SLM CORP
Form 10-K
February 26, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009 or

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file numbers 001-13251

SLM Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**52-2013874**
(State of Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of Principal Executive Offices)	*(Zip Code)*

(703) 810-3000
(Registrant s Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act
Common Stock, par value $.20 per share.
Name of Exchange on which Listed:
New York Stock Exchange
6.97% Cumulative Redeemable Preferred Stock, Series A, par value $.20 per share
Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share
Name of Exchange on which Listed:
New York Stock Exchange

Medium Term Notes, Series A, CPI-Linked Notes due 2017
Medium Term Notes, Series A, CPI-Linked Notes due 2018
6% Senior Notes due December 15, 2043
Name of Exchange on which Listed:
New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act:
None.

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No þ

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 o

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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 o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 was $4.8 billion (based on closing sale price of $10.27 per share as reported for the New York Stock Exchange Composite Transactions).

As of January 31, 2010, there were 484,912,370 shares of voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement relating to the registrant s Annual Meeting of Shareholders scheduled to be held May 13, 2010 are incorporated by reference into Part III of this Report.

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

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

Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

PART I.

Item 1. Business

INTRODUCTION TO SLM CORPORATION

SLM Corporation, more commonly known as Sallie Mae, is the nation s leading saving, planning and paying for education company. SLM Corporation is a holding company that operates through a number of subsidiaries. References in this Annual Report to the Company refer to SLM Corporation and its subsidiaries. The Company was formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise (GSE), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we completed the privatization process that began in 1997 and resulted in the wind-down of the GSE.

Our primary business is to originate, service and collect loans made to students and/or their parents to finance the cost of their education. We provide funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program (FFELP), as a servicer of loans for the Department of Education (ED), and through our non-federally guaranteed Private Education Loan programs.

We have used internal growth and strategic acquisitions to attain our leadership position in the education finance market. The core of our marketing strategy is to generate student loan originations by promoting our brands on campus through the financial aid office and through direct marketing to students and their parents. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry.

In addition to the net interest income generated by our lending activities, we earn fee income from a number of services including student loan and guarantee servicing, loan default aversion and defaulted loan collections, and for providing processing capabilities and information technology to educational institutions as well as 529 college savings plan program management, transfer and servicing agent services, and administrative services through Upromise Investments, Inc. (UII) and Upromise Investment Advisors, LLC (UIA). We also operate a consumer savings network through Upromise, Inc. (Upromise). References in this Annual Report to Upromise refer to Upromise and its subsidiaries, UII and UIA.

At December 31, 2009, we had approximately eight thousand employees.

Recent Developments and Expected Future Trends

On February 26, 2009, the Obama Administration (the Administration) issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program (DSLP). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act (SAFRA), which was consistent with the Administration s 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration s 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the Community Proposal because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

The Administration s 2010 fiscal year budget also called for the hiring of additional loan servicers to help ease the transition to a full DSLP and to handle the significant increase in future volume. On June 17, 2009, we announced that we were selected by ED as one of four private sector servicers awarded a servicing contract (the ED Servicing Contract) to service loans we sell to ED plus a portion of loans others sell to ED, existing DSLP loans and loans originated in the future. We began servicing loans under this contract in the third quarter of 2009.

Under both SAFRA and the Community Proposal, the Company would no longer originate, fund or hold new FFELP loans to earn a net interest margin. However, the Company would continue to earn net interest income from our portfolio of existing FFELP loans as the portfolio runs off over a period of time. The Company would become a fee for service provider in the federal loan business. We will continue to originate, fund and hold Private Education Loans.

In addition, the legislation would eliminate the need for the Guarantors and the services we provide to the sector. The Company earns a fee when it processes a loan guarantee for a Guarantor client for the life of the loan for servicing the Guarantor s portfolio of loans. If either SAFRA or the Community Proposal become laws, we would no longer earn the origination fee paid by Guarantors. The portfolio that generates the maintenance fee would go into run-off and we would continue to earn the maintenance fee and perform the associated default aversion and prevention work for the remaining life of the loans. In 2009, we earned guarantor servicing fees of $136 million, which was approximately evenly split between origination and maintenance fees.

Our student loan contingent collection business would also be impacted by the pending legislation. We currently have 12 Guarantors and ED as clients. We earn revenue from Guarantors for collecting defaulted loans as well as for managing their portfolios of defaulted loans. Revenue from Guarantor clients is approximately 66 percent of our contingent collection revenue. We anticipate that revenue from Guarantors will be relatively stable through 2012 and then begin to steadily decline if either SAFRA or the Community Proposal are adopted.

The Company, through its subsidiary Pioneer Credit, has been collecting defaulted student loans on behalf of ED since 1997. The contract is merit based and accounts are awarded on collection performance. Pioneer Credit has consistently ranked number one or two among the ED collectors. In anticipation of a surge in volume as more loans switch to DSLP, ED recently added five new collection companies bringing the total to 22. This led to a decline in account placements with Pioneer Credit, which we believe is temporary. The Company expects that as the DSLP grows the decline in revenue we would experience from our Guarantor clients would be partially offset by increased revenue under the ED contract in future years.

If SAFRA becomes law, a significant restructuring which would result in significant job losses throughout the Company and we will be required to adapt to our new business environment.

The Company is exploring available liquidity to fund FFELP loans for our student customers if legislation is not passed and The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA) is not extended in time for the academic year (AY) 2010 2011. We believe that adequate liquidity will be available to fund the anticipated number of loans.

Student Lending Market

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, and federally guaranteed and private education loans. Over the last five years, these sources of funding for higher education have been relatively stable with a general trend towards an increased use of student loans. In the last academic year, 39 percent of students used federally guaranteed student loans or private education loans to finance their education. Due to an increase in federal loan limits that took effect in 2007 and 2008, the Company has seen a substantial increase in borrowing from federal loan programs in recent years.

Federally Guaranteed Student Lending Programs

There are currently two loan delivery programs that provide federal government guaranteed student loans: the FFELP and the DSLP. FFELP loans are provided by the private sector. DSLP loans are provided to borrowers directly by ED on terms similar to student loans provided under the FFELP. We participate in and are the largest lender under the FFELP. The Company is participating in ED s Participation and Put program, which were established under the authority provided in ECASLA. This program is scheduled to terminate on June 30, 2010. Under this program, ED provides funding to lenders for up to one year at a cost of commercial paper (CP) plus 50 basis points. The lender has the option to sell the loans to ED within 90 days of the end of the AY for a fee of $75 per loan plus the principal amount of and accrued interest on the loan plus the one percent origination fee for which we are reimbursed. We are also a contractor to service loans sold to ED and DSLP loans.

For the federal fiscal year (FFY) ended September 30, 2009 (FFY 2009), ED estimated that the market share of FFELP loans was 69 percent, down from 76 percent in FFY 2008. (See LENDING BUSINESS SEGMENT Competition.) Total FFELP and DSLP volume for FFY 2009 grew by 28 percent, with the FFELP portion growing 17 percent and the DSLP portion growing 63 percent.

The Higher Education Act (the HEA) regulates every aspect of the federally guaranteed student loan program, including communications with borrowers, loan originations and default aversion requirements. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. This guarantee generally covers 98 and 97 percent of the student loan s principal and accrued interest for loans disbursed before and after July 1, 2006, respectively. In the case of death, disability or bankruptcy of the borrower, the guarantee covers 100 percent of the loan s principal and accrued interest. The guarantee on our existing loan portfolio would not be impacted by pending legislation.

FFELP loans are guaranteed by state agencies or non-profit companies designated as Guarantors, with ED providing reinsurance to the Guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program s soundness and accountability. These functions include reviewing loan application data to detect and prevent fraud and abuse and to assist lenders in preventing default by providing counseling to borrowers. Generally, the Guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the HEA. When a borrower defaults on a FFELP loan, we submit a claim to the Guarantor who provides reimbursements of principal and accrued interest subject to the Risk Sharing (See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM, to this document for a description of the role of Guarantors.)

Private Education Loan Products

In addition to federal loan programs, which have statutory limits on annual and total borrowing, we offer Private Education Loan programs to bridge the gap between the cost of education and a student s resources. Historically, the majority of our Private Education Loans were made in conjunction with a FFELP Stafford Loan and are marketed to schools through the same marketing channels and by the same sales force as FFELP loans. However, we also originate Private Education Loans at DSLP schools. We expect no interruption in our presence in the school channel if SAFRA were to pass. As a result of the credit market dislocation discussed above, a large number of lenders have exited the Private Education Loan business and only a few of the country s largest banks continue to offer the product.

Drivers of Growth in the Student Loan Industry

Growth in our Managed student loan portfolio and our servicing and collection businesses is driven by the growth in the overall market for student loans, as well as by our own market share gains. Rising enrollment and college costs and increases in borrowing limits have resulted in the size of the federally insured student loan market more than tripling over the last 10 years. Federally insured student loan originations grew from $30 billion in FFY 1999 to $96 billion in FFY 2009.

According to the College Board, tuition and fees at four-year public institutions and four-year private institutions have increased 88 percent and 66 percent, respectively, in constant, inflation-adjusted dollars, since AY 1999-2000. Under the FFELP, there are limits to the amount students can borrow each academic year. The first loan limit increases since 1992 were implemented July 1, 2007. In response to the credit crisis, Congress significantly increased loan limits again in 2008. As a result, students rely more on federal loans to fund their tuition needs. Both federal and private loans as a percentage of total student aid were 49 percent of total student aid in AY 1998-1999 and 53 percent in AY 2008-2009. Private Education Loans accounted for 12 percent of total student loans both federally guaranteed and Private Education Loans in AY 2008-2009, compared to 8 percent in AY 1998-1999.

The National Center for Education Statistics predicts that the college-age population will increase approximately 10 percent from 2009 to 2018. Demand for education credit is expected to increase due to this population demographic, first-time college enrollments of older students and continuing interest in adult education.

The following charts show the historical and projected enrollment and average tuition and fee growth for four-year public and private colleges and universities.

Historical and Projected Enrollment
(in millions)

Source: National Center for Education Statistics

Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2006 onward.

Cost of Attendance[1]
Cumulative % Increase from AY 1998-1999

Source: The College Board

(1) Cost of attendance is in current dollars and includes tuition, fees and on-campus room and board.

BUSINESS SEGMENTS

We provide credit products and related services to the higher education and consumer credit communities and others through two primary business segments: our Lending business segment and our Asset Performance Group (APG) business segment. In addition, within our Corporate and Other business segment, we provide a number of products and services that are managed within smaller operating segments, the most prominent being our Guarantor Servicing and Loan Servicing businesses. As discussed above, some of our businesses are expected to go into run-off as a result of pending legislation. Each of these segments is summarized below. The accounting treatment for the segments is explained in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

LENDING BUSINESS SEGMENT

In the Lending business segment, we originate and acquire both federally guaranteed student loans, and Private Education Loans, which are not federally guaranteed. We manage the largest portfolio of FFELP and Private Education Loans in the student loan industry, and have 10 million student and parent customers through our ownership and management of $176.4 billion in Managed student loans as of December 31, 2009, of which $141.4 billion or 80 percent are federally insured. We serve over 6,000 clients, including educational and financial institutions and non-profit state agencies. We are the largest servicer and collector of student loans, servicing $194.2 billion in assets, including $26.3 billion for third parties, of which $19.2 billion is serviced for ED as of December 31, 2009.

Sallie Mae s Lending Business

Our primary marketing point-of-contact is the school s financial aid office. We deliver flexible and cost-effective products to the school and its students. The focus of our sales force is to market Sallie Mae s suite of education finance products to colleges. These include FFELP and Private Education Loans and through our Web-based loan origination and servicing platform OpenNet®. As a result of the changes taking place in the student loan marketplace, we are broadening our marketing activities to include Direct to Consumer initiatives and referral lending relationships. We also intend to drive loan volume through our Planning, Paying and Saving for college activities.

In 2009, we originated $24.9 billion in student loans. FFELP originations for the year ended December 31, 2009 totaled $21.7 billion, an increase of 21 percent from the year ended December 31, 2008. The increase in FFELP loan origination growth was due to higher loan limits and an increase in market share. Given the legislative uncertainty around FFELP and the ongoing transition of certain schools to Direct Lending, FFELP originations could be substantially lower in the AY 2010 2011. Private Education Loan originations totaled $3.2 billion, a decrease of 50 percent from the prior year. The decline in Private Education Loan originations was due to a tightening of our underwriting requirements, an increase in federal student loan limits and the Company s withdrawal from certain markets.

Private Education Loans

We bear the full credit risk for Private Education Loans, which are underwritten and priced according to credit risk based upon customized credit scoring criteria. Due to their higher risk profile, generally Private Education Loans have higher interest rates than FFELP loans. Despite a decline in the growth rate of Private Education Loan originations, the portfolio grew 5 percent from the prior year. All new Private Education Loans are being funded at Sallie Mae Bank through our deposit taking activities.

In 2008 and 2009, the credit environment created significant challenges for funding Private Education Loans. At the same time, we became more restrictive in our underwriting criteria. In addition, as discussed above, federal lending limits increased significantly in 2007 and 2008. As a result of these factors, originations declined in 2008 and 2009. We expect originations to grow once again in 2010 and subsequent years as the credit markets continue to recover and the impact of the 2007 and 2008 federal loan limit increases is offset by tuition increases and market share gains.

Over the course of 2009, we made improvements in the structure, pricing, underwriting, servicing, collecting and funding of Private Education Loans. These changes were made to increase the profitability and decrease the risk of the product. For example, the average FICO score for loans disbursed in 2009 was up 19 points to 745 and the percentage of co-signed loans increased to 84 percent from 66 percent in the prior year.

These improvements in portfolio quality are being driven primarily by our more selective underwriting criteria. We have instituted higher FICO cut-offs and require cosigners for borrowers with higher credit scores than in the past. Our experience shows that adding a cosigner to a loan reduces the default rate by more than 50 percent. We are capturing more data on our borrowers and cosigners and using this data in the credit decision and pricing process. In 2009, we began using a new Custom Underwriting Scorecard, that we believe will further improve our underwriting. We have also introduced judgmental lending.

In 2009, we introduced the Smart Option Student Loan®, which is offered to undergraduate and graduate students through the financial aid offices of colleges and universities to supplement traditional federal loans. The Smart Option Student Loan® significantly reduces the customer s total cost and repayment term by requiring interest payments while the student is in school.

Competition

Historically, we have faced competition for both federally guaranteed and non-guaranteed student loans from a variety of financial institutions, including banks, thrifts and state-supported secondary markets. However, as a result of the CCRAA which was passed in 2007, the legislation currently pending and the dislocation in the capital markets, the student loan industry is undergoing a significant transition. A number of student lenders have ceased operations altogether or curtailed activity.

ASSET PERFORMANCE GROUP BUSINESS SEGMENT

In our APG business segment, we provide student loan default aversion services, defaulted student loan portfolio management services and contingency collections services for student loans and other asset classes. In 2008, we decided to wind down our accounts receivable management and collections services on consumer and mortgage receivable portfolios. We made this decision because we did not realize the expected synergies between this business and our traditional contingent student loan collection business. During 2009 we sold GRP, our mortgage purchased paper company, and wound down our unsecured receivables portfolio to $285 million.

In 2009, our APG business segment had revenues totaling $346 million and a net loss of $154 million due to impairments in our collections servicing portfolios. Our largest customer, USA Funds, accounted for 39 percent, excluding impairments, of our revenue in this segment in 2009.

Please read the section Recent Developments and Expected Future Trends to see how pending legislation could impact this business segment.

Products and Services

Student Loan Default Aversion Services

We provide default aversion services for five Guarantors, including the nation s largest, USA Funds. These services are designed to prevent a default once a borrower s loan has been placed in delinquency status.

Defaulted Student Loan Portfolio Management Services

Our APG business segment manages the defaulted student loan portfolios for six Guarantors under long-term contracts. APG s largest customer, USA Funds, represents approximately 17 percent of defaulted student loan portfolios we manage. Our portfolio management services include selecting collection agencies and determining account placements to those agencies, processing loan consolidations and loan rehabilitations, and managing federal and state offset programs.

Contingency Collection Services

Our APG business segment is also engaged in the collection of defaulted student loans on behalf of various clients, including schools, Guarantors, ED and other federal and state agencies. We earn fees that are contingent on the amounts collected. We provide collection services for approximately 16 percent of the total market for federal student loan collections. We have relationships with approximately 900 colleges and universities to provide collection services for delinquent student loans and other receivables from various campus-based programs. We also collect other debt for federal and state agencies, and retail clients.

Competition

The private sector collections industry is highly fragmented with a few large companies and a large number of small scale companies. The APG businesses that provide third-party collections services for ED, FFELP Guarantors and other federal holders of defaulted debt are highly competitive. In addition to competing with other collection enterprises, we also compete with credit grantors who each have unique mixes of internal collections, outsourced collections and debt sales. The scale, diversification and performance of our APG business segment have been, and the Company expects them to remain, a competitive advantage for the Company.

CORPORATE AND OTHER BUSINESS SEGMENT

The Company s Corporate and Other business segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing, and Upromise operating segments. Corporate and Other also includes several smaller products and services, including comprehensive financing and loan delivery solutions to college financial aid offices and students to streamline the financial aid process.

Please read the section above, INTRODUCTION TO SLM CORPORATION Recent Developments and Expected Future Trends to see how we expect pending legislation to impact this business segment.

Guarantor Servicing

We earn fees for providing a full complement of administrative services to FFELP Guarantors. FFELP student loans are guaranteed by these agencies, with ED providing reinsurance to the Guarantor. The Guarantors are non-profit institutions or state agencies that, in addition to providing the primary guarantee on FFELP loans, are responsible for other activities, including:

- guarantee issuance the initial approval of loan terms and guarantee eligibility;
- account maintenance the maintaining, updating and reporting of records of guaranteed loans;
- default aversion services these services are designed to prevent a default once a borrower s loan has been placed in delinquency status (we perform these activities within our APG business segment);
- guarantee fulfillment the review and processing of guarantee claims;
- post-claim assistance assisting borrowers in determining the best way to resolve a defaulted loan; and
- systems development and maintenance the development of automated systems to maintain compliance and accountability with ED regulations.

Currently, we provide a variety of these services to 15 Guarantors and, in AY 2008-2009, we processed $24.0 billion in new FFELP loan guarantees, of which $19.3 billion was for USA Funds, the nation s largest Guarantor. We processed guarantees for approximately 35 percent of the FFELP loan market in AY 2008-2009.

Guarantor servicing fee revenue, which includes guarantee issuance and account maintenance fees, was $136 million for the year ended December 31, 2009, 86 percent of which we earned from services performed on behalf of USA Funds. Under some of our guarantee services agreements, including our agreement with

USA Funds, we receive certain scheduled fees for the services that we provide under such agreements. The payment for these services includes a contractually agreed-upon percentage of the account maintenance fees that the Guarantors receive from ED.

The Company s guarantee services agreement with USA Funds has a five-year term that will be automatically extended on October 1 of each year unless prior notice is given by either party.

Our primary non-profit competitors in Guarantor Servicing are state and non-profit guarantee agencies that provide third-party outsourcing to other Guarantors.

(See APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM Guarantor Funding for details of the fees paid to Guarantors.)

Upromise

Upromise provides a number of programs that encourage consumers to save for college. Upromise has established a consumer savings network which is designed to promote college savings by consumers who are members of this program by allowing them to earn rewards from the purchase of goods and services from the companies that participate in the program (Participating Companies). Participating Companies generally pay Upromise transaction fees based on member purchase volume, 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 Upromise on behalf of its members.

Upromise, through its wholly-owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. UII and UIA manage approximately $23 billion in 529 college-savings plans.

REGULATION

Like other participants in the FFELP, the Company is subject to the HEA and, from time to time, to review of its student loan operations by ED and guarantee agencies. As a servicer of federal student loans, the Company is subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our Guarantor Servicing operations, the Company must comply with, on behalf of its Guarantor Servicing customers, certain ED regulations that govern Guarantor activities as well as agreements for reimbursement between the Secretary of Education and the Company s Guarantor Servicing customers. As a third-party service provider to financial institutions, the Company is also subject to examination by the Federal Financial Institutions Examination Council (FFIEC).

The Company s originating or servicing of federal and private student loans also subjects it to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our student loan business include:

- the Truth-In-Lending Act;
- the Fair Credit Reporting Act;
- the Equal Credit Opportunity Act;
- the Gramm Leach-Bliley Act; and

the U.S. Bankruptcy Code.

APG s debt collection and receivables management activities are subject to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our APG business segment include:

the Fair Debt Collection Practices Act;

the Fair Credit Reporting Act;

the Gramm-Leach-Bliley Act; and

the U.S. Bankruptcy Code.

Our APG business segment is subject to state laws and regulations similar to the federal laws and regulations listed above. Finally, certain APG subsidiaries are subject to regulation under the HEA and under the various laws and regulations that govern government contractors.

Sallie Mae Bank is subject to Utah banking regulations as well as regulations issued by the Federal Deposit Insurance Corporation, and undergoes periodic regulatory examinations by the FDIC and the Utah Department of Financial Institutions.

UII and UIA, which administer 529 college-savings plans, are subject to regulation by the Municipal Securities Rulemaking Board, the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) and the Securities and Exchange Commission (SEC) through the Investment Advisers Act of 1940.

AVAILABLE INFORMATION

The SEC maintains an Internet site (http://www. sec.gov) that contains periodic and other reports such as annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively, as well as proxy and information statements regarding SLM Corporation and other companies that file electronically with the SEC. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and other periodic reports are available on our website as soon as reasonably practicable after we electronically file such reports with the SEC. Investors and other interested parties can also access these reports at www.salliemae.com/about/investors.

Our Code of Business Conduct, which applies to Board members and all employees, including our Chief Executive Officer and Chief Financial Officer, is also available, free of charge, on our website at www.salliemae.com/about/business_code. htm. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website.

In 2009, the Company submitted the annual certification of its Chief Executive Officer regarding the Company s compliance with the NYSE s corporate governance listing standards, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual.

In addition, we filed as exhibits to the Company s annual reports on Form 10-K for the years ended December 31, 2007 and 2008 and to this Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

Item 1A. Risk Factors

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. The risks described below are not the only risks facing us other risks also could impact our business.

Funding and Liquidity.

Our business is affected by funding constraints in the credit market and dependence on various government funding sources, and the interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. These factors may increase the price of or decrease our ability to obtain liquidity as well expose us to basis risk and repricing.

The capital markets are experiencing a prolonged period of volatility. This volatility has had varying degrees of impact on most financial organizations. These conditions have impacted the Company s access to and cost of capital necessary to manage our business. Additional factors that could make financing difficult, more expensive or unavailable on any terms include, but are not limited to, financial results and losses of the Company, changes within our organization, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions.

Our business is also affected by various government funding sources and funding constraints in the capital markets.

Funding for new FFELP loan originations is currently dependent to a large degree on financial programs established by the federal government. These programs are described in the LIQUIDITY AND CAPITAL RESOURCES section of this Form 10-K. These federal programs are not permanent and may not be extended past their expiration dates. There is no assurance that the capital markets will be able to totally support FFELP loan originations beyond the time these programs are presently scheduled to end. Upon termination of the government programs mentioned, if cost effective funding sources were not available, we could be compelled to reduce or suspend the origination of new FFELP loans.

FFELP loans originated under the government programs mentioned above must be re-financed or sold to the government by a date determined under the terms of the programs. It is our intention to sell these loans to the government under the terms of the programs.

During 2009, the Company funded private, non-federally guaranteed loan originations primarily through term brokered deposits raised by Sallie Mae Bank. Assets funded in this manner result in re-financing risk because the average term of the deposits is shorter than the expected term of some of the same assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and a cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins.

At some time, the Company may decide that it is prudent or necessary to raise additional equity capital through the sale of common stock, preferred stock, or securities that convert into common stock. There are no restrictions on entering into the sale of any equity securities in either public or private transactions, except that any private transaction involving more than 20 percent of shares outstanding requires shareholder approval and any holder owning more than 10 percent of our fully diluted shares requires approval of the FDIC relating to a change of control of our

Bank. Under current market conditions, the terms of an equity transaction may subject existing security holders to potential subordination or dilution and may involve a change in governance.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk. While most of such basis risks are hedged using interest rate swap contracts, such hedges are not always perfect matches and, therefore, may result in losses. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. For instance, as a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs, limit our access to the markets or trigger obligations under certain provisions in collateralized arrangements. Under these provisions, counterparties may require us to segregate collateral or terminate certain contracts.

Economic Conditions.

We may be adversely affected by deterioration in economic conditions.

We may continue to be adversely affected by economic conditions. A continuation of the current downturn in the economy, or a further deterioration, could result in lessened demand for consumer credit and credit quality could continue to be impacted. Adverse economic conditions may result in declines in collateral values. Higher credit-related losses and weaker credit quality could impact our financial position and limit funding options, including capital markets activity, which could adversely impact the Company s liquidity position.

Operations.

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business, result in disclosure of confidential customer information, damage our reputation and cause losses.

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business. Our business is dependent on our ability to process and monitor, on a daily basis, a large number of transactions. These transactions must be processed in compliance with legal and regulatory standards and our product specifications, which we change to reflect our business needs. As processing demands change and grow, developing and maintaining our operational systems and infrastructure becomes increasingly challenging.

Our loan originations and servicing, financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could negatively affect our business.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks, could be jeopardized or otherwise interruptions or malfunctions in our operations could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

We routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm.

Political.

Changes in laws and regulations that affect the FFELP and consumer lending could affect the profitability of our business.

Changes in laws and regulations that affect our businesses, including our FFELP and private credit education lending and debt collection businesses, could affect the profitability and viability of our Company. During September 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act (SAFRA), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. There are several proposals in the Senate, including SAFRA and related proposals, and an alternative proposal submitted by Senator Casey to the Congressional Budget Office for scoring, which maintains a structure similar to the Community Proposal but reduces the purchase fee from $75 to $55. The Administration s budget for the 2011 fiscal year, submitted to Congress on February 1, 2010, includes proposals consistent with SAFRA that could negatively impact the FFELP. The Obama Administration s (the Administration) budget request and the current economic environment may make legislative changes more likely, making this risk to our business greater. The Administration has also proposed a financial responsibility tax for financial institutions which may also impact the Company.

Competition.

We operate in a competitive environment, and our product offerings are primarily concentrated in loan and savings products for higher education.

The education loan business is highly competitive. We compete in the FFELP business and the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, including with private credit loan products that are more accepted than ours or lower private credit pricing, we could lose market share to them or subject our existing loans to refinancing risk.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the market place. This concentration also creates risks in our business, particularly in light of our concentration as a FFELP and private credit lender and servicer for the FFELP and DSLP. The market for federally-guaranteed student loans is shared among the Company and other private sector lenders who participate in the FFELP, and the federal government through the DSLP. The market for private credit loans is shared among many banks and financial institutions. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public support for higher education costs increases, or if the demand for higher education loans decreases or increases from one product to another, our FFELP and private credit lending business could be negatively affected.

In addition, if we introduce new education or other loan products, there is a risk that those new products will not be accepted in the marketplace. We might not have other profitable product offerings that offset loss of business in the education credit market.

Credit and Counterparty.

Unexpected and sharp changes in the overall economic environment may negatively impact the performance of our credit portfolio.

Unexpected changes in the overall economic environment may result in the credit performance of our loan portfolio being materially different from what we expect. Our earnings are critically dependent on the evolving creditworthiness of our student loan customers. We maintain a reserve for credit losses based on expected future charge-offs which consider many factors, including levels of past due loans and forbearances and expected economic conditions. However, management s determination of the appropriate reserve level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

In addition to the credit risk associated with our education loan customers, we are also subject to the creditworthiness of other third parties, including counterparties to our derivative transactions. For example, we have exposure to the financial condition of various lending, investment and derivative counterparties. If any of our counterparties is unable to perform its obligations, we would, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment, and thus be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. The Company s counterparty exposure is more fully discussed herein in LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure.

Regulatory and Compliance.

Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions and/or litigation.

Our businesses are subject to numerous state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions.

Our private credit lending and debt collection business are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection regulation. Some state attorneys general have been active in this area of consumer protection. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as frequent litigation from private plaintiffs.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination. At the time of this filing, Sallie Mae Bank was the subject of a cease and desist order for weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations or with the terms of the cease and desist order or to have issues raised during an examination could result in litigation expenses, fines, business sanctions, limitations on our ability to fund our Private Education Loans, which are currently funded by term deposits issued by Sallie Mae Bank, or restrictions on the operations of Sallie Mae Bank.

Loans originated and serviced under the FFELP are subject to legislative and regulatory changes. A summary of the program, which indicates its complexity and frequent changes, may be found in APPENDIX A, FEDERAL FAMILY EDUCATION LOAN PROGRAM of this Form 10-K. We continually update our FFELP loan originations and servicing policies and procedures and our systems technologies, provide training to our staff and maintain quality control over processes through compliance reviews and internal and external audits. We are at risk, however, for misinterpretation of ED guidance and incorrect application of ED regulations and policies, which could result in fines, the loss of the federal guarantee on FFELP loans, or limits on our participation in the FFELP.

Reliance on Estimates.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported assets, liabilities, income and expenses.

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CRITICAL ACCOUNTING POLICIES AND ESTIMATES in this Form 10-K.

If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could result in actual results being significantly different than current estimates which could adversely affect our business.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The following table lists the principal facilities owned by the Company as of December 31, 2009:

Location	Business Segment / Function	Approximate Square Feet
Fishers, IN	Lending/Loan Servicing and Data Center	450,000
Newark, DE	Lending/Credit and Collections Center	160,000
Wilkes-Barre, PA	Lending/Loan Servicing Center	133,000
Killeen, TX(1)	Lending/Loan Servicing Center	133,000
Lynn Haven, FL	Lending/Loan Servicing Center	133,000
Indianapolis, IN	APG/Collections Center	100,000
Big Flats, NY	APG/Collections Center	60,000
Arcade, NY(2)	APG/Collections Center	46,000
Perry, NY(2)	APG/Collections Center	45,000
Swansea, MA	Corporate and Other/AMS Headquarters	36,000

(1) Excludes approximately 30,000 square feet Class B single story building located across the street from the Loan Servicing Center.

(2) In the first quarter of 2003, the Company entered into a ten year lease with the Wyoming County Industrial Development Authority with a right of reversion to the Company for the Arcade and Perry, New York facilities.

The following table lists the principal facilities leased by the Company as of December 31, 2009:

Location	Business Segment / Function	Approximate Square Feet
Reston, VA	Corporate and Other/Headquarters	240,000
Niles, IL	APG/Collections Center	84,000
Newton, MA	Corporate and Other/Upromise	78,000
Cincinnati, OH	APG/Collections Center	59,000
Muncie, IN	APG/Collections Center	54,000
Mt. Laurel, NJ(1)	N/A	42,000
Moorestown, NJ	APG/Collections Center	30,000
Novi, MI(2)	N/A	27,000
White Plains, NY	APG/Collections Center	26,000
Gaithersburg, MD(3)	N/A	24,000
Whitewater, WI	APG/Collections Center	16,000
Las Vegas, NV	APG/Collections Center	16,000
Newark, DE	Lending/Loan Servicing Center	15,000
Seattle, WA	Corporate and Other/Guarantor Servicing	13,000
Perry, NY	APG/Collections Center	12,000

(1) Space vacated in March 2009; the Company is actively searching for subtenants.

(2) Space vacated in September 2007; approximately 100 percent of space is currently being subleased.

(3) Space vacated in September 2006; the Company is actively searching for subtenants.

None of the facilities owned by the Company is encumbered by a mortgage. The Company believes that its headquarters, loan servicing centers, data center, back-up facility and data management and collections centers are generally adequate to meet its long-term student loan and business goals. The Company s principal office is currently in leased space at 12061 Bluemont Way, Reston, Virginia, 20190.

Item 3. Legal Proceedings

The Company is involved in a number of judicial and regulatory proceedings, including those described below, concerning matters arising in connection with the conduct of our business. We believe, based on currently available information, that the results of such proceedings, if resolved in a manner adverse to the Company in the aggregate, will not have a material adverse effect on the financial condition of the Company.

Investor Litigation

On January 31, 2008, a putative class action lawsuit was filed against the Company and certain officers in the U.S. District Court for the Southern District of New York. This case and other actions arising out of the same circumstances and alleged acts have been consolidated and are now identified as In Re SLM Corporation Securities Litigation. The case purports to be brought on behalf of those who acquired common stock of the Company between January 18, 2007 and January 23, 2008 (the Securities Class Period). The complaint alleges that the Company and certain officers violated federal securities laws by issuing a series of materially false and misleading statements and that the statements had the effect of artificially inflating the market price for the Company s securities. The complaint alleges that defendants caused the Company s results for year-end 2006 and for the first quarter of 2007 to be materially misstated because the Company failed to adequately provide for loan losses, which overstated the Company s net income, and that the Company failed to adequately disclose allegedly known trends and uncertainties with respect to its non-traditional loan portfolio. On July 23, 2008, the court appointed Westchester Capital Management (Westchester) Lead Plaintiff. On December 8, 2008, Lead Plaintiff filed a consolidated amended complaint. In addition to the prior allegations, the consolidated amended complaint alleges that the Company understated loan delinquencies and loan loss reserves by promoting loan forbearances. On December 19, 2008, and December 31, 2008, two rejected lead plaintiffs filed a challenge to Westchester as Lead Plaintiff. On April 1, 2009, the court named a new Lead Plaintiff, SLM Venture, and Westchester appealed to the Second Circuit Court of Appeals. On September 3, 2009, Lead Plaintiffs filed a Second Amended Consolidated Complaint on largely the same allegations as the Consolidated Amended Complaint, but dropped one of the three senior officers as a defendant. On October 1, 2009, the Second Circuit Court of Appeals denied Westchester s *Writ of Mandamus*, thereby deciding the Lead Plaintiff question in favor of SLM Venture. On December 11, 2009, Defendants filed a Motion to Dismiss the Second Amended Consolidated Complaint. This Motion is pending. Lead Plaintiff seeks unspecified compensatory damages, attorneys fees, costs, and equitable and injunctive relief.

A similar case is pending against the Company, certain officers, retirement plan fiduciaries, and the Board of Directors, In Re SLM Corporation ERISA Litigation, also in the U.S. District Court for the Southern District of New York. The proposed class consists of participants in or beneficiaries of the Sallie Mae 401(K) Retirement Savings Plan (401K Plan) between January 18, 2007 and the present whose accounts included investments in Sallie Mae stock (401K Class Period). The complaint alleges breaches of fiduciary duties and prohibited transactions in violation of the Employee Retirement Income Security Act arising out of alleged false and misleading public statements regarding the Company s business made during the 401K Class Period and investments in the Company s common stock by participants in the 401K Plan. On December 15, 2008, Plaintiffs filed a Consolidated Class Action Complaint and a Second Consolidated Amended Complaint on September 10, 2009. On November 10, 2009, Defendants filed a Motion to Dismiss the matter on all counts. This Motion is pending. The plaintiffs seek unspecified damages, attorneys fees, costs, and equitable and injunctive relief.

Lending and Collection Litigation and Investigations

On April 6, 2007, the Company was served with a putative class action suit by several borrowers in U.S. District Court for the Central District of California (Anne Chae et al. v. SLM Corporation et al.). Plaintiffs challenged under California common and statutory law the Company s FFELP billing practices as they relate to the use of the simple daily interest method for calculating interest, the charging of late fees while charging simple daily interest, and setting the first payment date at 60 days after loan disbursement for Consolidation and PLUS Loans thereby alleging that the Company effectively capitalizes interest. The plaintiffs seek unspecified actual and punitive damages, restitution, disgorgement of late fees, pre-judgment and post-judgment interest, attorneys fees, costs, and equitable and injunctive relief. On June 16, 2008, the Court granted summary judgment to the Company on all counts on the basis of federal preemption. The decision was appealed to the Ninth Circuit Court of Appeals. On January 25, 2010, the Ninth Circuit Court of Appeals affirmed the summary judgment on all counts on the basis of federal preemption.

On September 17, 2007, the Company became a party to a qui tam whistleblower case, United States ex. Rel. Rhonda Salmeron v. Sallie Mae, in the U.S. District Court for the Northern District of Illinois. The relator alleged that various defendants submitted false claims and/or created records to support false claims in connection with collection activity on federally guaranteed student loans, and specifically that the Company was negligent in auditing the collection practices of one of the defendants. The relator sought money damages in excess of $12 million plus treble damages on behalf of the federal government. The District Court dismissed the case with prejudice in August 2008 and the relator appealed to the Seventh Circuit Court of Appeals in September 2008. On August 27, 2009, the Seventh Circuit Court of Appeals affirmed the dismissal.

On December 17, 2007, plaintiffs filed a complaint against the Company, Rodriguez v. SLM Corporation et al., in the U.S. District Court for the District of Connecticut alleging that the Company engaged in underwriting practices which, among other things, resulted in certain applicants for student loans being directed into substandard and expensive loans on the basis of race. The plaintiffs have not stated the relief they seek. The court denied SLM Corporation s Motion for Summary Judgment without prejudice on June 24, 2009. The Court granted Defendants partial Motion to Dismiss the Truth in Lending Act counts on November 10, 2009. Discovery is proceeding.

On April 20, 2009, the Company received a letter on behalf of a shareholder, SEIU Pension Plans Master Trust, demanding, among other things, that the Company s Board of Directors take action to recover Company funds it alleges were unjustly paid to certain current and former employees and executive officers of the Company from 2005 to the present, file civil lawsuits against former and current executives, revise the executive compensation structure, and offer shareholders an annual nonbinding say on pay. Twenty-nine financial services companies received similar letters that same week. This letter was referred to the Board of Directors. After investigation and consideration, the Board determined that it was not in the best interest of the Company s shareholders for the Company to take any further action with respect to the allegations in the letter. Board counsel conveyed that decision to counsel for the SEIU Pension Plans Master Trust in a letter dated November 9, 2009.

On July 15, 2009, the U.S. District Court for the District of Columbia unsealed the *qui tam* False Claims Act complaint of relator Sheldon Batiste, a former employee of SLM Financial Corporation (U.S. ex rel. Batiste v. SLM Corporation, et al.). The First Amended Complaint alleges that the Company violated the False Claims Act by its systemic failure to service loans and abide by forbearance regulations and its receipt of U.S. subsidies to which it was not entitled through the federally guaranteed student loan program, FFELP. No amount in controversy is specified, but the relator seeks treble actual damages, as well as civil monetary penalties on each of its claims. The U.S. Department of Justice declined intervention. The Company filed its Motion to Dismiss on September 21, 2009. The Motion remains pending.

On August 3, 2009, the Company received the final audit report of ED s Office of the Inspector General (OIG) related to the Company s billing practices for special allowance payments. Among other things, the OIG recommended that ED instruct the Company to return approximately $22 million in alleged special allowance overpayments. The Company continues to believe that its practices were consistent with longstanding ED guidance and all applicable rules and regulations and intends to continue disputing these findings. The Company provided its response to the Secretary on October 2, 2009. The OIG has audited other industry participants with regard to special allowance payments for loans funded by tax exempt obligations and in certain cases the Secretary of ED has disagreed with the OIG s recommendations.

On August 26, 2009, the U.S. District Court for the Eastern District of Virginia unsealed a *qui tam* False Claims Act complaint filed on September 21, 2007 by a former ED researcher, Dr. Jon Oberg, against eleven student loan companies, including two Sallie Mae companies, SLM Corporation and Southwest Student Services Corporation (Southwest) (U.S. ex rel. Oberg v. Nelnet et al.). The complaint seeks the return of approximately $1 billion in the aggregate from the eleven companies as a result of alleged improper recycling of 9.5 percent SAP loans. The U.S. Department of Justice declined to intervene. The allegations against SLM Corporation in the amended complaint appear to be that Southwest allegedly engaged in wrongful recycling of student loans. The Company purchased Southwest in 2004. According to the amended complaint, Southwest allegedly overbilled the ED approximately $35 million in unlawful SAP claims. SLM is not alleged to have improperly billed the government, but is alleged to be the alter ego of Southwest. The court denied SLM Corporation s and Southwest s Motion to Dismiss on December 1, 2009 and SLM Corporation s Judgment on the Pleadings on January 20, 2010. Discovery is proceeding.

On February 2, 2010, a putative class action suit was filed by a borrower in U.S. District Court for the Western District of Washington (Mark A. Arthur et al. v. SLM Corporation). The suit complains that Sallie Mae allegedly contacted tens of thousands of consumers on their cellular telephones without their prior express consent in violation of the Telephone Consumer Protection Act, § 227 et seq. (TCPA). Each violation under the TCPA provides for $500 in statutory damages ($1,500 if a willful violation is shown). Plaintiffs seek statutory damages, damages for willful violations, attorneys fees, costs, and injunctive relief.

We are also 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, the collections subsidiaries in our APG segment are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that we have violated a federal or state law in the process of collecting their accounts. Management believes that these claims, lawsuits and other actions, individually or in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we receive information and document requests from state attorneys general and other governmental agencies concerning certain of our business practices. Our practice has been and continues to be to cooperate with the state attorneys general and governmental agencies and to be responsive to any such requests.

Item 4. Submission of Matters to a Vote of Security Holders

We did not submit any matters to a vote of security holders during the three months ended December 31, 2009.

PART II.

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company s common stock is listed and traded on the New York Stock Exchange under the symbol SLM. The number of holders of record of the Company s common stock as of January 31, 2010 was 536. The following table sets forth the high and low sales prices for the Company s common stock for each full quarterly period within the two most recent fiscal years.

Common Stock Prices

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2009	High	$ 12.43	$ 10.47	$ 10.39	$ 12.11
	Low	3.11	4.02	8.12	8.01
2008	High	$ 23.00	$ 25.05	$ 19.81	$ 12.03
	Low	14.70	15.45	9.37	4.19

The Company paid quarterly cash dividends of $.25 for the first quarter of 2007. There were no dividends paid in 2008 or 2009.

Issuer Purchases of Equity Securities

The following table summarizes the Company s common share repurchases during 2009. The only repurchases conducted by the Company during the period were in connection with the exercise of stock options and vesting of restricted stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs (which combined totaled approximately 200,000 shares for 2009 and not in connection with any authorized buy back program). See Note 11, Stockholders Equity, to the consolidated financial statements.

(Common shares in millions)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
Period:				
January 1 March 31, 2009	.1	$ 10.31		38.8
April 1 June 30, 2009				38.8

July 1 September 30, 2009				38.8
October 1 October 31, 2009				38.8
November 1 November 30, 2009	.1		11.27	38.8
December 1 December 31, 2009				38.8
Total fourth quarter	.1		11.27	38.8
Year ended December 31, 2009	.2	$	10.79	38.8

Stock Performance

The following graph compares the yearly percentage change in the Company s cumulative total shareholder return on its common stock to that of Standard & Poor s 500 Stock Index and Standard & Poor s Financials Index. The graph assumes a base investment of $100 at December 31, 2003 and reinvestment of dividends through December 31, 2009.

Five Year Cumulative Total Shareholder Return

Company/Index	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**
SLM Corporation	$ 100.0	$ 104.8	$ 94.6	$ 39.6	$ 17.5	$ 22.1
S&P 500 Financials	100.0	106.3	126.4	103.5	47.4	55.3
S&P Index	100.0	104.8	121.2	127.8	81.1	102.2

Source: Bloomberg Total Return Analysis

Item 6. Selected Financial Data

Selected Financial Data 2005-2009
(Dollars in millions, except per share amounts)

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS included in this Form 10-K.

	2009	2008	2007	2006	2005
Operating Data:					
Net interest income	$ 1,723	$ 1,365	$ 1,588	$ 1,454	$ 1,451
Net income (loss) attributable to SLM Corporation:					
Continuing operations, net of tax	$ 482	$ (70)	$ (902)	$ 1,147	$ 1,379
Discontinued operations, net of tax	(158)	(143)	6	10	3
Net income (loss) attributable to SLM Corporation	$ 324	$ (213)	$ (896)	$ 1,157	$ 1,382
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	$ .71	$ (.39)	$ (2.28)	$ 2.71	$ 3.24
Discontinued operations	(.33)	(.30)	.02	.02	.01
Total	$ .38	$ (.69)	$ (2.26)	$ 2.73	$ 3.25
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	$ .71	$ (.39)	$ (2.28)	$ 2.61	$ 3.04
Discontinued operations	(.33)	(.30)	.02	.02	.01
Total	$ .38	$ (.69)	$ (2.26)	$ 2.63	$ 3.05
Dividends per common share attributable to SLM Corporation common shareholders	$	$	$ .25	$ .97	$ .85
Return on common stockholders equity	5%	(9)%	(22)%	32%	45%
Net interest margin	1.05	.93	1.26	1.54	1.77
Return on assets	.20	(.14)	(.71)	1.22	1.68
Dividend payout ratio			(11)	37	28
Average equity/average assets	2.96	3.45	3.51	3.98	3.82

Balance Sheet Data:					
Student loans, net	$ 143,807	$ 144,802	$ 124,153	$ 95,920	$ 82,604
Total assets	169,985	168,768	155,565	116,136	99,339
Total borrowings	161,443	160,158	147,046	108,087	91,929
Total SLM Corporation stockholders equity	5,279	4,999	5,224	4,360	3,792
Book value per common share	8.05	7.03	7.84	9.24	7.81
Other Data:					
Off-balance sheet securitized student loans, net	$ 32,638	$ 35,591	$ 39,423	$ 46,172	$ 39,925

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

**MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Years ended December 31, 2007-2009
(Dollars in millions, except per share amounts, unless otherwise stated)**

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the statements contained in this Annual Report discuss future expectations and business strategies or include other forward-looking information. These statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions.

OVERVIEW

This section provides an overview of the Company s 2009 business results from a financial perspective. Certain financial impacts of funding and liquidity, loan losses, asset growth and net interest margin, fee income, the distressed debt purchased paper business, operating expenses, and capital adequacy are summarized below.

The income statement amounts discussed in this Overview section are on a Core Earning basis. Although Core Earnings is the basis used for the Company s segment disclosures required under GAAP (see Note 20, Segment Reporting to the consolidated financial statements), the consolidation of the individual segments income statements is considered a non-GAAP financial measure and thus is not considered to be presented in accordance with GAAP. See RESULTS OF OPERATIONS, below, for a discussion of income statement amounts on a GAAP basis. See BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* for a discussion of Core Earnings and a reconciliation of Core Earnings income to GAAP income.

In the second quarter of 2009, the Department of Education (ED) named Sallie Mae as one of four private sector servicers awarded a servicing contract (the ED Servicing Contract) to service loans. The contract covers the servicing of all federally-owned student loans, including loans under the DSLP and the servicing of FFELP loans purchased by ED as part of the Loan Purchase Commitment Program (Purchase Program) pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). See LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs for a further discussion. Beginning in 2010, the contract will also cover the servicing of new Direct Loans. The contract has an initial term of five years with one, five-year renewal at the option of ED.

Through December 31, 2009, the Company has sold to ED approximately $18.5 billion face amount of loans as part of the Purchase Program. Borrowings of $18.5 billion related to the Loan Purchase Participation Program (Participation Program) pursuant to ECASLA were paid down in connection with these loan sales. The Company recognized a $284 million gain in 2009 related to this loan sale. The Company is servicing approximately 2 million accounts under the ED Servicing Contract as of December 31, 2009. This amount serviced includes loans sold by the Company to ED as well as loans sold by other companies to ED.

As discussed in the Business section, legislative changes to the FFELP, the credit markets and the economic downturn impacted the Company s financial results for 2008 and 2009. The Company reported $597 million in Core Earnings net income in 2009, an increase from $526 million in 2008.

Funding and Liquidity

In 2009, we extended the duration of our liabilities by executing term financings to replace short-term funding. In 2009, we completed a total of $5.9 billion of FFELP loan securitizations, $14.6 billion in funding through the Straight A conduit and $7.5 billion in Private Education Loan securitizations ($6.0 billion through the Term Asset-Backed Securities Loan Facility (TALF)). We also raised $4.5 billion in term deposits at Sallie Mae Bank which was used to originate Private Education Loans.

The Company began actively repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. The debt repurchased had maturity dates ranging from 2008 to 2016. This repurchase activity resulted in gains of $536 million and $64 million in 2009 and 2008, respectively. In January 2010, the Company repurchased $812 million of unsecured debt through a tender offer for a gain of $45 million.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as a part of preferred stock dividends for the period of approximately $53 million. From the transaction date through the mandatory conversion date of December 15, 2010, these transactions are cash flow positive.

In January 2010, we terminated our existing ABCP facility and replaced it with a multiyear facility that will allow us to fund federal loans at a much lower cost. The new facility provides funding of up to $10 billion in the first year, $5 billion in the second year and $2 billion in the third year. The upfront fees were $4 million and the interest rate is commercial paper issuance cost plus 0.50 percent, a sharp reduction from the fees and interest rate associated with the prior facility. In 2008 and 2009, we paid upfront fees of $390 million and $151 million, respectively, on our ABCP facilities.

In January 2010, we also became a member of the Federal Home Loan Bank of Des Moines (the FHLB) through our HICA insurance subsidiary. Through this membership, the FHLB will provide advances backed by Federal Housing Finance Agency approved collateral, which include federally-guaranteed student loans. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing.

At December 31, 2009, 85 percent of our Managed student loans were funded for the life of the loans, up from 70 percent in the prior year. We also had $12.5 billion in primary liquidity at December 31, 2009 consisting of cash and investments and committed lines of credit.

Loan Losses

On a Core Earnings basis, the loan loss provision for the year was $1.6 billion, of which $1.4 billion was for Private Education Loans. Provision expense has remained elevated since the fourth quarter of 2008 primarily as a result of the continued uncertainty of the U.S. economy. The Private Education Loan portfolio had experienced a significant increase in delinquencies through the first quarter of 2009; however, delinquencies as a percentage of loans in repayment declined in the second, third and fourth quarters of 2009. The Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters as evidenced by the 33 percent decline in charge-offs that occurred between the third and fourth quarters of 2009.

Asset Growth and Net Interest Margin

In 2009, the Company originated $21.7 billion in FFELP loans, a 21 percent increase over 2008. We refocused our FFELP originations on our internal lending brands, which grew 40 percent over 2008. See LENDING BUSINESS

SEGMENT Loan Originations for a further discussion.

Private Education Loan originations for 2009 were $3.2 billion, a 50 percent decline from 2008. This decline is primarily a result of a continued tightening of our underwriting criteria, an increase in guaranteed student loan borrowing limits and the Company s withdrawal from certain markets. Beginning in 2008, the Company increased its underwriting standards, and as a result, average FICO scores and the percentage of loans with cosigners have increased. The Company expects to maintain its high quality underwriting standards. The impact of this initiative and the overall economy may impact future Private Education Loan asset growth.

Core Earnings net interest income was $2.3 billion in 2009 compared to $2.4 billion in 2008. Core Earnings net interest income was negatively impacted in 2009 compared to 2008 primarily as a result of an 18 basis point widening of the CP/LIBOR spread and higher credit spreads on the Company s ABS debt issued in 2008 and 2009 due to the current credit environment. Partially offsetting these decreases to net interest income were lower cost of funds related to the ED Conduit Program, lower borrowing costs associated with our ABCP facility, higher asset spreads earned on Private Education Loans originated during 2009 compared to prior years, and a $12 billion increase in the average balance of Managed student loans.

Fee Income

Core Earnings fee income from our contingency business declined $44 million from $340 million in 2008 to $296 million in 2009. This decline was primarily a result of significantly less guarantor collections revenue associated with rehabilitating delinquent FFELP loans. Loans are considered rehabilitated after a certain number of on-time payments have been collected. The Company earns a rehabilitation fee only when the Guarantor sells the rehabilitated loan. The disruption in the credit markets has limited the sale of rehabilitated loans.

Core Earnings fee income from our Guarantor Servicing business was $136 million for the year, a $15 million increase from last year. This increase primarily relates to an increase in guarantor issuance fees earned as a result of a significant increase in FFELP loan guarantees (consistent with the significant increase in the Company s FFELP loan originations) over the prior year as well as an increase in account maintenance fees earned which are a function of the size of the FFELP portfolio.

A source of additional fee income for 2010 will be third-party servicing revenue. As previously discussed, the Company began servicing 2 million accounts in the fourth quarter of 2009 under the ED Servicing Contract. The Company earned $9 million of servicing revenue in the fourth quarter of 2009 related to this contract and expects this to grow significantly as this third-party serviced portfolio increases over time.

Purchased Paper Business

In 2008, we decided to exit the debt purchased paper business (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

The Company sold its international Purchased Paper Non-Mortgage business in the first quarter of 2009. The Company sold all of the assets in its Purchased Paper Mortgage/Properties business in the fourth quarter of 2009. With the sale of GRP, the Purchased Paper Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after-tax loss of $95 million. As of December 31, 2009, the portfolio of assets related to the Purchased Paper business was $285 million.

Operating Expenses

For 2009, operating expenses on a Core Earnings basis were $1.18 billion, compared to $1.23 billion in 2008. The $50 million decrease in operating expenses was primarily due to the Company s cost reduction efforts, offset by an increase in collection costs for delinquent and defaulted loans as well as higher expenses incurred to reconfigure the Company s servicing system to meet the requirements of the ED Servicing Contract awarded in 2009.

Capital Adequacy

At year-end, the Company s tangible capital ratio was 2.0 percent of Managed assets, compared to 1.8 percent at 2008 year-end. With 80 percent of our Managed loans carrying an explicit federal government guarantee and 85 percent of our Managed loans funded for the life of the loan, we currently believe that our capital levels are appropriate. In the current economic environment, we cannot predict the availability nor cost of additional capital, should the Company determine that additional capital is necessary.

Legislative & Regulatory Developments

On February 26, 2009, the Administration issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program (DSLP). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act (SAFRA), which was consistent with the Administration s 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010 all new federal loans be made through the DSLP. The Administration s 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the Community Proposal because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

Although the ultimate outcome of this proposed legislation is still unknown, the following summarizes the impact on the Company s business if SAFRA is passed:

1. The Company would no longer originate FFELP loans and therefore would no longer earn revenue on new FFELP loan volume. The Company would make significant reductions in operating expense as the FFELP origination function would no longer be needed.

2. The Company earns collections revenue on delinquent and defaulted FFELP loans as well as guarantor account maintenance fees which are based on the size of the underlying FFELP portfolio. Because there would no longer be any new FFELP loan originations, this collections revenue and guarantor account maintenance fee revenue would decline over time as the underlying FFELP portfolio winds down. These revenues are recorded in contingency fee revenue and guarantor servicing fees.

3. The Company earns guarantor issuance fees on new FFELP guarantees. This revenue would no longer occur. This revenue is recorded in guarantor servicing fees.

4. The Company would service a percentage of the Direct Lending loans originated subsequent to the passage of SAFRA under the Company s current contract to service ED loans, increasing our servicing revenue.

If the Community Proposal is passed the following would be the impact on the Company s business:

1. The Company would originate FFELP loans and would subsequently sell those loans to ED for a fee. Because the loans would be sold, the Company would no longer earn net interest margin on new FFELP loan volume.

2. The impact to collections revenue, guarantor account maintenance fees and guarantor issuance fees is the same as if SAFRA passes.

3. The Company would service a percentage of the Direct Lending loans originated subsequent to the passage of the Community Proposal under the Company s current contract to service ED loans. The Community Proposal would create incentives for enhanced default prevention through servicing risk-sharing.

See the LENDING BUSINESS SEGMENT, APG BUSINESS SEGMENT and CORPORATE AND OTHER BUSINESS SEGMENT discussions for greater detail on the nature and extent of our income and operations related to these areas.

On January 14, 2010, President Obama announced his intention to propose a Financial Crisis Responsibility Fee that would require certain institutions which own insured depository institutions to pay a tax equal to 15 basis points (0.15 percent) of certain liabilities. This tax is intended to raise up to $117 billion to reimburse the federal government for the projected cost of the Troubled Asset Relief Program (TARP). Congress has not yet taken up any legislation and no legislative language has been proposed. As such, the Company cannot say whether it will be subject to this new tax, if enacted. Additionally, since the Company did not receive any money from the TARP, the Company s position is that the Company should not be subject to the tax. Moreover, the majority of loans held by the Company were originated under the FFELP, with program terms and interest rates determined by Congress, and subjecting those assets to this new tax would not be consistent with the behavior the tax is intended to penalize.

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 (GAAP). Note 2 to the consolidated financial statements, Significant Accounting Policies, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. Actual results may differ from these estimates under varying assumptions or conditions. On a quarterly basis, management evaluates its estimates, particularly those that include the most difficult, subjective or complex judgments and are often about matters that are inherently uncertain. The most significant judgments, estimates and assumptions relate to the following critical accounting policies that are discussed in more detail below.

Allowance for Loan Losses

We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our FFELP loan and Private Education Loan portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio. We analyze those portfolios to determine the effects that the various stages of delinquency and forbearance have on borrower default behavior and ultimate charge-off. We estimate the allowance for loan losses for our loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge off and is a widely used reserving methodology in the consumer finance industry. We also use the migration analysis to estimate the amount of uncollectible accrued interest on Private Education Loans and reserve for that amount against current period interest income. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. Our default estimates are based on a loss confirmation period of generally two years (i.e., our allowance for loan loss covers the next two years of expected losses). The two-year estimate of the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement. We believe that the Private Education Loan and FFELP allowance for loan losses are appropriate to cover probable losses incurred in the student loan portfolio.

When calculating the allowance for loan losses on Private Education Loans, we divide the portfolio into categories of similar risk characteristics based on loan program type, loan status (in-school, grace, forbearance, repayment and delinquency), underwriting criteria (FICO scores), and existence or absence of a cosigner. As noted above, we use historical experience of borrower default behavior and charge-offs to estimate the probable credit losses incurred in the loan portfolio at the reporting date. Also, we use historical borrower payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We then apply the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered. One technique for making this determination is through projection modeling, which is used to determine if the allowance for loan losses is sufficient to absorb credit losses anticipated during the loss confirmation period. Projection modeling is a forward-looking projection of charge-offs. Assumptions that are utilized in the projection modeling include (but are not limited to) historical experience, recent changes in collection policies and procedures, collection performance, and macroeconomic indicators. Additionally, management considers changes in laws and regulations that could potentially impact the allowance for loan losses.

The current and future economic environment is taken into account by the Company when calculating the allowance for loan loss. The Company analyzes key economic statistics and the impact they will have on future charge-offs. Key economic statistics analyzed as part of the allowance for loan loss are unemployment rates (total and specific to college graduates), consumer confidence and other asset type delinquency rates (credit cards, mortgages). As a result of the economy, provision expense has remained elevated since the fourth quarter of 2008. If the economy weakens beyond our expectations, the expected losses resulting from our default and collection estimates embedded in the allowance could be higher than currently projected.

As part of concluding on the adequacy of the allowance for loan loss, the Company also reviews key allowance and loan metrics. The most relevant 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.

In 2009, the Company implemented a program which offers loan modifications to borrowers who qualify. Temporary interest rate concessions are granted to borrowers experiencing financial difficulties and who meet other criteria. The allowance on these loans is calculated based on the present value of the expected cash flows (including estimates of future defaults) discounted at the loan s effective interest rate. This calculation contains estimates which are inherently subjective and are evaluated on a periodic basis.

Historically, our Private Education Loan programs do not require that borrowers begin repayment until six months after they have graduated or otherwise left school. Consequently, our loss estimates for these programs are generally low while the borrower is in school. At December 31, 2009, 31 percent of the principal balance in the higher education Managed Private Education Loan portfolio is related to borrowers who are in in-school or grace status and not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin payments on their loans. The allowance for losses will change accordingly.

Similar to the rules governing FFELP payment requirements, our collection policies allow for periods of nonpayment for borrowers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in our allowance for loan losses. The loss confirmation period is in alignment with our typical collection cycle and takes into account these periods of forbearance.

In general, Private Education Loan principal is charged-off against the allowance when the loan exceeds 212 days delinquency. The charge-off amount equals the estimated loss of the defaulted loan balance. Actual recoveries, as they are received, are applied against the remaining loan balance that was not charged off. If periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge off of such amount.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level set based on the date of loan disbursement. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement. The CCRAA reduces the Risk Sharing level for loans disbursed on or after October 1, 2012 to 95 percent reimbursement.

Similar to the allowance for Private Education Loan losses, the allowance for FFELP loan losses uses historical experience of borrower default behavior and a two-year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We divide the portfolio into categories of similar risk characteristics based on loan program type, school type and loan status. We then apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses, in the same manner described above for Private Education Loans, and determines if qualitative adjustments need to be considered.

Premium and Discount Amortization

For both federally insured and Private Education Loans, we account for premiums paid, discounts received, and capitalized direct origination costs incurred on the origination of student loans in accordance with the Financial Accounting Standards Board s (FASB) Accounting Standards Codification (ASC) 310, Receivables. The unamortized portion of the premiums and the discounts is included in the carrying value of the student loans on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield over the estimated life of the student loan after giving effect to the amortization of purchase premiums and accretion of student loan discounts. In arriving at the expected yield, we make a number of estimates that when changed are reflected as a cumulative adjustment to interest income in the current period. The most critical estimates for premium and discount amortization are incorporated in the Constant Prepayment Rate (CPR), which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. The CPR estimate is based on historical prepayments due to consolidation activity, defaults, and term extensions from the utilization of forbearance as well as management s qualitative expectation of future prepayments and term extensions.

As a result of the CCRAA and the current U.S. economic and credit environment, we, as well as many other industry competitors, have suspended our FFELP consolidation program. In lieu of consolidation, we may offer a term extension option for FFELP loans based on the borrower s total indebtedness. Based upon these market factors, we have updated our CPR assumptions that are affected by consolidation activity, and we have updated the estimates used in developing the cash flows and effective yield calculations as they relate to the amortization of student loan premium and discount amortization.

Consolidation activity affects estimates differently depending on whether the original loans being consolidated were on-balance sheet or off-balance sheet and whether the resulting consolidation is retained by us or consolidated with a third party. When we consolidate a loan that was in our portfolio, the term of that loan is generally extended and the term of the amortization of associated student loan premiums and discounts is likewise extended to match the new term of the loan. In that process, the unamortized premium balance must be adjusted to reflect the new expected term of the consolidated loan as if it had been in place from inception.

At the beginning of 2008, when we evaluated our estimates by taking into consideration the suspension of our FFELP consolidation program, there was an expectation of increased external consolidations to third parties but an overall decrease in total consolidation activity (when taking into account both internal consolidations and consolidations to third parties) due to a lack of financial incentive for lenders to continue offering a consolidation product. External consolidations did not significantly increase as expected; therefore, the consolidation assumptions implemented in the first quarter of 2008 were reduced during the third quarter of 2008, as we made the decision to lower the consolidation rate as additional information became available. This consolidation assumption was reduced again in the third quarter of 2009 as additional information became available. The total GAAP impact to interest income of CPR assumption changes in 2009 and 2008, related to FFELP loans, was $37.2 million and $20.1 million, respectively.

Additionally, in previous years, the increased activity in FFELP Consolidation Loans had led to demand for the consolidation of Private Education Loans. The private loan consolidation assumption was established in 2007 and was changed to explicitly consider private loan consolidation in the same manner as for FFELP. Because of limited historical data on private loan consolidation, the assumption primarily relies on near term plan data and timing assumptions. In the second quarter of 2008, due to funding limitations, we suspended making private consolidation loans, which impacted this assumption. The total GAAP impact to interest income of CPR assumption changes in 2009 and 2008, related to Private Education Loans, was ($2.4) million and $9.4 million, respectively.

Loan consolidation, default, term extension and other prepayment factors affecting our CPR estimates are impacted by changes in our business strategy, FFELP legislative changes, and changes to the current economic and credit environment. If our accounting estimates, especially CPRs, are different as a result of changes to our business environment or actual consolidation or default activity, the previously recognized interest income on our student loan portfolio based on the expected yield of the student loan would potentially result in a material adjustment in the current period.

Fair Value Measurement

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;

In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders equity;

In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and

In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company s liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors, including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model s output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.

Level 2 Inputs from active markets, other than quoted prices for identical instruments, are used to model fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.

Level 3 Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

In August 2009, the FASB issued a topic update to ASC 820, Fair Value Measurements and Disclosures. The update provides clarification for the valuation of liabilities when a quoted price in an active market for the liability does not exist and clarifies that a quoted price for the liability when traded as an asset (when no adjustments are required) is a Level 1 fair value measurement. In addition, it also clarifies that an entity is not required to adjust the value of a liability for the existence of a restriction that prevents the transfer of the liability. This topic update was effective for the Company beginning October 1, 2009 and was not material to the Company.

On April 9, 2009, the FASB issued three ASC topic updates regarding fair value measurements and recognition of impairment. Under ASC 320, Investments Debt and Equity Securities, impairment must be recorded within the consolidated statements of income for debt securities if there exists a fair value loss and the entity intends to sell the security or it is more likely than not the entity will be required to sell the security before recovery of the loss. Additionally, expected credit losses must be recorded through income regardless of the impairment determination above. Remaining fair value losses are recorded to other comprehensive income. ASC 825, Financial Instruments, requires interim disclosures of the fair value of financial instruments that were previously only required annually. Finally, the update to ASC 820 provides guidance for determining when a significant decrease in market activity has occurred and when a transaction is not orderly. It further reiterates that prices from inactive markets or disorderly transactions should carry less weight, if any, in the determination of fair value. These topic updates were effective for the Company beginning April 1, 2009. The adoption of these updates was not material to the Company.

Significant assumptions used in fair value measurements, including those related to credit and liquidity risk, are as follows:

1. **Investments** Our investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. However, we have considered credit and liquidity risk involving specific instruments. These assumptions have further been validated by the successful maturity of these investments in the period immediately following the end of the reporting period. In the fourth quarter of 2008, we recorded an impairment of $8 million related to our investment in the Reserve Primary Fund based on an internal assessment of the collectability of our remaining investment. See LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure for a further discussion.

2. **Derivatives** When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our credit risk. Trusts that contain derivatives are not required to post collateral to counterparties as the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $65 million as of December 31, 2009. We also take into account changes in liquidity when determining the fair value of derivative positions. We adjusted the fair value of certain less liquid positions downward by approximately $195 million to take into account a significant reduction in liquidity as of December 31, 2009, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives. In addition, certain cross-currency interest rate swaps hedging foreign currency denominated reset rate and amortizing notes in the Company s on-balance sheet trusts contain extension features that coincide with the remarketing dates of the notes. The valuation of the extension feature requires significant judgment based on internally developed inputs. These swaps were transferred into Level 3 during the first quarter of 2009 due to a change in the assumption regarding successful remarketing and significant unobservable inputs used to model notional amortizations. The significant inputs used are prepayment and default rate assumptions used to project the cash flows of the trust. These swaps were carried at $1.6 billion as of December 31, 2009.

3. **Residual Interests** We have never sold our Residual Interests. We do not consider our Residual Interests to be liquid, which we take into account when valuing our Residual Interests. We use non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interest. We also use the most current prepayment and default rate assumptions to project the cash flows used to value Residual Interests. These assumptions are internally

developed and primarily based on analyzing the actual results of loan performance from past periods. See Note 8, Student Loan Securitization, to the consolidated financial statements for a discussion of all assumption changes made during the quarter to properly determine the fair value of the Residual Interests, as well as a shock analysis to fair value related to all significant assumptions.

4. **Student Loans** Our FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. The fair value is disclosed in compliance with ASC 825. For both FFELP loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, and required return on equity. In addition, the Floor Income component of our FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management s qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions) or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases, these are either infrequent or not observable. For FFELP loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by ED.

For further information regarding the impact of Level 3 fair values to the results of operations, see Note 16, Fair Value Measurements, to the consolidated financial statements.

Securitization Accounting and Retained Interests

We regularly engage in securitization transactions as part of our Lending segment financing strategy (see also LIQUIDITY AND CAPITAL RESOURCES Securitization Activities). In a securitization, we sell student loans to a trust that issues bonds backed by the student loans as part of the transaction. When our securitizations meet the sale criteria of ASC 860, Transfers and Servicing, we record a gain on the sale of the student loans, which is the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received including the Residual Interest component of the Retained Interest in the securitization transaction. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. We have not structured any securitization transaction to meet the sale criteria since March 2007 and all securitizations settled since that date have been accounted for on-balance sheet as secured financings as a result.

Under ASC 825, we elected to carry all existing Residual Interests at fair value with subsequent changes in fair value recorded in servicing and securitization revenue. Since there are no quoted market prices for our Residual Interests, we estimate their fair value both initially and each subsequent quarter using the key assumptions listed below:

The CPR (see Premium and Discount Amortization above for discussion of this assumption).

The expected credit losses from the underlying securitized loan portfolio. Although loss estimates related to the allowance for loan loss are based on a loss confirmation period of generally two years, expected credit losses related to the Residual Interests use a life of loan default rate. The life of loan default rate is used to determine the percentage of the loan s original balance that will default. The life of loan default rate is then applied using a curve to determine the percentage of the overall default rate that should be recognized annually throughout the life of the loan (see also Allowance for Loan Losses above for the determination of default rates and the factors that may impact them).

The discount rate used (see Fair Value Measurement discussed above).

We also receive income for servicing the loans in our securitization trusts. We assess the amounts received as compensation for these activities at inception and on an ongoing basis to determine if the amounts received are adequate compensation as defined in ASC 860. To the extent such compensation is determined to be no more or less than adequate compensation, no servicing asset or obligation is recorded.

See discussion that follows on changes to accounting principles associated with transfers of financial assets and the Variable Interest Entity Consolidation Model that will be effective in 2010.

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model Changes in Accounting Principles effective January 1, 2010

In June 2009, the FASB issued topic updates to ASC 860, Transfers and Servicing, and to ASC 810, Consolidation.

The topic update to ASC 860, among other things, (1) eliminates the concept of a Qualifying Special Purpose Entity (QSPE), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur in fiscal years beginning after November 15, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company s secured borrowing facilities. All of the Company s secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810 significantly changes the consolidation model for Variable Interest Entities (VIEs). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining who should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. The topic update to ASC 810 is effective for the first annual reporting period beginning after November 15, 2009.

Under ASC 810, if an entity has a Variable Interest in a VIE and that entity is determined to be the Primary Beneficiary of the VIE then that entity will consolidate the VIE. The Primary Beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to the Company s securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result the Company is the Primary Beneficiary of its securitization trusts and will consolidate those trusts that are off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has on its balance sheet as of January 1, 2010. These new accounting rules apply to new transactions entered into from January 1, 2010 forward as well.

On January 1, 2010, upon adopting ASC 810, the Company removed the $1.8 billion of Residual Interests associated with these trusts from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of a $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $0.7 billion after-tax reduction of stockholders equity (through retained earnings). After adoption of ASC 810, related to the securitization trusts that were consolidated on January 1, 2010, the Company s results of operations will no longer reflect servicing and securitization income related to these securitization trusts, but will instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties. This presentation will be identical to the Company s accounting treatment of prior on-balance securitization trusts. The Company has not had a securitization that was treated as a sale since 2007.

Management allocates capital on a Managed Basis. This change will not impact management s view of capital adequacy for the Company. The Company s unsecured revolving credit facilities contain two principal

32

financial covenants related to tangible net worth and net revenue. The tangible net worth covenant requires the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.5 billion as of December 31, 2009. Upon adoption of ASC 810 on January 1, 2010, consolidated tangible net worth as calculated for this covenant was $2.7 billion. Because the transition adjustment upon adoption of ASC 810 is recorded through retained earnings the net revenue covenant was not impacted by the adoption of ASC 810. The ongoing net revenue covenant will not be impacted by ASC 810 s impact on our securitization trusts as the net revenue covenant treated all off balance sheet trusts as on balance sheet for purposes of calculating net revenue.

Derivative Accounting

We use interest rate swaps, cross-currency interest rate swaps, interest rate futures contracts, Floor Income Contracts and interest rate cap contracts as an integral part of our overall risk management strategy to manage interest rate and foreign currency risk arising from our fixed rate and floating rate financial instruments. We account for these instruments in accordance with ASC 815, Derivatives and Hedging, which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. We determine the fair value for our derivative instruments primarily by using pricing models that consider current market conditions and the contractual terms of the derivative contracts. Market inputs into the model include interest rates, forward interest rate curves, volatility factors, forward foreign exchange rates, and the closing price of our stock (related to our equity forward contracts). Inputs are generally from active financial markets; however, as mentioned under Fair Value Measurements above, adjustments are made for inputs from illiquid markets and to adjust for credit risk. In some instances, counterparty valuations are used in determining the fair value of a derivative when deemed a more appropriate estimate of the fair value. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized and, as such, the use of different pricing models or assumptions could produce different financial results. As a matter of policy, we compare the fair values of our derivatives that we calculate to those provided by our counterparties on a monthly basis. Any significant differences are identified and resolved appropriately.

ASC 815 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by ASC 815 are met. We believe that all of our derivatives are effective economic hedges and are a critical element of our interest rate risk management strategy. However, under ASC 815, some of our derivatives, primarily Floor Income Contracts, certain Eurodollar futures contracts, basis swaps and equity forwards, do not qualify for hedge treatment under ASC 815. Therefore, changes in market value along with the periodic net settlements must be recorded through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no consideration for the corresponding change in fair value of the hedged item. The derivative market value adjustment is primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads during the period, and changes in our stock price (related to equity forwards), as well as the volume and term of derivatives not receiving hedge accounting treatment. See also BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* Derivative Accounting for a detailed discussion of our accounting for derivatives.

Goodwill and Intangible Assets

Goodwill

The Company accounts for goodwill and acquired intangible assets in accordance with ASC 350, Intangibles Goodwill and Other, pursuant to which goodwill is not amortized. Goodwill is tested for impairment annually as of September 30 at the reporting unit level, which is the same as or one level below an operating segment as defined in ASC 280, Segment Reporting. Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

In accordance with ASC 350, Step 1 of the goodwill impairment analysis consists of a comparison of the fair value of the reporting unit to its carrying value. The carrying value includes goodwill of $991 million at

December 31, 2009 and 2008. The Company retains an appraisal firm to perform annual Step 1 impairment testing. Accordingly, the Company engages the appraisal firm to determine the fair value of each of its four reporting units to which goodwill is allocated as of September 30. These four reporting units are Lending, APG, Guarantor Servicing and Upromise. The fair value of each reporting unit is determined by weighting different valuation approaches, as applicable, with the primary approach being the income approach.

The income approach measures the value of each reporting unit based on the present value of the reporting unit s future economic benefit determined based on discounted cash flows derived from the Company s projections for each reporting unit. These projections are generally five-year projections that reflect the future strategic operating and financial performance of each respective reporting unit, including assumptions related to applicable cost savings and planned dispositions or wind down activities. If a component of a reporting unit is winding down or is assumed to wind down, the projections extend through the anticipated wind down period. In conjunction with the Company s September 30, 2009 annual impairment assessment, cash flow projections for the Lending, APG, and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation is passed. If the Community Proposal is passed, it would result in additional cash flows for the Lending reporting unit but no material change in cash flows for the APG and Guarantor Servicing reporting units. (SAFRA legislation and Community Proposal are discussed in more detail in OVERVIEW *Legislative and Regulatory Developments*.)

Under the Company s guidance, the appraisal firm develops both an asset rate of return and an equity rate of return (or discount rate) for each reporting unit incorporating such factors as a risk free rate, a market rate of return, a measure of volatility (Beta) and a company specific and capital markets risk premium, as appropriate, to adjust for volatility and uncertainty in the economy and to capture specific risk related to the respective reporting units. The Company considers whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and values each reporting unit based on the more likely hypothetical scenario. The Company has concluded that a hypothetical equity sale scenario would be more likely for its Lending reporting unit, while a hypothetical asset sale would be more likely for the APG, Guarantor Servicing and Upromise reporting units.

Discount rates employed in conjunction with the income approach reflect market based estimates of capital costs and are adjusted for management s assessment of a market participant s view with respect to execution, concentration and other risks associated with the projected cash flows of individual reporting units. Accordingly, these discount rates are reflective of the long standing contractual relationships associated with these cash flows as well as the wind down nature of the cash flows for certain components of the Lending and APG reporting units and the Guarantor Servicing reporting unit as a whole. Management reviews and approves these discount rates, including the factors incorporated to develop the discount rates for each reporting unit. For the valuation of the Lending reporting unit, which assumes an equity sale, the discount rate is applied to the reporting unit s projected net cash flows and the residual or terminal value yielding the fair value of equity for the reporting unit. For valuations assuming an asset sale, the discount rates applicable to the individual reporting units are applied to the respective reporting units projected asset cash flows and residual or terminal values, as applicable, yielding the fair value of the assets for the respective reporting units. The estimated proceeds from the hypothetical asset sale are then used to pay off any liabilities of the reporting unit with the remaining cash equaling the fair value of the reporting unit s equity.

The guideline company or market approach as well as the publicly traded stock approach are also considered for the Company s reporting units, as applicable. The market approach generally measures the value of a reporting unit as compared to recent sales or offerings of comparable companies. The secondary market approach indicates value based on multiples calculated using the market value of minority interests in publicly traded comparable companies or guideline companies. Whether analyzing comparable transactions or the market value of minority interests in publicly traded or guideline companies, consideration is given to the line of business and the operating performance of the comparable companies versus the reporting unit being tested. Given current market conditions, the lack of recent sales or offerings in the market and the low correlation between the operations of identified guideline companies to the

Company s reporting units, less emphasis is placed on the market approach for the APG, Guarantor Servicing and Upromise reporting units.

The Company acknowledges that its stock price (as well as that of its peers) is a consideration in determining the value of its reporting units and the Company as a whole. However, management believes the income approach is a better measure of the value of its reporting units in the current environment. During the latter half of 2008 and during 2009, the Company experienced a trend of lower and very volatile market capitalization. During 2009, the Company s stock price fluctuated significantly from a low of $3.19 in March 2009 subsequent to the Administration s 2010 budget proposal, which included its plan to eliminate the FFELP and require all federally funded students loans to be originated through the DSLP, to a high of $12.00 in December 2009. At September 30 and December 31, 2009, the Company s stock price was $8.72 and $11.27, respectively. The Company believes the share price has been significantly reduced due to the continued downturn in the credit and economic environment as well as uncertainties surrounding the ongoing legislative process, as addressed previously in OVERVIEW *Legislative and Regulatory Developments.* Management believes these economic factors should not have a long-term impact. In addition, the Company will review and revise, potentially significantly, its business model based on the final form of legislation upon completion of the legislative process.

In the event that the carrying value of the reporting unit exceeds the fair value as determined in Step 1, Step 2 of the goodwill impairment analysis compares the implied fair value of the reporting unit s goodwill to the carrying value of the reporting unit s goodwill. The implied fair value of goodwill is determined in a manner consistent with determining goodwill in a business combination. If the carrying amount of the reporting unit s goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

Other Acquired Intangibles

Other acquired intangible assets, which include but are not limited to tradenames, customer and other relationships, and non-compete agreements, are also accounted for in accordance with ASC 350. Acquired intangible assets with definite or finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of the asset (or asset group) exceeds the estimated undiscounted cash flows used to determine the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value. Indefinite-life acquired intangible assets are not amortized. They are tested for impairment annually as of September 30 or at interim periods if an event occurs or circumstances change that would indicate the carrying value of these assets may be impaired. The annual or interim impairment test of indefinite-lived acquired intangible assets is based primarily on a discounted cash flow analysis.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Years Ended December 31,			Increase (Decrease)			
				2009 vs. 2008		2008 vs. 2007	
	2009	2008	2007	$	%	$	%
Net interest income	$ 1,723	$ 1,365	$ 1,588	$ 358	26%	$ (223)	(14)%
Less: provisions for loan losses	1,119	720	1,015	399	55	(295)	(29)
Net interest income after provisions for loan losses	604	645	573	(41)	(6)	72	13
Gains on student loan securitizations			367			(367)	(100)
Servicing and securitization revenue	295	262	437	33	13	(175)	(40)
Gains (losses) on loans and securities, net	284	(186)	(95)	470	253	(91)	(96)
Gains (losses) on derivative and hedging activities, net	(604)	(445)	(1,361)	(159)	(36)	916	67
Contingency fee revenue	296	340	336	(44)	(13)	4	1
Collections revenue	51	128	220	(77)	(60)	(92)	(42)
Guarantor servicing fees	136	121	156	15	12	(35)	(22)
Other income	928	392	385	536	137	7	2
Restructuring expenses	14	83	23	(69)	(83)	60	261
Operating expenses	1,255	1,316	1,487	(61)	(5)	(171)	(11)
Income (loss) from continuing operations, before income tax expense (benefit)	721	(142)	(492)	863	(608)	350	71
Income tax expense (benefit)	238	(76)	408	314	(413)	(484)	(119)
Net income (loss) from continuing operations	483	(66)	(900)	549	832	834	93
(Loss) income from discontinued operations, net of tax	(158)	(143)	6	(15)	(10)	(149)	(2483)
Net income (loss)	325	(209)	(894)	534	256	685	77
Less: net income attributable to noncontrolling interest	1	4	2	(3)	(75)	2	100
Net income (loss) attributable to SLM Corporation	324	(213)	(896)	537	252	683	76
Preferred stock dividends	146	111	37	35	32	74	200
Net income (loss) attributable to common stock	$ 178	$ (324)	$ (933)	$ 502	155%	$ 609	65%

Net income (loss) attributable to SLM Corporation:							
Continuing operations, net of tax	$ 482	$ (70)	$ (902)	$ 552	789%	$ 832	92%
Discontinued operations, net of tax	(158)	(143)	6	(15)	(10)	(149)	(2483)
Net income (loss) attributable to SLM Corporation	$ 324	$ (213)	$ (896)	$ 537	252%	$ 683	76%
Basic earnings (loss) per common share:							
Continuing operations	$ .71	$ (.39)	$ (2.28)	$ 1.10	282%	$ 1.89	83%
Discontinued operations	$ (.33)	$ (.30)	$ .02	$ (.03)	(10)%	$ (.32)	1600%
Total	$ .38	$ (.69)	$ (2.26)	$ 1.07	155%	$ 1.57	69%
Diluted earnings (loss) per common share:							
Continuing operations	$ .71	$ (.39)	$ (2.28)	$ 1.10	282%	$ 1.89	83%
Discontinued operations	$ (.33)	$ (.30)	$ .02	$ (.03)	(10)%	$ (.32)	1600%
Total	$ .38	$ (.69)	$ (2.26)	$ 1.07	155%	$ 1.57	69%
Dividends per common share	$	$	$ .25	$	%	$ (.25)	(100)%

Condensed Balance Sheets

	December 31,		Increase (Decrease) 2009 vs. 2008	
	2009	2008	$	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 42,979	$ 44,025	$ (1,046)	(2)%
FFELP Stafford Loans Held-for-Sale	9,696	8,451	1,245	15
FFELP Consolidation Loans, net	68,379	71,744	(3,365)	(5)
Private Education Loans, net	22,753	20,582	2,171	11
Other loans, net	420	729	(309)	(42)
Cash and investments	8,084	5,112	2,972	58
Restricted cash and investments	5,169	3,535	1,634	46
Retained Interest in off-balance sheet securitized loans	1,828	2,200	(372)	(17)
Goodwill and acquired intangible assets, net	1,177	1,249	(72)	(6)
Other assets	9,500	11,141	(1,641)	(15)
Total assets	$ 169,985	$ 168,768	$ 1,217	1%
Liabilities and Stockholders Equity				
Short-term borrowings	$ 30,897	$ 41,933	$ (11,036)	(26)%
Long-term borrowings	130,546	118,225	12,321	10
Other liabilities	3,263	3,604	(341)	(9)
Total liabilities	164,706	163,762	944	1
SLM Corporation stockholders equity before treasury stock	7,140	6,855	285	4
Common stock held in treasury	1,861	1,856	5	
SLM Corporation stockholders equity	5,279	4,999	280	6
Noncontrolling interest		7	(7)	(100)
Total equity	5,279	5,006	273	5
Total liabilities and equity	$ 169,985	$ 168,768	$ 1,217	1%

RESULTS OF OPERATIONS

We present the results of operations first on a consolidated basis in accordance with GAAP. As discussed in Item 1. Business, we have two primary business segments, Lending and APG, plus a Corporate and Other business segment. Since these business segments operate in distinct business environments, the discussion following the Consolidated Earnings Summary is primarily presented on a segment basis. See BUSINESS SEGMENTS for further discussion on the components of each segment. Securitization gains and the ongoing servicing and securitization income are included in LIQUIDITY AND CAPITAL RESOURCES Securitization Activities. The discussion of derivative market value gains and losses is under BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences* *between Core Earnings and GAAP by Business Segment* Derivative Accounting. The discussion of goodwill and acquired intangible amortization and impairment is discussed under BUSINESS SEGMENTS Limitations of Core Earnings *Pre-tax Differences between Core Earnings and GAAP by Business Segment* Acquired Intangibles.

CONSOLIDATED EARNINGS SUMMARY

The main drivers of our net income are the growth in our Managed student loan portfolio and our financing cost, which drives net interest income, gains and losses on the sales of student loans, gains on debt repurchases, unrealized gains and losses on derivatives that do not receive hedge accounting treatment, growth in our fee-based business, and expense control.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

For the year ended December 31, 2009, net income attributable to SLM Corporation was $324 million, or $.38 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net loss of $213 million, or $.69 diluted loss per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008. For the year ended December 31, 2009, net income attributable to SLM Corporation from continuing operations was $482 million, or $.71 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of $70 million, or $.39 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for year ended December 31, 2008. For the year ended December 31, 2009, net loss attributable to SLM Corporation from discontinued operations was $158 million or $.33 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from discontinued operations of $143 million, or $.30 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008.

For the year ended December 31, 2009, the Company s pre-tax income from continuing operations was $721 million compared to a pre-tax loss of $142 million in the prior year. The increase in pre-tax income of $863 million was primarily due to an increase in gains on debt repurchases of $472 million and an increase in gains on sales of loans and securities of $470 million offset by an increase of $159 million in net losses on derivative and hedging activities. The change in the net losses on derivative and hedging activities is primarily the result of mark-to-market derivative valuations on derivatives that do not qualify for hedge treatment under GAAP.

There were no gains on student loan securitizations in either the year ended December 31, 2009 or the prior year as the Company did not complete any off-balance sheet securitizations in those years. Servicing and securitization revenue increased by $33 million from $262 million in the year ended December 31, 2008 to $295 million in the year ended December 31, 2009. This increase was primarily due to a $95 million decrease in the current-year unrealized mark-to-market loss of $330 million on the Company s Residual Interests compared with the prior-year unrealized mark-to-market loss of $425 million, offset by the decrease in net Embedded Floor Income. See LIQUIDITY AND CAPITAL RESOURCES Securitization Activities *Retained Interest in Securitized Receivables* for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $41 million in the year ended December 31, 2009 from the prior year. This decrease was due to a $399 million increase in provisions for loan losses offset by a $358 million increase in net interest income. The increase in net interest income was primarily due to an increase in the student loan spread, a decrease in the 2008 Asset Backed Financing Facilities fees and a $15 billion increase in the average balance of on-balance sheet student loans (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*). The increase in provisions for loan losses related primarily to increases in charge-off expectations on Private Education Loans primarily as a result of the continued weakening of the U.S. economy (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Allowance for Private Education Loan Losses*).

There were $284 million in net gains on sales of loans and securities in the year ended December 31, 2009, primarily related to the ED Purchase Program as previously discussed, compared to net losses of $186 million incurred in the prior year. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company s repurchase of delinquent Private Education Loans from the Company s off-balance sheet securitization trusts. When Private Education Loans in the Company s off-balance sheet securitization trusts that settled before September 30, 2005 became 180 days delinquent, the Company previously exercised its contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold this contingent call option for any trusts that settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option. The loss in 2008 also relates to the sale of approximately $1.0 billion FFELP loans to the ED under ECASLA, which resulted in a $53 million loss.

For the year ended December 31, 2009, contingency fee, collections and guarantor servicing fee revenue totaled $483 million, a $106 million decrease from $589 million in the prior year. This decrease was primarily due to a decline in revenue due to a significantly smaller non-mortgage purchased paper portfolio year-over-year as a result of winding down this collections business. Total impairment in the non-mortgage purchased paper portfolio was $79 million in 2009 compared to $111 million in 2008. The impairment is a result of the continued impact of the economy on the ability to collect on these assets (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

In response to the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. The plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down our debt purchased paper businesses, and significantly reducing our operating expenses. The restructuring plan is essentially completed and our objectives have been met. As part of the Company s cost reduction efforts, restructuring expenses of $14 million and $83 million were recognized in continuing operations in the years ended December 31, 2009 and 2008, respectively. Restructuring expenses from the fourth quarter of 2007 through December 31, 2009 totaled $129 million, of which $120 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 25 percent of the workforce. We estimate approximately $5 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred during 2010. On September 17, 2009, the House passed SAFRA which, if signed into law, would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the Direct Loan program. The Senate has yet to take up the legislation. If this legislation is signed into law, the Company will undertake another significant restructuring to conform its infrastructure to the elimination of the FFELP and achieve additional expense reduction. See OVERVIEW *Legislative and Regulatory Developments* for a further discussion of SAFRA.

Operating expenses were $1.26 billion in the year ended December 31, 2009 compared to $1.32 billion in the prior year. The $61 million decrease in operating expenses was primarily due to the Company s cost reduction efforts discussed above as well as an $11 million reduction in amortization and impairment of acquired intangible assets. The amortization and impairment of acquired intangibles for continuing operations totaled $75 million and $86 million for the years ended December 31, 2009 and 2008, respectively.

Income tax expense from continuing operations was $238 million in the year ended December 31, 2009 compared to income tax (benefit) of $(76) million in the prior year, resulting in effective tax rates of 33 percent and 54 percent. The movement in the effective tax rate in 2009 compared with the prior year was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions in both periods, as well as the permanent tax impact of deducting Proposed Merger-related transaction costs in the year ended December 31, 2008. Also contributing to the movement was the impact of significantly higher reported pre-tax income in 2009 and the resulting changes in the proportion of income subject to federal and state taxes. For additional information, see Note 19, Income Taxes, to the consolidated financial statements.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as a part of preferred stock dividends for the period of approximately $53 million.

Net loss attributable to SLM Corporation from discontinued operations was $158 million for the year ended December 31, 2009 compared to $143 million for the prior year. As discussed above, the Company sold all of the assets in its Purchased Paper Mortgage/Properties business in the fourth quarter of 2009 which resulted in an after-tax loss of $95 million. In the year ended December 31, 2009, the Company incurred $154 million of after-tax asset impairments associated with this business line compared to the prior year, during which the Company incurred $161 million of after-tax asset impairments.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

For the year ended December 31, 2008, our net loss attributable to SLM Corporation was $213 million, or $.69 diluted loss per share attributable to SLM Corporation common shareholders, compared to a net loss of $896 million, or $2.26 diluted loss per share attributable to SLM Corporation common shareholders, for the year December 31, 2007. For the year ended December 31, 2008, net loss attributable to SLM Corporation from continuing operations was $70 million, or $.39 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of $902 million, or $2.28 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for year ended December 31, 2007. For the year ended December 31, 2008, net loss attributable to SLM Corporation from discontinued operations was $143 million, or $.30 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net income from discontinued operations of $6 million, or $.02 diluted earnings from discontinued operations per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2007.

Pre-tax loss from continuing operations decreased by $350 million versus 2007 primarily due to a decrease in net losses on derivative and hedging activities from $1.4 billion for the year ended December 31, 2007 to $445 million for the year ended December 31, 2008, which was primarily a result of the mark-to-market on the equity forward contracts in the fourth quarter of 2007. This increase in income was partially offset by a $367 million decrease in gains on student loan securitizations and a $175 million decrease in servicing and securitization revenue.

There were no gains on student loan securitizations in the year ended December 31, 2008, compared to gains of $367 million in the year-ago period. We did not complete any off-balance sheet securitizations in the year ended December 31, 2008, versus one Private Education Loan securitization in 2007. In accordance with ASC 825, Financial Instruments, we elected the fair value option on all of the Residual Interests effective January 1, 2008. We made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either with changes in fair value recorded through other comprehensive income or with changes in fair value recorded through income. We reclassified the related accumulated other comprehensive income of $195 million into retained earnings and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through servicing and securitization income. We have not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue decreased by $175 million from $437 million in the year ended December 31, 2007 to $262 million in the year ended December 31, 2008. This decrease was primarily due to a $425 million unrealized mark-to-market loss recorded in 2008 compared to a $278 million unrealized mark-to-market loss in the prior year, which included both impairment and an unrealized mark-to-market gain recorded under ASC 815-15, Embedded Derivatives . The increase in the unrealized mark-to-market loss in 2008 versus 2007 was primarily due to increases in the discount rates used to value the Residual Interests. See LIQUIDITY AND CAPITAL RESOURCES Securitization Activities *Residual Interest in Securitized Receivables* for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses increased by $72 million in the year ended December 31, 2008 from the prior year. This increase was due to a $295 million decrease in provisions for loan losses, offset by a $223 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*) and an increase in the 2008 Asset-Backed Financing Facilities Fees, partially offset by a $25 billion increase in the average balance of on-balance sheet student loans. The decrease in provisions for loan losses relates to the higher provision amounts in the fourth quarter of 2007 for Private Education Loans, FFELP loans and mortgage loans, primarily due to a weakening U.S. economy. The significant provision in the fourth quarter of 2007 primarily related to the non-traditional portfolio which was particularly impacted by the weakening U.S. economy (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Allowance for Private Education Loan Losses*).

For the year ended December 31, 2008, contingency fee, collections and guarantor servicing fee revenue totaled $589 million, a $123 million decrease from $712 million in the prior year. This decrease was primarily the result of $111 million of impairment related to our non-mortgage purchased paper subsidiary recorded in 2008 compared to $17 million in 2007. The increase in impairment is a result of the impact of the economy on the ability to collect on these assets (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT).

Losses on loans and securities, net, totaled $186 million for the year ended December 31, 2008, a $91 million increase from $95 million incurred in the year ended December 31, 2007. Prior to the fourth quarter of 2008, these losses were primarily the result of our repurchase of delinquent Private Education Loans from our off-balance sheet securitization trusts. When Private Education Loans in our off-balance sheet securitization trusts that settled before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. We do not hold the contingent call option for any trusts that settled after September 30, 2005. Beginning in October 2008, we decided to no longer exercise our contingent call option. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under the ECASLA, which resulted in a $53 million loss. See LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs for a further discussion.

Restructuring expenses of $83 million and $23 million were recognized in the years ended December 31, 2008 and 2007, respectively, as previously discussed.

Operating expenses totaled $1.3 billion and $1.5 billion for the years ended December 31, 2008 and 2007, respectively. The year-over-year reduction is primarily due to our cost reduction efforts discussed above. Of these amounts, $86 million and $98 million, respectively, relate to amortization and impairment of goodwill and intangible assets for continuing operations.

Income tax (benefit) from continuing operations was $(76) million in the year ended December 31, 2008 compared to income tax expense of $408 million in the prior year resulting in effective tax rates of 54 percent and (83) percent. The movement in the effective tax rate in 2008 compared with the prior year was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under ASC 815 in 2007. Also contributing to the movement was the impact of significantly lower reported pre-tax loss in 2008 and the resulting changes in the proportion of income subject to federal and state taxes. For additional information, see Note 19, Income Taxes, to the consolidated financial statements.

Net loss attributable to SLM Corporation from discontinued operations was $143 million for the year ended December 31, 2008, compared to net income of $6 million for the prior year. As discussed above, the Company sold all of the assets in its Purchased Paper Mortgage/Properties business in the fourth quarter of 2009. In 2008, the

Company incurred $161 million of after-tax asset impairments associated with this business line compared to the prior year, during which the Company incurred $2 million of after-tax asset impairments.

Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31,		
	2009	2008	2007
Gains on debt repurchases	$ 536	$ 64	$
Late fees and forbearance fees	146	143	136
Asset servicing and other transaction fees	112	108	110
Loan servicing fees	53	26	26
Foreign currency translation gains (losses)	23	(31)	(3)
Gains on sales of mortgages and other loan fees		3	11
Other	59	79	105
Total other income	$ 929	$ 392	$ 385

The change in other income over the year-ago periods presented is primarily the result of the gains on debt repurchases. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company has repurchased $5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016.

BUSINESS SEGMENTS

The results of operations of the Company s Lending and APG operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under ASC 280, Segment Reporting, based on quantitative thresholds applied to the Company s financial statements. In addition, we provide other complementary products and services, including Guarantor Servicing and Loan Servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other reportable segment for financial reporting purposes.

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. In accordance with the Rules and Regulations of the Securities and Exchange Commission (SEC), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company s GAAP-based financial information, management, including the Company s chief operation decision makers, evaluates the performance of the Company s operating segments based on their profitability on a basis that, as allowed under ASC 280, differs from GAAP. We refer to management s basis of evaluating our segment results as Core Earnings presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. Accordingly, information regarding the Company s reportable segments is provided herein based on Core Earnings, which are discussed in detail below.

Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting and as a result, our management reporting is not necessarily comparable with similar information for any other financial institution. The Company s 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.

Core Earnings are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. While Core Earnings are not a substitute for reported results under GAAP, the Company relies on Core Earnings in operating its business because Core Earnings permit management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. Management believes this information provides additional insight into the financial performance of the core business activities of our operating segments. Accordingly, the tables presented below reflect Core Earnings which are reviewed and utilized by management to manage the business for each of the Company s reportable segments. A further discussion regarding Core Earnings is included under Limitations of Core Earnings and *Pre-tax Differences between Core Earnings an GAAP by Business Segment.*

The LENDING BUSINESS SEGMENT section includes all discussion of income and related expenses associated with the net interest margin, the student loan spread and its components, the provisions for loan losses, and other fees earned on our Managed portfolio of student loans. The APG BUSINESS SEGMENT section reflects the fees earned and expenses incurred in providing accounts receivable management and collection services. Our CORPORATE AND OTHER BUSINESS SEGMENT section includes our remaining fee businesses and other corporate expenses that do not pertain directly to the primary operating segments identified above.

	Year Ended December 31, 2009		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 1,282	$	$
FFELP Consolidation Loans	1,645		
Private Education Loans	2,254		
Other loans	56		
Cash and investments	9		20
Total interest income	5,246		20
Total interest expense	2,971	19	15
Net interest income (loss)	2,275	(19)	5
Less: provisions for loan losses	1,564		
Net interest income (loss) after provisions for loan losses	711	(19)	5
Contingency fee revenue		296	
Collections revenue		50	
Guarantor serving fees			136
Other income	974		215
Total other income	974	346	351
Restructuring expenses	10	1	3
Operating expenses	581	315	284
Total expenses	591	316	287
Income from continuing operations, before income tax expense	1,094	11	69
Income tax expense(1)	388	7	24
Net income from continuing operations	706	4	45
Loss from discontinued operations, net of tax		(157)	
Net income (loss)	706	(153)	45
Less: net income attributable to noncontrolling interest		1	
Core Earnings net income (loss) attributable to SLM Corporation	$ 706	$ (154)	$ 45
Economic Floor Income (net of tax) not included in Core Earnings	$ 205	$	$

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

Core Earnings net income (loss) attributable to SLM Corporation:			
Continuing operations, net of tax	$ 706	$ 3	$ 45
Discontinued operations, net of tax		(157)	
Core Earnings net income (loss) attributable to SLM Corporation	$ 706	$ (154)	$ 45

	Year Ended December 31, 2008		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,216	$	$
FFELP Consolidation Loans	3,748		
Private Education Loans	2,752		
Other loans	83		
Cash and investments	304		25
Total interest income	9,103		25
Total interest expense	6,665	25	19
Net interest income (loss)	2,438	(25)	6
Less: provisions for loan losses	1,029		
Net interest income (loss) after provisions for loan losses	1,409	(25)	6
Contingency fee revenue		340	
Collections revenue		129	
Guarantor serving fees			121
Other income	180		199
Total other income	180	469	320
Restructuring expenses	49	11	23
Operating expenses	583	389	256
Total expenses	632	400	279
Income from continuing operations, before income tax expense	957	44	47
Income tax expense[1]	338	23	17
Net income from continuing operations	619	21	30
Loss from discontinued operations, net of tax		(140)	
Net income (loss)	619	(119)	30
Less: net income attributable to noncontrolling interest		4	
Core Earnings net income (loss) attributable to SLM Corporation	$ 619	$ (123)	$ 30
Economic Floor Income (net of tax) not included in Core Earnings	$ 55	$	$

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

Core Earnings net income (loss) attributable to SLM Corporation:			
Continuing operations, net of tax	$ 619	$ 17	$ 30
Discontinued operations, net of tax		(140)	
Core Earnings net income (loss) attributable to SLM Corporation	$ 619	$ (123)	$ 30

45

	Year Ended December 31, 2007		
	Lending	**APG**	**Corporate and Other**
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,848	$	$
FFELP Consolidation Loans	5,522		
Private Education Loans	2,835		
Other loans	106		
Cash and investments	868		21
Total interest income	12,179		21
Total interest expense	9,597	27	21
Net interest income (loss)	2,582	(27)	
Less: provisions for loan losses	1,394		1
Net interest income (loss) after provisions for loan losses	1,188	(27)	(1)
Contingency fee revenue		336	
Collections revenue		217	
Guarantor serving fees			156
Other income	194		218
Total other income	194	553	374
Restructuring expenses	19	2	2
Operating expenses	690	361	339
Total expenses	709	363	341
Income from continuing operations, before income tax expense	673	163	32
Income tax expense[1]	249	60	12
Net income from continuing operations	424	103	20
Income from discontinued operations, net of tax		15	
Net income	424	118	20
Less: net income attributable to noncontrolling interest		2	
Core Earnings net income attributable to SLM Corporation	$ 424	$ 116	$ 20
Economic Floor Income (net of tax) not included in Core Earnings	$ 8	$	$

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

Core Earnings net income attributable to SLM Corporation:			
Continuing operations, net of tax	$ 424	$ 101	$ 20
Discontinued operations, net of tax		15	
Core Earnings net income attributable to SLM Corporation	$ 424	$ 116	$ 20

Limitations of Core Earnings

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

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

Pre-tax Differences between Core Earnings and GAAP by Business Segment

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

	Years Ended December 31,								
	2009			2008			2007		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other
Core Earnings adjustments:									
Net impact of securitization accounting	$ (201)	$	$	$ (442)	$	$	$ 247	$	$
Net impact of derivative accounting	(306)			(560)			217		(1,558)
Net impact of Floor Income	129			(102)			(169)		
Net impact of acquired intangibles	(13)	(6)	(57)	(53)	(22)	(14)	(55)	(22)	(29)
Total Core Earnings adjustments to GAAP, pre-tax[(1)]	$ (391)	$ (6)	$ (57)	$ (1,157)	$ (22)	$ (14)	$ 240	$ (22)	$ (1,587)

(1) The net tax effect of total differences for combined segments is $181 million, $454 million and $(87) million for the years ended December 31, 2009, 2008 and 2007, respectively. Income taxes are based on a percentage of net income before tax for the individual reportable segments.

1) **Securitization Accounting:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under Core Earnings for the Lending operating segment, we present all securitization transactions on a Core Earnings basis as long-term non-recourse financings. The upfront gains on sale from securitization transactions, as well as ongoing servicing and securitization revenue presented in accordance with GAAP, are excluded from Core Earnings and are replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans and debt. We also exclude transactions with our off-balance sheet trusts from Core Earnings as they are considered intercompany transactions on a Core Earnings basis.

The following table summarizes Core Earnings securitization adjustments for the Lending operating segment for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31,		
	2009	2008	2007
Core Earnings securitization adjustments:			
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$ (942)	$ (872)	$ (818)
Provisions for loan losses	445	309	380

Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(497)	(563)	(438)
Intercompany transactions with off-balance sheet trusts	1	(141)	(119)
Net interest income on securitized loans, after provisions for loan losses	(496)	(704)	(557)
Gains on student loan securitizations			367
Servicing and securitization revenue	295	262	437
Total Core Earnings securitization adjustments[1]	$ (201)	$ (442)	$ 247

[1] Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income and positive amounts are added to Core Earnings net income to arrive at GAAP net income.

Intercompany transactions with off-balance sheet trusts in the above table relate primarily to losses that result from the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold the contingent call option for any trusts settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

2) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for hedge treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life.

ASC 815 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by ASC 815, are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge treatment as defined by ASC 815, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The gains and losses described in Gains (losses) on derivative and hedging activities, net are primarily caused by interest rate and foreign currency exchange rate volatility and changing credit spreads during the period, as well as the volume and term of derivatives not receiving hedge treatment.

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

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month month LIBOR debt. ASC 815 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 by ASC 815. Additionally, some of our FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the ASC 815 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting under ASC 815 on our net income for the years ended December 31, 2009, 2008 and 2007 when compared with the accounting principles employed in all years prior to the ASC 815 implementation.

	Years Ended December 31, 2009	2008	2007
Core Earnings derivative adjustments:			
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (604)	$ (445)	$ (1,361)
Less: Realized (gains) losses on derivative and hedging activities, net[1]	322	(107)	18
Unrealized gains (losses) on derivative and hedging activities, net	(282)	(552)	(1,343)
Other pre-ASC 815 accounting adjustments	(24)	(8)	2
Total net impact of ASC 815 derivative accounting[2]	$ (306)	$ (560)	$ (1,341)

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

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

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

ASC 815 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges under ASC 815 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a Core Earnings basis for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31, 2009	2008	2007
Reclassification of realized gains (losses) on derivative and hedging activities:			
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (717)	$ (488)	$ (67)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	412	563	47
Foreign exchange derivatives gains/(losses) reclassified to other income	(15)	11	
Net realized gains (losses) on terminated derivative contracts reclassified to other income	(2)	21	2
Total reclassifications of realized (gains)losses on derivative and hedging activities	(322)	107	(18)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(282)	(552)	(1,343)
Gains (losses) on derivative and hedging activities, net	$ (604)	$ (445)	$ (1,361)

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

	Years Ended December 31, 2009	2008	2007
Floor Income Contracts	$ 483	$ (529)	$ (209)
Basis swaps	(413)	(239)	360
Foreign currency hedges	(255)	328	73
Equity forward contracts			(1,558)
Other	(97)	(112)	(9)
Total unrealized gains (losses) on derivative and hedging activities, net	$ (282)	$ (552)	$ (1,343)

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

3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in Core Earnings when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts, to economically hedge Floor Income. As discussed above in Derivative Accounting, these derivatives do not qualify as effective accounting hedges and, therefore, under GAAP, they are marked-to-market through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For Core Earnings, we reverse the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31,		
	2009	**2008**	**2007**
Core earnings Floor Income adjustments:			
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 286	$ 69	$
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(157)	(171)	(169)
Total Core Earnings Floor Income adjustments[(1)(2)]	$ 129	$ (102)	$ (169)

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

(2) The following table summarizes the amount of Economic Floor Income earned during the years ended December 31, 2009, 2008 and 2007 that is not included in Core Earnings net income:

	Years Ended December 31,		
	2009	**2008**	**2007**
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in Core Earnings	$ 286	$ 69	$
Amortization of net premiums on Variable Rate Floor Income Contracts not included in Core Earnings	40	20	13
	157	171	169

Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings			
Total Economic Floor Income earned	483	260	182
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings	(157)	(171)	(169)
Total Economic Floor Income earned, not included in Core Earnings	$ 326	$ 89	$ 13

4) Acquired Intangibles: Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. The following table summarizes the goodwill and acquired intangible adjustments for the years ended December 31, 2009, 2008 and 2007.

	Years Ended December 31,		
	2009	2008	2007
Core Earnings goodwill and acquired intangibles adjustments:			
Goodwill and intangible impairment and the amortization of acquired intangibles from continuing operations	$ (75)	$ (86)	$ (98)
Goodwill and intangible impairment and the amortization of acquired intangibles from discontinued operations, net of tax	(1)	(3)	(8)
Total Core Earnings acquired intangibles adjustments	$ (76)	$ (89)	$ (106)

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

Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. These amounts totaled $76 million, $89 million and $106 million after tax effecting the amounts related to discontinued operations. The pre-tax amounts totaled $76 million, $91 million and $112 million, respectively, for the years ended December 31, 2009, 2008 and 2007. In 2009, $37 million of intangible assets primarily related to Guarantor Servicing were impaired as a result of the legislative uncertainty surrounding the role of Guarantors in the future. As discussed in ASSET PERFORMANCE GROUP BUSINESS SEGMENT, the Company decided to wind down its purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets for the year ended December 31, 2008, of which $28 million related to the impairment of two trade names and $8 million related to certain banking customer relationships. In 2007, we recognized impairments related principally to our mortgage origination and mortgage purchased paper businesses, including approximately $20 million of goodwill and $10 million of value attributable to certain banking relationships. In connection with our acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, we acquired certain tax exempt bonds that enabled us to earn a 9.5 percent SAP rate on student loans funded by those bonds in indentured trusts. In 2007, we also recognized intangible impairments of $9 million, due to changes in projected interest rates used to initially value the intangible asset and to a regulatory change that restricts the loans on which we are entitled to earn a 9.5 percent yield.

LENDING BUSINESS SEGMENT

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

On a Managed Basis, the Company had $107.2 billion and $127.2 billion as of December 31, 2009 and 2008, respectively, of FFELP loans indexed to three-month financial commercial paper rate (CP) funded with debt indexed to LIBOR. As a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then.

For the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter of 2008, the Federal Reserve s Commercial Paper Funding Facility rates (CPFF) would be used for those days in which no published CP rate was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF. ED decided that no such correction was required during 2009. This resulted in a CP/LIBOR spread of 52 basis points, 45 basis points, 13 basis points and 6 basis points in the first, second, third and fourth quarters of 2009, respectively, (29 basis points for the full year of 2009) compared to the CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 and the historic average spread through the third quarter of 2008 of approximately 10 basis points.

Core Earnings net interest income would have been $139 million, $105 million and $5 million higher in the first, second and third quarters of 2009, respectively, at a historical CP/LIBOR spread of 10 basis points. Because of the low interest rate environment, the Company earned additional Economic Floor Income not included in Core Earnings of $126 million, $141 million, and $36 million in the first, second and third quarters of 2009, respectively. Although we exclude these amounts from our Core Earnings presentation, the levels earned in 2009 quarters can be viewed as offsets to the CP/LIBOR basis exposure in low interest rate environments where we earned Floor Income.

Additionally, the index paid on borrowings under ED s Participation Program is based on the prior quarter s CP rates, whereas the index earned on the underlying loans is based on the current quarter s CP rates. The declines in CP rates during the first, second, third and fourth quarters of 2009 resulted in $40 million, $13 million, $6 million and $2 million of higher interest expense in the first, second, third and fourth quarters of 2009, respectively.

An overview of this segment and recent developments that have significantly impacted this segment are included in the Item 1. Business section of this document.

The following table summarizes the "Core Earnings" results of operations for our Lending business segment.

	Years Ended December 31,			% Increase (Decrease)	
	2009	2008	2007	2009 vs. 2008	2008 vs. 2007
"Core Earnings" interest income:					
FFELP Stafford and Other Student Loans	$ 1,282	$ 2,216	$ 2,848	(42)%	(22)%
FFELP Consolidation Loans	1,645	3,748	5,522	(56)	(32)
Private Education Loans	2,254	2,752	2,835	(18)	(3)
Other loans	56	83	106	(33)	(22)
Cash and investments	9	304	868	(97)	(65)
Total "Core Earnings" interest income	5,246	9,103	12,179	(42)	(25)
Total "Core Earnings" interest expense	2,971	6,665	9,597	(55)	(31)
Net "Core Earnings" interest income	2,275	2,438	2,582	(7)	(6)
Less: provisions for loan losses	1,564	1,029	1,394	(52)	(26)
Net "Core Earnings" interest income after provisions for loan losses	711	1,409	1,188	(50)	19
Other income	974	180	194	441	(7)
Restructuring expenses	10	49	19	(80)	158
Operating expenses	581	583	690		(15)
Total expenses	591	632	709	(6)	(10)
Income from continuing operations, before income tax expense	1,094	957	673	14	41
Income tax expense	388	338	249	15	35
Net income	706	619	424	14	45
Less: net income attributable to noncontrolling interest					
"Core Earnings" net income attributable to SLM Corporation	$ 706	$ 619	$ 424	14%	45%
Economic Floor Income (net of tax) not included in "Core Earnings"	$ 205	$ 55	$ 8	273%	45%

"Core Earnings" net income attributable to SLM Corporation:					
Continuing operations, net of tax	$ 706	$ 619	$ 424	14%	45%
Discontinued operations, net of tax					

Core Earnings net income attributable to SLM Corporation	$	706	$	619	$	424	14%	45%

Net Interest Income

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

Average Balance Sheets — On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the years ended December 31, 2009, 2008 and 2007. This table reflects the net interest margin for the entire Company for our on-balance sheet assets. It is included in the Lending business segment discussion because the Lending business segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Years Ended December 31,					
	2009		2008		2007	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						