

USA EDUCATION, INC.
SUPPLEMENTAL FINANCIAL INFORMATION
FIRST QUARTER 2002
(Dollars in millions, except per share amounts)

The following supplemental information should be read in connection with USA Education, Inc.'s (the "Company") press release of first quarter 2002 earnings, dated April 18, 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.

Acquisitions

On January 2, 2002, the Company completed the acquisition of Pioneer Credit Recovery, Inc. ("Pioneer"), an Arcade, NY based company that provides loan delinquency and default services on behalf of the U.S. Department of Education, the U.S. Department of Treasury and hundreds of other clients. The acquisition price was \$38 million in cash.

On January 31, 2002, the Company completed the acquisition of General Revenue Corporation ("GRC"), a Cincinnati, OH based company that is the nation's largest university-focused collection agency. The acquisition expands and diversifies the Company's in-house expertise in the area of student loan delinquency and default prevention services, adding campus-specific relationships to its current mix of contracts. The acquisition price was \$29 million in cash and stock.

Pro-forma Statements of Income

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 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 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.

Most of the derivative contracts into which the Company enters are effective economic hedges for its interest rate risk management strategy but are not considered effective hedges under Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," because they do not typically extend to the full term of the hedged item. The majority of these hedges are treated as "trading" for GAAP purposes and therefore the resulting mark-to-market is taken into GAAP earnings. In addition, SFAS 133 requires that the Company mark-to-market its written options but none of its embedded options in its student loan assets. Effectively, in this case, SFAS 133 recognizes the liability but not the corresponding asset.

Management believes that, in addition to results of operations as reported in accordance with GAAP, another important performance measure is pro-forma results of operations under the assumptions that the securitization transactions are financings and that the securitized student loans were not sold. In addition, effects of SFAS 133 are excluded from the pro-forma results of operations and the economic hedge effects of derivative instruments are recognized. The pro-forma results of operations also exclude the benefit of floor income, certain gains and losses on

sales of investment securities and student loans, and the amortization and changes in market value of goodwill and acquired intangible assets. The following pro-forma statements of income present the Company's results of operations under these assumptions. Management refers to these pro-forma results as "core cash basis" statements of income. Management monitors the periodic "core cash basis" earnings of the Company's managed student loan portfolio and believes that they assist in a better understanding of the Company's student loan business.

The following tables present the "core cash basis" statements of income and reconciliations to GAAP net income as reflected in the Company's Consolidated Statements of Income.

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
"Core Cash Basis" Statements of Income:			
Insured student loans.....	\$ 805	\$ 857	\$ 1,271
Advances/facilities	19	20	29
Investments	46	60	139
Total interest income	870	937	1,439
Interest expense.....	(536)	(596)	(1,143)
Net interest income	334	341	296
Less: provision for losses	27	30	19
Net interest income after provision for losses	307	311	277
Other income:			
Guarantor servicing and collection fees	80	66	56
Other.....	41	45	56
Total other income	121	111	112
Total operating expenses	161	170	159
Income before income taxes and minority interest in net earnings of subsidiary	267	252	230
Income taxes	97	87	82
Minority interest in net earnings of subsidiary	-	2	3
"Core cash basis" net income	170	163	145
Preferred stock dividends	3	3	3
"Core cash basis" net income attributable to common stock.....	<u>\$ 167</u>	<u>\$ 160</u>	<u>\$ 142</u>
"Core cash basis" diluted earnings per share	<u>\$ 1.05</u>	<u>\$ 1.03</u>	<u>\$.84</u>

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
Reconciliation of GAAP net income to "core cash basis" net income:			
GAAP net income	\$ 422	\$ 266	\$ 30
"Core cash basis" adjustments:			
Net interest income on securitized loans	207	194	147
Floor income on managed loans	(182)	(154)	(38)
Provision for losses on securitized loans	(7)	(6)	(6)
Gains on student loan securitizations	(44)	(20)	(9)
Servicing and securitization revenue	(195)	(201)	(120)
Losses on sales of securities	86	62	20
Goodwill change in market value	-	18	-
Goodwill and intangible amortization (A)	6	16	8
Net impact of derivative accounting	(259)	(70)	175
Other.....	-	(1)	-
Total "core cash basis" adjustments	(388)	(162)	177
Net tax effect (B).....	136	59	(62)
"Core cash basis" net income	<u>\$ 170</u>	<u>\$ 163</u>	<u>\$ 145</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.

In the first quarter of 2002, the Company recognized \$259 million of net, pre-tax gains due to the net impact of derivative accounting versus \$70 million of net, pretax gains in the fourth quarter 2001 and \$175 million of net, pre-tax losses in the first quarter 2001. The net impact of derivative accounting represents the reversal of SFAS 133 income statement items and "core cash basis" adjustments based upon guidance for derivative accounting prior to SFAS 133. These are summarized as follows:

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
Reversal of SFAS 133 income statement items:			
Net derivative mark-to-market income	\$ (288)	\$ (152)	\$ 168
Amortization of derivative items included in other comprehensive income at transition	1	41	(13)
"Core cash basis" derivative adjustments:			
Amortization of premiums on floor and cap hedges	32	34	4
Reversal of amortization of floor revenue contracts de-designated as effective hedges on December 31, 2000.....	3	3	3
Reversal of net income impact of Eurodollar futures contracts.....	(7)	4	13
Total net impact of derivative accounting	<u>\$ (259)</u>	<u>\$ (70)</u>	<u>\$ 175</u>

The entire net impact of derivative accounting has been excluded for "core cash basis" results.

Under the Higher Education Act, student loans have terms that create an embedded floor derivative. These assets have an interest rate indexed to the 91-day Treasury bill, commercial paper, 52-week Treasury bill or the constant maturity Treasury rate, but limited by a 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 or the constant maturity Treasury 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 entered into primarily two types of derivative transactions. First, the Company will often sell floor contracts for all or a portion of the estimated student loan life. SFAS 133 does not recognize these floor contracts as an effective hedge unless the terms of the sold floor match the terms of the embedded floor in the student loan asset. In cases where the Company sells a floor for a term shorter than the average life of the student loan, the floor 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 asset is 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 assets and liabilities. In this situation, SFAS 133 requires that the change in the value of the hedge effectively offset 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, this effectiveness test cannot be met and these swaps are recorded at market value with subsequent changes in value reflected in the income statement.

Under Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities," the Company does mark-to-market its interest residual asset for its securitization trusts. This mark-to-market includes a valuation adjustment for the floor option embedded in the student loan asset. In the first quarter 2002, the Company recognized an unrealized, after-tax loss on this asset of \$119 million. This loss is recorded directly to other comprehensive income in the equity section of the balance sheet.

"Core Cash Basis" 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 Basis" Student Loan Spread Analysis

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
"Core cash basis" adjusted student loan yields	5.19%	5.40%	8.13%
Consolidation loan rebate fees	(.24)	(.22)	(.19)
Offset fees	(.07)	(.07)	(.08)
Borrower benefits	(.12)	(.12)	(.10)
Premium amortization.....	(.27)	(.27)	(.26)
Student loan income	4.49	4.72	7.50
Student loan cost of funds	(2.62)	(2.83)	(5.77)
"Core cash basis" student loan spread	<u>1.87%</u>	<u>1.89%</u>	<u>1.73%</u>
 Average Balances			
Managed student loans	<u>\$ 72,748</u>	<u>\$ 71,988</u>	<u>\$ 68,737</u>

The Company generally earns interest at the greater of the borrower's rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill, commercial paper, 52-week Treasury bill, or the constant maturity Treasury rate) in a calendar quarter, plus a fixed spread which is dependent upon when the loan was originated. In all cases, the rate the borrower pays sets a minimum rate for determining the yield the Company earns on the loan. The Company generally finances its student loan portfolio with floating rate debt tied to the average of the 91-day Treasury bill auctions, the commercial paper index, the 52-week Treasury bill, or the constant maturity Treasury rate, either directly or through the use of derivative financial instruments intended to mimic the

interest rate characteristics of the student loans. Such borrowings in general, however, do not have minimum rates. As a result, in certain declining interest rate environments, the portfolio of managed student loans may be earning the 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 first quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$129 million of floor revenue, which is net of \$53 million in hedge transaction losses, in the first quarter of 2002. In comparison, the Company realized \$32 million in floor revenue, which was net of \$6 million in hedge transaction losses in the year-ago quarter, and \$91 million of floor revenue, which was net of \$63 million in hedge transaction losses in the prior quarter. These earnings have been excluded from student loan income to calculate the "core cash basis" student loan spread and "core cash basis" net income. These losses have been excluded from "core cash basis" gains (losses) on sales of securities.

The "core cash basis" student loan spread decreased 2 basis points versus the prior quarter primarily due to an increase in the consolidation of loans, which increased the consolidation loan rebate fee by 2 basis points. The increase in the "core cash basis" student loan spread versus the year-ago quarter is due to higher yields on the student loan portfolio from the mix (private loans versus federal loans), a higher percentage of federal loans in a repayment status, floor revenue locked in through term hedges and better funding spreads.

The "core cash basis" net interest margin for the first quarters of 2002 and 2001 and the fourth quarter of 2001 was 1.71 percent, 1.51 percent and 1.71 percent, respectively. The increase in first quarter of 2002 "core cash basis" net interest margin versus the first quarter of 2001 is principally due to an increase in the percentage of average managed student loans to average managed earning assets.

Student Loan Spread and Net Interest Income

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

Student Loan Spread Analysis

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
On-Balance Sheet			
Student loan yields	5.90%	6.00%	8.18%
Consolidation loan rebate fees	(.35)	(.32)	(.28)
Offset fees	(.11)	(.13)	(.14)
Borrower benefits	(.07)	(.07)	(.07)
Premium amortization	(.25)	(.24)	(.22)
Student loan income	5.12	5.24	7.47
Student loan cost of funds	(2.54)	(2.74)	(5.81)
Student loan spread	<u>2.58%</u>	<u>2.50%</u>	<u>1.66%</u>
Average Balances			
On-balance sheet student loans	\$ 42,357	\$ 41,504	\$ 38,709
Securitized loans	<u>30,391</u>	<u>30,484</u>	<u>30,028</u>
Managed student loans	<u>\$ 72,748</u>	<u>\$ 71,988</u>	<u>\$ 68,737</u>

In periods of declining interest rates, the Company's on-balance sheet portfolio of student loans may be earning the 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 managed portfolio of

student loans discussed in detail above under “‘Core Cash Basis’ Student Loan Spread Analysis.” Due to the low Treasury bill and commercial paper rates in the first quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$76 million in floor revenue in the first quarter of 2002 versus \$12 million in the year-ago quarter and \$61 million in the prior quarter. This decline in interest rates increased the on-balance sheet student loan spread by 60 basis points versus the year-ago quarter and 15 basis points versus the prior quarter.

Average Balance Sheets

The following tables reflect the rates earned on assets and paid on liabilities for the quarters ended March 31, 2002, December 31, 2001 and March 31, 2001.

	Quarters ended					
	March 31,		December 31,		March 31,	
	2002		2001		2001	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
Average Assets						
Student loans	\$ 42,357	5.12%	\$ 41,504	5.24%	\$ 38,709	7.47%
Warehousing advances	1,002	2.73	973	3.05	984	6.01
Academic facilities financings.....	714	8.35	732	8.28	852	8.34
Investments	<u>5,372</u>	<u>3.47</u>	<u>6,775</u>	<u>3.70</u>	<u>8,625</u>	<u>6.09</u>
Total interest earning assets	49,445	<u>4.94%</u>	49,984	<u>5.04%</u>	49,170	<u>7.21%</u>
Non-interest earning assets	<u>4,916</u>		<u>5,009</u>		<u>4,238</u>	
Total assets	<u>\$ 54,361</u>		<u>\$ 54,993</u>		<u>\$ 53,408</u>	
Average Liabilities and Stockholders' Equity						
Six-month floating rate notes	\$ 3,084	1.94%	\$ 3,293	2.30%	\$ 4,797	5.54%
Other short-term borrowings	29,635	2.22	29,260	2.52	32,158	5.61
Long-term notes	<u>17,294</u>	<u>3.27</u>	<u>17,997</u>	<u>3.42</u>	<u>13,008</u>	<u>5.74</u>
Total interest bearing liabilities	50,013	<u>2.57%</u>	50,550	<u>2.83%</u>	49,963	<u>5.64%</u>
Non-interest bearing liabilities	2,543		2,929		2,136	
Stockholders' equity	<u>1,805</u>		<u>1,514</u>		<u>1,309</u>	
Total liabilities and stockholders' equity	<u>\$ 54,361</u>		<u>\$ 54,993</u>		<u>\$ 53,408</u>	
Net interest margin		<u>2.34%</u>		<u>2.18%</u>		<u>1.48%</u>

Net Interest Margin and Income

The net interest margin for the first quarters of 2002 and 2001 and the fourth quarter of 2001 was 2.34 percent, 1.48 percent and 2.18 percent, respectively. The increase in the net interest margin for the first quarter of 2002 versus the first quarter of 2001 is principally due to the increase in the percentage of average student loans to total average earning assets. The increase is also due to the impact of floor earnings discussed previously in “Student Loan Spread Analysis.” The net interest margin for the first quarter 2002 increased by 16 basis points over the prior quarter. This was primarily due to the increase in floor revenue quarter over quarter.

Securitization Program

During the first quarter of 2002, the Company securitized \$3.5 billion of student loans and recorded a pre-tax securitization gain of \$44 million, which was 1.25 percent of the portfolio securitized. In the first quarter of 2001, the Company securitized \$1.8 billion of student loans and recorded a pre-tax securitization gain of \$9 million or 0.53 percent of the portfolio securitized. In the fourth quarter of 2001, the Company securitized \$1.5 billion of student loans and recorded a pre-tax securitization gain of \$20 million, which was 1.32 percent of the portfolio securitized. The decrease in the gain percentage in the current quarter versus the prior quarter is principally due to a decrease in the

value of the embedded floor option in the loans due to the reset date of July 1, 2002, partially offset by better funding spreads.

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 \$195 million in the first quarter of 2002 versus \$120 million in the corresponding year-ago quarter, and \$202 million in the prior quarter. In the first quarter of 2002, servicing and securitization revenue was 2.60 percent of average securitized loans versus 1.62 percent in the year-ago quarter and 2.62 percent in the fourth quarter of 2001. The increase in servicing and securitization revenue as a percentage of the average balance of securitized student loans in the first quarter of 2002 versus the first quarter of 2001 is principally due to the impact of the decline in Treasury bill rates since the minimum borrower rate reset dates. This decline increased the earnings from those student loans in the trusts that were earning the minimum borrower rate in a manner similar to on-balance sheet student loans, as discussed previously in “‘Core Cash Basis’ Student Loan Spread Analysis.” Servicing and securitization revenue as a percentage of the average balance of securitized loans in the first quarter of 2002 versus the prior quarter remained relatively constant.

Other Income

“Core cash basis” other income excludes gains on student loan securitizations, servicing and securitization revenue, and certain gains and losses on sales of investment securities and student loans. In addition, the effects of SFAS 133 are excluded and the economic hedge effects of derivative instruments are recognized. “Core cash basis” other income was \$121 million for the first quarter 2002 versus \$112 million in the year-ago quarter and \$111 million for the fourth quarter 2001. “Core cash basis” 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. In the fourth quarter 2001, the Company recognized an \$18 million loss on the impairment of assets generated from the scheduled sale of its Sallie Mae Solutions product line. This loss has been excluded from “core cash basis” other income. The increase in first quarter 2002 “core cash basis” other income versus both the prior and year-ago quarters is principally due to the growth in the guarantor servicing and collection businesses, including \$12 million generated from the acquisitions of Pioneer and GRC. This increase was partially offset by lower fee income due to the sale of the Sallie Mae Solutions business.

Operating Expenses

In the first quarter of 2002, “core cash basis” operating expenses were \$161 million versus \$159 million in the corresponding year-ago period and \$170 million in the fourth quarter of 2001. The decrease in operating expenses for the first quarter of 2002 versus the prior quarter is primarily due to a renewed focus on expense management, a decrease in expenses due to the sale of the Sallie Mae Solutions business and seasonality. These were partially offset by an increase in operating expenses for the acquisitions of Pioneer and GRC.

Minority Interest in Subsidiary

On December 10, 2001, the Student Loan Marketing Association, a subsidiary of USA Education, Inc., redeemed its preferred stock and issued common stock to USA Education, Inc., thereby eliminating the minority interest in subsidiary from the Company’s Consolidated Balance Sheets.

Capital

The Company repurchased 1.5 million shares during the first quarter of 2002 through open market purchases and equity forward settlements and issued a net 1.3 million shares as a result of benefit plans and the acquisition of GRC. At March 31, 2002, the total common shares that could potentially be acquired over the next three years under outstanding equity forward contracts was 9.7 million shares at an average price of \$75.54 per share. The Company has remaining authority to enter into additional share repurchases and equity forward contracts for 12.3 million shares.

Student Loan Purchases

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

	Quarters ended		
	March 31, 2002	December 31, 2001	March 31, 2001
Preferred channel.....	\$ 3,288	\$ 1,674	\$ 2,827
Other commitment clients.....	174	173	209
Spot purchases.....	159	192	127
Consolidations.....	417	422	169
Other.....	288	339	296
Subtotal.....	4,326	2,800	3,628
Managed loans acquired.....	193	234	197
Total.....	<u>\$ 4,519</u>	<u>\$ 3,034</u>	<u>\$ 3,825</u>

The Company purchased and acquired \$4.5 billion of student loans in the first quarter of 2002 compared with \$3.8 billion in the year-ago quarter and \$3.0 billion in the previous quarter.

In the first quarter of 2002, the Company's preferred channel originations totaled \$3.8 billion versus \$3.1 billion in the year-ago quarter and \$2.4 billion in the prior quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$5.6 billion at March 31, 2002 versus \$5.8 billion at March 31, 2001 and \$5.6 billion at December 31, 2001.

Leveraged Leases

The Company has investments in leveraged leases totaling \$289 million, of which \$278 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 and the Company has not been notified of any counterparty's intention to default on any payment obligations. 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 \$249 million. Any potential loss would be increased by incremental tax obligations related to forgiveness of debt obligations.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 141 requires companies to use the purchase method of accounting for all business combinations initiated after June 30, 2001, and broadens the criteria for recording identifiable intangible assets separate from goodwill. SFAS 142 requires companies to cease systematically amortizing goodwill (and other intangible assets with indefinite lives), but rather perform an assessment for impairment by applying a fair-value-based test on an annual basis (or an interim basis if circumstances indicate a possible impairment). Future impairment losses are to be recorded as an operating expense, except at the transition date, when any impairment write-off of existing goodwill is to be recorded as a "cumulative effect of change in accounting principle." In accordance with SFAS 142, any goodwill and indefinite-life intangibles resulting from acquisitions completed after June 30, 2001 will not be amortized. Effective January 1, 2002, the Company ceased the amortization of goodwill and indefinite-life intangibles in accordance with SFAS 142. During 2002, the Company will be required to test its goodwill for impairment, which could have an adverse effect on the Company's future results of operations if impairment occurs. The Company continues to evaluate the financial statement impact of the adoption of SFAS 142.