was offset by \$13 million in hedge transaction losses, and \$191 million of floor revenue in the prior quarter, which was offset by \$18 million in hedge transaction losses. This floor revenue is excluded from student loan income to calculate the “core cash” student loan spread and “core cash” net income.

The “core cash” student loan spread increased by 1 basis point from the second quarter of 2002 to 1.88 percent for the third quarter 2002. The increase in spread primarily resulted from a 5 basis point decrease in premium amortization from the prior quarter. As supplemental fees charged to private loan borrowers are treated as discounts, the amortization of these discounts offsets the regular premium amortization and increases student loan income. The decrease in premium amortization was offset by an increase of 2 basis points in consolidation loan rebate fees due to the higher consolidation volume. The increase in the “core cash” student loan spread versus the year-ago quarter is due to an increased percentage of higher yielding private loans versus federal loans, increased amortization of the upfront cash received associated with term floor revenue contracts sold, better funding spreads and decreased student loan premium amortization offset only in part by the increase in consolidation rebate fees.

The “core cash” net interest margin for the third quarters of 2002 and 2001 and the second quarter of 2002 was 1.77 percent, 1.62 percent and 1.76 percent, respectively. The increase in the third quarter 2002 “core cash” net interest margin over the prior quarter is primarily attributable to the increase in student loan spread discussed above. In addition, the “core cash” net interest margin increased due to the increased percentage of average managed student loans to total average earning assets. This increase was offset by a \$9 million impairment charge on the leveraged lease portfolio discussed above in “Net Interest Margin and Net Interest Income.” The increase in third quarter student loan spread versus the year-ago quarter is due to the increase in student loan spread discussed above.

## Allowance for Loan Losses

An analysis of the Company's GAAP allowance for loan losses for the quarters ended September 30, 2002, June 30, 2002 and September 30, 2001 and for the nine months ended September 30, 2002 and 2001 is presented in the following table.

	Quarters ended			Nine months ended	
	September 30, 2002	June 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
	-	-	-	-	-
Balance at beginning of period.....	\$ 230	\$ 269	\$ 235	\$ 265	\$ 227
Provision for loan losses:					
Non-federally insured loans.....	32	18	18	64	28
Federally insured loans.....	<u>1</u>	<u>8</u>	<u>7</u>	<u>16</u>	<u>23</u>
Total provision for loan losses.....	33	26	25	80	51
Other.....	1	(46)	5	(45)	18
Charge-offs:					
Non-federally insured loans.....	(32)	(14)	(11)	(59)	(30)
Federally insured loans.....	<u>(3)</u>	<u>(4)</u>	<u>(6)</u>	<u>(9)</u>	<u>(13)</u>
Total charge-offs.....	(35)	(18)	(17)	(68)	(43)
Recoveries:					
Non-federally insured loans.....	6	1	1	8	2
Federally insured loans.....	<u>-</u>	<u>1</u>	<u>2</u>	<u>1</u>	<u>5</u>
Total recoveries.....	6	2	3	9	7
Net charge-offs.....	(29)	(16)	(14)	(59)	(36)
Reduction for sale of student loans.....	<u>(3)</u>	<u>(3)</u>	<u>(3)</u>	<u>(9)</u>	<u>(12)</u>
Balance at end of period.....	<u>\$ 232</u>	<u>\$ 230</u>	<u>\$ 248</u>	<u>\$ 232</u>	<u>\$ 248</u>
Allocation of the allowance for loan losses:					
Non-federally insured loans.....	\$ 173	\$ 167	\$ 195	\$ 173	\$ 195
Federally insured loans.....	<u>59</u>	<u>63</u>	<u>53</u>	<u>59</u>	<u>53</u>
Total allowance for loan losses.....	<u>\$ 232</u>	<u>\$ 230</u>	<u>\$ 248</u>	<u>\$ 232</u>	<u>\$ 248</u>
Deferred fee revenue.....	<u>\$ 81</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>
Net charge-offs as a percentage of average student loans.....	.26%	.15%	.14%	.19%	.12%
Total allowance as a percentage of average student loans.....	.53 %	.54 %	.62 %	.54 %	.63 %
Total allowance as a percentage of ending student loans.....	.52 %	.53 %	.61 %	.52 %	.61 %
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans.....	3.0 %	3.2 %	4.7 %	3.0 %	4.7 %
Non-federally insured allowance plus deferred fee revenue as a percentage of the ending balance of non-federally insured loans.....	4.4 %	4.5 %	4.7 %	4.4 %	4.7 %
Average student loans.....	\$ 43,862	\$ 42,268	\$ 40,180	\$ 42,835	\$ 39,526
Ending student loans.....	\$ 44,466	\$ 43,357	\$ 40,644	\$ 44,466	\$ 40,644

Ending balance of non-federally insured loans.....	5,632	\$	5,120	\$	3,956	\$	5,632	\$	3,956	\$
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**“Core Cash” Allowance for Loan Losses**

An analysis of the Company’s “core cash” allowance for loan losses for the quarters ended September 30, 2002, June 30, 2002 and September 30, 2001 and for the nine months ended September 30, 2002 and 2001 is presented in the following table.

	Quarters ended			Nine months ended	
	September 30, 2002	June 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Balance at beginning of period.....	\$ 376	\$ 406	\$ 361	\$ 397	\$ 335
Provision for loan losses:					
Non-federally insured loans.....	32	18	18	64	28
Federally insured loans.....	<u>1</u>	<u>16</u>	<u>12</u>	<u>30</u>	<u>39</u>
Total provision for loan losses.....	33	34	30	94	67
Other.....	3	(44)	7	(38)	26
Charge-offs:					
Non-federally insured loans.....	(32)	(14)	(11)	(59)	(30)
Federally insured loans.....	<u>(6)</u>	<u>(7)</u>	<u>(11)</u>	<u>(23)</u>	<u>(26)</u>
Total charge-offs.....	(38)	(21)	(22)	(82)	(56)
Recoveries:					
Non-federally insured loans.....	6	1	1	8	2
Federally insured loans.....	<u>-</u>	<u>-</u>	<u>2</u>	<u>1</u>	<u>5</u>
Total recoveries.....	6	1	3	9	7
Net charge-offs.....	<u>(32)</u>	<u>(20)</u>	<u>(19)</u>	<u>(73)</u>	<u>(49)</u>
Balance at end of period.....	<u>\$ 380</u>	<u>\$ 376</u>	<u>\$ 379</u>	<u>\$ 380</u>	<u>\$ 379</u>
Allocation of the allowance for loan losses:					
Non-federally insured loans.....	\$ 173	\$ 167	\$ 195	\$ 173	\$ 195
Federally insured loans.....	<u>207</u>	<u>209</u>	<u>184</u>	<u>207</u>	<u>184</u>
Total allowance for loan losses.....	<u>\$ 380</u>	<u>\$ 376</u>	<u>\$ 379</u>	<u>\$ 380</u>	<u>\$ 379</u>
Deferred fee revenue.....	<u>\$ 81</u>	<u>\$ 72</u>	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>
Net charge-offs as a percentage of average managed student loans.....	.17%	.11%	.10%	.13%	.09%
Total allowance as a percentage of average managed student loans.....	.50 %	.50 %	.53 %	.51%	.54 %
Total allowance as a percentage of ending managed student loans.....	.49 %	.50 %	.53 %	.49 %	.53 %
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans.....	3.0 %	3.2 %	4.7 %	3.0 %	4.7 %
Non-federally insured allowance plus deferred fee revenue as a percentage of the ending balance of non-federally insured loans.....	4.4 %	4.5 %	4.7 %	4.4 %	4.7 %

Average managed student loans.....	\$ 76,567	\$ 74,518	\$ 71,550	\$ 74,625	\$ 70,157
Ending managed student loans .....	\$ 77,114	\$ 75,557	\$ 71,829	\$ 77,114	\$ 71,829
Ending non-federally insured student loans ....	\$ 5,632	\$ 5,120	\$ 3,956	\$ 5,632	\$ 3,956

The Company receives certain fees related to originated loans at both origination and the commencement of repayment. These fees are charged to cover, in part, anticipated loan losses. Such fees are deferred and recognized into income as a component of interest over the life of the related loan. The Company previously reflected the unamortized balance as a component of the allowance for loan losses. During the second quarter of 2002, the Company reclassified \$48 million out of the allowance for non-federally insured loans and separately recorded this amount together with an existing \$24 million as deferred fee revenue, in effect a student loan discount. During the current quarter, the Company added an additional \$9 million, which was net of amortization, to deferred revenue associated with supplemental fees.

As of September 30, 2002, 93 percent of the Company's managed student loans were federally guaranteed, thereby generating minimal credit losses. Net charge-offs for the third quarter on the Company's federal loan portfolios were \$6 million, or 0.01 percent of the average managed federal student loan portfolio. Net charge-offs for the prior quarter were \$7 million.

As of September 30, 2002, the Company's private, non-insured loan portfolio totaled \$5.6 billion. Net charge-offs for the private loan portfolio equaled \$26 million or 0.8 percent of the non-federally insured portfolio in repayment in the third quarter. Net charge-offs for the prior quarter were \$13 million. Included in this quarter's charge-offs was \$17 million for loans that primarily defaulted in prior quarters. These defaulted loans were previously reserved for and did not impact the Company's provision policies or reserve level targets.

### **Securitization Program**

During the third quarter of 2002, the Company securitized \$2.8 billion of student loans and recorded a pre-tax securitization gain of \$18 million, which was 0.63 percent of the portfolio securitized. In the third quarter of 2001, the Company securitized \$1.5 billion of student loans and recorded a pre-tax securitization gain of \$27 million or 1.74 percent of the portfolio securitized. In the second quarter of 2002, the Company securitized \$1.5 billion of student loans and recorded a pre-tax securitization gain of \$14 million, which was 0.90 percent of the portfolio securitized. The decrease in the gain percentage in the current quarter's transactions versus the year-ago quarter was primarily due to the change in the prepayment assumptions in the second quarter 2002, and reductions in the estimated floor value in the loans securitized during the respective periods. The decrease in the gain percentage in the current quarter's transactions versus the prior quarter was due to a change in structuring that reduced the amount of overfunding and a decrease in anticipated student loan spread income within the securitization trusts.

Servicing and securitization revenue, the ongoing revenue from securitized loan pools, includes both the revenue the Company receives for servicing loans in the securitization trusts and the income earned on the residual interest asset. Servicing and securitization revenue totaled \$121 million in the third quarter of 2002 versus \$119 million in the corresponding year-ago quarter, and \$180 million in the prior quarter. In the third quarter of 2002, servicing and securitization revenue was 1.47 percent of average securitized loans versus 1.50 percent in the year-ago quarter and 2.24 percent in the second quarter of 2002. The decrease in servicing and securitization revenue as a percentage of the average balance of securitized student loans in the third quarter of 2002 versus both the year-ago and prior quarters is due to the reduction in the carrying value of the residual interest asset recorded in securitization revenue as described above, partially offset by floor income.

### **Other Income**

"Core cash" other income excludes gains on student loan securitizations, servicing and securitization revenue, and certain gains and losses on sales of securities and derivatives. In addition, the effects of SFAS 133 are excluded and the economic hedge effects of derivative instruments are recognized. "Core cash" other income was \$134 million for the third quarter 2002 versus \$131 million in the year-ago quarter and \$124 million for the second quarter 2002. "Core cash" other income mainly includes guarantor servicing and collection fees, late fees earned on student loans, fees received from servicing third party portfolios of student loans, and commitment fees for letters of credit. The increase in third quarter 2002 "core cash" other income over the prior quarter is due to a combination of several factors. A change in accounting principle for revenue recognition of origination-based guarantor fees, which did not materially affect the first and second quarters of 2002 or the year ended December 31, 2001, decreased current quarter income by \$15 million and will be recognized in future quarters. This decrease was more than offset by a \$12 million variance

from the prior quarter due to Department of Education funding delays that affected collection fees in June 2002 and additional guarantor servicing and collection fee income of \$10 million due to the seasonality and growth of the guarantor servicing and collections businesses. The increase over the year-ago quarter is due to growth in the guarantor servicing and collections businesses of \$19 million (primarily from the acquisitions of two collection agencies earlier this year) and funding delays of \$6 million. These increases are partially offset by the change in accounting principle for the origination-based guarantor fees of \$15 million.

### Operating Expenses

In the third quarter of 2002, “core cash” operating expenses were \$169 million versus \$173 million in the corresponding year-ago quarter and \$162 million in the second quarter of 2002. The decrease in operating expenses for the third quarter of 2002 versus the year-ago quarter is due to continued productivity improvements only partially offset by the additional operating expenses from the acquisitions of Pioneer and GRC in the first quarter of 2002. The increase in operating expenses for the third quarter of 2002 versus the prior quarter is primarily due to the seasonal nature of the student loan business.

### Capital

Total equity for the Company was \$1.8 billion at September 30, 2002, an increase of \$299 million from September 30, 2001. In addition, the Company’s tangible capital increased to 1.41 percent of managed assets at September 30, 2002, as compared to 1.12 percent of managed assets at September 30, 2001. Total capital includes the cumulative effect of SFAS 133, which reduced capital on a timing basis by over 20 percent at September 30, 2002.

The Company repurchased 1.9 million shares during the third quarter of 2002 through equity forward settlements and open market purchases and issued a net 0.7 million shares as a result of benefit plans. At September 30, 2002, the total common shares that could potentially be acquired over the next three years under outstanding equity forward contracts was 8.9 million shares at an average price of \$79.48 per share. The Company has remaining authority to enter into additional share repurchases and equity forward contracts for 9.7 million shares.

### Student Loan Purchases

The following table summarizes the components of the Company’s student loan purchase activity:

	Quarters ended			Nine months ended	
	September 30, 2002	June 30, 2002	September 30, 2001	September 30, 2002	September 30, 2001
Preferred channel.....	\$ 2,499	\$ 3,126	\$ 2,277	\$ 8,913	\$ 7,850
Other commitment clients.....	297	288	269	759	776
Spot purchases.....	257	342	137	758	486
Consolidations.....	581	310	268	1,308	750
Other.....	208	248	290	744	870
Subtotal.....	3,842	4,314	3,241	12,482	10,732
Managed loans acquired.....	191	148	257	532	660
Total.....	<u>\$ 4,033</u>	<u>\$ 4,462</u>	<u>\$ 3,498</u>	<u>\$ 13,014</u>	<u>\$ 11,392</u>

The Company acquired \$4.0 billion of student loans in the third quarter of 2002 compared with \$3.5 billion in the year-ago quarter and \$4.5 billion in the prior quarter.

In the third quarter of 2002, the Company’s preferred channel originations totaled \$3.9 billion versus \$3.3 billion in the year-ago quarter and \$1.5 billion in the prior quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$5.2 billion at September 30, 2002 versus \$4.8 billion at September 30, 2001 and \$4.0 billion at June 30, 2002.

### **Leveraged Leases**

The Company has investments in leveraged leases, net of the impairment, totaling \$274 million, of which \$264 million represent general obligations of major U.S. commercial airlines. The airline industry has been in a state of uncertainty since the events of September 11, 2001. All payment obligations remain current; however, the Company recognized an impairment of \$9 million for the leveraged leases with UAL as a counter-party as discussed in “Net Interest Margin and Income.” In the event of default, any potential loss would be partially mitigated by recoveries on the sale of the aircraft collateral and elimination of expected tax liabilities reflected in the balance sheet of \$244 million. Any potential loss would be increased by incremental tax obligations related to forgiveness of debt obligations and/or the taxable gain on the sale of the aircraft. The Company’s expected residual values of the aircraft have been based upon appraisals performed during the second quarter of 2002, net of the impairment charge.

### **Moody’s Upgrades SLM Corporation’s Ratings**

During the quarter, Moody’s Investors Service, Inc. (“Moody’s”) upgraded SLM Corporation’s senior unsecured debt rating from A3 to A2. The upgrade was based on the Company’s development and methodical implementation of a corporate strategy beyond the planned 2006 wind-down of its Government Sponsored Enterprise (“GSE”) subsidiary, the Student Loan Marketing Association (“SLMA”). In addition, the rating agency cited the Company’s “minimal portfolio credit risk.”