



# SALLIE MAE

Investor Presentation

APRIL 2014



## Forward-Looking Statements

The following information is current as of April 17, 2014 (unless otherwise noted) and should be read in connection with the Annual Report on Form 10-K for the year ended December 31, 2013 filed by SLM Corporation (“Sallie Mae”) with the SEC on February 19, 2014 (the “2013 Form 10-K”), the Registration Statement on Form 10, as amended (the “Form 10”), filed by Navient Corporation (“Navient”) with the Securities and Exchange Commission (the “SEC”) on April 10, 2014, and subsequent reports filed by Sallie Mae and Navient with the SEC. Definitions for capitalized terms in this presentation not defined herein can be found in the 2013 Form 10-K. This presentation contains forward-looking statements and information based on management’s current expectations as of the date of this presentation. Statements that are not historical facts, including statements about the beliefs and expectations of Sallie Mae 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 risks and uncertainties set forth in Item 1A “Risk Factors” and elsewhere in the 2013 Form 10-K, in Risk Factors in the Form 10, and the subsequent filings of Sallie Mae and Navient with the SEC; increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which Sallie Mae is a party; credit risk associated with exposure to third parties, including counterparties to derivative transactions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). Sallie Mae could also be affected by, among other things: changes in its funding costs and availability; reductions to its credit ratings or the credit ratings of the United States of America; failures of operating systems or infrastructure, including those of third-party vendors; damage to business reputation; failures to successfully implement cost-cutting and adverse effects of such initiatives on business; risks associated with restructuring initiatives, including the separation of Sallie Mae and Navient into two distinct publicly traded companies; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; increased competition from banks and other consumer lenders; the creditworthiness of customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of earning assets vs. funding arrangements; changes in general economic conditions; and changes in the demand for debt management services. The preparation of Sallie Mae’s consolidated financial statements also require management to make certain estimates and assumptions, including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this release are qualified by these cautionary statements and are made only as of the date of this release. Sallie Mae does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in expectations.

For additional information on the proposed separation of Sallie Mae and Navient, please see the 2013 Form 10-K and Form 10 of Sallie Mae and Navient, respectively.



## Separation Details

### Company

- ▶ Remaining Company: Sallie Mae (consumer banking business)
- ▶ Spin-Off Company: Navient (loan management and servicing company)

### Transaction

- ▶ Tax-free spin-off of Navient to Sallie Mae shareholders
- ▶ 1:1 distribution ratio

### Exchange Details

- ▶ Sallie Mae: NASDAQ / "SLM"
- ▶ Navient: NASDAQ / "NAVI"

### Financial Details

- ▶ Debt and preferred
  - All existing secured and unsecured debt will be the obligation of Navient
  - Preferred securities will remain at Sallie Mae
- ▶ Shareholder distributions
  - Sallie Mae does not intend to pay a dividend on common stock for the foreseeable future
  - Sallie Mae will continue to pay preferred stock dividends

### Timing & Approvals

- ▶ When-Issued Trading: April 17, 2014
- ▶ Record Date: April 22, 2014
- ▶ Distribution Date: April 30, 2014 (post close)
- ▶ Regular Way Trading: May 1, 2014



## Strategic Separation Into Two Distinct Businesses



### Transaction Entity

Remaining Company

Spin-Off Company

### Strategic Focus

*Consumer banking including leading private education loan franchise*

*Leading education loan management, servicing and asset recovery company*

### Key Businesses

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>▶ Largest Private Education Loan Originator</li> <li>▶ Private Education Loan Servicing</li> <li>▶ Other Consumer Assets</li> <li>▶ Deposits</li> <li>▶ Upromise Rewards</li> <li>▶ Insurance Services</li> <li>▶ Credit Card</li> </ul> | <ul style="list-style-type: none"> <li>▶ FFELP Loan Portfolio</li> <li>▶ Non-Bank Private Education Loan Portfolio</li> <li>▶ Largest Education Loan Servicer (FFELP, ED, private)</li> <li>▶ Contingency Collections</li> <li>▶ Guarantor Servicing</li> <li>▶ Student Assistance and Outreach Solutions</li> </ul> |
|---|--|

### Pro Forma Financial Statistics

*As of 12/31/2013 (\$ billions)*

Assets	\$11.3	Assets	\$148.4
FFELP Loans	\$1.4	FFELP Loans	\$103.2
Private Loans	\$6.5	Private Loans	\$31.0
Deposits	\$9.0	Deposits	\$ –
Secured Debt	\$ –	Secured Debt	\$120.5
Unsecured Debt	\$ –	Unsecured Debt	\$18.3
Preferred Equity	\$0.6	Preferred Stock	\$ –
Tangible Common Equity	\$1.2	Tangible Common Equity	\$3.5

### Leadership

**Ray Quinlan**  
*Chairman and CEO*

**Joe DePaulo**  
*Executive Vice President - Banking*

**Steve McGarry**  
*Chief Financial Officer*

**Jack Remondi**  
*Chief Executive Officer*

**Somsak Chivavibul**  
*Chief Financial Officer*

## Sallie Mae Investment Highlights

- 1 Experienced management team with deep industry knowledge**
  - ▶ Average of 30+ years of banking and financial services experience
- 2 Leading brand in the education lending market**
  - ▶ 40+ years serving the education lending market
  - ▶ 50% private education lending market share
- 3 Simple low cost delivery system**
  - ▶ Multi-channel delivery system (on-campus, direct)
  - ▶ 40% customer serialization rate and improving
- 4 Attractive customer base**
  - ▶ Higher employment rates for college graduates
  - ▶ 90% of portfolio has cosigners; 746 average FICO
- 5 Disciplined approach to credit**
  - ▶ Robust proprietary scorecard
  - ▶ Strong SmartOption performance; 0.6% '13 charge-offs
- 6 Strong capital position and funding capabilities**
  - ▶ 14%+ Total Capital Ratio; all capital ratios significantly in excess of well capitalized
  - ▶ Retail direct deposits; future securitizations
- 7 Targeting high growth and high return business**
  - ▶ Long-term earnings growth target of 20%+
  - ▶ Long-term ROE target of 15%+

## Management Presenters

- ▶ Experienced management team with extensive asset knowledge and industry expertise



**Raymond Quinlan**  
*Chairman &  
Chief Executive Officer*

- ▶ 30+ years of banking and financial services experience
- ▶ Joined Sallie Mae in 2014
- ▶ Previously Executive Vice President of Banking at CIT
- ▶ Previously Chairman & CEO of Citigroup Retail Financial Services



**Joseph DePaulo**  
*Executive Vice  
President - Banking*

- ▶ 30+ years of banking and financial services experience
- ▶ Joined Sallie Mae in 2009 as Executive Vice President & Chief Marketing Officer
- ▶ Previously Co-Founder & CEO of Credit One Financial Services
- ▶ Previously U.S. Card group executive at MBNA

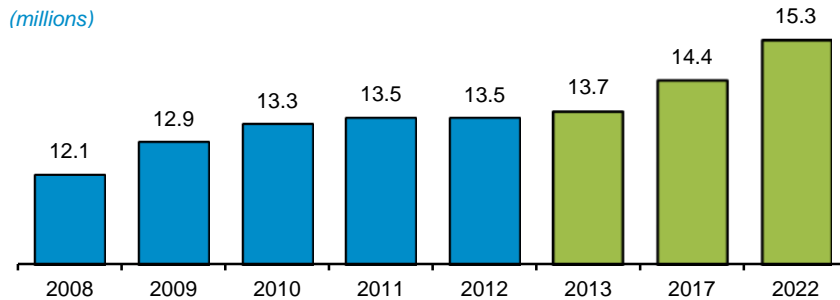


**Steven McGarry**  
*Chief Financial Officer*

- ▶ 30+ years of banking and financial services experience
- ▶ Joined Sallie Mae in 1997 as a member of the corporate finance team and later took leadership of equity and fixed income investor relations
- ▶ Previously held various positions in Toronto Dominion's treasury department

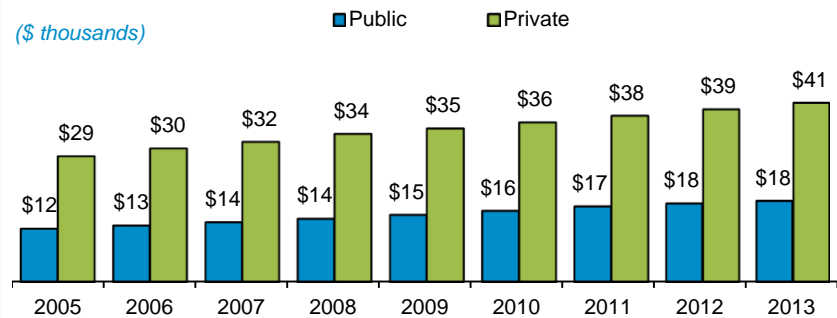
# Favorable Student Loan Market Trends

## Enrollment at Four-Year Degree Granting Institutions



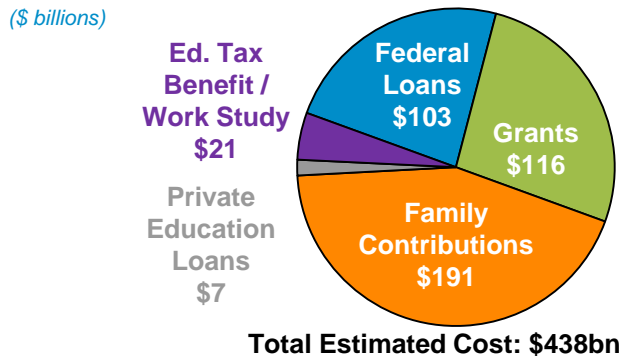
Source: U.S. Department of Education, National Center for Education Statistics, Projections of Education Statistics to 2022 (NCES 2014-051, February 2014), tables 23 and 25; 2012 actual data from Enrollment in Postsecondary Institutions, Fall 2012; Financial Statistics, Fiscal Year 2012; Graduation Rates, Selected Cohorts, 2004-09; and Employees in Postsecondary Institutions, Fall 2012.

## Annual Cost of Education



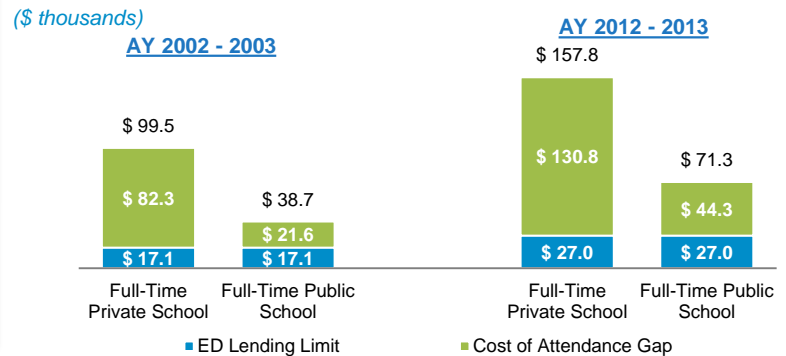
Source: *Trends in College Pricing* © 2013 The College Board, [www.collegeboard.org](http://www.collegeboard.org).  
 Note: Academic years, average published tuition, fees, room and board charges at four-year institutions; enrollment-weighted

## Estimated Total Cost of Education – 2012 / 2013 AY



Sources derived from: Department of Education, College Board, McKinsey & Company, MeasureOne, National Student Clearinghouse, Company Analysis

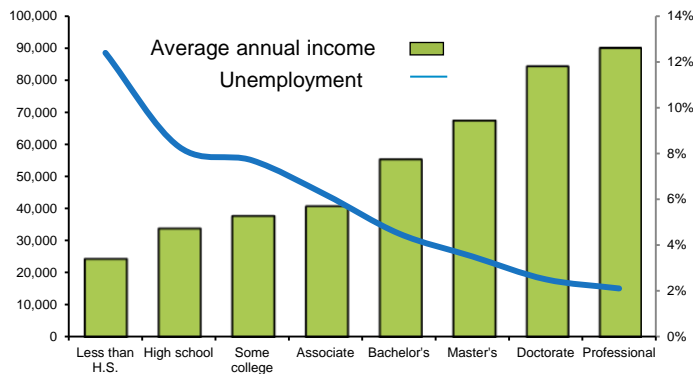
## Cost of College (Based on a Four-Year Term)



Source: *Trends in College Pricing* © 2013 The College Board, [www.collegeboard.org](http://www.collegeboard.org), U.S. Department of Education 2013

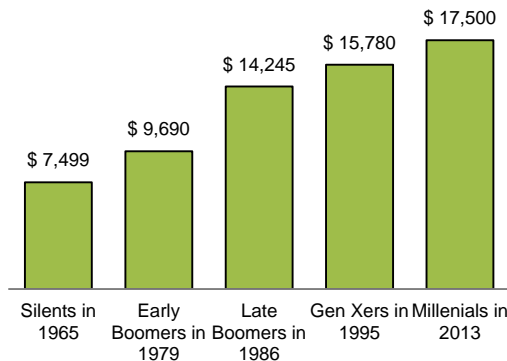
# Higher Education Value Proposition

## Relationship Between Higher Education, Income and Employment



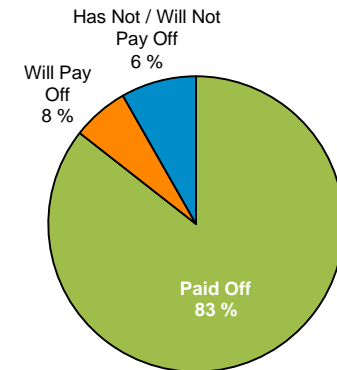
Source: U.S. Bureau of Labor Statistics, Current Population Survey, 2012 Annual Social and Economic Supplement. Represents median earnings for a full time, year-round worker over age 25. Unemployment data as of Annual Average 2012. Represents unemployment for civilian non-institutional population over age 25.

## Widening Earnings Gap of Young Adults by Educational Attainment



The difference in median annual earnings of college and high school graduates when members of each generation were ages 25 to 32  
Source: PEW Research Center

## Most Graduates Say College Has Paid Off



% who say that considering what they and their family paid for their undergraduate education  
Source: PEW Research Center

- ▶ 18 to 24 year olds with a college degree have a 50% lower unemployment rate than those without a degree
- ▶ ~60% of students graduate with student loans
- ▶ 70% of student loan borrowers have debt balances less than \$25,000 and 4% have balances above \$100,000 (average borrowings of \$26,500)





## The Sallie Mae Brand




- ▶ #1 saving, planning and paying for education company with 40-years of leadership in the education lending market
- ▶ Top ranked brand: 6 out of 10 consumers of education finance recognize the Sallie Mae brand
- ▶ Industry leading market share in private education lending; 50% market share for 2012 / 2013 AY
- ▶ Over 2,400 actively managed university relationships across the U.S.
- ▶ Complementary consumer product offerings
- ▶ Over one million long-term engaged customers across the Sallie Mae brands



## Full Suite of Private Education Products

	Description	Franchise
<b>Private Education Lending</b>	<ul style="list-style-type: none"> <li>▶ Market, price, underwrite and disburse private education loans</li> <li>▶ Focused on high quality credits at top tier institutions</li> <li>▶ Smart Option is primary product (interest-only, fixed pay, deferred)</li> <li>▶ Provide servicing and collections for existing portfolio and newly originated private education loans</li> </ul>	<p>700,000+ loans</p> <p>~500,000 active private education loan accounts</p>
<b>Direct Banking</b>	<ul style="list-style-type: none"> <li>▶ Full suite of savings accounts and CD products online</li> <li>▶ Nearly 50% of retail deposit customers have another SLM product</li> </ul>	<p>144,000 retail accounts</p>
<b>Upromise Rewards</b>	<ul style="list-style-type: none"> <li>▶ Free membership service allowing members to earn money for college through participating merchants</li> <li>▶ Upromise MasterCard allows members to earn while using the card</li> </ul>	<p>800 merchants</p> <p>300,000+ active members</p>
<b>Sallie Mae Insurance Services</b>	<ul style="list-style-type: none"> <li>▶ Partners with established insurance brokerages to offer insurance programs tailored to students</li> <li>▶ Products include tuition, renters, life and health insurance plans</li> </ul>	<p>Complements core private education lending business</p>

## Multifaceted Distribution Platform

	Commentary	2013 Originations
<b>On-Campus</b>	<ul style="list-style-type: none"> <li>▶ Nationally recognized brand drives on-campus originations</li> <li>▶ Actively manage over 2,400 college relationships</li> <li>▶ Represented on vast majority of college directed preferred lender lists</li> <li>▶ Largest national sales force in the industry</li> </ul>	<ul style="list-style-type: none"> <li>▶ ~\$1.9bn</li> <li>▶ 50% of originations</li> </ul>
<b>Direct to Consumer</b>	<ul style="list-style-type: none"> <li>▶ Significant experience and success marketing to prospects through multiple channels including: paid search, affiliates, display, direct mail and email</li> <li>▶ Leverage low cost customer channels to contribute to significant serialization in following years</li> </ul>	<ul style="list-style-type: none"> <li>▶ ~\$1.8bn</li> <li>▶ 47% of originations</li> </ul>
<b>Partnership</b>	<ul style="list-style-type: none"> <li>▶ Marketing and distribution through partnerships with banks, credit unions, resellers and membership organizations</li> <li>▶ Focused on growing through increased penetration and additional partner relationships</li> </ul>	<ul style="list-style-type: none"> <li>▶ ~\$0.1bn</li> <li>▶ 3% of originations</li> </ul>

Student

## Attractive Customer Base

- ✓ **Top tier institutions**
  - ▶ 82% of customers from non-profit 4 year institutions
  - ▶ 11% of customers from for profit 4 year institutions

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- ✓ **Strong credit history**
  - ▶ 78% of customers have FICOs >700
  - ▶ Average FICO of 746 at origination

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- ✓ **Co-signer involvement**
  - ▶ 90% of borrowers have co-signers

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- ✓ **Attractive demographics**
  - ▶ Average unemployment rate of 4.4% for individuals with some college vs. 10.4% for individuals with no college
  - ▶ Average income of \$63,000 for individuals with some college vs. \$29,000 for individuals with no college

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- ✓ **High serialization rates**
  - ▶ 40.8% of private education loan borrowers are repeat customers, obtaining loans in the following academic year

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- ✓ **Cross sell opportunities**
  - ▶ 5.1% conversion rate of Upromise members to student loan customers
  - ▶ 6.7% of Sallie Mae depositors have private education loans



## Scale and Serialization Lead to Low Cost Delivery

### Scale

- ▶ Strong market share allows Sallie Mae to leverage fixed acquisition costs over significant new account volume
- ▶ Market leading brand recognition drives volume with a disciplined approach to marketing investment
- ▶ Cost to acquire new loans typically covered by year 1 expected cash flows
- ▶ Cost to acquire loans has dropped nearly 30% in the last two years and is expected to continue to decline with volume growth

### Serialization

- ▶ 40% of borrowers in 2013 had a Sallie Mae loan in the prior year
- ▶ 90% of serial customers renew loans through no cost or low cost channels with limited incremental marketing costs
- ▶ Serialization rates have improved by more than 20% over the last 2 years
- ▶ Test and learn approach to direct to consumer marketing has allowed for year over year improvement

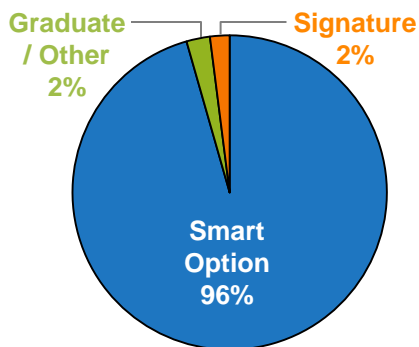


## Unique Smart Option Product Leads Private Education Lending Market

- ▶ Smart Option student loan product first introduced in 2009
- ▶ Offers three repayment options designed to help borrowers balance their goals and budget while in school
  - Interest Only: requires interest only payment during in-school period
  - Fixed Repayment: requires \$25 monthly payments during in-school period
  - Deferred Repayment: allows the customer to defer payments while in-school
- ▶ Variable and Fixed Interest Rate Options
- ▶ Repayment term is driven by cumulative amount borrowed and grade level
- ▶ Regular communication with customers and cosigners during in-school period
- ▶ Full collection activities are employed at both the customer and cosigner level
- ▶ All loans are certified by the school's financial aid office to ensure that proceeds are used for education expenses

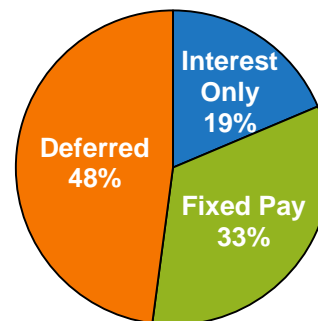
# High Quality Private Education Portfolio

Portfolio by Product



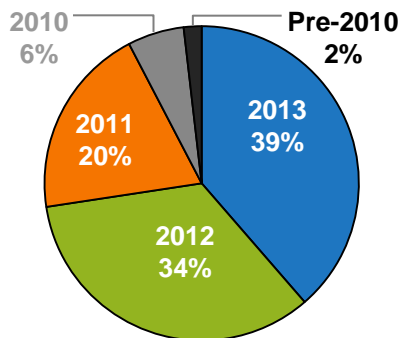
4Q 2013 Private Education Loans: \$6.9bn

Smart Option Payment Type



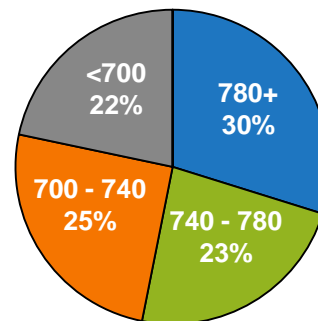
4Q 2013 Smart Option Loans: \$6.6bn

Portfolio by Vintage



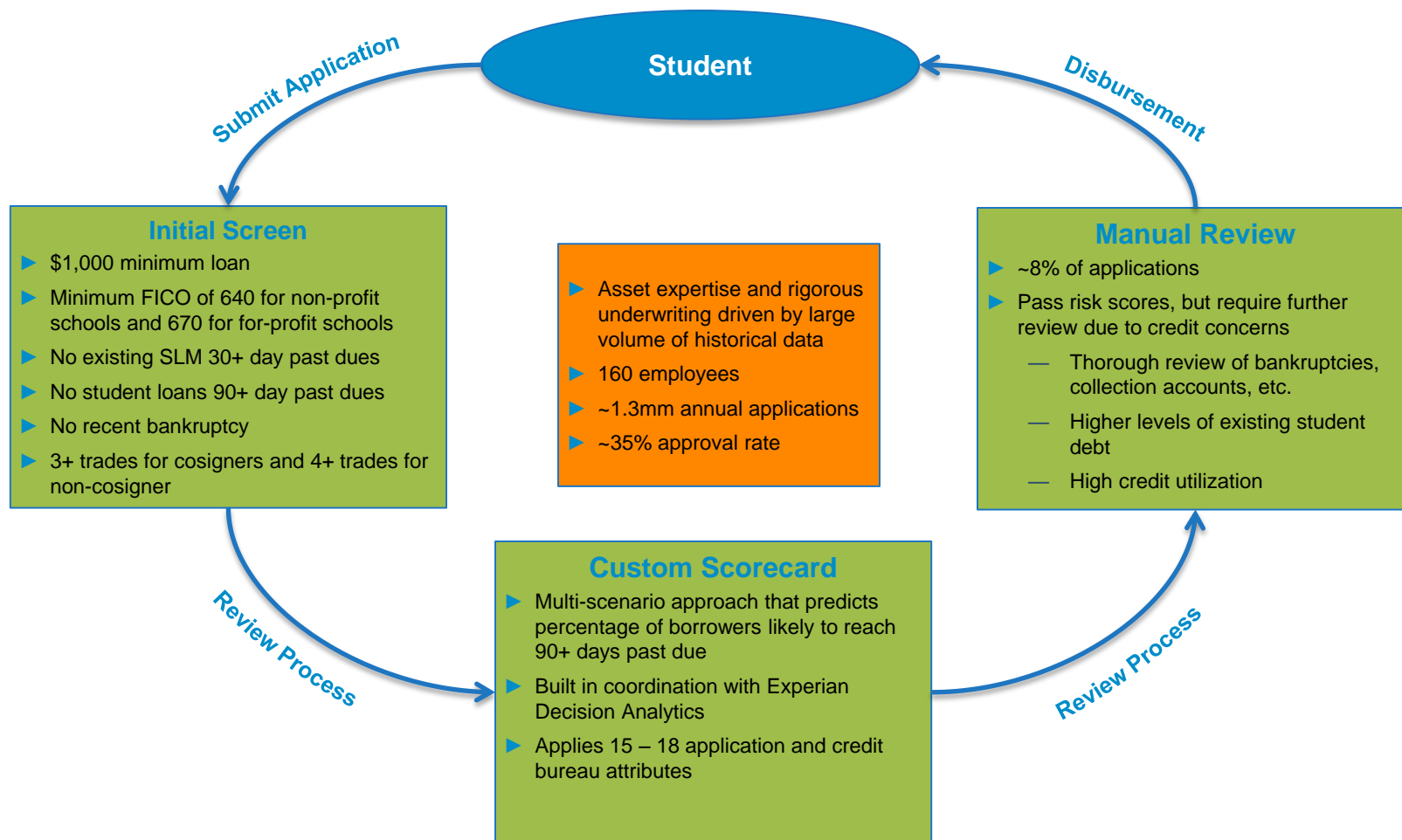
Weighted Average Age of Loan: ~1.5 years

Customer FICO at Origination



Weighted Average FICO: 746

# Analytical Approach to Credit





## Smart Option Credit Outperforming

- ▶ Smart Option products outperform prior private education loan products due to more stringent underwriting standards and tailored product options
- ▶ Performance of newer vintage loans driven by focused marketing on high quality borrowers, better data and product management and an improving macroeconomic environment

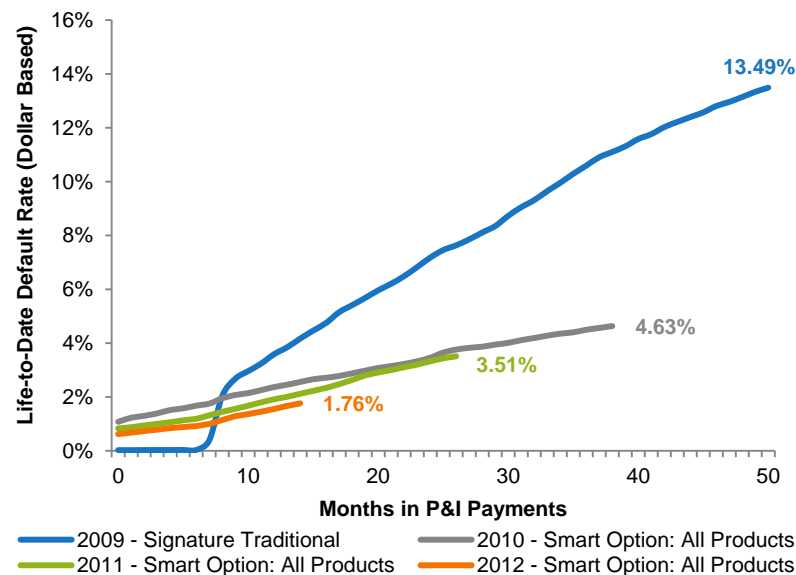
### Smart Option Performance Trends<sup>1</sup>

	2011	2012	2013
Smart Option Loans	\$4,769	\$7,501	\$10,514
Smart Option Loans in Repayment	4,195	5,774	7,728
% Charge-Offs <sup>2</sup>	0.3%	0.5%	0.6%
% Delinquencies <sup>2</sup>	2.8%	2.9%	3.0%
% 90+ Day Delinquencies <sup>2</sup>	0.8%	1.0%	1.1%
% in Forbearance <sup>2</sup>	0.3%	2.1%	2.5%
% with Co-Signer <sup>2</sup>	94%	93%	92%
Average FICO at Origination <sup>2</sup>	746	746	746

<sup>1</sup> Total existing Sallie Mae Smart Option portfolio (includes Sallie Mae and Navient pro forma Smart Option loans)

<sup>2</sup> Percentage of loans in repayment.

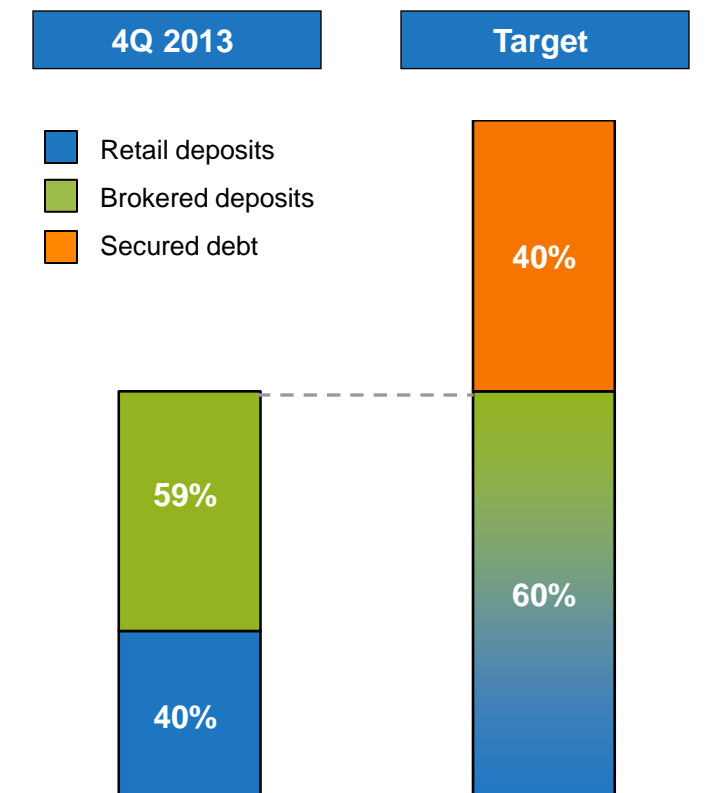
### Smart Option Outperforms Legacy Signature



Signature loans represent random sample of traditional Signature loans originated during the 2006-2008 origination years totaling \$500mm annually  
Smart Option loans represent random sample of Smart Option loans originated during the 2009-2013 origination years totaling \$500mm annually

## Conservative Funding Approach

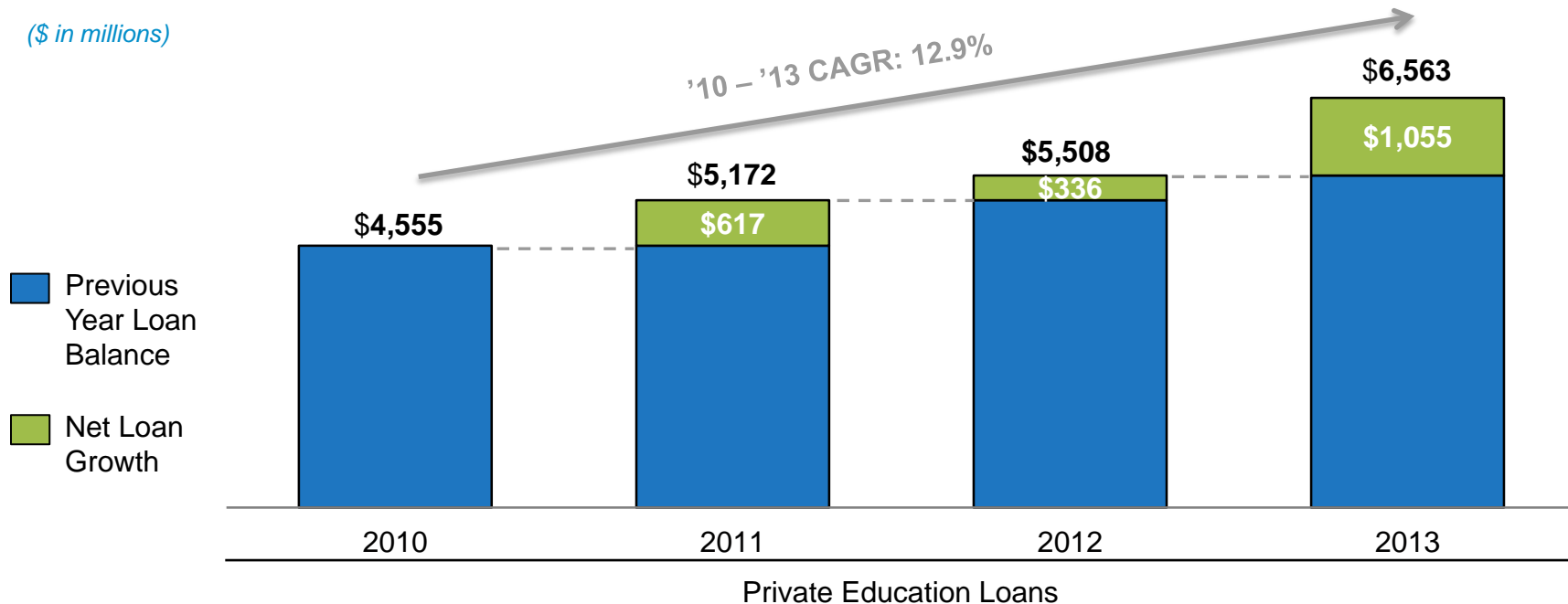
- ▶ **Low cost deposit base with no branch overhead**
  - 74% of retail deposits are savings accounts
  - Brokered deposits used as alternative funding source
- ▶ **Term funding / securitizations will augment deposit funding for future growth**
  - Retaining experienced capital markets team
  - Capacity to securitize \$2 – \$3bn of private education loans
- ▶ **Multi-year revolving conduit facility**
  - Provides seasonal loan funding and backup liquidity
  - \$500mm conduit with 2-year term provided by consortium of banks
- ▶ **Whole loan sales used to manage balance sheet growth**
  - Targeting \$1.5 – \$2.5bn of loan sales annually
- ▶ **Substantial liquidity portfolio**
  - \$2.9bn of on-balance sheet cash provides seasonal loan funding and liquidity



## Significant Private Education Loan Growth

(\$ in millions)

'10 - '13 CAGR: 12.9%

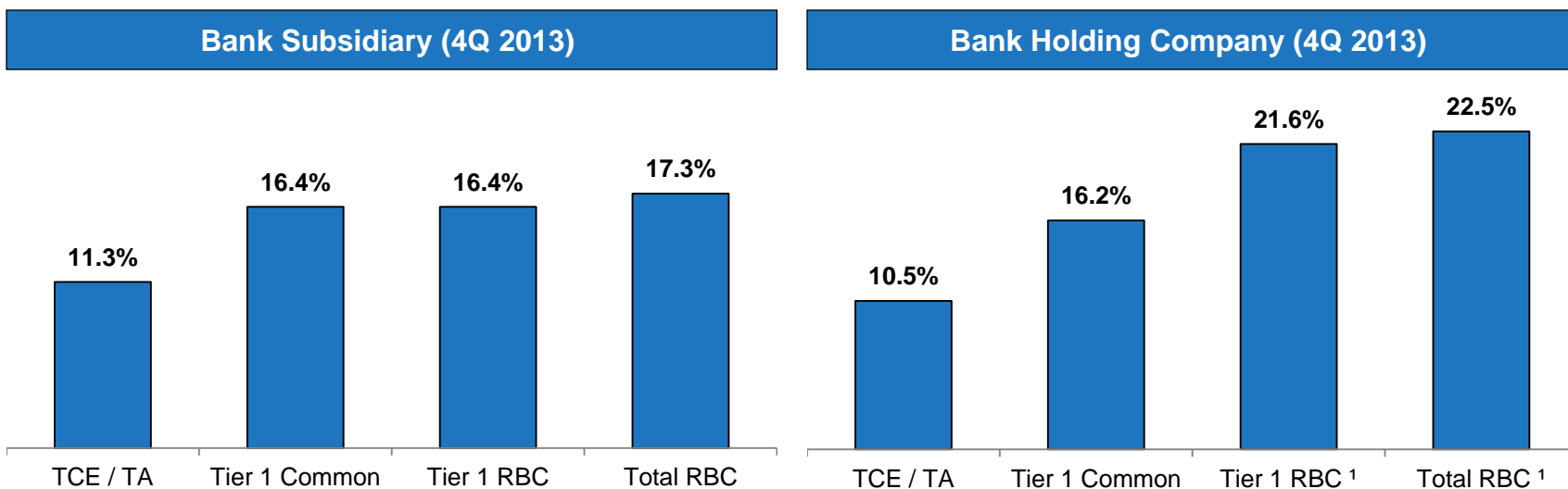


Private Education Loans				
Originations	\$2,236	\$2,699	\$3,305	\$3,762
% Outstanding	49%	52%	60%	57%
Loan Sales <sup>1</sup>	\$1,820	\$1,897	\$2,639	\$2,411
% of Originations	81%	70%	80%	64%

<sup>1</sup> Loan sales to affiliates.

## Strong Capital Position

- ▶ Significant available capital resources, well in excess of regulatory minimums
- ▶ Long-term target of 14% Total RBC ratio at the bank subsidiary
- ▶ \$565mm of preferred securities remain with SLM<sup>1</sup>



Note: Financial data as of December 31, 2013

<sup>1</sup> Includes \$400mm Series B non-cumulative perpetual preferred stock and excludes \$165mm Series A cumulative perpetual preferred stock that will also remain with SLM.



## High Return Business Model – Illustrative Life of Loan Per Unit Economics

	Return on Assets	Description
Loan Yield	8.00 %	▶ Approximate average yield on future originations; ~85% variable / ~15% fixed rate
Cost of Funds	1.70 %	▶ Expected life of loan cost of funds including deposit / ABS funding and 15% equity
<b>Net Interest Margin</b>	<b>6.30 %</b>	
Loan Losses	1.00 %	▶ Average annual provision for loan losses based on expected cumulative cohort default rate of ~7%; actual defaults typically higher in early years and lower in later years
<b>Risk-Adjusted Margin</b>	<b>5.30 %</b>	
Cost to Acquire	0.40 %	▶ Marketing / origination cost associating with new loans; amortized over life of loan
Servicing Cost	0.50 %	▶ Expected average annual servicing costs; ~\$4.00 / month per account
Overhead Expense	0.50 %	▶ Expected average annual overhead expenses
<b>Total Expenses</b>	<b>1.40 %</b>	
Total Pre-Tax Income	3.90 %	
<b>Net Income / ROAA</b>	<b>2.34 %</b>	▶ Assumes 40% tax rate
<b>ROE</b>	<b>15.60 %</b>	▶ Assumes 15% equity

Note: All information based on Sallie Mae Bank current business plan.



## Financial Review – Pro Forma Sallie Mae

(\$ in millions)

### Pro Forma Balance Sheet

2013

#### Assets

Cash and Investments	\$ 2,864
Private Education Loans (net of allowance for losses of \$62)	6,506
FFELP Loans (net of allowance for losses of \$6)	1,425
Other Assets	490
<b>Total Assets</b>	<b>\$ 11,285</b>

#### Liabilities and Equity

Deposits	\$ 8,952
Other Liabilities	588
<b>Total Liabilities</b>	<b>\$ 9,540</b>
Total Equity	1,745
<b>Total Liabilities &amp; Equity</b>	<b>\$ 11,285</b>

### Pro Forma Income Statement

2012

2013

#### Interest Income:

Net Interest Income	\$ 410	\$ 462
Less: Provisions on Loan Losses	66	69
<b>Net Interest Income after Provisions</b>	<b>\$ 344</b>	<b>\$ 393</b>

#### Other Income:

Gain on Sale of Loans and Investments	\$ 235	\$ 260
Other	32	38
<b>Total Other Income</b>	<b>\$ 267</b>	<b>\$ 298</b>

#### Expenses:

Operating Expenses	\$ 260	\$ 272
Acquired Intangible Asset Amortization	12	3
Restructuring	1	2
<b>Total Non-Interest Expense</b>	<b>\$ 273</b>	<b>\$ 277</b>
Income Before Tax Expense	\$ 338	\$ 414
Income Tax Expense	124	157

**Net Income** \$ 214 \$ 257

**Net Income to Common** \$ 196 \$ 238

#### Memo:

NIM	5.2 %	4.8 %
Efficiency Ratio	40.3 %	36.4 %
ROA <sup>1</sup>	–	2.1 %
ROE <sup>1</sup>	–	13.6 %

Source: SLM Corporation 10-K

<sup>1</sup> Net income to common divided by year end assets / equity.

## Key Financial Targets

	Target
Annual Originations	\$4 bn +
Asset Growth	15.0% – 17.5%
Earnings Growth	20% +
Annual Loan Sales	\$1.5 – \$2.5 bn
ROA	2.0% +
ROE	15% +
Total RBC	14%

## Business Diversification Opportunities



### Lending

### Funding

#### Credit Cards

- ▶ Focused on Upromise Rewards customers

#### Personal Loans

- ▶ Consumer term loan with credit card like features
- ▶ Short terms and fixed payments
- ▶ Target recent graduates with professional degrees

#### Practice Loans

- ▶ Medium ticket secured loans for healthcare professionals
- ▶ Medium term durations

#### Banking Products

- ▶ Continued focus on building deposit relationships

#### Loan Sales

- ▶ Whole loan sales to third parties in order to manage balance sheet growth
- ▶ Loan sales decline as balance sheet grows

#### Secured Funding

- ▶ Experienced private education loan capital markets team
- ▶ Provides diversified funding



## Sallie Mae Investment Highlights

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