SLM CORP
Form 10-Q
November 08, 2010

Table of Contents

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended September 30, 2010**
	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 Number: 001-13251

SLM Corporation
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**52-2013874** *(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia *(Address of principal executive offices)*	**20190** *(Zip Code)*

(703) 810-3000

(Registrant s telephone number, including area code)

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 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 Smaller reporting company o
(Do not check if a smaller reporting company)

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

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

Class	**Outstanding at October 31, 2010**
Voting common stock, $.20 par value	485,590,403 shares

SLM CORPORATION

FORM 10-Q
INDEX
September 30, 2010

Part I. Financial Information			
	Item 1.	Financial Statements	2
	Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	64
	Item 3.	Quantitative and Qualitative Disclosures about Market Risk	136
	Item 4.	Controls and Procedures	141
PART II. Other Information			
	Item 1.	Legal Proceedings	142
	Item 1A.	Risk Factors	143
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	143
	Item 3.	Defaults Upon Senior Securities	143
	Item 4.	(Removed and Reserved)	143
	Item 5.	Other Information	143
	Item 6.	Exhibits	144
Signatures			145
Glossary[1]			146

EX-10.1
EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

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

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	September 30, 2010	December 31, 2009
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $120,386 and $104,219, respectively)	$ 46,026,138	$ 42,978,874
FFELP Stafford Loans Held-for-Sale	20,655,561	9,695,714
FFELP Consolidation Loans (net of allowance for losses of $68,880 and $56,949, respectively)	79,911,599	68,378,560
Private Education Loans (net of allowance for losses of $2,035,034 and $1,443,440, respectively)	35,541,640	22,753,462
Investments:		
Available-for-sale	203,125	1,273,275
Other	913,986	740,553
Total investments	1,117,111	2,013,828
Cash and cash equivalents	5,875,510	6,070,013
Restricted cash and investments	5,837,546	5,168,871
Retained Interest in off-balance sheet securitized loans		1,828,075
Goodwill and acquired intangible assets, net	488,220	1,177,310
Other assets	10,653,449	9,920,591
Total assets	$ 206,106,774	$ 169,985,298
Liabilities		
Short-term borrowings	$ 45,388,432	$ 30,896,811
Long-term borrowings	153,003,935	130,546,272
Other liabilities	3,140,330	3,263,593
Total liabilities	201,532,697	164,706,676
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
	400,000	400,000

Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share		
Series C: 7.25% mandatory convertible preferred stock; 810 and 810 shares, respectively, issued at liquidation preference of $1,000 per share	810,370	810,370
Common stock, par value $.20 per share, 1,125,000 shares authorized: 553,787 and 552,220 shares issued, respectively	110,758	110,444
Additional paid-in capital	5,127,313	5,090,891
Accumulated other comprehensive loss (net of tax benefit of $25,386 and $23,448, respectively)	(44,159)	(40,825)
Retained earnings (loss)	(122,565)	604,467
Total SLM Corporation stockholders equity before treasury stock	6,446,717	7,140,347
Common stock held in treasury at cost: 68,011 and 67,222 shares, respectively	1,872,640	1,861,738
Total SLM Corporation stockholders equity	4,574,077	5,278,609
Noncontrolling interest		13
Total equity	4,574,077	5,278,622
Total liabilities and equity	$ 206,106,774	$ 169,985,298

Supplemental information assets and liabilities of consolidated variable interest entities:

	September 30, 2010	December 31, 2009
FFELP Stafford and Other Student Loans, net	$ 65,557,473	$ 51,067,680
FFELP Consolidation Loans, net	78,396,367	67,664,019
Private Education Loans, net	24,511,699	10,107,298
Restricted cash and investments	5,522,584	4,596,147
Other assets	4,373,606	3,639,918
Short-term borrowings	36,806,456	23,384,051
Long-term borrowings	128,473,542	101,012,628
Net assets of consolidated variable interest entities	$ 13,081,731	$ 12,678,383

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Interest income:				
FFELP Stafford and Other Student Loans	$ 320,234	$ 303,192	$ 928,713	$ 969,947
FFELP Consolidation Loans	564,586	481,592	1,638,831	1,431,644
Private Education Loans	610,893	396,339	1,751,387	1,176,399
Other loans	7,190	11,042	23,440	45,930
Cash and investments	7,630	6,881	18,878	19,896
Total interest income	1,510,533	1,199,046	4,361,249	3,643,816
Total interest expense	638,599	673,870	1,738,916	2,519,876
Net interest income	871,934	525,176	2,622,333	1,123,940
Less: provisions for loan losses	358,110	321,127	1,099,469	849,518
Net interest income after provisions for loan losses	513,824	204,049	1,522,864	274,422
Other income (loss):				
Securitization servicing and Residual Interest revenue		155,065		147,248
Gains on sales of loans and securities, net	1,607	12,452	6,745	12,752
Gains (losses) on derivative and hedging activities, net	(344,458)	(111,556)	(331,552)	(569,326)
Contingency fee revenue	83,746	82,200	252,238	230,383
Collections revenue	13,097	21,241	52,282	88,830
Guarantor servicing fees	15,996	48,087	74,543	106,867
Other	90,502	150,006	445,811	741,229
Total other income (loss)	(139,510)	357,495	500,067	757,983
Expenses:				
Salaries and benefits	139,099	140,888	429,716	413,813
Other operating expenses	180,120	162,242	544,621	473,195
Goodwill and acquired intangible assets impairment and amortization expense	669,668	9,774	689,090	29,176
Restructuring expenses	11,082	2,492	55,030	9,598
Total expenses	999,969	315,396	1,718,457	925,782
	(625,655)	246,148	304,474	106,623

Income (loss) from continuing operations, before income tax expense (benefit)								
Income tax expense (benefit)		(127,558)		80,423		224,340		31,796
Net income (loss) from continuing operations		(498,097)		165,725		80,134		74,827
Income (loss) from discontinued operations, net of tax		3,211		(6,417)		3,211		(59,133)
Net income (loss)		(494,886)		159,308		83,345		15,694
Less: net income attributable to noncontrolling interest		61		198		334		690
Net income (loss) attributable to SLM Corporation		(494,947)		159,110		83,011		15,004
Preferred stock dividends		18,787		42,627		56,176		94,822
Net income (loss) attributable to SLM Corporation common stock	$	(513,734)	$	116,483	$	26,835	$	(79,818)
Net income (loss) attributable to SLM Corporation:								
Continuing operations, net of tax	$	(498,158)	$	165,527	$	79,800	$	74,137
Discontinued operations, net of tax		3,211		(6,417)		3,211		(59,133)
Net income (loss) attributable to SLM Corporation	$	(494,947)	$	159,110	$	83,011	$	15,004
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$	(1.07)	$	.26	$	.05	$	(.04)
Discontinued operations		.01		(.01)		.01		(.13)
Total	$	(1.06).	$	.25	$	.06	$	(.17)
Average common shares outstanding		484,936		470,280		484,678		467,960
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$	(1.07)	$	.26	$	.05	$	(.04)
Discontinued operations		.01		(.01)		.01		(.13)
Total	$	(1.06)	$	.25	$	.06	$	(.17)
Average common and common equivalent shares outstanding		484,936		471,058		486,209		467,960
Dividends per common share attributable to SLM Corporation common shareholders	$		$		$		$	

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,4
							159,110	
						1,420		
						3,346		
						(226)		
							(2,875)	
							(1,299)	
							(17,906)	
							(1)	
15,048		15,048		(5)	279			
					164		(164)	
6,992,368		6,992,368	(137,400)	1,398	146,423		(20,383)	
					(2,843)			

					8,995			
	(30,876)	(30,876)						(5
1,849,295	(67,159,075)	474,690,220	$ 1,577,370	$ 108,362	$ 4,862,071	$ (44,143)	$ 346,347	$ (1,860,9
3,571,384	(67,774,802)	485,796,582	$ 1,375,370	$ 110,715	$ 5,122,583	$ (43,333)	$ 391,169	$ (1,869,7
							(494,947)	
						(71)		
						(732)		
						(23)		
							(2,875)	
							(1,224)	
							(14,688)	
215,962		215,962		43	2,417			
					(2,883)			
					5,196			
	(236,005)	(236,005)						(2,8
3,787,346	(68,010,807)	485,776,539	$ 1,375,370	$ 110,758	$ 5,127,313	$ (44,159)	$ (122,565)	$ (1,872,6

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
4,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$ 426,175	$ (1,856,39
							15,004	
						3,689		
						29,361		
						(717)		
							(8,625)	
							(5,742)	
							(59,586)	
							(10)	
445,656	98	445,754		81	2,505			
					486		(486)	
6,992,368		6,992,368	(137,400)	1,398	146,423		(20,383)	
					(8,662)			

					37,207			
	(200,773)	(200,773)						(4,60
,849,295	(67,159,075)	474,690,220	$ 1,577,370	$ 108,362	$ 4,862,071	$ (44,143)	$ 346,347	$ (1,860,98
2,219,576	(67,221,942)	484,997,634	$ 1,375,370	$ 110,444	$ 5,090,891	$ (40,825)	$ 604,467	$ (1,861,73
							83,011	
						1,607		
						(4,883)		
						(58)		
							(8,625)	
							(3,193)	
							(44,064)	
							(11)	
,567,770		1,567,770		314	12,583			
					294		(294)	
					(7,688)			
					31,233			
							(753,856)	

	(788,865)	(788,865)														(10,90
,787,346	(68,010,807)	485,776,539	$	1,375,370	$	110,758	$	5,127,313	$	(44,159)	$	(122,565)	$	(1,872,64		

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Operating activities		
Net income	$ 83,345	$ 15,694
Adjustments to reconcile net income to net cash used in operating activities:		
(Income) loss from discontinued operations, net of tax	(3,211)	59,133
Gains on sales of loans and securities, net	(6,745)	(12,752)
Goodwill and acquired intangible assets impairment and amortization expense	689,090	29,176
Stock-based compensation cost	31,392	40,073
Unrealized (gains)/losses on derivative and hedging activities	(305,683)	491,644
Provisions for loan losses	1,099,469	849,518
Student loans originated for sale, net	(10,959,847)	(15,846,043)
Decrease in restricted cash other	48,003	44,201
(Increase) decrease in accrued interest receivable	(327,782)	241,377
Increase (decrease) in accrued interest payable	16,724	(439,920)
Adjustment for non-cash loss related to Retained Interest		333,951
Decrease in other assets	1,057,515	3,096
(Decrease) increase in other liabilities	(74,842)	40,870
Cash used in operating activities continuing operations	(8,735,917)	(14,165,676)
Cash provided by operating activities discontinued operations		233,130
Total net cash used in operating activities	(8,652,572)	(13,916,852)
Investing activities		
Student loans acquired	(6,762,110)	(7,211,675)
Loans purchased from securitized trusts		(5,030)
Reduction of student loans:		
Installment payments, claims and other	10,486,310	7,997,484
Proceeds from sales of student loans	359,955	515,140
Other loans originated		(2,818)
Other loans repaid	117,630	237,980
Other investing activities, net	(172,218)	(676,612)
Purchases of available-for-sale securities	(31,801,767)	(104,663,811)
Proceeds from sales of available-for-sale securities		100,056
Proceeds from maturities of available-for-sale securities	32,834,424	104,417,273
Purchases of other securities	(101,008)	
Proceeds from maturities of held-to-maturity securities and other securities	111,200	68,991
Return of investment from Retained Interest		16,361
Decrease (increase) in restricted cash on-balance sheet trusts	147,195	(1,318,410)

Net cash provided by (used in) investing activities		5,219,611		(525,071)
Financing activities				
Borrowings collateralized by loans in trust issued		5,918,441		11,572,592
Borrowings collateralized by loans in trust repaid		(8,245,191)		(4,196,889)
Asset-backed commercial paper conduits, net		(2,308,644)		(15,504,025)
ED Participation Program, net		11,219,632		15,499,015
ED Conduit Program facility, net		1,112,730		14,189,923
Other short-term borrowings issued				298,294
Other short-term borrowings repaid		(176,551)		(1,198,661)
Other long-term borrowings issued		1,463,542		4,333,173
Other long-term borrowings repaid		(7,227,300)		(8,335,181)
Other financing activities, net		1,537,754		(1,006,261)
Excess tax benefit from the exercise of stock-based awards		367		
Common stock issued		194		6
Preferred dividends paid		(55,882)		(83,915)
Noncontrolling interest, net		(634)		(9,152)
Net cash provided by financing activities		3,238,458		15,558,919
Net (decrease) increase in cash and cash equivalents		(194,503)		1,116,996
Cash and cash equivalents at beginning of period		6,070,013		4,070,002
Cash and cash equivalents at end of period	$	5,875,510	$	5,186,998
Cash disbursements made (refunds received) for:				
Interest	$	1,762,789	$	3,070,349
Income taxes, net	$	(451,099)	$	292,115

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company or Sallie Mae) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2010 are not necessarily indicative of the results for the year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

Reclassifications

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

Recently Issued Accounting Standards

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued topic updates to Accounting Standards Codification (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 after December 31, 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 which entity 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 as of January 1, 2010.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

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 consolidated those trusts that were previously 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 had a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

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

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

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

ASC 810. The ongoing net revenue covenant will not be affected by ASC 810 s impact on the Company s securitization trusts as the net revenue covenant treated all off-balance sheet trusts as on-balance sheet for purposes of calculating net revenue.

Fair Value Measurements

In January 2010, the FASB issued a topic update to ASC 820, Fair Value Measurements and Disclosures. The update requires separate disclosures of the amounts of significant transfers in and out of Level 1 and 2 of fair value measurements and a description of the reasons for the transfers. In addition, a reporting unit should report separately information about purchases, sales, issuances, and settlements within the reconciliation of activity in Level 3 fair value measurements. Finally, the update clarifies existing disclosure requirements regarding the level of disaggregation in reporting classes of assets and liabilities and discussion of the inputs and valuation techniques used for Level 2 and 3 fair values. This topic update is

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

effective for annual and interim periods beginning January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods beginning January 1, 2011.

Disclosures Regarding Credit Quality of Receivables

In July 2010, the FASB issued an update to the accounting guidance for receivables. This update requires companies to provide additional disclosures about the credit quality of receivables as well as additional information related to the allowance for loan losses. These new rules are effective for the Company s annual reporting period ending December 31, 2010. Other than requiring additional disclosures regarding the credit quality of its loan portfolio, this standard will not have an impact on the Company s financial statements.

2. Allowance for Loan Losses

The Company s provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb probable incurred losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that are susceptible to significant changes. The Company believes that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios as of the respective balance sheet date.

The following table summarizes the total loan loss provisions for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Private Education Loans	$ 329,981	$ 287,315	$ 1,004,214	$ 732,619
FFELP Stafford and Other Student Loans	24,582	20,918	76,191	80,911
Mortgage and consumer loans	3,547	12,894	19,064	35,988
Total provisions for loan losses	$ 358,110	$ 321,127	$ 1,099,469	$ 849,518

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Allowance at beginning of period	$ 2,042,413	$ 1,396,707	$ 1,443,440	$ 1,308,043
Provision for Private Education Loan losses	329,981	287,315	1,004,214	732,619
Charge-offs	(348,511)	(292,845)	(968,755)	(670,603)
Reclassification of interest reserve	11,151	10,319	32,085	31,437
Consolidation of off-balance sheet trusts[1]			524,050	
Allowance at end of period	$ 2,035,034	$ 1,401,496	$ 2,035,034	$ 1,401,496
Charge-offs as a percentage of average loans in repayment (annualized)	5.4%	9.6%	5.1%	7.7%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	5.1%	8.9%	4.9%	7.1%
Allowance as a percentage of the ending total loan balance	5.3%	5.7%	5.3%	5.7%
Allowance as a percentage of ending loans in repayment	7.9%	11.4%	7.9%	11.4%
Allowance coverage of charge-offs (annualized)	1.5	1.2	1.6	1.6
Ending total loans[2]	$ 38,449,556	$ 24,439,749	$ 38,449,556	$ 24,439,749
Average loans in repayment	$ 25,616,442	$ 12,082,965	$ 25,150,567	$ 11,633,640
Ending loans in repayment	$ 25,784,202	$ 12,254,212	$ 25,784,202	$ 12,254,212

[1] Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)*

[2] Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2010, December 31, 2009, and September 30, 2009.

	Private Education Loan Delinquencies					
	September 30, 2010		December 31, 2009		September 30, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 10,517		$ 8,910		$ 10,899	
Loans in forbearance[2]	1,170		967		851	
Loans in repayment and percentage of each status:						
Loans current	22,926	88.9%	12,421	86.4%	10,458	85.3%
Loans delinquent 31-60 days[3]	907	3.5	647	4.5	551	4.5
Loans delinquent 61-90 days[3]	489	1.9	340	2.4	353	2.9
Loans delinquent greater than 90 days[3]	1,462	5.7	971	6.7	892	7.3
Total Private Education Loans in repayment	25,784	100.0%	14,379	100.0%	12,254	100.0%
Total Private Education Loans, gross	37,471		24,256		24,004	
Private Education Loan unamortized discount	(873)		(559)		(543)	
Total Private Education Loans	36,598		23,697		23,461	
Private Education Loan receivable for partially charged-off loans	979		499		435	
Private Education Loan allowance for losses	(2,035)		(1,443)		(1,401)	
Private Education Loans, net	$ 35,542		$ 22,753		$ 22,495	
Percentage of Private Education Loans in repayment		68.8%		59.3%		51.1%
		11.1%		13.6%		14.7%

Delinquencies as a percentage of Private Education Loans in repayment			
Loans in forbearance as a percentage of loans in repayment and forbearance	4.3%	6.3%	6.5%

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

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Allowance at beginning of period	$ 188,685	$ 153,038	$ 161,168	$ 137,543
Provision for FFELP loan losses	24,582	20,918	76,191	80,911
Charge-offs	(21,273)	(16,977)	(66,912)	(60,708)
Decrease for student loan sales and other	(2,728)	(1,252)	(6,330)	(2,019)
Consolidation of off-balance sheet trusts[(1)]			25,149	
Allowance at end of period	$ 189,266	$ 155,727	$ 189,266	$ 155,727
Charge-offs as a percentage of average loans in repayment (annualized)	.1%	.1%	.1%	.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.1%	.1%	.1%	.1%
Allowance as a percentage of the ending total loan balance	.1%	.1%	.1%	.1%
Allowance as a percentage of ending loans in repayment	.2%	.2%	.2%	.2%
Allowance coverage of charge-offs (annualized)	2.2	2.3	2.1	1.9
Ending total loans, gross	$ 144,090,015	$ 134,087,420	$ 144,090,015	$ 134,087,420
Average loans in repayment	$ 82,202,512	$ 69,679,688	$ 82,362,216	$ 69,195,627
Ending loans in repayment	$ 81,787,661	$ 69,832,792	$ 81,787,661	$ 69,832,792

(1)

Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of September 30, 2010, 49 percent of the FFELP loan portfolio was subject to 3 percent Risk Sharing, 50 percent was subject to 2 percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of September 30, 2010, December 31, 2009 and September 30, 2009.

	FFELP Loan Delinquencies					
	September 30, 2010		December 31, 2009		September 30, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 42,852		$ 35,079		$ 50,795	
Loans in forbearance[2]	19,450		14,121		13,459	
Loans in repayment and percentage of each status:						
Loans current	67,867	83.0%	57,528	82.4%	57,934	83.0%
Loans delinquent 31-60 days[3]	5,054	6.2	4,250	6.1	4,225	6.0
Loans delinquent 61-90 days[3]	2,241	2.7	2,205	3.1	2,041	2.9
Loans delinquent greater than 90 days[3]	6,626	8.1	5,844	8.4	5,633	8.1
Total FFELP loans in repayment	81,788	100.0%	69,827	100.0%	69,833	100.0%
Total FFELP loans, gross	144,090		119,027		134,087	
FFELP loan unamortized premium	2,692		2,187		2,419	
Total FFELP loans	146,782		121,214		136,506	
FFELP loan allowance for losses	(189)		(161)		(156)	
FFELP loans, net	$ 146,593		$ 121,053		$ 136,350	
Percentage of FFELP loans in repayment		56.8%		58.7%		52.1%
Delinquencies as a percentage of FFELP loans in repayment		17.0%		17.6%		17.0%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		19.2%		16.8%		16.2%

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

[(2)] Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Investments

A summary of investments and restricted investments as of September 30, 2010 and December 31, 2009 follows:

	September 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 1,014	$	$	$ 1,014
Other securities:				
Asset-backed securities	74,846	2,112		76,958
Commercial paper and asset-backed commercial paper	111,661			111,661
Municipal bonds	9,558	2,440		11,998
Other	1,568		(74)	1,494
Total investment securities available-for-sale	$ 198,647	$ 4,552	$ (74)	$ 203,125
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 38,113	$	$	$ 38,113
Guaranteed investment contracts	29,456			29,456
Total restricted investments available-for-sale	$ 67,569	$	$	$ 67,569
Held-to-maturity:				
Guaranteed investment contracts	$ 3,175	$	$	$ 3,175
Total restricted investments held-to-maturity	$ 3,175	$	$	$ 3,175

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Investments (Continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 272	$	$	$ 272
Other securities:				
Asset-backed securities	110,336	306	(893)	109,749
Commercial paper and asset-backed commercial paper	1,149,981			1,149,981
Municipal bonds	9,935	1,942		11,877
Other	1,550		(154)	1,396
Total investment securities available-for-sale	$ 1,272,074	$ 2,248	$ (1,047)	$ 1,273,275
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 25,026	$	$	$ 25,026
Guaranteed investment contracts	26,951			26,951
Total restricted investments available-for-sale	$ 51,977	$	$	$ 51,977
Held-to-maturity:				
Guaranteed investment contracts	$ 3,550	$	$	$ 3,550
Other	215			215
Total restricted investments held-to-maturity	$ 3,765	$	$	$ 3,765

In addition to the restricted investments detailed above, at September 30, 2010 and December 31, 2009, the Company had restricted cash and cash equivalents of $5.7 billion and $5.1 billion, respectively. As of September 30, 2010 and December 31, 2009, $38 million (all of which is in restricted cash and investments on the balance sheet) and $50 million ($25 million of which is in restricted cash and investments on the balance sheet), respectively, of available-for-sale investment securities were pledged as collateral.

There were no sales of investments, including available-for-sale securities, during the three and nine months ended September 30, 2010 and the three months ended September 30, 2009. In the nine months ended September 30, 2009,

the Company sold available-for-sale securities with a fair value of $100 million, resulting in no realized gain or loss. The cost basis for the security sale was determined through specific identification of the securities sold.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Investments (Continued)

As of September 30, 2010, the stated maturities for the investments (including restricted investments) are as follows:

	September 30, 2010		
	Held-to-Maturity	Available-for-Sale[1]	Other
Year of Maturity			
2010	$	$ 152,281	$ 874,497
2011			4,878
2012			
2013		528	
2014			
2015-2019		11,998	57,974
After 2019	3,175	105,887	869
Total	$ 3,175	$ 270,694	$ 938,218

(1) Available-for-sale securities are stated at fair value.

At September 30, 2010 and December 31, 2009, the Company also had other investments of $938 million and $741 million, respectively. At September 30, 2010 and December 31, 2009, other investments included $850 million and $636 million, respectively, of receivables for cash collateral posted with derivative counterparties. Other investments also included leveraged leases which at September 30, 2010 and December 31, 2009, totaled $58 million and $66 million, respectively, that are general obligations of American Airlines and Federal Express Corporation.

4. Goodwill and Acquired Intangible Assets

Goodwill

All acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as, or one level below, an operating segment. The following table summarizes the Company s historical allocation of goodwill to its reporting units, accumulated impairments and net goodwill for each reporting unit.

	As of September 30, 2010		
(Dollars in millions)	**Gross**	**Accumulated Impairments**	**Net**

Lending	$ 411	$ (24)	$ 387
Asset Performance Group (APG)	402	(402)	
Guarantor Servicing	62	(62)	
Upromise	140	(140)	
Other	1	(1)	
Total	$ 1,016	$ (629)	$ 387

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

	December 31, 2009		
(Dollars in millions)	**Gross**	**Accumulated Impairments**	**Net**
Lending	$ 411	$ (24)	$ 387
APG	402		402
Guarantor Servicing	62		62
Upromise	140		140
Other	1	(1)	
Total	$ 1,016	$ (25)	$ 991

Impairment Testing

The Company performs its goodwill impairment testing annually in the fourth quarter or more frequently if an event occurs or circumstances change such that it is more likely than not that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On March 30, 2010, President Obama signed into law H.R. 4872, the Health Care and Education Reconciliation Act of 2010 (HCERA), which included the SAFRA Act. Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Student Loan Program (DSLP). The new law does not alter or affect the terms and conditions of existing FFELP loans. This restructuring will result in both a significant amount of restructuring expenses incurred as well as a significant reduction of on-going operating costs once the restructuring is complete. See Note 13, Restructuring Activities for further details.

In connection with HCERA becoming law on March 30, 2010, a triggering event occurred for the Lending, APG and Guarantor Servicing reporting units which required the Company to assess potential goodwill impairment as of March 31, 2010. As part of the impairment assessment, the Company considered the implications of the HCERA legislation to these reporting units as well as continued uncertainty in the economy and the tight credit markets during the first quarter of 2010. The impairment assessment methodology utilized either a market approach and/or a discounted cash flow analysis for each reporting unit affected by the new HCERA legislation. This assessment resulted in estimated fair values of the Company s reporting units in excess of their carrying values at March 31, 2010. Accordingly, there was no indicated impairment for these reporting units in the first quarter of 2010.

When the Company performed its annual impairment assessment in the fourth quarter of 2009, the cash flow projections for the Lending, APG and Guarantor Servicing reporting units were valued assuming the proposed HCERA legislation was passed. There was no indicated impairment for any of the reporting units in the fourth quarter

of 2009.

During the second quarter of 2010, no triggering event occurred to warrant an interim impairment assessment.

During the third quarter of 2010, as part of a broad-based assessment of possible changes to the Company s business following the passage of HCERA the Company performed certain preliminary valuations which indicated there was possible impairment of goodwill and certain intangible assets in its Lending, APG, Upromise and Guarantor Servicing reporting units. The Company identified certain events that occurred during third quarter 2010 that it determined were triggering events because they either resulted in lower expected

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

future cash flows or because they provided indications that market participants would value the Company s reporting units below previous estimates of fair value. The triggering events that occurred in the third quarter included:

FFELP asset pricing information indicating market participants assume a greater uncertainty related to future cash flows and require a higher return on investment;

market bids related to the sale of a non-affiliated Guarantor business indicated a higher discount rate and greater uncertainty of future cash flows assumed;

the acquisition of FFELP assets by the Company that indicated a higher discount rate applied to future cash flows than previously estimated;

Upromise sale of a business line that provided an indication of how market participants view risks associated with future cash flows;

pricing pressures associated with new and existing business at the Upromise reporting unit; and

uncertainties related to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) legislation.

Because of the triggering events that occurred during the quarter and the preliminary assessment, the Company retained a third-party appraisal firm to perform Step 1 impairment testing as prescribed in ASC 350, Intangibles Goodwill and Other. The fair value of each reporting unit was 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 s future economic benefit determined by its discounted cash flows derived from the Company s projections plus an assumed terminal growth rate adjusted for what it believes a market participant would assume in an acquisition. These projections are generally five-year projections that reflect the inherent risk a willing buyer would consider when valuing these businesses. 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. These estimates may differ from how the Company views the prospective cash flows associated with the individual reporting units. As previously discussed, during the third quarter, new information regarding how market participants view the risks and uncertainties associated with future cash flows resulted in the Company adjusting down its forecasted cash flows and increasing the discount rates associated with these cash flows for the APG and Guarantor Servicing operating segments, resulting in a decline in value associated with these reporting units. With regard to Upromise,the Company determined that pricing pressures and certain risks associated with growing the business as well as the likelihood that a market participant would demand a higher discount rate and assume lower future expected cash flows than the Company s own assumptions resulted in a decline in the fair value of this reporting unit.

Under the Company s guidance, the third-party appraisal firm developed both an asset rate of return and an equity rate of return (or discount rate) for each reporting unit incorporating such factors as the 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 considered whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and valued each reporting unit based on the

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

more likely hypothetical scenario. Resulting discount rates and growth rates used for the Lending, APG, Guarantor Servicing, and Upromise reporting units were:

	Third Quarter 2010		Fourth Quarter 2009	
	Discount Rate	Growth Rate	Discount Rate	Growth Rate
Lending[1]	13%	0.5%	11%	3%
APG[2]	14%	2.5%	10%	4%
Guarantor Servicing[2]	13%	0%	10%	0%
Upromise[2]	17%	2.5%	15%	4%

(1) Assumes an equity sale; therefore, the discount rate is used to value the entire reporting unit.

(2) Assumes an asset sale; therefore, the discount rate is used to value the assets of the reporting unit.

The discount rates 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. The discount rates are higher than the ones used in the 2009 annual impairment test primarily due to new information received in the third quarter of 2010 related to implied discount rates of similar transactions that priced or settled in the third quarter of 2010. In addition, the Dodd-Frank Act, which became law in the third quarter of 2010, creates uncertainty over particular parts of the business. In addition, the Upromise reporting unit had a significant reduction in future revenue expectations during the third quarter of 2010 related to contract negotiations. Management reviewed and approved the discount rates provided by the third-party appraiser including the factors incorporated to develop the discount rates for each reporting unit. For the valuation of the Lending reporting unit, which assumed an equity sale, the discount rate was 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 were 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 were then used to payoff 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 was also considered for the Company s Lending reporting unit. 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 guideline companies, consideration is given to the line of business and the operating performance of the comparable companies versus the reporting unit being tested.

The following table illustrates the carrying value of equity for each reporting unit and the estimated fair value determined in conjunction with Step 1 impairment testing in the third quarter of 2010.

(Dollars in millions)	Carrying Value of Equity	Fair Value of Equity	$ Difference	% Difference
Lending	$ 3,530	$ 6,201	$ 2,671	76%
APG	641	405	(236)	(36)
Guarantor Servicing	97	91	(6)	(6)
Upromise	221	110	(111)	(50)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

The following table illustrates the book basis of equity for each reporting unit and the estimated fair value determined in conjunction with Step 1 impairment testing in the fourth quarter of 2009.

(Dollars in millions)	Carrying Value of Equity	Fair Value of Equity	$ Difference	% Difference
Lending	$ 1,474	$ 3,270	$ 1,796	122%
APG	1,390	1,690	300	22
Guarantor Servicing	142	221	79	56
Upromise	297	430	133	45

The estimated fair value of the Company resulting from its third-quarter 2010 Step 1 impairment test was 29 percent higher than its market capitalization as of the valuation date. The Company views this as a reasonable control premium. Management reviewed and approved the valuation prepared by the appraisal firm for each reporting unit, including the valuation methods employed and the key assumptions used, such as the discount rates, growth rates and control premiums, as applicable, for each reporting unit. Management also performed stress tests of key assumptions using a range of discount rates and growth rates, as applicable. Based on the valuations performed in conjunction with Step 1 impairment testing and these stress tests, there was no indicated impairment for the Lending reporting unit and there was indicated impairment for the APG, Guarantor Services and Upromise reporting units in the third quarter testing.

Under the second step of the analysis, determining the implied fair value of goodwill requires valuation of a reporting unit s identifiable tangible and intangible assets and liabilities in a manner similar to the allocation of purchase price in a business combination. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, goodwill is deemed impaired and is written down to the extent of the difference. As a result, the Company impaired the value of its goodwill by $402 million in its APG reporting unit, $140 million in its Upromise reporting unit and $62 million in its Guarantor Servicing reporting unit, which has been recorded as a charge in the third quarter of 2010.

Management acknowledges that the economic slowdown could adversely affect the operating results of the Company s reporting units. If the forecasted performance of the Company s reporting units is not achieved, or if the Company s stock price declines to a depressed level resulting in deterioration in the Company s total market capitalization, the fair value of the Lending reporting unit (which is the only reporting unit that has goodwill as of September 30, 2010) could be significantly reduced, and the Company may be required to record a charge, which could be material, for an impairment of goodwill.

In connection with management s assessment of possible changes to the Company s business, the Company is planning to redefine its operating segments and revise its reportable segments presentation in the fourth quarter of 2010, once

certain decisions have been finalized with respect to how management will view the business on a going-forward basis.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

Goodwill by Reportable Segments

A summary of the Company s goodwill by reportable segment is as follows:

(Dollars in millions)	September 30, 2010	December 31, 2009
Lending	$ 387	$ 387
APG		402
Other		202
Total	$ 387	$ 991

Acquired Intangible Assets

Acquired intangible assets include the following:

		As of September 30, 2010		
(Dollars in millions)	Average Amortization Period	Cost Basis[1]	Accumulated Impairment and Amortization[1]	Net
Intangible assets subject to amortization:				
Customer, services and lending relationships	13 years	$ 307	$ (232)	$ 75
Software and technology	7 years	93	(90)	3
Non-compete agreements		11	(11)	
Total		411	(333)	78
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	23		23
Total acquired intangible assets		$ 434	$ (333)	$ 101

As of December 31, 2009

(Dollars in millions)	Average Amortization Period	Cost Basis[1]	Accumulated Impairment and Amortization[1]	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 332	$ (208)	$ 124
Software and technology	7 years	98	(89)	9
Non-compete agreements		11	(11)	
Total		441	(308)	133
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (308)	$ 187

(1) Includes impairment amounts only if portion of the acquired intangible has been deemed impaired. When an acquired intangible is considered fully impaired the cost basis and any accumulated amortization related to the asset is written off.

Intangible asset impairment for the Upromise reporting unit totaled $53 million for both the three and nine months ended September 30, 2010 and $0 for the three and nine months ended September 30, 2009. Intangible asset impairment for the Lending reporting unit totaled $3 million for both the three and nine

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Goodwill and Acquired Intangible Assets (Continued)

months ended September 30, 2010 and $0 for both the three and nine months ended September 30, 2009 (see previous discussion regarding reasons for goodwill impairment testing).

The Company recorded amortization of acquired intangible assets from continuing operations totaling $10 million and $10 million for the three months ended September 30, 2010 and 2009, respectively and $29 million and $29 million for the nine months ended September 30, 2010 and 2009, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

5. Borrowings

The following table summarizes the Company s borrowings as of September 30, 2010 and December 31, 2009.

	September 30, 2010			December 31, 2009		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings	$ 3,422	$ 19,177	$ 22,599	$ 5,185	$ 22,797	$ 27,982
Unsecured term bank deposits	1,618	3,263	4,881	842	4,795	5,637
FHLB-DM facility	525		525			
ED Participation Program facility	20,226		20,226	9,006		9,006
ED Conduit Program facility	15,426		15,426	14,314		14,314
ABCP borrowings	1,152	4,827	5,979		8,801	8,801
Securitizations		120,720	120,720		89,200	89,200
Indentured trusts	2	1,330	1,332	64	1,533	1,597
Other[(1)]	2,745		2,745	1,472		1,472
Total before hedge accounting adjustments	45,116	149,317	194,433	30,883	127,126	158,009
Hedge accounting adjustments	272	3,687	3,959	14	3,420	3,434
Total	$ 45,388	$ 153,004	$ 198,392	$ 30,897	$ 130,546	$ 161,443

(1) At September 30, 2010, other primarily consists of $1.6 billion of cash collateral held related to derivative exposures that are recorded as a short-term debt obligation, as well as $1.1 billion of unsecured other bank deposits. At December 31, 2009, other primarily consisted of cash collateral held related to derivative exposures that are recorded as a short-term debt obligation.

Secured Borrowings

VIEs are required to be consolidated by their primary beneficiaries. The criteria to be considered the primary beneficiary changed on January 1, 2010 upon the adoption of topic updates to ASC 810 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion). A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Borrowings (Continued)

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The Company is the primary beneficiary of and currently consolidates the following financing VIEs as of September 30, 2010 and December 31, 2009:

	September 30, 2010						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 20,226	$	$ 20,226	$ 20,656	$ 162	$ 434	$ 21,252
ED Conduit Program facility	15,426		15,426	15,515	501	434	16,450
ABCP borrowings	1,152	4,827	5,979	6,418	94	54	6,566
Securitizations		120,720	120,720	124,269	4,605	3,436	132,310
Indentured trusts	2	1,330	1,332	1,608	160	16	1,784
Total before hedge accounting adjustments	36,806	126,877	163,683	168,466	5,522	4,374	178,362
Hedge accounting adjustments		1,597	1,597				
Total	$ 36,806	$ 128,474	$ 165,280	$ 168,466	$ 5,522	$ 4,374	$ 178,362

	December 31, 2009						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
	$ 9,006	$	$ 9,006	$ 9,397	$ 115	$ 61	$ 9,573

ED Participation Program facility							
ED Conduit Program facility	14,314		14,314	14,594	478	372	15,444
ABCP borrowings		8,801	8,801	9,929	204	100	10,233
Securitizations		89,200	89,200	93,021	3,627	3,083	99,731
Indentured trusts	64	1,533	1,597	1,898	172	24	2,094
Total before hedge accounting adjustments	23,384	99,534	122,918	128,839	4,596	3,640	137,075
Hedge accounting adjustments		1,479	1,479				
Total	$ 23,384	$ 101,013	$ 124,397	$ 128,839	$ 4,596	$ 3,640	$ 137,075

The Department of Education (ED) Funding Programs

In August 2008, ED implemented the Purchase Program and the Participation Program pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (ECASLA). Under the Purchase Program, ED

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Borrowings (Continued)

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

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and accepted eligible loans through July 1, 2010. The ED Conduit Program expires on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (FFB). The FFB will hold the notes for a short period of time and, if at the end of that time, the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through a put agreement at a price of 97 percent of the face amount of the loans. As of September 30, 2010, approximately $15.2 billion face amount of the Company s Stafford and PLUS Loans were funded through the ED Conduit Program. For the third quarter of 2010, the average interest rate paid on this facility was approximately 0.77 percent.

Asset-Backed Financing Facilities

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

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

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. In addition to the funding limits described above, funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company s failure to comply with the principal financial covenants in its unsecured revolving credit facility. Increases in the borrowing rate of up to LIBOR

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Borrowings (Continued)

plus 4.50 percent could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 2.00 percent to LIBOR plus 3.00 percent over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon. As of September 30, 2010, there was approximately $6.0 billion outstanding in this facility. The book basis of the assets securing this facility at September 30, 2010 was $6.6 billion.

Securitizations

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

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

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

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

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

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

26

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended
September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Borrowings (Continued)

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

The Company has $5.3 billion face amount of Private Education Loan securitization bonds outstanding at September 30, 2010, where the Company has the ability to call the bonds at a discount to par between 2011 and 2014. The Company has concluded that it is probable it will call these bonds at the call date at the respective discount. Probability is based on the Company s assessment of whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date. If it becomes less than probable that the Company will call these bonds at a future date, it will result in the Company reversing this prior accretion as a cumulative catch-up adjustment. The Company has accreted approximately $140 million, cumulatively, and $27 million in the third quarter of 2010 as a reduction of interest expense.

Auction Rate Securities

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

Indentured Trusts

The Company has secured assets and outstanding bonds in indentured trusts resulting from the acquisition of various student loan providers in prior periods. The indentures were created and bonds issued to finance the acquisition of student loans guaranteed under the Higher Education Act. The bonds are limited obligations of the Company and are secured by and payable from payments associated with the underlying secured loans.

Federal Home Loan Bank of Des Moines (FHLB-DM)

On January 15, 2010, HICA Education Loan Corporation (HICA), a subsidiary of the Company, entered into a lending agreement with the FHLB-DM. Under the agreement, the FHLB-DM will provide advances backed by Federal

Housing Finance Agency approved collateral which includes federally-guaranteed student loans (but does not include Private Education Loans). The initial borrowing of $25 million at a rate of 0.23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of September 30, 2010, subject to available collateral, is

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Borrowings (Continued)

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

Other Funding Sources

Sallie Mae Bank

During the fourth quarter of 2008, Sallie Mae Bank, the Company s Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits through intermediaries in the retail brokered Certificate of Deposit (CD) market and through retail deposit channels. As of September 30, 2010, bank deposits totaled $6.0 billion of which $4.9 billion were brokered term deposits, $0.8 billion were retail deposits and $0.3 billion were other deposits. In addition, the bank has deposits from affiliates totaling $0.5 billion that eliminate in the Company s consolidated balance sheet. Cash and liquid investments totaled $2.7 billion as of September 30, 2010.

Under Sallie Mae Bank s 2010 business plan submitted to its regulators, Sallie Mae Bank is permitted to declare and pay a dividend to its parent, SLM Corporation. The dividend must be permitted by Utah law and the Bank must be in compliance with its capital standards at the time of payment and be projected to maintain sufficient capital over a period of time. On October 28, 2010, Sallie Mae Bank paid a cash dividend of $400 million to the Company.

In addition to its deposit base, Sallie Mae Bank has borrowing capacity with the Federal Reserve Bank (FRB) through a collateralized lending facility. Borrowing capacity is limited by the availability of acceptable collateral. As of September 30, 2010, borrowing capacity was approximately $0.6 billion and there were no outstanding borrowings.

Unsecured Revolving Credit Facility

As of September 30, 2010, the Company had $1.6 billion in an unsecured revolving credit facility which provides liquidity support for general corporate purposes. This facility matures in October 2011. On May 5, 2010, the $1.9 billion revolving credit facility maturing in October 2010 was terminated.

The principal financial covenants in the unsecured revolving credit facility require the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.3 billion as of September 30, 2010. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters adjusted Core Earnings financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended September 30, 2010. In the past, the Company has not relied upon its unsecured revolving credit facilities as a primary source of liquidity. Although the Company has never borrowed under these facilities, the revolving credit facility maturing October 2011 remains available to be drawn upon for general corporate purposes.

6. Student Loan Securitization

The Company securitizes its FFELP Stafford loans, FFELP Consolidation Loans and Private Education Loan assets. Prior to the adoption of topic updates to the FASB s ASC 810 on January 1, 2010, for transactions qualifying as sales, the Company retained a Residual Interest and servicing rights (as the Company retained the servicing responsibilities), all of which were referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Student Loan Securitization (Continued)

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. As a result of adopting the topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its previously off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further details). While this accounting has changed, the Company s economic interest in these assets remains unchanged.

Securitization Activity

The following table summarizes the Company s securitization activity for the three and nine months ended September 30, 2010 and 2009. The securitizations in the periods presented below were accounted for as financings under ASC 860.

	Three Months Ended September 30,						Nine Months Ended September 30,					
	2010			2009			2010			2009		
(Dollars in millions)	**No. of Transactions**		**Loan Amount Securitized**	**No. of Transactions**		**Loan Amount Securitized**	**No. of Transactions**		**Loan Amount Securitized**	**No. of Transactions**		**Loan Amount Securitized**
Securitizations:												
FFELP Stafford/PLUS Loans	1	$	754		$		2	$	1,965		$	
FFELP Consolidation Loans										2		4,524
Private Education Loans	2		4,257	2		3,766	3		6,186	4		10,184
Total securitizations	3	$	5,011	2	$	3,766	5	$	8,151	6	$	14,708

The following table summarizes cash flows received from or paid to the previously off-balance sheet securitization trusts during the three and nine months ended September 30, 2009.

(Dollars in millions)	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2009**

Net proceeds from new securitizations completed during the period	$	$
Cash distributions from trusts related to Residual Interests	100	368
Servicing fees received[1]	55	171
Purchases of previously transferred financial assets for representation and warranty violations	(1)	(6)
Reimbursements of borrower benefits	(9)	(26)
Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option		
Purchases of loans using clean-up call option		

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Student Loan Securitization (Continued)

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of December 31, 2009. As noted previously, the Residual Interest was removed from the balance sheet on January 1, 2010.

	As of December 31, 2009			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests	$ 243	$ 791	$ 794	$ 1,828
Underlying securitized loan balance	5,377	14,369	12,986	32,732
Weighted average life	3.3 yrs.	9.0 yrs.	6.3 yrs.	
Prepayment speed (annual rate)[2]:				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal)[3][4]	.10%	.25%	5.31%	
Residual cash flows discount rate	10.6%	12.3%	27.5%	

(1) Includes $569 million related to the fair value of the Embedded Floor Income as of December 31, 2009.

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

(3) Remaining expected credit losses as of the respective balance sheet date.

(4) For Private Education Loan trusts, estimated defaults from settlement to maturity are 12.2 percent at December 31, 2009. These estimated defaults do not include recoveries related to defaults but do include prior purchases of loans at par by the Company when loans reached 180 days delinquent (prior to default) under a

contingent call option. Although these loan purchases do not result in a realized loss to the trust, the Company has included them here. Not including these purchases in the disclosure would result in estimated defaults of 9.3 percent at December 31, 2009.

The Company recorded net unrealized mark-to-market gains/(losses) in securitization servicing and Residual Interest revenue (loss) of $13 million and $(338) million for the three and nine months ended September 30, 2009.

The $13 million unrealized mark-to-market gain in the third quarter of 2009 was primarily a result of decreases in the discount rates used to value the Residual Interests, increases in the fair value of the Embedded Fixed Rate Floor Income component of the Residual Interest and reductions in the life of loan CPR which were partially offset by higher than modeled defaults on Private Education Loans.

The $338 million mark-to-market loss for the nine months ended September 30, 2009 was primarily due to:

Higher than modeled Private Education Loan defaults resulted in a $262 million unrealized mark-to-market loss.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Student Loan Securitization (Continued)

Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $49 million unrealized mark-to-market loss.

The discount rate risk premium assumption related to the Private Education Loan Residual Interests was increased by 500 basis points to take into account the level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests as of September 30, 2009. This resulted in a $126 million unrealized mark-to-market loss.

Decreases in life of loan CPR speeds used to value the Residual Interests resulted in a $62 million mark-to-market gain.

The table below shows the Company s off-balance sheet Private Education Loan delinquencies as of September 30, 2009.

(Dollars in millions)	Off-Balance Sheet Private Education Loan Delinquencies September 30, 2009 Balance	%
Loans in-school/grace/deferment[1]	$ 3,148	
Loans in forbearance[2]	474	
Loans in repayment and percentage of each status:		
Loans current	8,516	90.0%
Loans delinquent 31-60 days[3]	312	3.3
Loans delinquent 61-90 days[3]	161	1.7
Loans delinquent greater than 90 days[3]	469	5.0
Total off-balance sheet Private Education Loans in repayment	9,458	100.0%
Total off-balance sheet Private Education Loans, gross	$ 13,080	

[1] Loans for borrowers who may be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

[2] Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardships or other factors, consistent with established loan program servicing policies and procedures.

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

SLM CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended
September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)**

6. Student Loan Securitization (Continued)

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the three and nine months ended September 30, 2009.

(Dollars in millions)	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Charge-offs	$ 150	$ 329
Charge-offs as a percentage of average loans in repayment (annualized)	6.2%	4.6%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	5.9%	4.3%
Ending off-balance sheet total Private Education Loans[1]	$ 13,280	$ 13,280
Average off-balance sheet Private Education Loans in repayment	$ 9,585	$ 9,543
Ending off-balance sheet Private Education Loans in repayment	$ 9,458	$ 9,458

[1] Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 2, Allowance for Loan Losses).

7. Derivative Financial Instruments

Derivative instruments are used as part of the Company s interest rate and foreign currency risk management strategy and include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. (For a full discussion of the Company s risk management strategy and use of derivatives, please see the Company s 2009 Form 10-K, Note 9, Derivative Financial Instruments, to the consolidated financial statements.) The accounting for the Company s derivatives requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company s derivative instruments are classified and accounted for by the Company as fair value hedges, cash flow hedges or trading activities.

Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. Changes in

value for both the hedge and the hedged item are recorded to earnings. These amounts offset each other with the net amount representing the ineffectiveness of the relationship.

Cash Flow Hedges

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Derivative Financial Instruments (Continued)

Trading Activities

When instruments do not qualify as hedges, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. In general, derivative instruments included in trading activities include Floor Income Contracts, basis swaps and various other derivatives that do not qualify for hedge accounting.

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2010 and December 31, 2009, and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2010 and 2009.

Impact of Derivatives on Consolidated Balance Sheet

		Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	Hedged Risk Exposure	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009	Sept. 30, 2010	Dec. 31, 2009
Fair Values[1]									
Derivative Assets									
Interest rate swaps	Interest rate	$	$	$ 1,447	$ 684	$ 208	$ 133	$ 1,655	$ 817
Cross currency interest rate swaps	Foreign currency and interest rate			2,594	2,932	94	44	2,688	2,976
Other[2]	Interest rate					32		32	
Total derivative assets[3]				4,041	3,616	334	177	4,375	3,793
Derivative Liabilities									
Interest rate swaps	Interest rate	(92)	(78)		(6)	(282)	(639)	(374)	(723)
Floor Income Contracts	Interest rate					(1,578)	(1,234)	(1,578)	(1,234)
Cross currency interest rate swaps	Foreign currency and interest rate			(207)	(192)	(1)	(1)	(208)	(193)
Other[2]	Interest rate					(1)	(20)	(1)	(20)

Total derivative liabilities[3]	(92)	(78)	(207)	(198)	(1,862)	(1,894)	(2,161)	(2,170)
Net total derivatives	$ (92)	$ (78)	$ 3,834	$ 3,418	$ (1,528)	$ (1,717)	$ 2,214	$ 1,623

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

(2) Other includes the fair value of Euro-dollar futures contracts, the embedded derivatives in asset-backed financings, and derivatives related to the Company s Total Return Swap Facility. The embedded derivatives are required to be accounted for as derivatives.

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

	Other Assets		**Other Liabilities**	
	September 30, 2010	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Gross position	$ 4,375	$ 3,793	$ (2,161)	$ (2,170)
Impact of master netting agreements	(1,084)	(1,009)	1,084	1,009
Derivative values with impact of master netting agreements (as carried on balance sheet)	3,291	2,784	(1,077)	(1,161)
Cash collateral (held) pledged	(1,666)	(1,268)	850	636
Net position	$ 1,625	$ 1,516	$ (227)	$ (525)

33

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Derivative Financial Instruments (Continued)

(Dollars in billions)	Cash Flow Sept. 30, 2010	Cash Flow Dec. 31, 2009	Fair Value Sept. 30, 2010	Fair Value Dec. 31, 2009	Trading Sept. 30, 2010	Trading Dec. 31, 2009	Total Sept. 30, 2010	Total Dec. 31, 2009
Notional Values								
Interest rate swaps	$ 1.7	$ 1.7	$ 13.5	$ 12.4	$ 128.6	$ 148.2	$ 143.8	$ 162.3
Floor Income Contracts					39.3	47.1	39.3	47.1
Cross currency interest rate swaps			19.6	19.3	.3	.3	19.9	19.6
Other[1]					1.0	1.1	1.0	1.1
Total derivatives	$ 1.7	$ 1.7	$ 33.1	$ 31.7	$ 169.2	$ 196.7	$ 204.0	$ 230.1

(1) Other includes Euro-dollar futures contracts, embedded derivatives bifurcated from securitization debt, as well as derivatives related to the Company s Total Return Swap Facility.

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended September 30,							
(Dollars in millions)	Unrealized Gain (Loss) on Derivatives[1][2] 2010	2009	Realized Gain (Loss) on Derivatives[3] 2010	2009	Unrealized Gain (Loss) on Hedged Item[1] 2010	2009	Total Gain (Loss) 2010	2009
Fair Value Hedges								
Interest rate swaps	$ 277	$ 121	$ 119	$ 111	$ (309)	$ (132)	$ 87	$ 100
Cross currency interest rate swaps	1,855	813	87	124	(2,015)	(807)	(73)	130
Total fair value derivatives	2,132	934	206	235	(2,324)	(939)	14	230
Cash Flow Hedges								
Interest rate swaps	(1)		(14)	(38)			(15)	(38)
Total cash flow derivatives	(1)		(14)	(38)			(15)	(38)
Trading								

Interest rate swaps	85	91	(18)	70			67	161
Floor Income Contracts	(88)	(80)	(223)	(189)			(311)	(269)
Cross currency interest rate swaps	24	18	2	2			26	20
Other	33	(18)	34	(1)			67	(19)
Total trading derivatives	54	11	(205)	(118)			(151)	(107)
Total	2,185	945	(13)	79	(2,324)	(939)	(152)	85
Less: realized gains (losses) recorded in interest expense			192	197			192	197
Gains (losses) on derivative and hedging activities, net	$ 2,185	$ 945	$ (205)	$ (118)	$ (2,324)	$ (939)	$ (344)	$ (112)

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

(2) Represents ineffectiveness related to cash flow hedges.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Derivative Financial Instruments (Continued)

	Nine Months Ended September 30,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	2010	2009	2010	2009	2010	2009	2010	2009
Fair Value Hedges								
Interest rate swaps	$ 769	$ (549)	$ 368	$ 287	$ (847)	$ 583	$ 290	$ 321
Cross currency interest rate swaps	(1,227)	1,054	269	320	1,148	(1,308)	190	66
Total fair value derivatives	(458)	505	637	607	301	(725)	480	387
Cash Flow Hedges								
Interest rate swaps	(1)		(44)	(77)			(45)	(77)
Total cash flow derivatives	(1)		(44)	(77)			(45)	(77)
Trading								
Interest rate swaps	485	(511)	(18)	418			467	(93)
Floor Income Contracts	(111)	323	(656)	(500)			(767)	(177)
Cross currency interest rate swaps	51	(15)	5	3			56	(12)
Other	39	(68)	32	1			71	(67)
Total trading derivatives	464	(271)	(637)	(78)			(173)	(349)
Total	5	234	(44)	452	301	(725)	262	(39)
Less: realized gains (losses) recorded in interest expense			593	530			593	530
Gains (losses) on derivative and hedging activities, net	$ 5	$ 234	$ (637)	$ (78)	$ 301	$ (725)	$ (331)	$ (569)

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

(2) Represents ineffectiveness related to cash flow hedges.

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

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

(Dollars in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Total gains (losses) on cash flow hedges	$ (10)	$ (21)	$ (36)	$ (20)
Realized (gains) losses reclassified to interest expense[1][2][3]	9	24	31	49
Hedge ineffectiveness reclassified to earnings[1][4]				
Total change in stockholders' equity for unrealized gains (losses) on derivatives	$ (1)	$ 3	$ (5)	$ 29

(1) Amounts included in "Realized gain (loss) on derivatives" in the "Impact of Derivatives on Consolidated Statements of Income" table above.

(2) Includes net settlement income/expense.

(3) The Company expects to reclassify $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to net settlement accruals on interest rate swaps.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

7. Derivative Financial Instruments (Continued)

Collateral

Collateral held and pledged at September 30, 2010 and December 31, 2009 related to derivative exposures between the Company and its derivative counterparties are detailed in the following table:

(Dollars in millions)		September 30, 2010		December 31, 2009
Collateral held:				
Cash (obligation to return cash collateral is recorded in short-term borrowings)[1]	$	1,666	$	1,268
Securities at fair value corporate derivatives (not recorded in financial statements)[2]				112
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[3]		702		717
Total collateral held	$	2,368	$	2,097
Derivative asset at fair value including accrued interest	$	3,613	$	3,119
Collateral pledged to others:				
Cash (right to receive return of cash collateral is recorded in investments)	$	850	$	636
Securities at fair value (recorded in investments)[4]				25
Securities at fair value (recorded in restricted investments)[5]		38		25
Securities at fair value re-pledged (not recorded in financial statements)[5][6]				87
Total collateral pledged	$	888	$	773
Derivative liability at fair value including accrued interest and premium receivable	$	766	$	758

(1) At September 30, 2010 and December 31, 2009, $205 million and $447 million, respectively, were held in restricted cash accounts.

(2)

Effective with the downgrade in the Company s unsecured credit ratings on May 13, 2009, certain counterparties restrict the Company s ability to sell or re-pledge securities it holds as collateral.

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

(4) Counterparty does not have the right to sell or re-pledge securities.

(5) Counterparty has the right to sell or re-pledge securities.

(6) Represents securities the Company holds as collateral that have been pledged to other counterparties.

The Company s corporate derivatives contain credit contingent features. At the Company s current unsecured credit rating, it has fully collateralized its corporate derivative liability position (including accrued interest and net of premiums receivable) of $718 million with its counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. The Company currently has a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $80 million and has posted $78 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, the Company would be required to deliver assets totaling $2 million to settle the contracts. Trust related derivatives do not contain credit contingent features related to the Company s or trusts credit ratings.

At December 31, 2009, $381 million in collateral related to off-balance sheet trust derivatives were held by previously off-balance sheet trusts. Collateral posted by third parties to the off-balance sheet trusts cannot be sold or re-pledged by the trusts. As of January 1, 2010, the off-balance sheet trusts were consolidated with the adoption of topic updates to ASC 810. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model.)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

8. Other Assets

The following table provides detail on the Company s other assets at September 30, 2010 and December 31, 2009.

	September 30, 2010		December 31, 2009	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable	$ 3,431,951	32%	$ 2,566,984	26%
Derivatives at fair value	3,290,477	31	2,783,696	28
Income tax asset, net current and deferred	1,501,601	14	1,750,424	18
APG purchased paper receivables and real estate owned	183,160	2	286,108	3
Benefit and insurance-related investments	480,089	5	472,079	5
Fixed assets, net	312,932	3	322,481	3
Accounts receivable general	686,932	6	807,086	8
Other loans	289,917	3	420,233	4
Other	476,390	4	511,500	5
Total	$ 10,653,449	100%	$ 9,920,591	100%

The Derivatives at fair value line in the above table represents the fair value of the Company s derivatives in a net gain position by counterparty, exclusive of accrued interest and collateral. At September 30, 2010 and December 31, 2009, these balances included $3.8 billion and $3.4 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of September 30, 2010 and December 31, 2009, the cumulative mark-to-market adjustment to the hedged debt was $(3.9) billion and $(3.4) billion, respectively.

9. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	**2010**	**2009**	**2010**	**2009**
Common shares repurchased:				

Benefit plans[1]	.2	.1	.8	.2
Total shares repurchased	.2	.1	.8	.2
Average purchase price per share	$ 12.20	$ 17.81	$ 13.82	$ 22.91
Common shares issued	.2	7.0	1.6	7.4
Authority remaining at end of period for repurchases	38.8	38.8	38.8	38.8

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

9. Stockholders Equity (Continued)

The closing price of the Company s common stock on September 30, 2010 was $11.55.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive loss as of September 30, 2010 and December 31, 2009.

	September 30, 2010	December 31, 2009
Net unrealized gains on investments[1][2]	$ 3,236	$ 1,629
Net unrealized losses on derivatives[3]	(58,782)	(53,899)
Net gain on defined benefit pension plans[4]	11,387	11,445
Total accumulated other comprehensive loss	$ (44,159)	$ (40,825)

(1) Net of tax expense of $2 million and $1 million as of September 30, 2010 and December 31, 2009, respectively.

(2) Net unrealized gains (losses) on investments include currency translation gains of $.4 million and $.8 million as of September 30, 2010 and December 31, 2009, respectively.

(3) Net of tax benefit of $34 million and $31 million as of September 30, 2010 and December 31, 2009, respectively.

(4) Net of tax expense of $7 million and $7 million as of September 30, 2010 and December 31, 2009, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

10. Earnings (Loss) per Common Share

Basic earnings (loss) per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Numerator:				
Net income (loss) from continuing operations attributable to common stock	$ (516,945)	$ 122,900	$ 23,624	$ (20,685)
Adjusted for dividends of convertible preferred stock series C[1]				
Net income (loss) from continuing operations attributable to common stock, adjusted	(516,945)	122,900	23,624	(20,685)
Net income (loss) from discontinued operations	3,211	(6,417)	3,211	(59,133)
Net income (loss) attributable to common stock, adjusted	$ (513,734)	$ 116,483	$ 26,835	$ (79,818)
Denominator (shares in thousands):				
Weighted average shares used to compute basic EPS	484,936	470,280	484,678	467,960
Effect of dilutive securities:				
Dilutive effect of convertible preferred stock series C[1]				
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP)[2]		778	1,531	
Dilutive potential common shares[3]		778	1,531	
Weighted average shares used to compute diluted EPS	484,936	471,058	486,209	467,960
Basic earnings (loss) per common share:				
Continuing operations	$ (1.07)	$ .26	$ .05	$ (.04)
Discontinued operations	.01	(.01)	.01	(.13)
Total	$ (1.06)	$ .25	$ .06	$ (.17)

Diluted earnings (loss) per common share:								
Continuing operations	$	(1.07)	$	.26	$	.05	$	(.04)
Discontinued operations		.01		(.01)		.01		(.13)
Total	$	(1.06)	$	.25	$	.06	$	(.17)

(1) The Company s 7.25 percent mandatory convertible preferred stock Series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between approximately 34 million shares and 41 million shares of common stock, depending upon the Company s stock price at that time. Depending upon the amount of the mandatory convertible preferred stock outstanding as of that date, the actual number of shares of common stock issued may be less. These instruments were anti-dilutive for the three and nine months ended September 30, 2010 and 2009.

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

(3) For the three and nine months ended September 30, 2010, stock options covering approximately 16 million shares for each period were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the three and nine months ended September 30, 2009, stock options covering approximately 43 million shares for each period were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Stock-Based Compensation Plans and Arrangements

Stock Option Exchange Program

On May 17, 2010, the Company launched a one-time stock option exchange program to allow certain eligible employees (excluding the Company s named executive officers and members of its Board of Directors) to exchange certain out-of-the-money options for new options with an exercise price equal to the fair market value of the Company s stock as of the grant date. To be eligible for the exchange, the options had to have been granted on or before January 31, 2008, had an exercise price that was greater than or equal to $20.94 per share, had a remaining term that expired after January 1, 2011 and were outstanding as of the start date of the offer and at the time the offer expired. The offering period closed on June 14, 2010. On that date, 15.1 million options were tendered and exchanged for 8.0 million new options with an exercise price of $11.39. None of the replacement options were vested on the date of grant. Replacement options will vest in six months, twelve months or two annual installments following the grant date, depending on the original vesting status and vesting terms of the eligible options, and will maintain the original contractual term of the eligible options for which they were exchanged. The exchange program was designed so that the fair market value of the new options would not be greater than the fair market value of the options exchanged, and as a result, this stock option exchange did not result in incremental compensation expense to the Company.

The following table summarizes stock option activity for the nine months ended September 30, 2010.

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2009	43,294,720	$ 28.77		
Granted	7,247,300	10.34		
Granted in stock option exchange	7,962,176	11.39		
Exercised	(623,713)	11.25		
Canceled	(4,601,952)	27.36		
Canceled in stock option exchange	(15,106,197)	35.87		
Outstanding at September 30, 2010	38,172,334	$ 19.72	6.36 yrs	$
Exercisable at September 30, 2010	16,705,129	$ 29.65	4.63 yrs	$

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

12. Other Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Gains on debt repurchases	$ 18,025	$ 74,367	$ 199,156	$ 463,416
Late fees and forbearance fees	33,687	38,588	111,454	107,351
Asset servicing and other transaction fees	28,421	27,872	86,320	79,318
Loan servicing fees	19,315	16,677	55,778	35,410
Foreign currency translation gains (losses), net	(18,779)	(23,164)	(37,172)	10,828
Other	9,833	15,666	30,275	44,906
Total	$ 90,502	$ 150,006	$ 445,811	$ 741,229

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

13. Restructuring Activities

Restructuring expenses of $11 million and $2 million were recorded in the three months ended September 30, 2010 and 2009, respectively. The following details the Company s two restructuring efforts:

On March 30, 2010, President Obama signed into law H.R. 4872, HCERA, which included the SAFRA Act. Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and requires all new federal loans to be made through the DSLP. The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law which will result in a significant reduction of operating costs due to the elimination of

positions and facilities associated with the origination of FFELP loans.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

13. Restructuring Activities (Continued)

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

In response to the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. This plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down or otherwise disposing of our debt purchased paper businesses, and significantly reducing our operating expenses. This restructuring plan was essentially completed in the fourth quarter of 2009. Under this plan, restructuring expenses of $1 million were recognized in continuing operations in the third quarter of 2010. Restructuring expenses from the fourth quarter of 2007 through the third quarter of 2010 totaled $133 million, of which $124 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the elimination of approximately 3,000 positions, or approximately 25 percent of the workforce prior to the restructuring. The Company estimates approximately $4 million of additional restructuring expenses will be incurred in the future related to this restructuring plan.

The following table summarizes the restructuring expenses incurred during the three and nine months ended September 30, 2010 and 2009 and cumulative restructuring expenses incurred through September 30, 2010 associated with the HCERA and CCRAA restructuring plans as discussed above.

	Three Months Ended September 30,		Nine Months Ended September 30,		Cumulative Expense[2] as of September 30,
	2010	2009	2010	2009	2010
Severance costs	$ 9,850	$ 2,372	$ 52,308	$ 7,232	$ 148,608
Lease and other contract termination costs	1,193	(12)	2,581	730	12,988
Exit and other costs	39	132	141	1,636	13,222
Total restructuring costs from continuing operations[1]	11,082	2,492	55,030	9,598	174,818
Total restructuring costs from discontinued operations		1,100		3,197	8,621

Total	$ 11,082	$ 3,592	$ 55,030	$ 12,795	$ 183,439

(1) Aggregate restructuring expenses from continuing operations incurred across the Company s reportable segments during the three months ended September 30, 2010 and 2009 totaled $10 million and $2 million, respectively, in the Company s Lending reportable segment, $2 million and $0, respectively, in the Company s APG reportable segment, and $(1) million and $0, respectively, in the Company s Other reportable segment. Aggregate restructuring expenses from continuing operations incurred across the Company s reportable segments during the nine months ended September 30, 2010 and 2009 totaled $47 million and $8 million, respectively, in the Company s Lending reportable segment, $3 million and $0, respectively, in the Company s APG reportable segment, and $5 million and $2 million, respectively, in the Company s Other reportable segment.

(2) Cumulative expense incurred since the fourth quarter of 2007.

As of September 30, 2010 and 2009, since the fourth quarter of 2007, severance costs have been incurred in conjunction with the aggregate completed and planned position eliminations of approximately 5,500 and 2,800 positions, respectively, across all of the Company s reportable segments, with position eliminations

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

13. Restructuring Activities (Continued)

ranging from senior executives to clerical personnel. Lease and other contract termination costs and exit and other costs incurred during the nine months ended September 30, 2010 and 2009, respectively, related primarily to terminated or abandoned facility leases and consulting costs incurred in conjunction with various cost reduction and exit strategies.

The following table summarizes changes in the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet.

	Severance Costs	Lease and Other Contract Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2008	$ 15,124	$ 2,798	$ 60	$ 17,982
Net accruals from continuing operations	11,196	890	1,681	13,767
Net accruals from discontinued operations	6,462	1,900		8,362
Cash paid	(23,587)	(1,807)	(1,741)	(27,135)
Balance at December 31, 2009	9,195	3,781		12,976
Net accruals from continuing operations	52,308	2,581	141	55,030
Net accruals from discontinued operations				
Cash paid	(26,742)	(2,034)	(141)	(28,917)
Balance at September 30, 2010	$ 34,761	$ 4,328	$	$ 39,089

14. Fair Value Measurements

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 with market transactions. Depending on the availability of observable inputs and prices, different valuation

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

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 determine 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.

During the three and nine months ended September 30, 2010, there were no significant transfers of financial instruments between levels.

Student Loans

The Company s 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; however, the fair value is disclosed in compliance with GAAP. FFELP loans classified as held-for-sale are those which the Company has the ability and intent to sell under various ED loan purchase programs. In these instances, the FFELP loans are valued using the committed sales price under the programs. For all other FFELP loans and Private Education Loans, fair values were determined by modeling loan 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, required return on equity, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of the Company s FFELP loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants.

Other Loans

Facilities financings, and mortgage and consumer loans held for investment are accounted for at cost with fair values being disclosed. Mortgage loans held for sale are accounted for at lower of cost or market. Fair value was determined with discounted cash flow models using the stated terms of the loans and observable market yield curves. In addition,

adjustments and assumptions were made for credit spreads, liquidity, prepayment speeds and defaults. A number of significant inputs into the models are not observable.

Cash and Investments (Including Restricted Cash and Investments)

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. Investments classified as trading or available-for-sale are carried at fair value in the financial statements. Investments in U.S. Treasury securities consisted of T-bills that trade in active markets. The fair value was

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

determined using observable market prices. Investments in mortgage-backed securities are valued using observable market prices. These securities are primarily collateralized by real estate properties in Utah and are guaranteed by either a government sponsored enterprise or the U.S. government. Other investments (primarily municipal bonds) for which observable prices from active markets are not available were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. These valuations are immaterial to the overall investment portfolio. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. At September 30, 2010, these investments consisted of overnight/weekly instruments with highly-rated counterparties. No additional adjustments were deemed necessary.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Foreign currency denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Credit adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Credit adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair value of a majority of derivative financial instruments was determined by standard derivative pricing and option models using the stated terms of the contracts and observable market inputs. In some cases, management utilized internally developed inputs that are not observable in the market, and as such, classified these instruments as level 3 fair values. Complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs.

When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is 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. When the counterparty has exposure to the Company under derivatives with the Company, the Company fully collateralizes the exposure, minimizing the adjustment necessary to the derivative

valuations for the Company s credit risk. While trusts that contain derivatives are not required to post collateral, when the counterparty is exposed to the trust the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. The net credit risk adjustment (adjustments for the Company s exposure to counterparties net of adjustments for the counterparties exposure to the Company) decreased the valuations by $70 million at September 30, 2010.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

Inputs specific to each class of derivatives disclosed in the table below are as follows:

Interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives that swap fixed interest payments for LIBOR interest payments (or vice versa) and derivatives swapping quarterly reset LIBOR for daily reset LIBOR were valued using the LIBOR swap yield curve which is an observable input from an active market. These derivatives are level 2 fair value estimates in the hierarchy. Other derivatives swapping LIBOR interest payments for another variable interest payment (primarily T-Bill or Prime) or swapping interest payments based on the Consumer Price Index for LIBOR interest payments are valued using the LIBOR swap yield curve and observable market spreads for the specified index. The markets for these swaps are generally illiquid as indicated by a wide bid/ask spread. The adjustment made for liquidity decreased the valuations by $133 million at September 30, 2010. These derivatives are level 3 fair value estimates.

Cross-currency interest rate swaps Derivatives are valued using standard derivative cash flow models. Derivatives hedging foreign-denominated bonds are valued using the LIBOR swap yield curve (for both USD and the respective currency), cross-currency basis spreads, and forward foreign currency exchange rates. The derivatives are primarily British Pound Sterling and Euro denominated. These inputs are observable inputs from active markets. Therefore, the resulting valuation is a level 2 fair value estimate. Amortizing notional derivatives (derivatives whose notional amounts change based on changes in the balance of, or pool of assets or debt) hedging trust debt use internally derived assumptions for the trust assets prepayment speeds and default rates to model the notional amortization. Management makes assumptions concerning the extension features of derivatives hedging rate-reset notes denominated in a foreign currency. These inputs are not market observable; therefore, these derivatives are level 3 fair value estimates.

Floor Income Contracts Derivatives are valued using an option pricing model. Inputs to the model include the LIBOR swap yield curve and LIBOR interest rate volatilities. The inputs are observable inputs in active markets and these derivatives are level 2 fair value estimates.

The carrying value of borrowings designated as the hedged item in an ASC 815 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

Residual Interests

Prior to the adoption of topic updates to ASC 810 on January 1, 2010 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* Transfers of Financial Assets and the VIE Consolidation Model), the Residual Interests were carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value was calculated using discounted cash flow models and option models. Observable inputs from active markets were used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates were

used in determining the fair value and required significant judgment. These unobservable inputs were internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back-tested its prepayment speeds, default rates and costs of funds assumptions by comparing those assumptions to actual results experienced. The Company used non-binding broker quotes and industry analyst reports which show changes in the indicative prices of

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

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 Interests. Market transactions were not available to validate the models results.

The following tables summarize the valuation of the Company s financial instruments that are marked-to-market on a recurring basis in the consolidated financial statements as of September 30, 2010 and December 31, 2009.

	Fair Value Measurements on a Recurring Basis as of September 30, 2010			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Available-for-sale investments:				
U.S. Treasury securities	$ 39	$	$	$ 39
Asset-backed securities		77		77
Commercial paper and asset-backed commercial paper		112		112
Guaranteed investment contracts		29		29
Other		14		14
Total available-for-sale investments	39	232		271
Derivative instruments:[1]				
Interest rate swaps		1,524	131	1,655
Cross currency interest rate swaps		772	1,916	2,688
Other			32	32
Total derivative assets		2,296	2,079	4,375
Counterparty netting				(1,084)
Subtotal[3]				3,291
Cash collateral held				(1,666)
Net derivative assets				1,625
Total	$ 39	$ 2,528	$ 2,079	$ 1,896
Liabilities[2]				
Derivative instruments[1]				
Interest rate swaps	$	$ (142)	$ (232)	$ (374)

Floor Income Contracts		(1,578)		(1,578)
Cross currency interest rate swaps		(85)	(123)	(208)
Other	(1)			(1)
Total derivative instruments	(1)	(1,805)	(355)	(2,161)
Counterparty netting				1,084
Subtotal[3]				(1,077)
Cash collateral pledged				850
Net derivative liabilities				(227)
Total	$ (1)	$ (1,805)	$ (355)	$ (227)

[1] Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

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

[3] As carried on the balance sheet.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

	Fair Value Measurements on a Recurring Basis as of December 31, 2009						
				Counterparty		Cash	
(Dollars in millions)	Level 1	Level 2	Level 3	Netting	Total[4]	Collateral	Net
Assets							
Available-for-sale investments	$	$ 1,330	$	$	$ 1,330	$	$ 1,330
Retained Interest in off-balance sheet securitized loans			1,828		1,828		1,828
Derivative instruments[1][2]		2,023	1,770	(1,009)	2,784	(1,268)	1,516
Total assets	$	$ 3,353	$ 3,598	$ (1,009)	$ 5,942	$ (1,268)	$ 4,674
Liabilities[3]							
Derivative instruments[1][2]	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)
Total liabilities	$ (2)	$ (1,650)	$ (518)	$ 1,009	$ (1,161)	$ 636	$ (525)

[1] Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

[2] Level 1 derivatives include Euro-dollar futures contracts. Level 2 derivatives include derivatives indexed to interest rate indices and currencies that are considered liquid. Level 3 derivatives include derivatives indexed to illiquid interest rate indices and derivatives for which significant adjustments were made to observable inputs.

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

[4] As carried on the balance sheet.

The following tables summarize the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis during the three and nine months ended September 30, 2010 and 2009.

Three Months Ended September 30, 2010
Derivative instruments

(Dollars in millions)	Interest Rate Swaps	Floor Income Contracts	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	$ (162)	$	$ 423	$ (9)	$ 252
Total gains/(losses) (realized and unrealized):					
Included in earnings[(1)]	65		1,414	33	1,512
Included in other comprehensive income					
Purchases, issuances and settlements	(4)		(44)	8	(40)
Transfers in and/or out of level 3					
Balance, end of period	$ (101)	$	$ 1,793	$ 32	$ 1,724
Change in unrealized gains/(losses) relating to instruments still held at the reporting date[(3)]	$ (17)	$	$ 1,371	$ 32	$ 1,386

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

	Nine Months Ended September 30, 2010						
		Derivative instruments					
(Dollars in millions)	Residual Interests	Interest Rate Swaps	Floor Income Contracts	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Total
Balance, beginning of period	$ 1,828	$ (272)	$ (54)	$ 1,596	$ (18)	$ 1,252	$ 3,080
Total gains/(losses) (realized and unrealized):							
Included in earnings[1]		169	3	328	37	537	537
Included in other comprehensive income							
Purchases, issuances and settlements		2	51	(131)	13	(65)	(65)
Removal of Residual Interests[2]	(1,828)						(1,828)
Transfers in and/or out of level 3							
Balance, end of period	$	$ (101)	$	$ 1,793	$ 32	$ 1,724	$ 1,724
Change in unrealized gains/(losses) relating to instruments still held at the reporting date[3]	$	$ 45	$	$ 197	$ 38	$ 280	$ 280

	Three Months Ended September 30, 2009			Nine Months Ended September 30, 2009		
(Dollars in millions)	Residual Interests	Derivative Instruments	Total	Residual Interests	Derivative Instruments	Total
Balance, beginning of period	$ 1,821	$ 790	$ 2,611	$ 2,200	$ (341)	$ 1,859
Total gains/(losses) (realized and unrealized):						

Included in earnings[1]	117	357	474	18	233	251
Included in other comprehensive income						
Purchases, issuances and settlements	(100)	131	31	(380)	318	(62)
Transfers in and/or out of level 3					1,068	1,068
Balance, end of period	$ 1,838	$ 1,278	$ 3,116	$ 1,838	$ 1,278	$ 3,116
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ 13[4]	$ 474[3]	$ 487	$ (338)[4]	$ 552[3]	$ 214

[1] Included in earnings is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

(Dollars in millions)	**Three Months Ended September 30, 2010**	**Three Months Ended September 30, 2009**	**Nine Months Ended September 30, 2010**	**Nine Months Ended September 30, 2009**
Securitization servicing and Residual Interest revenue	$	$ 117	$	$ 18
Gains (losses) on derivative and hedging activities, net	1,470	414	411	386
Interest expense	42	(57)	126	(153)
Total	$ 1,512	$ 474	$ 537	$ 251

[2] Upon adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

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

[4] Recorded in securitization servicing and Residual Interest revenue in the consolidated statements of income.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

14. Fair Value Measurements (Continued)

The following table summarizes the fair values of the Company s financial assets and liabilities, including derivative financial instruments, as of September 30, 2010 and December 31, 2009.

	September 30, 2010			December 31, 2009		
(Dollars in millions)	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
FFELP loans	$ 147,329	$ 146,593	$ 736	$ 119,747	$ 121,053	$ (1,306)
Private Education Loans	31,075	35,542	(4,467)	20,278	22,753	(2,475)
Other loans (presented in other assets on the balance sheet)	97	290	(193)	219	420	(201)
Cash and investments	12,830	12,830		13,253	13,253	
Total earning assets	191,331	195,255	(3,924)	153,497	157,479	(3,982)
Interest-bearing liabilities						
Short-term borrowings	45,369	45,388	19	30,988	30,897	(91)
Long-term borrowings	142,092	153,004	10,912	123,049	130,546	7,497
Total interest-bearing liabilities	187,461	198,392	10,931	154,037	161,443	7,406
Derivative financial instruments						
Floor Income/Cap contracts	(1,578)	(1,578)		(1,234)	(1,234)	
Interest rate swaps	1,281	1,281		94	94	
Cross currency interest rate swaps	2,480	2,480		2,783	2,783	
Other	31	31		(20)	(20)	
Other						
Retained Interest in off-balance sheet securitized loans				1,828	1,828	
Excess of net asset fair value over carrying value			$ 7,007			$ 3,424

15. Commitments and Contingencies

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 the Company 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. On April 5, 2010, Plaintiffs filed a First Amended Class Action Complaint changing the defendant from SLM Corporation to Sallie Mae, Inc. The parties in this matter have reached a tentative settlement which is subject to court approval and other conditions. On September 14, 2010, the United States District Court for the Western District of Washington agreed to Plaintiff s Motion for Preliminary Approval of Settlement Agreement. The Company has vigorously denied all claims asserted against it, but agreed to the settlement to avoid the burden and expense of continued litigation. If the settlement receives final approval from the Court,

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

15. Commitments and Contingencies (Continued)

settlement awards will be made to eligible class members on a claims-made basis from a settlement fund of $19.5 million, and class members may opt out of certain calls to their cellular telephones. The Court has set a final approval hearing for December 17, 2010. The Company recorded $19.5 million of contingency expense in the second quarter of 2010 related to this matter.

In *U.S. ex rel. Oberg v. Nelnet, et al.*, the United States District Court for the Eastern District of Virginia entered a Stipulation of Dismissal on October 25, 2010. The Company was voluntarily dismissed from the case. Southwest Student Services Corporation vigorously denied all claims asserted against it, but agreed to a $6 million settlement to avoid the burden and expense of continued litigation. The Company recorded $6 million of contingency expense in the third quarter of 2010 related to this matter.

On September 24, 2010, the United States District Court for the Southern District of New York in *In Re SLM Corporation Securities Litigation*, denied in part and granted in part Defendants Motion to Dismiss. The Court denied the Motion to Dismiss as to Mr. Albert Lord and the Company, but dismissed Mr. C.E. Andrews as a defendant in the action. At this time management does not believe it is possible to estimate a range of potential exposure.

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

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

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

The Company is required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

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

16. Income Taxes

Income tax expense from continuing operations was $225 million in the nine months ended September 30, 2010 compared with income tax expense of $32 million in the year-ago period, resulting in effective tax rates of 74 percent and 30 percent, respectively. The change in the effective tax rate in the first nine months of 2010 compared with the year-ago period was primarily driven by the impact of non-deductible goodwill impairments

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

16. Income Taxes (Continued)

recorded in the first nine months of 2010, state tax rate changes and state law changes recorded in both periods, and the reduction of tax and interest on state uncertain tax positions in the first nine months of 2009.

Accounting for Uncertainty in Income Taxes

The unrecognized tax benefits changed from $104 million at December 31, 2009 to $79 million at September 30, 2010, and accrued interest changed from $7 million at December 31, 2009 to $10 million at September 30, 2010. Included in the $79 million are $18 million of unrecognized tax benefits that if recognized, would favorably impact the effective tax rate. These changes result primarily from incorporating into the Company s unrecognized tax benefits analysis new information received from the IRS during the second quarter as a part of the 2007-2008 exam cycle, from adding a new issue related to a state filing position in the second quarter and the third quarter settlement of the 2004 audit which had been referred to Joint Committee by IRS Appeals. Several other less significant amounts of unrecognized tax benefits were also added during the quarter.

17. Segment Reporting

The Company has two primary operating segments the Lending operating segment and the APG operating segment. The Lending and APG operating segments meet the quantitative thresholds for reportable segments. Accordingly, the results of operations of the Company s Lending and APG segments are presented below. The Company has smaller operating segments including the Guarantor Servicing, Loan Servicing, and Upromise operating segments, as well as certain other products and services provided to colleges and universities which do not meet the required quantitative thresholds of reportable segments. Therefore, the results of operations for these operating segments and the revenues and expenses associated with these other products and services are combined within the Other reportable segment. As discussed in Note 4, Goodwill and Acquired Intangible Assets, the Company is planning to redefine its operating segments and revise its reportable segments presentation in the fourth quarter of 2010.

In the first quarter of 2010, the Company changed its methodology to allocate corporate overhead to each business segment. In addition, the Company refined its methodology for allocating information technology expenses. Following these changes, all corporate overhead is allocated to a business segment. Previously, only certain overhead costs were specifically allocated and the rest remained in the Other reportable segment. The segment results for the three and nine months ended September 30, 2009 have been updated to reflect these changes in expense allocations.

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. Management, including the Company s chief operating decision makers, evaluates the performance of the Company s operating segments based on their profitability. As discussed further below, management measures the profitability of the Company s operating segments based on Core Earnings net income. Accordingly, information regarding the Company s reportable segments is provided based on a Core Earnings basis. The Company s Core Earnings performance measures 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. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company s operating segments are defined by the products and services

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

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.

The Company s principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than 10 percent of its total revenue during the nine months ended September 30, 2010 and 2009. United Student Aid Funds, Inc. (USA Funds) is the Company s largest customer in both the APG and Other segments. For the three months ended September 30, 2010 and 2009, USA Funds accounted for 27 percent and 22 percent, respectively, of the aggregate revenues generated by the Company s APG and Other segments and 23 percent and 17 percent, respectively, for the nine months ended September 30, 2010 and 2009. No other customers accounted for more than 10 percent of total revenues in those segments for the periods mentioned.

Lending

In the Company s Lending operating segment, the Company originates and acquires both FFELP loans and Private Education Loans. As of September 30, 2010, the Company managed $182 billion of student loans, of which $147 billion or 80 percent are federally insured, and has 10 million student and parent customers. The Company s mortgage and other consumer loan portfolio totaled $289 million at September 30, 2010.

Private Education Loans consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. In the past, a Private Education Loan was typically made in conjunction with a FFELP Stafford loan and as a result has been marketed through the same marketing channels as FFELP loans. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through historical risk-performance underwriting strategies, the addition of qualified cosigners and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

The following table includes asset information for the Company s Lending segment.

	September 30, 2010	December 31, 2009
FFELP Stafford and Other Student Loans, net	$ 46,026	$ 42,979
FFELP Stafford Loans Held-for-Sale	20,655	9,696
FFELP Consolidation Loans, net	79,912	68,379

Private Education Loans, net		35,542		22,753
Cash and investments[1]		11,924		12,387
Retained Interest in off-balance sheet securitized loans				1,828
Other[2]		10,699		9,818
Total assets	$	204,758	$	167,840

(1) Includes restricted cash and investments.

(2) Other assets include other loans, accrued interest receivable, goodwill and acquired intangible assets, and other non-interest earning assets.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

APG

The Company s APG operating segment provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors, and sub-performing and non-performing mortgage loans. The Company s APG operating segment serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay-for-performance basis to 14 FFELP Guarantors and for campus-based programs.

In addition to collecting on its own purchased receivables and mortgage loans, the APG operating segment provides receivable management and collection services for federal agencies, credit card clients and other holders of consumer debt.

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

Net income attributable to SLM Corporation from discontinued operations was $3 million for the third quarter of 2010 compared with a net loss of $6 million for the third quarter of 2009. The Company sold all of the assets in its Purchased Paper Mortgage/Properties business in the fourth quarter of 2009 for $280 million. Because of the sale, the Purchased Paper Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. The year-ago quarter included $7 million of after-tax asset impairments.

The Company s domestic Purchased Paper Non-Mortgage business has certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company has not bought any additional purchased paper in excess of these obligations. The Company recognized impairments of $3 million and $9 million in the third quarters of 2010 and 2009, respectively. The impairments are the result of the impact of the economy on the ability to collect on these assets. Similar to the Purchased Paper Mortgage/Properties business discussion above, when the Purchased Paper Non-Mortgage business either sells all of its remaining assets (or qualifies as held-for-sale) or completely winds down its operations, its results will be shown as discontinued operations.

At September 30, 2010 and December 31, 2009, the APG business segment had total assets of $564 million and $1.1 billion, respectively.

Other

The Company s Other segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing and Upromise operating segments. The Other segment also includes several smaller products and services.

In the Guarantor Servicing operating segment, the Company provides a full complement of administrative services to FFELP Guarantors including guarantee issuance, account maintenance, and guarantee fulfillment.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

In the Loan Servicing operating segment, the Company provides a full complement of activities required to service student loans on behalf of lenders who are unrelated to the Company. Such servicing activities generally commence once a loan has been fully disbursed and include sending out payment coupons to borrowers, processing borrower payments, originating and disbursing FFELP Consolidation Loans on behalf of the lender, and other administrative activities required by ED.

Upromise markets and administers a consumer savings network and also provides program management, transfer and servicing agent services, and administration services for 529 college-savings plans. The Company s other products and services include comprehensive financing and loan delivery solutions that it provides to college financial aid offices and students to streamline the financial aid process.

At September 30, 2010 and December 31, 2009, the Other reportable segment had total assets of $785 million and $1.2 billion, respectively.

Measure of Profitability

The tables below include the condensed operating results for each of the Company s reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that the Company refers to as Core Earnings performance measures for each operating segment. While Core Earnings results are not a substitute for reported results under GAAP, the Company relies on Core Earnings performance measures to manage each operating segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Core Earnings performance measures 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. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage the business. Reconciliation of the Core Earnings segment totals to the Company s consolidated operating results in accordance with GAAP is also included in the tables below.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended September 30, 2010					
(Dollars in millions)	Lending	APG	Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 319	$	$	$ 319	$ 1	$ 320
FFELP Consolidation Loans	410			410	155	565
Private Education Loans	611			611		611
Other loans	7			7		7
Cash and investments	4		4	8		8
Total interest income	1,351		4	1,355	156	1,511
Total interest expense	599			599	40	639
Net interest income	752		4	756	116	872
Less: provisions for loan losses	358			358		358
Net interest income after provisions for loan losses	394		4	398	116	514
Contingency fee revenue		84		84		84
Collections revenue		13		13		13
Guarantor servicing fees			16	16		16
Other income (loss)	57		56	113	(366)	(253)
Total other income (loss)	57	97	72	226	(366)	(140)
Direct operating expenses	165	66	61	292		292
Overhead expenses	17	8	2	27		27
Operating expenses	182	74	63	319		319
Goodwill and acquired intangible assets impairment and amortization expense					670	670
Restructuring expenses	10	2	(1)	11		11
Total expenses	192	76	62	330	670	1,000
	259	21	14	294	(920)	(626)

Income (loss) from continuing operations before income tax expense (benefit)						
Income tax expense (benefit)[1]	95	8	5	108	(236)	(128)
Net income (loss) from continuing operations	164	13	9	186	(684)	(498)
Income from discontinued operations, net of tax		3		3		3
Net income (loss) attributable to SLM Corporation	$ 164	$ 16	$ 9	$ 189	$ (684)	$ (495)
Economic Floor Income (net of tax) not included in Core Earnings	$ 12	$	$	$ 12		

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

[2] Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2010			
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	$ 183	$ (67)	$	$ 116
Total other income (loss)	(366)			(366)
Total expenses			670	670
Loss from continuing operations, before income tax benefit	(183)	(67)	(670)	(920)
Income from discontinued operations, net of tax				
Total Core Earnings adjustments to GAAP	$ (183)	$ (67)	$ (670)	(920)
Income tax benefit				(236)
Net loss attributable to SLM Corporation				$ (684)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

	Three Months Ended September 30, 2009					
(Dollars in millions)	**Lending**	**APG**	**Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 340	$	$	$ 340	$ (37)	$ 303
FFELP Consolidation Loans	430			430	52	482
Private Education Loans	561			561	(165)	396
Other loans	11			11		11
Cash and investments	3		5	8	(1)	7
Total interest income	1,345		5	1,350	(151)	1,199
Total interest expense	660			660	14	674
Net interest income	685		5	690	(165)	525
Less: provisions for loan losses	448			448	(127)	321
Net interest income after provisions for loan losses	237		5	242	(38)	204
Contingency fee revenue		82		82		82
Collections revenue		21		21		21
Guarantor servicing fees			48	48		48
Other income	129		56	185	21	206
Total other income	129	103	104	336	21	357
Direct operating expenses	144	75	56	275		275
Overhead expenses	17	9	3	29		29
Operating expenses	161	84	59	304		304
Goodwill and acquired intangible assets impairment and amortization expense					9	9
Restructuring expenses	2			2		2
Total expenses	163	84	59	306	9	315
Income from continuing operations before income tax expense	203	19	50	272	(26)	246
Income tax expense	75	9	18	102	(21)	81

Net income from continuing operations	128	10	32	170	(5)	165
Loss from discontinued operations, net of tax		(6)		(6)		(6)
Net income attributable to SLM Corporation	$ 128	$ 4	$ 32	$ 164	$ (5)	$ 159
Economic Floor Income (net of tax) not included in Core Earnings	$ 23	$	$	$ 23		

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

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended September 30, 2009				
	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss)	$ (232)	$ 75	$ (8)	$	$ (165)
Less: provisions for loan losses	(127)				(127)
Net interest income (loss) after provisions for loan losses	(105)	75	(8)		(38)
Total other income (loss)	133	(112)			21
Total expenses				10	10
Income (loss) from continuing operations, before income tax benefit	$ 28	$ (37)	$ (8)	$ (10)	(27)
Loss from discontinued operations, net of tax					
Total Core Earnings adjustments to GAAP	28	(37)	(8)	(10)	(27)
Income tax benefit					(22)
Net loss attributable to SLM Corporation					$ (5)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

	Nine Months Ended September 30, 2010					
(Dollars in millions)	Lending	APG	Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 918	$	$	$ 918	$ 11	$ 929
FFELP Consolidation Loans	1,192			1,192	447	1,639
Private Education Loans	1,751			1,751		1,751
Other loans	23			23		23
Cash and investments	6		13	19		19
Total interest income	3,890		13	3,903	458	4,361
Total interest expense	1,686			1,686	53	1,739
Net interest income	2,204		13	2,217	405	2,622
Less: provisions for loan losses	1,099			1,099		1,099
Net interest income after provisions for loan losses	1,105		13	1,118	405	1,523
Contingency fee revenue		252		252		252
Collections revenue		52		52		52
Guarantor servicing fees			75	75		75
Other income	327		165	492	(371)	121
Total other income	327	304	240	871	(371)	500
Direct operating expenses	477	217	176	870		870
Overhead expenses	65	30	9	104		104
Operating expenses	542	247	185	974		974
Goodwill and acquired intangible assets impairment and amortization expense					689	689
Restructuring expenses	47	3	5	55		55
Total expenses	589	250	190	1,029	689	1,718
Income from continuing operations before income tax expense	843	54	63	960	(655)	305
Income tax expense	309	20	23	352	(127)	225

Net income from continuing operations		534		34		40		608		(528)		80
Income from discontinued operations, net of tax				3				3				3
Net income attributable to SLM Corporation	$	534	$	37	$	40	$	611	$	(528)	$	83
Economic Floor Income (net of tax) not included in Core Earnings	$	16	$		$		$	16				

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

(2) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2010			
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income (loss) after provisions for loan losses	$ 610	$ (205)	$	$ 405
Total other income (loss)	(371)			(371)
Total expenses			689	689
Income (loss) from continuing operations, before income tax benefit	239	(205)	(689)	(655)
Income from discontinued operations, net of tax				
Total Core Earnings adjustments to GAAP	$ 239	$ (205)	$ (689)	(655)
Income tax benefit				(127)
Net loss attributable to SLM Corporation				$ (528)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

	Nine Months Ended September 30, 2009					
(Dollars in millions)	Lending	APG	Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 1,012	$	$	$ 1,012	$ (42)	$ 970
FFELP Consolidation Loans	1,263			1,263	169	1,432
Private Education Loans	1,683			1,683	(507)	1,176
Other loans	46			46		46
Cash and investments	8		14	22	(2)	20
Total interest income	4,012		14	4,026	(382)	3,644
Total interest expense	2,450			2,450	70	2,520
Net interest income	1,562		14	1,576	(452)	1,124
Less: provisions for loan losses	1,199			1,199	(349)	850
Net interest income after provisions for loan losses	363		14	377	(103)	274
Contingency fee revenue		230		230		230
Collections revenue		88		88	1	89
Guarantor servicing fees			107	107		107
Other income	591		152	743	(410)	333
Total other income	591	318	259	1,168	(409)	759
Direct operating expenses	401	235	154	790		790
Overhead expenses	58	30	9	97		97
Operating expenses	459	265	163	887		887
Goodwill and acquired intangible assets impairment and amortization expense					29	29
Restructuring expenses	8		2	10		10
Total expenses	467	265	165	897	29	926
Income from continuing operations, before income tax expense	487	53	108	648	(541)	107
Income tax expense[1]	180	20	40	240	(208)	32

Net income from continuing operations	307	33	68	408	(333)	75
Loss from discontinued operations, net of tax		(59)		(59)		(59)
Net income (loss) attributable to SLM Corporation	$ 307	$ (26)	$ 68	$ 349	$ (333)	$ 16
Economic Floor Income (net of tax) not included in Core Earnings	$ 191	$	$	$ 191		

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

(2) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2009				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Goodwill and Acquired Intangibles**	**Total**
Net interest income (loss)	$ (705)	$ 92	$ 161	$	$ (452)
Less: provisions for loan losses	(349)				(349)
Net interest income (loss) after provisions for loan losses	(356)	92	161		(103)
Collections revenue	1				1
Other income (loss)	159	(569)			(410)
Total other income (loss)	160	(569)			(409)
Total expenses				29	29
Income (loss) from continuing operations, before income tax benefit	(196)	(477)	161	(29)	(541)
Loss from discontinued operations, net of tax					
Total Core Earnings adjustments to GAAP	$ (196)	$ (477)	$ 161	$ (29)	(541)
Income tax benefit					(208)
Net loss attributable to SLM Corporation					$ (333)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

17. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

The adjustments required to reconcile from the Company s Core Earnings results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects aggregate adjustments associated with these areas for the three and nine months ended September 30, 2010 and 2009.

(Dollars in millions)	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Core Earnings adjustments to GAAP:				
Net impact of securitization accounting[1]	$	$ 28	$	$ (196)
Net impact of derivative accounting[2]	(183)	(37)	239	(477)
Net impact of Floor Income[3]	(67)	(8)	(205)	161
Net impact of goodwill and acquired intangibles[4]	(670)	(10)	(689)	(29)
Net tax effect[5]	236	22	127	208
Total Core Earnings adjustments to GAAP	$ (684)	$ (5)	$ (528)	$ (333)

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

(2) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the mark-to-market derivative valuations on derivatives that do not qualify for hedge accounting treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our Core Earnings

presentation, the Company recognized the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life.

(3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, the Company only includes such income in Core Earnings when it is Fixed Rate Floor Income that is economically hedged. The Company employs 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, the Company reverses the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and includes in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

(4) **Goodwill and Acquired Intangibles:** The Company excludes goodwill and intangible impairment and amortization of acquired intangibles.

(5) **Net Tax Effect:** Such tax effect is based upon the Company s Core Earnings effective tax rate for the year.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended
September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

18. Discontinued Operations

In the fourth quarter of 2009, the Company sold all of the assets in its Purchased Paper Mortgage/Properties business for $280 million, resulting in an after-tax loss of $95 million. The Purchased Paper Mortgage/Properties business was considered a Component of the Company s APG reporting unit as the business comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the Company. In accordance with ASC 205, this Component is presented as discontinued operations as (1) the operations and cash flows of the Component have been eliminated from the ongoing operations of the Company as of December 31, 2009, and (2) the Company will have no continuing involvement in the operations of this Component subsequent to the sale.

The following table summarizes the discontinued assets and liabilities of the Purchased Paper Mortgage/Properties business at September 30, 2010 and December 31, 2009, respectively.

	September 30, 2010	December 31, 2009
Assets:		
Cash and cash equivalents	$ 158	$ 351
Other assets	10,338	34,072
Assets of discontinued operations	$ 10,496	$ 34,423
Liabilities:		
Liabilities of discontinued operations	$ 4,037	$ 24,157

At December 31, 2009, other assets of the Company s discontinued operations consist of a receivable from SLM Corporation associated with the 2009 net operating loss generated by its discontinued operations, which has been utilized by SLM Corporation and its subsidiaries in its 2009 consolidated U.S. federal income tax return. In the third quarter of 2010, this receivable was settled with SLM Corporation and the remaining receivable at September 30, 2010 consists of refunds pending from states and a receivable from SLM Corporation for state unitary/combined returns.

The following table summarizes the discontinued operations for the three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009

Operations:				
Income (loss) from discontinued operations before income taxes	$ 5,000	$ (12,477)	$ 5,000	$ (94,813)
Income tax expense (benefit)	1,789	(6,060)	1,789	(35,680)
Income (loss) from discontinued operations, net of taxes	$ 3,211	$ (6,417)	$ 3,211	$ (59,133)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

18. Discontinued Operations (Continued)

19. Legislative Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

The Health Care and Education Reconciliation Act of 2010

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

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

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

2. The Company earns revenue collecting on delinquent and defaulted FFELP loans as well as guarantor account maintenance fees which are based on the size of the underlying guarantor portfolio. This revenue totaled $265 million in 2009 and $232 million during the nine months ended September 30, 2010. Because there will no longer be any new FFELP loan originations, this collections revenue and guarantor account maintenance fee revenue will decline over time as the underlying guarantor portfolios wind down. These revenues are recorded in contingency fee revenue and guarantor servicing fees.

3. Prior to July 1, 2010, the Company earned guarantor issuance fees on new FFELP guarantees. This revenue totaled $64 million in 2009 and $31 million for the nine months ended September 30, 2010 and was recorded

in guarantor servicing fees. The Company will no longer earn this revenue.

20. Subsequent Events

Department of Education Funding Programs and Servicing Contract

On October 11, 2010, the Company sold to the Department of Education (ED) approximately $20.4 billion face amount of loans as part of the Loan Purchase Commitment Program (Purchase Program) (see LIQUIDITY AND CAPITAL RESOURCES ED Funding Programs). Outstanding debt of

62

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2010 and for the three and nine months ended September 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

20. Subsequent Events (Continued)

$20.3 billion has been paid down related to the Loan Purchase Participation Program (the Participation Program) in connection with this loan sale. The Company is servicing approximately 3.3 million accounts ($42 billion of loans) under the ED Servicing Contract after the sale of these loans.

Asset Purchase Agreement with the Student Loan Corporation

On September 17, 2010, the Company announced that it had reached an agreement to purchase an interest in $28 billion of securitized federal student loans and related assets from the Student Loan Corporation (SLC), a subsidiary of Citibank, N.A. The assets to be purchased include the residual interest in 13 of SLC s 14 FFELP loan securitizations and its interest in SLC Funding Note Issuer related to ED s Straight-A Funding asset-backed commercial paper conduit. The transaction also involves the right to service the underlying FFELP loans and administer the securitization trusts. The Company expects to be the primary beneficiary of these trusts and therefore expects to consolidate the trusts onto the Company s balance sheet at closing. In addition, the Company contracted the right to service approximately $1.1 billion of additional FFELP securitized assets from SLC. (The Company does not expect to consolidate the underlying trusts because it does not expect to be the primary beneficiary of these trusts.) In the aggregate, approximately $28 billion in FFELP loans are involved. The aggregate purchase price is expected to be approximately $1.1 billion and will be payable in cash at the closing of the transaction. The Company anticipates the closing to occur in the fourth quarter of 2010 subject to receipt of necessary approvals.

The transaction will be funded by a 5-year term loan provided by Citibank in an amount equal to the purchase price. The loan will be secured by the purchased assets and guaranteed by SLM Corporation. The loan will bear interest at a rate of LIBOR plus 4.50 percent, and be subject to scheduled quarterly payments of the lesser of (i) 2.50 percent of the original principal amount of the term loan or (ii) the residual cash flow derived from the assets securing the loan.

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

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

Table of Contents

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three and nine months ended September 30, 2010 and 2009
(Dollars in millions, except per share amounts, unless otherwise noted)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly 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 and the implementation of existing laws). The Company could be affected by: changes in or the termination of various liquidity programs implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this quarterly 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.

RECENT DEVELOPMENTS

Department of Education Funding Programs and Servicing Contract

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

Asset Purchase Agreement with the Student Loan Corporation

On September 17, 2010, the Company announced that it had reached an agreement to purchase an interest in $28 billion of securitized federal student loans and related assets from the Student Loan Corporation (SLC), a subsidiary of Citibank, N.A. The assets to be purchased include the residual interest in 13 of SLC s 14 FFELP loan securitizations and its interest in SLC Funding Note Issuer related to ED s Straight-A Funding asset-backed commercial paper conduit. The transaction also involves the right to service the underlying

Table of Contents

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

The transaction will be funded by a 5-year term loan provided by Citibank in an amount equal to the purchase price. The loan will be secured by the purchased assets and guaranteed by SLM Corporation. The loan will bear interest at a rate of LIBOR plus 4.50 percent, and be subject to scheduled quarterly payments of the lesser of (i) 2.50 percent of the original principal amount of the term loan or (ii) the residual cash flow derived from the assets securing the loan.

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

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

Legislative and Regulatory Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

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

The Health Care and Education Reconciliation Act of 2010

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

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

1.

We will no longer originate FFELP loans and therefore will no longer earn revenue on newly originated FFELP loan volume after July 1, 2010. We earned $284 million in revenue in 2009 related to selling FFELP loans to ED as part of the Purchase Program and expect to earn approximately $315 million of revenue in the fourth quarter of 2010 related to this program. We also earned $40 million in 2009 and $102 million during the nine months ended September 30, 2010 in net interest income on the loans

before selling them to ED. The net interest income that we earn on our FFELP loan portfolio will decline over time as the FFELP loans on the Company s balance sheet pay down.

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

3. Prior to July 1, 2010, we earned guarantor issuance fees on new FFELP guarantees. This revenue totaled $64 million in 2009 and $31 million for the nine months ended September 30, 2010 and was recorded in guarantor servicing fees. We will no longer earn this revenue.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A discussion of the Company s critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, securitization and Retained Interest accounting, derivative accounting and goodwill and intangible assets can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Recently Adopted Accounting Standards Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued topic updates to Accounting Standards Codification (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 after December 31, 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 which entity 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 as of January 1, 2010.

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

consolidated those trusts that were previously 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 a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

Table of Contents

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

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

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

Management allocates capital on a Managed Basis. As a result, this accounting change did not affect management s view of capital adequacy for the Company. The Company s unsecured revolving credit facility and its asset-backed credit facilities contain two principal financial covenants related to tangible net worth and net revenue. The tangible

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

Table of Contents

Goodwill and Intangible Assets

During the third quarter, as part of a broad-based assessment of possible changes to the Company s business following the passage of HCERA, the Company performed certain preliminary valuations which indicated there was possible impairment of goodwill and certain intangible assets in its Lending, Asset Performance Group (APG), Upromise and Guarantor Servicing reporting units. The Company identified certain events that occurred during third quarter 2010 that it determined were triggering events because they either resulted in lower expected future cash flows or because they provided indications that market participants would value the Company s reporting units below previous estimates of fair value (see Note 4, Goodwill and Acquired Intangible Assets, to the consolidated financial statements for a further discussion). Based upon these preliminary results, the Company performed a full goodwill impairment evaluation which resulted in a goodwill impairment of $402 million in its APG reporting unit, $140 million in its Upromise reporting unit and $62 million in its Guarantor Servicing reporting unit. In addition, as part of this analysis, the Company determined that certain intangible assets were also impaired. As a result, the Company recorded $56 million in intangible asset write-downs in the third quarter. In connection with management s assessment of possible changes to the Company s business, the Company is planning to redefine its operating segments and revise its reportable segments presentation in the fourth quarter of 2010, once certain decisions have been finalized with respect to how management will view the business on a going-forward basis.

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

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

Table of Contents

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2010	2009	$	%	2010	2009	$	%
Net interest income	$ 872	$ 525	$ 347	66%	$ 2,622	$ 1,124	$ 1,498	133%
Less: provisions for loan losses	358	321	37	12	1,099	850	249	29
Net interest income after provisions for loan losses	514	204	310	152	1,523	274	1,249	456
Securitization servicing and Residual Interest revenue (loss)		155	(155)	(100)		147	(147)	(100)
Gains on sales of loans and securities, net	1	12	(11)	(92)	7	13	(6)	(46)
Gains (losses) on derivative and hedging activities, net	(344)	(112)	(232)	(207)	(332)	(569)	237	42
Contingency fee revenue	84	82	2	2	252	230	22	10
Collections revenue	13	21	(8)	(38)	52	89	(37)	(42)
Guarantor servicing fees	16	48	(32)	(67)	75	107	(32)	(30)
Other income	90	151	(61)	(40)	446	742	(296)	(40)
Operating expenses	319	304	15	5	974	888	86	10
Goodwill and acquired intangible assets impairment and amortization	670	9	661	7,344	689	28	661	2,361
Restructuring expenses	11	2	9	450	55	10	45	450
Income (loss) from continuing operations before income tax expense (benefit)	(626)	246	(872)	(354)	305	107	198	185
Income tax expense (benefit)	(128)	81	(209)	(258)	225	32	193	603
Net income (loss) from continuing operations	(498)	165	(663)	(402)	80	75	5	7
Income (loss) from discontinued operations, net of tax benefit	3	(6)	9	150	3	(59)	62	(105)

Net income (loss)	(495)	159	(654)	(411)	83	16	67	419
Less net income attributable to noncontrolling interest						1	(1)	(100)
Net income (loss) attributable to SLM Corporation	(495)	159	(654)	(411)	83	15	68	453
Preferred stock dividends	19	43	(24)	(56)	56	95	(39)	(41)
Net income (loss) attributable to SLM Corporation common stock	$ (514)	$ 116	$ (630)	(543)%	$ 27	$ (80)	$ 107	134%
Net income (loss) attributable to SLM Corporation:								
Continuing operations, net of tax	$ (498)	$ 165	$ (663)	(402)%	$ 80	$ 75	$ 5	7%
Discontinued operations, net of tax	3	(6)	9	150	3	(59)	62	105
Net income (loss) attributable to SLM Corporation	$ (495)	$ 159	$ (654)	(411)%	$ 83	$ 16	$ 67	419%
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$ (1.07)	$ .26	$ (1.33)	(512)%	$ .05	$ (.04)	$ .09	225%
Discontinued operations	.01	(.01)	.02	200	.01	(.13)	.14	108
Total	$ (1.06)	$ .25	$ (1.31)	524%	$ .06	$ (.17)	$ .23	135%
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:								
Continuing operations	$ (1.07)	$ .26	$ (1.33)	(512)%	$ .05	$ (.04)	$ .09	225%
Discontinued operations	.01	(.01)	.02	200	.01	(.13)	.14	108
Total	$ (1.06)	$ .25	$ (1.31)	524%	$ .06	$ (.17)	$ .23	135%
Dividends per common share attributable to SLM Corporation	$	$	$	%	$	$	$	%

common shareholders

69

Table of Contents

Condensed Balance Sheets

	September 30, 2010	December 31, 2009	Increase (Decrease) $	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 46,026	$ 42,979	$ 3,047	7%
FFELP Stafford Loans Held-for-Sale	20,655	9,696	10,959	113
FFELP Consolidation Loans, net	79,912	68,379	11,533	17
Private Education Loans, net	35,542	22,753	12,789	56
Cash and investments	6,993	8,084	(1,091)	(13)
Restricted cash and investments	5,838	5,169	669	13
Retained Interest in off-balance sheet securitized loans		1,828	(1,828)	(100)
Goodwill and acquired intangible assets, net	488	1,177	(689)	(59)
Other assets	10,653	9,920	733	7
Total assets	$ 206,107	$ 169,985	$ 36,122	21%
Liabilities and Stockholders Equity				
Short-term borrowings	$ 45,389	$ 30,897	$ 14,492	47%
Long-term borrowings	153,004	130,546	22,458	17
Other liabilities	3,140	3,263	(123)	(4)
Total liabilities	201,533	164,706	36,827	22
SLM Corporation stockholders equity before treasury stock	6,447	7,140	(693)	(10)
Common stock held in treasury	1,873	1,861	12	1
Total equity	4,574	5,279	(705)	(13)
Total liabilities and equity	$ 206,107	$ 169,985	$ 36,122	21%

Table of Contents

RESULTS OF OPERATIONS

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

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

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

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

Net interest income after provisions for loan losses increased by $310 million in the third quarter of 2010 from the year-ago quarter. This increase was due to a $347 million increase in net interest income offset by a $37 million increase in provisions for loan losses. The increase in net interest income and provisions for loan losses was partially due to the adoption of topic updates to ASC 810 which resulted in the consolidation of $35.0 billion of assets and $34.4 billion of liabilities in certain securitizations trusts as of January 1, 2010. As discussed above, for securitization trusts that were consolidated on January 1, 2010, the Company s results of operations no longer reflect securitization servicing and residual interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties. The consolidation of these securitization trusts as of January 1, 2010 resulted in $243 million of additional net interest income and $86 million of additional provisions for loan losses in the third quarter of 2010. Excluding the results of the trusts consolidated as of January 1, 2010, net interest income would have increased $104 million from the third quarter of 2009 and provisions for loan losses would have decreased $49 million from the third quarter of 2009. The increase in net interest margin, excluding the impact of the ASC 810 securitization trust consolidations, was primarily the result of an increase in the student loan spread and a decrease in the 2008 Asset-Backed Financing Facilities fees (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*). The majority of the provisions for loan losses relates to the Private Education Loan loss provision (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Allowance for Private Education Loan Losses*).

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

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

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

Restructuring expenses of $11 million and $2 million were recorded in the third quarters of 2010 and 2009, respectively. The following details the Company s two restructuring efforts:

On March 30, 2010, President Obama signed into law H.R. 4872, HCERA, which included the SAFRA Act. Effective July 1, 2010, the legislation eliminated the authority to provide new loans under FFELP and requires all new federal loans to be made through the DSLP. The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law which will result in a significant reduction of operating costs due to the elimination of positions and facilities associated with the origination of FFELP loans.

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

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

In response to the College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. This plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down or otherwise disposing of our debt purchased paper businesses, and significantly reducing our operating expenses. This restructuring plan was essentially completed in the fourth quarter of 2009. Under this plan, restructuring expenses of $1 million were recognized in continuing operations in the third quarter of 2010. Restructuring expenses from the fourth quarter of 2007 through the third quarter of 2010 totaled $133 million, of which $124 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the elimination of approximately 3,000 positions, or approximately 25 percent of the workforce. We estimate approximately $4 million of additional restructuring expenses will be incurred in the future related to this restructuring plan.

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

Goodwill and intangible asset impairment totaled $660 million and $0 for the three months ended September 30, 2010 and September 30, 2009, respectively. The amortization of acquired intangibles for continuing operations was $10 million in the third quarters of 2010 and 2009. (See CRITICAL

ACCOUNTING POLICIES AND ESTIMATES Goodwill and Intangible Assets and Note 4, Goodwill and Acquired Intangible Assets, to the consolidated financial statements).

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

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

For the nine months ended September 30, 2010 and September 30, 2009, net income attributable to SLM Corporation was $83 million or $.06 diluted earnings per common share compared with a net income of $15 million, or $.17 diluted loss per common share, respectively. For the nine months ended September 30, 2010, net income attributable to SLM Corporation from continuing operations was $80 million or $.05 diluted earnings from continuing operations per common share compared with net income from continuing operations of $75 million, or $.04 diluted loss per share from continuing operations per common share for the nine months ended September 30, 2009. For the nine months ended September 30, 2010, net income from discontinued operations was $3 million, or $.01 diluted earnings from discontinued operations per common share compared with a net loss from discontinued operations of $59 million, or $.13 diluted loss from discontinued operations per common share for the nine months ended September 30, 2009.

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

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

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

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

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

For the nine months ended September 30, 2010 and September 30, 2009, operating expenses, excluding restructuring-related asset impairments of $9 million and $0, respectively, were $965 million compared with $887 million, respectively. The $78 million increase from the year-ago period was primarily due to higher legal contingency expense, higher costs related to the ED Servicing Contract (see OTHER BUSINESS SEGMENT), higher collection costs from a higher number of loans in repayment and delinquent status, and higher marketing and technology enhancement costs related to Private Education Loans.

Goodwill and intangible asset impairment totaled $660 million and $0 for the nine months ended September 30, 2010 and September 30, 2009, respectively. The amortization of acquired intangibles for continuing operations totaled $29 million in the nine months ended September 30, 2010 and 2009. (See CRITICAL ACCOUNTING POLICIES AND ESTIMATES Goodwill and Intangible Assets and Note 4, Goodwill and Acquired Intangible Assets, to the consolidated financial statements.)

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

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

Table of Contents

Other Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Gains on debt repurchases	$ 18	$ 74	$ 199	$ 463
Late fees and forbearance fees	34	39	111	107
Asset servicing and other transaction fees	28	28	86	79
Loan servicing fees	19	17	56	35
Foreign currency translation gains (losses)	(19)	(23)	(37)	11
Other	10	16	31	47
Total	$ 90	$ 151	$ 446	$ 742

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

BUSINESS SEGMENTS

The results of operations of the Company s Lending, APG and Other business segments are presented below, using our Core Earnings presentation.

The Lending business segment section includes discussion of income and related expenses associated with the net interest margin, the student loan spread and its components, the provisions for loan losses, and other fees earned on our Managed portfolio of student loans. The APG business segment reflects fees earned and expenses incurred in providing accounts receivable management and collection services. The Other business segment includes our remaining fee businesses that do not pertain directly to the primary segments identified above. In connection with management s assessment of possible changes to the Company s business, the Company is planning to redefine its operating segments and revise its reportable segments presentation in the fourth quarter of 2010, once certain decisions have been finalized with respect to how management will view the business on a going-forward basis.

In the first quarter of 2010, the Company changed its methodology to allocate corporate overhead to each business segment. In addition, the Company refined its methodology for allocating information technology expenses.

Following these changes, all corporate overhead is allocated to a business segment. Previously, only certain overhead costs were specifically allocated and the rest remained in the Other business segment. All prior periods presented have been updated to reflect these changes in expense allocations.

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

Table of Contents

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.

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.

	Three Months Ended September 30, 2010		
	Lending	APG	Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 319	$	$
FFELP Consolidation Loans	410		
Private Education Loans	611		
Other loans	7		
Cash and investments	4		4
Total interest income	1,351		4
Total interest expense	599		
Net interest income	752		4
Less: provisions for loan losses	358		
Net interest income after provisions for loan losses	394		4
Contingency fee revenue		84	
Collections revenue		13	
Guarantor serving fees			16
Other income	57		56
Total other income	57	97	72
Expenses:			
Direct operating expenses	165	66	61
Overhead expenses	17	8	2
Operating expenses	182	74	63
Restructuring expenses	10	2	(1)
Total expenses	192	76	62
Income from continuing operations, before income tax expense	259	21	14
Income tax expense[1]	95	8	5
Net income from continuing operations	164	13	9
Income from discontinued operations, net of tax		3	
Core Earnings net income attributable to SLM Corporation	$ 164	$ 16	$ 9
Economic Floor Income (net of tax) not included in Core Earnings	$ 12	$	$

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

Core Earnings net income attributable to SLM Corporation:			
Continuing operations, net of tax	$ 164	$ 13	$ 9
Discontinued operations, net of tax		3	
Core Earnings net income attributable to SLM Corporation	$ 164	$ 16	$ 9

	Three Months Ended September 30, 2009		
	Lending	APG	Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 340	$	$
FFELP Consolidation Loans	430		
Private Education Loans	561		
Other loans	11		
Cash and investments	3		5
Total interest income	1,345		5
Total interest expense	660		
Net interest income	685		5
Less: provisions for loan losses	448		
Net interest income after provisions for loan losses	237		5
Contingency fee revenue		82	
Collections revenue		21	
Guarantor serving fees			48
Other income	129		56
Total other income	129	103	104
Expenses:			
Direct operating expenses	144	75	56
Overhead expenses	17	9	3
Operating expenses	161	84	59
Restructuring expenses	2		
Total expenses	163	84	59
Income from continuing operations, before income tax expense	203	19	50
Income tax expense[1]	75	9	18
Net income from continuing operations	128	10	32
Loss from discontinued operations, net of tax		(6)	
Core Earnings net income attributable to SLM Corporation	$ 128	$ 4	$ 32
Economic Floor Income (net of tax) not included in Core Earnings	$	$	$

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

Core Earnings net income attributable to SLM Corporation:			
Continuing operations, net of tax	$ 128	$ 10	$ 32
Discontinued operations, net of tax		(6)	
Core Earnings net income attributable to SLM Corporation	$ 128	$ 4	$ 32

78

	Nine Months Ended September 30, 2010		
	Lending	APG	Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 918	$	$
FFELP Consolidation Loans	1,192		
Private Education Loans	1,751		
Other loans	23		
Cash and investments	6		13
Total interest income	3,890		13
Total interest expense	1,686		
Net interest income	2,204		13
Less: provisions for loan losses	1,099		
Net interest income after provisions for loan losses	1,105		13
Contingency fee revenue		252	
Collections revenue		52	
Guarantor serving fees			75
Other income	327		165
Total other income	327	304	240
Expenses:			
Direct operating expenses	477	217	176
Overhead expenses	65	30	9
Operating expenses	542	247	185
Restructuring expenses	47	3	5
Total expenses	589	250	190
Income from continuing operations, before income tax expense	843	54	63
Income tax expense[1]	309	20	23
Net income from continuing operations	534	34	40
Income from discontinued operations, net of tax		3	
Core Earnings net income attributable to SLM Corporation	$ 534	$ 37	$ 40
Economic Floor Income (net of tax) not included in Core Earnings	$ 16	$	$

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

Core Earnings net income attributable to SLM Corporation:			
Continuing operations, net of tax	$ 534	$ 34	$ 40
Discontinued operations, net of tax		3	
Core Earnings net income attributable to SLM Corporation	$ 534	$ 37	$ 40

	Nine Months Ended September 30, 2009		
	Lending	APG	Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 1,012	$	$
FFELP Consolidation Loans	1,263		
Private Education Loans	1,683		
Other loans	46		
Cash and investments	8		14
Total interest income	4,012		14
Total interest expense	2,450		
Net interest income	1,562		14
Less: provisions for loan losses	1,199		
Net interest income after provisions for loan losses	363		14
Contingency fee revenue		230	
Collections revenue		88	
Guarantor serving fees			107
Other income	591		152
Total other income	591	318	259
Direct operating expenses	401	235	154
Overhead expenses	58	30	9
Operating expenses	459	265	163
Restructuring expenses	8		2
Total expenses	467	265	165
Income from continuing operations, before income tax expense	487	53	108
Income tax expense(1)	180	20	40
Net income from continuing operations	307	33	68
Loss from discontinued operations, net of tax		(59)	
Core Earnings net income (loss) attributable to SLM Corporation	$ 307	$ (26)	$ 68
Economic Floor Income (net of tax) not included in Core Earnings	$	$	$

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

Core Earnings net income attributable to SLM Corporation:			
Continuing operations, net of tax	$ 307	$ 33	$ 68
Discontinued operations, net of tax		(59)	
Core Earnings net income (loss) attributable to SLM Corporation	$ 307	$ (26)	$ 68

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

Table of Contents

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.

	Three Months Ended September 30,					
	2010			2009		
	Lending	**APG**	**Other**	**Lending**	**APG**	**Other**
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$	$	$	$ 28	$	$
Net impact of derivative accounting	(183)			(37)		
Net impact of Floor Income	(67)			(8)		
Net impact of goodwill and acquired intangibles	(5)	(405)	(260)	(3)	(2)	(5)
Total Core Earnings adjustments to GAAP	$ (255)	$ (405)	$ (260)	$ (20)	$ (2)	$ (5)

Table of Contents

	Nine Months Ended September 30,					
	2010			2009		
	Lending	APG	Other	Lending	APG	Other
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$	$	$	$ (196)	$	$
Net impact of derivative accounting	239			(477)		
Net impact of Floor Income	(205)			161		
Net impact of goodwill and acquired intangibles	(9)	(411)	(269)	(8)	(5)	(16)
Total Core Earnings adjustments to GAAP	$ 25	$ (411)	$ (269)	$ (520)	$ (5)	$ (16)

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

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

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
Core Earnings securitization adjustments:		
Net interest income on securitized loans, before provisions for loan losses	$ (254)	$ (692)
Provisions for loan losses	127	349
Net interest income on securitized loans, after provisions for loan losses	(127)	(343)
Securitization servicing and Residual Interest revenue	155	147
Total Core Earnings securitization adjustments[1]	$ 28	$ (196)

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

The accounting for derivative instruments requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-market

in the income statement with no consideration for the corresponding change in fair value of the hedged item. Under GAAP, these gains and losses described in Gains (losses) on derivative and hedging activities, net are primarily caused by interest rate and foreign currency exchange rate volatility, and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge accounting treatment.

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

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. To qualify for hedge accounting when using basis swaps, the change in the cash flows of the hedge must effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets. Additionally, some of our FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps written on the FFELP loans do not meet the criteria for hedge accounting treatment. As a result, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Core Earnings derivative adjustments:				
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (344)	$ (112)	$ (331)	$ (569)
Plus: Realized losses on derivative and hedging activities, net[1]	182	118	613	120
Unrealized gains (losses) on derivative and hedging activities, net	(162)	6	282	(449)
Other pre-derivatives accounting adjustments	(21)	(43)	(43)	(28)

Total net impact of derivatives accounting[2]	$ (183)	$ (37)	$ 239	$ (477)

[1] See *Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities* below for a detailed breakdown of the components of both the realized and unrealized 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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Reclassification of realized gains (losses) on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (223)	$ (189)	$ (656)	$ (500)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	39	72	41	396
Foreign exchange derivatives gains (losses) reclassified to other income			1	(14)
Net realized gains (losses) on terminated derivative contracts reclassified to other income	2	(1)	1	(2)
Total reclassifications of realized losses on derivative and hedging activities	(182)	(118)	(613)	(120)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(162)	6	282	(449)
Gains (losses) on derivative and hedging activities, net	$ (344)	$ (112)	$ (331)	$ (569)

[1] Unrealized gains (losses) on derivative and hedging activities, net is comprised of the following unrealized mark-to-market gains (losses):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Floor Income Contracts	$ (88)	$ (80)	$ (111)	$ 323
Basis swaps	38	97	364	(435)
Foreign currency hedges	(136)	24	(28)	(256)
Other	24	(35)	57	(81)

Total unrealized gains (losses) on derivative and hedging activities, net	$ (162)	$ 6	$ 282	$ (449)

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

Table of Contents

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 three and nine months ended September 30, 2010 and 2009.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Core Earnings Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 19	$ 36	$ 26	$ 263
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(86)	(44)	(231)	(102)
Total Core Earnings Floor Income adjustments[1][2]	$ (67)	$ (8)	$ (205)	$ 161

[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 three and nine months ended September 30, 2010 and 2009 that is not included in Core Earnings net income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in Core Earnings	$ 19	$ 36	$ 26	$ 263
Amortization of net premiums on Variable Rate Floor Income Contracts not included in Core Earnings				40
Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings	86	44	231	102
Total Economic Floor Income earned	105	80	257	405
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings	(86)	(44)	(231)	(102)
Total Economic Floor Income earned, not included in Core Earnings	$ 19	$ 36	$ 26	$ 303

4) **Goodwill and Acquired Intangibles:** Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. The following table summarizes the goodwill and acquired intangible adjustments for the three and nine months ended September 30, 2010 and 2009 (see RESULTS OF OPERATIONS and Note 4, Goodwill and Acquired Intangible Assets, to the consolidated financial statements for further discussion).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Core Earnings goodwill and acquired intangibles adjustments:				
Goodwill and acquired intangible assets impairment from continuing operations	$ (660)	$	$ (660)	$
Amortization of acquired intangibles from continuing operations[1]	(10)	(10)	(29)	(29)
Total Core Earnings goodwill and acquired intangibles adjustments	$ (670)	$ (10)	$ (689)	$ (29)

[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.

LENDING BUSINESS SEGMENT

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

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

	Three Months Ended September 30,		Increase (Decrease) 2010 vs.	Nine Months Ended September 30,		Increase (Decrease) 2010 vs.
	2010	2009	2009	2010	2009	2009
Core Earnings interest income:						
FFELP Stafford and Other Student Loans	$ 319	$ 340	(6)%	$ 918	$ 1,012	(9)%
FFELP Consolidation Loans	410	430	(5)	1,192	1,263	(6)
Private Education Loans	611	561	9	1,751	1,683	4
Other loans	7	11	(36)	23	46	(50)
Cash and investments	4	3	33	6	8	(25)
Total Core Earnings interest income	1,351	1,345		3,890	4,012	(3)
Total Core Earnings interest expense	599	660	(9)	1,686	2,450	(31)
Net Core Earnings interest income	752	685	10	2,204	1,562	41
Less: provisions for loan losses	358	448	(20)	1,099	1,199	(8)
Net Core Earnings interest income after provisions for loan losses	394	237	66	1,105	363	204
Other income	57	129	(56)	327	591	(45)
Direct operating expenses	165	144	15	477	401	19
Overhead expenses	17	17		65	58	12
Operating expenses	182	161	13	542	459	18
Restructuring expenses	10	2	400	47	8	488
Total expenses	192	163	18	589	467	26
Income from continuing operations, before income tax expense	259	203	28	843	487	73
Income tax expense	95	75	27	309	180	72
Core Earnings net income attributable to SLM Corporation	$ 164	$ 128	28%	$ 534	$ 307	74%

Economic Floor Income (net of tax) not included in Core Earnings	$	12	$	23	(48)%	$	16	$	191	(92)%

Net Interest Income

Changes to 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.

Table of Contents

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

Average Balance Sheets On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the three and nine months ended September 30, 2010 and 2009. 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 this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2010		2009		2010		2009	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets								
FFELP Stafford and Other Student Loans	$ 67,265	1.89%	$ 64,673	1.86%	$ 65,325	1.90%	$ 60,190	2.15%
FFELP Consolidation Loans	80,557	2.78	69,643	2.74	81,611	2.68	70,464	2.72
Private Education Loans	36,317	6.67	23,214	6.77	36,487	6.42	22,968	6.85
Other loans	300	9.52	469	9.33	337	9.29	602	10.20
Cash and investments	12,891	.23	13,694	.20	12,940	.20	10,518	.25
Total interest-earning assets	197,330	3.04%	171,693	2.77%	196,700	2.96%	164,742	2.96%
Non-interest-earning assets	5,944		8,686		6,392		9,015	
Total assets	$ 203,274		$ 180,379		$ 203,092		$ 173,757	
Average Liabilities and Equity								
Short-term borrowings	$ 45,526	.92%	$ 50,700	1.31%	$ 42,463	.85%	$ 46,389	2.05%
Long-term borrowings	149,646	1.41	121,060	1.66	152,389	1.29	118,479	2.04
Total interest-bearing liabilities	195,172	1.30%	171,760	1.56%	194,852	1.19%	164,868	2.04%
Non-interest-bearing liabilities	3,180		3,679		3,358		3,822	
Equity	4,922		4,940		4,882		5,067	
Total liabilities and equity	$ 203,274		$ 180,379		$ 203,092		$ 173,757	
Net interest margin		1.75%		1.21%		1.78%		.91%

Rate/Volume Analysis On-Balance Sheet

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

	Increase (Decrease)	Increase (Decrease) Attributable to Change in Rate	Increase (Decrease) Attributable to Change in Volume
Three Months Ended September 30, 2010 vs. 2009			
Interest income	$ 312	$ 5	$ 307
Interest expense	(35)	(138)	103
Net interest income	$ 347	$ 143	$ 204

	Increase (Decrease)	Increase (Decrease) Attributable to Change in	
		Rate	Volume
Nine Months Ended September 30, 2010 vs. 2009			
Interest income	$ 717	$ (269)	$ 986
Interest expense	(781)	(1,239)	458
Net interest income	$ 1,498	$ 970	$ 528

Net Interest Margin On-Balance Sheet

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Student loan spread[1][2]	1.97%	1.58%	2.01%	1.29%
Other asset spread[1][3]	(1.26)	(2.07)	(1.35)	(2.10)
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1]	1.75	1.28	1.78	1.06
Less: 2008 Asset-Backed Financing Facilities fees		(.07)		(.15)
Net interest margin	1.75%	1.21%	1.78%	.91%

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

(2) Composition of student loan spread:

Student loan yield, before Floor Income	3.27%	3.12%	3.27%	3.29%
Gross Floor Income	.52	.43	.50	.49
Consolidation Loan Rebate Fees	(.45)	(.45)	(.46)	(.48)
Repayment Borrower Benefits	(.07)	(.10)	(.08)	(.09)
Premium and discount amortization	(.05)	(.03)	(.08)	(.10)

Student loan net yield	3.22	2.97	3.15	3.11
Student loan cost of funds	(1.25)	(1.39)	(1.14)	(1.82)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.97%	1.58%	2.01%	1.29%

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

Student Loan Spread On-Balance Sheet

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

previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also affected by prepayment behavior of the underlying loans.

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

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

Other Asset Spread On-Balance Sheet

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

Net Interest Margin On-Balance Sheet

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

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

Core Earnings Net Interest Margin

The following table analyzes the earnings from our portfolio of Managed interest-earning assets on a Core Earnings basis (see BUSINESS SEGMENTS Pre-tax Differences between Core Earnings and

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Table of Contents

GAAP). The *Core Earnings Net Interest Margin* presentation and certain components used in the calculation differ from the *Net Interest Margin On-Balance Sheet* presentation. The Core Earnings presentation, when compared to our on-balance sheet presentation, is different in that it:

Includes the net interest margin related to our off-balance sheet student loan securitization trusts for the periods prior to the adoption of topic updates to ASC 810. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;

Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as hedges are recorded as part of the gain (loss) on derivative and hedging activities, net line on the income statement and are therefore not recognized in the on- balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and

Includes, in student loan income, the amortization of upfront payments on Fixed Rate Floor Income Contracts that we believe are economically hedging the Floor Income.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
"Core Earnings" basis student loan spread[1]:				
FFELP loan spread	.99%	.90%	.97%	.56%
Private Education Loan spread[2]	4.74	4.45	4.64	4.54
Total "Core Earnings" basis student loan spread[3]	1.73	1.56	1.70	1.32
"Core Earnings" basis other asset spread[1][4]	(1.36)	(.93)	(1.21)	(.98)
"Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.52	1.38	1.51	1.18
Less: 2008 Asset-Backed Financing Facilities fees		(.06)		(.13)
"Core Earnings" net interest margin[5]	1.52%	1.32%	1.51%	1.05%

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

(2) "Core Earnings" basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses	1.13%	(.10)%	.96%	.55%
(3) Composition of "Core Earnings" basis student loan spread:				
"Core Earnings" basis student loan yield	3.46%	3.29%	3.43%	3.45%
Consolidation Loan Rebate Fees	(.45)	(.45)	(.46)	(.47)
Repayment Borrower Benefits	(.07)	(.10)	(.08)	(.09)
Premium and discount amortization	(.05)	.01	(.08)	(.08)
"Core Earnings" basis student loan net yield	2.89	2.75	2.81	2.81
"Core Earnings" basis student loan cost of funds	(1.16)	(1.19)	(1.11)	(1.49)
"Core Earnings" basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.73%	1.56%	1.70%	1.32%

(4)	Comprised of investments, cash and other loans				
(5)	The average balances of our Managed interest-earning assets for the respective periods are:				
	FFELP loans	$ 147,822	$ 155,434	$ 146,937	$ 152,468
	Private Education Loans	36,317	36,025	36,487	35,951
	Total student loans	184,139	191,459	183,424	188,419
	Other interest-earning assets	13,191	15,378	13,276	12,466
	Total Managed interest-earning assets	$ 197,330	$ 206,837	$ 196,700	$ 200,885

Core Earnings Basis Student Loan Spread

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

Core Earnings Basis Other Asset Spread

The Core Earnings basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio

primarily in short-term securities with maturities of one week or less to manage counterparty credit risk and maintain available cash balances. The Core Earnings basis other asset spread for the third quarter of 2010 decreased 43 basis points from the year-ago quarter. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

Core Earnings Net Interest Margin

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

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

Summary of our Managed Student Loan Portfolio

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

Ending Managed Student Loan Balances, net

	September 30, 2010				
	FFELP Stafford and Other[1]	**FFELP Consolidation Loans**	**Total FFELP**	**Private Education Loans**	**Total**
On-balance sheet/Managed portfolio:[2]					
In-school	$ 16,707	$	$ 16,707	$ 4,183	$ 20,890
Grace and repayment	48,975	78,408	127,383	33,288	160,671
Total, gross	65,682	78,408	144,090	37,471	181,561
Unamortized premium/(discount)	1,119	1,573	2,692	(873)	1,819
Receivable for partially charged-off loans				979	979
Allowance for losses	(120)	(69)	(189)	(2,035)	(2,224)
Total on-balance sheet/Managed portfolio	$ 66,681	$ 79,912	$ 146,593	$ 35,542	$ 182,135
% of on-balance sheet/Managed FFELP	45%	55%	100%		
% of total	36	44	80	20%	100%

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

(2) Upon the adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts (see CRITICAL ACCOUNTING POLICIES AND ESTIMATES Recently Adopted Accounting Standards Transfers of Financial Assets and the VIE Consolidation Model for further details).

Table of Contents

	December 31, 2009				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 15,250	$	$ 15,250	$ 6,058	$ 21,308
Grace and repayment	36,543	67,235	103,778	18,198	121,976
Total on-balance sheet, gross	51,793	67,235	119,028	24,256	143,284
On-balance sheet unamortized premium/(discount)	986	1,201	2,187	(559)	1,628
On-balance sheet receivable for partially charged-off loans				499	499
On-balance sheet allowance for losses	(104)	(57)	(161)	(1,443)	(1,604)
Total on-balance sheet, net	52,675	68,379	121,054	22,753	143,807
Off-balance sheet:					
In-school	232		232	773	1,005
Grace and repayment	5,143	14,369	19,512	12,213	31,725
Total off-balance sheet, gross	5,375	14,369	19,744	12,986	32,730
Off-balance sheet unamortized premium/(discount)	139	438	577	(349)	228
Off-balance sheet receivable for partially charged-off loans				229	229
Off-balance sheet allowance for losses	(15)	(10)	(25)	(524)	(549)
Total off-balance sheet, net	5,499	14,797	20,296	12,342	32,638
Total Managed	$ 58,174	$ 83,176	$ 141,350	$ 35,095	$ 176,445
% of on-balance sheet FFELP	44%	56%	100%		
% of Managed FFELP	41	59	100		
% of total	33	47	80	20%	100%

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

Table of Contents

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

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

	Three Months Ended September 30, 2010				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total on-balance sheet/Managed[2]	$ 67,265	$ 80,557	$ 147,822	$ 36,317	$ 184,319
% of on-balance sheet/Managed FFELP	46%	54%	100%		
% of total	36	44	80	20%	100%

	Three Months Ended September 30, 2009				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 64,673	$ 69,643	$ 134,316	$ 23,214	$ 157,530
Off-balance sheet	6,052	15,066	21,118	12,811	33,929
Total Managed	$ 70,725	$ 84,709	$ 155,434	$ 36,025	$ 191,459
% of on-balance sheet FFELP	48%	52%	100%		
% of Managed FFELP	46	54	100		
% of total	37	44	81	19%	100%

	Nine Months Ended September 30, 2010				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total on-balance sheet/Managed[2]	$ 65,326	$ 81,611	$ 146,937	$ 36,487	$ 183,424
% of on-balance sheet/Managed FFELP	44%	56%	100%		
% of total	36	44	80	20%	100%

	Nine Months Ended September 30, 2009				
	FFELP	FFELP		Private	

	Stafford and Other[1]	Consolidation Loans	Total FFELP	Education Loans	Total
On-balance sheet	$ 60,190	$ 70,464	$ 130,654	$ 22,968	$ 153,622
Off-balance sheet	6,567	15,247	21,814	12,983	34,797
Total Managed	$ 66,757	$ 85,711	$ 152,468	$ 35,951	$ 188,419
% of on-balance sheet FFELP	46%	54%	100%		
% of Managed FFELP	44	56	100		
% of total	35	46	81	19%	100%

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

(2) Upon the adoption of topic updates to ASC 810, on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts (see CRITICAL ACCOUNTING POLICIES AND ESTIMATES Recently Adopted Accounting Standards Transfers of Financial Assets and the VIE Consolidation Model for further details).

Table of Contents

Floor Income   Managed Basis

The following table analyzes the ability of the FFELP loans in our Managed portfolio to earn Floor Income after September 30, 2010 and 2009, based on interest rates as of those dates.

	September 30, 2010			September 30, 2009		
(Dollars in billions)	**Fixed Borrower Rate**	**Variable Borrower Rate**	**Total**	**Fixed Borrower Rate**	**Variable Borrower Rate**	**Total**
Student loans eligible to earn Floor Income:						
On-balance sheet student loans	$ 125.1	$ 18.3	$ 143.4	$ 118.1	$ 15.2	$ 133.3
Off-balance sheet student loans				14.5	5.8	20.3
Managed student loans eligible to earn Floor Income	125.1	18.3	143.4	132.6	21.0	153.6
Less:						
Post-March 31, 2006 disbursed loans required to rebate Floor Income	(74.7)	(1.1)	(75.8)	(79.1)	(1.3)	(80.4)
Economically hedged Floor Income Contracts	(39.2)		(39.2)	(39.9)		(39.9)
Net Managed student loans eligible to earn Floor Income	$ 11.2	$ 17.2	$ 28.4	$ 13.6	$ 19.7	$ 33.3
Net Managed student loans earning Floor Income	$ 11.1	$ 2.7	$ 13.8	$ 13.6	$ 3.3	$ 16.9

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

The following table presents a projection of the average Managed balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period from July 1, 2010 to September 30, 2013. The hedges related to these loans do not qualify under ASC 815 accounting as effective hedges.

(Dollars in billions)	**October 1, 2010 to December 31, 2010**	**2011**	**2012**	**2013**
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	$ 39	$ 29	$ 21	$ 6