SLM CORP
Form 10-Q
November 09, 2007

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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, 2007 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	**52-2013874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
12061 Bluemont Way, Reston, Virginia	**20190**
(Address of principal executive offices)	*(Zip Code)*

(703) 810-3000
(Registrant s telephone number, including area code)

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ Accelerated filer o Non-accelerated filer 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, 2007**
Voting common stock, $.20 par value	413,998,316 shares

GLOSSARY

Listed below are definitions of key terms that are used throughout this document.

Borrower Benefits Borrower Benefits are financial incentives offered to borrowers who qualify based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and the amount of the financial benefit offered to the borrower. We occasionally change Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Borrower Benefits discount.

Consolidation Loan Rebate Fee All holders of FFELP Consolidation Loans are required to pay to the U.S. Department of Education (ED) an annual 105 basis point Consolidation Loan Rebate Fee on all outstanding principal and accrued interest balances of FFELP Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

Constant Prepayment Rate (CPR) A variable in life of loan estimates that measures the rate at which loans in the portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance.

Core Earnings In accordance with the Rules and Regulations of the Securities and Exchange Commission (SEC), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition to evaluating the Company s GAAP-based financial information, management evaluates the Company s business segments on a basis that, as allowed under the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, differs from GAAP. We refer to management s basis of evaluating our segment results as Core Earnings presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. While Core Earnings results are not a substitute for reported results under GAAP, we rely on Core Earnings performance measures in operating each business segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our Core Earnings performance measures 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 maker. Our Core Earnings performance measures are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Our 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. Accordingly, the Company s Core Earnings presentation does not represent another comprehensive basis of accounting.

See NOTE 11 TO THE CONSOLIDATED FINANCIAL STATEMENTS Segment Reporting and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS BUSINESS SEGMENTS Limitations of Core Earnings for further discussion of the differences between Core Earnings and GAAP, as well as reconciliations between Core Earnings and GAAP.

In prior filings with the SEC of SLM Corporation s Annual Report on Form 10-K and quarterly report on Form 10-Q, Core Earnings has been labeled as Core net income or Managed net income in certain instances.

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Direct Loans Student loans originated directly by ED under the FDLP.

ED The U.S. Department of Education.

Embedded Fixed Rate/Variable Rate Floor Income Embedded Floor Income is Floor Income (see definition below) that is earned on off-balance sheet student loans that are in securitization trusts sponsored by us. At the time of the securitization, the value of Embedded Fixed Rate Floor Income is included in the initial valuation of the Residual Interest (see definition below) and the gain or loss on sale of the student loans. Embedded Floor Income is also included in the quarterly fair value adjustments of the Residual Interest.

Exceptional Performer (EP) Designation The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP Loans. Upon receiving the EP designation, the EP servicer receives 99 percent reimbursement on default claims on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the 3 percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the 3 percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance. The College Cost Reduction Act of 2007 eliminated the EP designation effective October 1, 2007. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RECENT DEVELOPMENTS Other Developments *Exceptional Performer*.

FDLP The William D. Ford Federal Direct Student Loan Program.

FFELP The Federal Family Education Loan Program, formerly the Guaranteed Student Loan Program.

FFELP Consolidation Loans Under the Federal Family Education Loan Program (FFELP) borrowers with multiple eligible student loans may consolidate them into a single student loan with one lender at a fixed rate for the life of the loan. The new note is considered a FFELP Consolidation Loan. Typically a borrower may consolidate his student loans only once unless the borrower has another eligible loan to consolidate with the existing FFELP Consolidation Loan. The borrower rate on a FFELP Consolidation Loan is fixed for the term of the loan and is set by the weighted average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a percent, not to exceed 8.25 percent. In low interest rate environments, FFELP Consolidation Loans provide an attractive refinancing opportunity to certain borrowers because they allow borrowers to consolidate variable rate loans into a long-term fixed rate loan. Holders of FFELP Consolidation Loans are eligible to earn interest under the Special Allowance Payment (SAP) formula (see definition below).

FFELP Stafford and Other Student Loans Education loans to students or parents of students that are guaranteed or reinsured under the FFELP. The loans are primarily Stafford loans but also include PLUS and HEAL loans.

Fixed Rate Floor Income We refer to Floor Income (see definition below) associated with student loans whose borrower rate is fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006) as Fixed Rate Floor Income.

Floor Income FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the

SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the

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borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with new legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all new FFELP loans disbursed on or after April 1, 2006.

The following example shows the mechanics of Floor Income for a typical fixed rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate	7.25%
SAP Spread over Commercial Paper Rate	(2.64)%
Floor Strike Rate[1]	4.61%

(1) The interest rate at which the underlying index (Treasury bill or commercial paper) plus the fixed SAP spread equals the fixed borrower rate. Floor Income is earned anytime the interest rate of the underlying index declines below this rate.

Based on this example, if the quarterly average commercial paper rate is over 4.61 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent. The difference between the fixed borrower rate and the lender s expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

Graphic Depiction of Floor Income:

Floor Income Contracts We enter into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that we expect to earn on a notional amount of underlying student loans being economically hedged, we will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, we agree to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contract. The contracts generally do not extend over the life of the underlying student loans. This contract effectively locks in the amount of Floor Income we will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and each quarter we must record the change in fair value of these contracts through income.

GSE The Student Loan Marketing Association was a federally chartered government-sponsored enterprise and wholly owned subsidiary of SLM Corporation that was dissolved under the terms of the Privatization Act (see definition below) on December 29, 2004.

HEA The Higher Education Act of 1965, as amended.

Lender Partners Lender Partners are lenders who originate loans under forward purchase commitments to Sallie Mae where we own the loans from inception or acquire the loans soon after origination.

Managed Basis We generally analyze the performance of our student loan portfolio on a Managed Basis, under which we view both on-balance sheet student loans and off-balance sheet student loans owned by the securitization trusts as a single portfolio, and the related on-balance sheet financings are combined with off-balance sheet debt. When the term Managed is capitalized in this document, it is referring to Managed Basis.

Merger On April 16, 2007, the Company announced that a buyer group (Buyer Group) led by J.C. Flowers & Co. (J.C. Flowers) signed a definitive agreement (Merger Agreement) to acquire the Company for approximately $25.3 billion or $60.00 per share of common stock. Under the terms of the Merger Agreement, J.C. Flowers and certain other private equity investors, including Friedman Fleischer & Lowe, would, upon consummation, invest approximately $4.4 billion and own 50.2 percent, and Bank of America (NYSE: BAC) and JPMorgan Chase (NYSE: JPM) each would, upon consummation, invest approximately $2.2 billion and each would own 24.9 percent of the surviving entity. The remainder of the purchase price is expected to be funded by debt. The Company s independent board members unanimously approved the agreement and recommended that its shareholders approve the agreement. The Company s shareholders approved the Merger Agreement during a special meeting of shareholders held on August 15, 2007. (See also Merger Agreement filed with the SEC on the Company s Current Report on Form 8-K, dated April 18, 2007.) Pursuant to the Merger Agreement, the Company was not permitted to pay dividends on its common stock prior to the consummation of the proposed transaction. This restriction has been terminated. The Buyer Group has since repudiated the Merger Agreement and the Company has filed a lawsuit in Delaware Court of Chancery against the Buyer Group. Under guidance from the Delaware Court of Chancery at a scheduling hearing on November 5, 2007, the Company has elected to pursue an expedited decision on its October 19, 2007 motion for partial judgment on the pleadings. Specifically, the Company is seeking an expedited ruling that its interpretation of the Merger Agreement as it pertains to a Material Adverse Effect (as defined in the Merger Agreement) is the correct interpretation. The effect of this election will be that trial is expected to commence on an undetermined date after Thanksgiving 2008, rather than in mid-July 2008. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RECENT DEVELOPMENTS Merger-Related Developments.

Preferred Lender List Most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

Preferred Channel Originations Preferred Channel Originations are comprised of: 1) student loans that are originated by lenders with forward purchase commitment agreements with Sallie Mae and are committed for sale to Sallie Mae, such that we either own them from inception or, in most cases, acquire them soon after origination, and 2) loans that are originated by internally marketed Sallie Mae brands.

Private Education Consolidation Loans Borrowers with multiple Private Education Loans (defined below) may consolidate them into a single loan with Sallie Mae. The interest rate on the new loan is variable rate with the spread set at the lower of the average weighted spread of the underlying loans (available only to Sallie Mae customers) or a new spread as a result of favorable underwriting criteria.

Private Education Loans Education loans to students or parents of students that are not guaranteed or reinsured under the FFELP or any other federal or private student loan program. Private Education Loans include loans for traditional higher education, undergraduate and graduate degrees, and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Traditional higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. Repayment for alternative education or career training loans generally begins immediately.

Privatization Act The Student Loan Marketing Association Reorganization Act of 1996.

Reconciliation Legislation The Higher Education Reconciliation Act of 2005, which reauthorized the student loan programs of the HEA and generally became effective as of July 1, 2006.

Residual Interest When we securitize student loans, we retain the right to receive cash flows from the student loans sold to trusts we sponsor in excess of amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The Residual Interest, which may also include reserve and other cash accounts, is the present value of these future expected cash flows, which includes the present value of Embedded Fixed Rate Floor Income described above. We value the Residual Interest at the time of sale of the student loans to the trust and at the end of each subsequent quarter.

Retained Interest The Retained Interest includes the Residual Interest (defined above) and servicing rights (as the Company retains the servicing responsibilities).

Risk Sharing When a FFELP loan defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan generally must absorb the remaining three percent not guaranteed as a Risk Sharing loss on the loan. FFELP student loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower s death, disability or bankruptcy. FFELP loans serviced by a servicer that has EP designation (see definition above) from ED are subject to one-percent Risk Sharing for claims filed on or after July 1, 2006 and before October 1, 2007.

Special Allowance Payment (SAP) FFELP student loans originated prior to April 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

Title IV Programs and Title IV Loans Student loan programs created under Title IV of the HEA, including the FFELP and the FDLP, and student loans originated under those programs, respectively.

Variable Rate Floor Income For FFELP Stafford student loans whose borrower interest rate resets annually on July 1, we may earn Floor Income or Embedded Floor Income (see definitions above) based on a calculation of the difference between the borrower rate and the then current interest rate. We refer to this as Variable Rate Floor Income because Floor Income is earned only through the next reset date.

Wholesale Consolidation Loans During 2006, we implemented a loan acquisition strategy under which we began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augments our traditional FFELP Consolidation Loan origination process. Wholesale Consolidation Loans are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our brand strategy.

SLM CORPORATION

FORM 10-Q
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September 30, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $30,655 and $8,701, respectively)	$ 34,108,560	$ 24,840,464
FFELP Consolidation Loans (net of allowance for losses of $26,809 and $11,614, respectively)	71,370,681	61,324,008
Private Education Loans (net of allowance for losses of $454,100 and $308,346, respectively)	13,675,571	9,755,289
Other loans (net of allowance for losses of $21,738 and $20,394, respectively)	1,193,405	1,308,832
Investments		
Available-for-sale	4,152,071	2,464,121
Other	92,976	99,330
Total investments	4,245,047	2,563,451
Cash and cash equivalents	7,794,954	2,621,222
Restricted cash and investments	4,999,369	3,423,326
Retained Interest in off-balance sheet securitized loans	3,238,637	3,341,591
Goodwill and acquired intangible assets, net	1,354,141	1,371,606
Other assets	8,835,025	5,585,943
Total assets	$ 150,815,390	$ 116,135,732
Liabilities		
Short-term borrowings	$ 33,008,374	$ 3,528,263
Long-term borrowings	108,860,988	104,558,531
Other liabilities	3,934,267	3,679,781
Total liabilities	145,803,629	111,766,575
Commitments and contingencies		
Minority interest in subsidiaries	10,054	9,115
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share;	565,000	565,000

Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share		
Common stock, par value $.20 per share, 1,125,000 shares authorized; 439,660 and 433,113 shares issued, respectively	87,932	86,623
Additional paid-in capital	2,847,748	2,565,211
Accumulated other comprehensive income (net of tax of $128,716 and $183,684, respectively)	245,352	349,111
Retained earnings	2,437,639	1,834,718
Stockholders equity before treasury stock	6,183,671	5,400,663
Common stock held in treasury: 25,544 and 22,496 shares, respectively	1,181,964	1,040,621
Total stockholders equity	5,001,707	4,360,042
Total liabilities and stockholders equity	$ 150,815,390	$ 116,135,732

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2007 (Unaudited)	Three Months Ended September 30, 2006 (Unaudited)	Nine Months Ended September 30, 2007 (Unaudited)	Nine Months Ended September 30, 2006 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 545,618	$ 364,621	$ 1,507,680	$ 1,000,211
FFELP Consolidation Loans	1,145,473	916,091	3,247,573	2,579,017
Private Education Loans	392,737	254,747	1,060,509	729,796
Other loans	25,990	24,550	80,416	71,398
Cash and investments	211,303	141,083	466,731	361,847
Total interest income	2,321,121	1,701,092	6,362,909	4,742,269
Total interest expense	1,879,811	1,363,271	5,109,130	3,660,122
Net interest income	441,310	337,821	1,253,779	1,082,147
Less: provisions for loan losses	142,600	67,242	441,130	194,957
Net interest income after provisions for loan losses	298,710	270,579	812,649	887,190
Other income (loss):				
Gains on student loan securitizations		201,132	367,300	902,417
Servicing and securitization revenue	28,883	187,082	413,808	368,855
Losses on loans and securities, net	(25,163)	(13,427)	(67,051)	(24,899)
Gains (losses) on derivative and hedging activities, net	(487,478)	(130,855)	(22,881)	(94,875)
Guarantor servicing fees	45,935	38,848	115,449	99,011
Debt management fees	76,306	122,556	243,865	304,329
Collections revenue	52,788	57,913	195,442	181,951
Other	106,684	87,923	292,121	234,380
Total other income (loss)	(202,045)	551,172	1,538,053	1,971,169
Operating expenses:				
Salaries and benefits	185,741	179,910	563,723	523,977
Other	170,158	173,584	547,150	469,428
Total operating expenses	355,899	353,494	1,110,873	993,405
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(259,234)	468,257	1,239,829	1,864,954
Income taxes	84,449	203,686	499,187	722,559
	(343,683)	264,571	740,642	1,142,395

Income (loss) before minority interest in net earnings of subsidiaries								
Minority interest in net earnings of subsidiaries		77		1,099		1,778		3,544
Net income (loss)		(343,760)		263,472		738,864		1,138,851
Preferred stock dividends		9,274		9,221		27,523		26,309
Net income (loss) attributable to common stock	$	(353,034)	$	254,251	$	711,341	$	1,112,542
Basic earnings (loss) per common share	$	(.85)	$	.62	$	1.73	$	2.71
Average common shares outstanding		412,944		410,034		411,958		411,212
Diluted earnings (loss) per common share	$	(.85)	$	.60	$	1.69	$	2.56
Average common and common equivalent shares outstanding		412,944		449,841		420,305		452,012
Dividends per common share	$		$	.25	$	.25	$	.72

See accompanying notes to consolidated financial statements.

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

ferred ock ares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
00,000	430,753,515	(19,078,488)	411,675,027	$ 565,000	$ 86,151	$ 2,440,565	$ 370,204	$ 1,775,948
								263,472
							98,168	
							(7,845)	
								(101,995)
								(2,875)
								(6,183)
	836,344	4,996	841,340		167	25,380		
						163		(163)
						6,695		
						18,048		
		(2,159,827)	(2,159,827)					
		(861,576)	(861,576)					

		(134,033)	(134,033)					
00,000	431,589,859	(22,228,928)	409,360,931	$ 565,000	$ 86,318	$ 2,490,851	$ 460,527	$ 1,928,204
00,000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674
								(343,760)
							(12,914)	
							(7,208)	
							86	
								(2,875)
								(6,236)
								(1)
	3,565,038		3,565,038		713	86,182		
						163		(163)
						31,105		
						8,744		
		(2,067,201)	(2,067,201)					
00,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639

See accompanying notes to consolidated financial statements.

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

erred ock ares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings
00,000	426,483,527	(13,346,717)	413,136,810	$ 565,000	$ 85,297	$ 2,233,647	$ 367,910	$ 1,111,743
								1,138,851
							91,356	
							1,256	
							5	
								(296,081)
								(8,625)
								(17,200)
	5,106,332	58,745	5,165,077		1,021	157,331		
						484		(484)
						44,654		
						54,735		
		(2,159,827)	(2,159,827)					

		(5,395,979)	(5,395,979)					
		(1,385,150)	(1,385,150)					
00,000	431,589,859	(22,228,928)	409,360,931	$ 565,000	$ 86,318	$ 2,490,851	$ 460,527	$ 1,928,204
00,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								738,864
							(103,014)	
							(309)	
							(436)	
								(102,658)
								(8,625)
								(18,414)
								(1)
	6,547,359	35,364	6,582,723		1,309	180,376		
						484		(484)
						46,579		
						55,098		
								(5,761)
		(3,083,439)	(3,083,439)					
00,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30, 2007 (Unaudited)	Restated 2006 (Unaudited)
Operating activities		
Net income	$ 738,864	$ 1,138,851
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(367,300)	(902,417)
Losses on sales of loans and securities, net	67,051	24,899
Stock-based compensation cost	65,193	62,081
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(129,078)	(193,972)
Unrealized (gains)/losses on derivative and hedging activities equity forwards	73,467	181,616
Provisions for loan losses	441,130	194,957
Minority interest, net	(1,239)	(5,639)
Mortgage loans originated	(528,241)	(1,030,296)
Proceeds from sales of mortgage loans	585,853	1,052,750
Decrease (increase) in restricted cash-other	127	(148,312)
(Increase) in accrued interest receivable	(1,018,465)	(722,659)
Increase in accrued interest payable	157,082	167,418
Adjustment for non-cash (income)/loss related to Retained Interest	142,225	147,839
(Increase) decrease in other assets, goodwill and acquired intangible assets, net	(269,818)	390,679
Increase in other liabilities	649,274	394,756
Total adjustments	(132,739)	(386,300)
Net cash provided by operating activities	606,125	752,551
Investing activities		
Student loans acquired	(31,057,701)	(27,121,113)
Loans purchased from securitized trusts (primarily loan consolidations)	(3,944,000)	(5,903,077)
Reduction of student loans:		
Installment payments	8,532,193	7,846,175
Proceeds from securitization of student loans treated as sales	1,976,599	19,521,365
Proceeds from sales of student loans	777,982	94,578
Other loans originated	(2,967,425)	(1,302,201)
Other loans repaid	3,007,256	1,159,201
Other investing activities, net	(204,634)	(110,866)
Purchases of available-for-sale securities	(65,822,245)	(58,882,238)
Proceeds from sales of available-for-sale securities	73,199	2,866
Proceeds from maturities of available-for-sale securities	64,214,984	59,393,499
Purchases of held-to-maturity and other securities	(330,050)	(559,098)

Proceeds from maturities of held-to-maturity securities and other securities	434,771	635,268
(Increase) in restricted cash on-balance sheet trusts	(1,696,092)	(424,200)
Return of investment from Retained Interest	199,345	66,781
Purchase of subsidiaries, net of cash acquired		(289,162)
Net cash (used in) investing activities	(26,805,818)	(5,872,222)
Financing activities		
Short-term borrowings issued	5,027,546	15,854,385
Short-term borrowings repaid	(6,870,392)	(15,860,749)
Long-term borrowings issued	1,567,602	7,682,583
Long-term borrowings repaid	(3,078,229)	(4,284,140)
Borrowings collateralized by loans in trust issued	18,953,651	6,203,019
Borrowings collateralized by loans in trust repaid	(4,295,630)	(3,860,982)
Asset-backed commercial paper conduits net activity	20,391,717	7,303
Other financing activities, net	(54,790)	(64,886)
Excess tax benefit from the exercise of stock-based awards	29,535	27,445
Common stock issued	159,832	144,448
Net settlements on equity forward contracts	(184,793)	(45,906)
Common stock repurchased	(142,927)	(469,846)
Common dividends paid	(102,658)	(296,081)
Preferred dividends paid	(27,039)	(25,825)
Net cash provided by financing activities	31,373,425	5,010,768
Net increase (decrease) in cash and cash equivalents	5,173,732	(108,903)
Cash and cash equivalents at beginning of period	2,621,222	2,498,655
Cash and cash equivalents at end of period	$ 7,794,954	$ 2,389,752
Cash disbursements made for:		
Interest	$ 4,966,249	$ 3,117,085
Income taxes	$ 704,206	$ 574,220

See accompanying notes to consolidated financial statements.

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1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. 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, 2007 are not necessarily indicative of the results for the year ending December 31, 2007. The consolidated balance sheet at December 31, 2006, as presented, was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the period ended December 31, 2006. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2006 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2006 to be consistent with classifications adopted for 2007.

Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited)

The Company restated its 2006 quarterly consolidated statements of cash flows as more fully described within the Company s 2006 Annual Report on Form 10-K at Note 2, Significant Accounting Policies *Statement of Cash Flows* Restatement of the Consolidated Statements of Cash Flows and Note 21, Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited). The restatements solely affected the classification of items in operating, investing and financing activities, and had no impact on the net increase (decrease) in cash and cash equivalents set forth in the consolidated statements of cash flows for any of the previously reported periods. The restatements did not affect the Company s consolidated balance sheets, consolidated statements of income or consolidated statements of changes in stockholders equity. Accordingly, the Company s historical revenues, net income, earnings per share, total assets and total stockholders equity remain unchanged.

Recently Issued Accounting Pronouncements

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities an irrevocable election to measure many financial instruments and certain other items at fair value, on an instrument-by-instrument basis. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring derivative instruments and the hedged assets and liabilities differently, without having to apply complex hedge accounting provisions. Most recognized financial assets and liabilities are eligible items for the measurement option established by the

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1. Significant Accounting Policies (Continued)

statement. There are a few exceptions, including an investment in a subsidiary or an interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits and financial instruments classified as shareholders equity. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company is currently evaluating the impact of this standard on its financial statements. The statement will be effective beginning January 1, 2008.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value. The Company is currently evaluating the potential impact of SFAS No. 157 on its financial statements.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, which amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement was effective for the Company beginning January 1, 2007.

This statement:

Requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset as the result of (i) a transfer of the servicer s financial assets that meet the requirement for sale accounting; (ii) a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ; or (iii) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

Requires all separately recognized servicing assets or liabilities to be initially measured at fair value, if practicable.

Permits an entity to either (i) amortize servicing assets or liabilities in proportion to and over the period of estimated net servicing income or loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date (amortization method); or (ii) measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur (fair value measurement method). The method must be chosen for each separately recognized class of servicing asset or liability.

At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value.

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1. Significant Accounting Policies (Continued)

Requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and liabilities.

The adoption of SFAS No. 156 did not have a material impact on the Company s financial statements as the Company did not elect to carry its servicing rights at fair value through earnings.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140. This statement was effective for the Company beginning January 1, 2007.

This statement:

Requires that all interests in securitized financial assets be evaluated to determine if the interests are free standing derivatives or if the interests contain an embedded derivative;

Clarifies which interest-only strips and principal-only strips are exempt from the requirements of SFAS No. 133;

Clarifies that the concentrations of credit risk in the form of subordination are not an embedded derivative;

Allows a hybrid financial instrument containing an embedded derivative that would have required bifurcation under SFAS No. 133 to be measured at fair value as one instrument on a case by case basis; and

Amends SFAS Statement No. 140 to eliminate the prohibition of a qualifying special purpose entity from holding a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument.

In January 2007, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, Implementation Issues No. B39, Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor (Amended), and No. B40, Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets. The guidance clarifies various aspects of SFAS No. 155 and will require the Company to either (1) separately record embedded derivatives that may reside in the Company s Residual Interest and on-balance sheet securitization debt, or (2) if embedded derivatives exist that require bifurcation, record the entire Residual Interest at fair value with changes in the fair value of the Company s Residual Interest and on-balance sheet securitization debt in their entirety. This standard is prospectively applied in 2007 for new securitizations and does not apply to the Company s existing Residual Interest or on-balance sheet securitization debt that settled prior to 2007.

If material embedded derivatives exist within the Residual Interest that require bifurcation, the Company will most likely elect to carry the entire Residual Interest at fair value with subsequent changes in fair value recorded in earnings. This election could have a material impact on earnings, as prior to the adoption of SFAS No. 155, changes in the fair value of these Residual Interests would have been recorded through other comprehensive income (except for impairment which is recorded through income). In the first quarter of 2007, the Company elected this option related to the Private Education Loan securitization which settled in the first quarter of 2007 and as a result, has recorded related unrealized gains/losses through earnings that, prior to the

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1. Significant Accounting Policies (Continued)

adoption of SFAS No. 155, would have been recorded through other comprehensive income (except for any impairment required to be recognized).

The Company has concluded, based on its current securitization deal structures, that its on-balance sheet securitization debt will not be materially impacted upon the adoption of SFAS No. 155 as embedded derivatives will not have a material value. Accordingly, there was no impact for the nine months ended September 30, 2007, as it relates to on-balance sheet securitization debt.

2. Allowance for Student Loan Losses

The Company s provisions for student loan losses represent the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the student loan portfolios. The evaluation of the provisions for student loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. The Company believes that the allowance for student loan losses is appropriate to cover probable losses inherent in the student loan portfolios.

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Balance at beginning of period	$ 451,987	$ 268,562	$ 328,661	$ 219,062
Provisions for student loan losses	137,220	61,864	429,386	184,480
Charge-offs	(86,440)	(37,954)	(264,745)	(108,107)
Recoveries	8,685	5,652	23,301	18,081
Net charge-offs	(77,755)	(32,302)	(241,444)	(90,026)
Balance before reductions for student loan sales and securitizations	511,452	298,124	516,603	313,516
Adjustments for student loan sales and securitizations	112	(4,781)	(5,039)	(20,173)
Balance at end of period	$ 511,564	$ 293,343	$ 511,564	$ 293,343

The following table summarizes the total provisions for loan losses for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Private Education Loans	$ 99,687	$ 58,549	$ 380,093	$ 175,133
FFELP Stafford and Other Student Loans	37,533	3,315	49,293	9,347
Mortgage and consumer loans	5,380	5,378	11,744	10,477
Total provisions for loan losses	$ 142,600	$ 67,242	$ 441,130	$ 194,957

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2. Allowance for Student Loan Losses (Continued)

The third quarter 2007 FFELP provision included a cumulative $30 million adjustment of non-recurring provision expense for student loans related to the repeal of the Exceptional Performer program (and the resulting increase in the Company s Risk Sharing allowance) due to the passage of the College Cost Reduction and Access Act of 2007 on September 27, 2007.

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three and nine months ended September 30, 2007 and 2006. The provision for the nine months ended September 30, 2007, included an update to the Company s projected default rates reflecting an increased gross charge-off expectation which was somewhat offset by an increase in expected life-of-loan recoveries.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 427,904	$ 251,582	$ 308,346	$ 204,112
Provision for Private Education Loan losses	99,687	58,549	380,093	175,133
Charge-offs	(82,176)	(36,845)	(251,860)	(105,564)
Recoveries	8,685	5,652	23,301	18,081
Net charge-offs	(73,491)	(31,193)	(228,559)	(87,483)
Balance before securitization of Private Education Loans	454,100	278,938	459,880	291,762
Reduction for securitization of Private Education Loans		(3,964)	(5,780)	(16,788)
Balance at end of period	$ 454,100	$ 274,974	$ 454,100	$ 274,974
Net charge-offs as a percentage of average loans in repayment (annualized)	5.12%	3.19%	5.69%	3.06%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.61%	2.95%	5.18%	2.82%
Allowance as a percentage of the ending total loan balance	3.21%	3.24%	3.21%	3.24%
Allowance as a percentage of ending loans in repayment	7.70%	6.91%	7.70%	6.91%

Allowance coverage of net charge-offs (annualized)	1.56	2.22	1.49	2.35
Average total loans	$ 12,705,773	$ 8,078,690	$ 11,663,982	$ 8,348,271
Ending total loans	$ 14,129,671	$ 8,497,374	$ 14,129,671	$ 8,497,374
Average loans in repayment	$ 5,696,049	$ 3,878,857	$ 5,373,462	$ 3,821,361
Ending loans in repayment	$ 5,895,619	$ 3,980,466	$ 5,895,619	$ 3,980,466

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2. Allowance for Student Loan Losses (Continued)

Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2007, December 31, 2006, and September 30, 2006. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

(Dollars in millions)	September 30, 2007 Balance	%	December 31, 2006 Balance	%	September 30, 2006 Balance	%
Loans in-school/grace/deferment[1]	$ 7,966		$ 5,218		$ 4,497	
Loans in forbearance[2]	701		359		341	
Loans in repayment and percentage of each status:						
Loans current	5,186	88.0%	4,214	86.9%	3,462	87.0%
Loans delinquent 31-60 days[3]	275	4.7	250	5.1	209	5.3
Loans delinquent 61-90 days[3]	156	2.6	132	2.7	121	3.0
Loans delinquent greater than 90 days[3]	279	4.7	255	5.3	188	4.7
Total Private Education Loans in repayment	5,896	100%	4,851	100%	3,980	100%
Total Private Education Loans, gross	14,563		10,428		8,818	
Private Education Loan unamortized discount	(433)		(365)		(321)	
Total Private Education Loans	14,130		10,063		8,497	
Private Education Loan allowance for losses	(454)		(308)		(275)	
Private Education Loans, net	$ 13,676		$ 9,755		$ 8,222	
Percentage of Private Education Loans in repayment	40.5%		46.5%		45.1%	
Delinquencies as a percentage of Private Education Loans in repayment	12.0%		13.1%		13.0%	

Loans in forbearance as a percentage of loans in repayment and forbearance	10.6%	6.9%	7.9%

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 the established loan program servicing procedures and policies.

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

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3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of September 30, 2007 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 379	$ (147)	$ 232
Tax exempt bond funding	10 years			
Software and technology	7 years	95	(74)	21
Non-compete agreements	2 years	12	(10)	2
Total		486	(231)	255
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	115		115
Total acquired intangible assets		$ 601	$ (231)	$ 370

(Dollars in millions)	Average Amortization Period	As of December 31, 2006 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 367	$ (115)	$ 252
Tax exempt bond funding	10 years	46	(37)	9
Software and technology	7 years	94	(62)	32
Non-compete agreements	2 years	12	(9)	3
Total		519	(223)	296
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	106		106
Total acquired intangible assets		$ 625	$ (223)	$ 402

The Company recorded intangible impairment and amortization of acquired intangibles totaling $19 million and $37 million for the three months ended September 30, 2007 and 2006, respectively, and $59 million and $68 million for the nine months ended September 30, 2007 and 2006, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

A summary of changes in the Company s goodwill by reportable segment (see Note 11, Segment Reporting) is as follows:

(Dollars in millions)	December 31, 2006	Adjustments	September 30, 2007
Lending	$ 406	$ 1	$ 407
Asset Performance Group	349	28	377
Corporate and Other	215	(15)	200
Total	$ 970	$ 14	$ 984

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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3. Goodwill and Acquired Intangible Assets (Continued)

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company s acquisitions is reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, and is addressed further in Note 2, Significant Accounting Policies, within the Company s 2006 Annual Report on Form 10-K.

4. Student Loan Securitization

Securitization Activity

The Company securitizes its student loan assets and for transactions qualifying as sales, retains a Residual Interest and servicing rights (as the Company retains the servicing responsibilities), all of which are 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 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. The investors of the securitization trusts have no recourse to the Company s other assets should there be a failure of the trusts to pay when due.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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4. Student Loan Securitization (Continued)

The following table summarizes the Company s securitization activity for the three and nine months ended September 30, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended September 30,							
	2007				2006			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain%	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain%
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans					2	4,001	19	.5
Private Education Loans					1	1,088	182	16.7
Total securitizations sales			$	%	3	5,089	$ 201	4.0%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)								
FFELP Consolidation Loans(1)	1	2,493			1	3,001		
Total securitizations financings	1	2,493			1	3,001		
Total securitizations	1	$ 2,493			4	$ 8,090		

	Nine Months Ended September 30,							
	2007				2006			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain%	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain%
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%	2	$ 5,004	$ 17	.3%
FFELP Consolidation Loans					4	9,503	55	.6

Private Education Loans	1	2,000	367	18.4	3	5,088	830	16.3
Total securitizations sales	1	2,000	$ 367	18.4%	9	19,595	$ 902	4.6%
Securitization financings:								
FFELP Stafford/PLUS Loans[1]	2	7,004						
FFELP Consolidation Loans[1]	3	11,480			2	6,002		
Total securitizations financings	5	18,484			2	6,002		
Total securitizations	6	$ 20,484			11	$ 25,597		

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and accordingly, they are accounted for on-balance sheet as variable interest entities (VIEs). Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements after the initial settlement of the securitization, which do not relate to the reissuance of third party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

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4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,					
	2007			2006		
	FFELP Stafford(1)	FFELP Consolidation Loans(1)	Private Education Loans(1)	FFELP Stafford(1)	FFELP Consolidation Loans	Private Education Loans
Prepayment speed (annual rate)(2)					6%	4%
Interim status						
Repayment status						
Life of loan repayment status						
Weighted average life					7.9 yrs.	9.2 yrs.
Expected credit losses (% of principal securitized)					.09%	4.75%
Residual cash flows discounted at (weighted average)					11.0%	12.7%

	Nine Months Ended September 30,					
	2007			2006		
	FFELP Stafford(1)	FFELP Consolidation Loans(1)	Private Education Loans	FFELP Stafford	FFELP Consolidation Loans	Private Education Loans
Prepayment speed (annual rate)(2)				*	6%	4%
Interim status			0%			
Repayment status			4-7%			
Life of loan repayment status			6%			
Weighted average life			9.4 yrs.	3.7 yrs.	8.2 yrs.	9.4 yrs.
Expected credit losses (% of principal securitized)			4.69%	.15%	.19%	4.79%
Residual cash flows discounted at (weighted			12.5%	12.4%	10.8%	12.9%

average)

(1) No securitizations qualified for sale treatment in the period.

(2) Effective December 31, 2006, the Company implemented Constant Prepayment Rates (CPR) curves for Residual Interest valuations that are based on the number of months since entering repayment that better reflect the CPR as the loan seasons. Under this methodology, a different CPR is applied to each year of a loan s seasoning. Previously, the Company applied a CPR that was based on a static life of loan assumption, irrespective of seasoning, or, in the case of FFELP Stafford and PLUS loans, the Company used a vector approach in applying the CPR. The repayment status CPR depends on the number of months since first entering repayment or as the loans seasons through the portfolio. 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.

* CPR of 20 percent for 2006, 15 percent for 2007 and 10 percent thereafter.

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4. 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 September 30, 2007 and December 31, 2006.

	As of September 30, 2007			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts[5]**	**Total**
Fair value of Residual Interests[2]	$ 472	$ 688	$ 2,079	$ 3,239
Underlying securitized loan balance[3]	10,010	16,216	14,281	40,507
Weighted average life	2.9 yrs.	7.4 yrs.	7.1 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	3-38%	3-8%	1-30%	
Life of loan repayment status	21%	6%	9%	
Expected credit losses (% of student loan principal)	.11%	.15%	4.46%	
Residual cash flows discount rate	12.1%	10.4%	12.5%	

	As of December 31, 2006			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 701	$ 676	$ 1,965	$ 3,342
Underlying securitized loan balance[3]	14,794	17,817	13,222	45,833
Weighted average life	2.9 yrs.	7.3 yrs.	7.2 yrs.	
Prepayment speed (annual rate)				

Interim status	0%	N/A	0%
Repayment status	0-43%	3-9%	4-7%
Life of loan repayment status	24%	6%	6%
Expected credit losses (% of student loan principal)	.06%	.07%	4.36%
Residual cash flows discount rate	12.6%	10.5%	12.6%

(1) Includes $167 million and $151 million related to the fair value of the Embedded Floor Income as of September 30, 2007 and December 31, 2006, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At September 30, 2007 and December 31, 2006, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $281 million and $389 million, respectively, that related to the Retained Interests.

(3) In addition to student loans in off-balance sheet trusts, the Company had $61.9 billion and $48.6 billion of securitized student loans outstanding (face amount) as of September 30, 2007 and December 31, 2006, respectively, in on-balance sheet securitization trusts.

(4) Effective December 31, 2006, the Company implemented 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. Previously, the Company applied a CPR that was based on a static life of loan assumption, and, in the case of FFELP Stafford and PLUS loans, the Company applied a vector approach, irrespective of 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.

(5) As discussed in Note 1, Significant Accounting Policies Accounting for Certain Hybrid Financial Instruments the Company adopted SFAS No. 155, Accounting for Certain Hybrid Financial Instruments effective January 1, 2007. As a result, the Company elected to carry the Residual Interest on the Private Education Loan securitization which settled in the first quarter of 2007 at fair value with subsequent changes in fair value recorded in earnings. The fair value of this Residual Interest at September 30, 2007 was $382 million inclusive of a net $5 million fair value gain adjustment recorded since settlement.

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4. Student Loan Securitization (Continued)

The Company recorded impairments to the Retained Interests of $90 million and $4 million, respectively, for the three months ended September 30, 2007 and 2006, and $137 million and $148 million, respectively, for the nine months ended September 30, 2007 and 2006. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations ($31 million and $4 million for the three months ended September 30, 2007 and 2006, respectively, and $54 million and $97 million for the nine months ended September 30, 2007 and 2006, respectively), impairment to the Floor Income component of the Company s Retained Interest due to increases in interest rates during the period ($0 million for both the three months ended September 30, 2007 and 2006, respectively, and $24 million and $51 million for the nine months ended September 30, 2007 and 2006, respectively), and an increase in prepayments and acceleration of defaults related to Private Education Loans ($59 million for the three and nine months ended September 30, 2007).

As of September 30, 2007 the Company updated the following assumptions used to calculate the fair value of the Residual Interests: (1) the prepayment assumption related to Private Education Loans was increased from 6 percent to 9 percent to account for the Company s continued expectation of increased consolidation activity, (2) the expected credit losses assumed for the FFELP loans have been increased to account for the Company s higher percentage of Risk Sharing resulting from the new legislation; and (3) the timing of expected defaults of Private Education Loans was accelerated based on the most current information the Company has observed. The overall expectation of Private Education Loan defaults did not materially change; however, acceleration of the timing has the effect of decreasing the value of the Company s Residual Interests. The changes in these assumptions related to the Company s Private Education Loan Residual Interests and FFELP Residual Interests resulted in a $196 million and $11 million reduction in fair value, respectively. The Company also assessed the appropriateness of the current risk premium which is added to the risk free rate for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company concluded that the current risk premium is appropriate as it takes into account the current level of cash flow uncertainty and lack of liquidity that may exist with the Residual Interests.

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4. Student Loan Securitization (Continued)

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of September 30, 2007, December 31, 2006 and September 30, 2006.

	September 30, 2007		December 31, 2006		September 30, 2006	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 6,126		$ 5,608		$ 6,861	
Loans in forbearance[2]	1,251		822		901	
Loans in repayment and percentage of each status:						
Loans current	6,524	94.5%	6,419	94.5%	5,281	94.3%
Loans delinquent 31-60 days[3]	192	2.8	222	3.3	164	2.9
Loans delinquent 61-90 days[3]	71	1.0	60	.9	68	1.2
Loans delinquent greater than 90 days[3]	116	1.7	91	1.3	90	1.6
Total off-balance sheet Private Education Loans in repayment	6,903	100%	6,792	100%	5,603	100%
Total off-balance sheet Private Education Loans, gross	$ 14,280		$ 13,222		$ 13,365	

(1) Loans for borrowers who still may be attending school or engaging in other permitted educational activities and are not yet required to make payments on 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 the established loan program servicing procedures and programs.

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

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5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at September 30, 2007 and December 31, 2006 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2007 and 2006. At September 30, 2007 and December 31, 2006, $11 million (none of which is in restricted cash and investments on the balance sheet) and $418 million (of which $53 million is in restricted cash and investments on the balance sheet) fair value, respectively, of available-for-sale investment securities and $445 million and $28 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006
Fair Values[1]								
Interest rate swaps	$ (11)	$ (9)	$ (235)	$ (355)	$ 40	$ (111)	$ (206)	$ (475)
Floor/Cap contracts					(296)	(200)	(296)	(200)
Futures								
Equity forwards					(101)	(213)	(101)	(213)
Cross currency interest rate swaps			3,273	1,440			3,273	1,440
Total	$ (11)	$ (9)	$ 3,038	$ 1,085	$ (357)	$ (524)	$ 2,670	$ 552
<u>(Dollars in billions)</u>								
Notional Values								
Interest rate swaps	$ 1.9	$ 2.1	$ 15.6	$ 15.6	$ 193.4	$ 162.0	$ 210.9	$ 179.7
Floor/Cap contracts					39.9	21.5	39.9	21.5
Futures		.1			.6	.6	.6	.7
Cross currency interest rate swaps			23.8	23.0	.1		23.9	23.0
Other[2]					.5	2.0	.5	2.0
Total	$ 1.9	$ 2.2	$ 39.4	$ 38.6	$ 234.5	$ 186.1	$ 275.8	$ 226.9
<u>(Shares in millions)</u>								
Contracts								
Equity forwards					48.2	48.2	48.2	48.2

(1) Fair values reported are exclusive of collateral held and/or pledged.

(2) Other includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155 (see Note 1, Significant Accounting Policies Accounting for Certain Hybrid Financial Instruments). In addition, for December 31, 2006, other consisted of an embedded derivative ($2 billion notional) bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. All of the embedded derivatives have had a de minimis fair value since bifurcation.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2007	2006	2007	2006	2007	2006	2007	2006
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ (7)	$ (11)	$	$	$	$	$ (7)	$ (11)
Amortization of effective hedges[1]		4						4
Change in accumulated other comprehensive income, net	$ (7)	$ (7)	$	$	$	$	$ (7)	$ (7)
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$	$ (6)	$	$	$	$	$	$ (6)
Gains (losses) on derivative and hedging activities Realized[3]					(33)	(18)	(33)	(18)
Gains (losses) on derivative and hedging activities Unrealized[4]			22	(20)	(476)	(93)	(454)	(113)