SLM CORP
Form 10-Q
August 03, 2012
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-Q

**(Mark One)**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2012**

**or**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from to**

**Commission File Number: 001-13251**

# SLM Corporation

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **52-2013874** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **300 Continental Drive, Newark, Delaware** | **19713** |
| **(Address of principal executive offices)** | **(Zip Code)** |

**(302) 283-8000**

**(Registrant s telephone number, including area code)**

**(Former name, former address and former fiscal year, if changed since last report)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer | þ | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

| **Class** | **Outstanding at June 30, 2012** |
|---|---|
| Common stock, $.20 par value | 469,402,199 shares |

Table of Contents

**SLM CORPORATION**

**Table of Contents**

Table of Contents

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

## SLM CORPORATION

## CONSOLIDATED BALANCE SHEETS

**(In millions, except share and per share amounts)**

**(Unaudited)**

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| **Assets** | | |
| FFELP Loans (net of allowance for losses of $173 and $187, respectively) | $ 132,833 | $ 138,130 |
| Private Education Loans (net of allowance for losses of $2,186 and $2,171, respectively) | 36,454 | 36,290 |
| Investments | | |
| Available-for-sale | 59 | 70 |
| Other | 1,044 | 1,052 |
| Total investments | 1,103 | 1,122 |
| Cash and cash equivalents | 3,020 | 2,794 |
| Restricted cash and investments | 6,717 | 5,873 |
| Goodwill and acquired intangible assets, net | 467 | 478 |
| Other assets | 8,485 | 8,658 |
| Total assets | $ 189,079 | $ 193,345 |
| **Liabilities** | | |
| Short-term borrowings | $ 24,493 | $ 29,573 |
| Long-term borrowings | 155,476 | 154,393 |
| Other liabilities | 4,172 | 4,128 |
| Total liabilities | 184,141 | 188,094 |
| **Commitments and contingencies** | | |
| **Equity** | | |
| Preferred stock, par value $.20 per share, 20 million shares authorized | | |
| Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of $50 per share | 165 | 165 |
| Series B: 4 million and 4 million shares issued, respectively, at stated value of $100 per share | 400 | 400 |
| Common stock, par value $.20 per share, 1.125 billion shares authorized: 533 million and 529 million shares issued, respectively | 107 | 106 |
| Additional paid-in capital | 4,196 | 4,136 |
| Accumulated other comprehensive loss (net of tax benefit of $6 and $8, respectively) | (10) | (14) |
| Retained earnings | 1,040 | 770 |
| Total SLM Corporation stockholders equity before treasury stock | 5,898 | 5,563 |
| Less: Common stock held in treasury at cost: 63 million and 20 million shares, respectively | (967) | (320) |
| Total SLM Corporation stockholders equity | 4,931 | 5,243 |
| Noncontrolling interest | 7 | 8 |
| Total equity | 4,938 | 5,251 |

| | | |
|---|---|---|
| Total liabilities and equity | $ 189,079 | $ 193,345 |

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

| | June 30, 2012 | December 31, 2011 |
|---|---|---|
| FFELP Loans | $ 129,314 | $ 135,536 |
| Private Education Loans | 25,895 | 24,962 |
| Restricted cash and investments | 6,580 | 5,609 |
| Other assets | 2,085 | 2,638 |
| Short-term borrowings | 15,903 | 21,313 |
| Long-term borrowings | 135,154 | 134,533 |
| Net assets of consolidated variable interest entities | $ 12,817 | $ 12,899 |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**CONSOLIDATED STATEMENTS OF INCOME**

**(In millions, except per share amounts)**

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| **Interest income:** | | | | |
| FFELP Loans | $ 777 | $ 850 | $ 1,619 | $ 1,727 |
| Private Education Loans | 616 | 600 | 1,241 | 1,204 |
| Other loans | 4 | 5 | 9 | 11 |
| Cash and investments | 6 | 5 | 10 | 10 |
| Total interest income | 1,403 | 1,460 | 2,879 | 2,952 |
| Total interest expense | 657 | 592 | 1,323 | 1,186 |
| Net interest income | 746 | 868 | 1,556 | 1,766 |
| Less: provisions for loan losses | 243 | 291 | 496 | 594 |
| Net interest income after provisions for loan losses | 503 | 577 | 1,060 | 1,172 |
| **Other income (loss):** | | | | |
| Gains (losses) on derivative and hedging activities, net | 6 | (510) | (366) | (752) |
| Servicing revenue | 92 | 93 | 189 | 191 |
| Contingency revenue | 87 | 86 | 176 | 164 |
| Gains on debt repurchases | 20 | | 58 | 38 |
| Other | (2) | 3 | 38 | 25 |
| Total other income (loss) | 203 | (328) | 95 | (334) |
| **Expenses:** | | | | |
| Salaries and benefits | 120 | 125 | 247 | 261 |
| Other operating expenses | 119 | 143 | 254 | 311 |
| Total operating expenses | 239 | 268 | 501 | 572 |
| Goodwill and acquired intangible assets impairment and amortization expense | 5 | 6 | 9 | 12 |
| Restructuring expenses | 3 | 2 | 8 | 5 |
| Total expenses | 247 | 276 | 518 | 589 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 459 | (27) | 637 | 249 |
| Income tax expense (benefit) | 168 | (10) | 235 | 90 |
| Net income (loss) from continuing operations | 291 | (17) | 402 | 159 |
| Income from discontinued operations, net of tax expense | | 11 | | 10 |
| **Net income (loss)** | 291 | (6) | 402 | 169 |
| Less: net loss attributable to noncontrolling interest | (1) | | (1) | |
| Net income (loss) attributable to SLM Corporation | 292 | (6) | 403 | 169 |
| Preferred stock dividends | 5 | 4 | 10 | 8 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net income (loss) attributable to SLM Corporation common stock | $ | 287 | $ | (10) | $ | 393 | $ | 161 |
| **Basic earnings (loss) per common share attributable to SLM Corporation:** | | | | | | | | |
| Continuing operations | $ | .59 | $ | (.04) | $ | .80 | $ | .29 |
| Discontinued operations | | | | .02 | | | | .02 |
| Total | $ | .59 | $ | (.02) | $ | .80 | $ | .31 |
| Average common shares outstanding | | 482 | | 524 | | 493 | | 525 |
| **Diluted earnings (loss) per common share attributable to SLM Corporation:** | | | | | | | | |
| Continuing operations | $ | .59 | $ | (.04) | $ | .79 | $ | .28 |
| Discontinued operations | | | | .02 | | | | .02 |
| Total | $ | .59 | $ | (.02) | $ | .79 | $ | .30 |
| Average common and common equivalent shares outstanding | | 488 | | 524 | | 499 | | 531 |
| Dividends per common share attributable to SLM Corporation | $ | .125 | $ | .10 | $ | .25 | $ | .10 |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

**(In millions)**

**(Unaudited)**

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Net income (loss) | $ 291 | $ (6) | $ 402 | $ 169 |
| Other comprehensive income (loss): | | | | |
| Unrealized gains/(losses) on derivatives: | | | | |
| Unrealized hedging losses on derivatives | (10) | (5) | (11) | (8) |
| Reclassification adjustments for derivative losses included in net income | 8 | 13 | 17 | 30 |
| Unrealized gains on investments | | 2 | | 2 |
| Income tax benefit (expense) | 1 | (4) | (2) | (9) |
| Other comprehensive income, net of tax | (1) | 6 | 4 | 15 |
| Comprehensive income | 290 | | 406 | 184 |
| Less: comprehensive loss attributable to noncontrolling interest | (1) | | (1) | |
| Total comprehensive income attributable to SLM Corporation | $ 291 | $ | $ 407 | $ 184 |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**(In millions, except share and per share amounts)**

**(Unaudited)**

| | Preferred Stock Shares | Common Stock Shares Issued | Common Stock Shares Treasury | Common Stock Shares Outstanding | Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Stockholders Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at March 31, 2011** | 7,300,000 | 527,493,764 | | 527,493,764 | $ 565 | $ 106 | $ 4,092 | $ (36) | $ 480 | $ | $ 5,207 | $ | $ 5,207 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net loss | | | | | | | | | (6) | | (6) | | (6) |
| Other comprehensive income, net of tax | | | | | | | | 6 | | | 6 | | 6 |
| Total comprehensive income | | | | | | | | | | | | | |
| Cash dividends: | | | | | | | | | | | | | |
| Common stock ($.10 per share) | | | | | | | | | (52) | | (52) | | (52) |
| Preferred stock, series A ($.87 per share) | | | | | | | | | (3) | | (3) | | (3) |
| Preferred stock, series B ($.26 per share) | | | | | | | | | (1) | | (1) | | (1) |
| Issuance of common shares | | 1,129,399 | | 1,129,399 | | | 12 | | | | 12 | | 12 |
| Tax benefit related to employee stock-based compensation plans | | | | | | | (2) | | | | (2) | | (2) |
| Stock-based compensation expense | | | | | | | 12 | | | | 12 | | 12 |
| Common stock repurchased | | | (9,593,603) | (9,593,603) | | | | | | (156) | (156) | | (156) |
| Shares repurchased related to employee stock-based compensation plans | | | (880,731) | (880,731) | | | | | | (14) | (14) | | (14) |
| Acquisition of noncontrolling interest | | | | | | | | | | | | 9 | 9 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at June 30, 2011** | 7,300,000 | 528,623,163 | (10,474,334) | 518,148,829 | $ 565 | $ 106 | $ 4,114 | $ (30) | $ 418 | $ (170) | $ 5,003 | $ 9 | $ 5,012 |
| **Balance at March 31, 2012** | 7,300,000 | 532,246,806 | (39,084,156) | 493,162,650 | $ 565 | $ 106 | $ 4,182 | $ (9) | $ 814 | $ (620) | $ 5,038 | $ 8 | $ 5,046 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income (loss) | | | | | | | | | 292 | | 292 | (1) | 291 |
| Other comprehensive income, net of tax | | | | | | | | (1) | | | (1) | | (1) |
| Total comprehensive income | | | | | | | | | | | 291 | (1) | 290 |
| Cash dividends: | | | | | | | | | | | | | |
| Common stock ($.125 per share) | | | | | | | | | (61) | | (61) | | (61) |
| Preferred stock, series A ($.87 per share) | | | | | | | | | (3) | | (3) | | (3) |
| Preferred stock, series B ($.56 per share) | | | | | | | | | (2) | | (2) | | (2) |
| Issuance of common shares | | 426,168 | | 426,168 | | 1 | 4 | | | | 5 | | 5 |
| Stock-based compensation expense | | | | | | | 10 | | | | 10 | | 10 |
| Common stock repurchased | | | (23,836,964) | (23,836,964) | | | | | | (341) | (341) | | (341) |
| Shares repurchased related to employee stock-based compensation plans | | | (349,655) | (349,655) | | | | | | (6) | (6) | | (6) |
| **Balance at June 30, 2012** | 7,300,000 | 532,672,974 | (63,270,775) | 469,402,199 | $ 565 | $ 107 | $ 4,196 | $ (10) | $ 1,040 | $ (967) | $ 4,931 | $ 7 | $ 4,938 |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**(In millions, except share and per share amounts)**

**(Unaudited)**

| | Preferred Stock Shares | Common Stock Shares Issued | Common Stock Shares Treasury | Common Stock Shares Outstanding | Preferred Stock | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Treasury Stock | Total Stockholders Equity | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2010** | 7,300,000 | 595,263,474 | (68,319,589) | 526,943,885 | $ 565 | $ 119 | $ 5,940 | $ (45) | $ 309 | $ (1,876) | $ 5,012 | $ | $ 5,012 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income | | | | | | | | | 169 | | 169 | | 169 |
| Other comprehensive income, net of tax | | | | | | | | 15 | | | 15 | | 15 |
| Total comprehensive income | | | | | | | | | | | 184 | | 184 |
| Cash dividends: | | | | | | | | | | | | | |
| Common stock ($.10 per share) | | | | | | | | | (52) | | (52) | | (52) |
| Preferred stock, series A ($1.74 per share) | | | | | | | | | (6) | | (6) | | (6) |
| Preferred stock, series B ($.57 per share) | | | | | | | | | (2) | | (2) | | (2) |
| Issuance of common shares | | 3,434,058 | | 3,434,058 | | 1 | 34 | | | | 35 | | 35 |
| Retirement of common stock in treasury | | (70,074,369) | 70,074,369 | | | (14) | (1,890) | | | 1,904 | | | |
| Tax benefit related to employee stock-based compensation plans | | | | | | | (7) | | | | (7) | | (7) |
| Stock-based compensation expense | | | | | | | 37 | | | | 37 | | 37 |
| Common stock repurchased | | | (9,593,603) | (9,593,603) | | | | | | (156) | (156) | | (156) |
| Shares repurchased related to employee stock-based compensation plans | | | (2,635,511) | (2,635,511) | | | | | | (42) | (42) | | (42) |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Acquisition of noncontrolling interest | | | | | | | | | | | | 9 | 9 |
| **Balance at June 30, 2011** | 7,300,000 | 528,623,163 | (10,474,334) | 518,148,829 | $ 565 | $ 106 | $ 4,114 | $ (30) | $ 418 | $ (170) | $ 5,003 | $ 9 | $ 5,012 |
| **Balance at December 31, 2011** | 7,300,000 | 529,075,322 | (20,323,997) | 508,751,325 | $ 565 | $ 106 | $ 4,136 | $ (14) | $ 770 | $ (320) | $ 5,243 | $ 8 | $ 5,251 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income (loss) | | | | | | | | | 403 | | 403 | (1) | 402 |
| Other comprehensive income, net of tax | | | | | | | | 4 | | | 4 | | 4 |
| Total comprehensive income | | | | | | | | | | | 407 | (1) | 406 |
| Cash dividends: | | | | | | | | | | | | | |
| Common stock ($.25 per share) | | | | | | | | | (123) | | (123) | | (123) |
| Preferred stock, series A ($1.74 per share) | | | | | | | | | (6) | | (6) | | (6) |
| Preferred stock, series B ($1.13 per share) | | | | | | | | | (4) | | (4) | | (4) |
| Issuance of common shares | | 3,597,652 | | 3,597,652 | | 1 | 31 | | | | 32 | | 32 |
| Tax benefit related to employee stock-based compensation plans | | | | | | | (3) | | | | (3) | | (3) |
| Stock-based compensation expense | | | | | | | 32 | | | | 32 | | 32 |
| Common stock repurchased | | | (40,540,146) | (40,540,146) | | | | | | (609) | (609) | | (609) |
| Shares repurchased related to employee stock-based compensation plans | | | (2,406,632) | (2,406,632) | | | | | | (38) | (38) | | (38) |
| **Balance at June 30, 2012** | 7,300,000 | 532,672,974 | (63,270,775) | 469,402,199 | $ 565 | $ 107 | $ 4,196 | $ (10) | $ 1,040 | $ (967) | $ 4,931 | $ 7 | $ 4,938 |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(In millions)**

**(Unaudited)**

| | Six Months Ended June 30, 2012 | 2011 |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 402 | $ 169 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gains on debt repurchases | (58) | (38) |
| Goodwill and acquired intangible assets impairment and amortization expense | 9 | 12 |
| Stock-based compensation expense | 32 | 37 |
| Unrealized (gains) losses on derivative and hedging activities | (1) | 396 |
| Provisions for loan losses | 496 | 594 |
| Decrease in restricted cash other | 34 | 53 |
| Decrease in accrued interest receivable | 104 | 93 |
| Increase in accrued interest payable | 29 | 70 |
| (Increase) decrease in other assets | (81) | 206 |
| Increase (decrease) in other liabilities | 59 | (225) |
| Total adjustments | 623 | 1,198 |
| Total net cash provided by operating activities | 1,025 | 1,367 |
| **Investing activities** | | |
| Student loans acquired and originated | (3,826) | (1,818) |
| Reduction of student loans: | | |
| Installment payments, claims and other | 8,479 | 6,707 |
| Proceeds from sales of student loans | 284 | 381 |
| Other investing activities, net | | (172) |
| Purchases of available-for-sale securities | (22) | (110) |
| Proceeds from maturities of available-for-sale securities | 44 | 133 |
| Purchases of held-to-maturity and other securities | (148) | (131) |
| Proceeds from maturities of held-to-maturity and other securities | 128 | 128 |
| (Increase) decrease in restricted cash variable interest entities | (881) | 137 |
| Cash provided by investing activities continuing operations | 4,058 | 5,255 |
| Cash provided by investing activities discontinued operations | | 51 |
| Total net cash provided by investing activities | 4,058 | 5,306 |
| **Financing activities** | | |
| Borrowings collateralized by loans in trust issued | 6,894 | 3,038 |
| Borrowings collateralized by loans in trust repaid | (6,849) | (5,725) |
| Asset-backed commercial paper conduits, net | 1,233 | (445) |
| ED Conduit Program facility, net | (5,835) | (1,729) |
| Other short-term borrowings issued | 23 | |
| Other short-term borrowings repaid | (64) | |
| Other long-term borrowings issued | 1,927 | 1,967 |
| Other long-term borrowings repaid | (1,782) | (4,133) |
| Other financing activities, net | 94 | 255 |
| Retail and other deposits, net | 244 | 117 |
| Common stock repurchased | (609) | (156) |

| | | |
|---|---|---|
| Common stock dividends paid | (123) | (52) |
| Preferred stock dividends paid | (10) | (8) |
| Net cash used in financing activities | (4,857) | (6,871) |
| Net increase (decrease) in cash and cash equivalents | 226 | (198) |
| Cash and cash equivalents at beginning of period | 2,794 | 4,343 |
| **Cash and cash equivalents at end of period** | $ 3,020 | $ 4,145 |
| Cash disbursements made (refunds received) for: | | |
| Interest | $ 1,276 | $ 1,225 |
| Income taxes paid | $ 310 | $ 364 |
| Income taxes received | $ (5) | $ (22) |
| Noncash activity: | | |
| Investing activity Student loans and other assets acquired | $ 402 | $ |
| Operating activity Other assets acquired and other liabilities assumed, net | $ 23 | $ |
| Financing activity Borrowings assumed in acquisition of student loans and other assets | $ 425 | $ |

See accompanying notes to consolidated financial statements.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Information at June 30, 2012 and for the three and six months ended**

**June 30, 2012 and 2011 is unaudited)**

**1. Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements of SLM Corporation ( we, us, our, or the Company ) have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities ( VIEs ) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results for the year ending December 31, 2012 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K ).

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2011 to be consistent with classifications adopted for 2012, and had no effect on net income, total assets, or total liabilities.

***Recently Adopted Accounting Standards***

*Presentation of Comprehensive Income*

On January 1, 2012, we adopted Accounting Standards Update No. 2011-05, Comprehensive Income (Topic 220), Presentation of Comprehensive Income. The objective of this new guidance is to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The new guidance requires all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Upon adoption we present comprehensive income and its components in a separate consolidated statement of comprehensive income on a retrospective basis for all periods presented. There was no impact on our results of operations.

*Fair Value Measurement and Disclosure Requirements*

On January 1, 2012, we adopted ASU No. 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. These amendments (1) clarify the FASB s intent about the application of existing fair value measurement and disclosure requirements; and (2) change particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. This new guidance did not have a material impact on our fair value measurements in the three and six months ended June 30, 2012.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses**

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. We segregate our Private Education Loan portfolio into two classes of loans traditional and non-traditional. Non-traditional loans are loans to (i) borrowers attending for-profit schools with an original Fair Isaac and Company ( FICO ) score of less than 670 and (ii) borrowers attending not-for-profit schools with an original FICO score of less than 640. The FICO score used in determining whether a loan is non-traditional is the greater of the borrower or cosigner FICO score at origination. Traditional loans are defined as all other Private Education Loans that are not classified as non-traditional.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

*Allowance for Loan Losses Metrics*

| | Allowance for Loan Losses Three Months Ended June 30, 2012 | | | |
|---|---|---|---|---|
| **(Dollars in millions)** | **FFELP Loans** | **Private Education Loans** | **Other Loans** | **Total** |
| Beginning balance | $ 180 | $ 2,190 | $ 64 | $ 2,434 |
| Total provision | 18 | 225 | | 243 |
| Charge-offs[1] | (23) | (235) | (5) | (263) |
| Student loan sales | (2) | | | (2) |
| Reclassification of interest reserve[2] | | 6 | | 6 |
| Ending balance | $ 173 | $ 2,186 | $ 59 | $ 2,418 |
| *Allowance:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 921 | $ 45 | $ 966 |
| Ending balance: collectively evaluated for impairment | $ 173 | $ 1,265 | $ 14 | $ 1,452 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 6,569 | $ 84 | $ 6,653 |
| Ending balance: collectively evaluated for impairment | $ 131,512 | $ 32,905 | $ 152 | $ 164,569 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .10% | 3.09% | 9.80% | |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | .08% | 2.96% | 9.80% | |
| Allowance as a percentage of ending total loans | .13% | 5.54% | 24.85% | |
| Allowance as a percentage of ending loans in repayment | .19% | 7.11% | 24.85% | |
| Allowance coverage of charge-offs (annualized) | 1.8 | 2.3 | 2.5 | |
| Ending total loans[3] | $ 131,512 | $ 39,474 | $ 236 | |
| Average loans in repayment | $ 92,436 | $ 30,533 | $ 241 | |
| Ending loans in repayment | $ 91,998 | $ 30,731 | $ 236 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) 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 losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

| | Allowance for Loan Losses Three Months Ended June 30, 2011 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| Beginning balance | $ 190 | $ 2,034 | $ 74 | $ 2,298 |
| Total provision | 23 | 265 | 3 | 291 |
| Charge-offs[(1)] | (21) | (263) | (14) | (298) |
| Student loan sales | (3) | | | (3) |
| Reclassification of interest reserve[(2)] | | 7 | | 7 |
| Ending balance | $ 189 | $ 2,043 | $ 63 | $ 2,295 |
| *Allowance:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 134 | $ 52 | $ 186 |
| Ending balance: collectively evaluated for impairment | $ 189 | $ 1,909 | $ 11 | $ 2,109 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 564 | $ 102 | $ 666 |
| Ending balance: collectively evaluated for impairment | $ 141,048 | $ 38,093 | $ 194 | $ 179,335 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .09% | 3.71% | 17.59% | |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | .07% | 3.54% | 17.59% | |
| Allowance as a percentage of ending total loans | .13% | 5.28% | 21.46% | |
| Allowance as a percentage of ending loans in repayment | .20% | 7.07% | 21.46% | |
| Allowance coverage of charge-offs (annualized) | 2.3 | 1.9 | 1.2 | |
| Ending total loans[(3)] | $ 141,048 | $ 38,657 | $ 296 | |
| Average loans in repayment | $ 94,318 | $ 28,489 | $ 312 | |
| Ending loans in repayment | $ 94,282 | $ 28,871 | $ 296 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) 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 losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2. Allowance for Loan Losses (Continued)**

| | Allowance for Loan Losses Six Months Ended June 30, 2012 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| Beginning balance | $ 187 | $ 2,171 | $ 69 | $ 2,427 |
| Total provision | 36 | 460 | | 496 |
| Charge-offs[1] | (46) | (459) | (10) | (515) |
| Student loan sales | (4) | | | (4) |
| Reclassification of interest reserve[2] | | 14 | | 14 |
| Ending balance | $ 173 | $ 2,186 | $ 59 | $ 2,418 |
| *Allowance:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 921 | $ 45 | $ 966 |
| Ending balance: collectively evaluated for impairment | $ 173 | $ 1,265 | $ 14 | $ 1,452 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 6,569 | $ 84 | $ 6,653 |
| Ending balance: collectively evaluated for impairment | $ 131,512 | $ 32,905 | $ 152 | $ 164,569 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .10% | 3.03% | 8.41% | |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | .08% | 2.90% | 8.41% | |
| Allowance as a percentage of ending total loans | .13% | 5.54% | 24.85% | |
| Allowance as a percentage of ending loans in repayment | .19% | 7.11% | 24.85% | |
| Allowance coverage of charge-offs (annualized) | 1.9 | 2.4 | 2.8 | |
| Ending total loans[3] | $ 131,512 | $ 39,474 | $ 236 | |
| Average loans in repayment | $ 92,793 | $ 30,456 | $ 248 | |
| Ending loans in repayment | $ 91,998 | $ 30,731 | $ 236 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) 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 losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

| | Allowance for Loan Losses Six Months Ended June 30, 2011 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Loans | Private Education Loans | Other Loans | Total |
| Beginning balance | $ 189 | $ 2,022 | $ 72 | $ 2,283 |
| Total provision | 46 | 540 | 8 | 594 |
| Charge-offs(1) | (41) | (537) | (17) | (595) |
| Student loan sales | (5) | | | (5) |
| Reclassification of interest reserve(2) | | 18 | | 18 |
| Ending balance | $ 189 | $ 2,043 | $ 63 | $ 2,295 |
| *Allowance*: | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 134 | $ 52 | $ 186 |
| Ending balance: collectively evaluated for impairment | $ 189 | $ 1,909 | $ 11 | $ 2,109 |
| *Loans:* | | | | |
| Ending balance: individually evaluated for impairment | $ | $ 564 | $ 102 | $ 666 |
| Ending balance: collectively evaluated for impairment | $ 141,048 | $ 38,093 | $ 194 | $ 179,335 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .09% | 3.82% | 11.02% | |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | .07% | 3.65% | 11.02% | |
| Allowance as a percentage of ending total loans | .13% | 5.28% | 21.46% | |
| Allowance as a percentage of ending loans in repayment | .20% | 7.07% | 21.46% | |
| Allowance coverage of charge-offs (annualized) | 2.3 | 1.9 | 1.8 | |
| Ending total loans(3) | $ 141,048 | $ 38,657 | $ 296 | |
| Average loans in repayment | $ 94,908 | $ 28,309 | $ 322 | |
| Ending loans in repayment | $ 94,282 | $ 28,871 | $ 296 | |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) 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 losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

*Key Credit Quality Indicators*

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default; therefore, the key credit quality indicator for this portfolio is loan status. The impact of changes in loan status is incorporated quarterly into the allowance for loan losses calculation. For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

| | Private Education Loans Credit Quality Indicators | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| (Dollars in millions) | Balance[3] | % of Balance | Balance[3] | % of Balance |
| **Credit Quality Indicators:** | | | | |
| School Type/FICO Scores: | | | | |
| Traditional | $ 34,790 | 91% | $ 34,528 | 91% |
| Non-Traditional[1] | 3,407 | 9 | 3,565 | 9 |
| Total | $ 38,197 | 100% | $ 38,093 | 100% |
| Cosigners: | | | | |
| With cosigner | $ 24,035 | 63% | $ 23,507 | 62% |
| Without cosigner | 14,162 | 37 | 14,586 | 38 |
| Total | $ 38,197 | 100% | $ 38,093 | 100% |
| Seasoning[2]: | | | | |
| 1-12 payments | $ 8,749 | 23% | $ 9,246 | 24% |
| 13-24 payments | 6,656 | 17 | 6,837 | 18 |
| 25-36 payments | 5,723 | 15 | 5,677 | 15 |
| 37-48 payments | 3,924 | 10 | 3,778 | 10 |
| More than 48 payments | 7,047 | 19 | 6,033 | 16 |
| Not yet in repayment | 6,098 | 16 | 6,522 | 17 |
| Total | $ 38,197 | 100% | $ 38,093 | 100% |

(1) Defined as loans to borrowers attending for-profit schools (with a FICO score of less than 670 at origination) and borrowers attending not-for-profit schools (with a FICO score of less than 640 at origination).

(2) Number of months in active repayment for which a scheduled payment was due.

(3) Balance represents gross Private Education Loans.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

The following tables provide information regarding the loan status and aging of past due loans.

| | FFELP Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 21,157 | | $ 22,887 | |
| Loans in forbearance[2] | 18,357 | | 19,575 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 76,258 | 82.9% | 77,093 | 81.9% |
| Loans delinquent 31-60 days[3] | 5,239 | 5.7 | 5,419 | 5.8 |
| Loans delinquent 61-90 days[3] | 2,816 | 3.1 | 3,438 | 3.7 |
| Loans delinquent greater than 90 days[3] | 7,685 | 8.3 | 8,231 | 8.6 |
| Total FFELP Loans in repayment | 91,998 | 100% | 94,181 | 100% |
| Total FFELP Loans, gross | 131,512 | | 136,643 | |
| FFELP Loan unamortized premium | 1,494 | | 1,674 | |
| Total FFELP Loans | 133,006 | | 138,317 | |
| FFELP Loan allowance for losses | (173) | | (187) | |
| FFELP Loans, net | $ 132,833 | | $ 138,130 | |
| Percentage of FFELP Loans in repayment | | 70.0% | | 68.9% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 17.1% | | 18.1% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 16.6% | | 17.2% |

(1) Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for borrowers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

| | Private Education Traditional Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 5,529 | | $ 5,866 | |
| Loans in forbearance[2] | 1,186 | | 1,195 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 25,669 | 91.4% | 25,110 | 91.4% |
| Loans delinquent 31-60 days[3] | 862 | 3.1 | 868 | 3.2 |
| Loans delinquent 61-90 days[3] | 498 | 1.8 | 393 | 1.4 |
| Loans delinquent greater than 90 days[3] | 1,046 | 3.7 | 1,096 | 4.0 |
| Total traditional loans in repayment | 28,075 | 100% | 27,467 | 100% |
| Total traditional loans, gross | 34,790 | | 34,528 | |
| Traditional loans unamortized discount | (760) | | (792) | |
| Total traditional loans | 34,030 | | 33,736 | |
| Traditional loans receivable for partially charged-off loans | 739 | | 705 | |
| Traditional loans allowance for losses | (1,589) | | (1,542) | |
| Traditional loans, net | $ 33,180 | | $ 32,899 | |
| Percentage of traditional loans in repayment | | 80.7% | | 80.0% |
| Delinquencies as a percentage of traditional loans in repayment | | 8.6% | | 8.6% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 4.1% | | 4.2% |
| Loans in repayment greater than 12 months as a percentage of loans in repayment | | 75.0% | | 73.4% |

(1) Deferment includes borrowers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their 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 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.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

| | Private Education Non-Traditional Loan Delinquencies | | | |
|---|---|---|---|---|
| | June 30, 2012 | | December 31, 2011 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 569 | | $ 656 | |
| Loans in forbearance[2] | 182 | | 191 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 1,981 | 74.5% | 2,012 | 74.0% |
| Loans delinquent 31-60 days[3] | 196 | 7.4 | 208 | 7.7 |
| Loans delinquent 61-90 days[3] | 145 | 5.5 | 127 | 4.7 |
| Loans delinquent greater than 90 days[3] | 334 | 12.6 | 371 | 13.6 |
| Total non-traditional loans in repayment | 2,656 | 100% | 2,718 | 100% |
| Total non-traditional loans, gross | 3,407 | | 3,565 | |
| Non-traditional loans unamortized discount | (74) | | (81) | |
| Total non-traditional loans | 3,333 | | 3,484 | |
| Non-traditional loans receivable for partially charged-off loans | 538 | | 536 | |
| Non-traditional loans allowance for losses | (597) | | (629) | |
| Non-traditional loans, net | $ 3,274 | | $ 3,391 | |
| Percentage of non-traditional loans in repayment | | 78.0% | | 76.2% |
| Delinquencies as a percentage of non-traditional loans in repayment | | 25.5% | | 26.0% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 6.4% | | 6.6% |
| Loans in repayment greater than 12 months as a percentage of loans in repayment | | 66.6% | | 63.0% |

(1) Deferment includes borrowers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their 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 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.

*Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered.

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

The following table summarizes the activity in the receivable for partially charged-off loans.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Receivable at beginning of period | $ 1,250 | $ 1,090 | $ 1,241 | $ 1,040 |
| Expected future recoveries of current period defaults[1] | 82 | 94 | 151 | 191 |
| Recoveries[2] | (44) | (37) | (94) | (77) |
| Charge-offs[3] | (11) | (7) | (21) | (14) |
| Receivable at end of period | $ 1,277 | $ 1,140 | $ 1,277 | $ 1,140 |

(1) Represents the difference between the loan balance and our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the Allowance for Loan Losses Metrics tables.

*Troubled Debt Restructurings*

We modify the terms of loans for certain borrowers when we believe such modifications may increase the ability and willingness of a borrower to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. For borrowers experiencing financial difficulty, certain Private Education Loans for which we have granted a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as troubled debt restructurings. Forbearance provides borrowers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. The recorded investment of loans granted a forbearance that was classified as a troubled debt restructuring was $5.7 billion and $4.5 billion at June 30, 2012 and December 31, 2011, respectively. The recorded investment for troubled debt restructurings from loans granted interest rate reductions or extended repayment plans was $0.7 billion and $0.7 billion at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, all of our troubled debt restructuring loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our troubled debt restructuring loans.

| (Dollars in millions) | Troubled Debt Restructuring Loans | | |
|---|---|---|---|
| | Recorded Investment[(1)] | Unpaid | Related Allowance |

| | | | Principal Balance | |
|---|---|---|---|---|
| **June 30, 2012** | | | | |
| Private Education Loans | Traditional | $ 5,198 | $ 5,263 | $ 669 |
| Private Education Loans | Non-Traditional | 1,215 | 1,222 | 252 |
| Total | | $ 6,413 | $ 6,485 | $ 921 |
| **December 31, 2011** | | | | |
| Private Education Loans | Traditional | $ 4,201 | $ 4,259 | $ 546 |
| Private Education Loans | Non-Traditional | 1,048 | 1,054 | 216 |
| Total | | $ 5,249 | $ 5,313 | $ 762 |

(1) The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

The following table provides the average recorded investment and interest income recognized for our troubled debt restructuring loans.

| | | Three Months Ended June 30, | | | |
|---|---|---|---|---|---|
| | | 2012 | | 2011 | |
| (Dollars in millions) | | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Private Education Loans | Traditional | $ 5,036 | $ 81 | $ 313 | $ 4 |
| Private Education Loans | Non-Traditional | 1,206 | 26 | 192 | 3 |
| Total | | $ 6,242 | $ 107 | $ 505 | $ 7 |

| | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|
| | | 2012 | | 2011 | |
| (Dollars in millions) | | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| Private Education Loans | Traditional | $ 4,772 | $ 154 | $ 295 | $ 7 |
| Private Education Loans | Non-Traditional | 1,158 | 51 | 185 | 6 |
| Total | | $ 5,930 | $ 205 | $ 480 | $ 13 |

The following table provides the amount of modified loans that resulted in a troubled debt restructuring, as well as charge-offs occurring in the troubled debt restructuring portfolio. The majority of our loans that are considered troubled debt restructurings involve a temporary forbearance of payments and do not change the contractual interest rate of the loan.

| | | Three Months Ended June 30, | | | |
|---|---|---|---|---|---|
| | | 2012 | | 2011 | |
| (Dollars in millions) | | Modified Loans[1] | Charge-offs[2] | Modified Loans[1] | Charge-offs[2] |
| Private Education Loans | Traditional | $ 554 | $ 82 | $ 69 | $ 7 |
| Private Education Loans | Non-Traditional | 104 | 33 | 29 | 6 |
| Total | | $ 658 | $ 115 | $ 98 | $ 13 |

| | | Six Months Ended June 30, | |
|---|---|---|---|
| | | 2012 | 2011 |
| (Dollars in millions) | | | |

| | | Modified Loans[1] | Charge-offs[2] | Modified Loans[1] | Charge-offs[2] |
|---|---|---|---|---|---|
| Private Education Loans | Traditional | $ 1,210 | $ 148 | $ 99 | $ 13 |
| Private Education Loans | Non-Traditional | 245 | 62 | 45 | 14 |
| Total | | $ 1,455 | $ 210 | $ 144 | $ 27 |

(1) Represents period ending balance of loans that have been modified during the period.

(2) Represents loans that charge off during the period that are classified as troubled debt restructurings.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (Continued)**

*Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

| (Dollars in millions) | | Accrued Interest Receivable Total | Greater Than 90 Days Past Due | Allowance for Uncollectible Interest |
|---|---|---|---|---|
| **June 30, 2012** | | | | |
| Private Education Loans | Traditional | $ 846 | $ 36 | $ 46 |
| Private Education Loans | Non-Traditional | 127 | 16 | 25 |
| Total | | $ 973 | $ 52 | $ 71 |
| **December 31, 2011** | | | | |
| Private Education Loans | Traditional | $ 870 | $ 36 | $ 44 |
| Private Education Loans | Non-Traditional | 148 | 18 | 28 |
| Total | | $ 1,018 | $ 54 | $ 72 |

**3. Borrowings**

The following table summarizes our borrowings.

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Short Term | Long Term | Total | Short Term | Long Term | Total |
| *Unsecured borrowings:* | | | | | | |
| Senior unsecured debt | $ 2,359 | $ 16,131 | $ 18,490 | $ 1,801 | $ 15,199 | $ 17,000 |
| Brokered deposits | 765 | 1,550 | 2,315 | 1,733 | 1,956 | 3,689 |
| Retail and other deposits | 2,367 | | 2,367 | 2,123 | | 2,123 |
| Other[(1)] | 1,422 | | 1,422 | 1,329 | | 1,329 |
| Total unsecured borrowings | 6,913 | 17,681 | 24,594 | 6,986 | 17,155 | 24,141 |
| *Secured borrowings:* | | | | | | |
| FFELP Loan securitizations | | 107,545 | 107,545 | | 107,905 | 107,905 |
| Private Education Loan securitizations | | 19,803 | 19,803 | | 19,297 | 19,297 |
| ED Conduit Program Facility | 15,903 | | 15,903 | 21,313 | | 21,313 |

| | | | | | | |
|---|---|---|---|---|---|---|
| FFELP ABCP Facility | | 5,435 | 5,435 | | 4,445 | 4,445 |
| Private Education Loan ABCP Facility | | 1,764 | 1,764 | | 1,992 | 1,992 |
| Acquisition financing[2] | | 813 | 813 | | 916 | 916 |
| FHLB-DM Facility | 1,680 | | 1,680 | 1,210 | | 1,210 |
| Total secured borrowings | 17,583 | 135,360 | 152,943 | 22,523 | 134,555 | 157,078 |
| Total before hedge accounting adjustments | 24,496 | 153,041 | 177,537 | 29,509 | 151,710 | 181,219 |
| Hedge accounting adjustments | (3) | 2,435 | 2,432 | 64 | 2,683 | 2,747 |
| Total | $ 24,493 | $ 155,476 | $ 179,969 | $ 29,573 | $ 154,393 | $ 183,966 |

(1) Other primarily consists of the obligation to return cash collateral held related to derivative exposures.

(2) Relates to the acquisition of $25 billion of student loans at the end of 2010.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 3. Borrowings (Continued)

*Secured Borrowings*

We currently consolidate all of our financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs:

| | June 30, 2012 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings VIEs:** | | | | | | | |
| ED Conduit Program Facility | $ 15,903 | $ | $ 15,903 | $ 15,700 | $ 835 | $ 308 | $ 16,843 |
| FFELP ABCP Facility | | 5,435 | 5,435 | 5,737 | 130 | 104 | 5,971 |
| Private Education Loan ABCP Facility | | 1,764 | 1,764 | 2,356 | 394 | 60 | 2,810 |
| Securitizations FFELP Loans | | 107,545 | 107,545 | 107,876 | 4,645 | 517 | 113,038 |
| Securitizations Private Education Loans | | 19,803 | 19,803 | 23,540 | 576 | 470 | 24,586 |
| Total before hedge accounting adjustments | 15,903 | 134,547 | 150,450 | 155,209 | 6,580 | 1,459 | 163,248 |
| Hedge accounting adjustments | | 607 | 607 | | | 626 | 626 |
| Total | $ 15,903 | $ 135,154 | $ 151,057 | $ 155,209 | $ 6,580 | $ 2,085 | $ 163,874 |

| | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| (Dollars in millions) | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings VIEs:** | | | | | | | |
| ED Conduit Program Facility | $ 21,313 | $ | $ 21,313 | $ 21,445 | $ 621 | $ 442 | $ 22,508 |
| FFELP ABCP Facility | | 4,445 | 4,445 | 4,834 | 86 | 54 | 4,974 |
| Private Education Loan ABCP Facility | | 1,992 | 1,992 | 2,595 | 401 | 76 | 3,072 |
| Securitizations FFELP Loans | | 107,905 | 107,905 | 109,257 | 3,783 | 529 | 113,569 |
| Securitizations Private Education Loans | | 19,297 | 19,297 | 22,367 | 718 | 582 | 23,667 |
| Total before hedge accounting adjustments | 21,313 | 133,639 | 154,952 | 160,498 | 5,609 | 1,683 | 167,790 |
| Hedge accounting adjustments | | 894 | 894 | | | 955 | 955 |
| Total | $ 21,313 | $ 134,533 | $ 155,846 | $ 160,498 | $ 5,609 | $ 2,638 | $ 168,745 |

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (Continued)**

***Securitizations***

The following table summarizes the securitization transactions that occurred during the year ended December 31, 2011 and the six months ended June 30, 2012.

| (Dollars in millions) | | | AAA-rated bonds | |
|---|---|---|---|---|
| Issue | Date Issued | Total Issued | Weighted Average Interest Rate | Weighted Average Life |
| **FFELP:** | | | | |
| 2011-1 | March 2011 | $ 812 | 1 month LIBOR plus 0.89% | 5.5 years |
| 2011-2 | May 2011 | 821 | 1 month LIBOR plus 0.94% | 5.5 years |
| 2011-3 | November 2011 | 812 | 1 month LIBOR plus 1.28% | 7.8 years |
| Total bonds issued in 2011 | | $ 2,445 | | |
| Total loan amount securitized in 2011 | | $ 2,344 | | |
| 2012-1 | January 2012 | $ 765 | 1 month LIBOR plus 0.96% | 4.6 years |
| 2012-2 | March 2012 | 824 | 1 month LIBOR plus 0.75% | 4.7 years |
| 2012-3 | May 2012 | 1,252 | 1 month LIBOR plus 0.70% | 4.6 years |
| 2012-4 | June 2012 | 1,491 | 1 month LIBOR plus 1.13% | 8.2 years |
| Total bonds issued in six months ended June 30, 2012 | | $ 4,332 | | |
| Total loan amount securitized in six months ended June 30, 2012 | | $ 4,328 | | |
| **Private Education:** | | | | |
| 2011-A | April 2011 | $ 562 | 1 month LIBOR plus 1.99% | 3.8 years |
| 2011-B | June 2011 | 825 | 1 month LIBOR plus 1.89% | 4.0 years |
| 2011-C | November 2011 | 721 | 1 month LIBOR plus 2.99% | 3.4 years |
| Total bonds issued in 2011 | | $ 2,108 | | |
| Total loan amount securitized in 2011 | | $ 2,674 | | |
| 2012-A | February 2012 | $ 547 | 1 month LIBOR plus 2.17% | 3.0 years |
| 2012-B | April 2012 | 891 | 1 month LIBOR plus 2.25% | 2.9 years |
| 2012-C | May 2012 | 1,135 | 1 month LIBOR plus 1.90% | 2.6 years |
| Total bonds issued in six months ended June 30, 2012 | | $ 2,573 | | |

| | |
|---|---|
| Total loan amount securitized in six months ended June 30, 2012 | $ 3,460 |

***Additional, Recent Borrowing-Related Transactions***

*FFELP ABCP Facility*

On January 13, 2012, we amended the FFELP ABCP Facility increasing the amount available and extending the step-down dates on the amount available for borrowing and the final maturity date of the facility. The facility amount is now $7.5 billion, reflecting an increase of $2.5 billion. The scheduled maturity date of the facility is

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (Continued)**

January 9, 2015. The usage fee for the facility remains unchanged at 0.50 percent over the applicable funding rate. The amended facility features two contractual step-down reductions on the amount available for borrowing. The first reduction is on January 11, 2013, to $6.5 billion. The second reduction is on January 10, 2014, to $5.5 billion.

*Senior Unsecured Debt*

On January 27, 2012, we issued an aggregate of $1.5 billion bonds, composed of five-year and 10-year unsecured bonds. The 6.00 percent fixed rate five-year bond was issued for $750 million to yield 6.25 percent. The rate on the bond was swapped from a fixed rate to a floating rate equal to an all-in cost of one-month LIBOR plus 5.2 percent. The 7.25 percent fixed rate 10-year bond was issued for $750 million to yield 7.50 percent. The rate on the bond was swapped from a fixed rate to a floating rate equal to an all-in cost of one-month LIBOR plus 5.4 percent. The proceeds of these bonds were designated for general corporate purposes.

On June 18, 2012, we issued $350 million in unsecured debt scheduled to mature in January 2017. The 6.00 percent fixed rate bond was issued to yield 6.375 percent. The rate was swapped from a fixed rate to a floating rate equal to an all-in cost of one-month LIBOR plus 5.6 percent. The proceeds of this bond were designated for general corporate purposes.

**4. Derivative Financial Instruments**

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2011 Form 10-K. Please refer to Note 7 Derivative Financial Instruments in our 2011 Form 10-K for a full discussion.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**4. Derivative Financial Instruments (Continued)**

***Summary of Derivative Financial Statement Impact***

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2012 and December 31, 2011, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2012 and 2011.

**Impact of Derivatives on Consolidated Balance Sheet**

| | | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| **(Dollars in millions)** | **Hedged Risk Exposure** | **June 30, 2012** | **Dec. 31, 2011** | **June 30, 2012** | **Dec. 31, 2011** | **June 30, 2012** | **Dec. 31, 2011** | **June 30, 2012** | **Dec. 31, 2011** |
| **Fair Values[1]** | | | | | | | | | |
| *Derivative Assets:* | | | | | | | | | |
| Interest rate swaps | Interest rate | $ | $ | $ 1,516 | $ 1,471 | $ 181 | $ 262 | $ 1,697 | $ 1,733 |
| Cross-currency interest rate swaps | Foreign currency & interest rate | | | 792 | 1,229 | 106 | 130 | 898 | 1,359 |
| Other[2] | Interest rate | | | | | 5 | 1 | 5 | 1 |
| Total derivative assets[3] | | | | 2,308 | 2,700 | 292 | 393 | 2,600 | 3,093 |
| *Derivative Liabilities:* | | | | | | | | | |
| Interest rate swaps | Interest rate | (22) | (26) | | | (211) | (244) | (233) | (270) |
| Floor Income Contracts | Interest rate | | | | | (2,369) | (2,544) | (2,369) | (2,544) |
| Cross-currency interest rate swaps | Foreign currency & interest rate | | | (268) | (243) | | | (268) | (243) |
| Total derivative liabilities[3] | | (22) | (26) | (268) | (243) | (2,580) | (2,788) | (2,870) | (3,057) |
| Net total derivatives | | $ (22) | $ (26) | $ 2,040 | $ 2,457 | $ (2,288) | $ (2,395) | $ (270) | $ 36 |

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) Other includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility.

(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

| (Dollar in millions) | Other Assets June 30, 2012 | Other Assets December 31, 2011 | Other Liabilities June 30, 2012 | Other Liabilities December 31, 2011 |
|---|---|---|---|---|
| Gross position | $ 2,600 | $ 3,093 | $ (2,870) | $ (3,057) |
| Impact of master netting agreements | (755) | (891) | 755 | 891 |
| Derivative values with impact of master netting agreements (as carried on balance sheet) | 1,845 | 2,202 | (2,115) | (2,166) |
| Cash collateral (held) pledged | (1,421) | (1,326) | 1,009 | 1,018 |
| Net position | $ 424 | $ 876 | $ (1,106) | $ (1,148) |

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**4. Derivative Financial Instruments (Continued)**

The above fair values include adjustments for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at June 30, 2012 and December 31, 2011 by $135 million and $190 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at June 30, 2012 and December 31, 2011 by $114 million and $111 million, respectively.

| (Dollars in billions) | Cash Flow June 30, 2012 | Cash Flow Dec. 31, 2011 | Fair Value June 30, 2012 | Fair Value Dec. 31, 2011 | Trading June 30, 2012 | Trading Dec. 31, 2011 | Total June 30, 2012 | Total Dec. 31, 2011 |
|---|---|---|---|---|---|---|---|---|
| **Notional Values:** | | | | | | | | |
| Interest rate swaps | $ 1.1 | $ 1.1 | $ 14.6 | $ 14.0 | $ 68.8 | $ 73.6 | $ 84.5 | $ 88.7 |
| Floor Income Contracts | | | | | 51.6 | 57.8 | 51.6 | 57.8 |
| Cross-currency interest rate swaps | | | 15.2 | 15.5 | .3 | .3 | 15.5 | 15.8 |
| Other[1] | | | | | 1.3 | 1.4 | 1.3 | 1.4 |
| Total derivatives | $ 1.1 | $ 1.1 | $ 29.8 | $ 29.5 | $ 122.0 | $ 133.1 | $ 152.9 | $ 163.7 |

(1) Other includes embedded derivatives bifurcated from securitization debt, as well as derivatives related to our Total Return Swap Facility.

**Impact of Derivatives on Consolidated Statements of Income**

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Gain (Loss) on Derivatives[1][2] | | Realized Gain (Loss) on Derivatives[3] | | Unrealized Gain (Loss) on Hedged Item[1] | | Total Gain (Loss) | |
| (Dollars in millions) | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Fair Value Hedges:** | | | | | | | | |
| Interest rate swaps | $ 193 | $ 203 | $ 115 | $ 121 | $ (220) | $ (230) | $ 88 | $ 94 |
| Cross-currency interest rate swaps | (654) | 173 | 41 | 83 | 816 | (299) | 203 | (43) |
| Total fair value derivatives | (461) | 376 | 156 | 204 | 596 | (529) | 291 | 51 |
| **Cash Flow Hedges:** | | | | | | | | |
| Interest rate swaps | | | (8) | (9) | | | (8) | (9) |
| Total cash flow derivatives | | | (8) | (9) | | | (8) | (9) |
| **Trading:** | | | | | | | | |
| Interest rate swaps | (10) | 54 | 32 | 17 | | | 22 | 71 |
| Floor Income Contracts | 50 | (277) | (222) | (202) | | | (172) | (479) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Cross-currency interest rate swaps | 10 | 16 | 2 | 2 | | | 12 | 18 |
| Other | 9 | 20 | | 13 | | | 9 | 33 |
| Total trading derivatives | 59 | (187) | (188) | (170) | | | (129) | (357) |
| Total | (402) | 189 | (40) | 25 | 596 | (529) | 154 | (315) |
| Less: realized gains (losses) recorded in interest expense | | | 148 | 195 | | | 148 | 195 |
| Gains (losses) on derivative and hedging activities, net | $ (402) | $ 189 | $ (188) | $ (170) | $ 596 | $ (529) | $ 6 | $ (510) |

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments (Continued)**

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Unrealized Gain (Loss) on Derivatives[1][2] | | Realized Gain (Loss) on Derivatives[3] | | Unrealized Gain (Loss) on Hedged Item[1] | | Total Gain (Loss) | |
| (Dollars in millions) | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2011 |
| **Fair Value Hedges:** | | | | | | | | |
| Interest rate swaps | $ 45 | $ 5 | $ 228 | $ 249 | $ (65) | $ (25) | $ 208 | $ 229 |
| Cross-currency interest rate swaps | (462) | 874 | 102 | 159 | 364 | (1,177) | 4 | (144) |
| Total fair value derivatives | (417) | 879 | 330 | 408 | 299 | (1,202) | 212 | 85 |
| **Cash Flow Hedges:** | | | | | | | | |
| Interest rate swaps | | (2) | (15) | (23) | | | (15) | (25) |
| Total cash flow derivatives | | (2) | (15) | (23) | | | (15) | (25) |
| **Trading:** | | | | | | | | |
| Interest rate swaps | (49) | 32 | 67 | 57 | | | 18 | 89 |
| Floor Income Contracts | 186 | (126) | (437) | (428) | | | (251) | (554) |
| Cross-currency interest rate swaps | (23) | (1) | 3 | 4 | | | (20) | 3 |
| Other | 5 | 23 | | 12 | | | 5 | 35 |
| Total trading derivatives | 119 | (72) | (367) | (355) | | | (248) | (427) |
| Total | (298) | 805 | (52) | 30 | 299 | (1,202) | (51) | (367) |
| Less: realized gains (losses) recorded in interest expense | | | 315 | 385 | | | 315 | 385 |
| Gains (losses) on derivative and hedging activities, net | $ (298) | $ 805 | $ (367) | $ (355) | $ 299 | $ (1,202) | $ (366) | $ (752) |

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

**Impact of Derivatives on Consolidated Statements of Changes in Stockholders Equity (net of tax)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2012 | 2011 | 2012 | 2011 |

| | | | | |
|---|---|---|---|---|
| Total gains (losses) on cash flow hedges | $ (6) | $ (3) | $ (7) | $ (4) |
| Realized (gains) losses reclassified to interest expense(1)(2)(3) | 5 | 8 | 11 | 18 |
| Hedge ineffectiveness reclassified to earnings(1)(4) | | 1 | | 1 |
| Total change in stockholders equity for unrealized gains (losses) on derivatives | $ (1) | $ 6 | $ 4 | $ 15 |

(1) Amounts included in Realized gains (losses) on derivatives in the Impact of Derivatives on Consolidated Statements of Income table above.

(2) Includes net settlement income/expense.

(3) We expect to reclassify $16 thousand of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to amortization of cash flow hedges that were hedging debt instruments that are outstanding as of the reporting date.

(4) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments (Continued)**

***Collateral***

The following table details collateral held and pledged related to derivative exposure between us and our derivative counterparties.

| (Dollars in millions) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| **Collateral held:** | | |
| Cash (obligation to return cash collateral is recorded in short-term borrowings)[1] | $ 1,421 | $ 1,326 |
| Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[2] | 574 | 841 |
| Total collateral held | $ 1,995 | $ 2,167 |
| Derivative asset at fair value, including accrued interest | $ 2,232 | $ 2,607 |
| **Collateral pledged to others:** | | |
| Cash (right to receive return of cash collateral is recorded in investments) | $ 1,009 | $ 1,018 |
| Total collateral pledged | $ 1,009 | $ 1,018 |
| Derivative liability at fair value including accrued interest and premium receivable | $ 1,227 | $ 1,223 |

(1) At June 30, 2012 and December 31, 2011, $0 and $26 million, respectively, were held in restricted cash accounts.

(2) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating as required, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of $1.0 billion with our counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $260 million and have posted $261 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, we would not be required to deliver additional assets to settle the contracts. Trust related derivatives do not contain credit contingent features related to our or the trusts credit ratings.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**5. Other Assets**

The following table provides detail on our other assets.

| (Dollars in millions) | June 30, 2012 Ending Balance | June 30, 2012 % of Balance | December 31, 2011 Ending Balance | December 31, 2011 % of Balance |
|---|---|---|---|---|
| Accrued interest receivable | $ 2,404 | 28% | $ 2,484 | 29% |
| Derivatives at fair value | 1,845 | 22 | 2,202 | 25 |
| Income tax asset, net current and deferred | 1,494 | 18 | 1,427 | 17 |
| Accounts receivable | 1,238 | 15 | 1,392 | 16 |
| Benefit and insurance-related investments | 470 | 6 | 466 | 5 |
| Fixed assets, net | 210 | 2 | 214 | 3 |
| Other loans, net | 176 | 1 | 193 | 2 |
| Other | 648 | 8 | 280 | 3 |
| Total | $ 8,485 | 100% | $ 8,658 | 100% |

The Derivatives at fair value line in the above table represents the fair value of our derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At June 30, 2012 and December 31, 2011, these balances included $2.0 billion and $2.5 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of June 30, 2012 and December 31, 2011, the cumulative mark-to-market adjustment to the hedged debt was $(2.4) billion and $(2.7) billion, respectively.

**6. Stockholders Equity**

The following table summarizes our common share repurchases and issuances.

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Common shares repurchased[(1)] | 23,836,964 | 9,593,603 | 40,540,146 | 9,593,603 |
| Average purchase price per share[(2)] | $ 14.34 | $ 16.27 | $ 15.04 | $ 16.27 |
| Shares repurchased related to employee stock-based compensation plans[(3)] | 349,655 | 880,731 | 2,406,632 | 2,635,511 |
| Average purchase price per share | $ 14.83 | $ 16.34 | $ 15.26 | $ 15.86 |
| Common shares issued[(4)] | 426,168 | 1,129,399 | 3,597,652 | 3,434,058 |

(1) Common shares purchased under our share repurchase program, of which $291 million remained available as of June 30, 2012.

(2) Average purchase price per share includes purchase commission costs.

(3) Comprises shares withheld from stock option exercises and vesting of restricted stock for employees tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

(4) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on June 29, 2012 was $15.71.

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Stockholders Equity (Continued)**

*Dividend and Share Repurchase Program*

We increased our regular quarterly common stock dividends to $0.125 per share in the first and second quarters of 2012, up from $0.10 per share for the last three quarters of 2011. During the second quarter of 2012, we authorized an additional $400 million to be utilized in our ongoing share repurchase program; we previously authorized $500 million in January 2012. During the first half of 2012, we repurchased 40.5 million shares of common stock at an aggregate price of $609 million. At June 30, 2012, we had $291 million of remaining share repurchase authorization.

**7. Earnings (Loss) per Common Share**

Basic earnings (loss) per common share ( EPS ) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

| (In millions, except per share data) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Numerator:** | | | | |
| Net income (loss) attributable to SLM Corporation | $ 292 | $ (6) | $ 403 | $ 169 |
| Preferred stock dividends | 5 | 4 | 10 | 8 |
| Net income (loss) attributable to SLM Corporation common stock | $ 287 | $ (10) | $ 393 | $ 161 |
| **Denominator:** | | | | |
| Weighted average shares used to compute basic EPS | 482 | 524 | 493 | 525 |
| Effect of dilutive securities: | | | | |
| Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units and Employee Stock Purchase Plan ( ESPP )[1] | 6 | | 6 | 6 |
| Dilutive potential common shares[2] | 6 | | 6 | 6 |
| Weighted average shares used to compute diluted EPS | 488 | 524 | 499 | 531 |
| **Basic earnings (loss) per common share attributable to SLM Corporation:** | | | | |
| Continuing operations | $ .59 | $ (.04) | $ .80 | $ .29 |
| Discontinued operations | | .02 | | .02 |
| Total | $ .59 | $ (.02) | $ .80 | $ .31 |
| **Diluted earnings (loss) per common share attributable to SLM Corporation:** | | | | |
| Continuing operations | $ .59 | $ (.04) | $ .79 | $ .28 |
| Discontinued operations | | .02 | | .02 |
| Total | $ .59 | $ (.02) | $ .79 | $ .30 |

(1) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, non-vested deferred compensation and restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(2) For the three months ended June 30, 2012 and 2011, stock options covering approximately 14 million and 33 million shares, respectively, and restricted stock/restricted stock units of 4 million and 2 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2012 and 2011, stock options covering approximately 12 million and 13 million shares, respectively, and restricted stock/restricted stock units of 3 million and 0 shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements

We use estimates of fair value in applying various accounting standards in our financial statements. We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. During the three and six months ended June 30, 2012, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments. Please refer to Note 13 Fair Value Measurements in our 2011 Form 10-K for a full discussion.

The following tables summarize the valuation of our financial instruments that are marked-to-market on a recurring basis.

| | Fair Value Measurements on a Recurring Basis as of June 30, 2012 | | | | Fair Value Measurements on a Recurring Basis as of December 31, 2011 | | | |
|---|---|---|---|---|---|---|---|---|
| **(Dollars in millions)** | **Level 1** | **Level 2** | **Level 3** | **Total** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| **Assets** | | | | | | | | |
| Available-for-sale investments: | | | | | | | | |
| Agency residential mortgage backed securities | $ | $ 48 | $ | $ 48 | $ | $ 59 | $ | $ 59 |
| Guaranteed investment contracts | | 10 | | 10 | | 20 | | 20 |
| Other | | 11 | | 11 | | 11 | | 11 |
| Total available-for-sale investments | | 69 | | 69 | | 90 | | 90 |
| Derivative instruments:[1] | | | | | | | | |
| Interest rate swaps | | 1,591 | 106 | 1,697 | | 1,550 | 183 | 1,733 |
| Cross-currency interest rate swaps | | 53 | 845 | 898 | | 139 | 1,220 | 1,359 |
| Other | | | 5 | 5 | | | 1 | 1 |
| Total derivative assets[3] | | 1,644 | 956 | 2,600 | | 1,689 | 1,404 | 3,093 |
| **Total** | $ | $ 1,713 | $ 956 | $ 2,669 | $ | $ 1,779 | $ 1,404 | $ 3,183 |
| **Liabilities[2]** | | | | | | | | |
| Derivative instruments:[1] | | | | | | | | |
| Interest rate swaps | $ | $ (44) | $ (189) | $ (233) | $ | $ (47) | $ (223) | $ (270) |
| Floor Income Contracts | | (2,369) | | (2,369) | | (2,544) | | (2,544) |
| Cross-currency interest rate swaps | | (43) | (225) | (268) | | (44) | (199) | (243) |
| Other | | | | | | | | |
| Total derivative liabilities[3] | | (2,456) | (414) | (2,870) | | (2,635) | (422) | (3,057) |
| **Total** | $ | $ (2,456) | $ (414) | $ (2,870) | $ | $ (2,635) | $ (422) | $ (3,057) |

(1) Fair value of derivative instruments excludes accrued interest and the value of collateral.

(2) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

(3) See Note 4 Derivative Financial Instruments for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (Continued)**

The following tables summarize the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis.

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Derivative instruments | | | | Derivative instruments | | | |
| (Dollars in millions) | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments |
| **Balance, beginning of period** | $ (56) | $ 1,145 | $ (4) | $ 1,085 | $ (85) | $ 2,011 | $ 26 | $ 1,952 |
| Total gains/(losses) (realized and unrealized): | | | | | | | | |
| Included in earnings[1] | (18) | (494) | 9 | (503) | 6 | 321 | 33 | 360 |
| Included in other comprehensive income | | | | | | | | |
| Settlements | (9) | (31) | | (40) | (1) | (59) | (56) | (116) |
| Transfers in and/or out of Level 3 | | | | | | | | |
| **Balance, end of period** | $ (83) | $ 620 | $ 5 | $ 542 | $ (80) | $ 2,273 | $ 3 | $ 2,196 |
| Change in unrealized gains/(losses) relating to instruments still held at the reporting date[2] | $ (26) | $ (525) | $ 9 | $ (542) | $ 5 | $ 262 | $ 14 | $ 281 |

| | Six Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | | 2011 | | | |
| | Derivative instruments | | | | Derivative instruments | | | |
| (Dollars in millions) | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments | Interest Rate Swaps | Cross Currency Interest Rate Swaps | Other | Total Derivative Instruments |
| **Balance, beginning of period** | $ (40) | $ 1,021 | $ 1 | $ 982 | $ (90) | $ 1,427 | $ 26 | $ 1,363 |
| Total gains/(losses) (realized and unrealized): | | | | | | | | |
| Included in earnings[1] | (23) | (323) | 4 | (342) | 34 | 954 | 35 | 1,023 |
| Included in other comprehensive income | | | | | | | | |
| Settlements | (20) | (78) | | (98) | (24) | (108) | (58) | (190) |
| Transfers in and/or out of Level 3 | | | | | | | | |
| **Balance, end of period** | $ (83) | $ 620 | $ 5 | $ 542 | $ (80) | $ 2,273 | $ 3 | $ 2,196 |
| Change in unrealized gains/(losses) relating to instruments still held at the reporting date[2] | $ (41) | $ (402) | $ 5 | $ (438) | $ 10 | $ 844 | $ 13 | $ 867 |

(1) Included in earnings is composed of the following amounts recorded in the specified line item in the consolidated statements of income:

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Gains (losses) on derivative and hedging activities, net | $ (533) | $ 303 | $ (417) | $ 916 |
| Interest expense | 30 | 57 | 75 | 107 |
| Total | $ (503) | $ 360 | $ (342) | $ 1,023 |

(2) Recorded in gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (Continued)**

The following table presents the significant inputs that are unobservable or from inactive markets used in the recurring valuations of the level 3 financial instruments detailed above.

| (Dollars in millions) | Fair Value at June 30, 2012 | Valuation Technique | Input | Range (Weighted Average) |
|---|---|---|---|---|
| **Derivatives** | | | | |
| Consumer Price Index/LIBOR basis swaps | $ 92 | Discounted cash flow | Bid/ask adjustment to discount rate | 0.02% 0.11% (0.03%) |
| Prime/LIBOR basis swaps | (175) | Discounted cash flow | Constant prepayment rate | 4.4% |
| | | | Bid/ask adjustment to discount rate | 0.08% 0.08% (0.08%) |
| Cross-currency interest rate swaps | 620 | Discounted cash flow | Constant prepayment rate | 2.6% |
| Other | 5 | | | |
| Total | $ 542 | | | |

The significant inputs that are unobservable or from inactive markets related to our level 3 derivatives detailed in the table above would be expected to have the following impacts to the valuations:

Consumer Price Index/LIBOR basis swaps these swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation.

Prime/LIBOR basis swaps these swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation. In addition, the unobservable inputs include constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap which will increase the value for swaps in a gain position and decrease the value for swaps in a loss position, everything else equal. The opposite is true for an increase in the input.

Cross-currency interest rate swaps the unobservable input used in these valuations are constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (Continued)**

The following table summarizes the fair values of our consolidated financial assets and liabilities, including derivative financial instruments.

| | June 30, 2012 | | | December 31, 2011 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Fair Value | Carrying Value | Difference | Fair Value | Carrying Value | Difference |
| **Earning assets** | | | | | | |
| FFELP loans | $ 131,147 | $ 132,833 | $ (1,686) | $ 134,196 | $ 138,130 | $ (3,934) |
| Private Education Loans | 34,792 | 36,454 | (1,662) | 33,968 | 36,290 | (2,322) |
| Cash and investments[(1)] | 10,840 | 10,840 | | 9,789 | 9,789 | |
| Total earning assets | 176,779 | 180,127 | (3,348) | 177,953 | 184,209 | (6,256) |
| **Interest-bearing liabilities** | | | | | | |
| Short-term borrowings | 24,490 | 24,493 | 3 | 29,547 | 29,573 | 26 |
| Long-term borrowings | 145,405 | 155,476 | 10,071 | 141,605 | 154,393 | 12,788 |
| Total interest-bearing liabilities | 169,895 | 179,969 | 10,074 | 171,152 | 183,966 | 12,814 |
| **Derivative financial instruments** | | | | | | |
| Floor Income/Cap contracts | (2,369) | (2,369) | | (2,544) | (2,544) | |
| Interest rate swaps | 1,464 | 1,464 | | 1,463 | 1,463 | |
| Cross-currency interest rate swaps | 630 | 630 | | 1,116 | 1,116 | |
| Other | 5 | 5 | | 1 | 1 | |
| **Excess of net asset fair value over carrying value** | | | $ 6,726 | | | $ 6,558 |

(1) Cash and investments includes available-for-sale investments that consist of investments that are primarily U.S. agency securities whose cost basis is $64 million and $85 million at June 30, 2012 and December 31, 2011, respectively, versus a fair value of $69 million and $90 million at June 30, 2011 and December 31, 2011, respectively.

The following includes a discussion of financial instruments whose fair value is included for disclosure purposes only in the table above along with their level in the fair value hierarchy.

***Student Loans***

*FFELP Loans*

Fair values for FFELP Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, cost of funds, capital levels, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (Continued)**

*Private Education Loans*

Fair values for Private Education Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, recovery rates, cost of funds and capital levels. A number of significant inputs to the models are internally derived and not observable to market participants nor can the resulting fair values be validated against market transactions. As such, these are level 3 valuations.

***Cash and Investments (Including Restricted Cash and Investments)***

Cash and cash equivalents are carried at cost. Carrying value approximated fair value. These are level 2 valuations.

***Borrowings***

The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These fair value adjustments are based on inputs from inactive markets. As such, these are level 3 valuations.

**9. Commitments and Contingencies**

*In Re SLM Corporation Securities Litigation*. On January 31, 2008, a class action lawsuit was filed in the U.S. District Court for the Southern District of New York alleging the Company and certain officers violated federal securities laws by, among other things, issuing a series of materially false and misleading statements with respect to our financial results for year-end 2006 and the first quarter of 2007. This case and other actions arising out of the same circumstances and alleged acts were consolidated. Earlier this year, the court certified a class, appointed class counsel and appointed a class representative. On March 23, 2012, the parties agreed to a preliminary settlement pursuant to which we would pay $35 million to be funded by our insurers, which settlement is subject to final Court approval. The settlement is also subject to certain termination rights of the parties and the satisfaction of certain conditions precedent. We can provide no assurance that we will finalize the settlement. We continue to vigorously deny all claims asserted against us.

In the ordinary course of business, we and our subsidiaries are defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against us and our subsidiaries.

In the ordinary course of business, we and our subsidiaries are subject to regulatory examinations, information gathering requests, inquiries and investigations. In connection with formal and informal inquiries in these cases, we and our subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of our regulated activities.

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**9. Commitments and Contingencies (Continued)**

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, we cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.

Based on current knowledge, reserves have been established for certain litigation or regulatory matters where the loss is both probable and estimable. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows.

**10. Segment Reporting**

***Consumer Lending Segment***

We originate, acquire, finance and service Private Education Loans. The portfolio totaled $36.5 billion at June 30, 2012. We also provide savings products, primarily in the form of retail deposits, to help customers save for a college education.

The following table includes asset information for our Consumer Lending segment.

| (Dollars in millions) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Private Education Loans, net | $ 36,454 | $ 36,290 |
| Cash and investments[1] | 1,782 | 3,113 |
| Other | 3,403 | 3,595 |
| Total assets | $ 41,639 | $ 42,998 |

(1) Includes restricted cash and investments.

***Business Services Segment***

This segment generates the vast majority of its revenue from servicing our FFELP Loan portfolio and from performing servicing, default aversion and contingency collections work on behalf of ED, Guarantors of FFELP Loans and other institutions. Through our Campus Solutions business we provide comprehensive financing and transaction processing solutions to college financial aid offices and students to streamline the financial aid process. Through Sallie Mae Insurance Services we offer directly to college students and higher education institutions tuition, renters and student health insurance. We also provide 529 college savings plan account asset servicing and other transaction processing activities.

At June 30, 2012 and December 31, 2011, the Business Services segment had total assets of $885 million and $912 million, respectively.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (Continued)**

***FFELP Loans Segment***

Our FFELP Loans segment consists of our $132.8 billion FFELP Loan portfolio as of June 30, 2012 and the underlying debt and capital funding the loans. We no longer originate FFELP Loans; however, we are actively seeking to acquire FFELP Loan portfolios.

The following table includes asset information for our FFELP Loans segment.

| (Dollars in millions) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| FFELP Loans, net | $ 132,833 | $ 138,130 |
| Cash and investments[1] | 7,191 | 6,067 |
| Other | 4,236 | 4,415 |
| Total assets | $ 144,260 | $ 148,612 |

(1) Includes restricted cash and investments.

***Other Segment***

The Other segment consists primarily of the financial results related to activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment. Overhead expenses include costs related to executive management, the board of directors, accounting, finance, legal, human resources, stock-based compensation expense and information technology costs related to infrastructure and operations.

At June 30, 2012 and December 31, 2011, the Other segment had total assets of $2.3 billion and $823 million, respectively.

***Measure of Profitability***

The tables below include the condensed operating results for each of our reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that we refer to as Core Earnings performance measures for each operating segment. We use Core Earnings to manage each business segment because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items adjusted for in our Core Earnings presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage the business. Reconciliation of the Core Earnings segment totals to our consolidated operating results in accordance with GAAP is also included in the tables below.

Our Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike financial accounting, there is no comprehensive,

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (Continued)**

authoritative guidance for management reporting. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. Our operating segments are defined by the products and services they offer or the types of customers they serve, and they 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.

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (Continued)**

***Segment Results and Reconciliations to GAAP***

| | Three Months Ended June 30, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations(1) | Total Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments(2) | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 616 | $ | $ 652 | $ | $ | $ 1,268 | $ 223 | $ (98) | $ 125 | $ 1,393 |
| Other loans | | | | 4 | | 4 | | | | 4 |
| Cash and investments | 2 | 2 | 3 | 1 | (2) | 6 | | | | 6 |
| Total interest income | 618 | 2 | 655 | 5 | (2) | 1,278 | 223 | (98) | 125 | 1,403 |
| Total interest expense | 206 | | 409 | 10 | (2) | 623 | 34 | | 34 | 657 |
| Net interest income | 412 | 2 | 246 | (5) | | 655 | 189 | (98) | 91 | 746 |
| Less: provisions for loan losses | 225 | | 18 | | | 243 | | | | 243 |
| Net interest income after provisions for loan losses | 187 | 2 | 228 | (5) | | 412 | 189 | (98) | 91 | 503 |
| Servicing revenue | 12 | 230 | 22 | | (172) | 92 | | | | 92 |
| Contingency revenue | | 87 | | | | 87 | | | | 87 |
| Gains on debt repurchases | | | | 20 | | 20 | | | | 20 |
| Other income (loss) | | 8 | | 5 | | 13 | (189) | 180(4) | (9) | 4 |
| Total other income (loss) | 12 | 325 | 22 | 25 | (172) | 212 | (189) | 180 | (9) | 203 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 64 | 109 | 181 | 3 | (172) | 185 | | | | 185 |
| Overhead expenses | | | | 54 | | 54 | | | | 54 |
| Operating expenses | 64 | 109 | 181 | 57 | (172) | 239 | | | | 239 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 5 | 5 | 5 |
| Restructuring expenses | 1 | 2 | | | | 3 | | | | 3 |
| Total expenses | 65 | 111 | 181 | 57 | (172) | 242 | | 5 | 5 | 247 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 134 | 216 | 69 | (37) | | 382 | | 77 | 77 | 459 |
| Income tax expense (benefit)(3) | 49 | 79 | 25 | (13) | | 140 | | 28 | 28 | 168 |
| Net income (loss) from continuing operations | 85 | 137 | 44 | (24) | | 242 | | 49 | 49 | 291 |
| Income from discontinued operations, net of taxes | | | | | | | | | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Net income (loss) | 85 | 137 | 44 | (24) | | 242 | | 49 | 49 | 291 |
| Less: loss attributable to noncontrolling interest | | (1) | | | | (1) | | | | (1) |
| Net income (loss) attributable to SLM Corporation | $ 85 | $ 138 | $ 44 | $ (24) | $ | $ 243 | $ | $ 49 | $ 49 | $ 292 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
| Net interest income after provisions for loan losses | $ 91 | $ | $ 91 |
| Total other loss | (9) | | (9) |
| Goodwill and acquired intangible assets impairment and amortization | | 5 | 5 |
| Total Core Earnings adjustments to GAAP | $ 82 | $ (5) | 77 |
| Income tax benefit | | | 28 |
| Net loss | | | $ 49 |

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

(4) Represents the $194 million of unrealized gains on derivative and hedging activities, net as well as the $(14) million of other derivative accounting adjustments.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (Continued)**

| | Three Months Ended June 30, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 600 | $ | $ 721 | $ | $ | $ 1,321 | $ 202 | $ (73) | $ 129 | $ 1,450 |
| Other loans | | | | 5 | | 5 | | | | 5 |
| Cash and investments | 2 | 2 | 1 | 2 | (2) | 5 | | | | 5 |
| Total interest income | 602 | 2 | 722 | 7 | (2) | 1,331 | 202 | (73) | 129 | 1,460 |
| Total interest expense | 201 | | 357 | 14 | (2) | 570 | 17 | 5[4] | 22 | 592 |
| Net interest income (loss) | 401 | 2 | 365 | (7) | | 761 | 185 | (78) | 107 | 868 |
| Less: provisions for loan losses | 265 | | 23 | 3 | | 291 | | | | 291 |
| Net interest income (loss) after provisions for loan losses | 136 | 2 | 342 | (10) | | 470 | 185 | (78) | 107 | 577 |
| Servicing revenue | 15 | 244 | 21 | | (187) | 93 | | | | 93 |
| Contingency revenue | | 86 | | | | 86 | | | | 86 |
| Gains on debt repurchases | | | | | | | | | | |
| Other income (loss) | | 11 | | 3 | | 14 | (185) | (336)[5] | (521) | (507) |
| Total other income (loss) | 15 | 341 | 21 | 3 | (187) | 193 | (185) | (336) | (521) | (328) |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 73 | 121 | 192 | | (187) | 199 | | | | 199 |
| Overhead expenses | | | | 69 | | 69 | | | | 69 |
| Operating expenses | 73 | 121 | 192 | 69 | (187) | 268 | | | | 268 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 6 | 6 | 6 |
| Restructuring expenses | 1 | | | 1 | | 2 | | | | 2 |
| Total expenses | 74 | 121 | 192 | 70 | (187) | 270 | | 6 | 6 | 276 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 77 | 222 | 171 | (77) | | 393 | | (420) | (420) | (27) |
| Income tax expense (benefit)[3] | 28 | 82 | 63 | (29) | | 144 | | (154) | (154) | (10) |
| Net income (loss) from continuing operations | 49 | 140 | 108 | (48) | | 249 | | (266) | (266) | (17) |
| Income from discontinued operations, net of taxes | | | | 11 | | 11 | | | | 11 |
| Net income (loss) | $ 49 | $ 140 | $ 108 | $ (37) | $ | $ 260 | $ | $ (266) | $ (266) | $ (6) |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
| Net interest income after provisions for loan losses | $ 107 | $ | $ 107 |
| Total other income (loss) | (521) | | (521) |
| Goodwill and acquired intangible assets impairment and amortization | | 6 | 6 |
| Total Core Earnings adjustments to GAAP | $ (414) | $ (6) | (420) |
| Income tax benefit | | | (154) |
| Net loss | | | $ (266) |

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

(4) Represents a portion of the $16 million other derivative accounting adjustments.

(5) Represents the $325 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the $16 million of other derivative accounting adjustments.

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

## 10. Segment Reporting (Continued)

| | Six Months Ended June 30, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Total Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 1,241 | $ | $ 1,378 | $ | $ | $ 2,619 | $ 437 | $ (196) | $ 241 | $ 2,860 |
| Other loans | | | | 9 | | 9 | | | | 9 |
| Cash and investments | 4 | 5 | 5 | 1 | (5) | 10 | | | | 10 |
| Total interest income | 1,245 | 5 | 1,383 | 10 | (5) | 2,638 | 437 | (196) | 241 | 2,879 |
| Total interest expense | 408 | | 832 | 16 | (5) | 1,251 | 70 | 2[4] | 72 | 1,323 |
| Net interest income | 837 | 5 | 551 | (6) | | 1,387 | 367 | (198) | 169 | 1,556 |
| Less: provisions for loan losses | 460 | | 36 | | | 496 | | | | 496 |
| Net interest income after provisions for loan losses | 377 | 5 | 515 | (6) | | 891 | 367 | (198) | 169 | 1,060 |
| Servicing revenue | 23 | 466 | 48 | | (348) | 189 | | | | 189 |
| Contingency revenue | | 176 | | | | 176 | | | | 176 |
| Gains on debt repurchases | | | | 58 | | 58 | | | | 58 |
| Other income (loss) | | 18 | | 6 | | 24 | (367) | 15[5] | (352) | (328) |
| Total other income (loss) | 23 | 660 | 48 | 64 | (348) | 447 | (367) | 15 | (352) | 95 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 132 | 229 | 366 | 4 | (348) | 383 | | | | 383 |
| Overhead expenses | | | | 118 | | 118 | | | | 118 |
| Operating expenses | 132 | 229 | 366 | 122 | (348) | 501 | | | | 501 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 9 | 9 | 9 |
| Restructuring expenses | 2 | 3 | | 3 | | 8 | | | | 8 |
| Total expenses | 134 | 232 | 366 | 125 | (348) | 509 | | 9 | 9 | 518 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 266 | 433 | 197 | (67) | | 829 | | (192) | (192) | 637 |
| Income tax expense (benefit)[3] | 97 | 159 | 73 | (26) | | 303 | | (68) | (68) | 235 |
| Net income (loss) from continuing operations | 169 | 274 | 124 | (41) | | 526 | | (124) | (124) | 402 |
| Income from discontinued operations, net of taxes | | | | | | | | | | |
| Net income (loss) | 169 | 274 | 124 | (41) | | 526 | | (124) | (124) | 402 |
| Less: loss attributable to noncontrolling interest | | (1) | | | | (1) | | | | (1) |
| | $ 169 | $ 275 | $ 124 | $ (41) | $ | $ 527 | $ | $ (124) | $ (124) | $ 403 |

Net income (loss) attributable to SLM Corporation

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
| Net interest income after provisions for loan losses | $ 169 | $ | $ 169 |
| Total other loss | (352) | | (352) |
| Goodwill and acquired intangible assets impairment and amortization | | 9 | 9 |
| Total Core Earnings adjustments to GAAP | $ (183) | $ (9) | (192) |
| Income tax benefit | | | (68) |
| Net loss | | | $ (124) |

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

(4) Represents a portion of the $12 million other derivative accounting adjustments.

(5) Represents the $1 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $12 million of other derivative accounting adjustments.

40

Table of Contents

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (Continued)**

| | Six Months Ended June 30, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Total Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 1,204 | $ | $ 1,457 | $ | $ | $ 2,661 | $ 428 | $ (158) | $ 270 | $ 2,931 |
| Other loans | | | | 11 | | 11 | | | | 11 |
| Cash and investments | 5 | 5 | 2 | 3 | (5) | 10 | | | | 10 |
| Total interest income (loss) | 1,209 | 5 | 1,459 | 14 | (5) | 2,682 | 428 | (158) | 270 | 2,952 |
| Total interest expense | 399 | | 726 | 29 | (5) | 1,149 | 33 | 4[4] | 37 | 1,186 |
| Net interest income (loss) | 810 | 5 | 733 | (15) | | 1,533 | 395 | (162) | 233 | 1,766 |
| Less: provisions for loan losses | 540 | | 46 | 8 | | 594 | | | | 594 |
| Net interest income (loss) after provisions for loan losses | 270 | 5 | 687 | (23) | | 939 | 395 | (162) | 233 | 1,172 |
| Servicing revenue | 32 | 489 | 46 | | (376) | 191 | | | | 191 |
| Contingency revenue | | 164 | | | | 164 | | | | 164 |
| Gains on debt repurchases | | | | 64 | | 64 | (26) | | (26) | 38 |
| Other income | | 21 | | 6 | | 27 | (369) | (385)[5] | (754) | (727) |
| Total other income (loss) | 32 | 674 | 46 | 70 | (376) | 446 | (395) | (385) | (780) | (334) |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 155 | 249 | 387 | 9 | (376) | 424 | | | | 424 |
| Overhead expenses | | | | 148 | | 148 | | | | 148 |
| Operating expenses | 155 | 249 | 387 | 157 | (376) | 572 | | | | 572 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 12 | 12 | 12 |
| Restructuring expenses | 2 | 1 | 1 | 1 | | 5 | | | | 5 |
| Total expenses | 157 | 250 | 388 | 158 | (376) | 577 | | 12 | 12 | 589 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 145 | 429 | 345 | (111) | | 808 | | (559) | (559) | 249 |
| Income tax expense (benefit)[3] | 54 | 158 | 127 | (41) | | 298 | | (208) | (208) | 90 |
| Net income (loss) from continuing operations | 91 | 271 | 218 | (70) | | 510 | | (351) | (351) | 159 |
| Income from discontinued operations, net of taxes | | | | 10 | | 10 | | | | 10 |
| Net income (loss) | $ 91 | $ 271 | $ 218 | $ (60) | $ | $ 520 | $ | $ (351) | $ (351) | $ 169 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| (Dollars in millions) | Six Months Ended June 30, 2011<br>Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
|---|---|---|---|
| Net interest income after provisions for loan losses | $ 233 | $ | $ 233 |
| Total other income (loss) | (780) | | (780) |
| Goodwill and acquired intangible assets impairment and amortization | | 12 | 12 |
| Total Core Earnings adjustments to GAAP | $ (547) | $ (12) | (559) |
| Income tax benefit | | | (208) |
| Net loss | | | $ (351) |

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

(4) Represents a portion of the $8 million other derivative accounting adjustments.

(5) Represents the $381 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the $8 million of other derivative accounting adjustments.

41

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**10. Segment Reporting (Continued)**

***Summary of Core Earnings Adjustments to GAAP***

The adjustments required to reconcile from our Core Earnings results to our GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income, and certain other items that management does not consider in evaluating our operating results. The following table reflects aggregate adjustments associated with these areas.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Core Earnings adjustments to GAAP:** | | | | |
| Net impact of derivative accounting[1] | $ 82 | $ (414) | $ (183) | $ (547) |
| Net impact of acquired intangibles assets[2] | (5) | (6) | (9) | (12) |
| Net tax effect[3] | (28) | 154 | 68 | 208 |
| Total Core Earnings adjustments to GAAP | $ 49 | $ (266) | $ (124) | $ (351) |

(1) **Derivative accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP. To a lesser extent, these periodic unrealized gains and losses are also a result of ineffectiveness recognized related to effective hedges. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item s life.

(2) **Goodwill and acquired intangible assets:** We exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.

(3) **Net tax effect:** Such tax effect is based upon our Core Earnings effective tax rate for the year.

Table of Contents

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q.

This report contains forward-looking statements and information based on management s current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company s 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 risks and uncertainties set forth in Item 1A Risk Factors and elsewhere in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K ), in this Quarterly Report on Form 10-Q and subsequent filings 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 the Company is a party; credit risk associated with the Company s exposure to third parties, including counterparties to the Company s 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). The Company 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 its operating systems or infrastructure, including those of third-party vendors; damage to its reputation; failures to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on its business; 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 its customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of its earning assets vs. its funding arrangements; changes in general economic conditions; and changes in the demand for debt management services. The preparation of the Company s consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in its expectations.

Definitions for certain capitalized terms used in this document can be found in the 2011 Form 10-K.

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2011 to be consistent with classifications adopted for 2012, and had no effect on net income, total assets, or total liabilities.

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

Table of Contents

**Selected Financial Information and Ratios**

| (In millions, except per share data) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **GAAP Basis** | | | | |
| Net income (loss) attributable to SLM Corporation | $ 292 | $ (6) | $ 403 | $ 169 |
| Diluted earnings (loss) per common share attributable to SLM Corporation | $ .59 | $ (.02) | $ .79 | $ .30 |
| Weighted average shares used to compute diluted earnings (loss) per share | 488 | 524 | 499 | 531 |
| Return on assets | .64% | (.01)% | .44% | .18% |
| **Core Earnings Basis**[(1)] | | | | |
| Core Earnings attributable to SLM Corporation | $ 243 | $ 260 | $ 527 | $ 520 |
| Core Earnings diluted earnings per common share attributable to SLM Corporation | $ .49 | $ .48 | $ 1.03 | $ .96 |
| Weighted average shares used to compute diluted earnings per share | 488 | 530 | 499 | 531 |
| Core Earnings return on assets | .53% | .54% | .58% | .54% |
| **Other Operating Statistics** | | | | |
| Ending FFELP Loans, net | $ 132,833 | $ 142,635 | $ 132,833 | $ 142,635 |
| Ending Private Education Loans, net | 36,454 | 35,753 | 36,454 | 35,753 |
| Ending total student loans, net | $ 169,287 | $ 178,388 | $ 169,287 | $ 178,388 |
| Average student loans | $ 172,436 | $ 180,783 | $ 173,689 | $ 182,575 |

(1) Core Earnings are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of Core Earnings, see the section titled Core Earnings Definition and Limitations and subsequent sections.

**Overview**

Our primary business is to originate, service and collect loans we make to students and/or their parents to finance the cost of their education. The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. We also provide servicing, loan default aversion and defaulted loan collection services for loans owned by other institutions, including ED. We also provide processing capabilities to educational institutions, 529 college savings plan program management services and a consumer savings network. In addition we are the largest holder, servicer and collector of loans made under FFELP, a program that was discontinued in 2010.

We monitor and assess our ongoing operations and results based on the following four reportable segments:

Consumer Lending Segment In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are largely to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or borrowers resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, which are primarily late fees. As of June 30, 2012 and December 31, 2011, we had $36.5 billion and $36.3 billion, respectively, of Private Education Loans outstanding.

Business Services Segment In our Business Services segment, we provide loan servicing for our FFELP Loans, ED and other third parties. We provide default aversion and contingency collections work on behalf of ED, Guarantors of FFELP Loans, and other institutions. Our Campus Solutions business provides comprehensive transaction processing solutions and associated technology to college financial aid offices and students to streamline the financial aid process. We provide 529 college

Table of Contents

savings plan account asset servicing and other transaction processing activities. We offer tuition, renters and student health insurance to college students and higher education institutions.

FFELP Loans Segment Our FFELP Loans segment consists of our $132.8 billion FFELP Loan portfolio at June 30, 2012 and the underlying debt and capital funding these loans. Because we no longer originate FFELP Loans, the portfolio is in runoff and is expected to amortize over approximately the next 20 years with a weighted average remaining life of 7.6 years.
We actively seek to acquire FFELP Loan portfolios to leverage our servicing scale and expertise to generate incremental earnings and cash flow. Of our total FFELP Loan portfolio at June 30, 2012, 95 percent was funded with non-recourse, long-term debt; 79 percent of our FFELP Loan portfolio being funded to term by securitization trusts, 11 percent funded through the ED Conduit Program which terminates on January 19, 2014, and 5 percent funded in our multi-year ABCP facility. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP portfolio amortizes.

Other Our Other segment primarily consists of the financial results related to activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment.

**Recent Developments**

Many aspects of our businesses are subject to federal and state regulation and administrative oversight. This year, as the Consumer Financial Protection Bureau (the CFPB ) becomes fully operationalized and various other regulatory agencies continue developing new rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ), the probability of new or additional regulatory requirements or oversight being applied to our various businesses (most notably, private student lending, default aversion and debt collection) or, generally, to large non-bank financial services companies will likely increase.

*Private Student Loan Industry Report Released*

On July 20, 2012, the CFPB and the Department of Education ( ED ) released their joint report on the Private Student Loan[(1)] industry (the Report ) as required by the Dodd-Frank Act. The Report s analysis and recommendations were based in part on aggregated lender loan-level and portfolio data, as well as qualitative responses voluntarily submitted by nine major commercial lenders and five state-affiliated non-profit lenders. Loan-level data was submitted for all loans originated from 2005 to 2011 and portfolio performance data was as of each quarter within the same period. In our periodic reports, we use Private Education Loans to mean education loans we make to students or parents of students that are not insured or guaranteed by the federal government. Our Private Education Loans made for higher education purposes are within the Report s scope.

The Report recognized the important role Private Student Loans play in funding higher education and recognized significant improvements in recent years in the quality of underwriting, extensive protections provided by federal consumer protection laws and detailed, required disclosures related to Private Student Loans. The Report focused particularly on industry practices in the 2005-2007 timeframe and took issue with several practices of that era while duly noting where improvements have been made.

The Report offered numerous observations and posited various, often alternative, possible causes for concern regarding matters such as borrowers perceived continuing confusion on the terms of federal Stafford loans and Private Student Loans, possible gaps in the college financial aid process, the continuing relevance of the non-dischargeability of Private Student Loans in bankruptcy and concerns that the scarcity of publicly-available racial and ethnicity data with regard to Private Student Loan borrowers promote the use of proxy indicators such as ED s published school cohort default rates as well as graduation rates which may contribute to possible fair lending law violations.

(1) The Report addresses Private Student Loans as defined in Section 140 of the Truth in Lending Act (15 USC§1650).

The CFPB recommended Congress give further consideration to five topics[(2)], only three of which currently have the potential to affect our business at this time.

*School Certification of Private Student Loans*. The CFPB recommends Private Student Loan lenders obtain school certification that loan amounts do not exceed student need. We require school certification of all our Private Education Loans.

*Consider Modifications to Federal Bankruptcy Code*. The CFPB recommends Congress consider whether its policy goals have been met by the federal Bankruptcy Code s treatment of Private Student Loans. Sallie Mae continues to support bankruptcy reform that would require a period of good faith payments, that is prospective so as not to rewrite existing contracts, and that applies to federal and non-federal education loans alike. Any reform must recognize that education loans have unique characteristics and benefits as compared to other consumer loan classes.

*Determine if Additional Data is Needed for Consumer Decision-Making and Lender Underwriting*. The Report observes that the scarcity of other reliable and publicly available data may contribute to the use by Private Student Loan lenders of indicators such as ED s published school cohort default rates which represent the percentage of a school s federal student loan borrowers that default within certain periods of entering repayment. While we no longer use these rates in underwriting or pricing, in light of this scarcity of information and their highly predictive nature, we believe proper use of this attribute could meet legitimate needs of both and lenders.

(2) The Report also recommends certain clarifications to the definition of private student loan as the term is used in Federal Truth-in-Lending laws that are not relevant to our business. The Report also recommends adopting meaningful mechanisms and processes that provide greater clarity to customers regarding their Private Student Loans. We will continue to monitor this recommendation.

**Key Financial Measures**

Our operating results are primarily driven by net interest income from our student loan portfolios (which include financing costs), provisions for loan losses, the revenues and expenses generated by our service businesses, and gains and losses on loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions for loan losses; charge-offs and delinquencies; servicing and contingency revenues; other income (loss); operating expenses; and Core Earnings ) can be found in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2011 Form 10-K.

**First Half of 2012 Summary of Results**

We continue to operate in a challenging macroeconomic environment marked by high unemployment and financial uncertainty which contributes added uncertainty to Private Education Loan repayment and default patterns. Our business has changed significantly over the past two years as we no longer originate FFELP Loans. A detailed discussion of these changes can be found in Item 1 Business and in Item 1A Risk Factors in our 2011 Form 10-K.

Nonetheless, we were able to achieve significant accomplishments during the second quarter of 2012 as discussed below.

We report financial results on a GAAP basis and also present certain Core Earnings performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these Core Earnings measures to monitor our business performance. See Core Earnings Definition and Limitations for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

Second-quarter 2012 GAAP net income was $292 million ($.59 diluted earnings per share), versus a net loss of $(6) million ($(.02) diluted loss per share) in the second-quarter 2011. The changes in GAAP net income are

driven by the same types of Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. Second-quarter 2012 and 2011 GAAP results included an $82 million gain and a $414 million loss, respectively, resulting from derivative accounting treatment compared to Core Earnings.

Core Earnings for the quarter were $243 million ($.49 diluted earnings per share), compared with $260 million ($.48 diluted earnings per share) in the year-ago period. Versus the prior-year quarter, earnings benefited from a $48 million lower loan loss provision and a $29 million operating expense reduction. Debt repurchase gains were $20 million higher. However, the acceleration of $50 million of non-cash loan premium amortization in the quarter contributed to offset these improvements. This amount is attributable to approximately $4.5 billion of federally guaranteed student loans (approximately three percent of that portfolio) expected to be consolidated under the recently completed Special Direct Consolidation Loan Initiative. (See FFELP Loans Segment for further discussion.) Net interest income declined by an additional $56 million primarily due to higher funding costs, which in turn was partly due to refinancing debt into longer term liabilities, and lower federally guaranteed student loan balances.

During the first six months of 2012, we:

- issued $4.3 billion of FFELP asset-backed securities ( ABS ), $2.6 billion of Private Education Loan ABS and $1.85 billion of unsecured bonds;
- repurchased $290 million of debt and realized Core Earnings gains of $58 million, compared with $885 million of debt repurchased and $64 million of gains in the first six months of 2011;
- amended our FFELP asset-backed commercial paper facility to increase the current amount available to $7.5 billion and extended the final maturity date by one year to January 9, 2015;
- repurchased 40.5 million common shares for $609 million on the open market as part of our previously announced share repurchase program authorization of up to $900 million; and
- increased our regular quarterly common stock dividend to $.125 per share, up from $.10 per share in the fourth quarter of 2011. We paid our quarterly dividends on March 16, 2012 and June 15, 2012.

**2012 Management Objectives**

In 2012 we have set out five major goals to create shareholder value. They are: (1) prudently grow Consumer Lending segment assets and revenue; (2) sustain Business Services segment revenue; (3) maximize cash flows from FFELP Loans; (4) reduce our operating expenses; and (5) improve our financial strength. Here is how we plan to achieve these objectives and the progress we have made to date:

***Prudently Grow Consumer Lending Segment Assets and Revenues***

We will continue to pursue managed growth in our Private Education Loan portfolio in 2012, currently targeting $3.2 billion in new originations for the year compared to $2.7 billion in 2011. We will also be increasing our efforts to improve our return on these assets. We expect further improvements in our charge-off rates and provision for loan losses as the quality of our Private Education Loans continues to improve. Originations were 22 percent higher in the second quarter of 2012 compared with the year-ago quarter. Charge-offs decreased to 3.09 percent (annualized) of loans in repayment from 3.71 percent in the year-ago quarter. Provisions for loans losses decreased to $225 million in the second quarter of 2012 compared to $265 million in the second quarter of 2011.

***Sustain Business Services Segment Revenue***

Our Business Services segment generates the vast majority of its revenue from servicing and collecting on our FFELP Loan portfolio and FFELP Loans for others. As a result of the elimination of FFELP in 2010, servicing and collection revenues derived from FFELP-related sources are in decline. In 2012 we will work to offset these declines through two primary means pursuing additional growth and expansion of our non-FFELP- related servicing and collection businesses and seeking to increase the FFELP-related loan servicing and collection work we do for third parties. In 2012 we are targeting significant growth in the number of customers we service for ED under our ED servicing and collection contracts, as well as in the total assets under management in our 529 college savings plans. We will explore both complementary and diversified strategies to expand demand for our services in and beyond the student loan market. We will also more aggressively seek to leverage our existing FFELP servicing platforms to be able to provide lower cost FFELP servicing to others while increasing segment revenues from these sources. For the six months ended June 30, 2012, our Business Services segment revenue is down two percent from the year-ago period primarily due to the amortization of our FFELP portfolio. We are continuing our efforts to offset this decline by growing other sources of revenue. Below are examples of growth in other Business Services activities:

- We are currently servicing approximately 3.8 million accounts under the ED Servicing Contract as of June 30, 2012 compared to 3.0 million accounts at June 30, 2011. Market share under the ED Servicing Contract is set annually based on the performance rankings of the four servicing companies that are parties to the contract. We must remain focused on improving our performance relative to other servicers.

- Campus Solutions added 15 new refund disbursement clients in the first six months of 2012.

- Assets under management in 529 college savings plans totaled $41.4 billion at June 30, 2012 and grew 10 percent over the year-ago quarter.

***Maximize Cash Flows from FFELP Loans***

In 2012 we will continue to focus on opportunistically purchasing additional FFELP Loan portfolios from other lenders. As cash flows from our existing FFELP Loans decline over coming years, it also becomes increasingly important that we actively manage and continue to reduce operating and overhead costs attributable to the maintenance and management of this segment. Continuing to reduce these operating and overhead costs will also increase net income for our Business Services segment. During the first half of 2012, we purchased $2.8 billion of FFELP Loans. We expect to make additional purchases during 2012. These acquisitions helped partially offset the $4.5 billion of loans we expect to consolidate to ED in 2012 as part of the Special Direct Consolidation Loan Initiative. See FFELP Loans Segment for further discussion regarding the effect of the Special Direct Consolidation Loan Initiative. The Special Direct Consolidation Loan Initiative impact will not be material to future earnings or cash flows. We will continue to actively and aggressively seek to acquire additional portfolios.

***Reduce Operating Expenses***

We achieved our 2011 management objective of having a quarterly operating expense of $250 million or less in the fourth quarter of 2011. We will remain focused on reducing operating expenses in 2012 and expect to improve on the $1.1 billion of operating expenses incurred in 2011. Second-quarter 2012 operating expenses were $239 million, down from $268 million in the year-ago quarter primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

***Improve Our Financial Strength***

It is management s objective for 2012 to provide increased shareholder distributions while at the same time ending 2012 with a balance sheet and capital position as strong as or stronger than those with which we ended in 2011. We increased our regular quarterly common stock dividends to $0.125 per share in the first and second quarters of 2012, up from $0.10 per share for the last three quarters of 2011. During the second quarter of 2012, we authorized an additional $400 million to be utilized in our ongoing share repurchase program; we previously authorized $500 million in January 2012. During the first half of 2012, we repurchased 40.5 million shares of common stock at an aggregate price of $609 million. At June 30, 2012, we had $291 million of remaining share repurchase authorization.

Table of Contents

**RESULTS OF OPERATIONS**

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four business segments: FFELP Loans, Consumer Lending, Business Services and Other. Since these segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures, these segments are presented on a Core Earnings basis (see Core Earnings Definition and Limitations ).

**GAAP Statements of Income (Unaudited)**

| | Three Months Ended June 30, | | Increase (Decrease) | | Six Months Ended June 30, | | Increase (Decrease) | |
|---|---|---|---|---|---|---|---|---|
| **(In millions, except per share data)** | **2012** | **2011** | **$** | **%** | **2012** | **2011** | **$** | **%** |
| Interest income: | | | | | | | | |
| FFELP Loans | $ 777 | $ 850 | $ (73) | (9)% | $ 1,619 | $ 1,727 | $ (108) | (6)% |
| Private Education Loans | 616 | 600 | 16 | 3 | 1,241 | 1,204 | 37 | 3 |
| Other loans | 4 | 5 | (1) | (20) | 9 | 11 | (2) | (18) |
| Cash and investments | 6 | 5 | 1 | 20 | 10 | 10 | | |
| Total interest income | 1,403 | 1,460 | (57) | (4) | 2,879 | 2,952 | (73) | (2) |
| Total interest expense | 657 | 592 | 65 | 11 | 1,323 | 1,186 | 137 | 12 |
| Net interest income | 746 | 868 | (122) | (14) | 1,556 | 1,766 | (210) | (12) |
| Less: provisions for loan losses | 243 | 291 | (48) | (16) | 496 | 594 | (98) | (16) |
| Net interest income after provisions for loan losses | 503 | 577 | (74) | (13) | 1,060 | 1,172 | (112) | (10) |
| Other income (loss): | | | | | | | | |
| Gains (losses) on derivative and hedging activities, net | 6 | (510) | 516 | 101 | (366) | (752) | 386 | (51) |
| Servicing revenue | 92 | 93 | (1) | (1) | 189 | 191 | (2) | (1) |
| Contingency revenue | 87 | 86 | 1 | 1 | 176 | 164 | 12 | 7 |
| Gains on debt repurchases | 20 | | 20 | 100 | 58 | 38 | 20 | 53 |
| Other income (loss) | (2) | 3 | (5) | (167) | 38 | 25 | 13 | 52 |
| Total other income (loss) | 203 | (328) | 531 | 162 | 95 | (334) | 429 | 128 |
| Expenses: | | | | | | | | |
| Operating expenses | 239 | 268 | (29) | (11) | 501 | 572 | (71) | (12) |
| Goodwill and acquired intangible assets impairment and amortization expense | 5 | 6 | (1) | (17) | 9 | 12 | (3) | (25) |
| Restructuring expenses | 3 | 2 | 1 | 50 | 8 | 5 | 3 | 60 |
| Total expenses | 247 | 276 | (29) | (11) | 518 | 589 | (71) | (12) |
| Income (loss) from continuing operations before income tax expense (benefit) | 459 | (27) | 486 | 1,800 | 637 | 249 | 388 | 156 |
| Income tax expense (benefit) | 168 | (10) | 178 | 1,780 | 235 | 90 | 145 | 161 |
| Net income (loss) from continuing operations | 291 | (17) | 308 | 1,812 | 402 | 159 | 243 | 153 |
| Income from discontinued operations, net of tax expense | | 11 | (11) | (100) | | 10 | (10) | (100) |
| **Net income (loss)** | 291 | (6) | 297 | 4,950 | 402 | 169 | 233 | 138 |
| Less: net loss attributable to noncontrolling interest | (1) | | (1) | (100) | (1) | | (1) | (100) |
| **Net income (loss) attributable to SLM Corporation** | 292 | (6) | 298 | 4,967 | 403 | 169 | 234 | 138 |
| Preferred stock dividends | 5 | 4 | 1 | 25 | 10 | 8 | 2 | 25 |
| Net income (loss) attributable to common stock | $ 287 | $ (10) | $ 297 | 2,970% | $ 393 | $ 161 | $ 232 | 144% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Basic earnings (loss) per common share attributable to SLM Corporation:** | | | | | | | | |
| Continuing operations | $ .59 | $ (.04) | $ .63 | 1,575% | $ .80 | $ .29 | $ .51 | 176% |
| Discontinued operations | | .02 | (.02) | (100) | | .02 | (.02) | (100) |
| Total | $ .59 | $ (.02) | $ .61 | 3,050% | $ .80 | $ .31 | $ .49 | 158% |
| **Diluted earnings (loss) per common share attributable to SLM Corporation:** | | | | | | | | |
| Continuing operations | $ .59 | $ (.04) | $ .63 | 1,575% | $ .79 | $ .28 | $ .51 | 182% |
| Discontinued operations | | .02 | (.02) | (100) | | .02 | (.02) | (100) |
| Total | $ .59 | $ (.02) | $ .61 | 3,050% | $ .79 | $ .30 | $ .49 | 163% |
| Dividends per common share attributable to SLM Corporation | $ .125 | $ .10 | $ .025 | 25% | $ .25 | $ .10 | $ .15 | 150% |

Table of Contents

**Consolidated Earnings Summary GAAP basis**

**Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011**

For the three months ended June 30, 2012 and 2011, net income (loss) was $292 million, or $.59 diluted earnings per common share, and $(6) million, or $(.02) diluted loss per common share, respectively. The increase in net income was primarily due to a $516 million difference in net gains (losses) on derivative and hedging activities, a $48 million decrease in provisions for loan losses, a $29 million decrease in operating expenses, and a $20 million increase in gains on debt repurchases, which was partially offset by a $122 million decline in net interest income.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income declined by $122 million due to a combination of factors. Net interest income for the quarter was affected by the Special Direct Consolidation Loan Initiative that ended June 30, 2012, resulting in the acceleration of $50 million of non-cash loan premium amortization in the quarter related to approximately $4.5 billion of loans (approximately 3 percent of our FFELP portfolio) expected to consolidate. The remaining decrease was primarily due to higher funding costs, which in turn was partly due to refinancing debt into longer term liabilities, and a decline in FFELP Loans outstanding. The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under ED s Special Direct Consolidation Loan Initiative. (See FFELP Loans Segment for further discussion.)

- Provisions for loan losses decreased by $48 million as a result of overall improvements in credit quality and delinquency and charge-off trends.

- Gains (losses) on derivative and hedging activities resulted in a net gain of $6 million in the current-quarter compared to a net loss of $510 million in the year-ago quarter. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

- Gains on debt repurchases increased $20 million as we repurchased more debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

- Operating expenses decreased $29 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

- The effective tax rates for the second quarters of 2012 and 2011 were 37 percent and 36 percent, respectively.

- We repurchased 23.8 million shares during the second quarter of 2012 as part of our ongoing share repurchase program. Primarily as a result of these ongoing repurchases, our average outstanding diluted shares decreased during the quarter by 36 million shares.

**Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011**

For the six months ended June 30, 2012 and 2011, net income was $403 million, or $.79 diluted earnings per common share, and $169 million, or $.30 diluted earnings per common share, respectively. The increase in net income was primarily due to a $386 million decrease in net losses on derivative and hedging activities, a $98 million decrease in provisions for loan losses and a $71 million decrease in operating expenses, which was partially offset by a $210 million decline in net interest income.

Table of Contents

The primary contributors to each of the identified drivers of changes in net income for the current six-month period compared with the year-ago six-month period are as follows:

Net interest income declined by $210 million due to a combination of factors. Net interest income for the quarter was affected by the Special Direct Consolidation Loan Initiative that ended June 30, 2012, resulting in the acceleration of $50 million of non-cash loan premium amortization in the quarter related to approximately $4.5 billion of loans (approximately 3 percent of our FFELP portfolio) expected to consolidate. The remaining decrease was primarily due to higher funding costs, which in turn was partly due to refinancing debt into longer term liabilities, and a decline in FFELP Loans outstanding. The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under ED s Special Direct Consolidation Loan Initiative. (See FFELP Loans Segment for further discussion.)

Provisions for loan losses decreased by $98 million as a result of overall improvements in credit quality and delinquency and charge-off trends.

Net losses on derivative and hedging activities decreased by $386 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Contingency revenue increased by $12 million due to an increase in collections.

Gains on debt repurchases increased $20 million as we repurchased more debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Other income increased $13 million as a result of a $14 million increase in foreign currency translation gains. The foreign currency translation gains relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains were partially offset by losses on derivative and hedging activities related to the derivatives used to economically hedge these debt instruments.

Operating expenses decreased $71 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

The effective tax rates for the six months ended June 30, 2012 and 2011 were 37 percent and 36 percent, respectively.

We repurchased 40.5 million shares during the six months ended June 30, 2012, as part of our ongoing share repurchase program. Primarily as a result of these ongoing repurchases, our average outstanding diluted shares decreased by 32 million shares.

**Core Earnings Definition and Limitations**

We prepare financial statements in accordance with GAAP. However, we also evaluate our business segments on a basis that differs from GAAP. We refer to this different basis of presentation as Core Earnings. We provide this Core Earnings basis of presentation on a consolidated basis for each business segment because this is what we internally review when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our Core Earnings basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide Core Earnings disclosure in the notes to our consolidated financial statements for our business segments.

Table of Contents

Core Earnings are not a substitute for reported results under GAAP. We use Core Earnings to manage each business segment because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items for which we adjust in our Core Earnings presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our Core Earnings basis of presentation does not. Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, 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. Accordingly, our Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our 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, our board of directors, rating agencies, lenders and investors to assess performance.

Specific adjustments that management makes to GAAP results to derive our Core Earnings basis of presentation are described in detail in the section titled Core Earnings Definition and Limitations Differences between Core Earnings and GAAP below.

**Table of Contents**

The following tables show Core Earnings for each business segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP.

| | Three Months Ended June 30, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 616 | $ | $ 652 | $ | $ | $ 1,268 | $ 223 | $ (98) | $ 125 | $ 1,393 |
| Other loans | | | | 4 | | 4 | | | | 4 |
| Cash and investments | 2 | 2 | 3 | 1 | (2) | 6 | | | | 6 |
| Total interest income | 618 | 2 | 655 | 5 | (2) | 1,278 | 223 | (98) | 125 | 1,403 |
| Total interest expense | 206 | | 409 | 10 | (2) | 623 | 34 | | 34 | 657 |
| Net interest income | 412 | 2 | 246 | (5) | | 655 | 189 | (98) | 91 | 746 |
| Less: provisions for loan losses | 225 | | 18 | | | 243 | | | | 243 |
| Net interest income after provisions for loan losses | 187 | 2 | 228 | (5) | | 412 | 189 | (98) | 91 | 503 |
| Servicing revenue | 12 | 230 | 22 | | (172) | 92 | | | | 92 |
| Contingency revenue | | 87 | | | | 87 | | | | 87 |
| Gains on debt repurchases | | | | 20 | | 20 | | | | 20 |
| Other income (loss) | | 8 | | 5 | | 13 | (189) | 180[4] | (9) | 4 |
| Total other income (loss) | 12 | 325 | 22 | 25 | (172) | 212 | (189) | 180 | (9) | 203 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 64 | 109 | 181 | 3 | (172) | 185 | | | | 185 |
| Overhead expenses | | | | 54 | | 54 | | | | 54 |
| Operating expenses | 64 | 109 | 181 | 57 | (172) | 239 | | | | 239 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 5 | 5 | 5 |
| Restructuring expenses | 1 | 2 | | | | 3 | | | | 3 |
| Total expenses | 65 | 111 | 181 | 57 | (172) | 242 | | 5 | 5 | 247 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 134 | 216 | 69 | (37) | | 382 | | 77 | 77 | 459 |
| Income tax expense (benefit)[3] | 49 | 79 | 25 | (13) | | 140 | | 28 | 28 | 168 |
| Net income (loss) from continuing operations | 85 | 137 | 44 | (24) | | 242 | | 49 | 49 | 291 |
| Income from discontinued operations, net of taxes | | | | | | | | | | |
| Net income (loss) | 85 | 137 | 44 | (24) | | 242 | | 49 | 49 | 291 |
| Less: loss attributable to noncontrolling interest | | (1) | | | | (1) | | | | (1) |
| Net income (loss) attributable to SLM Corporation | $ 85 | $ 138 | $ 44 | $ (24) | $ | $ 243 | $ | $ 49 | $ 49 | $ 292 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Three Months Ended June 30, 2012 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
| Net interest income after provisions for loan losses | $ 91 | $ | $ 91 |
| Total other loss | (9) | | (9) |
| Goodwill and acquired intangible assets impairment and amortization | | 5 | 5 |
| Total Core Earnings adjustments to GAAP | $ 82 | $ (5) | 77 |
| Income tax benefit | | | 28 |
| Net loss | | | $ 49 |

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

(4) Represents the $194 million of unrealized gains on derivative and hedging activities, net as well as the ($14) million of other derivative accounting adjustments.

54

Table of Contents

| | | | | | | Three Months Ended June 30, 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations(1) | Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments(2) | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 600 | $ | $ 721 | $ | $ | $ 1,321 | $ 202 | $ (73) | $ 129 | $ 1,450 |
| Other loans | | | | 5 | | 5 | | | | 5 |
| Cash and investments | 2 | 2 | 1 | 2 | (2) | 5 | | | | 5 |
| Total interest income | 602 | 2 | 722 | 7 | (2) | 1,331 | 202 | (73) | 129 | 1,460 |
| Total interest expense | 201 | | 357 | 14 | (2) | 570 | 17 | 5(4) | 22 | 592 |
| Net interest income (loss) | 401 | 2 | 365 | (7) | | 761 | 185 | (78) | 107 | 868 |
| Less: provisions for loan losses | 265 | | 23 | 3 | | 291 | | | | 291 |
| Net interest income (loss) after provisions for loan losses | 136 | 2 | 342 | (10) | | 470 | 185 | (78) | 107 | 577 |
| Servicing revenue | 15 | 244 | 21 | | (187) | 93 | | | | 93 |
| Contingency revenue | | 86 | | | | 86 | | | | 86 |
| Gains on debt repurchases | | | | | | | | | | |
| Other income (loss) | | 11 | | 3 | | 14 | (185) | (336)(5) | (521) | (507) |
| Total other income (loss) | 15 | 341 | 21 | 3 | (187) | 193 | (185) | (336) | (521) | (328) |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 73 | 121 | 192 | | (187) | 199 | | | | 199 |
| Overhead expenses | | | | 69 | | 69 | | | | 69 |
| Operating expenses | 73 | 121 | 192 | 69 | (187) | 268 | | | | 268 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 6 | 6 | 6 |
| Restructuring expenses | 1 | | | 1 | | 2 | | | | 2 |
| Total expenses | 74 | 121 | 192 | 70 | (187) | 270 | | 6 | 6 | 276 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 77 | 222 | 171 | (77) | | 393 | | (420) | (420) | (27) |
| Income tax expense (benefit)(3) | 28 | 82 | 63 | (29) | | 144 | | (154) | (154) | (10) |
| Net income (loss) from continuing operations | 49 | 140 | 108 | (48) | | 249 | | (266) | (266) | (17) |
| Income from discontinued operations, net of taxes | | | | 11 | | 11 | | | | 11 |
| Net income (loss) | $ 49 | $ 140 | $ 108 | $ (37) | $ | $ 260 | $ | $ (266) | $ (266) | $ (6) |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Three Months Ended June 30, 2011 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and | Total |

| | | Acquired Intangibles | |
|---|---|---|---|
| Net interest income after provisions for loan losses | $ 107 | $ | $ 107 |
| Total other income (loss) | (521) | | (521) |
| Goodwill and acquired intangible assets impairment and amortization | | 6 | 6 |
| Total Core Earnings adjustments to GAAP | $ (414) | $ (6) | (420) |
| Income tax benefit | | | (154) |
| Net loss | | | $ (266) |

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

(4) Represents a portion of the $16 million other derivative accounting adjustments.

(5) Represents the $325 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the $16 million of other derivative accounting adjustments.

Table of Contents

| | Six Months Ended June 30, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Total Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 1,241 | $ | $ 1,378 | $ | $ | $ 2,619 | $ 437 | $ (196) | $ 241 | $ 2,860 |
| Other loans | | | | 9 | | 9 | | | | 9 |
| Cash and investments | 4 | 5 | 5 | 1 | (5) | 10 | | | | 10 |
| Total interest income | 1,245 | 5 | 1,383 | 10 | (5) | 2,638 | 437 | (196) | 241 | 2,879 |
| Total interest expense | 408 | | 832 | 16 | (5) | 1,251 | 70 | 2[4] | 72 | 1,323 |
| Net interest income | 837 | 5 | 551 | (6) | | 1,387 | 367 | (198) | 169 | 1,556 |
| Less: provisions for loan losses | 460 | | 36 | | | 496 | | | | 496 |
| Net interest income after provisions for loan losses | 377 | 5 | 515 | (6) | | 891 | 367 | (198) | 169 | 1,060 |
| Servicing revenue | 23 | 466 | 48 | | (348) | 189 | | | | 189 |
| Contingency revenue | | 176 | | | | 176 | | | | 176 |
| Gains on debt repurchases | | | | 58 | | 58 | | | | 58 |
| Other income (loss) | | 18 | | 6 | | 24 | (367) | 15[5] | (352) | (328) |
| Total other income (loss) | 23 | 660 | 48 | 64 | (348) | 447 | (367) | 15 | (352) | 95 |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 132 | 229 | 366 | 4 | (348) | 383 | | | | 383 |
| Overhead expenses | | | | 118 | | 118 | | | | 118 |
| Operating expenses | 132 | 229 | 366 | 122 | (348) | 501 | | | | 501 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 9 | 9 | 9 |
| Restructuring expenses | 2 | 3 | | 3 | | 8 | | | | 8 |
| Total expenses | 134 | 232 | 366 | 125 | (348) | 509 | | 9 | 9 | 518 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 266 | 433 | 197 | (67) | | 829 | | (192) | (192) | 637 |
| Income tax expense (benefit)[3] | 97 | 159 | 73 | (26) | | 303 | | (68) | (68) | 235 |
| Net income (loss) from continuing operations | 169 | 274 | 124 | (41) | | 526 | | (124) | (124) | 402 |
| Income from discontinued operations, net of taxes | | | | | | | | | | |
| Net income (loss) | 169 | 274 | 124 | (41) | | 526 | | (124) | (124) | 402 |
| Less: loss attributable to noncontrolling interest | | (1) | | | | (1) | | | | (1) |
| Net income (loss) attributable to SLM Corporation | $ 169 | $ 275 | $ 124 | $ (41) | $ | $ 527 | $ | $ (124) | $ (124) | $ 403 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Six Months Ended June 30, 2012 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and Acquired Intangibles | Total |
| Net interest income after provisions for loan losses | $ 169 | $ | $ 169 |
| Total other loss | (352) | | (352) |
| Goodwill and acquired intangible assets impairment and amortization | | 9 | 9 |
| Total Core Earnings adjustments to GAAP | $ (183) | $ (9) | (192) |
| Income tax benefit | | | (68) |
| Net loss | | | $ (124) |

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

(4) Represents a portion of the $12 million other derivative accounting adjustments.

(5) Represents the $1 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $12 million of other derivative accounting adjustments.

Table of Contents

| | Six Months Ended June 30, 2011 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Total | Adjustments | | | |
| (Dollars in millions) | Consumer Lending | Business Services | FFELP Loans | Other | Eliminations[1] | Core Earnings | Reclassifications | Additions/ (Subtractions) | Total Adjustments[2] | Total GAAP |
| Interest income: | | | | | | | | | | |
| Student loans | $ 1,204 | $ | $ 1,457 | $ | $ | $ 2,661 | $ 428 | $ (158) | $ 270 | $ 2,931 |
| Other loans | | | | 11 | | 11 | | | | 11 |
| Cash and investments | 5 | 5 | 2 | 3 | (5) | 10 | | | | 10 |
| Total interest income (loss) | 1,209 | 5 | 1,459 | 14 | (5) | 2,682 | 428 | (158) | 270 | 2,952 |
| Total interest expense | 399 | | 726 | 29 | (5) | 1,149 | 33 | 4[4] | 37 | 1,186 |
| Net interest income (loss) | 810 | 5 | 733 | (15) | | 1,533 | 395 | (162) | 233 | 1,766 |
| Less: provisions for loan losses | 540 | | 46 | 8 | | 594 | | | | 594 |
| Net interest income (loss) after provisions for loan losses | 270 | 5 | 687 | (23) | | 939 | 395 | (162) | 233 | 1,172 |
| Servicing revenue | 32 | 489 | 46 | | (376) | 191 | | | | 191 |
| Contingency revenue | | 164 | | | | 164 | | | | 164 |
| Gains on debt repurchases | | | | 64 | | 64 | (26) | | (26) | 38 |
| Other income | | 21 | | 6 | | 27 | (369) | (385)[5] | (754) | (727) |
| Total other income (loss) | 32 | 674 | 46 | 70 | (376) | 446 | (395) | (385) | (780) | (334) |
| Expenses: | | | | | | | | | | |
| Direct operating expenses | 155 | 249 | 387 | 9 | (376) | 424 | | | | 424 |
| Overhead expenses | | | | 148 | | 148 | | | | 148 |
| Operating expenses | 155 | 249 | 387 | 157 | (376) | 572 | | | | 572 |
| Goodwill and acquired intangible assets impairment and amortization | | | | | | | | 12 | 12 | 12 |
| Restructuring expenses | 2 | 1 | 1 | 1 | | 5 | | | | 5 |
| Total expenses | 157 | 250 | 388 | 158 | (376) | 577 | | 12 | 12 | 589 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 145 | 429 | 345 | (111) | | 808 | | (559) | (559) | 249 |
| Income tax expense (benefit)[3] | 54 | 158 | 127 | (41) | | 298 | | (208) | (208) | 90 |
| Net income (loss) from continuing operations | 91 | 271 | 218 | (70) | | 510 | | (351) | (351) | 159 |
| Income from discontinued operations, net of taxes | | | | 10 | | 10 | | | | 10 |
| Net income (loss) | $ 91 | $ 271 | $ 218 | $ (60) | $ | $ 520 | $ | $ (351) | $ (351) | $ 169 |

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

| | Six Months Ended June 30, 2011 | | |
|---|---|---|---|
| (Dollars in millions) | Net Impact of Derivative Accounting | Net Impact of Goodwill and | Total |

| | | Acquired Intangibles | |
|---|---|---|---|
| Net interest income after provisions for loan losses | $ 233 | $ | $ 233 |
| Total other income (loss) | (780) | | (780) |
| Goodwill and acquired intangible assets impairment and amortization | | 12 | 12 |
| Total Core Earnings adjustments to GAAP | $ (547) | $ (12) | (559) |
| Income tax benefit | | | (208) |
| Net loss | | | $ (351) |

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

(4) Represents a portion of the $8 million other derivative accounting adjustments.

(5) Represents the $381 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the $8 million of other derivative accounting adjustments.

57

Table of Contents

***Differences between Core Earnings and GAAP***

The two adjustments required to reconcile from our Core Earnings results to our GAAP results of operations relate to differing treatments for: (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The following table reflects aggregate adjustments associated with these areas.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Core Earnings adjustments to GAAP:** | | | | |
| Net impact of derivative accounting | $ 82 | $ (414) | $ (183) | $ (547) |
| Net impact of goodwill and acquired intangible assets | (5) | (6) | (9) | (12) |
| Net tax effect | (28) | 154 | 68 | 208 |
| Total Core Earnings adjustments to GAAP | $ 49 | $ (266) | $ (124) | $ (351) |

1) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal $0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item s life.

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

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Additionally, the term, the interest rate index, and the interest rate index reset frequency of the Floor Income Contract can be different than that of the student loans. Under derivative accounting treatment, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio earning Floor Income but that offsetting change in value is not recognized. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Therefore, for purposes of Core Earnings, we have removed the unrealized gains and losses related to these contracts and

Table of Contents

added back the amortization of the net premiums received on the Floor Income Contracts. The amortization of the net premiums received on the Floor Income Contracts for Core Earnings is reflected in student loan interest income. Under GAAP accounting, the premiums received on the Floor Income Contracts are recorded as revenue in the gains (losses) on derivative and hedging activities, net line item by the end of the contracts lives.

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 hedge our student loan assets that are primarily indexed to LIBOR, Prime or Treasury bill index (for $128 billion of our FFELP assets, we elected to change the index from commercial paper to LIBOR on April 1, 2012; see FFELP Loans Segment for further discussion). In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. The accounting for derivatives 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 the index of the swap does not exactly match the index of the hedged assets as required for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting on our net income.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(Dollars in millions)** | **2012** | **2011** | **2012** | **2011** |
| **Core Earnings derivative adjustments:** | | | | |
| Gains (losses) on derivative and hedging activities, net, included in other income[1] | $ 6 | $ (510) | $ (366) | $ (752) |
| Plus: Realized losses on derivative and hedging activities, net[1] | 188 | 185 | 367 | 371 |
| Unrealized gains (losses) on derivative and hedging activities, net[2] | 194 | (325) | 1 | (381) |
| Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings | (98) | (73) | (196) | (158) |
| Other derivative accounting adjustments[3] | (14) | (16) | 12 | (8) |
| Total net impact of derivative accounting[4] | $ 82 | $ (414) | $ (183) | $ (547) |

(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) Unrealized gains (losses) on derivative and hedging activities, net comprises the following unrealized mark-to-market gains (losses):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(Dollars in millions)** | **2012** | **2011** | **2012** | **2011** |
| Floor Income Contracts | $ 50 | $ (277) | $ 186 | $ (126) |
| Basis swaps | (26) | 25 | (48) | 19 |
| Foreign currency hedges | 172 | (110) | (122) | (304) |
| Other | (2) | 37 | (15) | 30 |
| Total unrealized gains (losses) on derivative and hedging activities, net | $ 194 | $ (325) | $ 1 | $ (381) |

(3) Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustments are reversed for "Core Earnings" and (2) certain terminated derivatives that did not receive hedge accounting treatment under GAAP but were economic hedges under "Core Earnings" and, as a result, such gains or losses are amortized into "Core Earnings" over the life of the hedged item that was not terminated.

(4) 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.

Table of Contents

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

Derivative accounting 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 to be recorded in a separate income statement line item below net interest income. Under our Core Earnings 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 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. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a Core Earnings basis.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **(Dollars in millions)** | **2012** | **2011** | **2012** | **2011** |
| **Reclassification of realized gains (losses) on derivative and hedging activities:** | | | | |
| Net settlement expense on Floor Income Contracts reclassified to net interest income | $ (223) | $ (202) | $ (437) | $ (428) |
| Net settlement income on interest rate swaps reclassified to net interest income | 34 | 17 | 70 | 33 |
| Foreign exchange derivatives losses reclassified to other income | 1 | | | (1) |
| Net realized gains (losses) on terminated derivative contracts reclassified to other income | | | | 25 |
| Total reclassifications of realized losses on derivative and hedging activities | $ (188) | $ (185) | $ (367) | $ (371) |

60

Table of Contents

*Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings*

As of June 30, 2012, derivative accounting has reduced GAAP equity by approximately $1.1 billion as a result of approximately $1.1 billion (after-tax) of cumulative net unrealized losses recognized for GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these unrealized net losses related to derivative accounting.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Beginning impact of derivative accounting on GAAP equity | $ (1,149) | $ (752) | $ (977) | $ (676) |
| Net impact of net unrealized gains (losses) under derivative accounting[1] | 51 | (257) | (121) | (333) |
| Ending impact of derivative accounting on GAAP equity | $ (1,098) | $ (1,009) | $ (1,098) | $ (1,009) |

(1) Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Total pre-tax net impact of derivative accounting recognized in net income[a] | $ 82 | $ (414) | $ (183) | $ (547) |
| Tax impact of derivative accounting adjustments recognized in net income | (30) | 151 | 58 | 199 |
| Change in unrealized gain (losses) on derivatives, net of tax recognized in Other Comprehensive Income | (1) | 6 | 4 | 15 |
| Net impact of net unrealized gains (losses) under derivative accounting | $ 51 | $ (257) | $ (121) | $ (333) |

(a) See Core Earnings derivative adjustments table above.

In addition, net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods and are presented below net of tax. As of June 30, 2012, the remaining amortization term of the net floor premiums was approximately 4 years on existing contracts. Historically we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

| (Dollars in millions) | June 30, 2012 | June 30, 2011 |
|---|---|---|
| Unamortized net Floor premiums (net of tax) | $ (650) | $ (899) |

Table of Contents

2) **Goodwill and Acquired Intangible Assets:** Our Core Earnings exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets. The following table summarizes the goodwill and acquired intangible asset adjustments.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| **Core Earnings goodwill and acquired intangible asset adjustments**[(1)] | | | | |
| Amortization of acquired intangible assets | $ (5) | $ (6) | $ (9) | $ (12) |
| Total Core Earnings goodwill and acquired intangible asset adjustments | $ (5) | $ (6) | $ (9) | $ (12) |

(1) Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income.

**Business Segment Earnings Summary Core Earnings Basis**

**Consumer Lending Segment**

The following table shows Core Earnings results for our Consumer Lending segment.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | % Increase (Decrease) 2012 vs. 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | % Increase (Decrease) 2012 vs. 2011 |
|---|---|---|---|---|---|---|
| Core Earnings interest income: | | | | | | |
| Private Education Loans | $ 616 | $ 600 | 3% | $ 1,241 | $ 1,204 | 3% |
| Cash and investments | 2 | 2 | | 4 | 5 | (20) |
| Total Core Earnings interest income | 618 | 602 | 3 | 1,245 | 1,209 | 3 |
| Total Core Earnings interest expense | 206 | 201 | 2 | 408 | 399 | 2 |
| Net Core Earnings interest income | 412 | 401 | 3 | 837 | 810 | 3 |
| Less: provision for loan losses | 225 | 265 | (15) | 460 | 540 | (15) |
| Net Core Earnings interest income after provision for loan losses | 187 | 136 | 38 | 377 | 270 | 40 |
| Servicing revenue | 12 | 15 | (20) | 23 | 32 | (28) |
| Direct operating expenses | 64 | 73 | (12) | 132 | 155 | (15) |
| Restructuring expenses | 1 | 1 | | 2 | 2 | |
| Total expenses | 65 | 74 | (12) | 134 | 157 | (15) |
| Income before income tax expense | 134 | 77 | 74 | 266 | 145 | 83 |
| Income tax expense | 49 | 28 | 75 | 97 | 54 | 80 |
| Core Earnings | $ 85 | $ 49 | 73% | $ 169 | $ 91 | 86% |

Quarterly Core Earnings improved to $85 million from $49 million in 2011, driven primarily by lower loan loss provision.

Private Education Loan portfolio highlights compared with second-quarter 2011 included:

- Loan originations of $321 million, up 22 percent.

- Provision for loan losses of $225 million, compared with $265 million.

Table of Contents

Delinquencies of 90 days or more (as a percentage of loans in repayment) of 4.5 percent, compared with 4.6 percent.

Charge-off rate (as a percentage of loans in repayment) of 3.09 percent (annualized), compared with 3.71 percent.

A net interest margin, before loan loss provision, of 4.14 percent compared with 4.05 percent.

The portfolio balance, net of loan loss allowance, was $36 billion at the end of each period.

***Consumer Lending Net Interest Margin***

The following table shows the Consumer Lending Core Earnings net interest margin along with reconciliation to the GAAP basis Consumer Lending net interest margin before provision for loan losses.

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Core Earnings basis Private Education Student Loan yield | 6.36% | 6.29% | 6.39% | 6.32% |
| Discount amortization | .24 | .26 | .24 | .26 |
| Core Earnings basis Private Education Loan net yield | 6.60 | 6.55 | 6.63 | 6.58 |
| Core Earnings basis Private Education Loan cost of funds | (2.05) | (2.02) | (2.03) | (1.99) |
| Core Earnings basis Private Education Loan spread | 4.55 | 4.53 | 4.60 | 4.59 |
| Core Earnings basis other asset spread impact | (.41) | (.48) | (.40) | (.51) |
| Core Earnings basis Consumer Lending net interest margin[1] | 4.14% | 4.05% | 4.20% | 4.08% |
| | | | | |
| Core Earnings basis Consumer Lending net interest margin[1] | 4.14% | 4.05% | 4.20% | 4.08% |
| Adjustment for GAAP accounting treatment[2] | (.11) | (.05) | (.12) | (.05) |
| GAAP basis Consumer Lending net interest margin[1] | 4.03% | 4.00% | 4.08% | 4.03% |

(1) The average balances of our Consumer Lending interest-earning assets for the respective periods are:

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Private Education Loans | $ 37,543 | $ 36,784 | $ 37,646 | $ 36,894 |
| Other interest-earning assets | 2,544 | 2,910 | 2,436 | 3,134 |
| Total Consumer Lending Core Earnings basis interest-earning assets | $ 40,087 | $ 39,694 | $ 40,082 | $ 40,028 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income and other derivative accounting adjustments. For further discussion of these adjustments, see section titled Core Earnings Definition and Limitations Difference between

Core Earnings and GAAP above.

The increase in the Core Earnings basis Consumer Lending net interest margin for the three and six month periods ended June 30, 2012 over the year-ago periods was primarily due to a benefit from the decline in the average balance of our other asset portfolio. The size of the other asset portfolio, which is primarily securitization trust restricted cash and cash held at Sallie Mae Bank (the Bank ), has decreased significantly. This other asset portfolio earns a negative yield and as a result, when its relative weighting decreases compared to the Private Education Loan portfolio, the overall net interest margin increases.

Table of Contents

***Private Education Loan Provision for Loan Losses and Charge-Offs***

The following table summarizes the total Private Education Loan provision for loan losses and charge-offs.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Private Education Loan provision for loan losses | $ 225 | $ 265 | $ 460 | $ 540 |
| Private Education Loan charge-offs | 235 | 263 | 459 | 537 |

In establishing the allowance for Private Education Loan losses as of June 30, 2012, we considered several factors with respect to our Private Education Loan portfolio. In particular, we continue to see improving credit quality and continuing positive delinquency and charge-off trends in connection with this portfolio. Improving credit quality is seen in higher FICO scores and cosigner rates as well as a more seasoned portfolio compared with the year-ago quarter. Loans delinquent greater than 90 days has declined to 4.5 percent from 4.6 percent and the charge-off rate has declined to 3.09 percent from 3.71 percent compared with the year-ago quarter. Apart from these overall improvements, Private Education Loans that have defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. Our allowance for loan losses takes into account these potential recovery uncertainties.

For a more detailed discussion of our policy for determining the collectability of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Critical Accounting Policies and Estimates Allowance for Loan Losses in our 2011 Form 10-K.

***Operating Expenses Consumer Lending Segment***

Operating expenses for our Consumer Lending segment include costs incurred to originate Private Education Loans and to service and collect on our Private Education Loan portfolio. The decrease in operating expenses in the quarter ended June 30, 2012 compared with the quarter ended June 30, 2011 was primarily the result of the current-year benefit of the cost-cutting efforts we implemented throughout 2011. Operating expenses were 69 basis points and 80 basis points of average Private Education Loans in the quarters ended June 30, 2012 and 2011, respectively, and 71 basis points and 85 basis points of average Private Education Loans in the six months ended June 30, 2012 and 2011, respectively.

Table of Contents

**Business Services Segment**

The following table shows Core Earnings results for our Business Services segment.

| (Dollars in millions) | Three Months Ended June 30, 2012 | 2011 | % Increase (Decrease) 2012 vs. 2011 | Six Months Ended June 30, 2012 | 2011 | % Increase (Decrease) 2012 vs. 2011 |
|---|---|---|---|---|---|---|
| Net interest income after provision | $ 2 | $ 2 | % | $ 5 | $ 5 | % |
| Servicing revenue: | | | | | | |
| Intercompany loan servicing | 172 | 187 | (8) | 348 | 376 | (7) |
| Third-party loan servicing | 26 | 20 | 30 | 48 | 40 | 20 |
| Guarantor servicing | 11 | 15 | (27) | 22 | 25 | (12) |
| Other servicing | 21 | 22 | (5) | 48 | 48 | |
| Total servicing revenue | 230 | 244 | (6) | 466 | 489 | (5) |
| Contingency revenue | 87 | 86 | 1 | 176 | 164 | 7 |
| Other Business Services revenue | 8 | 11 | (27) | 18 | 21 | (14) |
| Total other income | 325 | 341 | (5) | 660 | 674 | (2) |
| Direct operating expenses | 109 | 121 | (10) | 229 | 249 | (8) |
| Restructuring expenses | 2 | | 100 | 3 | 1 | 200 |
| Total expenses | 111 | 121 | (8) | 232 | 250 | (7) |
| Income from continuing operations, before income tax expense | 216 | 222 | (3) | 433 | 429 | 1 |
| Income tax expense | 79 | 82 | (4) | 159 | 158 | 1 |
| Core Earnings | 137 | 140 | (2) | 274 | 271 | 1 |
| Less: net loss attributable to noncontrolling interest | (1) | | (100) | (1) | | (100) |
| Core Earnings attributable to SLM Corporation | $ 138 | $ 140 | (1)% | $ 275 | $ 271 | 1% |

Our Business Services segment earns intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was $133 billion and $142 billion for the quarters ended June 30, 2012 and 2011, respectively, and $134 billion and $143 billion for the six months ended June 30, 2012 and 2011, respectively. The decline in intercompany loan servicing revenue from the year-ago period is primarily the result of a lower outstanding principal balance in the underlying portfolio.

We are servicing approximately 3.8 million accounts under the ED Servicing Contract as of June 30, 2012 compared with 3.0 million accounts at June 30, 2011. The increase in the third-party loan servicing fees for the current quarter and six-month period compared with the prior-year periods was driven by the increase in the number of accounts serviced as well as an increase in ancillary servicing fees earned. The second quarters of 2012 and 2011 included $22 million and $15 million, respectively, of servicing revenue related to the ED Servicing Contract.

Other servicing revenue includes account asset servicing revenue and Campus Solutions revenue. Account asset servicing revenue represents fees earned on program management, transfer and servicing agent services, and administration services for 529 college savings plans we service. Assets under administration of 529 college savings plans totaled $41.4 billion as of June 30, 2012, a 10 percent increase from the year-ago quarter. Campus Solutions revenue is earned from our Campus Solutions business whose services include comprehensive financing and transaction processing solutions that we provide to college financial aid offices and students to streamline the financial aid process.

Table of Contents

The following table presents the outstanding inventory of contingent collections receivables that our Business Services segment will collect on behalf of others. We expect the inventory of contingent collections receivables to decline over time as a result of the elimination of FFELP in July 2010.

| (Dollars in millions) | June 30, 2012 | December 31, 2011 | June 30, 2011 |
|---|---|---|---|
| Student loans | $ 10,620 | $ 11,553 | $ 10,475 |
| Other | 1,864 | 2,017 | 2,042 |
| Total | $ 12,484 | $ 13,570 | $ 12,517 |

Other Business Services revenue is primarily transaction fees that are earned in conjunction with our rewards program from participating companies based on member purchase activity, either online or in stores, depending on the contractual arrangement with the participating company. Typically, a percentage of the purchase price of the consumer members eligible purchases with participating companies is set aside in an account maintained by us on behalf of our members.

Revenues related to services performed on FFELP Loans accounted for 77 percent and 79 percent, respectively, of total segment revenues for the quarters ended June 30, 2012 and 2011 and 76 percent and 78 percent, respectively, of total segment revenues for the six months ended June 30, 2012 and 2011.

***Operating Expenses Business Services Segment***

Operating expenses for the quarter and six-month periods ended June 30, 2012 decreased from the prior-year periods, primarily as a result of the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

**FFELP Loans Segment**

The following table shows Core Earnings results for our FFELP Loans segment.

| (Dollars in millions) | Three Months Ended June 30, 2012 | 2011 | % Increase (Decrease) 2012 vs. 2011 | Six Months Ended June 30, 2012 | 2011 | % Increase (Decrease) 2012 vs. 2011 |
|---|---|---|---|---|---|---|
| Core Earnings interest income: | | | | | | |
| FFELP Loans | $ 652 | $ 721 | (10)% | $ 1,378 | $ 1,457 | (5)% |
| Cash and investments | 3 | 1 | 200 | 5 | 2 | 150 |
| Total Core Earnings interest income | 655 | 722 | (9) | 1,383 | 1,459 | (5) |
| Total Core Earnings interest expense | 409 | 357 | 15 | 832 | 726 | 15 |
| Net Core Earnings interest income | 246 | 365 | (33) | 551 | 733 | (25) |
| Less: provision for loan losses | 18 | 23 | (22) | 36 | 46 | (22) |
| Net Core Earnings interest income after provision for loan losses | 228 | 342 | (33) | 515 | 687 | (25) |
| Servicing revenue | 22 | 21 | 5 | 48 | 46 | 4 |
| | 181 | 192 | (6) | 366 | 387 | (5) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Direct operating expenses | | | | | | |
| Restructuring expenses | | | | | 1 | (100) |
| Total expenses | 181 | 192 | (6) | 366 | 388 | (6) |
| Income from continuing operations, before income tax expense | 69 | 171 | (60) | 197 | 345 | (43) |
| Income tax expense | 25 | 63 | (60) | 73 | 127 | (43) |
| Core Earnings | $ 44 | $ 108 | (59)% | $ 124 | $ 218 | (43)% |

Table of Contents

Core Earnings for the segment were $44 million in second-quarter 2012, compared with the year-ago quarter s $108 million. Net interest income for the quarter was affected by the Special Direct Consolidation Loan Initiative that ended June 30, 2012, resulting in the acceleration of $50 million of non-cash loan premium amortization in the quarter related to approximately $4.5 billion of loans (approximately three percent of the Company s FFELP portfolio) expected to consolidate. The remaining decrease was primarily due to higher funding costs, which in turn is partly due to refinancing debt into longer term liabilities, and lower student loan balances. Key financial measures include:

Net interest margin of .70 percent in the second quarter of 2012 compared with .98 percent in the year-ago quarter (see FFELP Loans Net Interest Margin for a further discussion of this decrease).

The provision for loan losses of $18 million in the second quarter of 2012 decreased from $23 million in the year-ago quarter.

***FFELP Loans Net Interest Margin***

The following table shows the FFELP Loans Core Earnings net interest margin along with reconciliation to the GAAP basis FFELP Loans net interest margin.

| | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Core Earnings basis FFELP student loan yield | 2.66% | 2.57% | 2.65% | 2.60% |
| Hedged Floor Income | .29 | .20 | .29 | .22 |
| Unhedged Floor Income | .07 | .19 | .09 | .13 |
| Consolidation Loan Rebate Fees | (.67) | (.66) | (.66) | (.66) |
| Repayment Borrower Benefits | (.14) | (.12) | (.13) | (.11) |
| Premium amortization | (.27) | (.17) | (.20) | (.16) |
| Core Earnings basis FFELP student loan net yield | 1.94 | 2.01 | 2.04 | 2.02 |
| Core Earnings basis FFELP student loan cost of funds | (1.14) | (.96) | (1.16) | (.96) |
| Core Earnings basis FFELP student loan spread | .80 | 1.05 | .88 | 1.06 |
| Core Earnings basis FFELP other asset spread impact | (.10) | (.07) | (.10) | (.08) |
| Core Earnings basis FFELP Loans net interest margin(1) | .70% | .98% | .78% | .98% |
| | | | | |
| Core Earnings basis FFELP Loans net interest margin(1) | .70 | .98% | .78% | .98% |
| Adjustment for GAAP accounting treatment(2) | .30 | .32 | .28 | .34 |
| GAAP basis FFELP Loans net interest margin(1) | 1.00% | 1.30% | 1.06% | 1.32% |

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

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| FFELP Loans | $ 134,893 | $ 143,999 | $ 136,043 | $ 145,681 |
| Other interest-earning assets | 6,291 | 4,982 | 6,359 | 4,999 |

| | | | | |
|---|---|---|---|---|
| Total FFELP Core Earnings basis interest-earning assets | $ 141,184 | $ 148,981 | $ 142,402 | $ 150,680 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income, the reversal of the amortization of premiums received on Floor Income Contracts, and other derivative accounting adjustments. For further discussion of these adjustments, see section titled Core Earnings Definition and Limitations Difference between Core Earnings and GAAP above.

The decrease in the Core Earnings basis FFELP Loans net interest margin of 28 basis points for the quarter ended and 20 basis points for the six months ended June 30, 2012 compared with the year-ago periods was primarily the result of the ED s Special Direct Consolidation Loan Initiative that occurred in 2012 as well as a widening of our asset and liability basis indices and a general increase in our funding costs related to unsecured and ABS debt issuances over the last year.

During the fourth-quarter 2011, the Administration announced a Special Direct Consolidation Loan Initiative. The initiative provided an incentive to borrowers who have at least one student loan owned by ED and at least one held by a FFELP lender to consolidate the FFELP lender s loans into the Direct Loan program by providing a 0.25 percentage point interest rate reduction on the FFELP loans that are eligible for consolidation. The program was available from January 17, 2012 through June 30, 2012.

We expect approximately $4.5 billion of our FFELP Loans will consolidate to ED during the second and third quarters of 2012, of which $2.2 billion had consolidated as of June 30, 2012. The remaining volume we expect to consolidate in the third-quarter 2012 relates to loans where consolidation applications have been received and are in process for consolidation as of June 30, 2102. The expected consolidation of these loans resulted in the acceleration of $42 million of non-cash loan premium amortization and $8 million of non-cash debt discount amortization during second-quarter 2012. This combined $50 million acceleration of non-cash amortization related to this activity reduced the FFELP Loans net interest margin by 14 basis points and 7 basis points for the three and six month periods ended June 30, 2012, respectively. The Special Direct Consolidation Loan Initiative ended June 30, 2012. As such, we do not expect the Core Earnings basis FFELP Loans net interest margin to be materially affected in the future by any significant additional loan premium amortization or debt discount amortization related to this initiative.

On December 23, 2011, the President signed the Consolidated Appropriations Act of 2012 into law. This law includes changes that permit FFELP lenders or beneficial holders to change the index on which the Special Allowance Payments ( SAP ) are calculated for FFELP Loans first disbursed on or after January 1, 2000. We elected to use the one-month LIBOR rate rather than the CP rate commencing on April 1, 2012 in connection with our entire $128 billion of CP indexed loans.

This change will help us to better match loan yields with our financing costs. This election did not materially affect our results for the second quarter of 2012. As a result of the current low interest rate environment, only $84.2 billion of loans were affected by this change during the second quarter of 2012.

As of June 30, 2012, our FFELP Loan portfolio totaled approximately $132.8 billion, comprised of $48.1 billion of FFELP Stafford and $84.7 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios is 4.9 years and 9.1 years, respectively, assuming a Constant Prepayment Rate ( CPR ) of 5 percent and 3 percent, respectively.

***Floor Income***

The following table analyzes the ability of the FFELP Loans in our portfolio to earn Floor Income after June 30, 2012 and 2011, based on interest rates as of those dates.

| | June 30, 2012 | | | June 30, 2011 | | |
|---|---|---|---|---|---|---|
| (Dollars in billions) | Fixed Borrower Rate | Variable Borrower Rate | Total | Fixed Borrower Rate | Variable Borrower Rate | Total |
| Student loans eligible to earn Floor Income | $ 114.5 | $ 16.4 | $ 130.9 | $ 121.5 | $ 18.8 | $ 140.3 |
| Less: post-March 31, 2006 disbursed loans required to rebate Floor Income | (61.0) | (1.1) | (62.1) | (64.5) | (1.3) | (65.8) |
| Less: economically hedged Floor Income Contracts | (35.2) | | (35.2) | (41.5) | | (41.5) |
| Student loans eligible to earn Floor Income | $ 18.3 | $ 15.3 | $ 33.6 | $ 15.5 | $ 17.5 | $ 33.0 |
| Student loans earning Floor Income | $ 10.5 | $ 2.1 | $ 12.6 | $ 15.5 | $ 2.6 | $ 18.1 |

**Table of Contents**

We have sold Floor Income Contracts to hedge the potential Floor Income from specifically identified pools of FFELP Consolidation Loans that are eligible to earn Floor Income.

The following table presents a projection of the average balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has been economically hedged through Floor Income Contracts for the period July 1, 2012 to June 30, 2016. The hedges related to these loans do not qualify as effective hedges.

| (Dollars in billions) | July 1, 2012 to December 31, 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged | $ 35.2 | $ 32.6 | $ 28.3 | $ 27.2 | $ 10.4 |

***FFELP Loans Provision for Loan Losses and Charge-Offs***

The following table summarizes the total FFELP Loan provision for loan losses and charge-offs.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (Dollars in millions) | 2012 | 2011 | 2012 | 2011 |
| FFELP Loan provision for loan losses | $ 18 | $ 23 | $ 36 | $ 46 |
| FFELP Loan charge-offs | 23 | 21 | 46 | 41 |

***Operating Expenses FFELP Loans Segment***

Operating expenses for our FFELP Loans segment primarily include the contractual rates we pay to service loans in term asset-backed securitization trusts or a similar rate if a loan is not in a term financing facility (which is presented as an intercompany charge from the Business Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged from the Business Services segment and included in those amounts was $172 million and $187 million for the quarters ended June 30, 2012 and 2011, respectively, and $348 million and $376 million for the six-month periods ended June 30, 2012 and 2011, respectively. These amounts exceed the actual cost of servicing the loans. Operating expenses were 54 basis points and 53 basis points of average FFELP Loans in the quarters ended June 30, 2012 and 2011, respectively and 54 basis points and 54 basis points for the six months ended June 30, 2012 and 2011, respectively. The decline in operating expenses from the prior-year quarter was primarily the result of the reduction in the average outstanding balance of our FFELP Loans portfolio.

Table of Contents

**Other Segment**

The following table shows Core Earnings results of our Other segment

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | % Increase (Decrease) 2012 vs. 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 | % Increase (Decrease) 2012 vs. 2011 |
|---|---|---|---|---|---|---|
| Net interest loss after provision | $ (5) | $ (10) | (50)% | $ (6) | $ (23) | (74)% |
| Gains on debt repurchases | 20 | | 100 | 58 | 64 | (9) |
| Other | 5 | 3 | 67 | 6 | 6 | |
| Total income | 25 | 3 | 733 | 64 | 70 | (9) |
| Direct operating expenses | 3 | | 100 | 4 | 9 | (56) |
| Overhead expenses: | | | | | | |
| Corporate overhead | 29 | 38 | (24) | 65 | 87 | (25) |
| Unallocated information technology costs | 25 | 31 | (19) | 53 | 61 | (13) |
| Total overhead expenses | 54 | 69 | (22) | 118 | 148 | (20) |
| Total operating expenses | 57 | 69 | (17) | 122 | 157 | (22) |
| Restructuring expenses | | 1 | (100) | 3 | 1 | 200 |
| Total expenses | 57 | 70 | (19) | 125 | 158 | (21) |
| Loss from continuing operations, before income tax benefit | (37) | (77) | (52) | (67) | (111) | (40) |
| Income tax benefit | (13) | (29) | (55) | (26) | (41) | (37) |
| Net loss from continuing operations | (24) | (48) | (50) | (41) | (70) | (41) |
| Income from discontinued operations, net of tax | | 11 | (100) | | 10 | (100) |
| Core Earnings (loss) | $ (24) | $ (37) | (35)% | $ (41) | $ (60) | (32)% |

***Net Interest Income (Loss) after Provision for Loan Losses***

Net interest income (loss) after provision for loan losses includes net interest income related to our corporate liquidity portfolio as well as net interest income and provision expense related to our mortgage and consumer loan portfolios. The improvement in the current quarter and six-month periods compared with the prior-year periods was primarily the result of our not recording any provision for loan losses related to our mortgage and consumer loan portfolios in 2012. Each quarter we perform an analysis regarding the adequacy of the loan loss allowance for these portfolios and we determined that no additional allowance for loan losses was required related to this $157 million portfolio.

***Gains on Debt Repurchases***

We began repurchasing our outstanding debt in 2008. We repurchased $85 million and $60 million face amount of our debt for the quarters ended June 30, 2012 and 2011, respectively, and $290 million and $885 million face amount of our debt for the six months ended June 30, 2012 and 2011, respectively.

***Overhead***

Corporate overhead is comprised of costs related to executive management, the board of directors, accounting, finance, legal, human resources and stock-based compensation expense. Unallocated information technology costs are related to infrastructure and operations.

Table of Contents

The decrease in overhead for the quarter and six-month periods ending June 30, 2012 compared with the prior-year periods was primarily the result of the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

**Financial Condition**

This section provides additional information regarding the changes related to our loan portfolio assets and related liabilities as well as credit quality and performance indicators related to our loan portfolio.

***Average Balance Sheets GAAP***

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012 | | 2011 | |
| (Dollars in millions) | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | | | | | |
| FFELP Loans | $ 134,893 | 2.32% | $ 143,999 | 2.37% | $ 136,043 | 2.39% | $ 145,681 | 2.39% |
| Private Education Loans | 37,543 | 6.60 | 36,784 | 6.55 | 37,646 | 6.63 | 36,894 | 6.58 |
| Other loans | 179 | 9.31 | 242 | 8.94 | 183 | 9.50 | 252 | 9.06 |
| Cash and investments | 10,233 | .22 | 10,565 | .18 | 9,715 | .22 | 10,870 | .19 |
| Total interest-earning assets | 182,848 | 3.09% | 191,590 | 3.06% | 183,587 | 3.15% | 193,697 | 3.07% |
| Non-interest-earning assets | 4,794 | | 5,477 | | 4,781 | | 5,332 | |
| Total assets | $ 187,642 | | $ 197,067 | | $ 188,368 | | $ 199,029 | |
| **Average Liabilities and Equity** | | | | | | | | |
| Short-term borrowings | $ 26,272 | .89% | $ 31,352 | .88% | $ 27,654 | .91% | $ 32,209 | .89% |
| Long-term borrowings | 152,500 | 1.58 | 157,027 | 1.33 | 151,791 | 1.59 | 158,291 | 1.33 |
| Total interest-bearing liabilities | 178,772 | 1.48% | 188,379 | 1.26% | 179,445 | 1.48% | 190,500 | 1.26% |
| Non-interest-bearing liabilities | 3,845 | | 3,639 | | 3,874 | | 3,455 | |
| Equity | 5,025 | | 5,049 | | 5,049 | | 5,074 | |
| Total liabilities and equity | $ 187,642 | | $ 197,067 | | $ 188,368 | | $ 199,029 | |
| Net interest margin | | 1.64% | | 1.82% | | 1.71% | | 1.84% |

Table of Contents

*Rate/Volume Analysis GAAP*

The following rate/volume analysis shows the relative contribution of changes in interest rates and asset volumes.

| (Dollars in millions) | Increase (Decrease) | Change Due To[1] Rate | Volume |
|---|---|---|---|
| **Three Months Ended June 30, 2012 vs. 2011** | | | |
| Interest income | $ (57) | $ 14 | $ (71) |
| Interest expense | 65 | 98 | (33) |
| Net interest income | $ (122) | $ (82) | $ (40) |
| **Six Months Ended June 30, 2012 vs. 2011** | | | |
| Interest income | $ (73) | $ 76 | $ (149) |
| Interest expense | 137 | 206 | (69) |
| Net interest income | $ (210) | $ (125) | $ (85) |

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

***Summary of our Student Loan Portfolio***

*Ending Student Loan Balances, net*

| | June 30, 2012 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total |
| Total student loan portfolio: | | | | | |
| In-school[1] | $ 2,152 | $ | $ 2,152 | $ 1,848 | $ 4,000 |
| Grace, repayment and other[2] | 45,348 | 84,012 | 129,360 | 36,349 | 165,709 |
| Total, gross | 47,500 | 84,012 | 131,512 | 38,197 | 169,709 |
| Unamortized premium/(discount) | 720 | 774 | 1,494 | (834) | 660 |
| Receivable for partially charged-off loans | | | | 1,277 | 1,277 |
| Allowance for loan losses | (107) | (66) | (173) | (2,186) | (2,359) |
| Total student loan portfolio | $ 48,113 | $ 84,720 | $ 132,833 | $ 36,454 | $ 169,287 |
| % of total FFELP | 36% | 64% | 100% | | |
| % of total | 28% | 50% | 78% | 22% | 100% |

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP Loans | Private Education Loans | Total |
| Total student loan portfolio: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| In-school[1] | $ 3,100 | $ | $ 3,100 | $ 2,263 | $ 5,363 |
| Grace, repayment and other[2] | 46,618 | 86,925 | 133,543 | 35,830 | 169,373 |
| Total, gross | 49,718 | 86,925 | 136,643 | 38,093 | 174,736 |
| Unamortized premium/(discount) | 839 | 835 | 1,674 | (873) | 801 |
| Receivable for partially charged-off loans | | | | 1,241 | 1,241 |
| Allowance for loan losses | (117) | (70) | (187) | (2,171) | (2,358) |
| Total student loan portfolio | $ 50,440 | $ 87,690 | $ 138,130 | $ 36,290 | $ 174,420 |
| % of total FFELP | 37% | 63% | 100% | | |
| % of total | 29% | 50% | 79% | 21% | 100% |

(1) Loans for borrowers still attending school and are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

**Table of Contents**

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

| | Three Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| Total | $ 49,159 | $ 85,734 | $ 134,893 | $ 37,543 | $ 172,436 |
| % of FFELP | 36% | 64% | 100% | | |
| % of total | 28% | 50% | 78% | 22% | 100% |

| | Three Months Ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| Total | $ 53,667 | $ 90,332 | $ 143,999 | $ 36,784 | $ 180,783 |
| % of FFELP | 37% | 63% | 100% | | |
| % of total | 30% | 50% | 80% | 20% | 100% |

| | Six Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| Total | $ 49,654 | $ 86,389 | $ 136,043 | $ 37,646 | $ 173,689 |
| % of FFELP | 36% | 64% | 100% | | |
| % of total | 28% | 50% | 78% | 22% | 100% |

| | Six Months Ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| Total | $ 54,597 | $ 91,084 | $ 145,681 | $ 36,894 | $ 182,575 |
| % of FFELP | 37% | 63% | 100% | | |
| % of total | 30% | 50% | 80% | 20% | 100% |

Table of Contents

*Student Loan Activity*

| | Three Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 49,508 | $ 86,426 | $ 135,934 | $ 36,732 | $ 172,666 |
| Acquisitions and originations | 1,331 | 495 | 1,826 | 341 | 2,167 |
| Capitalized interest and premium/discount amortization | 310 | 349 | 659 | 263 | 922 |
| Consolidations to third parties | (1,711) | (1,035) | (2,746) | (19) | (2,765) |
| Sales | (149) | | (149) | | (149) |
| Repayments and other | (1,176) | (1,515) | (2,691) | (863) | (3,554) |
| Ending balance | $ 48,113 | $ 84,720 | $ 132,833 | $ 36,454 | $ 169,287 |

| | Three Months Ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 54,366 | $ 91,192 | $ 145,558 | $ 35,966 | $ 181,524 |
| Acquisitions and originations | 190 | 58 | 248 | 292 | 540 |
| Capitalized interest and premium/discount amortization | 360 | 370 | 730 | 330 | 1,060 |
| Consolidations to third parties | (730) | (280) | (1,010) | (15) | (1,025) |
| Sales | (192) | | (192) | | (192) |
| Repayments and other | (1,170) | (1,529) | (2,699) | (820) | (3,519) |
| Ending balance | $ 52,824 | $ 89,811 | $ 142,635 | $ 35,753 | $ 178,388 |

| | Six Months Ended June 30, 2012 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and Other | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Portfolio |
| Beginning balance | $ 50,440 | $ 87,690 | $ 138,130 | $ 36,290 | $ 174,420 |
| Acquisitions and originations | 2,150 | 573 | 2,723 | 1,492 | 4,215 |
| Capitalized interest and premium/discount amortization | 645 | 747 | 1,392 | 508 | 1,900 |
| Consolidations to third parties | (2,430) | (1,260) | (3,690) | (42) | (3,732) |
| Sales | (284) | | (284) | | (284) |
| Repayments and other | (2,408) | (3,030) | (5,438) | (1,794) | (7,232) |
| Ending balance | $ 48,113 | $ 84,720 | $ 132,833 | $ 36,454 | $ 169,287 |

| | Six Months Ended June 30, 2011 | | | | |
|---|---|---|---|---|---|
| (Dollars in millions) | FFELP | FFELP | Total FFELP | Total Private | Total Portfolio |

| | Stafford and Other | Consolidation Loans | | Education Loans | |
|---|---|---|---|---|---|
| Beginning balance | $ 56,252 | $ 92,397 | $ 148,649 | $ 35,656 | $ 184,305 |
| Acquisitions and originations | 293 | 305 | 598 | 1,221 | 1,819 |
| Capitalized interest and premium/discount amortization | 682 | 741 | 1,423 | 624 | 2,047 |
| Consolidations to third parties | (1,581) | (558) | (2,139) | (32) | (2,171) |
| Sales | (381) | | (381) | | (381) |
| Repayments and other | (2,441) | (3,074) | (5,515) | (1,716) | (7,231) |
| Ending balance | $ 52,824 | $ 89,811 | $ 142,635 | $ 35,753 | $ 178,388 |

Table of Contents

*Private Education Loan Originations*

Private Education Loan originations increased 22 percent from the year-ago quarter to $321 million in the quarter ended June 30, 2012.

The following table summarizes our Private Education Loan originations.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Smart Option Interest Only[1] | $ 100 | $ 73 | $ 458 | $ 427 |
| Smart Option Fixed Pay[1] | 71 | 104 | 417 | 622 |
| Smart Option Deferred[1][2] | 122 | 46 | 553 | 46 |
| Other | 28 | 41 | 54 | 109 |
| Total Private Education Loan originations | $ 321 | $ 264 | $ 1,482 | $ 1,204 |

(1) Interest Only, Fixed Pay and Deferred describe the payment option while in school or in grace period. See Consumer Lending Portfolio Performance Private Education Loan Repayment Options for further discussion.

(2) Deferred repayment option reinstated in March 2011.

Table of Contents

***Consumer Lending Portfolio Performance***

*Private Education Loan Delinquencies and Forbearance*

The table below presents our Private Education Loan delinquency trends.

| | Private Education Loan Delinquencies June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[(1)] | $ 6,098 | | $ 7,216 | |
| Loans in forbearance[(2)] | 1,368 | | 1,430 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 27,650 | 90.0% | 25,994 | 90.0% |
| Loans delinquent 31-60 days[(3)] | 1,058 | 3.4 | 963 | 3.4 |
| Loans delinquent 61-90 days[(3)] | 643 | 2.1 | 575 | 2.0 |
| Loans delinquent greater than 90 days[(3)] | 1,380 | 4.5 | 1,339 | 4.6 |
| Total Private Education Loans in repayment | 30,731 | 100% | 28,871 | 100% |
| Total Private Education Loans, gross | 38,197 | | 37,517 | |
| Private Education Loan unamortized discount | (834) | | (861) | |
| Total Private Education Loans | 37,363 | | 36,656 | |
| Private Education Loan receivable for partially charged-off loans | 1,277 | | 1,140 | |
| Private Education Loan allowance for losses | (2,186) | | (2,043) | |
| Private Education Loans, net | $ 36,454 | | $ 35,753 | |
| Percentage of Private Education Loans in repayment | | 80.5% | | 77.0% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 10.0% | | 10.0% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 4.3% | | 4.7% |
| Loans in repayment greater than 12 months as a percentage of loans in repayment[(4)] | | 74.3% | | 66.0% |

(1) Deferment includes borrowers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payment on their loans, e.g. residency periods for medical students or 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 payments due to hardship or other factors, consistent with 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.

(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.

Table of Contents

*Allowance for Private Education Loan Losses*

The following table summarizes changes in the allowance for Private Education Loan losses.

| | Activity in Allowance for Private Education Loans | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| **(Dollars in millions)** | **2012** | **2011** | **2012** | **2011** |
| Allowance at beginning of period | $ 2,190 | $ 2,034 | $ 2,171 | $ 2,022 |
| Provision for Private Education Loan losses | 225 | 265 | 460 | 540 |
| Charge-offs[(1)] | (235) | (263) | (459) | (537) |
| Reclassification of interest reserve[(2)] | 6 | 7 | 14 | 18 |
| Allowance at end of period | $ 2,186 | $ 2,043 | $ 2,186 | $ 2,043 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 3.09% | 3.71% | 3.03% | 3.82% |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | 2.96% | 3.54% | 2.90% | 3.65% |
| Allowance as a percentage of ending total loans | 5.54% | 5.28% | 5.54% | 5.28% |
| Allowance as a percentage of ending loans in repayment | 7.11% | 7.07% | 7.11% | 7.07% |
| Average coverage of charge-offs (annualized) | 2.3 | 1.9 | 2.4 | 1.9 |
| Ending total loans[(3)] | $ 39,474 | $ 38,657 | $ 39,474 | $ 38,657 |
| Average loans in repayment | $ 30,533 | $ 28,489 | $ 30,456 | $ 28,309 |
| Ending loans in repayment | $ 30,731 | $ 28,871 | $ 30,731 | $ 28,871 |

(1) Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and what was actually collected in the period. See  Receivable for Partially Charged-Off Private Education Loans  for further discussion.

(2) 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 losses when interest is capitalized to a loan s principal balance.

(3) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

Table of Contents

The following table provides the detail for our traditional and non-traditional Private Education Loans.

| | June 30, 2012 | | | June 30, 2011 | | |
|---|---|---|---|---|---|---|
| | Traditional | Non-Traditional | Total | Traditional | Non-Traditional | Total |
| Ending total loans[1] | $ 35,529 | $ 3,945 | $ 39,474 | $ 34,419 | $ 4,238 | $ 38,657 |
| Ending loans in repayment | 28,075 | 2,656 | 30,731 | 26,134 | 2,737 | 28,871 |
| Private Education Loan allowance for losses | 1,589 | 597 | 2,186 | 1,363 | 680 | 2,043 |
| Charge-offs as a percentage of average loans in repayment (annualized) | 2.46% | 9.76% | 3.09% | 2.78% | 12.51% | 3.71% |
| Allowance as a percentage of ending total loans | 4.5% | 15.1% | 5.5% | 4.0% | 16.0% | 5.3% |
| Allowance as a percentage of ending loans in repayment | 5.7% | 22.5% | 7.1% | 5.2% | 24.8% | 7.1% |
| Average coverage of charge-offs (annualized) | 2.3 | 2.3 | 2.3 | 1.9 | 2.0 | 1.9 |
| Delinquencies as a percentage of Private Education Loans in repayment | 8.6% | 25.5% | 10.0% | 8.3% | 25.9% | 10.0% |
| Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment | 3.7% | 12.6% | 4.5% | 3.7% | 13.2% | 4.6% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 4.1% | 6.4% | 4.3% | 4.5% | 7.0% | 4.7% |
| Loans that entered repayment during the period[2] | $ 674 | $ 57 | $ 731 | $ 1,010 | $ 103 | $ 1,113 |
| Percentage of Private Education Loans with a cosigner | 66% | 29% | 63% | 64% | 29% | 60% |
| Average FICO at origination | 727 | 624 | 718 | 725 | 624 | 716 |

(1) Ending total loans represent gross Private Education Loans, plus the receivable for partially charged-off loans.

(2) Includes loans that are required to make a payment for the first time.

As part of concluding on the adequacy of the allowance for loan losses, we review key allowance and loan metrics. The most significant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

*Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered.

78

Table of Contents

The following table summarizes the activity in the receivable for partially charged-off loans.

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Receivable at beginning of period | $ 1,250 | $ 1,090 | $ 1,241 | $ 1,040 |
| Expected future recoveries of current period defaults[1] | 82 | 94 | 151 | 191 |
| Recoveries[2] | (44) | (37) | (94) | (77) |
| Charge-offs[3] | (11) | (7) | (21) | (14) |
| Receivable at end of period | $ 1,277 | $ 1,140 | $ 1,277 | $ 1,140 |

(1) Remaining loan balance expected to be collected from contractual loan balances partially charged off during the period. This is the difference between the defaulted loan balance and the amount of the defaulted loan balance that was charged off.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the Allowance for Private Education Loan Losses table.

*Use of Forbearance as a Private Education Loan Collection Tool*

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a borrower s unique situation, including historical information and judgments. We leverage updated borrower information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a borrower s ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time.

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 66 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 20 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses. The monthly average number of loans granted forbearance as a percentage of loans in repayment and forbearance decreased to 4.5 percent in the second quarter of 2012 compared to the year-ago quarter of 5.0 percent. As of June 30, 2012, 2.1 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them

**Table of Contents**

current as of June 30, 2012 (borrowers made payments on approximately 28 percent of these loans immediately prior to being granted forbearance).

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

| | Status distribution 36 months after being granted 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 | 9.6% | 9.1% | 5.4% |
| Current | 49.8 | 58.1 | 65.9 |
| Delinquent 31-60 days | 3.2 | 2.0 | .4 |
| Delinquent 61-90 days | 1.9 | 1.2 | .2 |
| Delinquent greater than 90 days | 4.8 | 2.8 | .3 |
| Forbearance | 4.2 | 3.2 | |
| Defaulted | 20.1 | 11.3 | 6.8 |
| Paid | 6.4 | 12.3 | 21.0 |
| Total | 100% | 100% | 100% |

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At June 30, 2012, loans in forbearance status as a percentage of loans in repayment and forbearance were 6.8 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.3 percent for loans that have been in active repayment status for more than 48 months. Approximately 77 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.

| (Dollars in millions) | Monthly Scheduled Payments Due | | | | | Not Yet in Repayment | |
|---|---|---|---|---|---|---|---|
| June 30, 2012 | 1 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | | Total |
| Loans in-school/grace/deferment | $ | $ | $ | $ | $ | $ 6,098 | $ 6,098 |
| Loans in forbearance | 838 | 214 | 147 | 74 | 95 | | 1,368 |
| Loans in repayment current | 6,406 | 5,847 | 5,128 | 3,621 | 6,648 | | 27,650 |
| Loans in repayment delinquent 31-60 days | 478 | 207 | 164 | 87 | 122 | | 1,058 |
| Loans in repayment delinquent 61-90 days | 321 | 119 | 93 | 48 | 62 | | 643 |
| Loans in repayment delinquent greater than 90 days | 706 | 269 | 191 | 94 | 120 | | 1,380 |
| Total | $ 8,749 | $ 6,656 | $ 5,723 | $ 3,924 | $ 7,047 | $ 6,098 | 38,197 |
| Unamortized discount | | | | | | | (834) |
| Receivable for partially charged-off loans | | | | | | | 1,277 |
| Allowance for loan losses | | | | | | | (2,186) |
| Total Private Education Loans, net | | | | | | | $ 36,454 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 9.6% | 3.2% | 2.6% | 1.9% | 1.3% | % | 4.3% |

Table of Contents

| (Dollars in millions) | Monthly Scheduled Payments Due | | | | | Not Yet | |
|---|---|---|---|---|---|---|---|
| June 30, 2011 | 1 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | in Repayment | Total |
| Loans in-school/grace/deferment | $ | $ | $ | $ | $ | $ 7,216 | $ 7,216 |
| Loans in forbearance | 990 | 200 | 118 | 57 | 65 | | 1,430 |
| Loans in repayment current | 8,254 | 5,844 | 4,131 | 3,040 | 4,725 | | 25,994 |
| Loans in repayment delinquent 31-60 days | 487 | 192 | 127 | 65 | 92 | | 963 |
| Loans in repayment delinquent 61-90 days | 327 | 108 | 66 | 32 | 42 | | 575 |
| Loans in repayment delinquent greater than 90 days | 735 | 281 | 150 | 73 | 100 | | 1,339 |
| Total | $ 10,793 | $ 6,625 | $ 4,592 | $ 3,267 | $ 5,024 | $ 7,216 | 37,517 |
| Unamortized discount | | | | | | | (861) |
| Receivable for partially charged-off loans | | | | | | | 1,140 |
| Allowance for loan losses | | | | | | | (2,043) |
| Total Private Education Loans, net | | | | | | | $ 35,753 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 9.2% | 3.0% | 2.6% | 1.8% | 1.3% | % | 4.7% |

The table below stratifies the portfolio of Private Education Loans in forbearance by the cumulative number of months the borrower has used forbearance as of the dates indicated. As detailed in the table below, 5 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

| | June 30, 2012 | | June 30, 2011 | |
|---|---|---|---|---|
| (Dollars in millions) | Forbearance Balance | % of Total | Forbearance Balance | % of Total |
| **Cumulative number of months borrower has used forbearance** | | | | |
| Up to 12 months | $ 940 | 69% | $ 947 | 66% |
| 13 to 24 months | 356 | 26 | 433 | 30 |
| More than 24 months | 72 | 5 | 50 | 4 |
| Total | $ 1,368 | 100% | $ 1,430 | 100% |

*Private Education Loan Repayment Options*

Certain loan programs allow borrowers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of June 30, 2012.

| | Loan Program | | | |
|---|---|---|---|---|
| **(Dollars in millions)** | **Signature and Other** | **Smart Option** | **Career Training** | **Total** |
| $ in Repayment | $24,294 | $4,822 | $1,615 | $ 30,731 |
| $ in Total | $30,590 | $5,928 | $1,679 | 38,197 |
| Payment method by enrollment status: | | | | |
| In-school/Grace | Deferred[(1)] | Deferred[(1)], interest-only or fixed $25/month | Interest-only or fixed $25/month | |
| Repayment | Level principal and interest or graduated | Level principal and interest | Level principal and interest | |

(1) Deferred includes loans for which no payments are required and interest charges are capitalized into the loan balance.

The graduated repayment program that is part of Signature and Other Loans includes an interest-only payment feature that may be selected at the option of the borrower. Borrowers elect to participate in this program at the time they enter repayment following their grace period. This program is available to borrowers in repayment, after their grace period, who would like a temporary lower payment from the required principal and interest payment amount. Borrowers participating in this program pay monthly interest with no amortization of their principal balance for up to 48 payments after entering repayment (dependent on the loan product type). The maturity date of the loan is not extended when a borrower participates in this program. As of June 30, 2012 and 2011, borrowers in repayment owing approximately $7.0 billion (23 percent of loans in repayment) and $7.4 billion (26 percent of loans in repayment), respectively, were enrolled in the interest-only program. Of these amounts, 11 percent and 12 percent were non-traditional loans as of June 30, 2012 and 2011, respectively.

Table of Contents

***FFELP Loan Portfolio Performance***

*FFELP Loan Delinquencies and Forbearance*

The table below presents our FFELP Loan delinquency trends.

| | FFELP Loan Delinquencies June 30, | | | |
|---|---|---|---|---|
| | 2012 | | 2011 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 21,157 | | $ 25,718 | |
| Loans in forbearance[2] | 18,357 | | 21,048 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 76,258 | 82.9% | 78,201 | 82.9% |
| Loans delinquent 31-60 days[3] | 5,239 | 5.7 | 5,149 | 5.5 |
| Loans delinquent 61-90 days[3] | 2,816 | 3.1 | 2,909 | 3.1 |
| Loans delinquent greater than 90 days[3] | 7,685 | 8.3 | 8,023 | 8.5 |
| Total FFELP Loans in repayment | 91,998 | 100% | 94,282 | 100% |
| Total FFELP Loans, gross | 131,512 | | 141,048 | |
| FFELP Loan unamortized premium | 1,494 | | 1,776 | |
| Total FFELP Loans | 133,006 | | 142,824 | |
| FFELP Loan allowance for losses | (173) | | (189) | |
| FFELP Loans, net | $ 132,833 | | $ 142,635 | |
| Percentage of FFELP Loans in repayment | | 70.0% | | 66.8% |
| Delinquencies as a percentage of FFELP Loans in repayment | | 17.1% | | 17.1% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance | | 16.6% | | 18.2% |

(1) Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making payments due to hardship or other factors.

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making payments due to hardship or other factors.

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

Table of Contents

*Allowance for FFELP Loan Losses*

The following table summarizes changes in the allowance for FFELP Loan losses.

| | Activity in Allowance for FFELP Loans | | | |
|---|---|---|---|---|
| | Three Months Ended June 30, | | Six Months Ended June 30, | |
| (Dollars in millions) | 2012 | 2011 | 2012 | 2011 |
| Allowance at beginning of period | 180 | 190 | 187 | 189 |
| Provision for FFELP Loan losses | 18 | 23 | 36 | 46 |
| Charge-offs | (23) | (21) | (46) | (41) |
| Student loan sales | (2) | (3) | (4) | (5) |
| Allowance at end of period | $ 173 | $ 189 | $ 173 | $ 189 |
| Charge-offs as a percentage of average loans in repayment (annualized) | .10% | .09% | .10% | .09% |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) | .08% | .07% | .08% | .07% |
| Allowance as a percentage of ending total loans, gross | .13% | .13% | .13% | .13% |
| Allowance as a percentage of ending loans in repayment | .19% | .20% | .19% | .20% |
| Allowance coverage of charge-offs (annualized) | 1.8 | 2.3 | 1.9 | 2.3 |
| Ending total loans, gross | $ 131,512 | $ 141,048 | $ 131,512 | $ 141,048 |
| Average loans in repayment | $ 92,436 | $ 94,318 | $ 92,793 | $ 94,908 |
| Ending loans in repayment | $ 91,998 | $ 94,282 | $ 91,998 | $ 94,282 |

**Liquidity and Capital Resources**

We expect to fund our ongoing liquidity needs, including the origination of new Private Education Loans and the repayment of $2.4 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash and investment portfolio, the issuance of additional bank deposits, the very predictable operating cash flows provided by earnings, the repayment of principal on unencumbered student loan assets and the distributions from our securitization trusts (including servicing fees which are priority payments within the trusts). We may also draw down on our FFELP ABCP Facilities and the facility with the Federal Home Loan Bank in Des Moines (the FHLB-DM Facility ); and we may also issue term ABS and unsecured debt.

Currently, new Private Education Loan originations are initially funded through deposits and subsequently securitized to term. We have $362 million of cash at the Bank as of June 30, 2012 available to fund future originations. We no longer originate FFELP Loans and therefore no longer have liquidity requirements for new FFELP Loan originations.

The acquisition of loan portfolios may require additional funding. Additionally, it is our intent to refinance, primarily through securitizations, the FFELP Loans that are currently in the ED Conduit Program by its January 2014 maturity date. We currently have $15.9 billion of collateral in the ED Conduit Program. While the assets in this facility can be put to ED at the conclusion of the program thus eliminating a call on our liquidity, we intend to refinance these assets in the term ABS market prior to the facility s expiration. In addition, capacity is maintained in our FFELP ABCP Facility and our FHLB-DM Facility to finance a portion of this collateral should term financing not be achieved or available.

***Sources of Liquidity and Available Capacity***

*Ending Balances*

| (Dollars in millions) | June 30, 2012 | As of December 31, 2011 |
|---|---|---|
| Sources of primary liquidity: | | |
| Unrestricted cash and liquid investments: | | |
| Holding Company and other non-bank subsidiaries | $ 2,717 | $ 1,403 |
| Sallie Mae Bank[(1)] | 362 | 1,462 |
| Total unrestricted cash and liquid investments | $ 3,079 | $ 2,865 |
| Unencumbered FFELP Loans | $ 1,370 | $ 994 |

*Average Balances*

| (Dollars in millions) | Three Months Ended June 30, 2012 | Three Months Ended June 30, 2011 | Six Months Ended June 30, 2012 | Six Months Ended June 30, 2011 |
|---|---|---|---|---|
| Sources of primary liquidity: | | | | |
| Unrestricted cash and liquid investments: | | | | |
| Holding Company and other non-bank subsidiaries | $ 2,584 | $ 2,464 | $ 2,120 | $ 2,694 |
| Sallie Mae Bank[(1)] | 660 | 1,041 | 770 | 1,211 |
| Total unrestricted cash and liquid investments | $ 3,244 | $ 3,505 | $ 2,890 | $ 3,905 |
| Unencumbered FFELP Loans | $ 1,277 | $ 1,673 | $ 1,178 | $ 1,925 |

(1) This cash will be used primarily to originate or acquire student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends.

We may also have liquidity available under secured credit facilities to the extent we have eligible collateral and capacity available. Current borrowing capacity under the FFELP ABCP Facility and FHLB-DM Facility is determined based on each facility s size, current usage and qualifying collateral from the unencumbered FFELP Loans reported as primary liquidity in the tables above. Additional borrowing capacity could be used to fund FFELP Loan portfolio acquisitions and to refinance FFELP Loans used as collateral in the ED Conduit Program Facility. As of June 30, 2012 and December 31, 2011, the maximum additional amount we could borrow under these facilities was $10.5 billion and $11.3 billion, respectively. For the three and six months ended June 30, 2012 and 2011, the average maximum additional amount we could borrow under these facilities was $10.7 billion and $11.4 billion, and $11.4 billion and $11.7 billion, respectively. These maximum total amounts we can borrow are contingent upon obtaining eligible FFELP Loan collateral. If we use our unencumbered FFELP Loans as collateral to borrow against these facilities, the available capacity is reduced accordingly.

We also hold a number of other unencumbered assets, consisting primarily of Private Education Loans and other assets. At June 30, 2012, we had a total of $20.2 billion of unencumbered assets (which includes the assets that comprise our primary liquidity listed in the table above and are available to serve as collateral for our secured credit facilities discussed in the preceding paragraph), excluding goodwill and acquired intangibles. Total unencumbered student loans, net, comprised $11.5 billion of our unencumbered assets of which $10.1 billion and $1.4 billion related to Private Education Loans, net and FFELP Loans, net, respectively.

The Bank s ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah s industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank s

85

Table of Contents

capital and surplus would not be impaired. While applicable Utah and FDIC regulations differ in approach as to determinations of impairment of capital and surplus, neither method of determination has historically required the Bank to obtain consent to the payment of dividends. For the six months ended June 30, 2012, the Bank paid dividends of $270 million; no dividends were paid in the year-ago period.

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

| (Dollars in billions) | June 30, 2012 | December 31, 2011 |
|---|---|---|
| Net assets of consolidated variable interest entities (encumbered assets) | $ 12.8 | $ 12.9 |
| Tangible unencumbered assets[(1)] | 20.2 | 20.2 |
| Unsecured debt | (24.6) | (24.1) |
| Mark-to-market on unsecured hedged debt[(2)] | (1.8) | (1.9) |
| Other liabilities, net | (2.1) | (2.3) |
| Total tangible equity | $ 4.5 | $ 4.8 |

(1) Excludes goodwill and acquired intangible assets.

(2) At June 30, 2012 and December 31, 2011, there were $1.5 billion and $1.6 billion, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

*Transactions during the Six Months Ended June 30, 2012*

The following financing transactions have taken place in the first six months of 2012:

On January 13, 2012, the FFELP ABCP Facility was amended to increase the amount available to $7.5 billion, reflecting an increase of $2.5 billion over the previously scheduled facility reduction. In addition, the amendment extends the final maturity date by one year to January 9, 2015 and increases the amount available at future step-down dates.

FFELP Financings:

January 19, 2012 issued $765 million of FFELP ABS.

March 15, 2012 issued $824 million of FFELP ABS.

May 3, 2012 issued $1.3 billion of FFELP ABS.

June 14, 2012 issued $1.5 billion of FFELP ABS.

Private Education Loan Financings:

February 9, 2012 issued $547 million of Private Education Loan ABS.

April 12, 2012 issued $891 million of Private Education Loan ABS.

May 31, 2012 issued $1.1 billion of Private Education Loan ABS.

Unsecured Financings:

January 27, 2012 issued $1.5 billion senior unsecured debt, consisting of a $750 million five-year term bond and a $750 million ten-year term bond.

June 18, 2012 issued $350 million unsecured debt with an average life of 4.5 years.

We increased our regular quarterly common stock dividends to $0.125 per share in the first and second quarters of 2012, up from $0.10 per share for the last three quarters of 2011. During the second quarter of 2012, we authorized an additional $400 million to be utilized in our ongoing share repurchase program; we previously authorized $500 million in January 2012. During the first half of 2012, we repurchased 40.5 million shares of common stock at an aggregate price of $609 million. At June 30, 2012, we had $291 million of remaining share repurchase authorization.

*Recent Third-Quarter 2012 Transactions*

The following transactions have taken place in the third quarter of 2012:

FFELP Financings:

July 19, 2012 issued $1.3 billion of FFELP ABS.

Private Education Loan Financings:

July 26, 2012 issued $0.6 billion of Private Education Loan ABS.

***Counterparty Exposure***

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us. Risks associated with our lending portfolio are discussed in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Consumer Lending Portfolio Performance and FFELP Loan Portfolio Performance.

Our investment portfolio is composed of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure. Additionally, our investing activity is governed by Board approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. ( ISDA ) Credit Support Annexes ( CSAs ). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by SLM Corporation and the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our securitization trusts require collateral in all cases if the counterparty s credit rating is withdrawn or downgraded below a certain level. Additionally, securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative, regardless of credit rating. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties. If our credit ratings are downgraded from current levels, we may be required to segregate additional unrestricted cash collateral into restricted accounts.

**Table of Contents**

The table below highlights exposure related to our derivative counterparties at June 30, 2012.

| (Dollars in millions) | SLM Corporation and Sallie Mae Bank Contracts | Securitization Trust Contracts[(1)] |
|---|---|---|
| Exposure, net of collateral | $ 75 | $ 593 |
| Percentage of exposure to counterparties with credit ratings below S&P AA- or Moody s Aa3 | 87% | 29% |
| Percentage of exposure to counterparties with credit ratings below S&P A- or Moody s A3 | 0% | 0% |

(1) Current turmoil in the European markets has led to increased disclosure of exposure to those markets. Of the total net exposure, $516 million is related to financial institutions located in France; of this amount, $412 million carries a guaranty from the French government. This exposure relates to $6.5 billion notional amount of cross-currency interest rate swaps held in our securitization trusts (of which $3.7 billion notional amount carries a guaranty from the French government). Counterparties to these derivatives are required to post collateral when their credit rating is withdrawn or downgraded below a certain level. As of June 30, 2012, no collateral was required to be posted and we are not holding any collateral related to these contracts. Adjustments are made to our derivative valuations for counterparty credit risk. The adjustments made at June 30, 2012 related to derivatives with French financial institutions (including those that carry a guaranty from the French government) decreased the derivative asset value by $122 million. Credit risks for all derivative counterparties are assessed internally on a continual basis.

***Core Earnings Basis Borrowings***

The following tables present the ending balances of our Core Earnings basis borrowings at June 30, 2012 and December 31, 2011, and average balances and average interest rates of our Core Earnings basis borrowings for the three and six months ended June 30, 2012 and 2011. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See Core Earnings Definition and Limitations Differences between Core Earnings and GAAP Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities of this Item 2.)

88

Table of Contents

*Ending Balances*

| (Dollars in millions) | June 30, 2012 Short Term | June 30, 2012 Long Term | June 30, 2012 Total | December 31, 2011 Short Term | December 31, 2011 Long Term | December 31, 2011 Total |
|---|---|---|---|---|---|---|
| *Unsecured borrowings:* | | | | | | |
| Senior unsecured debt | $ 2,359 | $ 16,131 | $ 18,490 | $ 1,801 | $ 15,199 | $ 17,000 |
| Brokered deposits | 765 | 1,550 | 2,315 | 1,733 | 1,956 | 3,689 |
| Retail and other deposits | 2,367 | | 2,367 | 2,123 | | 2,123 |
| Other[(1)] | 1,422 | | 1,422 | 1,329 | | 1,329 |
| Total unsecured borrowings | 6,913 | 17,681 | 24,594 | 6,986 | 17,155 | 24,141 |
| *Secured borrowings:* | | | | | | |
| FFELP Loan securitizations | | 107,545 | 107,545 | | 107,905 | 107,905 |
| Private Education Loan securitizations | | 19,803 | 19,803 | | 19,297 | 19,297 |
| ED Conduit Program Facility | 15,903 | | 15,903 | 21,313 | | 21,313 |
| FFELP ABCP Facility | | 5,435 | 5,435 | | 4,445 | 4,445 |
| Private Education Loan ABCP Facility | | 1,764 | 1,764 | | 1,992 | 1,992 |
| Acquisition financing[(2)] | | 813 | 813 | | 916 | 916 |
| FHLB-DM Facility | 1,680 | | 1,680 | 1,210 | | 1,210 |
| Total secured borrowings | 17,583 | 135,360 | 152,943 | 22,523 | 134,555 | 157,078 |
| Total Core Earnings basis | 24,496 | 153,041 | 177,537 | 29,509 | 151,710 | 181,219 |
| Hedge accounting adjustments | (3) | 2,435 | 2,432 | 64 | 2,683 | 2,747 |
| Total GAAP basis | $ 24,493 | $ 155,476 | $ 179,969 | $ 29,573 | $ 154,393 | $ 183,966 |

(1) Other primarily consists of the obligation to return cash collateral held related to derivative exposure.

(2) Relates to the acquisition of $25 billion of student loans at the end of 2010.

Secured borrowings comprised 86 percent and 87 percent of our Core Earnings basis debt outstanding at June 30, 2012 and December 31, 2011, respectively.

**Table of Contents**

*Average Balances*

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012 | | 2011 | |
| (Dollars in millions) | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| *Unsecured borrowings:* | | | | | | | | |
| Senior unsecured debt | $ 18,327 | 2.94% | $ 19,845 | 2.31% | $ 18,165 | 2.91% | $ 20,629 | 2.23% |
| Brokered deposits | 2,934 | 1.93 | 3,729 | 2.41 | 3,224 | 2.01 | 4,040 | 2.41 |
| Retail and other deposits | 2,307 | .82 | 1,491 | 1.16 | 2,295 | .89 | 1,484 | 1.20 |
| Other[1] | 1,367 | .16 | 1,132 | .23 | 1,384 | .13 | 1,076 | .28 |
| Total unsecured borrowings | 24,935 | 2.47 | 26,197 | 2.17 | 25,068 | 2.45 | 27,229 | 2.12 |
| *Secured borrowings:* | | | | | | | | |
| FFELP Loans securitizations | 107,008 | 1.12 | 111,154 | .89 | 107,119 | 1.13 | 111,879 | .90 |
| Private Education Loans securitizations | 19,212 | 2.11 | 21,051 | 2.19 | 18,895 | 2.10 | 21,034 | 2.18 |
| ED Conduit Program Facility | 17,999 | .82 | 23,220 | .74 | 19,257 | .81 | 23,665 | .75 |
| FFELP ABCP Facility | 5,364 | .96 | 4,850 | 1.03 | 4,691 | 1.06 | 4,893 | 1.08 |
| Private Education Loan ABCP Facility | 2,156 | 1.90 | | | 2,395 | 1.79 | | |
| Acquisition financing[2] | 824 | 4.83 | 1,024 | 4.79 | 848 | 4.84 | 1,044 | 4.83 |
| FHLB-DM Facility | 1,274 | .36 | 883 | .25 | 1,172 | .33 | 756 | .28 |
| Total secured borrowings | 153,837 | 1.23 | 162,182 | 1.06 | 154,377 | 1.23 | 163,271 | 1.07 |
| Total | $ 178,772 | 1.40% | $ 188,379 | 1.21% | $ 179,445 | 1.40% | $ 190,500 | 1.22% |
| Core Earnings average balance and rate | $ 178,772 | 1.40% | $ 188,379 | 1.21% | $ 179,445 | 1.40% | $ 190,500 | 1.22% |
| Adjustment for GAAP accounting treatment | | .08 | | .05 | | .08 | | .04 |
| GAAP basis average balance and rate | $ 178,772 | 1.48% | $ 188,379 | 1.26% | $ 179,445 | 1.48% | $ 190,500 | 1.26% |

(1) Other primarily consists of the obligation to return cash collateral held related to derivative exposure.

(2) Relates to the acquisition of $25 billion of student loans at the end of 2010.

**Critical Accounting Policies and Estimates**

Management s Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. A discussion of our critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, transfers of financial assets and the VIE consolidation model, derivative accounting and goodwill and intangible assets can be found in our 2011 Form 10-K. There were no significant changes to these critical accounting policies during the six months ended June 30, 2012.

Table of Contents

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**
**Interest Rate Sensitivity Analysis**

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at June 30, 2012 and December 31, 2011, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different than the asset index. The earnings sensitivity is applied only to financial assets and liabilities, including hedging instruments, that existed at the balance sheet date and does not take into account new assets, liabilities or hedging instruments that may arise after the respective balance sheet dates below.

| | As of June 30, 2012 Impact on Annual Earnings If: | | | As of June 30, 2011 Impact on Annual Earnings If: | | |
|---|---|---|---|---|---|---|
| | Interest Rate: | | Funding Spreads | Interest Rate: | | Funding Spreads |
| **(Dollars in millions, except per share amounts)** | **Increase 100 Basis Points** | **Increase 300 Basis Points** | **Increase 25 Basis Points[1]** | **Increase 100 Basis Points** | **Increase 300 Basis Points** | **Increase 25 Basis Points[1]** |
| **Effect on Earnings** | | | | | | |
| Change in pre-tax net income before unrealized gains (losses) on derivative and hedging activities | $ (18) | $ 24 | $ (334) | $ (14) | $ (9) | $ (421) |
| Unrealized gains (losses) on derivative and hedging activities | 499 | 848 | (9) | 472 | 818 | (22) |
| Increase in net income before taxes | $ 481 | $ 872 | $ (343) | $ 458 | $ 809 | $ (443) |
| Increase in diluted earnings per common share | $ .963 | $ 1.748 | $ (.688) | $ .862 | $ 1.524 | $ (.834) |

(1) If an asset is not funded with the same index/frequency reset of the asset then it is assumed the funding index increases 25 basis points while holding the asset index constant.

| | | At June 30, 2012 Interest Rates: | | | |
|---|---|---|---|---|---|
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| **(Dollars in millions)** | **Fair Value** | **$** | **%** | **$** | **%** |
| **Effect on Fair Values** | | | | | |
| Assets | | | | | |
| Total FFELP Loans | $ 131,147 | $ (771) | (1)% | $ (1,523) | (1)% |
| Private Education Loans | 34,792 | | | | |
| Other earning assets | 10,840 | | | (1) | |
| Other assets | 8,952 | (614) | (7) | (1,366) | (15) |
| Total assets gain/(loss) | $ 185,731 | $ (1,385) | (1)% | $ (2,890) | (2)% |
| Liabilities | | | | | |
| Interest bearing liabilities | $ 169,895 | $ (807) | % | $ (2,219) | (1)% |
| Other liabilities | 4,172 | (523) | (13) | (570) | (14) |

| | | | | | |
|---|---|---|---|---|---|
| Total liabilities (gain)/loss | $ 174,067 | $ (1,330) | (1)% | $ (2,789) | (2)% |

Table of Contents

| | | At December 31, 2011 | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| (Dollars in millions) | Fair Value | $ | % | $ | % |
| **Effect on Fair Values** | | | | | |
| Assets | | | | | |
| Total FFELP Loans | $ 134,196 | $ (665) | % | $ (1,335) | (1)% |
| Private Education Loans | 33,968 | | | | |
| Other earning assets | 9,871 | | | (1) | |
| Other assets | 8,943 | (639) | (7) | (1,420) | (16) |
| Total assets gain/(loss) | $ 186,978 | $ (1,304) | (1)% | $ (2,756) | (1)% |
| Liabilities | | | | | |
| Interest bearing liabilities | $ 171,152 | $ (730) | % | $ (2,002) | (1)% |
| Other liabilities | 4,128 | (617) | (15) | (801) | (19) |
| Total liabilities (gain)/loss | $ 175,280 | $ (1,347) | (1)% | $ (2,803) | (2)% |

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, due to the ability of some FFELP Loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

During the three months ended June 30, 2012 and 2011, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of Floor Income Contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our unhedged loans being in a fixed rate mode due to Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed rate liabilities and equity. Item (i) will generally cause income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease. The variance in pre-tax income before unrealized gains (losses) on derivative and hedging activities, when comparing the 300 basis point increase scenario in the 2012 analysis versus the 2011 analysis, related to a higher balance of variable assets being funded with fixed rate liabilities at June 30, 2012 than at June 30, 2011. This resulted in the positive impact to the net interest margin for June 30, 2012 versus the negative impact for June 30, 2011.

Under the scenario in the tables above labeled Impact on Annual Earnings If: Funding Spreads Increase by 25 Basis Points, the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities in the June 30, 2012 analysis is the result of one-month LIBOR-indexed FFELP Loans (loans formerly indexed to commercial paper) being funded with three-month LIBOR and other non-discrete indexed liabilities. In the June 30, 2011 analysis, it is the result of LIBOR-based debt funding commercial paper-indexed assets. See Asset and Liability Funding Gap of this Item 2 for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivative and hedging activities as it relates to basis swaps that hedge the mismatch between the asset and funding indices.

Table of Contents

In addition to interest rate risk addressed in the preceding tables, we are also exposed to risks related to foreign currency exchange rates. Foreign currency exchange rate risk is primarily the result of foreign currency denominated debt issued by us. When we issue foreign currency denominated corporate unsecured and securitization debt, our policy is to use cross-currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest-bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross-currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign currency exchange rates has resulted in material mark-to-market impacts to current-period earnings which have not been factored into the above analysis. The earnings impact is non-cash, and at maturity of the instruments the cumulative mark-to-market impact will be zero.

Table of Contents

**Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of June 30, 2012. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the gains (losses) on derivative and hedging activities, net line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

Management analyzes interest rate risk and in doing so includes all derivatives that are economically hedging our debt whether they qualify as effective hedges or not ( Core Earnings basis). Accordingly, we are also presenting the asset and liability funding gap on a Core Earnings basis in the table that follows the GAAP presentation.

*GAAP Basis*

| **Index**<br>**(Dollars in billions)** | **Frequency of Variable Resets** | **Assets**[1] | **Funding**[2] | **Funding Gap** |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 7.4 | $ | $ 7.4 |
| Prime | annual | .7 | | .7 |
| Prime | quarterly | 4.6 | | 4.6 |
| Prime | monthly | 20.9 | | 20.9 |
| Prime | daily | | 1.7 | (1.7) |
| PLUS Index | annual | .4 | | .4 |
| 3-month LIBOR | daily | | | |
| 3-month LIBOR | quarterly | | 115.4 | (115.4) |
| 1-month LIBOR | monthly | 10.9 | 23.0 | (12.1) |
| 1-month LIBOR daily | daily | 124.8 | | 124.8 |
| CMT/CPI Index | monthly/quarterly | | 1.5 | (1.5) |
| Non-discrete reset[3] | monthly | | 28.4 | (28.4) |
| Non-discrete reset[4] | daily/weekly | 10.8 | 3.8 | 7.0 |
| Fixed rate[5] | | 8.6 | 15.3 | (6.7) |
| Total | | $ 189.1 | $ 189.1 | $ |

(1) FFELP Loans of $47.8 billion ($42.5 billion LIBOR index and $5.3 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(3) Funding consists of auction rate securities, the ABCP Facilities, the ED Conduit Program facility and the FHLB-DM facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight-type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposure.

(5)

Assets include receivables and other assets (including goodwill and acquired intangible assets). Funding includes other liabilities and stockholders equity (excluding series B preferred stock).

The Funding Gaps in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly reset three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges and, as a result, the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

Table of Contents

*Core Earnings Basis*

| Index<br>(Dollars in billions) | Frequency of Variable Resets | Assets[(1)] | Funding[(2)] | Funding Gap |
|---|---|---|---|---|
| 3-month Treasury bill | weekly | $ 7.4 | $ 1.8 | $ 5.6 |
| Prime | annual | .7 | | .7 |
| Prime | quarterly | 4.6 | | 4.6 |
| Prime | monthly | 20.9 | 4.5 | 16.4 |
| Prime | daily | | 1.7 | (1.7) |
| PLUS Index | annual | .4 | | .4 |
| 3-month LIBOR | daily | | 14.5 | (14.5) |
| 3-month LIBOR | quarterly | | 80.2 | (80.2) |
| 1-month LIBOR | monthly | 10.9 | 31.9 | (21.0) |
| 1-month LIBOR | daily | 124.8 | 8.0 | 116.8 |
| Non-discrete reset[(3)] | monthly | | 28.4 | (28.4) |
| Non-discrete reset[(4)] | daily/weekly | 10.8 | 3.8 | 7.0 |
| Fixed rate[(5)] | | 6.1 | 11.8 | (5.7) |
| Total | | $ 186.6 | $ 186.6 | $ |

(1) FFELP Loans of $12.6 billion ($10.7 billion LIBOR index and $1.9 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(3) Funding consists of auction rate securities, the ABCP Facilities, the ED Conduit Program facility and the FHLB-DM facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight-type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposure.

(5) Assets include receivables and other assets (including goodwill and acquired intangible assets). Funding includes other liabilities and stockholders equity (excluding series B preferred stock).

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or, when economical, have interest rate characteristics that we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe this risk is low, as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in recent years) can lead to a temporary divergence between indices resulting in a negative impact to our earnings.

Table of Contents

**Weighted Average Life**

The following table reflects the weighted average life of our earning assets and liabilities at June 30, 2012.

| (Averages in Years) | Weighted Average Life |
|---|---|
| **Earning assets** | |
| Student loans | 7.5 |
| Other loans | 6.2 |
| Cash and investments | .1 |
| Total earning assets | 7.1 |
| **Borrowings** | |
| Short-term borrowings | .3 |
| Long-term borrowings | 6.9 |
| Total borrowings | 5.9 |

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of June 30, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of June 30, 2012, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and (b) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

*In Re SLM Corporation Securities Litigation.* On January 31, 2008, a class action lawsuit was filed in the U.S. District Court for the Southern District of New York alleging the Company and certain officers violated federal securities laws by, among other things, issuing a series of materially false and misleading statements with respect to our financial results for year-end 2006 and the first quarter of 2007. This case and other actions arising out of the same circumstances and alleged acts were consolidated. Earlier this year, the court certified a class, appointed class counsel and appointed a class representative. On March 23, 2012, the parties agreed to a preliminary settlement pursuant to which we would pay $35 million to be funded by our insurers, which settlement is subject to final Court approval. The settlement is also subject to certain termination rights of the parties and the satisfaction of certain conditions precedent. We can provide no assurance that we will finalize the settlement. We continue to vigorously deny all claims asserted against us.

We and our subsidiaries and affiliates also are subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of our reports to credit bureaus. In addition, our collections subsidiaries are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that those subsidiaries have violated a federal or state law in the process of collecting their accounts. We believe that these claims, lawsuits and other actions will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we and our subsidiaries and affiliates receive information and document requests from state attorneys general, legislative committees and administrative agencies concerning certain business practices. Our practice has been and continues to be to cooperate with these bodies and to be responsive to any such requests.

For a description of these items and other litigation to which we are a party, see our 2011 Form 10-K and subsequent filings with the SEC.

### Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our 2011 Form 10-K, except as set forth below:

***The scope and profitability of our businesses remain subject to risks arising from legislative and administrative actions.***

The issue of how to pay for college, including the role of education lending, is increasingly part of the political, election year debate. While the end of FFELP in 2010 eliminated our most significant involvement with the federal government, Congressional, Presidential and administrative actions and budget decisions may still significantly affect our business, financial condition and results of operations. Recent Administration budget proposals and executive orders, Congressional legislative proposals and other regulatory recommendations have included, and continue to include provisions that, if passed, could affect us.

As Congress has not passed a full federal budget since fiscal year 2009, the timing and manner of implementation of various education lending-related initiatives has become less predictable. For example, in early 2012 the Administration by executive authority implemented a Special Direct Consolidation Loan Initiative, which had initially been included in the Administration s 2011 budget not passed by Congress. This initiative provided a temporary incentive to certain borrowers to consolidate their FFELP lender s loans into the DSLP program by providing interest rate reductions on FFELP loans eligible for consolidation and ended on June 30, 2012. The President s 2013 budget puts forward a number of education lending-related initiatives, including a proposed reduction in payments by ED to service providers assisting students with the rehabilitation

Table of Contents

of defaulted FFELP Loans. If passed, these types of proposals have the potential to reallocate Federal funding and appropriations in ways that could be detrimental to our lending and collection business.

The dischargeability of Private Education Loans in bankruptcy is once again receiving significant attention. The CFPB and ED in their Private Student Loan Industry Report have recommended Congress consider whether the existing treatment of Private Education Loans by the federal Bankruptcy Code has achieved desired policy goals. Members of Congress frequently propose the federal Bankruptcy Code s treatment of education loans be reconsidered. One bill proposing full dischargability of Private Education Loans in bankruptcy proceedings remains pending in the current Congress.

We cannot estimate the timing, method of implementation or likelihood of passage of any of the Congressional or administrative proposals of the types described above, nor anticipate their ultimate content. However, the adoption and implementation of proposals such as these, individually or in combination, could significantly increase our costs, effect our ability to service and collect loans and materially and adversely impact our business, financial condition and results of operations.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

*Share Repurchases*

The following table provides information relating to our purchase of shares of our common stock in the three months ended June 30, 2012.

| (In millions, except per share data) | Total Number of Shares Purchased[1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2] | Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs[2] |
|---|---|---|---|---|
| Period: | | | | |
| April 1 April 30, 2012 | 5.5 | $ 15.18 | 5.4 | $ 150 |
| May 1 May 31, 2012 | 11.0 | 13.57 | 10.9 | 402 |
| June 1 June 30, 2012 | 7.7 | 14.85 | 7.5 | 291 |
| Total second-quarter 2012 | 24.2 | $ 14.35 | 23.8 | |

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below, and (ii) shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

(2) On January 26, 2012, our board of directors authorized us to purchase up to $500 million of shares of our common stock. An additional $400 million of purchases was authorized on May 24, 2012.

The closing price of our common stock on the NASDAQ Global Select Market on June 29, 2012 was $15.71.

## Item 3. Defaults upon Senior Securities

Nothing to report.

**Item 4. Mine Safety Disclosures.**

Nothing to report.

**Item 5. Other Information**

Nothing to report.

**Item 6. Exhibits**

The following exhibits are furnished or filed, as applicable:

| | |
|---|---|
| 12.1 | Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 101.INS | XBRL Instance Document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |

Table of Contents

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SLM CORPORATION

(Registrant)

By: /s/ JONATHAN C. CLARK
Jonathan C. Clark

*Executive Vice President and Chief Financial Officer*

*(Principal Financial and Accounting Officer)*

Date: August 3, 2012