SLM CORPORATION

Supplemental Earnings Disclosure

September 30, 2008

(In millions, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS					
GAAP Basis					
Net income (loss)	$ (159)	$ 266	$ (344)	$ 3	$ 739
Diluted earnings (loss) per common share	$ (.40)	$ .50	$ (.85)	$ (.17)	$ 1.69
Return on assets	(.43)%	.74%	(1.05)%	.01%	.82%
"Core Earnings" Basis[1]					
"Core Earnings" net income	$ 117	$ 156	$ 259	$ 461	$ 699
"Core Earnings" diluted earnings per common share	$ .19	$ .27	$ .59	$ .81	$ 1.58
"Core Earnings" return on assets	.25%	.34%	.59%	.33%	.56%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	$138,606	$133,748	$114,571	$133,915	$108,360
Average off-balance sheet student loans	36,864	38,175	41,526	38,064	43,195
Average Managed student loans	$175,470	$171,923	$156,097	$171,979	$151,555
Ending on-balance sheet student loans, net	$141,328	$134,289	$119,155		
Ending off-balance sheet student loans, net	36,362	37,615	40,604		
Ending Managed student loans, net	$177,690	$171,904	$159,759		
Ending Managed FFELP Stafford and Other Student Loans, net	$ 56,608	$ 51,622	$ 44,270		
Ending Managed FFELP Consolidation Loans, net	88,282	89,213	88,070		
Ending Managed Private Education Loans, net	32,800	31,069	27,419		
Ending Managed student loans, net	$177,690	$171,904	$159,759		

(1) See explanation of "Core Earnings" performance measures under "Reconciliation of 'Core Earnings' Net Income to GAAP Net Income."

SLM CORPORATION

Consolidated Balance Sheets

(In thousands, except per share amounts)

	September 30, 2008	June 30, 2008	September 30, 2007
	(unaudited)	(unaudited)	(unaudited)
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of $75,290; $56,882; and $30,655, respectively)	$ 48,924,938	$ 43,146,711	$ 34,108,560
FFELP Consolidation Loans (net of allowance for losses of $47,965; $40,811; and $26,809, respectively)	72,565,628	73,171,342	71,370,681
Private Education Loans (net of allowance for losses of $1,012,839; $970,150; and $454,100, respectively)	19,837,425	17,970,556	13,675,571
Other loans (net of allowance for losses of $53,189; $46,794; and $21,738, respectively)	769,923	902,684	1,193,405
Cash and investments	5,013,583	7,912,882	12,040,001
Restricted cash and investments	3,897,417	3,701,454	4,999,369
Retained Interest in off-balance sheet securitized loans	2,323,419	2,544,517	3,238,637
Goodwill and acquired intangible assets, net	1,259,541	1,304,941	1,354,141
Other assets	10,399,220	12,907,154	8,835,025
Total assets	$164,991,094	$163,562,241	$150,815,390
Liabilities			
ED Participation Program facility	$ 3,554,618	$ —	$ —
Bank deposits	744,086	616,795	186,666
Other short-term borrowings	33,968,849	36,574,961	32,821,708
Total short-term borrowings	38,267,553	37,191,756	33,008,374
Long-term borrowings	118,069,878	117,920,836	108,860,988
Other liabilities	3,297,998	2,905,165	3,934,267
Total liabilities	159,635,429	158,017,757	145,803,629
Commitments and contingencies			
Minority interest in subsidiaries	8,541	9,480	10,054
Stockholders' equity			
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: 1,150; 1,150; and 0 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,150,000	—
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,420; 534,010; and 439,660 shares, respectively, issued	106,884	106,802	87,932
Additional paid-in capital	4,665,614	4,637,731	2,847,748
Accumulated other comprehensive income, net of tax	46,687	61,994	245,352
Retained earnings	669,509	855,527	2,437,639
Stockholders' equity before treasury stock	7,203,464	7,377,054	6,183,671
Common stock held in treasury: 66,952; 66,445; and 25,544 shares, respectively	1,856,340	1,842,050	1,181,964
Total stockholders' equity	5,347,124	5,535,004	5,001,707
Total liabilities and stockholders' equity	$164,991,094	$163,562,241	$150,815,390

SLM CORPORATION

Consolidated Statements of Income

(In thousands, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income:					
FFELP Stafford and Other Student Loans	$ 516,116	$ 497,598	$ 545,618	$1,478,190	$1,507,680
FFELP Consolidation Loans	830,566	769,664	1,145,473	2,436,886	3,247,573
Private Education Loans	445,572	409,323	392,737	1,298,417	1,060,509
Other loans	19,874	21,355	25,990	64,573	80,416
Cash and investments	57,154	70,521	211,303	251,491	466,731
Total interest income	1,869,282	1,768,461	2,321,121	5,529,557	6,362,909
Total interest expense	1,394,533	1,365,918	1,879,811	4,375,896	5,109,130
Net interest income	474,749	402,543	441,310	1,153,661	1,253,779
Less: provisions for loan losses	186,909	143,015	142,600	467,235	441,130
Net interest income after provisions for loan losses	287,840	259,528	298,710	686,426	812,649
Other income (loss):					
Gains on student loan securitizations	—	—	—	—	367,300
Servicing and securitization revenue	64,990	1,630	28,883	174,262	413,808
Losses on sales of loans and securities, net	(43,899)	(43,583)	(25,163)	(122,148)	(67,051)
Gains (losses) on derivative and hedging activities, net	(241,757)	362,043	(487,478)	(152,510)	(22,881)
Contingency fee revenue	89,418	83,790	76,306	258,514	243,865
Collections revenue (loss)	(170,692)	26,365	52,788	(87,088)	195,442
Guarantor servicing fees	36,848	23,663	45,935	95,164	115,449
Other	93,096	108,728	106,684	295,357	292,121
Total other income (loss)	(171,996)	562,636	(202,045)	461,551	1,538,053
Expenses:					
Restructuring expenses	10,508	46,740	—	77,926	—
Operating expenses	367,152	353,688	355,899	1,076,488	1,110,873
Total expenses	377,660	400,428	355,899	1,154,414	1,110,873
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(261,816)	421,736	(259,234)	(6,437)	1,239,829
Income tax expense (benefit)	(103,819)	153,074	84,449	(13,233)	499,187
Income (loss) before minority interest in net earnings of subsidiaries	(157,997)	268,662	(343,683)	6,796	740,642
Minority interest in net earnings of subsidiaries	544	2,926	77	3,405	1,778
Net income (loss)	(158,541)	265,736	(343,760)	3,391	738,864
Preferred stock dividends	27,474	27,391	9,274	83,890	27,523
Net income (loss) attributable to common stock	$ (186,015)	$ 238,345	$ (353,034)	$ (80,499)	$ 711,341
Basic earnings (loss) per common share	$ (.40)	$ .51	$ (.85)	$ (.17)	$ 1.73
Average common shares outstanding	466,646	466,649	412,944	466,625	411,958
Diluted earnings (loss) per common share	$ (.40)	$ .50	$ (.85)	$ (.17)	$ 1.69
Average common and common equivalent shares outstanding	466,646	517,954	412,944	466,625	420,305
Dividends per common share	$ —	$ —	$ —	$ —	$ .25

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended September 30, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$ 611,786	$ —	$ —	$ 611,786	$ (95,670)	$ 516,116
FFELP Consolidation Loans	995,102	—	—	995,102	(164,536)	830,566
Private Education Loans	678,293	—	—	678,293	(232,721)	445,572
Other loans	19,874	—	—	19,874	—	19,874
Cash and investments	61,731	—	6,829	68,560	(11,406)	57,154
Total interest income	2,366,786	—	6,829	2,373,615	(504,333)	1,869,282
Total interest expense	1,651,071	5,984	4,472	1,661,527	(266,994)	1,394,533
Net interest income (loss)	715,715	(5,984)	2,357	712,088	(237,339)	474,749
Less: provisions for loan losses	263,019	—	—	263,019	(76,110)	186,909
Net interest income (loss) after provisions for loan losses	452,696	(5,984)	2,357	449,069	(161,229)	287,840
Contingency fee revenue	—	89,418	—	89,418	—	89,418
Collections revenue (loss)	—	(168,689)	—	(168,689)	(2,003)	(170,692)
Guarantor servicing fees	—	—	36,848	36,848	—	36,848
Other income (loss)	55,315	—	50,661	105,976	(233,546)	(127,570)
Total other income (loss)	55,315	(79,271)	87,509	63,553	(235,549)	(171,996)
Restructuring expenses	(236)	4,177	6,567	10,508	—	10,508
Operating expenses	141,797	105,748	69,161	316,706	50,446	367,152
Total expenses	141,561	109,925	75,728	327,214	50,446	377,660
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	366,450	(195,180)	14,138	185,408	(447,224)	(261,816)
Income tax expense (benefit)[1]	134,440	(71,756)	5,198	67,882	(171,701)	(103,819)
Minority interest in net earnings of subsidiaries	—	544	—	544	—	544
Net income (loss)	$ 232,010	$(123,968)	$ 8,940	$ 116,982	$(275,523)	$ (158,541)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended June 30, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$ 524,022	$ —	$ —	$ 524,022	$ (26,424)	$ 497,598
FFELP Consolidation Loans	907,669	—	—	907,669	(138,005)	769,664
Private Education Loans	665,452	—	—	665,452	(256,129)	409,323
Other loans	21,355	—	—	21,355	—	21,355
Cash and investments	80,445	—	4,902	85,347	(14,826)	70,521
Total interest income	2,198,943	—	4,902	2,203,845	(435,384)	1,768,461
Total interest expense	1,604,872	6,933	5,074	1,616,879	(250,961)	1,365,918
Net interest income (loss)	594,071	(6,933)	(172)	586,966	(184,423)	402,543
Less: provisions for loan losses	192,181	—	—	192,181	(49,166)	143,015
Net interest income (loss) after provisions for loan losses	401,890	(6,933)	(172)	394,785	(135,257)	259,528
Contingency fee revenue	—	83,790	—	83,790	—	83,790
Collections revenue	—	27,517	—	27,517	(1,152)	26,365
Guarantor servicing fees	—	—	23,663	23,663	—	23,663
Other income	61,898	—	45,587	107,485	321,333	428,818
Total other income	61,898	111,307	69,250	242,455	320,181	562,636
Restructuring expenses	30,947	5,174	10,619	46,740	—	46,740
Operating expenses	154,505	110,340	73,871	338,716	14,972	353,688
Total expenses	185,452	115,514	84,490	385,456	14,972	400,428
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	278,336	(11,140)	(15,412)	251,784	169,952	421,736
Income tax expense (benefit)[1]	102,917	(4,050)	(5,651)	93,216	59,858	153,074
Minority interest in net earnings of subsidiaries	—	2,926	—	2,926	—	2,926
Net income (loss)	$ 175,419	$ (10,016)	$ (9,761)	$ 155,642	$ 110,094	$ 265,736

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended September 30, 2007					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$ 729,255	$ —	$ —	$ 729,255	$(183,637)	$ 545,618
FFELP Consolidation Loans	1,445,108	—	—	1,445,108	(299,635)	1,145,473
Private Education Loans	753,295	—	—	753,295	(360,558)	392,737
Other loans	25,990	—	—	25,990	—	25,990
Cash and investments	250,463	—	6,039	256,502	(45,199)	211,303
Total interest income	3,204,111	—	6,039	3,210,150	(889,029)	2,321,121
Total interest expense	2,533,909	6,632	5,282	2,545,823	(666,012)	1,879,811
Net interest income (loss)	670,202	(6,632)	757	664,327	(223,017)	441,310
Less: provisions for loan losses	199,591	—	—	199,591	(56,991)	142,600
Net interest income (loss) after provisions for loan losses	470,611	(6,632)	757	464,736	(166,026)	298,710
Contingency fee revenue	—	76,306	—	76,306	—	76,306
Collections revenue	—	52,534	—	52,534	254	52,788
Guarantor servicing fees	—	—	45,935	45,935	—	45,935
Other income (loss)	45,745	—	62,843	108,588	(485,662)	(377,074)
Total other income (loss)	45,745	128,840	108,778	283,363	(485,408)	(202,045)
Restructuring expenses	—	—	—	—	—	—
Operating expenses	163,855	94,625	78,882	337,362	18,537	355,899
Total expenses	163,855	94,625	78,882	337,362	18,537	355,899
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	352,501	27,583	30,653	410,737	(669,971)	(259,234)
Income tax expense[1]	130,425	10,206	11,342	151,973	(67,524)	84,449
Minority interest in net earnings of subsidiaries	—	77	—	77	—	77
Net income (loss)	$ 222,076	$ 17,300	$ 19,311	$ 258,687	$(602,447)	$ (343,760)

[1] Income taxes are based on a percentage of net income before tax for the individual reportable segment.

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Nine months ended September 30, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$1,630,190	$ —	$ —	$1,630,190	$ (152,000)	$1,478,190
FFELP Consolidation Loans	2,891,257	—	—	2,891,257	(454,371)	2,436,886
Private Education Loans	2,093,066	—	—	2,093,066	(794,649)	1,298,417
Other loans	64,573	—	—	64,573	—	64,573
Cash and investments	284,078	—	17,998	302,076	(50,585)	251,491
Total interest income	6,963,164	—	17,998	6,981,162	(1,451,605)	5,529,557
Total interest expense	5,080,414	19,757	14,748	5,114,919	(739,023)	4,375,896
Net interest income (loss)	1,882,750	(19,757)	3,250	1,866,243	(712,582)	1,153,661
Less: provisions for loan losses	636,521	—	—	636,521	(169,286)	467,235
Net interest income (loss) after provisions for loan losses	1,246,229	(19,757)	3,250	1,229,722	(543,296)	686,426
Contingency fee revenue	—	258,514	—	258,514	—	258,514
Collections revenue (loss)	—	(84,811)	—	(84,811)	(2,277)	(87,088)
Guarantor servicing fees	—	—	95,164	95,164	—	95,164
Other income	161,558	—	146,889	308,447	(113,486)	194,961
Total other income	161,558	173,703	242,053	577,314	(115,763)	461,551
Restructuring expenses	46,261	9,785	21,880	77,926	—	77,926
Operating expenses	459,938	322,230	212,687	994,855	81,633	1,076,488
Total expenses	506,199	332,015	234,567	1,072,781	81,633	1,154,414
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	901,588	(178,069)	10,736	734,255	(740,692)	(6,437)
Income tax expense (benefit)[1]	331,424	(65,458)	3,946	269,912	(283,145)	(13,233)
Minority interest in net earnings of subsidiaries	—	3,405	—	3,405	—	3,405
Net income (loss)	$ 570,164	$(116,016)	$ 6,790	$ 460,938	$ (457,547)	$ 3,391

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

	Nine months ended September 30, 2007					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$2,143,232	$ —	$ —	$2,143,232	$ (635,552)	$1,507,680
FFELP Consolidation Loans	4,167,358	—	—	4,167,358	(919,785)	3,247,573
Private Education Loans	2,103,378	—	—	2,103,378	(1,042,869)	1,060,509
Other loans	80,416	—	—	80,416	—	80,416
Cash and investments	594,784	—	15,371	610,155	(143,424)	466,731
Total interest income	9,089,168	—	15,371	9,104,539	(2,741,630)	6,362,909
Total interest expense	7,125,486	19,931	16,275	7,161,692	(2,052,562)	5,109,130
Net interest income (loss)	1,963,682	(19,931)	(904)	1,942,847	(689,068)	1,253,779
Less: provisions for loan losses	644,502	—	606	645,108	(203,978)	441,130
Net interest income (loss) after provisions for loan losses	1,319,180	(19,931)	(1,510)	1,297,739	(485,090)	812,649
Contingency fee revenue	—	243,865	—	243,865	—	243,865
Collections revenue	—	195,268	—	195,268	174	195,442
Guarantor servicing fees	—	—	115,449	115,449	—	115,449
Other income	149,621	—	162,301	311,922	671,375	983,297
Total other income	149,621	439,133	277,750	866,504	671,549	1,538,053
Restructuring expenses	—	—	—	—	—	—
Operating expenses	517,068	284,180	250,819	1,052,067	58,806	1,110,873
Total expenses	517,068	284,180	250,819	1,052,067	58,806	1,110,873
Income before income taxes and minority interest in net earnings of subsidiaries	951,733	135,022	25,421	1,112,176	127,653	1,239,829
Income tax expense[(1)]	352,141	49,958	9,406	411,505	87,682	499,187
Minority interest in net earnings of subsidiaries	—	1,778	—	1,778	—	1,778
Net income	$ 599,592	$ 83,286	$ 16,015	$ 698,893	$ 39,971	$ 738,864

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

SLM CORPORATION

Reconciliation of "Core Earnings" Net Income to GAAP Net Income

(In thousands, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
"Core Earnings" net income[(A)]	$ 116,982	$ 155,642	$ 258,687	$ 460,938	$ 698,893
"Core Earnings" adjustments:					
Net impact of securitization accounting	(148,121)	(246,506)	(157,050)	(473,773)	249,364
Net impact of derivative accounting	(205,991)	450,609	(453,949)	(118,750)	55,891
Net impact of Floor Income	(42,721)	(18,809)	(40,390)	(67,107)	(118,657)
Net impact of acquired intangibles	(50,391)	(15,342)	(18,582)	(81,062)	(58,945)
Total "Core Earnings" adjustments before income taxes and minority interest in net earnings of subsidiaries	(447,224)	169,952	(669,971)	(740,692)	127,653
Net tax effect[(B)]	171,701	(59,858)	67,524	283,145	(87,682)
Total "Core Earnings" adjustments	(275,523)	110,094	(602,447)	(457,547)	39,971
GAAP net income (loss)	$(158,541)	$ 265,736	$(343,760)	$ 3,391	$ 738,864
GAAP diluted earnings (loss) per common share	$ (.40)	$ .50	$ (.85)	$ (.17)	$ 1.69

(A) "Core Earnings" diluted earnings per common share	$ .19	$ .27	$ .59	$ .81	$ 1.58

(B) Such tax effect is based upon the Company's "Core Earnings" effective tax rate. For the quarter and nine months ended September 30, 2007, the "Core Earnings" effective tax rate is different than GAAP primarily from the exclusion of the permanent income tax impact of the equity forward contracts. The Company settled all of its equity forward contracts in January 2008.

"Core Earnings"

In accordance with the Rules and Regulations of the Securities and Exchange Commission ("SEC"), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America ("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 Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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 and lenders. 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 and lenders 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 SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on derivatives that do not qualify for "hedge 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, changing credit spreads and changes in our stock price 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 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 loan portfolio, a limitation of this presentation is that we present the ongoing spread income on loans that have been sold to a trust we manage. While we believe that our "Core Earnings" presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our "Core Earnings" results exclude certain Floor Income, which is 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 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, tracking results, and establishing corporate performance targets. 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, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under "Core Earnings" for the Lending operating segment, we present 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 "servicing and securitization revenue" presented in accordance with GAAP, are excluded from "Core Earnings" and are replaced by interest income, provisions for loan losses, and interest expense as

earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from "Core Earnings" as they are considered intercompany transactions on a "Core Earnings" basis.

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts for the year-ago quarters. 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. "Core Earnings" also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked to market through earnings. The Company settled all of its equity forward contracts in January 2008.

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 exclude such income from "Core Earnings" when it is not 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, 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 the amortization of net premiums received in income.

4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles.

SLM CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION RELEASE
THIRD QUARTER 2008
(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 2008 earnings, dated October 22, 2008.

The Supplemental Financial Information Release contains forward-looking statements and information based on management's current expectations as of the date of the Release. 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, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due February 2009, (collectively, the "2008 Asset-Backed Financing Facilities"), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited 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; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and regulations and from the implementation of applicable laws and regulations) which, among other things, may reduce the volume, average term and yields on student loans under the Federal Family Education Loan Program ("FFELP"), may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could also be affected by: the implementation of the Emergency Economic Stabilization Act of 2008, changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment and in the securitization markets for education loans, 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 and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in the Release are qualified by these cautionary statements and are made only as of the date this Release is filed. 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 2007 Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 29, 2008.

Certain reclassifications have been made to the balances as of and for the quarters ended September 30, 2007, to be consistent with classifications adopted for the quarter ended September 30, 2008.

DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

Three Months Ended September 30, 2008 Compared to Three Months Ended June 30, 2008

For the three months ended September 30, 2008, the Company's net loss was $159 million or $.40 diluted loss per share, compared to net income of $266 million, or $.50 diluted earnings per share, for the three months ended June 30, 2008. The effective tax rate for those periods was 40 percent and 36 percent, respectively. Pre-tax income decreased by $684 million from the prior quarter primarily due to $242 million in net losses on derivative and hedging activities versus $362 million net gains on derivative and hedging activities in the prior quarter. The $604 million decrease in net gains (losses) on derivative and hedging activities from the prior quarter was primarily due to changes in interest rates. In the second quarter, the Company experienced a $569 million unrealized gain on Floor Income Contracts as a result of a significant increase in interest rates; in the third quarter, interest rates were relatively unchanged.

There were no gains on student loan securitizations in either the second or third quarters of 2008 as the Company did not complete any off-balance sheet securitizations. The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115," on January 1, 2008, and elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," with changes in fair value recorded through other comprehensive income or under SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," with changes in fair value recorded through income. The Company reclassified the related accumulated other comprehensive income of $195 million into retained earnings and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through servicing and securitization income. The Company has not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue increased by $63 million from $2 million in the second quarter of 2008 to $65 million in the third quarter of 2008. This increase was primarily due to a current-quarter $81 million unrealized mark-to-market loss on the Company's Residual Interests recorded under SFAS No. 159 compared to a prior-quarter $192 million unrealized mark-to-market loss on the Company's Residual Interests recorded under SFAS No. 159. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting this mark-to-market.

Net interest income after provisions for loan losses increased by $28 million in the third quarter of 2008 over the second quarter. This increase was due to a $72 million increase in net interest income, offset by a $44 million increase in provisions for loan losses. The increase in net interest income was primarily due to an increase in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The increase in provisions for loan losses relates primarily to increases in delinquencies on both FFELP loans and Private Education Loans (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*") primarily as a result of the continued weakening of the U.S. economy.

In the third quarter of 2008, fee and other income and collections revenue totaled $49 million, a $194 million decrease from $243 million in the prior quarter. This decrease was primarily the result of $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $95 of impairment related to the Company's non-mortgage purchased paper subsidiary (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

The Company is restructuring its business in response to the impact of The College Cost Reduction and Access Act of 2007 ("CCRAA"), and current challenges in the capital markets. As part of the Company's cost reduction efforts, restructuring expenses of $11 million and $47 million were recognized in the current quarter and prior quarter, respectively. The majority of these restructuring expenses were severance costs related to the aggregate of the completed and planned elimination of approximately 2,500 positions, or approximately 23 percent of the workforce. Cumulative restructuring expenses from the fourth quarter of 2007 through the

third quarter of 2008 totaled $100 million. The Company estimates an additional $16 million of restructuring expenses associated with its current cost reduction efforts will be incurred in future periods.

Operating expenses were $367 million in the third quarter of 2008 compared to $348 million in the second quarter of 2008, excluding $6 million of reorganization-related asset impairments recognized in the second quarter of 2008. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company has decided to wind down its purchased paper businesses. This decision resulted in a $36 million impairment of intangible assets in the third quarter of 2008. The offsetting $17 million decrease in operating expenses was primarily due to the Company's cost reduction efforts discussed above.

Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007

For the three months ended September 30, 2008, the Company's net loss was $159 million or $.40 diluted loss per share, compared to a net loss of $344 million, or $.85 diluted loss per share, for the three months ended September 30, 2007. The effective tax rate for those periods was 40 percent and (33) percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under SFAS No. 133 in 2007. The Company settled all of its outstanding equity forward contracts in January 2008. For the three months ended September 30, 2008, the Company's pre-tax loss was $262 million compared to a pre-tax loss of $259 million in the year-ago quarter. The increase in pre-tax loss of $3 million was primarily due to current-quarter impairment charges of $242 million related to the Company's purchased paper businesses discussed below (see also "ASSET PERFORMANCE GROUP BUSINESS SEGMENT"), offset by a decrease in net losses on derivative and hedging activities from $487 million in the year-ago quarter to $242 million in the third quarter of 2008, which was primarily a result of the mark-to-market on the equity forwards.

There were no gains on student loan securitizations in either the third quarter of 2008 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue increased by $36 million from $29 million in the third quarter of 2007 to $65 million in the third quarter of 2008. This increase was primarily due to a current-quarter $81 million unrealized mark-to-market loss recorded under SFAS No. 159 compared to a year-ago quarter $152 million unrealized mark-to-market loss, which included $90 million of impairment and a $62 million unrealized mark-to-market loss recorded under SFAS No. 155. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $11 million in the third quarter from the year-ago quarter. This decrease was due to a $44 million increase in provisions for loan losses, offset by a $33 million increase in net interest income. The increase in net interest income was primarily due to an increase in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*") and a $24 billion increase in the average balance of on-balance sheet student loans, partially offset by an increase in the 2008 Asset-Backed Financing Facilities Fees. The increase in provisions for loan losses relates primarily to increases in delinquencies on both FFELP loans and Private Education Loans (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*") primarily as a result of the continued weakening of the U.S. economy.

In the third quarter of 2008, fee and other income and collections revenue totaled $49 million, a $233 million decrease from $282 million in the year-ago quarter. This decrease was primarily the result of $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $95 of impairment related to the Company's non-mortgage purchased paper subsidiary recorded in the third quarter of 2008 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Restructuring expenses of $11 million were recognized in the third quarter of 2008, as previously discussed, with no such expenses recognized in the year-ago quarter.

Operating expenses were $367 million in the third quarter of 2008 compared to $356 million in the third quarter of 2007. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company has decided to wind down its purchased paper businesses. This decision resulted in a $36 million impairment of intangible assets in the third quarter of 2008. The offsetting $25 million decrease in operating expenses included a $4 million reduction in Merger-related professional fees, with the remaining $21 million reduction primarily related to the Company's cost reduction efforts discussed above.

Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007

For the nine months ended September 30, 2008, the Company's net income was $3 million or $.17 diluted loss per share, compared to net income of $739 million, or $1.69 diluted earnings per share, for the nine months ended September 30, 2007. The effective tax rate for those periods was 206 percent and 40 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of permanent tax item differences on lower financial accounting income in the nine months ended September 30, 2008 versus the nine months ended September 30, 2007. Pre-tax income decreased by $1.2 billion versus the year-ago period primarily due to an increase in net losses on derivative and hedging activities from $23 million in the nine months ended September 30, 2007 to $153 million in the nine months ended September 30, 2008, a decrease in servicing and securitization revenue and gains on student loan securitizations, and current-quarter impairment charges of $242 million related to the Company's purchased paper businesses discussed below (see also "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

There were no gains on student loan securitizations in the nine months ended September 30, 2008 compared to gains of $367 million in the year-ago period. The Company did not complete any off-balance sheet securitizations in the nine months ended September 30, 2008, versus one Private Education Loan securitization in the year-ago period. Servicing and securitization revenue decreased by $240 million from $414 million in the nine months ended 2007 to $174 million in the current period. This decrease was primarily due to a $361 million unrealized mark-to-market loss recorded under SFAS No. 159 in the nine months ended September 30, 2008 compared to a $142 million unrealized mark-to-market loss in the nine months ended September 30, 2007, which included both impairment and an unrealized mark-to-market gain recorded under SFAS No. 155. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $126 million in the nine months ended September 30, 2008 from the year-ago period. This decrease was due to a $100 million decrease in net interest income and a $26 million increase in provisions for loan losses. The decrease in net interest income was primarily due to a decrease in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*") and an increase in the 2008 Asset-Backed Facilities Financing Fees.

For the nine months ended September 30, 2008, fee and other income and collections revenue totaled $562 million, a $285 million decrease from $847 million in the year-ago period. This decrease was primarily the result of $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $95 million of impairment related to the Company's non-mortgage purchased paper subsidiary recorded in the third quarter of 2008 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Restructuring expenses of $78 million were recognized in the nine months ended September 30, 2008, as previously discussed, with no such expenses recognized in the year-ago period.

Operating expenses totaled $1.1 billion in each of the nine month periods ended September 30, 2008 and September 30, 2007. Excluding non-recurring items related to intangible and other reorganization-related asset impairments recognized in the nine months ended September 30, 2008 and Merger-related professional fees and intangible impairments recognized in the nine months ended September 30, 2007, operating expenses decreased $28 million over the year-ago period primarily due to the Company's cost reduction efforts discussed above.

Other Income

The following table summarizes the components of "Other income" in the consolidated statements of income for the quarters ended September 30, 2008, June 30, 2008 and September 30, 2007 and for the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Late fees and forbearance fees	$36	$ 34	$ 34	$107	$102
Asset servicing and other transaction fees	28	26	28	80	78
Loan servicing fees	6	6	7	19	20
Gains on sales of mortgages and other loan fees	1	1	2	2	10
Other	23	42	36	87	82
Total other income	$94	$109	$107	$295	$292

The decrease in other income for the three months ended September 30, 2008 compared to the prior quarter was primarily due to the Company repurchasing less of its unsecured debt with short-term maturities in the third quarter of 2008 compared to the second quarter of 2008, which resulted in fewer recognized gains in the current quarter. Also contributing to the decrease in other income was a currency translation loss recorded in connection with the Company's international non-mortgage purchased paper business as a result of the U.S. dollar strengthening during the quarter. The Company hedges this exposure with derivatives. An offsetting gain was recognized during the quarter in the "gains (losses) on derivative and hedging activities, net" line of the income statement. See "ASSET PERFORMANCE GROUP BUSINESS SEGMENT" for discussion regarding the expected sale of this business.

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, 2008, June 30, 2008, and September 30, 2007, and for the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
(in thousands)	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Reported net income (loss)	$(158,541)	$265,736	$(343,760)	$ 3,391	$738,864
Preferred stock dividends	(27,474)	(27,391)	(9,274)	(83,890)	(27,523)
Reported net income (loss) attributable to common stock	(186,015)	238,345	(353,034)	(80,499)	711,341
Expense items disclosed separately (tax-effected):					
Merger-related financing fees[1]	—	—	10,791	—	19,630
Merger-related professional fees and other costs	—	—	2,580	—	26,170
Restructuring expenses	6,620	29,446	—	49,093	—
Other reorganization-related asset impairments	226	3,779	—	4,005	—
Impact to FFELP provision for loan losses due to legislative changes	—	—	18,748	—	18,748
De-acceleration of premium amortization expense on loans[2]	(56,868)	—	—	(56,868)	—
Acceleration of premium amortization expense on loans[3]	—	—	—	34,142	—
Total expense items disclosed separately (tax-effected)	(50,022)	33,225	32,119	30,372	64,548
Net income (loss) attributable to common stock excluding the impact of items disclosed separately	(236,037)	271,570	(320,915)	(50,127)	775,889
Adjusted for dividends of convertible preferred stock series C[4]	—	20,844	—	—	—
Net income (loss) attributable to common stock excluding the impact of items disclosed separately, adjusted	$(236,037)	$292,414	$(320,915)	$ (50,127)	$775,889
Average common and common equivalent shares outstanding[5]	466,646	517,954	412,944	466,625	420,305

(1) Merger-related financing fees are the commitment and liquidity fees related to the financing facility in connection with the Merger Agreement, now terminated.

(2) The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation loans, as a result of a significant decrease in prepayment activity experienced in the third quarter of 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. The adjustment in the table above is primarily related to this change.

(3) The Company's decision to cease consolidating FFELP Stafford loans and Consolidation Loans for the foreseeable future (considering the CCRAA's impact on the economics of a Consolidation Loan as well as the Company's increased cost of funds given the current credit market environment) resulted in a one-time, cumulative catch-up adjustment in premium amortization expense, due to shortening the assumed average lives of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average life of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

(4) There was no impact on diluted earnings (loss) per common share for the current quarter and the nine months ended September 30, 2008, because the effect of the assumed conversion was anti-dilutive. The convertible preferred stock series C was issued in the fourth quarter of 2007.

(5) Common equivalent shares outstanding were anti-dilutive for the quarter and nine months ended September 30, 2008.

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, 2008, June 30, 2008, and September 30, 2007 and for the nine months ended September 30, 2008 and 2007.

(in thousands)	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
"Core Earnings" net income	$116,982	$155,642	$258,687	$460,938	$698,893
Preferred stock dividends	(27,474)	(27,391)	(9,274)	(83,890)	(27,523)
"Core Earnings" net income attributable to common stock	89,508	128,251	249,413	377,048	671,370
Expense items disclosed separately (tax-effected):					
Merger-related financing fees[1]	—	—	10,791	—	19,630
Merger-related professional fees and other costs	—	—	2,580	—	26,170
Restructuring expenses	6,620	29,446	—	49,093	—
Other reorganization-related asset impairments	226	3,779	—	4,005	—
Impact to FFELP provision for loan losses due to legislative changes	—	—	27,726	—	27,726
De-acceleration of premium amortization expense on loans[2]	(74,138)	—	—	(74,138)	—
Acceleration of premium amortization expense on loans[3]	—	—	—	51,777	—
Total expense items disclosed separately (tax-effected)	(67,292)	33,225	41,097	30,737	73,526
Net income attributable to common stock excluding the impact of items disclosed separately	22,216	161,476	290,510	407,785	744,896
Adjusted for debt expense of contingently convertible debt instruments, net of tax[4]	—	—	4,662	—	—
Net income attributable to common stock excluding the impact of items disclosed separately, adjusted	$ 22,216	$161,476	$295,172	$407,785	$744,896
Average common and common equivalent shares outstanding	467,178	467,385	431,750	467,270	424,771

(1) Merger-related financing fees are the commitment and liquidity fees related to the financing facility in connection with the Merger Agreement, now terminated.

(2) The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation loans, as a result of a significant decrease in prepayment activity experienced in the third quarter of 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. The adjustment in the table above is primarily related to this change.

(3) The Company's decision to cease consolidating FFELP Stafford loans and Consolidation Loans for the foreseeable future (considering the CCRAA's impact on the economics of a Consolidation Loan as well as the Company's increased cost of funds given the current credit market environment) resulted in a one-time, cumulative catch-up adjustment in premium amortization expense, due to shortening the assumed average lives of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average life of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

(4) There was no impact on diluted earnings per common share for the nine months ended September 30, 2007, because the effect of the assumed conversion was anti-dilutive. The Co-Cos were called at par on July 25, 2007.

BUSINESS SEGMENTS

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

The Lending business segment section includes all 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 the fees earned and expenses incurred in providing accounts receivable management and collection services. Our Corporate and Other business segment includes our remaining fee businesses and other corporate expenses that do not pertain directly to the primary segments identified above.

As previously discussed, on January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." The fair value adjustments of the items impacted by SFAS No. 157 and SFAS No. 159 under GAAP are not included in "Core Earnings" net income and therefore the adoption of SFAS No. 157 and SFAS No. 159 did not impact the "Core Earnings" presentation for the three or nine months ended September 30, 2008.

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, tracking results, and establishing corporate performance targets. 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, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under "Core Earnings" for the Lending operating segment, we present 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 "servicing and securitization revenue" presented in accordance with GAAP, are excluded from "Core Earnings" and are replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from "Core Earnings" as they are considered intercompany transactions on a "Core Earnings" basis.

The following table summarizes "Core Earnings" securitization adjustments for the Lending operating segment for the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007 and for the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
"Core Earnings" securitization adjustments:					
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$(245)	$(256)	$(215)	$(694)	$(649)
Provisions for loan losses	76	49	57	169	204
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(169)	(207)	(158)	(525)	(445)
Intercompany transactions with off-balance sheet trusts	(44)	(42)	(28)	(123)	(87)
Net interest income on securitized loans, after provisions for loan losses	(213)	(249)	(186)	(648)	(532)
Gains on student loan securitizations	—	—	—	—	367
Servicing and securitization revenue	65	2	29	174	414
Total "Core Earnings" securitization adjustments[1]	$(148)	$(247)	$(157)	$(474)	$ 249

(1) 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.

"Intercompany transactions with off-balance sheet trusts" in the above table relate primarily to losses incurred through the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005, become 180 days delinquent, we have typically exercised our contingent call option to repurchase these loans at par value out of the trust and record a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold the contingent call option for any trusts settled after September 30, 2005.

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts in the year-ago quarters. 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. "Core Earnings" also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, 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, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for "hedge treatment" as defined by SFAS No. 133, 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. The 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, changing credit spreads and changes in our stock price during the period as well as the volume and term of derivatives not receiving hedge treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the paydown 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. Under SFAS No. 133, 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, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. 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 SFAS No. 133, 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. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge 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 most of our FFELP student loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

Under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," equity forward contracts that allow a net settlement option either in cash or the Company's stock are required to be accounted for as derivatives in accordance with SFAS No. 133. As a result, we account for our equity forward contracts as derivatives in accordance with SFAS No. 133 and mark them to market through earnings. They do not qualify as effective SFAS No. 133 hedges, as a requirement to achieve hedge accounting is the hedged item must impact net income and the settlement of these contracts through the purchase of our own stock does not impact net income. The Company settled all of its equity forward contracts in January 2008.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on net income for the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007, and for the nine months ended September 30, 2008 and 2007, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Quarters ended			Nine months ended	
	September 30, 2008	**June 30, 2008**	**September 30, 2007**	**September 30, 2008**	**September 30, 2007**
"Core Earnings" derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$(242)	$362	$(487)	$(153)	$(23)
Less: Realized (gains) losses on derivative and hedging activities, net[1]	41	90	33	39	79
Unrealized gains (losses) on derivative and hedging activities, net	(201)	452	(454)	(114)	56
Other pre-SFAS No. 133 accounting adjustments	(5)	(1)	—	(5)	—
Total net impact of SFAS No. 133 derivative accounting[2]	$(206)	$451	$(454)	$(119)	$ 56

(1) 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.

(2) 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

SFAS No. 133 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 SFAS No. 133 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, 2008, June 30, 2008, and September 30, 2007 and the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (75)	$(175)	$ (14)	$(390)	$(31)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	22	86	(19)	339	(48)
Foreign exchange derivatives gains/(losses) reclassified to other income	12	(5)	—	8	—
Net realized gains (losses) on terminated derivative contracts reclassified to other income	—	4	—	4	—
Total reclassifications of realized (gains) losses on derivative and hedging activities	(41)	(90)	(33)	(39)	(79)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(201)	452	(454)	(114)	56
Gains (losses) on derivative and hedging activities, net	$(242)	$ 362	$(487)	$(153)	$(23)

(1) "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, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Floor Income Contracts	$ (33)	$ 569	$(149)	$ 241	$ (63)
Equity forward contracts	—	—	(458)	—	(74)
Basis swaps	(210)	(157)	132	(499)	154
Other	42	40	21	144	39
Total unrealized gains (losses) on derivative and hedging activities, net	$(201)	$ 452	$(454)	$(114)	$ 56

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on equity forward contracts fluctuate with changes in the Company's stock price. 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.

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 exclude such income from "Core Earnings" when it is not 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 the amortization of net premiums received in income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007 and for the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
"Core Earnings" Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 1	$ 25	$ —	$ 60	$ —
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(44)	(44)	(40)	(127)	(119)
Total "Core Earnings" Floor Income adjustments[1]	$(43)	$(19)	$(40)	$ (67)	$(119)

[1] 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.

4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles. For the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007, goodwill and intangible impairment and the amortization of acquired intangibles totaled $50 million, $15 million and $19 million, respectively, and for the nine months ended September 30, 2008 and 2007, totaled $81 million and $59 million, respectively. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company has decided to wind down its purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets in the quarter ended September 30, 2008.

LENDING BUSINESS SEGMENT

In our Lending business segment, we originate and acquire federally guaranteed student loans and Private Education Loans, which are not federally guaranteed. Typically a Private Education Loan is made in conjunction with a FFELP Stafford loan and as a result is marketed through the same marketing channels as FFELP Stafford loans. While FFELP loans and Private Education Loans have different overall risk profiles due to the federal guarantee of the FFELP loans, they share many of the same characteristics such as similar repayment terms, the same marketing channel and sales force, and are originated and serviced on the same servicing platform. Finally, where possible, the borrower receives a single bill for both FFELP and Private Education Loans.

As a result of the significant changes brought about by the legislative changes in the CCRAA, along with the impact of the credit environment, the student loan marketplace is undergoing significant change. As a result of these changes, over 160 lenders announced their withdrawal from the federal student loan marketplace. In addition, substantially all other lenders have altered their student loan offerings including the elimination of certain borrower benefits and the elimination of premiums paid on secondary market loan purchases. Finally, many FFELP lenders, excluding the Company, have made other significant changes which will dramatically reduce the loan volume they will originate this academic year. These conditions have also led a number of schools to switch to the FDLP.

As a result of CCRAA, it is no longer economical to purchase loans at historical premiums from our preferred channel clients. Therefore, some clients decided to continue to sell loans to us at significantly lower premiums, some became third-party serviced clients, and others decided to exit the business. Given current market conditions, we expect that the loan volume impacted by lender decisions to exit the business will be (1) originated through our internal brands; (2) absorbed by other lenders or (3) transferred to the FDLP.

Congress passed the Ensuring Continued Access to Student Loans Act of 2008 (the "Act") which extended incentives to lenders to continue FFELP lending for the next academic year. See "LIQUIDITY AND CAPITAL RESOURCES — ED's Loan Purchase Commitment and Loan Participation and Purchase Programs," for a discussion of the ED programs pursuant to this Act. These programs allowed the Company to continue lending FFELP loans during this current funding and credit environment.

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

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
"Core Earnings" interest income:					
FFELP Stafford and Other Student Loans	$ 612	$ 524	$ 729	$1,630	$2,143
FFELP Consolidation Loans	995	908	1,445	2,891	4,167
Private Education Loans	678	665	753	2,093	2,104
Other loans	20	21	26	65	80
Cash and investments	62	81	251	284	595
Total "Core Earnings" interest income	2,367	2,199	3,204	6,963	9,089
Total "Core Earnings" interest expense	1,651	1,605	2,534	5,080	7,125
Net "Core Earnings" interest income	716	594	670	1,883	1,964
Less: provisions for loan losses	263	192	200	636	644
Net "Core Earnings" interest income after provisions for loan losses	453	402	470	1,247	1,320
Other income	55	62	46	161	150
Restructuring expenses	—	31	—	46	—
Operating expenses	142	155	164	460	517
Total expenses	142	186	164	506	517
Income before income taxes	366	278	352	902	953
Income tax expense	134	103	130	332	352
"Core Earnings" net income	$ 232	$ 175	$ 222	$ 570	$ 601

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.

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, 2008, June 30, 2008, and September 30, 2007 and for the nine months ended September 30, 2008 and 2007. This table reflects the net interest margin for all on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Quarters ended					
	September 30, 2008		June 30, 2008		September 30, 2007	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	$ 45,804	4.48%	$ 41,666	4.80%	$ 32,576	6.64%
FFELP Consolidation Loans	72,926	4.53	73,509	4.21	69,289	6.56
Private Education Loans	19,876	8.92	18,573	8.86	12,706	12.26
Other loans	859	9.21	1,018	8.43	1,192	8.65
Cash and investments	7,964	2.85	9,076	3.13	14,625	5.73
Total interest-earning assets	147,429	5.04%	143,842	4.94%	130,388	7.06%
Non-interest-earning assets	10,035		10,391		9,928	
Total assets	$157,464		$154,233		$140,316	
Average Liabilities and Stockholders' Equity						
ED Participation Program facility	$ 960	3.38%	$ —	—%	$ —	—%
Bank deposits	703	3.83	683	4.11	165	5.27
Other short-term borrowings	32,387	5.00	34,811	4.86	20,887	6.06
Total short-term borrowings	34,050	4.93	35,494	4.85	21,052	6.06
Long-term borrowings	114,046	3.39	109,351	3.45	109,887	5.63
Total interest-bearing liabilities	148,096	3.75%	144,845	3.79%	130,939	5.70%
Non-interest-bearing liabilities	3,821		3,895		4,315	
Stockholders' equity	5,547		5,493		5,062	
Total liabilities and stockholders' equity	$157,464		$154,233		$140,316	
Net interest margin		1.28%		1.13%		1.34%

	Nine months ended			
	September 30, 2008		September 30, 2007	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	$ 41,954	4.71%	$ 30,106	6.70%
FFELP Consolidation Loans	73,410	4.43	66,590	6.52
Private Education Loans	18,551	9.35	11,664	12.16
Other loans	1,023	8.43	1,272	8.46
Cash and investments	9,762	3.44	10,861	5.75
Total interest-earning assets	144,700	5.10%	120,493	7.06%
Non-interest-earning assets	9,991		9,612	
Total assets	$154,691		$130,105	
Average Liabilities and Stockholders' Equity				
ED Participation Program facility	$ 322	3.38%	$ —	—%
Bank deposits	616	4.13	171	5.30
Other short-term borrowings	34,231	4.87	9,723	6.18
Total short-term borrowings	35,169	4.85	9,894	6.16
Long-term borrowings	110,368	3.75	111,082	5.60
Total interest-bearing liabilities	145,537	4.02%	120,976	5.65%
Non-interest-bearing liabilities	3,726		4,301	
Stockholders' equity	5,428		4,828	
Total liabilities and stockholders' equity	$154,691		$130,105	
Net interest margin		1.06%		1.39%

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, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Student loan spread[(1)(2)]	1.71%	1.52%	1.53%	1.41%	1.54%
Other asset spread[(1)(3)]	.06	.28	—	.12	.04
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[(1)]	1.61	1.44	1.34	1.32	1.39
Less: 2008 Asset-Backed Financing Facilities fees	(.33)	(.31)	—	(.25)	—
Net interest margin	1.28%	1.13%	1.34%	1.06%	1.39%

(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" for a further discussion).

(2) Composition of student loan spread

	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Student loan yield, before Floor Income	5.57%	5.54%	8.08%	5.74%	8.08%
Gross Floor Income	.16	.40	.04	.31	.03
Consolidation Loan Rebate Fees	(.54)	(.57)	(.62)	(.57)	(.64)
Repayment Borrower Benefits	(.12)	(.12)	(.11)	(.12)	(.12)
Premium and discount amortization	.07	(.21)	(.17)	(.16)	(.18)
Student loan net yield	5.14	5.04	7.22	5.20	7.17
Student loan cost of funds	(3.43)	(3.52)	(5.69)	(3.79)	(5.63)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.71%	1.52%	1.53%	1.41%	1.54%

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

Student Loan Spread — On-Balance Sheet

The student loan spread is impacted 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 impacted by interest rates and the percentage of the FFELP portfolio eligible to earn Floor 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 impacted 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 impacted by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 19 basis points and 18 basis points from the prior quarter and year-ago quarter, respectively. The increase from the prior quarter was primarily due to a decrease in premium amortization (see *"'Core Earnings' Basis Student Loan Spread"* below for a further discussion of premium amortization impact) and a decrease in our cost of funds. 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 SFAS No. 133. We extensively use basis swaps to manage our 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 and therefore, in times of volatile movements of interest rates like those experienced in 2008, the student loan spread can significantly change. See *"'Core Earnings' Net Interest Margin"* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps. Partially offsetting these increases to the student loan spread was a reduction in Gross Floor Income primarily due to the annual interest rate reset of FFELP loans, which occurred on July 1, 2008.

The increase in the student loan spread from the year-ago quarter was primarily due to a decrease in premium amortization, and an increase in Gross Floor Income which was partially offset by an increase in the cost of funds.

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 in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the third quarter of 2008 decreased 22 basis points from the prior quarter and increased 6 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 under SFAS No. 133 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 2008 increased 17 basis points from the prior quarter. This increase primarily related to the previous discussions of 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 two periods. Net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 27 basis points from the year-ago quarter. The increase in the student loan portfolio as a percentage of the overall interest-earning asset portfolio resulted in an increase to net interest margin of 5 basis points due to the student loan portfolio earning a higher spread than the other asset portfolio. An additional 22 basis point increase relates primarily to the previous discussions of changes in the on-balance sheet student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

"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. 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 SFAS No. 133 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 earned on the Managed student loan portfolio; and
- includes the amortization of upfront payments on 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, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
"Core Earnings" basis student loan spread[1]:					
FFELP loan spread	1.13%	.87%	.93%	.87%	.99%
Private Education Loan spread[2]	5.20	5.08	5.39	5.22	5.30
Total "Core Earnings" basis student loan spread[3]	1.90	1.65	1.69	1.68	1.71
"Core Earnings" basis other asset spread[1][4]	(.12)	(.25)	(.02)	(.19)	.03
"Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.78	1.52	1.50	1.54	1.55
Less: 2008 Asset-Backed Financing Facilities fees	(.26)	(.24)	—	(.20)	—
"Core Earnings" net interest margin	1.52%	1.28%	1.50%	1.35%	1.55%

(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" 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: 2.76% | 3.02% | 3.25% | 3.02% | 2.31%

(3) Composition of "Core Earnings" basis student loan spread:

"Core Earnings" basis student loan yield	5.72%	5.75%	8.28%	5.94%	8.27%
Consolidation Loan Rebate Fees	(.52)	(.54)	(.57)	(.54)	(.57)
Repayment Borrower Benefits	(.11)	(.12)	(.10)	(.11)	(.11)
Premium and discount amortization	.09	(.18)	(.17)	(.15)	(.17)
"Core Earnings" basis student loan net yield	5.18	4.91	7.44	5.14	7.42
"Core Earnings" basis student loan cost of funds	(3.28)	(3.26)	(5.75)	(3.46)	(5.71)
"Core Earnings" basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.90%	1.65%	1.69%	1.68%	1.71%

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

"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 2008 increased 25 basis points and 21 basis points from the prior quarter and year-ago quarter, respectively. The increase in the "Core Earnings" basis student loan spread from the prior quarter and

year-ago quarter was primarily due to a decrease in premium amortization of 27 basis points and 26 basis points, respectively. The decrease in premium amortization was primarily due to the Company's current-quarter reduction to its prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation loans, as a result of a significant decrease in prepayment activity experienced in the third quarter of 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. Offsetting this increase to student loan spread, the "Core Earnings" basis student loan spread was negatively impacted by an increase in the Company's cost of funds from an increase in the credit spread on the Company's debt during the last year due to the current credit environment.

The "Core Earnings" basis FFELP loan spread for the nine months ended September 30, 2008 declined from the year-ago period primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The significant increase in the "Core Earnings" basis FFELP loan spread in the third quarter of 2008 was also due to the one-time premium amortization adjustment discussed above. The "Core Earnings" basis Private Education Loan spread before provision for loan losses declined from the year-ago periods primarily as a result of the increase in the cost of funds discussed previously. The changes in the "Core Earnings" basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see "Private Education Loan Losses — *Allowance for Private Education Loan Losses*").

"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 in order to manage counterparty credit risk and maintain available cash balances. The "Core Earnings" basis other asset spread for the third quarter of 2008 increased 13 basis points from the prior quarter and decreased 10 basis points from the year-ago quarter. 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 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 26 basis points from the prior quarter. This increase primarily relates to the previous discussions of 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 two periods. "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2008 increased 28 basis points from the year-ago quarter. The increase in the Managed student loan portfolio as a percentage of the overall Managed interest-earning asset portfolio resulted in an increase to "Core Earnings" net interest margin of 9 basis points due to the Managed student loan portfolio earning a higher spread than the Managed other interest-earning asset portfolio. An additional 19 basis point increase relates primarily to the previous discussions of changes in the "Core Earnings" basis student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

All Private Education Loans are initially acquired on-balance sheet. When we securitize Private Education Loans, we no longer legally own the loans and they are accounted for off-balance sheet. For our Managed Basis presentation in the table below, when loans are securitized, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then increase 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 Private Education Loans in our securitized trusts settling before September 30, 2005, become 180 days delinquent, we have typically exercised our contingent call option to repurchase these loans at par value out of the trust and record a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We account for these loans in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." Revenue is recognized over the anticipated remaining life of the loan based upon the amount and timing of anticipated cash flows. In October 2008, as a result of the current funding environment, we have decided we will not exercise this contingent call option for the foreseeable future. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged-off at day 212. We do not hold the contingent call option for any trusts settled after September 30, 2005.

When measured as a percentage of ending loans in repayment, the off-balance sheet allowance for loan losses is lower than the on-balance sheet percentage because of the different mix 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, 2008, June 30, 2008, and September 30, 2007.

	On-Balance Sheet Private Education Loan Delinquencies					
	September 30, 2008		June 30, 2008		September 30, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$11,263		$ 9,662		$ 7,966	
Loans in forbearance[2]	1,085		1,178		701	
Loans in repayment and percentage of each status:						
Loans current	7,902	87.6%	7,720	89.7%	5,186	88.0%
Loans delinquent 31-60 days[3]	393	4.4	326	3.8	275	4.7
Loans delinquent 61-90 days[3]	249	2.8	210	2.4	156	2.6
Loans delinquent greater than 90 days[3]	472	5.2	353	4.1	279	4.7
Total Private Education Loans in repayment	9,016	100%	8,609	100%	5,896	100%
Total Private Education Loans, gross	21,364		19,449		14,563	
Private Education Loan unamortized discount	(514)		(508)		(433)	
Total Private Education Loans	20,850		18,941		14,130	
Private Education Loan allowance for losses	(1,013)		(970)		(454)	
Private Education Loans, net	$19,837		$17,971		$13,676	
Percentage of Private Education Loans in repayment		42.2%		44.3%		40.5%
Delinquencies as a percentage of Private Education Loans in repayment		12.4%		10.3%		12.0%
Loans in forbearance as a percentage of loans in repayment and forbearance		10.7%		12.0%		10.6%

(1) Loans for borrowers who still may 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.

(2) 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 the established loan program servicing policies and procedures.

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

	Off-Balance Sheet Private Education Loan Delinquencies					
	September 30, 2008		June 30, 2008		September 30, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 4,259		$ 4,159		$ 6,126	
Loans in forbearance[2]	1,159		1,339		1,251	
Loans in repayment and percentage of each status:						
Loans current	7,733	93.9%	7,871	95.1%	6,524	94.5%
Loans delinquent 31-60 days[3]	217	2.6	178	2.2	192	2.8
Loans delinquent 61-90 days[3]	103	1.3	102	1.2	71	1.0
Loans delinquent greater than 90 days[3]	177	2.2	124	1.5	116	1.7
Total Private Education Loans in repayment	8,230	100%	8,275	100%	6,903	100%
Total Private Education Loans, gross	13,648		13,773		14,280	
Private Education Loan unamortized discount	(349)		(356)		(338)	
Total Private Education Loans	13,299		13,417		13,942	
Private Education Loan allowance for losses	(336)		(319)		(199)	
Private Education Loans, net	$12,963		$13,098		$13,743	
Percentage of Private Education Loans in repayment		60.3%		60.1%		48.3%
Delinquencies as a percentage of Private Education Loans in repayment		6.1%		4.9%		5.5%
Loans in forbearance as a percentage of loans in repayment and forbearance		12.4%		13.9%		15.3%

[1] Loans for borrowers who still may 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.

[2] 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 the established loan program servicing policies and procedures.

[3] The period of delinquency is based on the number of days scheduled payments are contractually past due.

	Managed Basis Private Education Loan Delinquencies					
	September 30, 2008		June 30, 2008		September 30, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$15,522		$13,821		$14,092	
Loans in forbearance[2]	2,244		2,517		1,952	
Loans in repayment and percentage of each status:						
Loans current	15,635	90.6%	15,591	92.3%	11,710	91.5%
Loans delinquent 31-60 days[3]	610	3.6	504	3.0	467	3.6
Loans delinquent 61-90 days[3],	352	2.0	312	1.9	227	1.8
Loans delinquent greater than 90 days[3]	649	3.8	477	2.8	395	3.1
Total Private Education Loans in repayment	17,246	100%	16,884	100%	12,799	100%
Total Private Education Loans, gross	35,012		33,222		28,843	
Private Education Loan unamortized discount	(863)		(864)		(771)	
Total Private Education Loans	34,149		32,358		28,072	
Private Education Loan allowance for losses	(1,349)		(1,289)		(653)	
Private Education Loans, net	$32,800		$31,069		$27,419	
Percentage of Private Education Loans in repayment		49.3%		50.8%		44.4%
Delinquencies as a percentage of Private Education Loans in repayment		9.4%		7.7%		8.5%
Loans in forbearance as a percentage of loans in repayment and forbearance		11.5%		13.0%		13.2%

(1) Loans for borrowers who still may 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.

(2) 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 the established loan program servicing policies and procedures.

(3) 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, 2008, June 30, 2008, and September 30, 2007, and for the nine months ended September 30, 2008 and 2007.

Activity in Allowance for Private Education Loan Losses

	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	June 30, 2008	September 30, 2007
Allowance at beginning of period	$ 970	$ 939	$ 428	$ 319	$ 332	$ 183	$ 1,289	$ 1,271	$ 611
Provision for Private Education Loan losses	136	120	100	66	43	44	202	163	144
Charge-offs	(110)	(105)	(82)	(53)	(60)	(28)	(163)	(165)	(110)
Recoveries	9	8	8	2	3	—	11	11	8
Net charge-offs	(101)	(97)	(74)	(51)	(57)	(28)	(152)	(154)	(102)
Reclassification of interest reserve[1]	8	8	—	2	1	—	10	9	—
Allowance at end of period	$ 1,013	$ 970	$ 454	$ 336	$ 319	$ 199	$ 1,349	$ 1,289	$ 653
Net charge-offs as a percentage of average loans in repayment (annualized)	4.64%	4.84%	5.12%	2.48%	2.98%	1.60%	3.60%	3.92%	3.16%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.08%	4.20%	4.61%	2.13%	2.52%	1.38%	3.13%	3.36%	2.78%
Allowance as a percentage of the ending total loan balance	4.74%	4.99%	3.21%	2.47%	2.31%	1.43%	3.85%	3.88%	2.33%
Allowance as a percentage of ending loans in repayment	11.23%	11.27%	7.70%	4.09%	3.85%	2.88%	7.82%	7.63%	5.10%
Average coverage of net charge-offs (annualized)	2.51	2.51	1.56	1.68	1.37	1.74	2.23	2.08	1.61
Ending total loans, gross	$21,364	$19,449	$14,563	$13,648	$13,773	$14,280	$35,012	$33,222	$28,843
Average loans in repayment	$ 8,703	$ 7,992	$ 5,696	$ 8,103	$ 7,811	$ 7,124	$16,806	$15,803	$12,820
Ending loans in repayment	$ 9,016	$ 8,609	$ 5,896	$ 8,230	$ 8,275	$ 6,903	$17,246	$16,884	$12,799

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan loss when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. This amount was $7 million for the quarter ended September 30, 2007, on a Managed Basis. This change in presentation results in no impact to net income.

	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	
	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007	Sept. 30, 2008	Sept. 30, 2007
Allowance at beginning of period	$ 886	$ 308	$ 334	$ 86	$ 1,220	$ 394
Provision for Private Education Loan losses	374	380	152	186	526	566
Charge-offs	(299)	(251)	(160)	(79)	(459)	(330)
Recoveries	27	23	6	—	33	23
Net charge-offs	(272)	(228)	(154)	(79)	(426)	(307)
Reclassification of interest reserve[1]	25	—	4	—	29	—
Balance before securitization of Private Education Loans	1,013	460	336	193	1,349	653
Reduction for securitization of Private Education Loans	—	(6)	—	6	—	—
Allowance at end of period	$ 1,013	$ 454	$ 336	$ 199	$ 1,349	$ 653
Net charge-offs as a percentage of average loans in repayment (annualized)	4.58%	5.69%	2.63%	1.53%	3.61%	3.36%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	3.97%	5.18%	2.22%	1.33%	3.09%	2.98%
Allowance as a percentage of the ending total loan balance	4.74%	3.21%	2.47%	1.43%	3.85%	2.33%
Allowance as a percentage of ending loans in repayment	11.23%	7.70%	4.09%	2.88%	7.82%	5.10%
Average coverage of net charge-offs (annualized)	2.79	1.49	1.64	1.89	2.37	1.59
Ending total loans, gross	$21,364	$14,563	$13,648	$14,280	$35,012	$28,843
Average loans in repayment	$ 7,933	$ 5,373	$ 7,794	$ 6,848	$15,727	$12,221
Ending loans in repayment	$ 9,016	$ 5,896	$ 8,230	$ 6,903	$17,246	$12,799

[1] Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan loss when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. This amount was $16 million for the nine months ended September 30, 2007, on a Managed Basis. This change in presentation results in no impact to net income.

The following table provides the detail for the traditional and non-traditional Managed Private Education Loans at September 30, 2008, June 30, 2008 and September 30, 2007.

	September 30, 2008			June 30, 2008			September 30, 2007		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans, gross	$30,060	$4,952	$35,012	$28,349	$4,873	$33,222	$24,475	$4,368	$28,843
Ending loans in repayment	14,605	2,641	17,246	14,433	2,451	16,884	10,784	2,015	12,799
Private Education Loan allowance for losses	563	786	1,349	471	818	1,289	329	324	653
Net charge-offs as a percentage of average loans in repayment[1]	2.0%	12.9%	3.6%	2.0%	15.0%	3.9%	1.6%	11.7%	3.2%
Allowance as a percentage of total ending loan balance	1.9%	15.9%	3.9%	1.7%	16.8%	3.9%	1.3%	7.4%	2.3%
Allowance as a percentage of ending loans in repayment	3.9%	29.8%	7.8%	3.3%	33.4%	7.6%	3.1%	16.1%	5.1%
Average coverage of net charge-offs[1]	2.0	2.4	2.2	1.7	2.3	2.1	1.9	1.4	1.6
Delinquencies as a percentage of Private Education Loans in repayment	6.3%	26.3%	9.4%	4.9%	24.0%	7.7%	5.4%	25.2%	8.5%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	2.3%	11.9%	3.8%	1.6%	9.8%	2.8%	1.8%	10.2%	3.1%
Loans in forbearance as a percentage of loans in repayment and forbearance	11.0%	14.4%	11.5%	12.0%	18.5%	13.0%	12.6%	16.4%	13.2%

[1] Annualized for the three months ended September 30, 2008, June 30, 2008 and September 30, 2007, respectively.

Due to the seasoning of the Managed Private Education Loan portfolio, shifts in its mix, certain economic factors, and other operational factors, the Company has expected and has seen charge-off rates increase from

the historically low levels experienced prior to 2007. Although charge-off rates have increased, the overall increase for the nine months ended September 30, 2008 was less than originally expected. In the fourth quarter of 2007, the Company recorded provision expense of $667 million related to the Managed Private Education Loan portfolio. This significant increase in provision expense compared to prior and current quarters primarily relates to the non-traditional portion of the Company's Private Education Loan portfolio which the Company had been expanding over the past few years. The Company has recently terminated these non-traditional loan programs because the performance of these loans was found to be materially different from original expectations and from the Company's Private Education Loan programs. The non-traditional portfolio is particularly impacted by the weakening U.S. economy and an underlying borrower's ability to repay. As a result, the Company recorded the additional provision in the fourth quarter of 2007, and this is the primary reason that the allowance as a percentage of the ending total loan balance and as a percentage of ending loans in repayment is significantly higher at September 30, 2008 versus September 30, 2007.

Managed provision expense increased from $163 million in the second quarter of 2008 to $202 million in the third quarter of 2008. This is a result of an increase in delinquencies between quarters, which is primarily a result of the continued weakening of the U.S. economy as well as the seasonal nature of student loans. Managed delinquencies as a percentage of Private Education Loans in repayment increased from 7.7 percent as of June 30, 2008 to 9.4 percent as of September 30, 2008. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 13.0 percent as of June 30, 2008 to 11.5 percent at September 30, 2008. On a year-over-year basis, overall delinquencies increased 0.9 percent while forbearances decreased 1.7 percent.

Forbearance continues to be a positive collection tool for Private Education Loans as we believe it can provide borrowers with sufficient time to obtain employment and income to support their obligations. We continue to refine our forbearance practices to ensure that the tool is used effectively. We recently implemented a risk-based eligibility model to assess the potential effectiveness and benefit of forbearance for individual borrowers. This process was implemented to mitigate the overall risk of the portfolio as well as to encourage cash resolution of delinquent loans. These changes have reduced the percentage of loans in forbearance as noted above. As reflected in the table below, our experience has consistently shown that three years after being in forbearance status for the first time, over 75 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and approximately eight percent have charged off. Loans in forbearance are reserved commensurate with the default expectation of this specific loan status.

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment

	Status distribution 36 months after ending month in forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment	8.6%	7.9%	2.5%
Current	59.4	60.9	66.6
Delinquent 31-60 days	3.1	1.9	.6
Delinquent 61-90 days	1.6	.9	.2
Delinquent greater than 90 days	2.7	1.7	.5
Forbearance	8.1	5.3	—
Charged-off	8.4	6.0	5.6
Paid	8.1	15.4	24.0
Total	100%	100%	100%

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, 2008, June 30, 2008, and September 30, 2007 and the nine months ended September 30, 2008 and 2007.

Total on-balance sheet loan provisions

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Private Education Loans	$136	$120	$100	$374	$380
FFELP loans	40	19	38	76	49
Mortgage and consumer loans	11	4	5	17	12
Total on-balance sheet provisions for loan losses	$187	$143	$143	$467	$441

Total Managed Basis loan provisions

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Private Education Loans	$202	$163	$144	$526	$566
FFELP loans	50	25	51	94	69
Mortgage and consumer loans	11	4	5	17	9
Total Managed Basis provisions for loan losses	$263	$192	$200	$637	$644

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

The FFELP loan provision for the third quarter of 2008 includes cumulative adjustments of $15 million and $20 million for on-balance sheet and Managed FFELP Risk Sharing, respectively, as a result of an increase in our expectation of future charge-offs arising from the continued weakening of the U.S. economy as evidenced by a recent rise in FFELP loan delinquencies. These adjustments align our reserves with our future default expectation and are not indicative of a recurring rate of provisioning in future quarters.

The FFELP loan provision for the third quarter of 2007 included $30 million and $44 million for on-balance sheet and Managed FFELP loans, respectively, related to the repeal of the Exceptional Performer program (and resulting increase to the Company's Risk Sharing percentage) pursuant to the CCRAA.

Total Loan Net Charge-offs

The following tables summarize the total loan net charge-offs on both an on-balance sheet basis and a Managed Basis for the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007 and the nine months ended September 30, 2008 and 2007.

Total on-balance sheet loan net charge-offs

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Private Education Loans	$101	$ 97	$74	$272	$228
FFELP loans	16	16	4	43	13
Mortgage and consumer loans	4	2	3	11	7
Total on-balance sheet loan net charge-offs	$121	$115	$81	$326	$248

Total Managed loan net charge-offs

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Private Education Loans	$152	$154	$102	$426	$307
FFELP loans	21	23	7	60	24
Mortgage and consumer loans	4	2	3	11	7
Total Managed loan net charge-offs	$177	$179	$112	$497	$338

The increase in net charge-offs on FFELP loans for the quarters ended September 30, 2008 and June 30, 2008 versus September 30, 2007, was primarily the result of legislative changes occurring in 2007, which lowered the federal guaranty on claims filed to either 97 percent or 98 percent (depending on date of disbursement). See "Private Education Loan Losses — *Allowance for Private Education Loan Losses,*" above, for a discussion of net charge-offs related to our Private Education Loans.

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, 2008, June 30, 2008, and September 30, 2007 and the nine months ended September 30, 2008 and 2007.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Late fees and forbearance fees	$36	$34	$34	$107	$101
Gains on sales of mortgages and other loan fees	1	1	2	3	10
Gains on sales of student loans	—	—	2	1	21
Other	18	27	8	50	18
Total other income	$55	$62	$46	$161	$150

The Company periodically sells student loans. The timing and amount of loan sales impacts the amount of recognized gains on sales of student loans.

The decrease in "Core Earnings" other income for the three months ended September 30, 2008 compared to the prior quarter was primarily due to the Company repurchasing less of its unsecured debt with short-term maturities in the third quarter of 2008 compared to the second quarter of 2008, which resulted in fewer recognized gains in the current quarter.

The increase in "Core Earnings" other income for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 was primarily due to gains recognized on the Company's repurchase of a portion of it unsecured debt with short-term maturities during the second and third quarters of 2008.

Operating Expenses — Lending Business Segment

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses. For the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007, operating expenses for the Lending business segment, excluding $4 million in other reorganization-related asset impairments recognized in the second quarter of 2008, totaled $142 million, $151 million, and $164 million, respectively, and for the nine months ended September 30, 2008 and 2007 totaled $456 million and $517 million, respectively. The decrease in operating expenses in the third quarter of 2008 versus the prior quarter was primarily due to lower origination and servicing expenses related to the impact of cost reduction initiatives, and to the suspension of certain student loan programs. In addition, the decrease in operating expenses in the third quarter of 2008 versus the year-ago quarter was due to lower consumer and mortgage loan expenses.

Loan Originations

The Company originates loans under its own brand names, which we refer to as internal brands, and also through lender partners under forward contracts to purchase loans at contractual prices. In the past, we referred to these combined channels as preferred channel originations. As discussed at the beginning of this "LENDING BUSINESS SEGMENT," legislative changes and credit market conditions have resulted in other FFELP lenders reducing their participation in the FFELP program.

As a result of the impacts described above, our FFELP internal brand originations in the quarter were up sharply, increasing 51 percent from the year-ago quarter to $4.8 billion. Our FFELP lender partner originations declined 75 percent from the year-ago quarter. A number of these lender partners, including some of our largest originators representing approximately 50 percent of the decline in lender partner originations from the year-ago quarter, have converted to third-party servicing arrangements in which we service loans on behalf of these parties.

Consistent with our announcement in the first quarter that we were tightening our private credit lending standards and ceasing non-traditional lending, Private Education Loan originations declined 24 percent from the year-ago quarter to $2.1 billion in the current quarter.

At September 30, 2008, the Company was committed to purchase $3.6 billion of loans originated by our lender partners ($2.9 billion of FFELP loans and $0.7 billion of Private Education Loans). Approximately $1.9 billion of these FFELP loans were originated prior to CCRAA. Approximately $0.5 billion of these FFELP loans are eligible for ED's Purchase and Participation Programs (see "LIQUIDITY AND CAPITAL RESOURCES — ED's Loan Purchase Commitment and Loan Participation and Purchase Programs").

The following tables further break down our loan originations by type of loan and source.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Loan Originations — Internal lending brands					
Stafford	$4,002	$1,650	$2,487	$ 8,511	$ 5,668
PLUS	502	127	501	1,175	1,180
GradPLUS	319	113	213	626	388
Total FFELP	4,823	1,890	3,201	10,312	7,236
Private Education Loans	1,934	854	2,560	5,012	5,769
Total	$6,757	$2,744	$5,761	$15,324	$13,005

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Loan Originations — Lender partners					
Stafford	$655	$513	$2,490	$3,275	$6,035
PLUS	45	18	319	335	764
GradPLUS	11	5	49	59	91
Total FFELP	711	536	2,858	3,669	6,890
Private Education Loans	183	37	233	473	562
Total	$894	$573	$3,091	$4,142	$7,452

Student Loan Activity

The following tables summarize the activity in our on-balance sheet, off-balance sheet and Managed portfolios of FFELP student loans and Private Education Loans and highlight the effects of Consolidation Loan activity on our FFELP portfolios.

	On-Balance Sheet Three months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$43,147	$73,171	$116,318	$17,971	$134,289
Net consolidations:					
Incremental consolidations from third parties	—	—	—	3	3
Consolidations to third parties	(178)	(148)	(326)	(9)	(335)
Net consolidations	(178)	(148)	(326)	(6)	(332)
Acquisitions	6,641	398	7,039	2,338	9,377
Net acquisitions	6,463	250	6,713	2,332	9,045
Internal consolidations[2]	—	—	—	3	3
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(685)	(855)	(1,540)	(469)	(2,009)
Ending balance	$48,925	$72,566	$121,491	$19,837	$141,328

	Off-Balance Sheet Three months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$8,475	$16,042	$24,517	$13,098	$37,615
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(108)	(34)	(142)	(8)	(150)
Net consolidations	(108)	(34)	(142)	(8)	(150)
Acquisitions	61	68	129	123	252
Net acquisitions	(47)	34	(13)	115	102
Internal consolidations[2]	—	—	—	(3)	(3)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(745)	(360)	(1,105)	(247)	(1,352)
Ending balance	$7,683	$15,716	$23,399	$12,963	$36,362

	Managed Portfolio Three months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$51,622	$89,213	$140,835	$31,069	$171,904
Net consolidations:					
Incremental consolidations from third parties	—	—	—	3	3
Consolidations to third parties	(286)	(182)	(468)	(17)	(485)
Net consolidations	(286)	(182)	(468)	(14)	(482)
Acquisitions	6,702	466	7,168	2,461	9,629
Net acquisitions	6,416	284	6,700	2,447	9,147
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,430)	(1,215)	(2,645)	(716)	(3,361)
Ending balance[3]	$56,608	$88,282	$144,890	$32,800	$177,690
Total Managed Acquisitions[4]	$ 6,702	$ 466	$ 7,168	$ 2,464	$ 9,632

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) As of September 30, 2008, the ending balance includes $10.6 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Three months ended June 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$40,168	$73,868	$114,036	$16,977	$131,013
Net consolidations:					
Incremental consolidations from third parties	—	11	11	55	66
Consolidations to third parties	(100)	(51)	(151)	(9)	(160)
Net consolidations	(100)	(40)	(140)	46	(94)
Acquisitions	4,003	338	4,341	1,336	5,677
Net acquisitions	3,903	298	4,201	1,382	5,583
Internal consolidations[2]	(32)	36	4	67	71
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(892)	(1,031)	(1,923)	(455)	(2,378)
Ending balance	$43,147	$73,171	$116,318	$17,971	$134,289

	Off-Balance Sheet Three months ended June 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$9,011	$16,237	$25,248	$13,214	$38,462
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(30)	(9)	(39)	(12)	(51)
Net consolidations	(30)	(9)	(39)	(12)	(51)
Acquisitions	73	48	121	197	318
Net acquisitions	43	39	82	185	267
Internal consolidations[2]	(2)	(2)	(4)	(67)	(71)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(577)	(232)	(809)	(234)	(1,043)
Ending balance	$8,475	$16,042	$24,517	$13,098	$37,615

	Managed Portfolio Three months ended June 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$49,179	$90,105	$139,284	$30,191	$169,475
Net consolidations:					
Incremental consolidations from third parties	—	11	11	55	66
Consolidations to third parties	(130)	(60)	(190)	(21)	(211)
Net consolidations	(130)	(49)	(179)	34	(145)
Acquisitions	4,076	386	4,462	1,533	5,995
Net acquisitions	3,946	337	4,283	1,567	5,850
Internal consolidations[2]	(34)	34	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,469)	(1,263)	(2,732)	(689)	(3,421)
Ending balance[3]	$51,622	$89,213	$140,835	$31,069	$171,904
Total Managed Acquisitions[4]	$ 4,076	$ 397	$ 4,473	$ 1,588	$ 6,061

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) As of June 30, 2008, the ending balance includes $5.5 billion of FFELP Stafford and Other Loans and $2.7 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Three months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$31,503	$68,109	$ 99,612	$11,014	$110,626
Net consolidations:					
Incremental consolidations from third parties	—	755	755	66	821
Consolidations to third parties	(663)	(228)	(891)	(12)	(903)
Net consolidations	(663)	527	(136)	54	(82)
Acquisitions	5,344	1,281	6,625	2,889	9,514
Net acquisitions	4,681	1,808	6,489	2,943	9,432
Internal consolidations[2]	(1,647)	2,293	646	130	776
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(429)	(839)	(1,268)	(411)	(1,679)
Ending balance	$34,108	$71,371	$105,479	$13,676	$119,155

	Off-Balance Sheet Three months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$11,362	$17,167	$28,529	$14,048	$42,577
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(211)	(54)	(265)	(29)	(294)
Net consolidations	(211)	(54)	(265)	(29)	(294)
Acquisitions	63	52	115	119	234
Net acquisitions	(148)	(2)	(150)	90	(60)
Internal consolidations[2]	(461)	(185)	(646)	(130)	(776)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(591)	(281)	(872)	(265)	(1,137)
Ending balance	$10,162	$16,699	$26,861	$13,743	$40,604

	Managed Portfolio Three months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$42,865	$85,276	$128,141	$25,062	$153,203
Net consolidations:					
Incremental consolidations from third parties	—	755	755	66	821
Consolidations to third parties	(874)	(282)	(1,156)	(41)	(1,197)
Net consolidations	(874)	473	(401)	25	(376)
Acquisitions	5,407	1,333	6,740	3,008	9,748
Net acquisitions	4,533	1,806	6,339	3,033	9,372
Internal consolidations[2]	(2,108)	2,108	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,020)	(1,120)	(2,140)	(676)	(2,816)
Ending balance	$44,270	$88,070	$132,340	$27,419	$159,759
Total Managed Acquisitions[3]	$ 5,407	$ 2,088	$ 7,495	$ 3,074	$ 10,569

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Nine months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$35,726	$73,609	$109,335	$14,818	$124,153
Net consolidations:					
Incremental consolidations from third parties	—	461	461	149	610
Consolidations to third parties	(519)	(270)	(789)	(34)	(823)
Net consolidations	(519)	191	(328)	115	(213)
Acquisitions	16,702	1,088	17,790	6,137	23,927
Net acquisitions	16,183	1,279	17,462	6,252	23,714
Internal consolidations[2]	(409)	529	120	228	348
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(2,575)	(2,851)	(5,426)	(1,461)	(6,887)
Ending balance	$48,925	$72,566	$121,491	$19,837	$141,328

	Off-Balance Sheet Nine months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 9,472	$16,441	$25,913	$13,510	$39,423
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(190)	(57)	(247)	(51)	(298)
Net consolidations	(190)	(57)	(247)	(51)	(298)
Acquisitions	183	165	348	477	825
Net acquisitions	(7)	108	101	426	527
Internal consolidations[2]	(84)	(36)	(120)	(228)	(348)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,698)	(797)	(2,495)	(745)	(3,240)
Ending balance	$ 7,683	$15,716	$23,399	$12,963	$36,362

	Managed Portfolio Nine months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$45,198	$90,050	$135,248	$28,328	$163,576
Net consolidations:					
Incremental consolidations from third parties	—	461	461	149	610
Consolidations to third parties	(709)	(327)	(1,036)	(85)	(1,121)
Net consolidations	(709)	134	(575)	64	(511)
Acquisitions	16,885	1,253	18,138	6,614	24,752
Net acquisitions	16,176	1,387	17,563	6,678	24,241
Internal consolidations[2]	(493)	493	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(4,273)	(3,648)	(7,921)	(2,206)	(10,127)
Ending balance[3]	$56,608	$88,282	$144,890	$32,800	$177,690
Total Managed Acquisitions[4]	$16,885	$ 1,714	$ 18,599	$ 6,763	$ 25,362

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) As of September 30, 2008, the ending balance includes $10.6 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Nine months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$24,841	$61,324	$ 86,165	$ 9,755	$ 95,920
Net consolidations:					
Incremental consolidations from third parties	—	1,834	1,834	174	2,008
Consolidations to third parties	(1,943)	(673)	(2,616)	(29)	(2,645)
Net consolidations	(1,943)	1,161	(782)	145	(637)
Acquisitions	16,103	5,977	22,080	6,586	28,666
Net acquisitions	14,160	7,138	21,298	6,731	28,029
Internal consolidations[2]	(3,788)	5,803	2,015	399	2,414
Off-balance sheet securitizations	—	—	—	(1,871)	(1,871)
Repayments/claims/resales/other	(1,105)	(2,894)	(3,999)	(1,338)	(5,337)
Ending balance	$34,108	$71,371	$105,479	$13,676	$119,155

	Off-Balance Sheet Nine months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$15,028	$18,311	$33,339	$12,833	$46,172
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(831)	(181)	(1,012)	(65)	(1,077)
Net consolidations	(831)	(181)	(1,012)	(65)	(1,077)
Acquisitions	237	159	396	417	813
Net acquisitions	(594)	(22)	(616)	352	(264)
Internal consolidations[2]	(1,332)	(683)	(2,015)	(399)	(2,414)
Off-balance sheet securitizations	—	—	—	1,871	1,871
Repayments/claims/resales/other	(2,940)	(907)	(3,847)	(914)	(4,761)
Ending balance	$10,162	$16,699	$26,861	$13,743	$40,604

	Managed Portfolio Nine months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$39,869	$79,635	$119,504	$22,588	$142,092
Net consolidations:					
Incremental consolidations from third parties	—	1,834	1,834	174	2,008
Consolidations to third parties	(2,774)	(854)	(3,628)	(94)	(3,722)
Net consolidations	(2,774)	980	(1,794)	80	(1,714)
Acquisitions	16,340	6,136	22,476	7,003	29,479
Net acquisitions	13,566	7,116	20,682	7,083	27,765
Internal consolidations[2]	(5,120)	5,120	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(4,045)	(3,801)	(7,846)	(2,252)	(10,098)
Ending balance	$44,270	$88,070	$132,340	$27,419	$159,759
Total Managed Acquisitions[3]	$16,340	$ 7,970	$ 24,310	$ 7,177	$ 31,487

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

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

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

	Three months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$45,804	$72,926	$118,730	$19,876	$138,606
Off-balance sheet	7,848	15,794	23,642	13,222	36,864
Total Managed	$53,652	$88,720	$142,372	$33,098	$175,470
% of on-balance sheet FFELP	39%	61%	100%		
% of Managed FFELP	38%	62%	100%		
% of total	31%	50%	81%	19%	100%

	Three months ended June 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$41,666	$73,509	$115,175	$18,573	$133,748
Off-balance sheet	8,736	16,122	24,858	13,317	38,175
Total Managed	$50,402	$89,631	$140,033	$31,890	$171,923
% of on-balance sheet FFELP	36%	64%	100%		
% of Managed FFELP	36%	64%	100%		
% of total	29%	52%	81%	19%	100%

	Three months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$32,576	$69,289	$101,865	$12,706	$114,571
Off-balance sheet	10,667	16,881	27,548	13,978	41,526
Total Managed	$43,243	$86,170	$129,413	$26,684	$156,097
% of on-balance sheet FFELP	32%	68%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

	Nine months ended September 30, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$41,954	$73,410	$115,364	$18,551	$133,915
Off-balance sheet	8,612	16,084	24,696	13,368	38,064
Total Managed	$50,566	$89,494	$140,060	$31,919	$171,979
% of on-balance sheet FFELP	36%	64%	100%		
% of Managed FFELP	36%	64%	100%		
% of total	29%	52%	81%	19%	100%

	Nine months ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$30,106	$66,590	$ 96,696	$11,664	$108,360
Off-balance sheet	12,134	17,415	29,549	13,646	43,195
Total Managed	$42,240	$84,005	$126,245	$25,310	$151,555
% of on-balance sheet FFELP	31%	69%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

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

ASSET PERFORMANCE GROUP ("APG") BUSINESS SEGMENT

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

	Quarter ended September 30, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 2	$ —	$87	$ 89
Collections revenue (loss)	(39)	(130)	—	(169)
Total income (loss)	(37)	(130)	87	(80)
Restructuring expenses	4	—	—	4
Operating expenses	52	9	45	106
Total expenses	56	9	45	110
Net interest expense	3	1	2	6
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(96)	(140)	40	(196)
Income tax expense (benefit)	(36)	(51)	14	(73)
Income (loss) before minority interest in net earnings of subsidiaries	(60)	(89)	26	(123)
Minority interest in net earnings of subsidiaries	1	—	—	1
"Core Earnings" net income (loss)	$(61)	$ (89)	$26	$(124)

	Quarter ended June 30, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 3	$ —	$81	$ 84
Collections revenue (loss)	57	(30)	—	27
Total income (loss)	60	(30)	81	111
Restructuring expenses	1	—	4	5
Operating expenses	51	10	49	110
Total expenses	52	10	53	115
Net interest expense	4	1	2	7
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	4	(41)	26	(11)
Income tax expense (benefit)	1	(15)	10	(4)
Income (loss) before minority interest in net earnings of subsidiaries	3	(26)	16	(7)
Minority interest in net earnings of subsidiaries	3	—	—	3
"Core Earnings" net income (loss)	$—	$(26)	$16	$ (10)

	Quarter ended September 30, 2007			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 2	$—	$74	$ 76
Collections revenue	43	10	—	53
Total income	45	10	74	129
Restructuring expenses	—	—	—	—
Operating expenses	42	6	46	94
Total expenses	42	6	46	94
Net interest expense	3	2	2	7
Income before income taxes and minority interest in net earnings of subsidiaries	—	2	26	28
Income tax expense	—	1	10	11
Income before minority interest in net earnings of subsidiaries		1	16	17
Minority interest in net earnings of subsidiaries	—	—	—	—
"Core Earnings" net income	$—	$ 1	$16	$ 17

	Nine months ended September 30, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 9	$ —	$250	$ 259
Collections revenue (loss)	70	(155)	—	(85)
Total income (loss)	79	(155)	250	174
Restructuring expenses	5	—	5	10
Operating expenses	156	28	138	322
Total expenses	161	28	143	332
Net interest expense	10	4	6	20
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(92)	(187)	101	(178)
Income tax expense (benefit)	(33)	(69)	37	(65)
Income (loss) before minority interest in net earnings of subsidiaries	(59)	(118)	64	(113)
Minority interest in net earnings of subsidiaries	3	—	—	3
"Core Earnings" net income (loss)	$ (62)	$(118)	$ 64	$(116)

	Nine months ended September 30, 2007			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 6	$—	$238	$244
Collections revenue	158	38	—	196
Total income	164	38	238	440
Restructuring expenses	—	—	—	—
Operating expenses	120	19	145	284
Total expenses	120	19	145	284
Net interest expense	10	3	7	20
Income before income taxes and minority interest in net earnings of subsidiaries	34	16	86	136
Income tax expense	13	6	32	51
Income before minority interest in net earnings of subsidiaries	21	10	54	85
Minority interest in net earnings of subsidiaries	2	—	—	2
"Core Earnings" net income	$ 19	$10	$ 54	$ 83

The Company has concluded that its APG purchased paper businesses no longer produce a mutual strategic fit. The Company plans to close the sale of its international Purchased Paper — Non Mortgage business in November 2008; based on the expected sales price, the Company recorded a $56 million loss on this business in third quarter of 2008.

The Company explored selling the domestic side of its Purchased Paper — Non Mortgage business and its Purchased Paper — Mortgage/Properties business, but concluded that in the current economic environment, it is more economical to wind down these businesses rather than to sell them at this time. The Company will continue to consider opportunities to sell these businesses at acceptable prices in the future.

The Company's Purchased Paper — Non Mortgage business has certain forward purchase obligations under which the Company is committed to buy purchased paper from October 2008 through April 2009 at a purchase price of approximately $150 million. The Company will not buy any additional purchased paper in excess of these obligations. Due to the continued weakening of the U.S. economy, the Company lowered its assumed collection rates it expects to achieve related to this portfolio. This assumption change resulted in impairments of $39 million in the third quarter of 2008 compared to $16 million in the first half of 2008 and $16 million for the nine months ended September 30, 2007.

The Company's Purchased Paper — Mortgage/Properties business will not purchase any new mortgage/ property assets and will workout and liquidate its portfolio as quickly and economically as possible. In the third quarter, real estate values continued to decline as a result of the weakening U.S. economy, which resulted in the Company's impairment of $147 million in the third quarter of 2008 compared to $66 million in the first half of 2008 and $3 million for the nine months ended September 30, 2007.

Purchased Paper — Non-Mortgage

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Face value of purchases for the period	$1,496	$1,349	$1,741	$4,375	$3,881
Purchase price for the period	116	125	134	384	358
% of face value purchased	7.8%	9.3%	7.7%	8.8%	9.2%
Gross cash collections ("GCC")	$ 166	$ 172	$ 118	$ 497	$ 357
Collections revenue (loss)	(39)	57	43	70	158
Collections revenue (loss) as a % of GCC	(23)%	33%	36%	14%	44%
Carrying value of purchases	$ 544	$ 633	$ 448	$ 544	$ 448

The amount of face value of purchases in any quarter is a function of a combination of factors including the amount of receivables available for purchase in the marketplace, average age of each portfolio, the asset class of the receivables, and competition in the marketplace. As a result, the percentage of face value purchased will vary from quarter to quarter. The decrease in collections revenue as a percentage of gross cash collections ("GCC") in the quarter ended September 30, 2008 compared to the prior quarters is primarily due to the impairment recognized in the third quarter of 2008.

Purchased Paper — Mortgage/Properties

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Face value of purchases for the period	$ —	$ —	$102	$ 39	$827
Collections revenue (loss)	(130)	(30)	10	(155)	38
Collateral value of purchases	—	—	85	29	775
Purchase price for the period	—	—	57	19	581
Purchase price as a % of collateral fair value	—%	—%	67%	66%	75%
Carrying value of purchases	$ 798	$1,013	$937	$ 798	$937
Carrying value of purchases as a % of collateral fair value	69%	77%	77%	69%	77%

The purchase price for sub-performing and non-performing mortgage loans is generally determined as a percentage of the underlying collateral's fair value, but we also consider a number of factors in pricing mortgage loan portfolios to attain a targeted yield. Therefore, the purchase price as a percentage of collateral fair value can fluctuate depending on the mix of sub-performing versus non-performing mortgages in the portfolio, the projected timeline to resolution of loans in the portfolio and the level of private mortgage insurance associated with particular assets. The carrying value of purchases (the basis we carry on our balance sheet) as a percentage of collateral fair value has decreased in the third quarter of 2008 as a result of the significant impairment recognized this quarter.

Contingency Inventory

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

	September 30, 2008	June 30, 2008	September 30, 2007
Contingency:			
Student loans	$ 9,482	$ 8,730	$8,353
Other	1,714	1,692	1,550
Total	$11,196	$10,422	$9,903

Operating Expenses — APG Business Segment

For the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007, operating expenses for the APG business segment, excluding $1 million in other reorganization-related asset impairments recognized in the second quarter of 2008, totaled $106 million, $109 million, and $94 million, respectively. The increase in operating expense from the year-ago quarter is primarily due to higher collection costs.

CORPORATE AND OTHER BUSINESS SEGMENT

The following table includes "Core Earnings" results for our Corporate and Other business segment.

	Quarters ended			Nine months ended	
	September 30, 2008	June 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
Net interest income (loss) after provisions for losses	$ 2	$ —	$ 1	$ 3	$ (2)
Guarantor servicing fees	37	24	46	95	115
Loan servicing fees	6	5	6	17	17
Upromise	28	26	28	80	78
Other	17	14	29	50	67
Total other income	88	69	109	242	277
Restructuring expenses	7	11	—	22	—
Operating expenses	68	73	79	213	251
Total expenses	75	84	79	235	251
Income (loss) before income taxes	15	(15)	31	10	24
Income tax expense (benefit)	6	(6)	11	3	9
"Core Earnings" net income (loss)	$ 9	$ (9)	$ 20	$ 7	$ 15

The increase in guarantor servicing fees versus the prior quarter was primarily due to the seasonality of loan disbursements which were higher in the third quarter of 2008 versus the second quarter of 2008. The decrease in guarantor servicing fees for the third quarter of 2008 versus the year-ago quarter was primarily due to a decrease in the account maintenance fees earned in the current quarter due to legislative changes effective October 1, 2007 as a result of CCRAA.

USA Funds, the nation's largest guarantee agency, accounted for 81 percent, 86 percent and 83 percent, respectively, of guarantor servicing fees and 12 percent, 12 percent and 16 percent, respectively, of revenues

associated with other products and services for the quarters ended September 30, 2008, June 30, 2008, and September 30, 2007.

Operating Expenses — Corporate and Other Business Segment

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties, perform guarantor servicing on behalf of guarantor agencies, operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating expenses also include unallocated corporate overhead expenses for centralized headquarters functions. Operating expenses for the prior quarter also include other reorganization-related asset impairments of $1 million. The decrease in operating expenses for the third quarter of 2008 versus the prior quarters reported above was primarily due to the Company's cost reduction initiatives.

LIQUIDITY AND CAPITAL RESOURCES

Except in the case of business acquisitions and our APG purchased paper businesses, which are discussed separately, our APG contingency collections and Corporate and Other business segments are not capital intensive businesses and as such, a minimal amount of debt and equity capital is allocated to these segments. Therefore, the following "LIQUIDITY AND CAPITAL RESOURCES" discussion is concentrated on our Lending business segment.

Historically, the Company funded its new loan originations with a combination of unsecured debt and student loan asset-backed securities. Following the Merger announcement in April 2007, the Company funded its loan originations primarily through the issuance of student loan asset-backed securities and secured student loan financing facilities. In June 2008, the Company re-entered the corporate bond market with a $2.5 billion issue of 10-year senior unsecured notes. In August 2008, the Company began funding its FFELP Stafford and PLUS student loan originations for the academic year 2008-2009 pursuant to ED's Loan Purchase Commitment and Loan Participation and Purchase Programs, as further described below. We expect to utilize these and other financing sources, including bank deposits generated through Sallie Mae Bank, to fund future loan originations.

ED's Loan Purchase Commitment and Loan Participation and Purchase Programs

Under the "Ensuring Continued Access to Student Loans Act of 2008," ED has implemented the Loan Purchase Commitment Program ("Purchase Program"). Under the Purchase Program, ED will purchase 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 ED's Loan Participation and Purchase Program ("Participation Program"), ED will provide interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders will be charged at a rate of commercial paper plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2009. Currently, loans eligible for the Participation or Purchase Programs are FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, and have no ongoing borrower benefits, other than permitted rate reductions of 0.25 percent for automatic payment processing. On October 7, 2008, legislation was enacted extending ED's authority to address FFELP Stafford and PLUS loans made for academic years 2009-2010, and allowing for the extension of ED's Purchase and Participation Programs from September 30, 2009 to September 30, 2010. ED has not yet specified its plans under the extension.

On August 14, 2008, the Company received its initial advance under ED's Participation Program. The Company expects to make weekly funding requests depending upon the time of year and the amount of loans disbursed. As of September 30, 2008, the Company had $3.6 billion of advances outstanding under the Participation Program.

The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. The Company currently has the ability and intent to sell such loans to ED under the Purchase Program

due to the current environment in the capital markets. Held-for-sale loans are carried at the lower of cost or market with no premium amortization or provision expenses. At September 30, 2008, the Company had $4.1 billion of FFELP loans classified as held-for-sale.

Additional Funding Sources for General Corporate Purposes

In addition to funding new FFELP loans through ED's Participation and Purchase Programs, the Company employs other financing sources for general corporate purposes, primarily originating Private Education Loans and repaying unsecured debt as it matures. On June 12, 2008, SLM Corporation sold $2.5 billion of 8.45 percent, 10-year senior unsecured notes (the "8.45% Notes") priced to yield 8.75 percent. The coupon on the 8.45% Notes was immediately swapped to produce an effective financing cost to the Company of LIBOR plus approximately 400 basis points. Terms of the 8.45% Notes require the Company to redeem the notes at a price of 101 percent of par if, the Company undergoes a change in control and, the Company's corporate credit ratings are downgraded to below investment grade or withdrawn. The 8.45% Notes, the Company's first unsecured corporate bond issue since the Merger announcement, provided us with additional liquidity and further diversified our funding sources. We anticipate issuing unsecured corporate debt more regularly in the future, as market conditions permit.

We historically have been a regular issuer of term asset-backed securities ("ABS") in the domestic and international capital markets. We securitized $25.4 billion of student loans in nine transactions in 2007, compared to $32.1 billion in thirteen transactions in 2006. More recently, adverse conditions in the securitization markets have reduced our access to and increased the cost of borrowing in the market for student loan asset-backed securities. We completed three FFELP term ABS transactions totaling $6.7 billion and nine FFELP term ABS transactions totaling $18.5 billion, in the three and nine months ended September 30, 2008, respectively. Although we expect ABS financing to remain our primary source of funding, we have seen, and continue to expect to see, 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. All-in costs of our new issue FFELP term ABS averaged LIBOR plus 1.44 percent in the third quarter of 2008. The Company's most recent FFELP term ABS issue was priced on August 21, 2008 at a weighted average cost of LIBOR plus 1.67 percent.

Since late September 2008, the severe dislocation in the financial markets has made FFELP and Private Education Loan term ABS funding generally unavailable. At present, we are unable to predict when market conditions will allow for future issuance of term ABS. The Company's last FFELP term ABS issue was completed on August 28, 2008. The Company's last Private Education Loan term ABS issue was completed in the first quarter of 2007. We expect to resume term ABS issuance as soon as market conditions permit.

During the first quarter of 2008, the Company closed three new asset-backed financing facilities (the "2008 Asset-Backed Financing Facilities"): (i) a $26.0 billion FFELP student loan ABCP conduit facility; (ii) a $5.9 billion Private Education Loan ABCP conduit facility (collectively, the "2008 ABCP Facilities"); and (iii) a $2.0 billion secured FFELP loan facility (the "2008 Asset-Backed Loan Facility"). The initial term of the 2008 Asset-Backed Financing Facilities is 364 days. The underlying cost of borrowing under the 2008 ABCP Facilities currently is LIBOR plus 0.68 percent for the FFELP loan facilities and LIBOR plus 1.55 percent for the Private Education Loan facility, excluding up-front and unused commitment fees. All-in pricing on the 2008 ABCP Facilities varies based on usage. The Company currently estimates that the combined, fully utilized all-in cost of borrowings related to the 2008 Asset-Backed Financing Facilities including amortized up-front fees and unused commitment fees, is likely to be approximately LIBOR plus 2.15 percent over the life of the facilities. The primary use of the 2008 Asset-Backed Financing Facilities was to refinance comparable asset-backed commercial paper facilities incurred in connection with the Merger, with the expectation that outstandings under the 2008 Asset-Backed Financing Facilities would be reduced through securitization of the underlying student loan collateral in the term ABS market. Funding under the 2008 Asset-backed Financing Facilities is subject to usual and customary conditions.

Effective as of August 25, 2008, the Company reduced the commitments under its Private Education Loan ABCP conduit facility by approximately $2.2 billion to $3.7 billion. On September 30, 2008, the Company reduced the commitments under its FFELP ABCP Facilities by $4.1 billion to $21.9 billion. There were no changes to interest rates, maturity or other terms of the facilities made in connection with the reductions. The Company reduced these commitments after an analysis of its ongoing liquidity needs and following its acceptance and funding under ED's Participation and Purchase Programs. For the academic years 2008-2009 and 2009-2010, the Company expects to utilize the Participation Program to fund all eligible Stafford and PLUS loan originations.

The maximum amount the Company may borrow under the 2008 ABCP Facilities is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of October 1, 2008, the maximum amount was approximately $20.8 billion under the FFELP ABCP Facilities and $3.2 billion under the Private Education Loan ABCP Facility. The 2008 Asset-Backed Financing Facilities are subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities. Borrowings under the 2008 Asset-Backed Financing Facilities are nonrecourse to the Company. The 2008 Asset-Backed Financing Facilities mature on February 28, 2009. The Company expects to further reduce aggregate amounts outstanding and refinance the 2008 ABCP Facilities at a lower aggregate commitment level than the $25.6 billion available as of October 1, 2008.

Secured borrowings, including securitizations, asset-backed commercial paper ("ABCP") borrowings and indentured trusts, comprised 78 percent of our Managed debt outstanding at September 30, 2008, versus 75 percent at September 30, 2007.

The Company has not recently relied, and does not intend to rely, on the auction rate securities market as a source of funding. At September 30, 2008, we had $3.3 billion of taxable and $1.6 billion of tax-exempt auction rate securities outstanding on a Managed Basis. In February 2008, an imbalance of supply and demand 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. This imbalance continued through the third quarter and, as a result, all of the Company's auction rate securities as of September 30, 2008 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our $3.3 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rates on our $1.6 billion of tax-exempt auction rate securities are formula driven and produced various maximum rates ranging up to 14 percent at September 30, 2008, but averaged 4.81 percent as of September 30, 2008.

In the past, we employed reset rate note structures in conjunction with the issuance of certain tranches of our term asset-backed securities. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note prior to 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 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. As of September 30, 2008, on a Managed Basis, the Company had $1.2 billion, $2.5 billion and $2.5 billion of reset rate notes due to be remarketed in the remainder of 2008, 2009 and 2010, respectively, and an additional $8.5 billion to be remarketed thereafter.

Primary Sources of Liquidity and Available Capacity

During the remainder of 2008, we expect to fund our liquidity needs through our cash and investment portfolio, the liquidity facilities provided by ED, the 2008 Asset-Backed Financing Facilities, the issuance of term ABS and, to a lesser extent, if possible, unsecured debt and other sources. To supplement our funding sources, we maintain an additional $6.5 billion in unsecured revolving credit facilities as of September 30,

2008. These facilities include a $1.0 billion revolving credit facility maturing in October 2008; $1.5 billion maturing in October 2009; $2.0 billion maturing in October 2010; and $2.0 billion maturing in October 2011. In the past, we have not relied upon our $6.5 billion unsecured revolving credit facilities as a primary source of liquidity. Although we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

The following table details our primary sources of primary and stand-by liquidity and the available capacity at September 30, 2008, June 30, 2008, and December 31, 2007.

	September 30, 2008 Available Capacity	June 30, 2008 Available Capacity	December 31, 2007 Available Capacity
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:			
ED Purchase and Participation Program[(1)]	*Unlimited*[(1)]	—	—
Sources of primary liquidity for general corporate purposes:			
Unrestricted cash and liquid investments:			
Cash and cash equivalents	$ 3,895	$ 5,123	$ 7,582
U.S. Treasury-backed securities	265	625	643
Commercial paper and asset-backed commercial paper	—	1,550	1,349
Certificates of deposit	—	250	600
Other[(2)]	569	75	83
Total unrestricted cash and liquid investments[(3)(4)]	4,729	7,623	10,257
Unused commercial paper and bank lines of credit[(5)]	6,172	6,500	6,500
2008 FFELP ABCP Facilities	1,157	4,505	—
2008 Private Credit ABCP Facilities	78	920	—
ABCP borrowing capacity	—	—	5,933
Interim ABCP Facility borrowing capacity	—	—	4,040
Total sources of primary liquidity for general corporate purposes	12,136	19,548	26,730
Sources of stand-by liquidity:			
Unencumbered FFELP loans[(6)]	9,043	14,070	18,731
Total sources of primary and stand-by liquidity for general corporate purposes[(7)]	$ 21,179	$33,618	$45,461

(1) The ED Purchase and Participation Program provides unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company for the academic years 2008-2009. See "ED's Loan Purchase Commitment and Loan Participation Programs" discussed earlier in this section.

(2) At September 30, 2008, includes $500 million due from The Reserve Primary Fund (see "Counterparty Exposure" below).

(3) Excludes $202 million, $208 million and $196 million of investments pledged as collateral related to certain derivative positions and $83 million, $82 million and $93 million of other non-liquid investments classified at September 30, 2008, June 30, 2008, and December 31, 2007, respectively, as cash and investments on our balance sheet in accordance with GAAP.

(4) Includes $1.4 billion, $2.1 billion and $1.3 billion, at September 30, 2008, June 30, 2008, and December 31, 2007, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.

(5) At September 30, 2008, excludes $328 million commitment from Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. Lehman Brothers Holdings, Inc. declared bankruptcy on September 15, 2008. Also, the Company's line of credit commitments decrease by $1.0 billion effective October 23, 2008.

(6) As of September 30, 2008, approximately $520 million of unencumbered FFELP loans qualified to be financed by ED's Participation Program and were subsequently financed under that program.

(7) General corporate purposes primarily include originating Private Education Loans and repaying unsecured debt as it matures.

We believe our unencumbered FFELP loan portfolio provides a source of potential or stand-by liquidity because of the well-developed market for securitizations. In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At September 30, 2008, we had a total of $39.2 billion of unencumbered assets, including goodwill and acquired intangibles. Student loans, net, comprised $25.0 billion of this unencumbered asset total.

Counterparty Exposure

As of September 30, 2008, the Company had limited exposure to counterparties impacted by the ongoing credit market dislocation. 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.

Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., is a party to the Company's unsecured revolving credit facilities under which they provide the Company with a $328 million commitment. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitment of Lehman Brothers Bank, FSB, will not be honored if drawn upon. The Company does not intend to replace its commitment with Lehman Brothers Bank, FSB.

To provide liquidity for future cash needs, SLM invests in high quality money market investments. At September 30, 2008, the Company had investments of $500 million with The Reserve Primary Fund ("The Fund"). The Company requested redemption of all monies invested from The Fund prior to The Fund's announcement that it suspended distributions as a result of The Fund's exposure to Lehman Brothers Holdings Inc.'s bankruptcy filing and The Fund's net asset value being below one dollar per share. The Company was originally informed by The Fund that the Company would receive its entire investment amount. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. As a result, the Company has not received its requested redemption. At this time, the Company anticipates further delay of distributions and a potential loss on its investments, even though the Company is legally entitled to receive 100 percent of its remaining investment amount. The Company does not expect any loss incurred in connection with its investment exposure to The Fund will materially impact the Company.

Protection against counterparty risk in derivative transactions is generally provided by the 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. Swiss Reinsurance Company (Swiss Re) is counterparty to derivatives contained in two of the Company's on-balance sheet securitizations. On October 3, 2008, Fitch Ratings withdrew its ratings on Swiss Re and its subsidiaries. As a result, a CSA is required to be executed with each trust within 30 days of notification and fully collateralize the exposure. The aggregate trust exposure to Swiss Re is $81 million as of October 21, 2008. The Company fully expects to receive the collateral due from Swiss Re as Moody's and S&P rating agencies have maintained their rating (Aa2 and AA-, respectively) with no negative watch. The fair value of the derivative on the Company's balance sheet takes into the Company's expectation to fully collect amounts due from Swiss Re.

Likewise, AIG is counterparty to a derivative contained in one of the Company's on-balance sheet securitizations. As a result of AIG's downgrade on September 15, 2008, a CSA was required to be executed and collateral delivered within 30 days of notification. Collateral was delivered on October 20, 2008 fully collateralizing the value of the derivative as of that date. The fair value of the derivative on the Company's balance sheet as of September 30, 2008 took into account the Company's expectation of fully collecting amounts due from AIG.

The table below highlights exposure related to our derivative counterparties at September 30, 2008.

Dollars in millions	SLM Corporation	On-Balance Sheet Securitizations	Off-Balance Sheet Securitizations
Exposure, net of collateral	$166	$1,171	$740
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aaa3 (excluding AIG, discussed above) . . .	0.0%	0.2%	5.8%

The Company has CSAs and collateral requirements with all of its corporate derivative counterparties requiring collateral to be exchanged based on the net fair value of derivatives with each counterparty above a threshold. Additionally, credit downgrades below a preset level can eliminate this threshold. 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. 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. As shown above, the Company's exposure to counterparties at September 30, 2008 with credit ratings below S&P AA- or Moody's Aaa3 is minimal at this time. The trusts are not required to post collateral to the counterparties.

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), and on movements in the value of the derivatives, which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. As of September 30, 2008, the Company held $1.4 billion of cash collateral in unrestricted cash accounts and had pledged $202 million of securities as collateral.

Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding SFAS No. 133 valuation adjustments) at September 30, 2008, June 30, 2008, and September 30, 2007.

	September 30, 2008			June 30, 2008			September 30, 2007		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis
Unsecured borrowings	$ 7,262	$ 31,796	$ 39,058	$ 7,557	$ 34,167	$ 41,724	$ 7,223	$ 37,973	$ 45,196
Bank deposits	744	—	744	617	—	617	187	—	187
Indentured trusts (on-balance sheet)[1]	44	2,207	2,251	73	2,310	2,383	149	2,513	2,662
ABCP borrowings (on-balance sheet)[1][2]	24,684	—	24,684	26,273	—	26,273	25,103	242	25,345
ED Participation Program facility (on-balance sheet)[1][3]	3,555	—	3,555	—	—	—	—	—	—
Securitizations (on-balance sheet)[1]	—	81,554	81,554	—	76,309	76,309	—	65,105	65,105
Securitizations (off-balance sheet)	—	38,333	38,333	—	39,741	39,741	—	43,887	43,887
Other	1,979	—	1,979	2,668	—	2,668	359	—	359
Total	$38,268	$153,890	$192,158	$37,188	$152,527	$189,715	$33,021	$149,720	$182,741

(1) The book basis of the assets that secure the on-balance sheet secured financing is approximately $121.8 billion in total.

(2) Includes $1.9 billion and $2.0 billion outstanding in the 2008 Asset-Backed Loan Facility at September 30, 2008 and June 30, 2008, respectively.

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

As of September 30, 2008, on a Managed Basis, we have approximately $120 billion of FFELP loans indexed to three-month commercial paper ("3M CP") that are funded with debt indexed to LIBOR. We believe there is broad market recognition that, due to the unintended consequences of government action in other areas of the capital markets and virtually no issuances of qualifying commercial paper, the 3M CP index and its relationship to LIBOR is broken. We are working with government officials to swiftly address this issue.

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of October 21, 2008.

	Moody's	S&P	Fitch
Short-term unsecured debt	P-2[1]	A-3	F3
Long-term senior unsecured debt	Baa2[1]	BBB−	BBB

(1) Under review for potential downgrade

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of September 30, 2008, June 30, 2008 and December 31, 2007.

	As of September 30, 2008			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 309	$ 613	$ 1,402	$ 2,324
Underlying securitized loan balance[3]	7,600	15,252	13,648	36,500
Weighted average life	3.0 yrs.	8.2 yrs.	6.6 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan — repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.23%	5.59%	
Residual cash flows discount rate	12.7%	11.3%	18.3%	

	As of June 30, 2008			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 410	$ 619	$ 1,516	$ 2,545
Underlying securitized loan balance[3]	8,383	15,586	13,773	37,742
Weighted average life	2.8 yrs.	7.3 yrs.	6.6 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-30%	3-8%	1-30%	
Life of loan — repayment status	17%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)	.10%	.20%	5.36%	
Residual cash flows discount rate	12.0%	10.0%	16.4%	

	As of December 31, 2007			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 390	$ 730	$ 1,924	$ 3,044
Underlying securitized loan balance[3]	9,338	15,968	14,199	39,505
Weighted average life	2.7 yrs	7.4 yrs.	7.0 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A		0%
Repayment status	0-37%	3-8%	1-30%	
Life of loan — repayment status	21%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.21%	5.28%	
Residual cash flows discount rate	12.0%	9.8%	12.9%	

(1) Includes $333 million, $295 million, and $283 million related to the fair value of the Embedded Floor Income as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At December 31, 2007, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $301 million that related to the Retained Interests. There were no such gains at June 30, 2008 and September 30, 2008.

(3) In addition to student loans in off-balance sheet trusts, the Company had $80.8 billion, $75.2 billion, and $65.5 billion of securitized student loans outstanding (face amount) as of September 30, 2008, June 30, 2008, and December 31, 2007, respectively, in on-balance sheet securitization trusts.

(4) The Company uses CPR curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan's seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

As previously discussed, the Company adopted SFAS No. 159 on January 1, 2008, and has elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company chose this election in order to record all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income, except if impaired in which case changes in fair value were recorded through income, or under SFAS No. 155 with all changes in fair value recorded through income. Changes in the fair value of Residual Interests from January 1, 2008 forward are recorded through the income statement.

The tables above disclose the significant assumptions that are used to value the Residual Interests. As of September 30, 2008, the Company changed the following significant assumptions compared to those used as of June 30, 2008, to determine the fair value of the Residual Interests:

- Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced in the third quarter of 2008 which is expected to continue into the foreseeable future. The decrease in prepayment speeds is primarily due to a reduction in third party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment.

- Life of loan default rate assumptions for Private Education loans were increased as a result of the continued weakening U.S. economy.

- Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within the FFELP ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities will continue to reset at higher rates for an extended period of time.

- The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market as of September 30, 2008. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium (from June 30, 2008) by 200 basis points and 140 basis points for Private Education and FFELP, respectively, to better take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests.

The Company recorded a net unrealized mark-to-market loss of $81 million for the quarter ended September 30, 2008 compared to a net unrealized mark-to-market loss of $192 million for the quarter ended June 30, 2008. These mark-to-market losses were primarily related to increasing the discount rate use to value the Residual Interests.

The Company recorded impairments to the Retained Interests of $90 million for the year-ago quarter. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations. In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $62 million in the year-ago quarter.