

**SLM CORPORATION**  
**Supplemental Earnings Disclosure**  
**September 30, 2010**  
**(In millions, except per share amounts)**  
**(Unaudited)**

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>SELECTED FINANCIAL INFORMATION AND RATIOS</b>					
<b>GAAP Basis<sup>(1)</sup></b>					
Net income (loss) attributable to SLM Corporation . . . . .	\$ (495)	\$ 338	\$ 159	\$ 83	\$ 15
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders . . . . .	\$ (1.06)	\$ .63	\$ .25	\$ .06	\$ (.17)
Return on assets . . . . .	(1.00)%	.68%	.37%	.06%	.01%
<b>“Core Earnings” Basis<sup>(1)(2)(3)</sup></b>					
“Core Earnings” net income attributable to SLM Corporation . . . . .	\$ 189	\$ 209	\$ 164	\$ 611	\$ 348
“Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders . . . . .	\$ .35	\$ .39	\$ .26	\$ 1.13	\$ .54
“Core Earnings” return on assets . . . . .	.38%	.42%	.31%	.42%	.23%
<b>OTHER OPERATING STATISTICS</b>					
Average on-balance sheet student loans . . . . .	\$184,139	\$184,571	\$157,530	\$183,424	\$153,622
Average off-balance sheet student loans . . . . .	—	—	33,929	—	34,797
Average Managed student loans . . . . .	<u>\$184,139</u>	<u>\$184,571</u>	<u>\$191,459</u>	<u>\$183,424</u>	<u>\$188,419</u>
Ending on-balance sheet student loans, net . . . . .	\$182,135	\$183,643	\$158,846		
Ending off-balance sheet student loans, net . . . . .	—	—	33,335		
Ending Managed student loans, net . . . . .	<u>\$182,135</u>	<u>\$183,643</u>	<u>\$192,181</u>		
Ending Managed FFELP Stafford and Other Student Loans, net . . . . .	\$ 66,681	\$ 67,457	\$ 73,040		
Ending Managed FFELP Consolidation Loans, net . . . . .	79,912	81,035	84,235		
Ending Managed Private Education Loans, net . . . . .	<u>35,542</u>	<u>35,151</u>	<u>34,906</u>		
Ending Managed student loans, net . . . . .	<u>\$182,135</u>	<u>\$183,643</u>	<u>\$192,181</u>		

(1) Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders from continuing and discontinued operations on both a GAAP basis and “Core Earnings” basis for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009 was:

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>GAAP Basis</b>					
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations . . . . .	\$(1.07)	\$.63	\$.26	\$.05	\$(.04)
Discontinued operations . . . . .	.01	—	(.01)	.01	(.13)
Total . . . . .	<u>\$(1.06)</u>	<u>\$.63</u>	<u>\$.25</u>	<u>\$.06</u>	<u>\$(.17)</u>
<b>“Core Earnings” Basis<sup>(2)(3)</sup></b>					
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations . . . . .	\$ .34	\$.39	\$.27	\$1.12	\$.67
Discontinued operations . . . . .	.01	—	(.01)	.01	(.13)
Total . . . . .	<u>\$.35</u>	<u>\$.39</u>	<u>\$.26</u>	<u>\$1.13</u>	<u>\$.54</u>

(2) “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

(3) “Core Earnings” does not include Floor Income unless it is Fixed Rate Floor Income that is economically hedged. The amount of this Economic Floor Income (net of tax) excluded from “Core Earnings” for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009 was:

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax) . . . . .	<u>\$ 12</u>	<u>\$ 1</u>	<u>\$ 23</u>	<u>\$ 16</u>	<u>\$191</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders . . . . .	<u>\$.02</u>	<u>\$—</u>	<u>\$.05</u>	<u>\$.03</u>	<u>\$.41</u>

**SLM CORPORATION**  
**Consolidated Balance Sheets**  
(In thousands, except per share amounts)  
(Unaudited)

	<u>September 30,</u> <u>2010</u>	<u>June 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
<b>Assets</b>			
FFELP Stafford and Other Student Loans (net of allowance for losses of \$120,386; \$122,192 and \$101,343, respectively) . . . . .	\$ 46,026,138	\$ 47,280,248	\$ 43,257,743
FFELP Stafford Loans Held-for-Sale . . . . .	20,655,561	20,177,860	23,846,566
FFELP Consolidation Loans (net of allowance for losses of \$68,880; \$66,493; and \$54,384, respectively) . . . . .	79,911,599	81,034,596	69,246,231
Private Education Loans (net of allowance for losses of \$2,035,034; \$2,042,413; and \$1,401,496, respectively) . . . . .	35,541,640	35,150,686	22,494,955
Cash and investments . . . . .	6,992,621	7,680,116	7,021,808
Restricted cash and investments . . . . .	5,837,546	6,252,914	5,760,583
Retained Interest in off-balance sheet securitized loans . . . . .	—	—	1,838,203
Goodwill and acquired intangible assets, net . . . . .	488,220	1,157,888	1,224,272
Other assets . . . . .	10,653,449	8,584,404	11,753,563
Total assets . . . . .	<u>\$206,106,774</u>	<u>\$207,318,712</u>	<u>\$186,443,924</u>
<b>Liabilities</b>			
Short-term borrowings . . . . .	\$ 45,388,432	\$ 46,472,435	\$ 53,406,554
Long-term borrowings . . . . .	153,003,935	152,250,912	124,647,818
Other liabilities . . . . .	3,140,330	3,508,617	3,400,527
Total liabilities . . . . .	<u>201,532,697</u>	<u>202,231,964</u>	<u>181,454,899</u>
<b>Commitments and contingencies</b>			
<b>Equity</b>			
Preferred stock, par value \$.20 per share, 20,000 shares authorized:			
Series A: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of \$50 per share . . . . .	165,000	165,000	165,000
Series B: 4,000; 4,000; and 4,000 shares, respectively, issued at stated value of \$100 per share . . . . .	400,000	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock: 810; 810; and 1,012 shares, respectively, issued at liquidation preference of \$1,000 per share . . . . .	810,370	810,370	1,012,370
Common stock, par value \$.20 per share, 1,125,000 shares authorized: 553,787; 553,571; and 541,849 shares, respectively, issued . . . . .	110,758	110,715	108,362
Additional paid-in capital . . . . .	5,127,313	5,122,583	4,862,071
Accumulated other comprehensive loss, net of tax benefit . . . . .	(44,159)	(43,333)	(44,143)
Retained earnings (loss) . . . . .	(122,565)	391,169	346,347
Total SLM Corporation stockholders' equity before treasury stock . . . . .	6,446,717	6,956,504	6,850,007
Common stock held in treasury: 68,011; 67,775 and 67,159 shares, respectively . . . . .	1,872,640	1,869,760	1,860,989
Total SLM Corporation stockholders' equity . . . . .	4,574,077	5,086,744	4,989,018
Noncontrolling interest . . . . .	—	4	7
Total equity . . . . .	<u>4,574,077</u>	<u>5,086,748</u>	<u>4,989,025</u>
Total liabilities and equity . . . . .	<u>\$206,106,774</u>	<u>\$207,318,712</u>	<u>\$186,443,924</u>

**Supplemental information — assets and liabilities of consolidated variable interest entities:**

	<u>September 30,</u> <u>2010</u>	<u>June 30,</u> <u>2010</u>	<u>September 30,</u> <u>2009</u>
FFELP Stafford and Other Student Loans . . . . .	\$ 65,557,473	\$ 66,130,975	\$64,993,570
FFELP Consolidation Loans . . . . .	78,396,367	79,558,032	68,696,728
Private Education Loans . . . . .	24,511,699	23,561,695	9,200,713
Restricted cash and investments . . . . .	5,522,584	5,881,972	4,658,009
Other assets . . . . .	4,373,606	2,856,872	4,334,239
Short-term borrowings . . . . .	36,806,456	37,014,277	46,553,608
Long-term borrowings . . . . .	<u>128,473,542</u>	<u>127,904,461</u>	<u>92,222,000</u>
Net assets of consolidated variable interest entities . . . . .	<u>\$ 13,081,731</u>	<u>\$ 13,070,808</u>	<u>\$13,107,651</u>

**SLM CORPORATION**  
**Consolidated Statements of Income**  
(In thousands, except per share amounts)  
(Unaudited)

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Interest income:</b>					
FFELP Stafford and Other Student Loans	\$ 320,234	\$ 325,042	\$ 303,192	\$ 928,713	\$ 969,947
FFELP Consolidation Loans	564,586	550,920	481,592	1,638,831	1,431,644
Private Education Loans	610,893	575,340	396,339	1,751,387	1,176,399
Other loans	7,190	7,254	11,042	23,440	45,930
Cash and investments	7,630	6,299	6,881	18,878	19,896
Total interest income	<u>1,510,533</u>	<u>1,464,855</u>	<u>1,199,046</u>	<u>4,361,249</u>	<u>3,643,816</u>
Total interest expense	<u>638,599</u>	<u>568,933</u>	<u>673,870</u>	<u>1,738,916</u>	<u>2,519,876</u>
Net interest income	871,934	895,922	525,176	2,622,333	1,123,940
Less: provisions for loan losses	<u>358,110</u>	<u>382,239</u>	<u>321,127</u>	<u>1,099,469</u>	<u>849,518</u>
Net interest income after provisions for loan losses	<u>513,824</u>	<u>513,683</u>	<u>204,049</u>	<u>1,522,864</u>	<u>274,422</u>
<b>Other income (loss):</b>					
Securitization servicing and Residual Interest revenue	—	—	155,065	—	147,248
Gains (losses) on sales of loans and securities, net	1,607	(3,515)	12,452	6,745	12,752
Gains (losses) on derivative and hedging activities, net	(344,458)	95,316	(111,556)	(331,552)	(569,326)
Contingency fee revenue	83,746	88,181	82,200	252,238	230,383
Collections revenue	13,097	17,219	21,241	52,282	88,830
Guarantor servicing fees	15,996	22,457	48,087	74,543	106,867
Other	90,502	164,899	150,006	445,811	741,229
Total other income (loss)	<u>(139,510)</u>	<u>384,557</u>	<u>357,495</u>	<u>500,067</u>	<u>757,983</u>
<b>Expenses:</b>					
Operating expenses	319,219	336,810	303,130	974,337	887,008
Goodwill and acquired intangible assets impairment and amortization expense	669,668	9,710	9,774	689,090	29,176
Restructuring expenses	11,082	17,666	2,492	55,030	9,598
Total expenses	<u>999,969</u>	<u>364,186</u>	<u>315,396</u>	<u>1,718,457</u>	<u>925,782</u>
Income (loss) from continuing operations, before income tax expense (benefit)	(625,655)	534,054	246,148	304,474	106,623
Income tax expense (benefit)	<u>(127,558)</u>	<u>196,103</u>	<u>80,423</u>	<u>224,340</u>	<u>31,796</u>
Net income (loss) from continuing operations	(498,097)	337,951	165,725	80,134	74,827
Income (loss) from discontinued operations, net of tax	3,211	—	(6,417)	3,211	(59,133)
Net income (loss)	(494,886)	337,951	159,308	83,345	15,694
Less: net income attributable to noncontrolling interest	<u>61</u>	<u>133</u>	<u>198</u>	<u>334</u>	<u>690</u>
<b>Net income (loss) attributable to SLM Corporation</b>	<u>(494,947)</u>	<u>337,818</u>	<u>159,110</u>	<u>83,011</u>	<u>15,004</u>
Preferred stock dividends	18,787	18,711	42,627	56,176	94,822
Net income (loss) attributable to SLM Corporation common stock	<u>\$ (513,734)</u>	<u>\$ 319,107</u>	<u>\$ 116,483</u>	<u>\$ 26,835</u>	<u>\$ (79,818)</u>
<b>Net income (loss) attributable to SLM Corporation:</b>					
Continuing operations, net of tax	\$ (498,158)	\$ 337,818	\$ 165,527	\$ 79,800	\$ 74,137
Discontinued operations, net of tax	<u>3,211</u>	<u>—</u>	<u>(6,417)</u>	<u>3,211</u>	<u>(59,133)</u>
Net income (loss) attributable to SLM Corporation	<u>\$ (494,947)</u>	<u>\$ 337,818</u>	<u>\$ 159,110</u>	<u>\$ 83,011</u>	<u>\$ 15,004</u>
<b>Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:</b>					
Continuing operations	\$ (1.07)	\$ .66	\$ .26	\$ .05	\$ (.04)
Discontinued operations	.01	—	(.01)	.01	(.13)
Total	<u>\$ (1.06)</u>	<u>\$ .66</u>	<u>\$ .25</u>	<u>\$ .06</u>	<u>\$ (.17)</u>
Average common shares outstanding	<u>484,936</u>	<u>484,832</u>	<u>470,280</u>	<u>484,678</u>	<u>467,960</u>
<b>Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:</b>					
Continuing operations	\$ (1.07)	\$ .63	\$ .26	\$ .05	\$ (.04)
Discontinued operations	.01	—	(.01)	.01	(.13)
Total	<u>\$ (1.06)</u>	<u>\$ .63</u>	<u>\$ .25</u>	<u>\$ .06</u>	<u>\$ (.17)</u>
Average common and common equivalent shares outstanding	<u>484,936</u>	<u>527,391</u>	<u>471,058</u>	<u>486,209</u>	<u>467,960</u>
<b>Dividends per common share attributable to SLM Corporation common shareholders</b>					
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**SLM CORPORATION**  
**Segment and “Core Earnings”**  
**Consolidated Statements of Income**  
**(In thousands)**  
**(Unaudited)**

Quarter ended September 30, 2010

	Lending	Asset Performance Group	Other	Total “Core Earnings” <sup>(2)</sup>	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . .	\$ 319,153	\$ —	\$ —	\$ 319,153	\$ 1,081	\$ 320,234
FFELP Consolidation Loans . . . . .	409,973	—	—	409,973	154,613	564,586
Private Education Loans . . . . .	610,893	—	—	610,893	—	610,893
Other loans . . . . .	7,190	—	—	7,190	—	7,190
Cash and investments . . . . .	3,214	—	4,416	7,630	—	7,630
Total interest income . . . . .	1,350,423	—	4,416	1,354,839	155,694	1,510,533
Total interest expense . . . . .	598,890	—	—	598,890	39,709	638,599
Net interest income . . . . .	751,533	—	4,416	755,949	115,985	871,934
Less: provisions for loan losses . . . . .	358,110	—	—	358,110	—	358,110
Net interest income after provisions for loan losses . . . . .	393,423	—	4,416	397,839	115,985	513,824
Other income (loss):						
Contingency fee revenue . . . . .	—	83,746	—	83,746	—	83,746
Collections revenue . . . . .	—	13,097	—	13,097	—	13,097
Guarantor servicing fees . . . . .	—	—	15,996	15,996	—	15,996
Other income (loss) . . . . .	57,869	—	55,928	113,797	(366,146)	(252,349)
Total other income (loss) . . . . .	57,869	96,843	71,924	226,636	(366,146)	(139,510)
Expenses:						
Direct operating expenses . . . . .	165,133	65,922	61,017	292,072	—	292,072
Overhead expenses . . . . .	16,517	8,359	2,271	27,147	—	27,147
Operating expenses . . . . .	181,650	74,281	63,288	319,219	—	319,219
Goodwill and acquired intangible assets impairment and amortization expense . . .	—	—	—	—	669,668	669,668
Restructuring expenses . . . . .	10,315	1,665	(898)	11,082	—	11,082
Total expenses . . . . .	191,965	75,946	62,390	330,301	669,668	999,969
Income (loss) from continuing operations, before income tax expense . . . . .	259,327	20,897	13,950	294,174	(919,829)	(625,655)
Income tax expense (benefit) <sup>(1)</sup> . . . . .	95,069	7,704	5,115	107,888	(235,446)	(127,558)
Net income (loss) from continuing operations . .	164,258	13,193	8,835	186,286	(684,383)	(498,097)
Income from discontinued operations, net of tax . . . . .	—	3,211	—	3,211	—	3,211
Net income . . . . .	164,258	16,404	8,835	189,497	(684,383)	(494,886)
Less: net income attributable to noncontrolling interest . . . . .	—	61	—	61	—	61
Net income attributable to SLM Corporation . . .	<u>\$ 164,258</u>	<u>\$16,343</u>	<u>\$ 8,835</u>	<u>\$ 189,436</u>	<u>\$(684,383)</u>	<u>\$(494,947)</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 12,145</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 12,145</u>		

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the reportable segment.

<sup>(2)</sup> “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

**Net income (loss) attributable to SLM Corporation:**

Continuing operations, net of tax . . . . .	\$164,258	\$13,132	\$8,835	\$186,225	\$(684,383)	\$(498,158)
Discontinued operations, net of tax . . . . .	—	3,211	—	3,211	—	3,211
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$164,258</u>	<u>\$16,343</u>	<u>\$8,835</u>	<u>\$189,436</u>	<u>\$(684,383)</u>	<u>\$(494,947)</u>

**SLM CORPORATION**  
**Segment and “Core Earnings”**  
**Consolidated Statements of Income**  
**(In thousands)**  
**(Unaudited)**

Quarter ended June 30, 2010

	Lending	Asset Performance Group	Other	Total “Core Earnings” <sup>(2)</sup>	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . .	\$ 324,052	\$ —	\$ —	\$ 324,052	\$ 990	\$ 325,042
FFELP Consolidation Loans . . . . .	418,031	—	—	418,031	132,889	550,920
Private Education Loans . . . . .	575,340	—	—	575,340	—	575,340
Other loans . . . . .	7,254	—	—	7,254	—	7,254
Cash and investments . . . . .	2,554	—	3,745	6,299	—	6,299
Total interest income . . . . .	1,327,231	—	3,745	1,330,976	133,879	1,464,855
Total interest expense . . . . .	571,952	—	—	571,952	(3,019)	568,933
Net interest income . . . . .	755,279	—	3,745	759,024	136,898	895,922
Less: provisions for loan losses . . . . .	382,239	—	—	382,239	—	382,239
Net interest income after provisions for loan losses . . . . .	373,040	—	3,745	376,785	136,898	513,683
Other income:						
Contingency fee revenue . . . . .	—	88,181	—	88,181	—	88,181
Collections revenue . . . . .	—	17,219	—	17,219	—	17,219
Guarantor servicing fees . . . . .	—	—	22,457	22,457	—	22,457
Other income . . . . .	127,587	—	53,009	180,596	76,104	256,700
Total other income . . . . .	127,587	105,400	75,466	308,453	76,104	384,557
Expenses:						
Direct operating expenses . . . . .	166,761	75,256	52,872	294,889	—	294,889
Overhead expenses . . . . .	27,325	11,115	3,481	41,921	—	41,921
Operating expenses . . . . .	194,086	86,371	56,353	336,810	—	336,810
Goodwill and acquired intangible assets impairment and amortization expense . . .	—	—	—	—	9,710	9,710
Restructuring expenses . . . . .	15,762	(109)	2,013	17,666	—	17,666
Total expenses . . . . .	209,848	86,262	58,366	354,476	9,710	364,186
Income from continuing operations, before income tax expense . . . . .	290,779	19,138	20,845	330,762	203,292	534,054
Income tax expense <sup>(1)</sup> . . . . .	106,600	7,016	7,641	121,257	74,846	196,103
Net income from continuing operations . . . . .	184,179	12,122	13,204	209,505	128,446	337,951
Loss from discontinued operations, net of tax . .	—	—	—	—	—	—
Net income . . . . .	184,179	12,122	13,204	209,505	128,446	337,951
Less: net income attributable to noncontrolling interest . . . . .	—	133	—	133	—	133
Net income attributable to SLM Corporation . . .	\$ 184,179	\$ 11,989	\$ 13,204	\$ 209,372	\$ 128,446	\$ 337,818
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	\$ 1,231	\$ —	\$ —	\$ 1,231	—	—

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the reportable segment.

<sup>(2)</sup> “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

**SLM CORPORATION**  
**Segment and “Core Earnings”**  
**Consolidated Statements of Income**  
**(In thousands)**  
**(Unaudited)**

Quarter ended September 30, 2009

	Lending	Asset Performance Group	Other	Total “Core Earnings” <sup>(2)</sup>	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . .	\$ 340,652	\$ —	\$ —	\$ 340,652	\$ (37,460)	\$ 303,192
FFELP Consolidation Loans . . . . .	429,617	—	—	429,617	51,975	481,592
Private Education Loans . . . . .	560,791	—	—	560,791	(164,452)	396,339
Other loans . . . . .	11,042	—	—	11,042	—	11,042
Cash and investments . . . . .	2,337	—	5,156	7,493	(612)	6,881
Total interest income . . . . .	1,344,439	—	5,156	1,349,595	(150,549)	1,199,046
Total interest expense . . . . .	659,971	—	—	659,971	13,899	673,870
Net interest income . . . . .	684,468	—	5,156	689,624	(164,448)	525,176
Less: provisions for loan losses . . . . .	447,963	—	—	447,963	(126,836)	321,127
Net interest income after provisions for loan losses . . . . .	236,505	—	5,156	241,661	(37,612)	204,049
Other income:						
Contingency fee revenue . . . . .	—	82,200	—	82,200	—	82,200
Collections revenue . . . . .	—	21,241	—	21,241	—	21,241
Guarantor servicing fees . . . . .	—	—	48,087	48,087	—	48,087
Other income . . . . .	129,286	—	55,821	185,107	20,860	205,967
Total other income . . . . .	129,286	103,441	103,908	336,635	20,860	357,495
Expenses:						
Direct operating expenses . . . . .	143,515	75,244	55,891	274,650	(83)	274,567
Overhead expenses . . . . .	16,931	8,848	2,784	28,563	—	28,563
Operating expenses . . . . .	160,446	84,092	58,675	303,213	(83)	303,130
Goodwill and acquired intangible assets impairment and amortization expense . . .	—	—	—	—	9,774	9,774
Restructuring expenses . . . . .	1,823	340	329	2,492	—	2,492
Total expenses . . . . .	162,269	84,432	59,004	305,705	9,691	315,396
Income from continuing operations, before income tax expense . . . . .	203,522	19,009	50,060	272,591	(26,443)	246,148
Income tax expense <sup>(1)</sup> . . . . .	75,113	8,502	18,483	102,098	(21,675)	80,423
Net income from continuing operations . . . . .	128,409	10,507	31,577	170,493	(4,768)	165,725
Loss from discontinued operations, net of tax . . . . .	—	(6,353)	—	(6,353)	(64)	(6,417)
Net income . . . . .	128,409	4,154	31,577	164,140	(4,832)	159,308
Less: net income attributable to noncontrolling interest . . . . .	—	198	—	198	—	198
Net income attributable to SLM Corporation . .	\$ 128,409	\$ 3,956	\$ 31,577	\$ 163,942	\$ (4,832)	\$ 159,110
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	\$ 22,607	\$ —	\$ —	\$ 22,607	—	—

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the reportable segment.

<sup>(2)</sup> “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

**Net income (loss) attributable to SLM Corporation:**

Continuing operations, net of tax . . . . .	\$128,409	\$10,309	\$31,577	\$170,295	\$(4,768)	\$165,527
Discontinued operations, net of tax . . . . .	—	(6,353)	—	(6,353)	(64)	(6,417)
Net income (loss) attributable to SLM Corporation . . . . .	\$128,409	\$ 3,956	\$31,577	\$163,942	\$(4,832)	\$159,110

**SLM CORPORATION**  
**Segment and “Core Earnings”**  
**Consolidated Statements of Income**  
**(In thousands)**  
**(Unaudited)**

Nine months ended September 30, 2010

	Lending	Asset Performance Group	Other	Total “Core Earnings” <sup>(2)</sup>	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . .	\$ 917,552	\$ —	\$ —	\$ 917,552	\$ 11,161	\$ 928,713
FFELP Consolidation Loans . . . . .	1,191,759	—	—	1,191,759	447,072	1,638,831
Private Education Loans . . . . .	1,751,387	—	—	1,751,387	—	1,751,387
Other loans . . . . .	23,440	—	—	23,440	—	23,440
Cash and investments . . . . .	6,213	—	12,665	18,878	—	18,878
Total interest income . . . . .	3,890,351	—	12,665	3,903,016	458,233	4,361,249
Total interest expense . . . . .	1,685,972	—	—	1,685,972	52,944	1,738,916
Net interest income . . . . .	2,204,379	—	12,665	2,217,044	405,289	2,622,333
Less: provisions for loan losses . . . . .	1,099,469	—	—	1,099,469	—	1,099,469
Net interest income after provisions for loan losses . . . . .	1,104,910	—	12,665	1,117,575	405,289	1,522,864
Other income:						
Contingency fee revenue . . . . .	—	252,238	—	252,238	—	252,238
Collections revenue . . . . .	—	52,282	—	52,282	—	52,282
Guarantor servicing fees . . . . .	—	—	74,543	74,543	—	74,543
Other income . . . . .	326,773	—	165,458	492,231	(371,227)	121,004
Total other income . . . . .	326,773	304,520	240,001	871,294	(371,227)	500,067
Expenses:						
Direct operating expenses . . . . .	477,652	216,735	176,107	870,494	—	870,494
Overhead expenses . . . . .	64,455	30,247	9,141	103,843	—	103,843
Operating expenses . . . . .	542,107	246,982	185,248	974,337	—	974,337
Goodwill and acquired intangible assets impairment and amortization expense . . .	—	—	—	—	689,090	689,090
Restructuring expenses . . . . .	47,413	3,164	4,453	55,030	—	55,030
Total expenses . . . . .	589,520	250,146	189,701	1,029,367	689,090	1,718,457
Income from continuing operations, before income tax expense . . . . .	842,163	54,374	62,965	959,502	(655,028)	304,474
Income tax expense <sup>(1)</sup> . . . . .	308,737	19,977	23,083	351,797	(127,457)	224,340
Net income from continuing operations . . . . .	533,426	34,397	39,882	607,705	(527,571)	80,134
Income from discontinued operations, net of tax . . . . .	—	3,211	—	3,211	—	3,211
Net income . . . . .	533,426	37,608	39,882	610,916	(527,571)	83,345
Less: net income attributable to noncontrolling interest . . . . .	—	334	—	334	—	334
Net income attributable to SLM Corporation . .	<u>\$ 533,426</u>	<u>\$ 37,274</u>	<u>\$ 39,882</u>	<u>\$ 610,582</u>	<u>\$(527,571)</u>	<u>\$ 83,011</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 16,242</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,242</u>	<u>\$ —</u>	<u>\$ —</u>

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the reportable segment.

<sup>(2)</sup> “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

**Net income (loss) attributable to SLM Corporation:**

Continuing operations, net of tax . . . . .	\$533,426	\$34,063	\$39,882	\$607,371	\$(527,571)	\$79,800
Discontinued operations, net of tax . . . . .	—	3,211	—	3,211	—	3,211
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$533,426</u>	<u>\$37,274</u>	<u>\$39,882</u>	<u>\$610,582</u>	<u>\$(527,571)</u>	<u>\$83,011</u>



**SLM CORPORATION**  
**Segment and “Core Earnings”**  
**Consolidated Statements of Income**  
**(In thousands)**  
**(Unaudited)**

Nine months ended September 30, 2009

	Lending	Asset Performance Group	Other	Total “Core Earnings” <sup>(2)</sup>	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans . . .	\$1,012,124	\$ —	\$ —	\$1,012,124	\$ (42,177)	\$ 969,947
FFELP Consolidation Loans . . . . .	1,262,801	—	—	1,262,801	168,843	1,431,644
Private Education Loans . . . . .	1,682,740	—	—	1,682,740	(506,341)	1,176,399
Other loans . . . . .	45,930	—	—	45,930	—	45,930
Cash and investments . . . . .	8,199	—	14,603	22,802	(2,906)	19,896
Total interest income . . . . .	4,011,794	—	14,603	4,026,397	(382,581)	3,643,816
Total interest expense . . . . .	2,450,880	—	—	2,450,880	68,996	2,519,876
Net interest income . . . . .	1,560,914	—	14,603	1,575,517	(451,577)	1,123,940
Less: provisions for loan losses . . . . .	1,198,839	—	—	1,198,839	(349,321)	849,518
Net interest income after provisions for loan losses . . . . .	362,075	—	14,603	376,678	(102,256)	274,422
Other income:						
Contingency fee revenue . . . . .	—	230,383	—	230,383	—	230,383
Collections revenue . . . . .	—	88,141	—	88,141	689	88,830
Guarantor servicing fees . . . . .	—	—	106,867	106,867	—	106,867
Other income . . . . .	591,017	—	151,875	742,892	(410,989)	331,903
Total other income . . . . .	591,017	318,524	258,742	1,168,283	(410,300)	757,983
Expenses:						
Direct operating expenses . . . . .	400,777	235,013	154,031	789,821	(39)	789,782
Overhead expenses . . . . .	57,632	30,119	9,475	97,226	—	97,226
Operating expenses . . . . .	458,409	265,132	163,506	887,047	(39)	887,008
Goodwill and acquired intangible assets impairment and amortization expense . . .	—	—	—	—	29,176	29,176
Restructuring expenses . . . . .	7,507	266	1,825	9,598	—	9,598
Total expenses . . . . .	465,916	265,398	165,331	896,645	29,137	925,782
Income from continuing operations, before income tax expense . . . . .	487,176	53,126	108,014	648,316	(541,693)	106,623
Income tax expense <sup>(1)</sup> . . . . .	180,207	20,255	39,954	240,416	(208,620)	31,796
Net income from continuing operations . . . . .	306,969	32,871	68,060	407,900	(333,073)	74,827
Loss from discontinued operations, net of tax . . . . .	—	(58,940)	—	(58,940)	(193)	(59,133)
Net income (loss) . . . . .	306,969	(26,069)	68,060	348,960	(333,266)	15,694
Less: net income attributable to noncontrolling interest . . . . .	—	690	—	690	—	690
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 306,969</u>	<u>\$ (26,759)</u>	<u>\$ 68,060</u>	<u>\$ 348,270</u>	<u>\$ (333,266)</u>	<u>\$ 15,004</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 190,894</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 190,894</u>		

<sup>(1)</sup> Income taxes are based on a percentage of net income before tax for the reportable segment.

<sup>(2)</sup> “Core Earnings” are non-GAAP measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income” and subsequent sections.

**Net income (loss) attributable to SLM**

<b>Corporation:</b>						
Continuing operations, net of tax . . . . .	\$306,969	\$ 32,181	\$68,060	\$407,210	\$(333,073)	\$ 74,137
Discontinued operations, net of tax . . . . .	—	(58,940)	—	(58,940)	(193)	(59,133)
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$306,969</u>	<u>\$(26,759)</u>	<u>\$68,060</u>	<u>\$348,270</u>	<u>\$(333,266)</u>	<u>\$ 15,004</u>



## SLM CORPORATION

### Reconciliation of “Core Earnings” Net Income to GAAP Net Income (In thousands, except per share amounts) (Unaudited)

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>“Core Earnings” net income attributable to SLM Corporation<sup>(1)(2)</sup></b> . . . . .	\$ 189,436	\$ 209,372	\$ 163,942	\$ 610,582	\$ 348,270
“Core Earnings” adjustments:					
Net impact of securitization accounting . . . . .	—	—	27,885	—	(196,566)
Net impact of derivative accounting . . . . .	(182,708)	301,421	(36,598)	238,820	(477,169)
Net impact of Floor Income . . . . .	(67,453)	(88,419)	(8,020)	(204,758)	161,025
Net impact of goodwill and acquired intangibles . . . . .	<u>(669,668)</u>	<u>(9,710)</u>	<u>(9,774)</u>	<u>(689,090)</u>	<u>(29,176)</u>
Total “Core Earnings” adjustments before income tax effect . . . . .	(919,829)	203,292	(26,507)	(655,028)	(541,886)
Net income tax effect . . . . .	<u>235,446</u>	<u>(74,846)</u>	<u>21,675</u>	<u>127,457</u>	<u>208,620</u>
Total “Core Earnings” adjustments . . . . .	<u>(684,383)</u>	<u>128,446</u>	<u>(4,832)</u>	<u>(527,571)</u>	<u>(333,266)</u>
<b>GAAP net income (loss) attributable to SLM Corporation</b> . . . . .	<u><u>\$(494,947)</u></u>	<u><u>\$337,818</u></u>	<u><u>\$159,110</u></u>	<u><u>\$ 83,011</u></u>	<u><u>\$ 15,004</u></u>
GAAP diluted earnings (loss) per common share attributable to SLM Corporation common shareholders . . . . .	<u><u>\$ (1.06)</u></u>	<u><u>\$ .63</u></u>	<u><u>\$ .25</u></u>	<u><u>\$ .06</u></u>	<u><u>\$ (.17)</u></u>
(1) “Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders . . . . .	<u><u>\$ .35</u></u>	<u><u>\$ .39</u></u>	<u><u>\$ .26</u></u>	<u><u>\$ 1.13</u></u>	<u><u>\$ .54</u></u>
(2) Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax) . . . . .	<u><u>\$ 12,145</u></u>	<u><u>\$ 1,231</u></u>	<u><u>\$ 22,607</u></u>	<u><u>\$ 16,242</u></u>	<u><u>\$ 190,894</u></u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders . . . . .	<u><u>\$ .02</u></u>	<u><u>\$ —</u></u>	<u><u>\$ .05</u></u>	<u><u>\$ .03</u></u>	<u><u>\$ .41</u></u>

#### “Core Earnings”

In accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments on a basis that, as allowed under the Financial Accounting Standards Board’s (“FASB’s”) Accounting Standards Codification (“ASC”) 280, “Segment Reporting,” differs from GAAP. We refer to management’s basis of evaluating our segment results as “Core Earnings” presentations for each business segment and we refer to this information in our presentations with credit rating agencies, lenders and investors. While “Core Earnings” are not a substitute for reported results under GAAP, we rely on “Core Earnings” to manage each operating segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. “Core Earnings” net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative

guidance for management reporting and as a result, our management reporting is not necessarily comparable with similar information for any other financial institution. Our operating segments are defined by products and services or by types of customers, and reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

### **Limitations of “Core Earnings”**

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that “Core Earnings” are an important additional tool for providing a more complete understanding of the Company’s results of operations. Nevertheless, “Core Earnings” are subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. Our “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike GAAP, “Core Earnings” reflect only current period adjustments to GAAP. Accordingly, the Company’s “Core Earnings” presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not compare our Company’s performance with that of other financial services companies based upon “Core Earnings.” “Core Earnings” results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, the Company’s board of directors, rating agencies, lenders and investors to assess performance.

Other limitations arise from the specific adjustments that management makes to GAAP results to derive “Core Earnings” results. For example, in reversing the unrealized gains and losses that result from ASC 815, “Derivatives and Hedging,” on derivatives that do not qualify for hedge accounting treatment, as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility and changing credit spreads on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but often not on the underlying hedged item) tend to show more volatility in the short term. While presentation of our results on a “Core Earnings” basis provides important information regarding the performance of our Managed portfolio, a limitation of this presentation is that we are presenting the ongoing spread income on loans that have been sold off-balance sheet for GAAP purposes to a trust managed by us. While we believe that our “Core Earnings” presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains, securitization servicing income and Residual Interest Income. Our “Core Earnings” results exclude certain Floor Income, which is real cash income, from our reported results and therefore may understate earnings in certain periods. Management’s financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is Fixed Rate Floor Income that is economically hedged through Floor Income Contracts.

### **Pre-Tax Differences between “Core Earnings” and GAAP**

Our “Core Earnings” are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a “Core Earnings” basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Our “Core Earnings” are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company’s core business activities. “Core Earnings” net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between “Core Earnings” and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our “Core Earnings” segment presentation to our GAAP earnings.

- 1) **Securitization Accounting:** Under GAAP, prior to the adoption of topic updates to ASC 810, “Consolidation,” certain securitization transactions in our Lending operating segment were accounted for as sales of assets. Under “Core Earnings” for the Lending operating segment, we presented all securitization transactions on a “Core Earnings” basis as long-term non-recourse financings. The upfront “gains” on sale from securitization transactions, as well as ongoing “securitization servicing and Residual Interest revenue (loss)” presented in accordance with GAAP, were excluded from “Core Earnings” and were replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans. We also excluded transactions with our off-balance sheet trusts from “Core Earnings” as they were considered intercompany transactions on a “Core Earnings” basis. On January 1, 2010, the Company prospectively adopted the topic updates to ASC 810, which resulted in the consolidation of these off-balance sheet securitization trusts at their historical cost basis. As of January 1, 2010, there are no longer differences between the Company’s GAAP and “Core Earnings” presentation for securitization accounting. As a result, effective January 1, 2010, the Company’s Managed and on-balance sheet (GAAP) portfolios are the same.

Upon the adoption of topic updates to ASC 810, the Company removed the \$1.8 billion of Residual Interests (associated with its off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet and the Company consolidated \$35.0 billion of assets (\$32.6 billion of which are student loans, net of a \$550 million allowance for loan losses) and \$34.4 billion of liabilities (primarily trust debt), which resulted in an approximate \$750 million after-tax reduction of stockholders’ equity (recorded as a cumulative effect adjustment to retained earnings). After the adoption of topic updates to ASC 810, the Company’s results of operations no longer reflect securitization servicing and Residual Interest revenue (loss) related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties, consistent with the Company’s accounting treatment of prior on-balance securitization trusts.

- 2) **Derivative Accounting:** “Core Earnings” exclude periodic unrealized gains and losses that are caused primarily by the mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for hedge accounting treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item’s life.
- 3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in “Core Earnings” when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in “Derivative Accounting,” these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the “gains (losses) on derivative and hedging activities, net” line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For “Core Earnings,” we reverse the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.
- 4) **Goodwill and Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles.

**SUPPLEMENTAL FINANCIAL INFORMATION RELEASE**  
**THIRD QUARTER 2010**  
**(Dollars in millions, except per share amounts, unless otherwise stated)**

The following information (the “Supplemental Financial Information Release” or “Release”) should be read in connection with SLM Corporation’s (the “Company’s”) press release for third quarter 2010 earnings, dated October 19, 2010.

This Supplemental Financial Information Release contains forward-looking statements and information based on management’s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, increases in financing costs; limits on liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). The Company could be affected by: changes in or the termination of various liquidity programs implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company’s expectations.

Definitions for capitalized terms in this document can be found in the Company’s 2009 Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 26, 2010.

Certain reclassifications have been made to the balances as of and for the quarters ended June 30, 2010 and September 30, 2009, to be consistent with classifications adopted for the quarter ended September 30, 2010, and had no effect on net income, total assets, or total liabilities.

## **RECENT DEVELOPMENTS**

### **Department of Education Funding Programs and Servicing Contract**

On October 11, 2010, the Company sold to the Department of Education (“ED”) approximately \$20.4 billion face amount of loans as part of the Loan Purchase Commitment Program (“Purchase Program”) (see “LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs”). Outstanding debt of \$20.3 billion has been paid down related to the Loan Purchase Participation Program (the “Participation Program”) in connection with this loan sale. The Company is servicing approximately 3.3 million accounts (\$42 billion of loans) under the ED Servicing Contract after the sale of these loans.

### **Asset Purchase Agreement with The Student Loan Corporation**

On September 17, 2010, the Company announced that it has reached an agreement to purchase an interest in \$28 billion of securitized federal student loans and related assets from The Student Loan Corporation (“SLC”), a subsidiary of Citibank, N.A. The assets to be purchased include the residual interest in 13 of SLC’s 14 FFELP loan securitizations and its interest in SLC Funding Note Issuer related to the U.S. Department of Education’s Straight-A

Funding asset-backed commercial paper conduit. The transaction also involves the right to service these assets and administer the securitization trusts. The Company expects to be the primary beneficiary of these trusts and therefore will consolidate the trusts onto the Company's balance sheet. In addition, the Company contracted the right to service approximately \$1.1 billion of additional FFELP securitized assets from SLC. (The Company does not expect to consolidate the underlying trusts because it does not expect to be the primary beneficiary of these trusts.) In the aggregate, approximately \$28 billion in FFELP loans are involved. The aggregate purchase price is expected to be approximately \$1.1 billion and will be payable in cash at the closing of the transaction. The Company anticipates the closing to occur in the fourth quarter of 2010 subject to receipt of necessary approvals.

The transaction will be funded by a 5-year term loan provided by Citibank in an amount equal to the purchase price. The loan will be secured by the purchased assets and guaranteed by SLM Corporation. The loan will bear interest at a rate of LIBOR plus 4.50 percent, and be subject to scheduled quarterly payments of the lesser of (i) 2.5 percent of the original principal amount of the term loan or (ii) the residual cash flow derived from the assets securing the loan.

The Asset Purchase Agreement includes customary representations, warranties and covenants. Additional covenants require that each of the parties use commercially reasonable efforts to cause the closing of the transactions to be completed including with regard to receiving SLC shareholder, ED and other requisite approvals and restricting SLC's ability to solicit alternative acquisition proposals or provide information or engage in discussions with third parties related thereto. Citibank has also agreed to facilitate the transaction by providing specific indemnifications to the Company.

As part of the transaction, the Company will enter into agreements with each of the securitization trusts to become the servicer and administrator for these trusts. The Company contemplates converting all of the underlying loans to its servicing platform shortly after closing.

## **Legislative and Regulatory Developments**

### ***The Dodd-Frank Wall Street Reform and Consumer Protection Act***

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), legislation to reform and strengthen the regulation of the financial services sector. Several components of the legislation will have an impact on the Company's business lines, including the new Consumer Financial Protection Bureau and new requirements for derivatives and securitizations. These effects are likely to be similar to those for other financial services companies substantially engaged in consumer lending and will largely depend on the implementing regulations. Management is currently evaluating the effect on the Company.

### ***The Health Care and Education Reconciliation Act of 2010***

On March 30, 2010, President Obama signed into law H.R. 4872, the Health Care and Education Reconciliation Act of 2010 ("HCERA"), which included the SAFRA Act. Effective July 1, 2010, the legislation eliminates the authority to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Student Loan Program ("DSL"). The new law does not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law. This restructuring will result in both a significant amount of restructuring expenses incurred as well as a significant reduction of on-going operating costs once the restructuring is complete.

The following summarizes the expected impact on the Company's business as a result of HCERA:

1. We will no longer originate FFELP loans and therefore will no longer earn revenue on newly originated FFELP loan volume after 2010. We earned \$284 million in revenue in 2009 related to selling FFELP loans to ED as part of the Purchase Program and expect to earn approximately \$315 million of revenue in the fourth quarter of 2010 related to this program. We also earned \$40 million in 2009 and \$102 million during the nine months ended September 30, 2010 in net interest income on the loans before selling them to ED. The net interest income that we earn on our FFELP loan portfolio will decline over time as the FFELP loans on the Company's balance sheet pay down.



2. We earn revenue collecting on delinquent and defaulted FFELP loans as well as guarantor account maintenance fees which are based on the size of the underlying guarantor portfolio. This revenue totaled \$265 million in 2009 and \$232 million during the nine months ended September 30, 2010. Because there will no longer be any new FFELP loan originations, this collections revenue and guarantor account maintenance fee revenue will decline over time as the underlying guarantor portfolios wind down. These revenues are recorded in contingency fee revenue and guarantor servicing fees.
3. Prior to July 1, 2010, we earned guarantor issuance fees on new FFELP guarantors. This revenue totaled \$64 million in 2009 and \$31 million for the nine months ended September 30, 2010 and was recorded in guarantor servicing fees. We will no longer earn this revenue.

### Legal Proceedings

On September 24, 2010, the United States District Court for the Southern District of New York in *In re SLM Corporation Securities Litigation*, denied Defendants Motion to Dismiss as to SLM Corporation and Mr. Albert Lord and granted the Motion to Dismiss as to Mr. C.E. Andrews. The case will now proceed to discovery as to SLM Corporation and Mr. Albert Lord.

### Recently Adopted Accounting Standards — Variable Interest Entity (“VIE”) Consolidation Model

On January 1, 2010, upon the prospective adoption of topic updates to the FASB’s ASC 810, “Consolidation,” the Company consolidated its off-balance sheet securitization trusts at their historical cost basis. As a result, the Company removed the \$1.8 billion of Residual Interests (associated with its off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet and the Company consolidated \$35.0 billion of assets (\$32.6 billion of which are student loans, net of a \$550 million allowance for loan losses) and \$34.4 billion of liabilities (primarily trust debt), which resulted in an approximate \$750 million after-tax reduction of stockholders’ equity (recorded as a cumulative effect adjustment to retained earnings). After the adoption of topic updates to ASC 810, the Company’s results of operations no longer reflect securitization servicing and Residual Interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties, consistent with the Company’s accounting treatment of prior on-balance securitization trusts. As of January 1, 2010, there are no longer differences between the Company’s GAAP and “Core Earnings” presentation for securitization accounting. As a result, our Managed and on-balance sheet (GAAP) student loan portfolios are the same.

The following table summarizes the change in the consolidated balance sheet resulting from the consolidation of the off-balance sheet securitization trusts following the adoption of topic updates to ASC 810.

	<u>At January 1, 2010</u>
FFELP Stafford Loans (net of allowance of \$15) . . . . .	\$ 5,500
FFELP Consolidation loans (net of allowance of \$10) . . . . .	14,797
Private Education Loans (net of allowance of \$524) . . . . .	<u>12,341</u>
Total student loans . . . . .	32,638
Restricted cash and investments . . . . .	1,041
Other assets . . . . .	<u>1,370</u>
Total assets consolidated . . . . .	<u>35,049</u>
Long-term borrowings . . . . .	34,403
Other liabilities . . . . .	<u>6</u>
Total liabilities consolidated . . . . .	<u>34,409</u>
Net assets consolidated on balance sheet . . . . .	640
Less: Residual Interest removed from balance sheet . . . . .	<u>1,828</u>
Cumulative effect of accounting change before taxes . . . . .	<u>(1,188)</u>
Tax effect . . . . .	<u>434</u>
Cumulative effect of accounting change after taxes . . . . .	<u>\$ (754)</u>

Management allocates capital on a Managed Basis. This accounting change did not affect management's view of capital adequacy for the Company. The Company's unsecured revolving credit facility and its asset-backed credit facilities contain two principal financial covenants related to tangible net worth and net revenue. The tangible net worth covenant requires the Company to maintain consolidated tangible net worth of at least \$1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was \$3.5 billion as of December 31, 2009. Upon adoption of topic updates to ASC 810 on January 1, 2010, consolidated tangible net worth as calculated for this covenant was \$2.7 billion. Because the transition adjustment upon adoption of topic updates to ASC 810 is recorded through retained earnings, the net revenue covenant was not affected by the adoption of topic updates to ASC 810. The ongoing net revenue covenant will not be affected by ASC 810's impact on the Company's securitization trusts as the net revenue covenant treated all off-balance sheet trusts as on-balance sheet for purposes of calculating net revenue.

## DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

### *Three Months Ended September 30, 2010 Compared with Three Months Ended June 30, 2010*

For the three months ended September 30, 2010 and June 30, 2010, net loss attributable to SLM Corporation was \$495 million or \$1.06 diluted loss per common share and net income of \$338 million or \$.63 diluted earnings per common share, respectively. For the three months ended September 30, 2010 and June 30, 2010, net loss attributable to SLM Corporation from continuing operations was \$498 million or \$1.07 diluted loss per common share compared with net income from continuing operations of \$338 million, or \$.63 diluted earnings per common share, respectively. For the three months ended September 30, 2010, net income attributable to SLM Corporation from discontinued operations was \$3 million or \$.01 diluted earnings from discontinued operations per common share compared with no net income or loss from discontinued operations for the three months ended June 30, 2010.

For the three months ended September 30, 2010, the Company's pre-tax loss from continuing operations was \$626 million compared with pre-tax income of \$534 million in the prior quarter. This \$1.2 billion decrease was primarily due to a \$660 million goodwill and intangible asset impairment charge (discussed below) and a \$439 million decrease in net gains on derivative and hedging activities from \$95 million of net gains in the second quarter of 2010 to \$344 million of net losses in the third quarter of 2010. The net losses on the mark-to-market on derivative valuations was primarily due to changes in the fair value of derivatives that do not qualify for hedge accounting treatment under GAAP and ineffectiveness on foreign currency swaps hedging foreign-denominated debt. Also contributing to the decrease in pre-tax income was a \$73 million decrease in gains on debt repurchases which is in "other" income on the income statement.

Net interest income after provisions for loan losses remained consistent in the third quarter of 2010 from the prior quarter. This was due to a \$24 million decrease in net interest income offset by a \$24 million decrease in provisions for loan losses. The decrease in net interest income was primarily due to a 7 basis point decrease in the student loan spread coupled with a \$500 million decrease in the average balance of student loans (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The majority of the provisions for loan losses relates to the Private Education Loan loss provision (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "*— Allowance for Private Education Loan Losses*").

In the third quarter of 2010, contingency fee revenue, collections revenue and guarantor servicing fees totaled \$113 million, a \$14 million decrease from the prior quarter. This decrease was primarily due to HCERA being effective as of July 1, 2010 which resulted in the Company no longer earning certain fee income from its guarantor customers on disbursed guaranteed FFELP loans (see "OTHER BUSINESS SEGMENT").

Restructuring expenses of \$11 million and \$18 million were recorded in the third and second quarters of 2010, respectively. The following details the Company's two restructuring efforts:

- On March 30, 2010, President Obama signed into law H.R. 4872, HCERA, which included the SAFRA Act. Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP



and requires all new federal loans to be made through the DSLP. The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law which will result in a significant reduction of operating costs due to the elimination of positions and facilities associated with the origination of FFELP loans.

In the third and second quarters of 2010, expenses associated with this restructuring plan were \$10 million and \$18 million, respectively. Restructuring expenses for the nine months ended September 30, 2010 were \$50 million, all of which was recorded in continuing operations. In connection with the HCERA restructuring effort, on July 1, 2010, the Company announced its corporate headquarters will be moving from Reston, VA to Newark, DE by March 31, 2011.

The Company is currently finalizing this restructuring plan and expects to incur an estimated \$25 million of additional restructuring costs, including severance costs associated with job abolishments and other potential exit costs. The majority of these restructuring expenses incurred through September 30, 2010 and expected to be incurred in future periods are severance costs related to the planned elimination of approximately 2,500 positions, or approximately 30 percent of the workforce.

- In response to the College Cost Reduction and Access Act of 2007 (“CCRAA”) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. This plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down or otherwise disposing of our debt purchased paper businesses, and significantly reducing our operating expenses. This restructuring plan was essentially completed in the fourth quarter of 2009. Under this plan, restructuring expenses of \$1 million were recognized in continuing operations in the third quarter of 2010 and no restructuring expenses were recognized in the second quarter of 2010. Restructuring expenses from the fourth quarter of 2007 through the third quarter of 2010 totaled \$133 million, of which \$124 million was recorded in continuing operations and \$9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the elimination of approximately 3,000 positions, or approximately 25 percent of the workforce. We estimate approximately \$4 million of additional restructuring expenses will be incurred in the future related to this restructuring plan.

For the three months ended September 30, 2010 and June 30, 2010, operating expenses, excluding restructuring-related asset impairments of \$0 and \$6 million, respectively, were \$319 million compared with \$331 million, respectively. Operating expenses, excluding restructuring-related asset impairments, decreased \$12 million over the prior quarter, primarily due to a decrease in legal contingency expenses from the prior quarter.

Goodwill and intangible asset impairment totaled \$660 million and \$0 for the three months ended September 30, 2010 and June 30, 2010, respectively (discussed below). The amortization of acquired intangibles for continuing operations was \$10 million in the third and second quarters of 2010.

During the third quarter, as part of a broad-based assessment of possible changes to the Company’s business as a result of the passage of HCERA and as a result, how management will view the business on a going-forward basis, the Company performed certain preliminary valuations of operating segments which indicated there was possible impairment of goodwill and certain intangible assets in its APG, Upromise and Guarantor Servicing operating segments. Based upon these preliminary results, the Company performed a full goodwill impairment evaluation which resulted in a goodwill impairment of \$402 million in its APG operating segment, \$140 million in its Upromise operating segment and \$62 million in its Guarantor Servicing operating segment. In addition, as part of this analysis, the Company determined that certain intangible assets were also impaired. As a result, the Company recorded \$56 million in intangible asset write-downs in the third quarter. In connection with its assessment, the Company is planning to redefine its operating segments and revise its reportable segments presentation in the fourth quarter of 2010, once certain decisions have been finalized with respect to how management will view the business on a going-forward basis.

In determining the amount of goodwill impairment to record during the quarter, the Company estimated the fair value of each of its operating segments based on its best estimate of the future cash flows and related inherent risk a willing buyer would consider when valuing these businesses. These estimates may differ from how the Company views the prospective cash flows associated with the individual operating segments. During the third quarter, new information regarding how investors view the risks and uncertainties associated with future cash flows resulted in the Company adjusting down its forecasted cash flows and increasing the discount rates associated with these cash flows for the APG and Guarantor Servicing operating segments, resulting in a decline in value associated with these operating segments. With regard to the Upromise operating segment, the Company determined that pricing pressures and certain risks associated with growing the business as well as the likelihood that a market participant would demand a higher discount rate and assume lower future expected cash flows than the Company would assume based on Upromise's current operations which, in combination, resulted in a decline in the fair value of this operating segment.

The intangible asset impairments recorded in the third quarter resulted from the same factors described above with respect to goodwill impairment.

Income tax (benefit) from continuing operations was \$(128) million in the third quarter of 2010 compared with income tax expense of \$196 million in the prior quarter, resulting in effective tax rates of 20 percent and 37 percent, respectively. The change in the effective tax rate in the third quarter of 2010 compared with the second quarter of 2010 was primarily driven by the impact of non-deductible goodwill impairments recorded in the third quarter of 2010.

### ***Three Months Ended September 30, 2010 Compared with Three Months Ended September 30, 2009***

For the three months ended September 30, 2010 and September 30, 2009, net loss attributable to SLM Corporation was \$495 million or \$1.06 diluted loss per common share and net income of \$159 million or \$.25 diluted earnings per common share, respectively. For the three months ended September 30, 2010 and September 30, 2009, net loss attributable to SLM Corporation from continuing operations was \$498 million or \$1.07 diluted loss from continuing operations per common share and a net income from continuing operations of \$165 million, or \$.26 diluted earnings per share from continuing operations per common share, respectively. For the three months ended September 30, 2010, net income from discontinued operations was \$3 million, or \$.01 diluted earnings per common share, compared with a net loss from discontinued operations of \$6 million, or \$.01 diluted loss per common share from discontinued operations for the three months ended September 30, 2009.

For the three months ended September 30, 2010, the Company's pre-tax loss from continuing operations was \$626 million compared with pre-tax income of \$246 million in the year-ago quarter. The decrease in pre-tax income of \$872 million was primarily due to a \$660 million goodwill and intangible asset impairment charge (discussed above), a \$232 million increase in net losses on derivative and hedging activities, a decrease in securitization servicing and Residual Interest revenue of \$155 million (as a result of an accounting change discussed below), a \$56 million decrease in gains on debt repurchases and a \$32 million decrease in guarantor servicing fees. This was partially offset by a \$310 million increase in net interest income after provisions for loan losses.

Net losses on derivative and hedging activities increased from a \$112 million net loss in the third quarter of 2009 to a \$344 million net loss in the third quarter of 2010. The change in net losses on derivative and hedging activities was primarily the result of changes in mark-to-market derivative valuations on derivatives that do not qualify for hedge accounting treatment under GAAP and ineffectiveness on foreign currency swaps hedging foreign-denominated debt.

Net interest income after provisions for loan losses increased by \$310 million in the third quarter of 2010 from the year-ago quarter. This increase was due to a \$347 million increase in net interest income offset by a \$37 million increase in provisions for loan losses. The increase in net interest income and provisions for loan losses was partially due to the adoption of topic updates to ASC 810 which resulted in the consolidation of \$35.0 billion of assets and \$34.4 billion of liabilities in certain securitizations trusts as of January 1, 2010. As discussed above, for securitization trusts that were consolidated on January 1, 2010, the Company's results of

operations no longer reflect securitization servicing and residual interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties. The consolidation of these securitization trusts as of January 1, 2010 resulted in \$243 million of additional net interest income and \$86 million of additional provisions for loan losses in the third quarter of 2010. Excluding the results of the trusts consolidated as of January 1, 2010, net interest income would have increased \$104 million from the third quarter of 2009 and provisions for loan losses would have decreased \$49 million from the third quarter of 2009. The increase in net interest margin, excluding the impact of the ASC 810 securitization trust consolidations, was primarily the result of an increase in the student loan spread and a decrease in the 2008 Asset-Backed Financing Facilities fees (see “LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*”). The majority of the provisions for loan losses relates to the Private Education Loan loss provision (see “LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*” and “— *Allowance for Private Education Loan Losses*”).

As discussed above, as a result of adopting topic updates to ASC 810, there was no securitization servicing and Residual Interest revenue in the third quarter of 2010, compared with \$155 million revenue in the third quarter of 2009.

Gains on sales of loans and securities declined \$10 million from the year ago period. The \$12 million gain on sales of loans and securities in the third quarter of 2009 related to the gain on sale of approximately \$840 million face amount of FFELP loans to the Ed as part of the ED Purchase Program.

For the third quarter of 2010, contingency fee revenue, collections revenue and guarantor servicing fees totaled \$113 million, a \$38 million decrease from \$151 million in the year-ago quarter. This decrease was primarily due to HCERA being effective as of July 1, 2010 which resulted in the Company no longer earning certain fee income from its guarantor clients on disbursed guaranteed FFELP loans as well as a lower balance of outstanding FFELP loans for which the Company earns additional fees (see “OTHER BUSINESS SEGMENT”).

Restructuring expenses of \$11 million and \$2 million were recognized in the third quarters of 2010 and 2009, respectively, as previously discussed.

For the three months ended September 30, 2010 and September 30, 2009, operating expenses were \$319 million compared with \$303 million, respectively. This \$16 million increase from the year-ago quarter was primarily due to higher legal contingency expenses, higher costs related to the ED Servicing Contract (see “OTHER BUSINESS SEGMENT”), higher collection costs from a greater number of loans in repayment and delinquent status, and higher marketing and technology enhancement costs related to Private Education Loans.

Goodwill and intangible asset impairment totaled \$660 million and \$0 for the three months ended September 30, 2010 and September 30, 2009, respectively (see previous discussion regarding goodwill and intangible asset impairment). The amortization of acquired intangibles for continuing operations was \$10 million in the third quarters of 2010 and 2009.

Income tax (benefit) from continuing operations was \$(128) million in the third quarter of 2010 compared with income tax expense of \$80 million in the year-ago quarter, resulting in effective tax rates of 20 percent and 33 percent, respectively. The change in the effective tax rate in the third quarter of 2010 compared with the third quarter of 2009 was primarily driven by non-deductible goodwill impairments recorded in the third quarter of 2010, the impact of state tax rate changes and state law changes recorded in both periods, and the reduction of tax and interest on U.S. federal and state uncertain tax positions in the third quarter of 2009.

#### ***Nine Months Ended September 30, 2010 Compared with Nine Months Ended September 30, 2009***

For the nine months ended September 30, 2010 and September 30, 2009, net income attributable to SLM Corporation was \$83 million or \$.06 diluted earnings per common share compared with a net income of \$15 million, or \$.17 diluted loss per common share, respectively. For the nine months ended September 30, 2010, net income attributable to SLM Corporation from continuing operations was \$80 million or \$.05 diluted

earnings from continuing operations per common share compared with net income from continuing operations of \$75 million, or \$.04 diluted loss per share from continuing operations per common share for the nine months ended September 30, 2009. For the nine months ended September 30, 2010, net income from discontinued operations was \$3 million, or \$.01 diluted earnings from discontinued operations per common share compared with a net loss from discontinued operations of \$59 million, or \$.13 diluted loss from discontinued operations per common share for the nine months ended September 30, 2009.

For the nine months ended September 30, 2010, the Company's pre-tax income from continuing operations was \$305 million compared with a pre-tax income of \$107 million in the prior-year period. The increase in pre-tax income of \$198 million was primarily due to a \$1.2 billion increase in net interest income after provisions for loan losses, a \$237 million decrease in net losses on derivative and hedging activities, from a \$569 million net loss for the nine months ended September 30, 2009 to a \$332 million net loss in the nine months ended September 30, 2010 which was partially offset by a \$660 million goodwill and intangible asset impairment charge in the third quarter (discussed above). The change in derivative and hedging activities was primarily the result of the changes in mark-to-market derivative valuations on derivatives that do not qualify for hedge accounting treatment under GAAP and ineffectiveness on foreign currency swaps hedging foreign-denominated debt. This was partially offset by a \$264 million decrease in gains on debt repurchases and a decrease in securitization servicing and Residual Interest revenue of \$147 million (as a result of an accounting change discussed below).

Net interest income after provisions for loan losses increased by \$1.2 billion in the nine months ended September 30, 2010 from the year-ago period. This increase was due to a \$1.5 billion increase in net interest income offset by a \$249 million increase in provisions for loan losses. The increase in net interest income and provisions for loan losses was partially due to the adoption of topic updates to ASC 810 which resulted in the consolidation of \$35.0 billion of assets and \$34.4 billion of liabilities in certain securitizations trusts as of January 1, 2010 as discussed above. The consolidation of these securitization trusts as of January 1, 2010 resulted in \$749 million of additional net interest income and \$262 million of additional provisions for loan losses for the nine months ended September 30, 2010. Excluding the results of the trusts consolidated as of January 1, 2010, net interest income would have increased \$750 million from the first nine months of 2009 and provisions for loan losses would have decreased \$13 million from the first nine months of 2009. The increase in net interest income, excluding the impact of the ASC 810 securitization trust consolidations, was primarily the result of an increase in the student loan spread and a decrease in the 2008 Asset-Backed Financing Facilities fees (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The majority of the provisions for loan losses relates to the Private Education Loan loss provision (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "*— Allowance for Private Education Loan Losses*").

As discussed above, as a result of adopting topic updates to ASC 810, there was no securitization servicing or Residual Interest revenue in the nine months ended September 30, 2010, compared with \$147 million of revenue in the year-ago period.

In the nine months ended September 30, 2010, contingency fee revenue, collections revenue and guarantor servicing fees totaled \$379 million, a \$47 million decrease from \$426 million in the year-ago period. This decrease was primarily due to HCERA being effective as of July 1, 2010 which resulted in the Company no longer earning a guarantor issuance fees on disbursed guaranteed FFELP loans as well as a lower balance of outstanding FFELP loans in which the Company earns additional fees (see "OTHER BUSINESS SEGMENT"). In addition the decline in revenue is due to a significantly smaller non-mortgage purchased paper portfolio year-over-year as a result of winding down this collections business.

Restructuring expenses of \$55 million and \$10 million were recognized in the nine months ended September 30, 2010 and 2009, respectively, as previously discussed.

For the nine months ended September 30, 2010 and September 30, 2009, operating expenses, excluding restructuring-related asset impairments of \$9 million and \$0, respectively, were \$965 million compared with \$887 million, respectively. The \$78 million increase from the year-ago period was primarily due to higher legal contingency expense, higher costs related to the ED Servicing Contract (see "OTHER BUSINESS

SEGMENT”), higher collection costs from a higher number of loans in repayment and delinquent status, and higher marketing and technology enhancement costs related to Private Education Loans.

Goodwill and intangible asset impairment totaled \$660 million and \$0 for the nine months ended September 30, 2010 and September 30, 2009, respectively (see previous discussion regarding goodwill and intangible asset impairment). The amortization of acquired intangibles for continuing operations totaled \$29 million in the nine months ended September 30, 2010 and 2009.

Income tax expense from continuing operations was \$225 million in the nine months ended September 30, 2010 compared with income tax expense of \$32 million in the year-ago period, resulting in effective tax rates of 74 percent and 30 percent, respectively. The change in the effective tax rate in the first nine months of 2010 compared with the year-ago period was primarily driven by the impact of non-deductible goodwill impairments recorded in the first nine months of 2010, state tax rate changes and state law changes recorded in both periods, and the reduction of tax and interest on state uncertain tax positions in the first nine months of 2009.

Net income attributable to the Company from discontinued operations in the nine months ended September 30, 2010 was \$3 million compared with a net loss from discontinued operations of \$59 million for the year-ago period. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for \$280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. After-tax impairment of the assets of \$56 million in the nine months ended September 30, 2009 was the primary reason for the net loss attributable to SLM Corporation from discontinued operations in the year-ago period.

#### **Other Income**

The following table summarizes the components of “Other income” in the consolidated statements of income for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September 30, 2010</u>	<u>June 30, 2010</u>	<u>September 30, 2009</u>	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Gains on debt repurchases . . . . .	\$ 18	\$ 91	\$ 74	\$199	\$463
Late fees and forbearance fees . . . . .	34	36	39	111	107
Asset servicing and other transaction fees . . .	28	30	28	86	79
Loan servicing fees . . . . .	19	17	17	56	35
Foreign currency translation gains (losses) . . .	(19)	(19)	(23)	(37)	11
Other . . . . .	10	10	16	31	47
Total other income . . . . .	<u>\$ 90</u>	<u>\$165</u>	<u>\$151</u>	<u>\$446</u>	<u>\$742</u>

The change in other income over the prior periods presented was primarily the result of the gains on debt repurchases and foreign currency translation gains (losses). The Company began repurchasing its outstanding debt in the second quarter of 2008 in both open-market repurchases and public tender offers. The Company repurchased \$0.9 billion, \$1.4 billion and \$1.4 billion face amount of its senior unsecured notes for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively, and repurchased \$3.6 billion and \$2.7 billion face amount of its senior unsecured notes for the nine months ended September 30, 2010 and 2009, respectively. Since the second quarter of 2008, the Company has repurchased \$8.9 billion face amount of its senior unsecured notes, with maturity dates ranging from 2008 to 2016. The foreign currency translation gains (losses) relate to a portion of the Company’s foreign currency denominated debt that does not receive hedge accounting treatment. These gains (losses) were partially offset by the “gains (losses) on derivative and hedging activities, net” line item on the income statement related to the derivatives used to economically hedge these debt instruments.



## EARNINGS RELEASE SUMMARY

The following table summarizes GAAP income statement items (on a tax-effected basis) that are disclosed separately in the Company's press releases of earnings or the Company's quarterly earnings conference calls for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

(in thousands)	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Reported net income (loss) attributable to SLM Corporation . . . . .	\$(494,947)	\$337,818	\$159,110	\$ 83,011	\$ 15,004
Preferred stock dividends . . . . .	<u>(18,787)</u>	<u>(18,711)</u>	<u>(42,627)</u>	<u>(56,176)</u>	<u>(94,822)</u>
Reported net income (loss) attributable to common stock . . . . .	(513,734)	319,107	116,483	26,835	(79,818)
Expense items disclosed separately (tax-effected):					
Restructuring expenses . . . . .	6,982	11,130	1,570	34,670	6,047
Reduction in premium amortization expense on loans <sup>(1)</sup> . . . . .	(12,461)	—	(22,970)	(12,461)	(22,970)
Other reorganization-related asset impairments . . . . .	<u>—</u>	<u>3,699</u>	<u>—</u>	<u>5,774</u>	<u>222</u>
Total expense items disclosed separately (tax-effected) . . . . .	<u>(5,479)</u>	<u>14,829</u>	<u>(21,400)</u>	<u>27,983</u>	<u>(16,701)</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately . . . . .	(519,213)	333,936	95,083	54,818	(96,519)
Adjusted for dividends on convertible Series C Preferred Stock <sup>(2)</sup> . . . . .	<u>—</u>	<u>14,688</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately, adjusted . . . . .	<u>\$(519,213)</u>	<u>\$348,624</u>	<u>\$ 95,083</u>	<u>\$ 54,818</u>	<u>\$(96,519)</u>
Average common and common equivalent shares outstanding . . . . .	<u>484,936</u>	<u>527,391</u>	<u>471,058</u>	<u>486,209</u>	<u>467,960</u>

<sup>(1)</sup> The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in the third quarters of 2010, 2009 and 2008, as a result of a decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense.

<sup>(2)</sup> There was no impact on diluted earnings (loss) per common share for the current and year-ago quarters and the nine months ended September 30, 2010 and 2009 because the effect of the assumed conversion was anti-dilutive.

The following table summarizes “Core Earnings” income statement items (on a tax-effected basis) that are disclosed separately in the Company’s press releases of earnings or the Company’s quarterly earnings conference calls for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

(in thousands)	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
“Core Earnings” net income attributable to SLM Corporation . . . . .	\$189,436	\$209,372	\$163,942	\$610,582	\$348,270
Preferred stock dividends . . . . .	(18,787)	(18,711)	(42,627)	(56,176)	(94,822)
“Core Earnings” net income attributable to SLM Corporation common stock . . . . .	170,649	190,661	121,315	554,406	253,448
Expense items disclosed separately (tax-effected):					
Restructuring expenses . . . . .	6,982	11,130	1,570	34,670	6,047
Reduction in premium amortization expense on loans <sup>(1)</sup> . . . . .	(12,461)	—	(34,627)	(12,461)	(34,627)
Other reorganization-related asset impairments . . .	—	3,699	—	5,774	222
Total expense items disclosed separately (tax-effected) . . . . .	(5,479)	14,829	(33,057)	27,983	(28,358)
“Core Earnings” net income attributable to SLM Corporation common stock, excluding the impact of items disclosed separately . . . . .	165,170	205,490	88,258	582,389	225,090
Adjusted for dividends on convertible Series C Preferred Stock <sup>(2)</sup> . . . . .	—	14,688	—	44,064	—
“Core Earnings” net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately, adjusted . .	<u>\$165,170</u>	<u>\$220,178</u>	<u>\$ 88,258</u>	<u>\$626,453</u>	<u>\$225,090</u>
Average common and common equivalent shares outstanding . . . . .	<u>487,066</u>	<u>527,391</u>	<u>471,058</u>	<u>527,449</u>	<u>468,579</u>

<sup>(1)</sup> The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in the third quarters of 2010, 2009 and 2008, as a result of a decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense.

<sup>(2)</sup> There was no impact on diluted earnings (loss) per common share for the current and year-ago quarters and nine months ended September 30, 2009 because the effect of the assumed conversion was anti-dilutive.



## BUSINESS SEGMENTS

The results of operations of the Company's Lending, Asset Performance Group ("APG") and Other business segments are presented below, using our "Core Earnings" presentation.

The Lending business segment section includes discussion of income and related expenses associated with the net interest margin, the student loan spread and its components, the provisions for loan losses, and other fees earned on our Managed portfolio of student loans. The APG business segment reflects fees earned and expenses incurred in providing accounts receivable management and collection services. The Other business segment includes our remaining fee businesses that do not pertain directly to the primary segments identified above. In connection with the current assessment of possible strategic alternatives the Company is planning on changing its business segments presentation in the fourth quarter of 2010, once certain decisions have been finalized that impact how management views the business.

In the first quarter of 2010, the Company changed its methodology to allocate corporate overhead to each business segment. In addition, the Company refined its methodology for allocating information technology expenses. Following these changes, all corporate overhead is allocated to a business segment. Previously, only certain overhead costs were specifically allocated and the rest remained in the Other business segment. All prior periods presented have been updated to reflect these changes in expense allocations.

### Pre-tax Differences between "Core Earnings" and GAAP

Our "Core Earnings" are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a "Core Earnings" basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Our "Core Earnings" are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company's core business activities. "Core Earnings" net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between "Core Earnings" and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our "Core Earnings" segment presentation to our GAAP earnings.

- 1) **Securitization Accounting:** Under GAAP, prior to the adoption of topic updates to ASC 810, "Consolidation," on January 1, 2010, certain securitization transactions in our Lending operating segment were accounted for as sales of assets. Under "Core Earnings" for the Lending operating segment, we presented all securitization transactions as long-term non-recourse financings. The upfront "gains" on sale from securitization transactions, as well as ongoing "securitization servicing and Residual Interest revenue (loss)" presented in accordance with GAAP, were excluded from "Core Earnings" and were replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans. We also excluded transactions with our off-balance sheet trusts from "Core Earnings" as they were considered intercompany transactions on a "Core Earnings" basis. On January 1, 2010, upon the adoption of topic updates to ASC 810, which resulted in the consolidation of these previously off-balance sheet securitization trusts, there are no longer differences between the Company's GAAP and "Core Earnings" presentation for securitization accounting (see "RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model").

The following table summarizes “Core Earnings” securitization adjustments for the Lending operating segment for the three and nine months ended September 30, 2009.

	<u>Three months ended September 30, 2009</u>	<u>Nine months ended September 30, 2009</u>
“Core Earnings” securitization adjustments:		
Net interest income on securitized loans, before provisions for loan losses . . . . .	\$(254)	\$(693)
Provisions for loan losses . . . . .	<u>127</u>	<u>349</u>
Net interest income on securitized loans, after provisions for loan losses . . . . .	(127)	(344)
Securitization servicing and Residual Interest revenue . . . . .	<u>155</u>	<u>147</u>
Total “Core Earnings” securitization adjustments <sup>(1)</sup> . . . . .	<u>\$ 28</u>	<u>\$(197)</u>

<sup>(1)</sup> Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income and positive amounts are added to “Core Earnings” net income to arrive at GAAP net income.

- 2) **Derivative Accounting:** “Core Earnings” exclude periodic unrealized gains and losses that are caused primarily by the mark-to-market derivative valuations on derivatives that do not qualify for hedge accounting treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item’s life.

The accounting for derivative instruments requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, these gains and losses described in “Gains (losses) on derivative and hedging activities, net” are primarily caused by interest rate and foreign currency exchange rate volatility, and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. The upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, earning Floor Income but that offsetting change in value is not recognized. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Prior to ASC 815, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. To qualify for hedge accounting when using basis swaps, the change in the cash flows of the hedge must effectively offset both the change in the cash flows of the asset and the change in the cash flows of the

liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets. Additionally, some of our FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps written on the FFELP loans do not meet the criteria for hedge accounting treatment. As a result, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting on net income for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009, when compared with the accounting principles employed in all years prior to the derivative accounting implementation.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
"Core Earnings" derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income <sup>(1)</sup> . . . .	\$(344)	\$ 95	\$(112)	\$(331)	\$(569)
Plus: Realized losses on derivative and hedging activities, net <sup>(1)</sup> . . . . .	<u>182</u>	<u>226</u>	<u>118</u>	<u>613</u>	<u>120</u>
Unrealized gains (losses) on derivative and hedging activities, net. . . . .	(162)	321	6	282	(449)
Other pre-derivatives accounting adjustments . . . .	<u>(21)</u>	<u>(20)</u>	<u>(43)</u>	<u>(43)</u>	<u>(28)</u>
Total net impact of derivative accounting <sup>(2)</sup> . . . . .	<u>\$(183)</u>	<u>\$301</u>	<u>\$ (37)</u>	<u>\$ 239</u>	<u>\$(477)</u>

<sup>(1)</sup> See "Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities" below for a detailed breakdown of the components of realized losses on derivative and hedging activities.

<sup>(2)</sup> Negative amounts are subtracted from "Core Earnings" net income to arrive at GAAP net income and positive amounts are added to "Core Earnings" net income to arrive at GAAP net income.

*Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities*

The accounting for derivative instruments requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as “realized gains (losses) on derivative and hedging activities”) that do not qualify as hedges under ASC 815 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a “Core Earnings” basis for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income Contracts reclassified to net interest income . . . . .	\$(223)	\$(222)	\$(189)	\$(656)	\$(500)
Net settlement income (expense) on interest rate swaps reclassified to net interest income . . . . .	39	(5)	72	41	396
Foreign exchange derivatives gains (losses) reclassified to other income . . . . .	—	1	—	1	(14)
Net realized gains (losses) on terminated derivative contracts reclassified to other income . . . . .	<u>2</u>	<u>—</u>	<u>(1)</u>	<u>1</u>	<u>(2)</u>
Total reclassifications of realized losses on derivative and hedging activities . . . . .	(182)	(226)	(118)	(613)	(120)
Add: Unrealized gains (losses) on derivative and hedging activities, net <sup>(1)</sup> . . . . .	<u>(162)</u>	<u>321</u>	<u>6</u>	<u>282</u>	<u>(449)</u>
Gains (losses) on derivative and hedging activities, net . . . . .	<u>\$(344)</u>	<u>\$ 95</u>	<u>\$(112)</u>	<u>\$(331)</u>	<u>\$(569)</u>

<sup>(1)</sup> “Unrealized gains (losses) on derivative and hedging activities, net” comprises the following unrealized mark-to-market gains (losses):

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Floor Income Contracts . . . . .	\$ (88)	\$(42)	\$(80)	\$(111)	\$ 323
Basis swaps . . . . .	38	263	97	364	(435)
Foreign currency hedges . . . . .	(136)	99	24	(28)	(256)
Other . . . . .	<u>24</u>	<u>1</u>	<u>(35)</u>	<u>57</u>	<u>(81)</u>
Total unrealized gains (losses) on derivative and hedging activities, net . . . . .	<u>\$(162)</u>	<u>\$321</u>	<u>\$ 6</u>	<u>\$ 282</u>	<u>\$(449)</u>

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates and the forward interest rate curve. In general, an increase in interest rates, or a steepening of the forward interest rate curve, results in an unrealized gain and vice versa. Unrealized gains and losses on basis swaps result from changes in the spread between indices and on changes in the forward interest rate curves that impact basis swaps hedging repricing risk between quarterly reset debt and daily reset assets. Unrealized gains (losses) on foreign currency hedges are primarily the result of ineffectiveness on cross-currency interest rate swaps hedging foreign currency denominated debt related to differences between forward and spot foreign currency exchange rates.

- 3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in “Core Earnings” when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts, to economically hedge Floor Income. As discussed above in “Derivative Accounting,” these derivatives do not qualify as effective accounting hedges, and

therefore, under GAAP, they are marked-to-market through the “gains (losses) on derivative and hedging activities, net” line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For “Core Earnings,” we reverse the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
“Core Earnings” Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts . . . . .	\$ 19	\$ 2	\$ 36	\$ 26	\$ 263
Amortization of net premiums on Floor Income Contracts in net interest income . . . . .	<u>(86)</u>	<u>(90)</u>	<u>(44)</u>	<u>(231)</u>	<u>(102)</u>
Total “Core Earnings” Floor Income adjustments <sup>(1)(2)</sup> . . . . .	<u><u>\$(67)</u></u>	<u><u>\$(88)</u></u>	<u><u>\$ (8)</u></u>	<u><u>\$(205)</u></u>	<u><u>\$ 161</u></u>

<sup>(1)</sup> Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income and positive amounts are added to “Core Earnings” net income to arrive at GAAP net income.

<sup>(2)</sup> The following table summarizes the amount of Economic Floor Income earned during the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009 that is not included in “Core Earnings” net income:

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in “Core Earnings” . . . . .	\$ 19	\$ 2	\$ 36	\$ 26	\$ 263
Amortization of net premiums on Variable Rate Floor Income Contracts not included in “Core Earnings” . . . . .	—	—	—	—	40
Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings” . . . . .	<u>86</u>	<u>90</u>	<u>44</u>	<u>231</u>	<u>102</u>
Total Economic Floor Income Earned . . . . .	105	92	80	257	405
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings” . . . . .	<u>(86)</u>	<u>(90)</u>	<u>(44)</u>	<u>(231)</u>	<u>(102)</u>
Total Economic Floor Income earned, not included in “Core Earnings”. . . . .	<u><u>\$ 19</u></u>	<u><u>\$ 2</u></u>	<u><u>\$ 36</u></u>	<u><u>\$ 26</u></u>	<u><u>\$ 303</u></u>

- 4) **Goodwill and Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles. The following table summarizes the goodwill and acquired intangible adjustments for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009 (see “DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS” for further discussion).

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
“Core Earnings” goodwill and acquired intangibles adjustments <sup>(1)</sup> :					
Goodwill and intangible impairment of acquired intangibles from continuing operations . . . . .	\$ (660)	\$ —	\$ —	\$ (660)	\$ —
Amortization of acquired intangibles from continuing operations . . . . .	<u>(10)</u>	<u>(10)</u>	<u>(10)</u>	<u>(29)</u>	<u>(29)</u>
Total “Core Earnings” goodwill and acquired intangibles adjustments . . . . .	<u><u>\$(670)</u></u>	<u><u>\$(10)</u></u>	<u><u>\$(10)</u></u>	<u><u>\$(689)</u></u>	<u><u>\$(29)</u></u>

<sup>(1)</sup> Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income.

#### LENDING BUSINESS SEGMENT

In our Lending business segment, we originate and acquire federally guaranteed student loans and Private Education Loans that are not federally guaranteed. See “RECENT DEVELOPMENTS — Legislative and Regulatory Developments” for a discussion of the elimination of new FFELP loan originations effective July 1, 2010. In the past, a Private Education Loan was typically made in conjunction with a FFELP Stafford Loan. While FFELP Loans and Private Education Loans have different overall risk profiles due to the federal guarantee of the FFELP Loans, they currently share many of the same characteristics such as the same marketing channel, sales force, and origination and servicing platforms.

The following table includes “Core Earnings” results for our Lending business segment.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
“Core Earnings” interest income:					
FFELP Stafford and Other Student Loans . . . .	\$ 319	\$ 324	\$ 340	\$ 918	\$1,012
FFELP Consolidation Loans . . . . .	410	418	430	1,192	1,263
Private Education Loans . . . . .	611	575	561	1,751	1,683
Other loans . . . . .	7	7	11	23	46
Cash and investments . . . . .	<u>4</u>	<u>3</u>	<u>3</u>	<u>6</u>	<u>8</u>
Total “Core Earnings” interest income . . . . .	1,351	1,327	1,345	3,890	4,012
Total “Core Earnings” interest expense . . . . .	<u>599</u>	<u>572</u>	<u>660</u>	<u>1,686</u>	<u>2,450</u>
Net “Core Earnings” interest income . . . . .	752	755	685	2,204	1,562
Less: provisions for loan losses . . . . .	<u>358</u>	<u>382</u>	<u>448</u>	<u>1,099</u>	<u>1,199</u>
Net “Core Earnings” interest income after provisions for loan losses. . . . .	394	373	237	1,105	363
Other income. . . . .	57	128	129	327	591
Direct operating expenses . . . . .	165	167	144	477	401
Overhead expenses. . . . .	<u>17</u>	<u>27</u>	<u>17</u>	<u>65</u>	<u>58</u>
Operating expenses . . . . .	182	194	161	542	459
Restructuring expenses . . . . .	<u>10</u>	<u>16</u>	<u>2</u>	<u>47</u>	<u>8</u>
Total expenses . . . . .	<u>192</u>	<u>210</u>	<u>163</u>	<u>589</u>	<u>467</u>
Income from continuing operations, before income tax expense. . . . .	259	291	203	843	487
Income tax expense . . . . .	<u>95</u>	<u>107</u>	<u>75</u>	<u>309</u>	<u>180</u>
“Core Earnings” net income attributable to SLM Corporation . . . . .	<u>\$ 164</u>	<u>\$ 184</u>	<u>\$ 128</u>	<u>\$ 534</u>	<u>\$ 307</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 12</u>	<u>\$ 1</u>	<u>\$ 23</u>	<u>\$ 16</u>	<u>\$ 191</u>

### Net Interest Income

Changes in net interest income are primarily due to fluctuations in the student loan and other asset spreads discussed below, the growth of our student loan portfolio, and changes in the level of cash and investments we hold on our balance sheet for liquidity purposes.

On a Managed Basis, the Company had \$78.8 billion, \$82.0 billion and \$96.4 billion as of September 30, 2010, June 30, 2010, and September 30, 2009, respectively, of FFELP Loans indexed to three-month commercial paper rate (“CP”) funded with debt indexed to three-month LIBOR. As a result of the turmoil in the capital markets, the historically tight spread between CP and three-month LIBOR began to widen dramatically in the fourth quarter of 2008 which had a negative effect on the Company’s net interest income as a result of the yield on its assets decreasing more than the cost of its debt. The spread has subsequently reverted to more normal levels beginning in the third quarter of 2009 and, while more volatile than in the past, has been relatively stable since that time.



**Average Balance Sheets — On-Balance Sheet**

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009. This table reflects the net interest margin for the entire Company on a consolidated basis.

	Quarters ended					
	September 30, 2010		June 30, 2010		September 30, 2009	
	Balance	Rate	Balance	Rate	Balance	Rate
<b>Average Assets</b>						
FFELP Stafford and Other Student Loans . . . . .	\$ 67,265	1.89%	\$ 66,488	1.96%	\$ 64,673	1.86%
FFELP Consolidation Loans . . . . .	80,557	2.78	81,613	2.71	69,643	2.74
Private Education Loans . . . . .	36,317	6.67	36,470	6.33	23,214	6.77
Other loans . . . . .	300	9.52	322	9.05	469	9.33
Cash and investments . . . . .	<u>12,891</u>	<u>.23</u>	<u>13,152</u>	<u>.19</u>	<u>13,694</u>	<u>.20</u>
Total interest-earning assets . . . . .	197,330	<u>3.04%</u>	198,045	<u>2.97%</u>	171,693	<u>2.77%</u>
Non-interest-earning assets . . . . .	<u>5,944</u>		<u>6,503</u>		<u>8,686</u>	
Total assets . . . . .	<u>\$203,274</u>		<u>\$204,548</u>		<u>\$180,379</u>	
<b>Average Liabilities and Equity</b>						
Short-term borrowings . . . . .	\$ 45,526	.92%	\$ 42,813	.78%	\$ 50,700	1.31%
Long-term borrowings . . . . .	<u>149,646</u>	<u>1.41</u>	<u>153,303</u>	<u>1.27</u>	<u>121,060</u>	<u>1.66</u>
Total interest-bearing liabilities . . . . .	195,172	<u>1.30%</u>	196,116	<u>1.16%</u>	171,760	<u>1.56%</u>
Non-interest-bearing liabilities . . . . .	3,180		3,485		3,679	
Equity . . . . .	<u>4,922</u>		<u>4,947</u>		<u>4,940</u>	
Total liabilities and equity . . . . .	<u>\$203,274</u>		<u>\$204,548</u>		<u>\$180,379</u>	
Net interest margin . . . . .		<u>1.75%</u>		<u>1.81%</u>		<u>1.21%</u>

	Nine months ended			
	September 30, 2010		September 30, 2009	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>				
FFELP Stafford and Other Student Loans . . . . .	\$ 65,325	1.90%	\$ 60,190	2.15%
FFELP Consolidation Loans . . . . .	81,611	2.68	70,464	2.72
Private Education Loans . . . . .	36,487	6.42	22,968	6.85
Other loans . . . . .	337	9.29	602	10.20
Cash and investments . . . . .	<u>12,940</u>	<u>.20</u>	<u>10,518</u>	<u>.25</u>
Total interest-earning assets . . . . .	196,700	<u>2.96%</u>	164,742	<u>2.96%</u>
Non-interest-earning assets . . . . .	<u>6,392</u>		<u>9,015</u>	
Total assets . . . . .	<u>\$203,092</u>		<u>\$173,757</u>	
<b>Average Liabilities and Equity</b>				
Short-term borrowings . . . . .	\$ 42,463	.85%	\$ 46,389	2.05%
Long-term borrowings . . . . .	<u>152,389</u>	<u>1.29</u>	<u>118,479</u>	<u>2.04</u>
Total interest-bearing liabilities . . . . .	194,852	<u>1.19%</u>	164,868	<u>2.04%</u>
Non-interest-bearing liabilities . . . . .	3,358		3,822	
Equity . . . . .	<u>4,882</u>		<u>5,067</u>	
Total liabilities and equity . . . . .	<u>\$203,092</u>		<u>\$173,757</u>	
Net interest margin . . . . .		<u>1.78%</u>		<u>.91%</u>

### Net Interest Margin — On-Balance Sheet

The following table reflects the net interest margin of on-balance sheet interest-earning assets, before provisions for loan losses. Certain percentages do not add or subtract down as they are based on average balances.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Student loan spread <sup>(1)(2)</sup> . . . . .	1.97%	2.04%	1.58%	2.01%	1.29%
Other asset spread <sup>(1)(3)</sup> . . . . .	(1.26)	(1.25)	(2.07)	(1.35)	(2.10)
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees <sup>(1)</sup> . . . . .	1.75	1.81	1.28	1.78	1.06
Less: 2008 Asset-Backed Financing Facilities fees . . . . .	—	—	(.07)	—	(.15)
Net interest margin . . . . .	<u>1.75%</u>	<u>1.81%</u>	<u>1.21%</u>	<u>1.78%</u>	<u>.91%</u>

<sup>(1)</sup> Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the “2008 Asset-Backed Financing Facilities fees.” See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — *Asset-Backed Financing Facilities*” for a further discussion.

<sup>(2)</sup> Composition of student loan spread:

Student loan yield, before Floor Income . . . . .	3.27%	3.32%	3.12%	3.27%	3.29%
Gross Floor Income . . . . .	.52	.49	.43	.50	.49
Consolidation Loan Rebate Fees . . . . .	(.45)	(.46)	(.45)	(.46)	(.48)
Repayment Borrower Benefits . . . . .	(.07)	(.09)	(.10)	(.08)	(.09)
Premium and discount amortization . . . . .	(.05)	(.10)	(.03)	(.08)	(.10)
Student loan net yield . . . . .	3.22	3.16	2.97	3.15	3.11
Student loan cost of funds . . . . .	(1.25)	(1.12)	(1.39)	(1.14)	(1.82)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees . . . . .	<u>1.97%</u>	<u>2.04%</u>	<u>1.58%</u>	<u>2.01%</u>	<u>1.29%</u>

<sup>(3)</sup> Comprised of investments, cash and other loans.

### Student Loan Spread — On-Balance Sheet

The student loan spread is affected by changes in its various components, as reflected in footnote (2) to the “Net Interest Margin — On-Balance Sheet” table above. Gross Floor Income is affected by interest rates and the percentage of the FFELP portfolio earning Floor Income. Floor Income Contracts used to economically hedge Gross Floor Income do not qualify as ASC 815 hedges and, as a result, the net settlements on such contracts are not recorded in net interest margin but rather in the “gains (losses) on derivative and hedging activities, net” line in the consolidated statements of income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Repayment Borrower Benefits are generally affected by the terms of the Repayment Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally affected by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also affected by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 decreased 7 basis points from the prior quarter. The student loan spread was positively affected by an increase in Gross Floor Income earned. Offsetting this improvement to the student loan spread was a 6 point widening of the average CP/3-month LIBOR spread between quarters as well as a higher cost of funds due to the impact of ASC 815 (discussed below).

The student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 increased 39 basis points from the year-ago quarter. The student loan spread was positively affected by a 4 basis point tightening of the CP/3-month LIBOR spread, a lower cost of funds related to the 2010 ABCP facility, a lower cost of funds due to the impact of ASC 815 (discussed below) and the consolidation of student loan securitization trusts with \$35.0 billion of assets and \$34.4 billion of liabilities as of January 1, 2010, upon the adoption of topic updates to ASC 810 (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model” for a further discussion). The student loans that were consolidated had a higher student loan spread compared to the on-balance sheet portfolio prior to consolidation as a higher percentage of these consolidated loans were Private Education Loans which have a higher spread compared to FFELP loans. Offsetting these improvements to the student loan spread were higher credit spreads on the Company’s unsecured and ABS debt issued in 2009 and 2010 due to the current credit environment.

The cost of funds for on-balance sheet student loans excludes the impact of basis swaps that are intended to economically hedge the re-pricing and basis mismatch between our funding and student loan asset indices, but do not receive hedge accounting treatment under ASC 815. We use basis swaps to manage the basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges, and as a result, are required to be accounted for in the “gains (losses) on derivatives and hedging activities, net” line on the income statement, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above. Therefore, in times of volatile movements of interest rates like those experienced in 2008 and 2009, the student loan spread can be volatile. See the “*Core Earnings’ Net Interest Margin*” table below, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

#### *Other Asset Spread — On-Balance Sheet*

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less to manage counterparty credit risk and maintain available cash balances. The other asset spread for the third quarter of 2010 decreased 1 basis point from the prior quarter and increased 81 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the “Core Earnings” basis other asset spread discussed below.

#### *Net Interest Margin — On-Balance Sheet*

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 decreased 6 basis points from the prior quarter and increased 47 basis points from the year-ago quarter. These changes primarily relate to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the current quarter and the prior and year-ago quarters.

See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — *Asset-Backed Financing Facilities*” in the Company’s 2009 Form 10-K filed with the SEC on February 26, 2010 for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

#### **“Core Earnings” Net Interest Margin**

The following table analyzes the earnings from our portfolio of Managed interest-earning assets on a “Core Earnings” basis (see “BUSINESS SEGMENTS — Pre-tax Differences between “Core Earnings’ and GAAP”). The “*Core Earnings’ Net Interest Margin*” presentation and certain components used in the

calculation differ from the “*Net Interest Margin — On-Balance Sheet*” presentation. The “Core Earnings” presentation, when compared to our on-balance sheet presentation, is different in that it:

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts for the periods prior to the adoption of topic updates to ASC 810. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as hedges are recorded as part of the “gain (loss) on derivative and hedging activities, net” line on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our “Core Earnings” net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;
- Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and
- Includes the amortization of upfront payments on Fixed Rate Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

The following table reflects the “Core Earnings” net interest margin, before provisions for loan losses. Certain percentages do not add or subtract down as they are based on average balances.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
“Core Earnings” basis student loan spread <sup>(1)</sup> :					
FFELP loan spread . . . . .	.99%	1.04%	.90%	.97%	.56%
Private Education Loan spread <sup>(2)</sup> . . . . .	4.74	4.61	4.45	4.64	4.54
Total “Core Earnings” basis student loan spread <sup>(3)</sup> . . . . .	1.73	1.75	1.56	1.70	1.32
“Core Earnings” basis other asset spread <sup>(1)(4)</sup> . . . . .	(1.36)	(1.31)	(.93)	(1.21)	(.98)
“Core Earnings” net interest margin, before 2008 Asset-Backed Financing Facilities fees <sup>(1)</sup> . . . . .	1.52	1.54	1.38	1.51	1.18
Less: 2008 Asset-Backed Financing Facilities fees . . . . .	—	—	(.06)	—	(.13)
“Core Earnings” net interest margin <sup>(5)</sup> . . . . .	1.52%	1.54%	1.32%	1.51%	1.05%

(1) Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the “2008 Asset-Backed Financing Facilities fees.” See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — *Asset-Backed Financing Facilities*” for a further discussion.

(2) “Core Earnings” basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses . . . . .

	1.13%	.77%	(.10)%	.96%	.55%
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(3) Composition of “Core Earnings” basis student loan spread: . . . . .

“Core Earnings” basis student loan yield . . . . .	3.46%	3.52%	3.29%	3.43%	3.45%
Consolidation Loan Rebate Fees . . . . .	(.45)	(.46)	(.45)	(.46)	(.47)
Repayment Borrower Benefits . . . . .	(.07)	(.09)	(.10)	(.08)	(.09)
Premium and discount amortization . . . . .	(.05)	(.10)	.01	(.08)	(.08)
“Core Earnings” basis student loan net yield . . . . .	2.89	2.87	2.75	2.81	2.81
“Core Earnings” basis student loan cost of funds . . . . .	(1.16)	(1.12)	(1.19)	(1.11)	(1.49)
“Core Earnings” basis student loan spread, before 2008 Asset-Backed Financing Facilities fees . . . . .	1.73%	1.75%	1.56%	1.70%	1.32%

(4) Comprised of investments, cash and other loans.

(5) The average balances of our Managed interest-earning assets for the respective periods are:

FFELP loans . . . . .	\$147,822	\$148,101	\$155,434	\$146,937	\$152,468
Private Education Loans . . . . .	36,317	36,470	36,025	36,487	35,951
Total student loans . . . . .	184,139	184,571	191,459	183,424	188,419
Other interest-earning assets . . . . .	13,191	13,474	15,378	13,276	12,466
Total Managed interest-earning assets . . . . .	\$197,330	\$198,045	\$206,837	\$196,700	\$200,885

#### “Core Earnings” Basis Student Loan Spread

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 decreased by 2 basis points from the prior quarter. The “Core Earnings” basis student loan spread was primarily affected by a 6 basis point widening of the average CP/3-month LIBOR spread between the quarters.



The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 increased 17 basis points from the year-ago quarter. The “Core Earnings” basis student loan spread was positively affected by a 4 basis point tightening of the average CP/3-month LIBOR spread between the quarters, a lower cost of funds related to the 2010 ABCP facility, and an increase in the floor hedge income. Offsetting these improvements to the student loan spread were higher credit spreads on the Company’s unsecured and ABS debt issued in 2009 and 2010 due to the current credit environment.

#### *“Core Earnings” Basis Other Asset Spread*

The “Core Earnings” basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less to manage counterparty credit risk and maintain available cash balances. The “Core Earnings” basis other asset spread for the third quarter of 2010 decreased 5 basis points and 43 basis points from the prior and year-ago quarters, respectively. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

#### *“Core Earnings” Net Interest Margin*

The “Core Earnings” net interest margin, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2010 decreased 2 basis points from the prior quarter and increased 14 basis points from the year-ago quarter. These changes primarily relate to the previously discussed changes in the “Core Earnings” basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the current quarter and the prior and year-ago quarters.

See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — *Asset-Backed Financing Facilities*” in the Company’s 2009 Form 10-K filed with the SEC on February 26, 2010 for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

### **Private Education Loan Losses**

#### ***On-Balance Sheet versus Managed Basis Presentation***

Effective January 1, 2010, upon the adoption of topic updates to ASC 810, there are no longer differences between the Company’s GAAP and Managed Basis presentation (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model”).

Prior to the adoption of topic updates to ASC 810, for our Managed Basis presentation in the tables below, when loans were securitized and qualified as sales, we reduced the on-balance sheet allowance for loan losses for amounts previously provided and then increased the allowance for loan losses for these loans off-balance sheet, with the total of both on-balance sheet and off-balance sheet being the Managed Basis allowance for loan losses.

When measured as a percentage of ending loans in repayment, the off-balance sheet allowance for loan losses percentage was lower than the on-balance sheet percentage because of the different mix and aging of loans on-balance sheet and off-balance sheet.

**Private Education Loan Delinquencies and Forbearance**

The tables below present our Private Education Loan delinquency trends as of September 30, 2010, June 30, 2010 and September 30, 2009.

	On-Balance Sheet Private Education Loan Delinquencies					
	September 30, 2010		June 30, 2010		September 30, 2009	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$10,517		\$10,051		\$10,899	
Loans in forbearance <sup>(2)</sup>	1,170		1,437		851	
Loans in repayment and percentage of each status:						
Loans current	22,926	88.9%	22,669	88.2%	10,458	85.3%
Loans delinquent 31-60 days <sup>(3)</sup>	907	3.5	948	3.7	551	4.5
Loans delinquent 61-90 days <sup>(3)</sup>	489	1.9	604	2.3	353	2.9
Loans delinquent greater than 90 days <sup>(3)</sup>	1,462	5.7	1,501	5.8	892	7.3
Total Private Education Loans in repayment	<u>25,784</u>	<u>100%</u>	<u>25,722</u>	<u>100%</u>	<u>12,254</u>	<u>100%</u>
Total Private Education Loans, gross	37,471		37,210		24,004	
Private Education Loan unamortized discount	<u>(873)</u>		<u>(905)</u>		<u>(543)</u>	
Total Private Education Loans	36,598		36,305		23,461	
Private Education Loan receivable for partially charged-off loans	979		888		435	
Private Education Loan allowance for losses	<u>(2,035)</u>		<u>(2,042)</u>		<u>(1,401)</u>	
Private Education Loans, net	<u>\$35,542</u>		<u>\$35,151</u>		<u>\$22,495</u>	
Percentage of Private Education Loans in repayment		<u>68.8%</u>		<u>69.1%</u>		<u>51.1%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>11.1%</u>		<u>11.9%</u>		<u>14.7%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>4.3%</u>		<u>5.3%</u>		<u>6.5%</u>

<sup>(1)</sup> Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

<sup>(2)</sup> Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.

<sup>(3)</sup> The period of delinquency is based on the number of days scheduled payments are contractually past due.

	<b>Off-Balance Sheet Private Education Loan Delinquencies</b>	
	<b>September 30, 2009<sup>(4)</sup></b>	
	<u>Balance</u>	<u>%</u>
Loans in-school/grace/deferment <sup>(1)</sup> . . . . .	\$ 3,148	
Loans in forbearance <sup>(2)</sup> . . . . .	474	
Loans in repayment and percentage of each status:		
Loans current . . . . .	8,516	90.0%
Loans delinquent 31-60 days <sup>(3)</sup> . . . . .	312	3.3
Loans delinquent 61-90 days <sup>(3)</sup> . . . . .	161	1.7
Loans delinquent greater than 90 days <sup>(3)</sup> . . . . .	<u>469</u>	<u>5.0</u>
Total Private Education Loans in repayment . . . . .	<u>9,458</u>	<u>100%</u>
Total Private Education Loans, gross . . . . .	13,080	
Private Education Loan unamortized discount . . . . .	<u>(347)</u>	
Total Private Education Loans . . . . .	12,733	
Private Education Loan receivable for partially charged-off loans . . . . .	200	
Private Education Loan allowance for losses . . . . .	<u>(522)</u>	
Private Education Loans, net . . . . .	<u>\$12,411</u>	
Percentage of Private Education Loans in repayment . . . . .		<u>72.3%</u>
Delinquencies as a percentage of Private Education Loans in repayment . . . . .		<u>10.0%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .		<u>4.8%</u>

<sup>(1)</sup> Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

<sup>(2)</sup> Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.

<sup>(3)</sup> The period of delinquency is based on the number of days scheduled payments are contractually past due.

<sup>(4)</sup> On January 1, 2010, upon the adoption of topic updates to ASC 810, all off-balance sheet loans moved on-balance sheet.

**Managed Basis  
Private Education Loan Delinquencies**

	September 30, 2010		June 30, 2010		September 30, 2009	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup> . . . . .	\$10,517		\$10,051		\$14,047	
Loans in forbearance <sup>(2)</sup> . . . . .	1,170		1,437		1,325	
Loans in repayment and percentage of each status:						
Loans current . . . . .	22,926	88.9%	22,669	88.2%	18,974	87.4%
Loans delinquent 31-60 days <sup>(3)</sup> . . . . .	907	3.5	948	3.7	863	4.0
Loans delinquent 61-90 days <sup>(3)</sup> . . . . .	489	1.9	604	2.3	514	2.4
Loans delinquent greater than 90 days <sup>(3)</sup> . . . . .	<u>1,462</u>	<u>5.7</u>	<u>1,501</u>	<u>5.8</u>	<u>1,361</u>	<u>6.2</u>
Total Private Education Loans in repayment . . . . .	<u>25,784</u>	<u>100%</u>	<u>25,722</u>	<u>100%</u>	<u>21,712</u>	<u>100%</u>
Total Private Education Loans, gross . . . . .	37,471		37,210		37,084	
Private Education Loan unamortized discount . . . . .	<u>(873)</u>		<u>(905)</u>		<u>(890)</u>	
Total Private Education Loans . . . . .	36,598		36,305		36,194	
Private Education Loan receivable for partially charged-off loans . . . . .	979		888		635	
Private Education Loan allowance for losses . . . . .	<u>(2,035)</u>		<u>(2,042)</u>		<u>(1,923)</u>	
Private Education Loans, net . . . . .	<u>\$35,542</u>		<u>\$35,151</u>		<u>\$34,906</u>	
Percentage of Private Education Loans in repayment . . . . .		<u>68.8%</u>		<u>69.1%</u>		<u>58.6%</u>
Delinquencies as a percentage of Private Education Loans in repayment . . . . .		<u>11.1%</u>		<u>11.9%</u>		<u>12.6%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .		<u>4.3%</u>		<u>5.3%</u>		<u>5.8%</u>

- <sup>(1)</sup> Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- <sup>(2)</sup> Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.
- <sup>(3)</sup> The period of delinquency is based on the number of days scheduled payments are contractually past due.

## Allowance for Private Education Loan Losses

The following tables summarize changes in the allowance for Private Education Loan losses for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	Activity in Allowance for Private Education Loan Losses								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009	Sept. 30, 2010 <sup>(1)</sup>	June 30, 2010 <sup>(1)</sup>	Sept. 30, 2009 <sup>(1)</sup>	Sept. 30, 2010	June 30, 2010	Sept. 30, 2009
Allowance at beginning of period . . . . .	\$ 2,042	\$ 2,019	\$ 1,396	\$—	\$—	\$ 544	\$ 2,042	\$ 2,019	\$ 1,940
Provision for Private Education Loan losses . . . . .	330	349	287	—	—	126	330	349	413
Charge-offs . . . . .	(348)	(336)	(293)	—	—	(150)	(348)	(336)	(443)
Reclassification of interest reserve . . . . .	11	10	11	—	—	2	11	10	13
Allowance at end of period . . . . .	<u>\$ 2,035</u>	<u>\$ 2,042</u>	<u>\$ 1,401</u>	<u>\$—</u>	<u>\$—</u>	<u>\$ 522</u>	<u>\$ 2,035</u>	<u>\$ 2,042</u>	<u>\$ 1,923</u>
Charge-offs as a percentage of average loans in repayment (annualized) . . . . .	5.4%	5.3%	9.6%	—%	—%	6.2%	5.4%	5.3%	8.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized) . . . . .	5.1%	5.1%	8.9%	—%	—%	5.9%	5.1%	5.1%	7.6%
Allowance as a percentage of the ending total loan balance . . . . .	5.3%	5.4%	5.7%	—%	—%	3.9%	5.3%	5.4%	5.1%
Allowance as a percentage of ending loans in repayment . . . . .	7.9%	7.9%	11.4%	—%	—%	5.5%	7.9%	7.9%	8.9%
Average coverage of charge-offs (annualized) . . . . .	1.5	1.5	1.2	—	—	.9	1.5	1.5	1.1
Ending total loans <sup>(2)</sup> . . . . .	\$38,450	\$38,098	\$24,439	\$—	\$—	\$13,280	\$38,450	\$38,098	\$37,719
Average loans in repayment . . . . .	\$25,616	\$25,179	\$12,083	\$—	\$—	\$ 9,585	\$25,616	\$25,179	\$21,668
Ending loans in repayment . . . . .	\$25,784	\$25,722	\$12,254	\$—	\$—	\$ 9,458	\$25,784	\$25,722	\$21,712

	Activity in Allowance for Private Education Loan Losses					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010 <sup>(1)</sup>	September 30, 2009 <sup>(1)</sup>	September 30, 2010	September 30, 2009
Allowance at beginning of period . . . . .	\$ 1,443	\$ 1,308	\$ 524	\$ 505	\$ 1,967	\$ 1,813
Provision for Private Education Loan losses . . . . .	1,004	733	—	339	1,004	1,072
Charge-offs . . . . .	(968)	(671)	—	(329)	(968)	(1,000)
Reclassification of interest reserve . . . . .	32	31	—	7	32	38
Consolidation of off-balance sheet trusts <sup>(1)</sup> . . . . .	524	—	(524)	—	—	—
Allowance at end of period . . . . .	<u>\$ 2,035</u>	<u>\$ 1,401</u>	<u>\$ —</u>	<u>\$ 522</u>	<u>\$ 2,035</u>	<u>\$ 1,923</u>
Charge-offs as a percentage of average loans in repayment (annualized) . . . . .	5.1%	7.7%	—%	4.6%	5.1%	6.3%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized) . . . . .	4.9%	7.1%	—%	4.3%	4.9%	5.9%
Allowance as a percentage of the ending total loan balance . . . . .	5.3%	5.7%	—%	3.9%	5.3%	5.1%
Allowance as a percentage of ending loans in repayment . . . . .	7.9%	11.4%	—%	5.5%	7.9%	8.9%
Average coverage of charge-offs (annualized) . . . . .	1.6	1.6	—	1.2	1.6	1.4
Ending total loans <sup>(2)</sup> . . . . .	\$38,450	\$24,439	\$ —	\$13,280	\$38,450	\$37,719
Average loans in repayment . . . . .	\$25,151	\$11,634	\$ —	\$ 9,543	\$25,151	\$21,177
Ending loans in repayment . . . . .	\$25,784	\$12,254	\$ —	\$ 9,458	\$25,784	\$21,712

<sup>(1)</sup> Upon the adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of its off-balance sheet securitization trusts (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model” for further details).

<sup>(2)</sup> Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

The following table provides detail for the traditional and non-traditional Managed Private Education Loans at September 30, 2010, June 30, 2010 and September 30, 2009.

	September 30, 2010			June 30, 2010			September 30, 2009		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans <sup>(1)</sup>	\$33,990	\$4,460	\$38,450	\$33,541	\$4,557	\$38,098	\$32,891	\$4,828	\$37,719
Ending loans in repayment	23,063	2,721	25,784	22,898	2,824	25,722	18,922	2,790	21,712
Private Education Loan allowance for losses	1,180	855	2,035	1,168	874	2,042	1,005	918	1,923
Charge-offs as a percentage of average loans in repayment <sup>(2)</sup>	3.9%	17.6%	5.4%	3.7%	18.7%	5.3%	5.1%	28.5%	8.1%
Allowance as a percentage of total ending loan balance	3.5%	19.2%	5.3%	3.5%	19.2%	5.4%	3.1%	19.0%	5.1%
Allowance as a percentage of ending loans in repayment	5.1%	31.4%	7.9%	5.1%	31.0%	7.9%	5.3%	32.9%	8.9%
Average coverage of charge-offs <sup>(2)</sup>	1.3	1.8	1.5	1.4	1.7	1.5	1.1	1.1	1.1
Delinquencies as a percentage of Private Education Loans in repayment	9.1%	28.1%	11.1%	9.7%	29.6%	11.9%	9.7%	32.2%	12.6%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.4%	16.0%	5.7%	4.6%	16.1%	5.8%	4.6%	17.8%	6.3%
Loans in forbearance as a percentage of loans in repayment and forbearance	4.1%	6.1%	4.3%	5.1%	7.2%	5.3%	5.4%	8.1%	5.8%
Percentage of Private Education Loans with a cosigner	63%	28%	59%	62%	28%	58%	61%	27%	57%
Average FICO at origination	725	623	715	725	623	714	725	623	713

<sup>(1)</sup> Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

<sup>(2)</sup> Annualized for the three months ended September 30, 2010, June 30, 2010 and September 30, 2009.

Managed provision expense was \$330 million in the third quarter of 2010, \$349 million in the second quarter of 2010 and \$413 million in the third quarter of 2009. As a result of continued weakness in the U.S. economy, provision expense has remained elevated since the fourth quarter of 2008. The Private Education Loan portfolio experienced a significant increase in delinquencies through the first quarter of 2009 (as of March 31, 2009, delinquencies as a percentage of loans in repayment were 13.4 percent); however, delinquencies as a percentage of loans in repayment have now declined to 11.1 percent at September 30, 2010. Current quarter charge-offs of \$348 million increased slightly from the prior quarter charge-offs of \$336 million. This was an expected seasonal increase from the second quarter related to the timing of graduates' entry into repayment. Current quarter charge-offs were down significantly from the year ago quarter's charge-offs of \$443 million. The Managed Private Education Loan allowance coverage of annualized current-quarter charge-offs ratio remained at 1.5 at both September 30, 2010 and June 30, 2010, respectively, compared with 1.1 as of September 30, 2009. The allowance for loan losses as a percentage of ending Private Education Loans in repayment also remained consistent at approximately 7.9 percent at September 30, 2010 and June 30, 2010. Managed Private Education Loan delinquencies as a percentage of loans in repayment decreased from 12.6 percent to 11.1 percent from September 30, 2009 to September 30, 2010. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 5.8 percent as of September 30, 2009 to 4.3 percent at September 30, 2010. The Company analyzed changes in the key ratios disclosed in the tables above when determining the appropriate Private Education Loan allowance for loan losses.

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance in this manner effectively extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While a loan is in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting



forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of ultimate collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a borrower's unique situation, including historical information and judgments. We combine borrower information with a risk-based segmentation model to assist in our decision making as to who will be granted forbearance based on our expectation as to a borrower's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

Forbearance may be granted to borrowers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current borrowers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a borrower's loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the borrower will enter repayment status as current and is expected to begin making their scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month-end has decreased since 2008. In addition, the monthly average amount of loans granted forbearance as a percentage of loans in repayment and forbearance declined to 5.1 percent in the third quarter of 2010 compared with the year-ago quarter of 5.5 percent. As of September 30, 2010, 3.1 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current as of September 30, 2010.

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 68.4 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 16.8 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

<b>Tracking by First Time in Forbearance Compared to All Loans Entering Repayment</b>			
	<b>Status distribution 36 months after being granted forbearance for the first time</b>	<b>Status distribution 36 months after entering repayment (all loans)</b>	<b>Status distribution 36 months after entering repayment for loans never entering forbearance</b>
In-school/grace/deferment . . .	8.9%	8.2%	3.5
Current . . . . .	50.4	57.4	64.1
Delinquent 31-60 days . . . . .	3.1	2.0	0.4
Delinquent 61-90 days . . . . .	1.9	1.1	0.2
Delinquent greater than 90 days . . . . .	4.8	2.7	0.3
Forbearance . . . . .	5.0	3.7	—
Defaulted . . . . .	16.8	8.7	5.0
Paid . . . . .	<u>9.1</u>	<u>16.2</u>	<u>26.5</u>
Total . . . . .	<u>100%</u>	<u>100%</u>	<u>100%</u>

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At September 30, 2010, loans in forbearance status as a percentage of loans in repayment and forbearance were 5.7 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 2.0 percent for loans that have been in active repayment status for more than 48 months. Approximately 78 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

<u>September 30, 2010</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment . . . . .	\$ —	\$ —	\$ —	\$10,517	\$10,517
Loans in forbearance . . . . .	909	181	80	—	1,170
Loans in repayment — current . . . . .	12,908	6,270	3,748	—	22,926
Loans in repayment — delinquent 31-60 days . . . . .	662	165	80	—	907
Loans in repayment — delinquent 61-90 days . . . . .	376	77	36	—	489
Loans in repayment — delinquent greater than 90 days . . . . .	<u>1,131</u>	<u>233</u>	<u>98</u>	—	<u>1,462</u>
Total . . . . .	<u>\$15,986</u>	<u>\$6,926</u>	<u>\$4,042</u>	<u>\$10,517</u>	<u>37,471</u>
Unamortized discount . . . . .					(873)
Receivable for partially charged-off loans . . . . .					979
Allowance for loan losses . . . . .					<u>(2,035)</u>
Total Managed Private Education Loans, net . . . . .					<u>\$35,542</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .	<u>5.7%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>4.3%</u>

  

<u>June 30, 2010</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment . . . . .	\$ —	\$ —	\$ —	\$10,051	\$10,051
Loans in forbearance . . . . .	1,198	167	72	—	1,437
Loans in repayment — current . . . . .	13,303	5,948	3,418	—	22,669
Loans in repayment — delinquent 31-60 days . . . . .	719	156	73	—	948
Loans in repayment — delinquent 61-90 days . . . . .	485	83	36	—	604
Loans in repayment — delinquent greater than 90 days . . . . .	<u>1,221</u>	<u>194</u>	<u>86</u>	—	<u>1,501</u>
Total . . . . .	<u>\$16,926</u>	<u>\$6,548</u>	<u>\$3,685</u>	<u>\$10,051</u>	<u>37,210</u>
Unamortized discount . . . . .					(905)
Receivable for partially charged-off loans . . . . .					888
Allowance for loan losses . . . . .					<u>(2,042)</u>
Total Managed Private Education Loans, net . . . . .					<u>\$35,151</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .	<u>7.1%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>5.3%</u>

<u>September 30, 2009</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment . . . . .	\$ —	\$ —	\$ —	\$14,047	\$14,047
Loans in forbearance . . . . .	1,135	133	57	—	1,325
Loans in repayment — current . . . . .	11,594	4,685	2,695	—	18,974
Loans in repayment — delinquent 31-60 days . . . .	696	114	53	—	863
Loans in repayment — delinquent 61-90 days . . . .	422	63	29	—	514
Loans in repayment — delinquent greater than 90 days . . . . .	<u>1,124</u>	<u>162</u>	<u>75</u>	—	<u>1,361</u>
Total . . . . .	<u>\$14,971</u>	<u>\$5,157</u>	<u>\$2,909</u>	<u>\$14,047</u>	<u>\$37,084</u>
Unamortized discount . . . . .					(890)
Receivable for partially charged-off loans . . . . .					635
Allowance for loan losses . . . . .					<u>(1,923)</u>
Total Managed Private Education Loans, net . . . .					<u>\$34,906</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .	<u>7.6%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>5.8%</u>

The table below stratifies the portfolio of Managed Private Education Loans in forbearance status as of the dates indicated by the cumulative number of months the borrower has used forbearance. As detailed in the table below, only 3 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

<u>Cumulative number of months borrower has used forbearance</u>	<u>September 30, 2010</u>		<u>June 30, 2010</u>		<u>September 30, 2009</u>	
	<u>Forbearance Balance</u>	<u>% of Total</u>	<u>Forbearance Balance</u>	<u>% of Total</u>	<u>Forbearance Balance</u>	<u>% of Total</u>
Up to 12 months . . . . .	\$ 823	70%	\$1,014	71%	\$ 928	70%
13 to 24 months . . . . .	312	27	372	26	344	26
More than 24 months . . . . .	<u>35</u>	<u>3</u>	<u>51</u>	<u>3</u>	<u>53</u>	<u>4</u>
Total . . . . .	<u>\$1,170</u>	<u>100%</u>	<u>\$1,437</u>	<u>100%</u>	<u>\$1,325</u>	<u>100%</u>

### Total Provisions for Loan Losses

The following tables summarize the total provisions for loan losses on both an on-balance sheet basis and a Managed Basis for the quarters ended September 30, 2010, June 30, 2010, and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

#### Total on-balance sheet loan provisions

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September 30, 2010</u>	<u>June 30, 2010</u>	<u>September 30, 2009</u>	<u>September 30, 2010</u>	<u>September 30, 2009</u>
Private Education Loans . . . . .	\$330	\$349	\$287	\$1,004	\$733
FFELP loans . . . . .	24	29	21	76	81
Mortgage and consumer loans . . . . .	<u>4</u>	<u>4</u>	<u>13</u>	<u>19</u>	<u>36</u>
Total on-balance sheet provisions for loan losses . . . . .	<u>\$358</u>	<u>\$382</u>	<u>\$321</u>	<u>\$1,099</u>	<u>\$850</u>

***Total Managed Basis loan provisions***

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Private Education Loans . . . . .	\$330	\$349	\$413	\$1,004	\$1,072
FFELP loans . . . . .	24	29	22	76	91
Mortgage and consumer loans . . . . .	<u>4</u>	<u>4</u>	<u>13</u>	<u>19</u>	<u>36</u>
Total Managed Basis provisions for loan losses . . . . .	<u>\$358</u>	<u>\$382</u>	<u>\$448</u>	<u>\$1,099</u>	<u>\$1,199</u>

Provision expense for Private Education Loans was previously discussed above (see “Private Education Loan Losses — Allowance for Private Education Loan Losses”).

**Total Loan Charge-offs**

The following tables summarize the total loan charge-offs on both an on-balance sheet basis and a Managed Basis for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

***Total on-balance sheet loan charge-offs***

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Private Education Loans . . . . .	\$348	\$336	\$293	\$ 968	\$671
FFELP loans . . . . .	21	24	17	67	61
Mortgage and consumer loans . . . . .	<u>4</u>	<u>7</u>	<u>9</u>	<u>19</u>	<u>24</u>
Total on-balance sheet charge-offs . . .	<u>\$373</u>	<u>\$367</u>	<u>\$319</u>	<u>\$1,054</u>	<u>\$756</u>

***Total Managed Basis loan charge-offs***

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Private Education Loans . . . . .	\$348	\$336	\$443	\$ 968	\$1,000
FFELP loans . . . . .	21	24	20	67	72
Mortgage and consumer loans . . . . .	<u>4</u>	<u>7</u>	<u>9</u>	<u>19</u>	<u>24</u>
Total Managed Basis charge-offs . . . .	<u>\$373</u>	<u>\$367</u>	<u>\$472</u>	<u>\$1,054</u>	<u>\$1,096</u>

***Receivable for Partially Charged-Off Private Education Loans***

The Company charges off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the “receivable for partially charged-off loans.” If actual periodic recoveries are less than expected, the difference is charged off and immediately included in provision expense.

The following tables summarize the activity in the receivable for partially charged-off loans (see “*Allowance for Private Education Loan Losses*,” above, for a further discussion) for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	Activity in Receivable for Partially Charged-Off Loans								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Three months ended			Three months ended			Three months ended		
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	June 30, 2010	September 30, 2009
Receivable at beginning of period . . . . .	\$888	\$797	\$338	\$—	\$—	\$148	\$888	\$797	\$486
Expected future recoveries of current period defaults <sup>(1)</sup> . . . . .	120	115	108	—	—	56	120	115	164
Recoveries . . . . .	(29)	(24)	(11)	—	—	(4)	(29)	(24)	(15)
Receivable at end of period . . . . .	<u>\$979</u>	<u>\$888</u>	<u>\$435</u>	<u>\$—</u>	<u>\$—</u>	<u>\$200</u>	<u>\$979</u>	<u>\$888</u>	<u>\$635</u>

<sup>(1)</sup> Net of any current period recoveries that were less than expected.

	Activity in Receivable for Partially Charged-Off Loans					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Receivable at beginning of period. . . . .	\$499	\$222	\$ 229	\$ 91	\$728	\$313
Expected future recoveries of current period defaults <sup>(1)</sup> . . . . .	329	243	—	120	329	363
Recoveries . . . . .	(78)	(30)	—	(11)	(78)	(41)
Consolidation of off-balance sheet trusts <sup>(2)</sup> . . . . .	<u>229</u>	<u>—</u>	<u>(229)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Receivable at end of period . . . . .	<u>\$979</u>	<u>\$435</u>	<u>\$ —</u>	<u>\$200</u>	<u>\$979</u>	<u>\$635</u>

<sup>(1)</sup> Net of any current period recoveries that were less than expected.

<sup>(2)</sup> Upon the adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of their off-balance sheet securitization trusts (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model” for further details).

### Other Income — Lending Business Segment

The following table summarizes the components of “Core Earnings” other income for our Lending business segment for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 and for the nine months ended September 30, 2010 and 2009.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Gains on debt repurchases . . . . .	\$18	\$ 91	\$ 74	\$199	\$463
Late fees and forbearance fees . . . . .	34	36	39	111	107
Gains (losses) on sales of loans and securities, net . . . . .	1	(3)	12	7	12
Other . . . . .	<u>4</u>	<u>4</u>	<u>4</u>	<u>10</u>	<u>9</u>
Total other income, net . . . . .	<u>\$57</u>	<u>\$128</u>	<u>\$129</u>	<u>\$327</u>	<u>\$591</u>

The change in other income over the prior periods presented is primarily the result of the gains on debt repurchased. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased \$0.9 billion, \$1.4 billion and \$1.4 billion face amount of its senior unsecured notes for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively. Since the second quarter of 2008, the Company has repurchased \$8.9 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016. The \$12 million gain on sales of loans and securities in the third quarter of 2009 related to the gain on sale of approximately \$840 million face amount of FFELP loans to the ED as part of the ED Purchase Program.

### **Operating Expenses — Lending Business Segment**

Operating expenses for our Lending business segment include costs incurred to acquire student loans and to service our Managed student loan portfolio, as well as general and administrative expenses of the segment and allocated corporate overhead. For the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, operating expenses for our Lending business segment, excluding restructuring-related asset impairments of \$0, \$6 million and \$0, respectively, totaled \$182 million, \$188 million and \$161 million, respectively. Operating expenses decreased \$6 million from the prior quarter primarily due to a decrease in legal contingency expense. Operating expenses, excluding restructuring-related asset impairments, were 39 basis points and 33 basis points, respectively, of average Managed student loans in the third quarters of 2010 and 2009. The increase from the year-ago quarter was primarily the result of higher legal contingency expenses, higher collection costs from a higher number of loans in repayment and delinquent status, and higher marketing and technology enhancement costs related to Private Education Loans.

## Loan Originations

Total Private Education Loan originations declined 6 percent from the year-ago quarter to \$835 million in the quarter ended September 30, 2010. This decline was a result of a variety of factors, including an overall increase in the use of federal financial aid.

The following tables summarize our loan originations by type of loan and source.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Loan Originations — Internal lending brands</b>					
Stafford . . . . .	\$ 739	\$2,551	\$5,134	\$ 9,134	\$13,068
PLUS . . . . .	31	107	582	772	1,341
GradPLUS . . . . .	14	171	443	583	878
Total FFELP . . . . .	784	2,829	6,159	10,489	15,287
Private Education Loans . . . . .	823	213	871	1,859	2,599
Total . . . . .	<u>\$1,607</u>	<u>\$3,042</u>	<u>\$7,030</u>	<u>\$12,348</u>	<u>\$17,886</u>

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Loan Originations — Lender Partners</b>					
Stafford . . . . .	\$66	\$265	\$703	\$1,098	\$1,826
PLUS . . . . .	2	8	51	56	118
GradPLUS . . . . .	1	8	27	33	54
Total FFELP . . . . .	69	281	781	1,187	1,998
Private Education Loans . . . . .	12	6	22	35	196
Total . . . . .	<u>\$81</u>	<u>\$287</u>	<u>\$803</u>	<u>\$1,222</u>	<u>\$2,194</u>

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
<b>Loan Originations — Total</b>					
Stafford . . . . .	\$ 805	\$2,816	\$5,837	\$10,232	\$14,894
PLUS . . . . .	33	115	633	828	1,459
GradPLUS . . . . .	15	179	470	616	932
Total FFELP . . . . .	853	3,110	6,940	11,676	17,285
Private Education Loans . . . . .	835	219	893	1,894	2,795
Total . . . . .	<u>\$1,688</u>	<u>\$3,329</u>	<u>\$7,833</u>	<u>\$13,570</u>	<u>\$20,080</u>



## Student Loan Activity

On January 1, 2010, upon the adoption of topic updates of ASC 810, we consolidated our off-balance sheet securitization trusts at their historical cost basis (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — Variable Interest Entity (“VIE”) Consolidation Model”). As a result, effective January 1, 2010, our on-balance sheet (GAAP) and Managed student loan portfolios are the same.

The following tables summarize the activity in our FFELP loan and Private Education Loan portfolios.

	On-Balance Sheet/Managed Portfolio Three months ended September 30, 2010				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance . . . . .	\$67,457	\$81,035	\$148,492	\$35,151	\$183,643
Consolidations to third parties . . . . .	(598)	(217)	(815)	(11)	(826)
Acquisitions <sup>(2)</sup> . . . . .	1,345	438	1,783	1,222	3,005
Net acquisitions . . . . .	747	221	968	1,211	2,179
Sales . . . . .	(217)	(71)	(288)	—	(288)
Repayments/defaults/other . . . . .	(1,306)	(1,273)	(2,579)	(820)	(3,399)
Ending balance <sup>(3)</sup> . . . . .	<u>\$66,681</u>	<u>\$79,912</u>	<u>\$146,593</u>	<u>\$35,542</u>	<u>\$182,135</u>

	On-Balance Sheet/Managed Portfolio Three months ended June 30, 2010				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance . . . . .	\$64,346	\$82,178	\$146,524	\$35,362	\$181,886
Consolidations to third parties . . . . .	(480)	(207)	(687)	(10)	(697)
Acquisitions <sup>(2)</sup> . . . . .	5,271	349	5,620	617	6,237
Net acquisitions . . . . .	4,791	142	4,933	607	5,540
Sales . . . . .	(90)	—	(90)	—	(90)
Repayments/defaults/other . . . . .	(1,590)	(1,285)	(2,875)	(818)	(3,693)
Ending balance <sup>(4)</sup> . . . . .	<u>\$67,457</u>	<u>\$81,035</u>	<u>\$148,492</u>	<u>\$35,151</u>	<u>\$183,643</u>

(1) FFELP category is primarily Stafford Loans but also includes federally guaranteed PLUS and HEAL loans.

(2) Includes accrued interest receivable capitalized to principal during the period.

(3) As of September 30, 2010, the ending balance includes \$27.2 billion of FFELP Stafford and other Loans and \$2.5 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are affected by CCRAA legislation.

(4) As of June 30, 2010, the ending balance includes \$26.6 billion of FFELP Stafford and other Loans and \$2.5 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are affected by CCRAA legislation.

**On-Balance Sheet**  
Three months ended September 30, 2009

	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance . . . . .	\$62,204	\$70,102	\$132,306	\$21,851	\$154,157
Consolidations to third parties . . . . .	(384)	(191)	(575)	(2)	(577)
Acquisitions <sup>(2)</sup> . . . . .	7,645	316	7,961	1,235	9,196
Net acquisitions . . . . .	7,261	125	7,386	1,233	8,619
Repayments/defaults/resales/other . . . . .	(2,360)	(981)	(3,341)	(589)	(3,930)
Ending balance . . . . .	<u>\$67,105</u>	<u>\$69,246</u>	<u>\$136,351</u>	<u>\$22,495</u>	<u>\$158,846</u>

**Off-Balance Sheet**  
Three months ended September 30, 2009

	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance . . . . .	\$6,170	\$15,170	\$21,340	\$12,621	\$33,961
Consolidations to third parties . . . . .	(135)	(56)	(191)	(4)	(195)
Acquisitions <sup>(2)</sup> . . . . .	30	63	93	81	174
Net acquisitions . . . . .	(105)	7	(98)	77	(21)
Repayments/defaults/resales/other . . . . .	(130)	(188)	(318)	(287)	(605)
Ending balance . . . . .	<u>\$5,935</u>	<u>\$14,989</u>	<u>\$20,924</u>	<u>\$12,411</u>	<u>\$33,335</u>

**Managed Portfolio**  
Three months ended September 30, 2009

	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance . . . . .	\$68,374	\$85,272	\$153,646	\$34,472	\$188,118
Consolidations to third parties . . . . .	(519)	(247)	(766)	(6)	(772)
Acquisitions <sup>(2)</sup> . . . . .	7,675	379	8,054	1,316	9,370
Net acquisitions . . . . .	7,156	132	7,288	1,310	8,598
Repayments/defaults/resales/other . . . . .	(2,490)	(1,169)	(3,659)	(876)	(4,535)
Ending balance <sup>(3)</sup> . . . . .	<u>\$73,040</u>	<u>\$84,235</u>	<u>\$157,275</u>	<u>\$34,906</u>	<u>\$192,181</u>

<sup>(1)</sup> FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

<sup>(2)</sup> Includes accrued interest receivable capitalized to principal during the period.

<sup>(3)</sup> As of September 30, 2009, the ending balance includes \$29.7 billion of FFELP Stafford and other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are affected by CCRAA legislation.

**On-Balance Sheet**  
**Nine months ended September 30, 2010**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$52,675	\$68,379	\$121,054	\$22,753	\$143,807
Consolidations to third parties . . . . .	(1,545)	(591)	(2,136)	(33)	(2,169)
Acquisitions <sup>(2)</sup> . . . . .	15,075	1,122	16,197	2,961	19,158
Net acquisitions . . . . .	<u>13,530</u>	<u>531</u>	<u>14,061</u>	<u>2,928</u>	<u>16,989</u>
Securitization-related <sup>(3)</sup> . . . . .	5,500	14,797	20,297	12,341	32,638
Sales . . . . .	(383)	(71)	(454)	—	(454)
Repayments/defaults/resales/other . . . . .	(4,641)	(3,724)	(8,365)	(2,480)	(10,845)
Ending balance . . . . .	<u>\$66,681</u>	<u>\$79,912</u>	<u>\$146,593</u>	<u>\$35,542</u>	<u>\$182,135</u>

**Off-Balance Sheet**  
**Nine months ended September 30, 2010**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$ 5,500	\$ 14,797	\$ 20,297	\$ 12,341	\$ 32,638
Consolidations to third parties . . . . .	—	—	—	—	—
Acquisitions <sup>(2)</sup> . . . . .	—	—	—	—	—
Net acquisitions . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Securitization-related <sup>(3)</sup> . . . . .	(5,500)	(14,797)	(20,297)	(12,341)	(32,638)
Sales . . . . .	—	—	—	—	—
Repayments/defaults/resales/other . . . . .	—	—	—	—	—
Ending balance . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

**On-Balance Sheet/Managed Portfolio**  
**Nine months ended September 30, 2010**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$58,175	\$83,176	\$141,351	\$35,094	\$176,445
Consolidations to third parties . . . . .	(1,545)	(591)	(2,136)	(33)	(2,169)
Acquisitions <sup>(2)</sup> . . . . .	15,075	1,122	16,197	2,961	19,158
Net acquisitions . . . . .	<u>13,530</u>	<u>531</u>	<u>14,061</u>	<u>2,928</u>	<u>16,989</u>
Securitization-related <sup>(3)</sup> . . . . .	—	—	—	—	—
Sales . . . . .	(383)	(71)	(454)	—	(454)
Repayments/defaults/resales/other . . . . .	(4,641)	(3,724)	(8,365)	(2,480)	(10,845)
Ending balance <sup>(4)</sup> . . . . .	<u>\$66,681</u>	<u>\$79,912</u>	<u>\$146,593</u>	<u>\$35,542</u>	<u>\$182,135</u>

(1) FFELP category is primarily Stafford Loans but also includes federally guaranteed PLUS and HEAL loans.

(2) Includes accrued interest receivable capitalized to principal during the period.

(3) Represents loans within securitization trusts that we are required to consolidate under GAAP upon the adoption of topic updates to ASC 810 on January 1, 2010 which resulted in consolidating all off-balance sheet securitization trusts (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model” for further details).

(4) As of September 30, 2010, the ending balance includes \$27.2 billion of FFELP Stafford and other Loans and \$2.5 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are affected by CCRAA legislation.

<b>On-Balance Sheet</b>					
<b>Nine months ended September 30, 2009</b>					
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$52,476	\$71,744	\$124,220	\$20,582	\$144,802
Consolidations to third parties . . . . .	(790)	(385)	(1,175)	(5)	(1,180)
Acquisitions <sup>(2)</sup> . . . . .	20,691	871	21,562	3,562	25,124
Net acquisitions . . . . .	19,901	486	20,387	3,557	23,944
Securitization-related <sup>(3)</sup> . . . . .	425	—	425	—	425
Repayments/defaults/resales/other . . . . .	(5,697)	(2,984)	(8,681)	(1,644)	(10,325)
Ending balance . . . . .	<u>\$67,105</u>	<u>\$69,246</u>	<u>\$136,351</u>	<u>\$22,495</u>	<u>\$158,846</u>

<b>Off-Balance Sheet</b>					
<b>Nine months ended September 30, 2009</b>					
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$7,143	\$15,531	\$22,674	\$12,917	\$35,591
Consolidations to third parties . . . . .	(317)	(99)	(416)	(12)	(428)
Acquisitions <sup>(2)</sup> . . . . .	107	161	268	325	593
Net acquisitions . . . . .	(210)	62	(148)	313	165
Securitization-related <sup>(3)</sup> . . . . .	(425)	—	(425)	—	(425)
Repayments/defaults/resales/other . . . . .	(573)	(604)	(1,177)	(819)	(1,996)
Ending balance . . . . .	<u>\$5,935</u>	<u>\$14,989</u>	<u>\$20,924</u>	<u>\$12,411</u>	<u>\$33,335</u>

<b>Managed Portfolio</b>					
<b>Nine months ended September 30, 2009</b>					
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$59,619	\$87,275	\$146,894	\$33,499	\$180,393
Consolidations to third parties . . . . .	(1,107)	(484)	(1,591)	(17)	(1,608)
Acquisitions <sup>(2)</sup> . . . . .	20,798	1,032	21,830	3,887	25,717
Net acquisitions . . . . .	19,691	548	20,239	3,870	24,109
Securitization-related <sup>(3)</sup> . . . . .	—	—	—	—	—
Repayments/defaults/resales/other . . . . .	(6,270)	(3,588)	(9,858)	(2,463)	(12,321)
Ending balance <sup>(4)</sup> . . . . .	<u>\$73,040</u>	<u>\$84,235</u>	<u>\$157,275</u>	<u>\$34,906</u>	<u>\$192,181</u>

- <sup>(1)</sup> FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.
- <sup>(2)</sup> Includes accrued interest receivable capitalized to principal during the period.
- <sup>(3)</sup> Represents loans within securitization trusts that we are required to consolidate under GAAP once the trusts' loan balances are below the clean-up call threshold.
- <sup>(4)</sup> As of September 30, 2009, the ending balance includes \$29.7 billion of FFELP Stafford and other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are affected by CCRAA legislation.

**Student Loan Average Balances (net of unamortized premium/discount):**

On January 1, 2010, upon the adoption of topic updates of ASC 810, we consolidated our off-balance sheet securitization trusts at their historical cost basis (see “RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — Variable Interest Entity (“VIE”) Consolidation Model”). As a result, effective January 1, 2010, our on-balance sheet (GAAP) and Managed student loan portfolios are the same.

The following tables summarize the components of our student loan portfolio and show the changing composition of our portfolios.

	Three months ended September 30, 2010				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total On-Balance Sheet/Managed <sup>(2)</sup> . . . . .	\$67,265	\$80,557	\$147,822	\$36,317	\$184,139
% of On-Balance Sheet/Managed FFELP . . . . .	46%	54%	100%		
% of Total . . . . .	36	44	80	20%	100%

	Three months ended June 30, 2010				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total On-Balance Sheet/Managed <sup>(2)</sup> . . . . .	\$66,488	\$81,613	\$148,101	\$36,470	\$184,571
% of On-Balance Sheet/Managed FFELP . . . . .	45%	55%	100%		
% of Total . . . . .	36	44	80	20%	100%

	Three months ended September 30, 2009				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-Balance sheet . . . . .	\$64,673	\$69,643	\$134,316	\$23,214	\$157,530
Off-Balance sheet . . . . .	6,052	15,066	21,118	12,811	33,929
Total Managed . . . . .	<u>\$70,725</u>	<u>\$84,709</u>	<u>\$155,434</u>	<u>\$36,025</u>	<u>\$191,459</u>
% of On-Balance Sheet FFELP . . . . .	48%	52%	100%		
% of Managed FFELP . . . . .	46	54	100		
% of Total . . . . .	37	44	81	19%	100%

	Nine months ended September 30, 2010				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total On-Balance Sheet/Managed . . . . .	\$65,326	\$81,611	\$146,937	\$36,487	\$183,424
% of On-Balance Sheet/Managed FFELP . . . . .	44%	56%	100%		
% of Total . . . . .	36	44	80	20%	100%

	Nine months ended September 30, 2009				
	FFELP Stafford and Other <sup>(1)</sup>	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-Balance Sheet . . . . .	\$60,190	\$70,464	\$130,654	\$22,968	\$153,622
Off-Balance Sheet . . . . .	6,567	15,247	21,814	12,983	34,797
Total Managed . . . . .	<u>\$66,757</u>	<u>\$85,711</u>	<u>\$152,468</u>	<u>\$35,951</u>	<u>\$188,419</u>
% of On-Balance Sheet FFELP . . . . .	46%	54%	100%		
% of Managed FFELP . . . . .	44	56	100		
% of Total . . . . .	35	46	81	19%	100%

<sup>(1)</sup> FFELP category is primarily Stafford Loans, but also includes federally guaranteed PLUS and HEAL loans.

<sup>(2)</sup> Upon the adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of their off-balance sheet securitization trusts (see "RECENT DEVELOPMENTS — Recently Adopted Accounting Standards — VIE Consolidation Model" for further details).

## ASSET PERFORMANCE GROUP (“APG”) BUSINESS SEGMENT

The following tables include “Core Earnings” results for our APG business segment.

	Quarter ended September 30, 2010			
	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$—	\$—	\$84	\$84
Collections revenue . . . . .	<u>13</u>	<u>—</u>	<u>—</u>	<u>13</u>
Total income . . . . .	13	—	84	97
Direct operating expenses . . . . .	19	—	47	66
Overhead expenses . . . . .	<u>—</u>	<u>—</u>	<u>8</u>	<u>8</u>
Operating expenses . . . . .	19	—	55	74
Restructuring expenses . . . . .	<u>1</u>	<u>—</u>	<u>1</u>	<u>2</u>
Total expenses . . . . .	20	—	56	76
Net interest expense . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	(7)	—	28	21
Income tax expense (benefit) . . . . .	<u>(2)</u>	<u>—</u>	<u>10</u>	<u>8</u>
Net income (loss) from continuing operations . . . .	(5)	—	18	13
Income from discontinued operations, net of tax . .	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
Net income (loss) . . . . .	(5)	3	18	16
Less: net income attributable to noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$ (5)</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 18</u></u>	<u><u>\$ 16</u></u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax . . . . .	\$ (5)	\$—	\$ 18	\$ 13
Discontinued operations, net of tax . . . . .	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$ (5)</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 18</u></u>	<u><u>\$ 16</u></u>

	<u>Quarter ended June 30, 2010</u>		
	<u>Purchased Paper — Non- Mortgage</u>	<u>Contingency &amp; Other</u>	<u>Total APG</u>
Contingency fee income . . . . .	\$ —	\$88	\$ 88
Collections revenue . . . . .	<u>17</u>	<u>—</u>	<u>17</u>
Total income . . . . .	17	88	105
Direct operating expenses . . . . .	27	48	75
Overhead expenses . . . . .	<u>—</u>	<u>11</u>	<u>11</u>
Operating expenses . . . . .	27	59	86
Restructuring expenses . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses . . . . .	27	59	86
Net interest expense . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	(10)	29	19
Income tax expense (benefit) . . . . .	<u>(3)</u>	<u>10</u>	<u>7</u>
Net income (loss) from continuing operations . . . . .	(7)	19	12
Loss from discontinued operations, net of tax . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) . . . . .	(7)	19	12
Less: net income attributable to noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u>\$ (7)</u>	<u>\$19</u>	<u>\$ 12</u>



Quarter ended September 30, 2009

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$ —	\$—	\$82	\$ 82
Collections revenue . . . . .	<u>21</u>	<u>—</u>	<u>—</u>	<u>21</u>
Total income . . . . .	21	—	82	103
Direct operating expenses . . . . .	32	—	43	75
Overhead expenses . . . . .	<u>1</u>	<u>—</u>	<u>8</u>	<u>9</u>
Operating expenses . . . . .	33	—	51	84
Restructuring expenses . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses . . . . .	33	—	51	84
Net interest expense . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	(12)	—	31	19
Income tax expense (benefit) . . . . .	<u>(4)</u>	<u>—</u>	<u>13</u>	<u>9</u>
Net income (loss) from continuing operations . . . .	(8)	—	18	10
Loss from discontinued operations, net of tax . . . .	<u>—</u>	<u>(6)</u>	<u>—</u>	<u>(6)</u>
Net income (loss) . . . . .	(8)	(6)	18	4
Less: net income attributable to noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u>\$ (8)</u>	<u>\$ (6)</u>	<u>\$18</u>	<u>\$ 4</u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax . . . . .	\$ (8)	\$—	\$18	\$ 10
Discontinued operations, net of tax . . . . .	<u>—</u>	<u>(6)</u>	<u>—</u>	<u>(6)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u>\$ (8)</u>	<u>\$ (6)</u>	<u>\$18</u>	<u>\$ 4</u>

Nine months ended September 30, 2010

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$ —	\$—	\$252	\$252
Collections revenue . . . . .	<u>52</u>	<u>—</u>	<u>—</u>	<u>52</u>
Total income . . . . .	52	—	252	304
Direct operating expenses . . . . .	78	—	139	217
Overhead expenses . . . . .	<u>1</u>	<u>—</u>	<u>29</u>	<u>30</u>
Operating expenses . . . . .	79	—	168	247
Restructuring expenses . . . . .	<u>2</u>	<u>—</u>	<u>1</u>	<u>3</u>
Total expenses . . . . .	81	—	169	250
Net interest expense . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	(29)	—	83	54
Income tax expense (benefit) . . . . .	<u>(10)</u>	<u>—</u>	<u>30</u>	<u>20</u>
Net income (loss) from continuing operations . . . .	(19)	—	53	34
Income from discontinued operations, net of tax . .	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
Net income (loss) . . . . .	(19)	3	53	37
Less: net income attributable to noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$(19)</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 53</u></u>	<u><u>\$ 37</u></u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax . . . . .	\$(19)	\$—	\$ 53	\$ 34
Discontinued operations, net of tax . . . . .	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$(19)</u></u>	<u><u>\$ 3</u></u>	<u><u>\$ 53</u></u>	<u><u>\$ 37</u></u>

Nine months ended September 30, 2009

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$ 2	\$ —	\$228	\$230
Collections revenue . . . . .	<u>88</u>	<u>—</u>	<u>—</u>	<u>88</u>
Total income . . . . .	90	—	228	318
Direct operating expenses . . . . .	108	—	127	235
Overhead expenses . . . . .	<u>3</u>	<u>—</u>	<u>27</u>	<u>30</u>
Operating expenses . . . . .	111	—	154	265
Restructuring expenses . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total expenses . . . . .	111	—	154	265
Net interest expense . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Income (loss) from continuing operations before income tax expense (benefit) . . . . .	(21)	—	74	53
Income tax expense (benefit) . . . . .	<u>(8)</u>	<u>—</u>	<u>28</u>	<u>20</u>
Net income (loss) from continuing operations . . . .	(13)	—	46	33
Loss from discontinued operations, net of tax . . . .	<u>—</u>	<u>(59)</u>	<u>—</u>	<u>(59)</u>
Net income (loss) . . . . .	(13)	(59)	46	(26)
Less: net income attributable to noncontrolling interest . . . . .	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$ (14)</u></u>	<u><u>\$(59)</u></u>	<u><u>\$ 46</u></u>	<u><u>\$(27)</u></u>
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax . . . . .	\$ (14)	\$ —	\$ 46	\$ 32
Discontinued operations, net of tax . . . . .	<u>—</u>	<u>(59)</u>	<u>—</u>	<u>(59)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation . . . . .	<u><u>\$ (14)</u></u>	<u><u>\$(59)</u></u>	<u><u>\$ 46</u></u>	<u><u>\$(27)</u></u>

In 2008, the Company concluded that its purchased paper businesses were no longer a strategic fit. The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009. The Company continues to wind down the domestic side of its Purchased Paper — Non-Mortgage business. The Company will continue to consider opportunities to sell this business at acceptable prices in the future; however, the criteria for this business to be classified as held-for-sale have not been met.

Net income attributable to SLM Corporation from discontinued operations was \$3 million for the third quarter of 2010 compared with a net loss of \$6 million for the third quarter of 2009. There was no net income (loss) attributable to SLM Corporation from discontinued operations for the second quarter of 2010. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for \$280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. The year-ago quarter included \$7 million of after-tax asset impairments.

The Company’s domestic Purchased Paper — Non-Mortgage business has certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company has not bought any additional purchased paper in excess of these obligations. The Company

recognized impairments of \$3 million, \$3 million and \$9 million in the third quarter of 2010, the second quarter of 2010 and the third quarter of 2009, respectively. The impairments are the result of the impact of the economy on the ability to collect on these assets. Similar to the Purchased Paper — Mortgage/Properties business discussion above, when the Purchased Paper — Non-Mortgage business either sells all of its remaining assets (or qualifies as held-for-sale) or completely winds down its operations, its results will be shown as discontinued operations.

### Purchased Paper — Non-Mortgage

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Gross Cash Collections (“GCC”) . . . .	\$ 44	\$ 58	\$ 72	\$166	\$315
Collections revenue . . . . .	13	17	21	52	88
Collections revenue as a percentage of GCC . . . . .	30%	30%	34%	31%	29%
Carrying value of purchased paper . . .	\$181	\$207	\$373	\$181	\$373

### Contingency Inventory

The following table presents the outstanding inventory of receivables that are currently being serviced for others through our APG business segment.

	September 30, 2010	June 30, 2010	September 30, 2009
Contingency:			
Student loans . . . . .	\$ 9,781	\$ 9,926	\$ 9,191
Other . . . . .	<u>1,648</u>	<u>2,358</u>	<u>1,472</u>
Total . . . . .	<u>\$11,429</u>	<u>\$12,284</u>	<u>\$10,663</u>

### Operating Expenses — APG Business Segment

For the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, operating expenses for the APG business segment totaled \$74 million, \$86 million and \$83 million, respectively. The decreases in operating expenses from the prior and year-ago quarters were primarily due to lower collection costs on the Purchased Paper — Non-Mortgage portfolio. The lower collection costs are the result of the decreasing size of the portfolio given the winding down of the business.

## OTHER BUSINESS SEGMENT

The following table includes “Core Earnings” results for our Other business segment.

	Quarters ended			Nine months ended	
	September 30, 2010	June 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Net interest income after provisions					
for losses . . . . .	\$ 4	\$ 4	\$ 5	\$ 13	\$ 14
Guarantor servicing fees . . . . .	16	22	48	75	107
Loan servicing fees . . . . .	19	17	17	56	35
Upromise . . . . .	28	30	28	86	79
Other . . . . .	<u>9</u>	<u>6</u>	<u>11</u>	<u>23</u>	<u>38</u>
Total other income . . . . .	72	75	104	240	259
Direct operating expenses . . . . .	61	53	56	176	154
Overhead expenses . . . . .	<u>2</u>	<u>3</u>	<u>3</u>	<u>9</u>	<u>9</u>
Operating expenses . . . . .	63	56	59	185	163
Restructuring expenses . . . . .	<u>(1)</u>	<u>2</u>	<u>—</u>	<u>5</u>	<u>2</u>
Total expenses . . . . .	<u>62</u>	<u>58</u>	<u>59</u>	<u>190</u>	<u>165</u>
Income from continuing operations, before income tax expense . . . . .	14	21	50	63	108
Income tax expense . . . . .	<u>5</u>	<u>8</u>	<u>18</u>	<u>23</u>	<u>40</u>
“Core Earnings” net income attributable to SLM Corporation . . .	<u>\$ 9</u>	<u>\$13</u>	<u>\$ 32</u>	<u>\$ 40</u>	<u>\$ 68</u>

The decrease in guarantor servicing fees compared to the prior periods was primarily due to HCERA being effective as of July 1, 2010 and the Company no longer earning a guarantor issuance fees on disbursed guaranteed FFELP loans as well as a lower balance of outstanding FFELP loans in which the Company earns other fees.

In the second quarter of 2009, ED named Sallie Mae as one of four servicers awarded a servicing contract (the “ED Servicing Contract”) to service all federal loans owned by ED. The contract will span five years with one, five-year renewal at the option of ED. The Company is servicing approximately 2 million accounts under the ED Servicing Contract as of September 30, 2010. Loan servicing fees in both the third and second quarters of 2010 included \$10 million of servicing revenue related to the loans the Company is servicing under the ED Servicing Contract.

United Student Aid Funds, Inc. (“USA Funds”), the nation’s largest guarantee agency, accounted for 84 percent, 88 percent and 85 percent, respectively, of guarantor servicing fees and 1 percent, 1 percent and 3 percent, respectively, of revenues associated with other products and services for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009.

### Operating Expenses — Other Business Segment

Operating expenses for our Other business segment include direct costs incurred to service loans for unrelated third parties, including the ED Servicing Contract, perform guarantor servicing on behalf of guarantor agencies and operate our Upromise subsidiary, as well as information technology expenses related to these functions. For the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, operating expenses for the Other business segment totaled \$63 million, \$56 million and \$59 million, respectively. The increases in operating expenses for the third quarter of 2010 over the prior and year-ago quarters were primarily due to higher technology and other expenses related to preparation for higher volumes for the ED Servicing Contract as a result of FFELP Loans that were sold to ED early in the fourth quarter of 2010 as well as Direct Loans allocated to the Company for servicing.

## **LIQUIDITY AND CAPITAL RESOURCES**

The following “LIQUIDITY AND CAPITAL RESOURCES” discussion concentrates on our Lending business segment. Our APG and Other business segments are not capital intensive businesses and, as such, a minimal amount of debt capital is allocated to these segments.

Historically, we funded new loan originations with a combination of term unsecured debt and student loan asset-backed securities. Following the Proposed Merger announcement in April 2007, we temporarily suspended issuance of unsecured debt and began funding loan originations primarily through the issuance of student loan asset-backed securities and short-term secured student loan financing facilities. In June 2008, the Company accessed the corporate bond market with a \$2.5 billion issuance of 10-year senior unsecured notes. In August 2008, we began funding new FFELP Stafford and PLUS Loan originations for AY 2008-2009 pursuant to ED’s Loan Purchase Participation Program (the “Participation Program”). During the fourth quarter of 2008, the Company began retaining its Private Education Loan originations in its banking subsidiary, Sallie Mae Bank, and funding these assets with term bank deposits. In May 2009, we began using the ED Conduit Program to fund FFELP Stafford and PLUS Loans. In January 2010, the Company initiated a relationship with the Federal Home Loan Bank of Des Moines (the “FHLB-DM”) to provide funding for FFELP Loans. In March 2010, the Company accessed the corporate bond market with a \$1.5 billion issuance of 10-year senior unsecured notes. We discuss these liquidity sources below.

We continued to use ED’s Purchase and Participation Programs to fund FFELP Stafford and PLUS Loans disbursed through September 30, 2010 (see “RECENT DEVELOPMENTS — Legislative and Regulatory Developments” for a further discussion regarding the end of new FFELP originations as of July 1, 2010) and to use deposits at Sallie Mae Bank and term asset-backed securities to fund Private Education Loan originations. We plan to use term asset-backed securities, asset-backed financing facilities, cash flows provided by earnings and repayment of principal on our unencumbered student loan assets and distributions from our securitization trusts, including servicing fees from these trusts, as well as other sources, to retire maturing debt and provide cash for operations and other needs.

### **ED Funding Programs**

In August 2008, ED implemented the Purchase Program and the Participation Program pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of \$75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate equal to the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. Loans eligible for the Participation or Purchase Programs are limited to FFELP Stafford or PLUS Loans, first disbursed on or after May 1, 2008 but no later than July 1, 2010, with no ongoing borrower benefits other than permitted rate reductions of 0.25 percent for automatic payment processing. In October 2010, the Company sold \$20.4 billion of loans to ED and paid off \$20.3 billion of advances outstanding under the Participation Program.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the “ED Conduit Program”). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and accepted eligible loans through July 1, 2010. The ED Conduit Program expires on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (“FFB”). The FFB will hold the notes for a short period of time and, if at the end of that time, the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through a put agreement at a price

of 97 percent of the face amount of the loans. As of September 30, 2010, approximately \$15.2 billion face amount of our Stafford and PLUS Loans were funded through the ED Conduit Program. For the third quarter of 2010, the average interest rate paid on this facility was approximately 0.77 percent.

### **Additional Funding Sources for General Corporate Purposes**

In addition to funding FFELP loans through ED's Participation and Purchase Programs and the ED Conduit Program, the Company employs other financing sources for general corporate purposes, which include originating Private Education Loans and repurchases and repayments of unsecured debt obligations.

Secured borrowings, including securitizations, asset-backed commercial paper ("ABCP") borrowings, ED financing facilities and indentured trusts, comprised 84 percent of our Managed debt outstanding at September 30, 2010 versus 82 percent at September 30, 2009.

### ***Sallie Mae Bank***

During the fourth quarter of 2008, Sallie Mae Bank, our Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits through intermediaries in the retail brokered Certificate of Deposit ("CD") market and through retail deposit channels. As of September 30, 2010, total term bank deposits were \$4.9 billion and cash and liquid investments totaled \$2.7 billion. In addition to its deposit base, Sallie Mae Bank has borrowing capacity with the Federal Reserve Bank ("FRB") through a collateralized lending facility. Borrowing capacity is limited by the availability of acceptable collateral. As of September 30, 2010, borrowing capacity was approximately \$0.6 billion and there were no outstanding borrowings.

### ***ABS Transactions***

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. The Term Asset-Backed Securities Loan Facility ("TALF") was initiated on March 17, 2009 and provided investors who purchase eligible ABS with funding of up to five years. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and Private Education Loans first disbursed since May 1, 2007. For student loan collateral, TALF expired on March 31, 2010.

In 2009, we completed four FFELP long-term ABS transactions totaling \$5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the TALF.

During 2009, we completed \$7.5 billion of Private Education Loan term ABS transactions, all of which were private placement transactions. On January 6, 2009, we closed a \$1.5 billion 12.5 year ABS based facility ("Total Return Swap Facility"). This facility is used to provide up to \$1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. In connection with this facility, we completed one Private Education Loan term ABS transaction totaling \$1.5 billion in the first quarter of 2009. The net funding received under the ABS based facility for this issuance was \$1.1 billion. In addition, we completed \$6.0 billion of Private Education Loan term ABS transactions which were TALF-eligible.

On March 3, 2010, the Company priced a \$1.6 billion Private Education Loan term ABS transaction which was TALF-eligible. The notes settled on March 11, 2010 and the issuance included one \$149 million tranche bearing a coupon of Prime minus 0.05 percent and a second \$1.401 billion tranche bearing a coupon of 1-month LIBOR plus 3.25 percent.

On April 12, 2010, the Company priced a \$1.2 billion FFELP long-term ABS transaction. The transaction settled on April 15, 2010 and includes \$1.2 billion A Notes bearing a coupon of 1-month LIBOR plus 0.40 percent and \$37 million B Notes bearing a coupon of 1-month LIBOR plus 0.90 percent. The B Notes were purchased by the Company in their entirety on the settlement date. This transaction was composed primarily of FFELP Stafford and PLUS loans.



On July 22, 2010, we redeemed our \$1.5 billion SLM Private Education Loan Trust 2009-A ABS issue and closed new offerings of our \$869 million SLM 2010-B and \$1.7 billion SLM 2010-C Private Education Loan Trust ABS issues. Approximately \$875 million of the 2010-B and 2010-C bonds were issued at a weighted average coupon of 1-month LIBOR plus 2.23 percent; the remaining \$1.7 billion of bonds were financed under our Total Return Swap Facility. These concurrent transactions raised approximately \$1.0 billion of net additional cash for the Company.

On August 18, 2010, the Company priced a \$760 million FFELP ABS transaction. The transaction settled on August 26, 2010 and includes \$738 million A Notes bearing a coupon of 1-month LIBOR plus 0.50 percent and \$22 million B Notes bearing a coupon of 1-month LIBOR plus 0.90 percent. The B Notes were purchased by the Company in their entirety on the settlement date. This transaction was composed primarily of FFELP Stafford and PLUS loans.

Although we have demonstrated our access to the ABS market in 2009 and the first nine months of 2010 and we expect ABS financing to remain a primary source of funding over the long term, we also expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. At present, while the markets have demonstrated some signs of recovery, we are unable to predict when market conditions will allow for more regular, reliable and cost-effective access to the term ABS market.

#### ***Asset-Backed Financing Facilities***

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the “2008 Asset-Backed Financing Facilities”) to fund FFELP and Private Education Loans. In 2009, the FFELP facilities were subsequently amended and reduced and the Private Education facility was retired.

On January 15, 2010, the Company terminated the 2008 Asset-Backed Financing Facilities for FFELP and entered into new multi-year ABCP facilities (the “2010 Facility”) which will continue to provide funding for the Company’s federally guaranteed student loans. The 2010 Facility provides for maximum funding of \$10 billion for the first year, \$5 billion for the second year and \$2 billion for the third year. Upfront fees related to the 2010 Facility were approximately \$4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding upfront commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. In addition to the funding limits described above, funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company’s failure to comply with the principal financial covenants in its unsecured revolving credit facility. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon. As of September 30, 2010, there was approximately \$6.0 billion outstanding in this facility. The book basis of the assets securing this facility at September 30, 2010 was \$6.6 billion.

#### ***Federal Home Loan Bank in Des Moines (“FHLB-DM”)***

On January 15, 2010, HICA Education Loan Corporation (“HICA”), a subsidiary of the Company, entered into a lending agreement with the FHLB-DM. Under the agreement, the FHLB-DM will provide advances backed by Federal Housing Finance Agency approved collateral which includes federally-guaranteed student loans (but does not include Private Education Loans). The initial borrowing of \$25 million at a rate of 0.23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of September 30, 2010, subject to available collateral, is

approximately \$10 billion. As of September 30, 2010, borrowing under the facility totaled \$525 million. The Company has provided a guarantee to the FHLB-DM for the performance and payment of HICA's obligations.

### ***Auction Rate Securities***

At September 30, 2010, we had \$3.3 billion of taxable and \$1.0 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities' interest rates are set. As a result, \$3.4 billion of the Company's auction rate securities as of September 30, 2010 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company's tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 0.81 percent during the third quarter of 2010. As of September 30, 2010, \$0.9 billion of auction rate securities with shorter weighted average terms to maturity have had successful auctions, resulting in an average rate of 1.67 percent.

### ***Reset Rate Notes***

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the notes are reset. The Company also has the option to repurchase a reset rate note upon a failed remarketing and hold it as an investment until such time it can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent until such time as the bonds are successfully remarketed or repurchased. The Company's repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at September 30, 2010, \$4.3 billion of our reset rate notes bore interest at, or were swapped to LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. As of September 30, 2010, the Company had \$4.3 billion and \$2.0 billion of reset rate notes due to be remarketed in 2010 and 2011, respectively, and an additional \$6.5 billion to be remarketed thereafter.

### ***Senior Unsecured Debt***

On March 17, 2010, the Company priced a \$1.5 billion issuance of 10-year senior unsecured notes. The notes settled on March 22, 2010 and bear a coupon of 8.00 percent and a maturity of March 25, 2020. The notes were swapped to LIBOR with an all-in cost of LIBOR plus 4.65 percent.

On January 11, 2010, the Company announced that it repurchased \$812 million U.S. dollar equivalent face amount of its senior unsecured notes outstanding, through a tender offer which settled on January 14, 2010. This transaction resulted in a gain of approximately \$45 million.

On May 4, 2010, the Company announced that it repurchased \$1.1 billion U.S. dollar equivalent face amount of its senior unsecured notes outstanding, through a tender offer which settled on May 11, 2010. This transaction resulted in a gain of approximately \$73 million.

On September 24, 2010, the Company announced that it repurchased \$0.7 billion U.S. dollar equivalent face amount of its \$23.3 billion senior unsecured notes outstanding, through a tender offer which settled on September 27, 2010. This transaction resulted in gains of approximately \$11 million. Total Repurchases in the third quarter including the tender offer totaled \$0.9 billion and resulted in gains of \$18 million. Total repurchases for the nine months ended September 30, 2010, including tender offers, were \$3.6 billion and resulted in gains of \$199 million. The Company began repurchasing its outstanding unsecured debt in the second quarter 2008. Since that time we have repurchased in both open-market repurchases and public tender offers, \$8.9 billion face amount of our senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016.

### **Primary Sources of Liquidity and Available Capacity**

We expect to fund our ongoing liquidity needs, including the origination of new loans and the repayment of \$3.4 billion of senior unsecured notes to mature in the next twelve months, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets and distributions from our securitization trusts (including servicing fees which have priority payments within the trusts), the 2010 Facility, the issuance of term ABS, term bank deposits, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional \$1.6 billion in an unsecured revolving credit facility as of September 30, 2010. This facility matures in October 2011. The principal financial covenants in this unsecured revolving credit facility require the Company to maintain consolidated tangible net worth of at least \$1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was \$3.3 billion as of September 30, 2010. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters' adjusted "Core Earnings" financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended September 30, 2010. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Even though we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

The following table details our main sources of primary liquidity and the available capacity at September 30, 2010, June 30, 2010 and December 31, 2009.

	<u>September 30, 2010</u> <u>Available Capacity</u>	<u>June 30, 2010</u> <u>Available Capacity</u>	<u>December 31, 2009</u> <u>Available Capacity</u>
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:			
ED Purchase and Participation Programs <sup>(1)</sup> . . . . .	<i>N/A</i> <sup>(1)</sup>	<i>Unlimited</i> <sup>(1)</sup>	<i>Unlimited</i> <sup>(1)</sup>
Sources of primary liquidity for general corporate purposes:			
Unrestricted cash and liquid investments:			
Cash and cash equivalents . . . . .	\$ 5,875	\$ 6,267	\$ 6,070
Commercial paper and asset-backed commercial paper . . . . .	112	—	1,150
Certificates of deposit . . . . .	—	300	—
Other <sup>(2)</sup> . . . . .	<u>93</u>	<u>101</u>	<u>131</u>
Total unrestricted cash and liquid investments <sup>(3)(4)(5)</sup> . .	6,080	6,668	7,351
Unused commercial paper and bank lines of credit <sup>(6)</sup> . .	1,590	1,590	3,485
FFELP ABCP Facilities <sup>(7)</sup> . . . . .	<u>3,818</u>	<u>3,539</u>	<u>1,703</u>
Total sources of primary liquidity for general corporate purposes <sup>(8)</sup> . . . . .	<u>\$11,488</u>	<u>\$ 11,797</u>	<u>\$ 12,539</u>

- (1) The ED Purchase and Participation Programs provided unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company for the academic years 2008-2009 and 2009-2010. See “ED Funding Programs” discussed earlier in this section. Includes loans that were first disbursed on or after May 1, 2008 and prior to July 1, 2010 and fully disbursed prior to September 30, 2010.
- (2) At December 31, 2009, includes \$32 million due from The Reserve Primary Fund. On January 29, 2010, we received \$32 million from the Reserve Primary Fund.
- (3) At September 30, 2010, June 30, 2010 and December 31, 2009, excludes \$0, \$0 and \$25 million, respectively, of investments pledged as collateral related to certain derivative positions and \$913 million, \$1.0 billion and \$708 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.
- (4) At September 30, 2010, June 30, 2010 and December 31, 2009, includes \$1.4 billion, \$797 million and \$821 million, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.
- (5) At September 30, 2010, June 30, 2010 and December 31, 2009, includes \$2.7 billion, \$2.6 billion and \$2.4 billion, respectively, of cash and liquid investments at Sallie Mae Bank, for which Sallie Mae Bank is not authorized to dividend to the Company without FDIC approval. This cash will be used primarily to originate or acquire student loans.
- (6) On May 5, 2010 our bank line of credit was reduced by \$1.9 billion.
- (7) Borrowing capacity is subject to availability of collateral. As of September 30, 2010, June 30, 2010 and December 31, 2009, the Company had \$1.7 billion, \$1.8 billion and \$2.1 billion, respectively, of outstanding unencumbered FFELP loans, net.
- (8) General corporate purposes primarily include originating Private Education Loans and repaying unsecured debt as it matures.

In addition to the assets listed in the table above, we hold a number of other unencumbered assets, consisting primarily of Private Education Loans and other assets. At September 30, 2010, we had a total of \$24.4 billion of unencumbered assets, excluding goodwill and acquired intangibles. Total student loans, net, comprised \$12.6 billion of this unencumbered asset total of which \$10.9 billion relates to Private Education Loans, net.

The following table reconciles encumbered and unencumbered assets and their net impact on total tangible equity.

<u>(Dollars in billions)</u>	<u>September 30, 2010</u>	<u>June 30, 2010</u>	<u>December 31, 2009</u>
Net assets of consolidated variable interest entities . . . . .	\$ 13.1	\$ 13.1	\$ 12.7
Tangible unencumbered assets <sup>(2)</sup> . . . . .	24.4	25.5	30.1
Unsecured debt . . . . .	(30.2)	(31.7)	(35.1)
ASC 815 mark-to-market on unsecured hedged debt <sup>(1)</sup> . . . . .	(2.4)	(1.5)	(1.9)
Other liabilities, net . . . . .	<u>(0.8)</u>	<u>(1.5)</u>	<u>(1.7)</u>
Total tangible equity . . . . .	<u>\$ 4.1</u>	<u>\$ 3.9</u>	<u>\$ 4.1</u>

<sup>(1)</sup> At September 30, 2010, June 30, 2010 and December 31, 2009, there were \$2.1 billion, \$1.3 billion and \$1.9 billion, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

<sup>(2)</sup> Excludes goodwill and acquired intangible assets.

### Counterparty Exposure

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to the Company.

Protection against counterparty risk in derivative transactions is generally provided by International Swaps and Derivatives Association, Inc. (“ISDA”) Credit Support Annexes (“CSAs”). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. The Company is a party to derivative contracts for its corporate purposes. Its securitization trusts are also party to derivative contracts. The Company has CSAs and collateral requirements with all of its derivative counterparties requiring collateral to be exchanged based on the net fair value of derivatives with each counterparty. The Company’s securitization trusts require collateral in all cases if the counterparty’s credit rating is withdrawn or downgraded below a certain level. If the counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. Failure to post the collateral or find a replacement counterparty could result in a termination event under the derivative contract. The Company considers counterparties’ credit risk when determining the fair value of derivative positions on its exposure net of collateral. Securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative, regardless of credit rating. The trusts are not required to post collateral to the counterparties. If we were unable to collect from a counterparty related to the Company and on-balance sheet trust derivatives, we would have a loss equal to the amount the derivative is recorded on our balance sheet.

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), the Company’s and counterparties’ credit ratings and on movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral held or may require the Company to access primary liquidity to post collateral to counterparties. As of September 30, 2010, the Company held \$1.4 billion cash collateral in unrestricted cash accounts. If the Company’s credit ratings are downgraded from current levels, it may be required to segregate such collateral in restricted accounts.

The table below highlights exposure related to our derivative counterparties at September 30, 2010.

	<u>SLM Corporation and Sallie Mae Bank Contracts</u>	<u>Securitization Trust Contracts</u>
Exposure, net of collateral . . . . .	\$245	\$1,351
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3 . . . . .	62%	35%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3 . . . . .	0%	0%

### Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding hedge accounting adjustments) at September 30, 2010, June 30, 2010 and September 30, 2009.

	<u>September 30, 2010</u>			<u>June 30, 2010</u>			<u>September 30, 2009</u>		
	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>
Unsecured borrowings . . . . .	\$ 3,422	\$ 19,177	\$ 22,599	\$ 5,544	\$ 19,681	\$ 25,225	\$ 4,330	\$ 24,869	\$ 29,199
Unsecured term bank deposits . . . . .	1,618	3,263	4,881	1,687	3,291	4,978	762	5,129	5,891
FHLB-DM facility . . . . .	525	—	525	575	—	575	—	—	—
ED Participation Program facility (on- balance sheet) <sup>(1)</sup> . . . . .	20,226	—	20,226	19,856	—	19,856	22,864	—	22,864
ED Conduit Program facility (on- balance sheet) . . . . .	15,426	—	15,426	15,873	—	15,873	14,190	—	14,190
ABCP borrowings (on-balance sheet) . . . . .	1,152	4,827	5,979	1,238	5,000	6,238	9,434	—	9,434
Securitized (on-balance sheet) . . . . .	—	120,720	120,720	—	121,373	121,373	—	88,961	88,961
Securitized (off-balance sheet) . . . . .	—	—	—	—	—	—	—	34,534	34,534
Indentured trusts (on-balance sheet) . . . . .	2	1,330	1,332	47	1,415	1,462	66	1,629	1,695
Other . . . . .	2,745	—	2,745	1,527	—	1,527	1,732	—	1,732
Total . . . . .	<u>\$45,116</u>	<u>\$149,317</u>	<u>\$194,433</u>	<u>\$46,347</u>	<u>\$150,760</u>	<u>\$197,107</u>	<u>\$53,378</u>	<u>\$155,122</u>	<u>\$208,500</u>

<sup>(1)</sup> The Company has the option of paying off this amount with cash or by putting the loans to ED as previously discussed.

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of October 18, 2010.

	<u>Moody's</u>	<u>S&amp;P</u>	<u>Fitch</u>
Short-term unsecured debt . . . . .	Not Prime	A-3	F3
Long-term senior unsecured debt . . . . .	Ba1	BBB-	BBB-