SLM CORP
Form 10-Q
November 02, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2012

or

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

For the transition period from to

Commission File Number: 001-13251

SLM Corporation

(Exact name of registrant as specified in its charter)

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

(302) 283-8000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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 September 30, 2012
Common stock, $.20 par value	462,158,784 shares

Table of Contents

SLM CORPORATION

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SLM CORPORATION

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)

(Unaudited)

	September 30, 2012	December 31, 2011
Assets		
FFELP Loans (net of allowance for losses of $166 and $187, respectively)	$ 127,747	$ 138,130
Private Education Loans (net of allowance for losses of $2,196 and $2,171, respectively)	37,101	36,290
Investments		
Available-for-sale	63	70
Other	1,137	1,052
Total investments	1,200	1,122
Cash and cash equivalents	3,083	2,794
Restricted cash and investments	6,331	5,873
Goodwill and acquired intangible assets, net	462	478
Other assets	8,279	8,658
Total assets	$ 184,203	$ 193,345
Liabilities		
Short-term borrowings	$ 20,457	$ 29,573
Long-term borrowings	154,786	154,393
Other liabilities	4,014	4,128
Total liabilities	179,257	188,094
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20 million shares authorized		
Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of $50 per share	165	165
Series B: 4 million and 4 million shares issued, respectively, at stated value of $100 per share	400	400
Common stock, par value $.20 per share, 1.125 billion shares authorized: 534 million and 529 million shares, issued, respectively	107	106
Additional paid-in capital	4,219	4,136
Accumulated other comprehensive loss (net of tax benefit of $5 and $8, respectively)	(8)	(14)
Retained earnings	1,165	770
Total SLM Corporation stockholders equity before treasury stock	6,048	5,563
Less: Common stock held in treasury at cost: 72 million and 20 million shares, respectively	(1,108)	(320)
Total SLM Corporation stockholders equity	4,940	5,243
Noncontrolling interest	6	8
Total equity	4,946	5,251

Total liabilities and equity	$ 184,203	$ 193,345

Supplemental information assets and liabilities of consolidated variable interest entities:

	September 30, 2012	December 31, 2011
FFELP Loans	$ 124,222	$ 135,536
Private Education Loans	25,889	24,962
Restricted cash and investments	6,202	5,609
Other assets	2,216	2,638
Short-term borrowings	12,778	21,313
Long-term borrowings	132,738	134,533
Net assets of consolidated variable interest entities	$ 13,013	$ 12,899

See accompanying notes to consolidated financial statements.

2

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Interest income:				
FFELP Loans	$ 840	$ 858	$ 2,459	$ 2,584
Private Education Loans	615	609	1,856	1,813
Other loans	4	5	13	17
Cash and investments	5	4	16	14
Total interest income	1,464	1,476	4,344	4,428
Total interest expense	645	591	1,968	1,777
Net interest income	819	885	2,376	2,651
Less: provisions for loan losses	270	409	766	1,003
Net interest income after provisions for loan losses	549	476	1,610	1,648
Other income (loss):				
Losses on derivative and hedging activities, net	(233)	(480)	(600)	(1,231)
Servicing revenue	94	95	283	286
Contingency revenue	85	84	261	248
Gains on debt repurchases	44		102	38
Other	3	1	40	25
Total other income (loss)	(7)	(300)	86	(634)
Expenses:				
Salaries and benefits	122	138	369	398
Other operating expenses	122	147	374	459
Total operating expenses	244	285	743	857
Goodwill and acquired intangible assets impairment and amortization expense	5	6	14	18
Restructuring expenses	2	1	11	6
Total expenses	251	292	768	881
Income (loss) from continuing operations before income tax expense (benefit)	291	(116)	928	133
Income tax expense (benefit)	104	(46)	339	44
Net income (loss) from continuing operations	187	(70)	589	89
Income from discontinued operations, net of tax expense		23		33
Net income (loss)	187	(47)	589	122
Less: net loss attributable to noncontrolling interest	(1)		(2)	
Net income (loss) attributable to SLM Corporation	188	(47)	591	122
Preferred stock dividends	5	5	15	13

Net income (loss) attributable to SLM Corporation common stock	$ 183	$ (52)	$ 576	$ 109
Basic earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	$ .39	$ (.14)	$ 1.19	$ .15
Discontinued operations		.04		.06
Total	$ .39	$ (.10)	$ 1.19	$ .21
Average common shares outstanding	464	511	483	520
Diluted earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	$ .39	$ (.14)	$ 1.18	$ .15
Discontinued operations		.04		.06
Total	$ .39	$ (.10)	$ 1.18	$ .21
Average common and common equivalent shares outstanding	471	511	490	526
Dividends per common share attributable to SLM Corporation	$ .125	$ .10	$ .375	$ .20

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income (loss)	$ 187	$ (47)	$ 589	$ 122
Other comprehensive income (loss):				
Unrealized gains/(losses) on derivatives:				
Unrealized hedging losses on derivatives	(3)		(14)	(6)
Reclassification adjustments for derivative losses included in net income	6	15	22	44
Unrealized gains on investments			1	1
Income tax benefit (expense)	(1)	(5)	(3)	(14)
Other comprehensive income, net of tax	2	10	6	25
Comprehensive income (loss)	189	(37)	595	147
Less: comprehensive loss attributable to noncontrolling interest	(1)		(2)	
Total comprehensive income (loss) attributable to SLM Corporation	$ 190	$ (37)	$ 597	$ 147

See accompanying notes to consolidated financial statements.

4

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In millions, except share and per share amounts)

(Unaudited)

	Preferred Stock Shares	Common Stock Shares: Issued	Common Stock Shares: Treasury	Common Stock Shares: Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at June 30, 2011	7,300,000	528,623,163	(10,474,334)	518,148,829	$ 565	$ 106	$ 4,114	$ (30)	$ 418	$ (170)	$ 5,003	$ 8	$ 5,011
Comprehensive income:													
Net loss									(47)		(47)		(47)
Other comprehensive income, net of tax								10			10		10
Total comprehensive income											(37)		(37)
Cash dividends:													
Common stock ($.10 per share)									(51)		(51)		(51)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.50 per share)									(2)		(2)		(2)
Issuance of common shares		288,291		288,291			3				3		3
Tax benefit related to employee stock-based compensation plans							(1)				(1)		(1)
Stock-based compensation expense							11				11		11
Common stock repurchased			(9,460,512)	(9,460,512)						(145)	(145)		(145)
Shares repurchased related to employee stock-based compensation plans			(244,758)	(244,758)						(4)	(4)		(4)
Balance at September 30, 2011	7,300,000	528,911,454	(20,179,604)	508,731,850	$ 565	$ 106	$ 4,127	$ (20)	$ 315	$ (319)	$ 4,774	$ 8	$ 4,782

Balance at June 30, 2012	7,300,000	532,672,974	(63,270,775)	469,402,199	$ 565	$ 107	$ 4,196	$ (10)	$ 1,040	$ (967)	$ 4,931	$ 7	$ 4,938
Comprehensive income:													
Net income (loss)									188		188	(1)	187
Other comprehensive income, net of tax								2			2		2
Total comprehensive income											190	(1)	189
Cash dividends:													
Common stock ($.125 per share)									(58)		(58)		(58)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.57 per share)									(2)		(2)		(2)
Issuance of common shares		1,654,506		1,654,506			17				17		17
Tax benefit related to employee stock-based compensation plans							(2)				(2)		(2)
Stock-based compensation expense							8				8		8
Common stock repurchased			(7,643,999)	(7,643,999)						(121)	(121)		(121)
Shares repurchased related to employee stock-based compensation plans			(1,253,922)	(1,253,922)						(20)	(20)		(20)
Balance at September 30, 2012	7,300,000	534,327,480	(72,168,696)	462,158,784	$ 565	$ 107	$ 4,219	$ (8)	$ 1,165	$ (1,108)	$ 4,940	$ 6	$ 4,946

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(In millions, except share and per share amounts)

(Unaudited)

	Preferred Stock Shares	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2010	7,300,000	595,263,474	(68,319,589)	526,943,885	$ 565	$ 119	$ 5,940	$ (45)	$ 309	$ (1,876)	$ 5,012	$	$ 5,012
Comprehensive income:													
Net income									122		122		122
Other comprehensive income, net of tax								25			25		25
Total comprehensive income											147		147
Cash dividends:													
Common stock ($.20 per share)									(103)		(103)		(103)
Preferred stock, series A ($2.61 per share)									(9)		(9)		(9)
Preferred stock, series B ($1.07 per share)									(4)		(4)		(4)
Issuance of common shares		3,722,349		3,722,349		1	38				39		39
Retirement of common stock in treasury		(70,074,369)	70,074,369			(14)	(1,890)			1,904			
Tax benefit related to employee stock-based compensation plans							(9)				(9)		(9)
Stock-based compensation expense							48				48		48
Common stock repurchased			(19,054,115)	(19,054,115)						(300)	(300)		(300)
Shares repurchased related to employee stock-based compensation plans			(2,880,269)	(2,880,269)						(47)	(47)		(47)
												8	8

Acquisition of noncontrolling interest													
Balance at September 30, 2011	7,300,000	528,911,454	(20,179,604)	508,731,850	$ 565	$ 106	$ 4,127	$ (20)	$ 315	$ (319)	$ 4,774	$ 8	$ 4,782
Balance at December 31, 2011	7,300,000	529,075,322	(20,323,997)	508,751,325	$ 565	$ 106	$ 4,136	$ (14)	$ 770	$ (320)	$ 5,243	$ 8	$ 5,251
Comprehensive income:													
Net income (loss)									591		591	(2)	589
Other comprehensive income, net of tax								6			6		6
Total comprehensive income											597	(2)	595
Cash dividends:													
Common stock ($.375 per share)									(180)		(180)		(180)
Preferred stock, series A ($2.61 per share)									(8)		(8)		(8)
Preferred stock, series B ($1.69 per share)									(7)		(7)		(7)
Restricted stock dividend									(1)		(1)		(1)
Issuance of common shares		5,252,158		5,252,158		1	47				48		48
Tax benefit related to employee stock-based compensation plans							(5)				(5)		(5)
Stock-based compensation expense							41				41		41
Common stock repurchased			(48,184,145)	(48,184,145)						(730)	(730)		(730)
Shares repurchased related to employee stock-based compensation plans			(3,660,554)	(3,660,554)						(58)	(58)		(58)
Balance at September 30, 2012	7,300,000	534,327,480	(72,168,696)	462,158,784	$ 565	$ 107	$ 4,219	$ (8)	$ 1,165	$ (1,108)	$ 4,940	$ 6	$ 4,946

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Operating activities		
Net income	$ 589	$ 122
Adjustments to reconcile net income to net cash provided by operating activities:		
Gains on debt repurchases	(102)	(38)
Goodwill and acquired intangible assets impairment and amortization expense	14	18
Stock-based compensation expense	41	48
Unrealized losses on derivative and hedging activities	51	647
Provisions for loan losses	766	1,003
Decrease in restricted cash other	37	43
Decrease in accrued interest receivable	204	136
(Decrease) increase in accrued interest payable	(55)	82
Decrease in other assets	286	132
Decrease in other liabilities	(2)	(119)
Total adjustments	1,240	1,952
Total net cash provided by operating activities	1,829	2,074
Investing activities		
Student loans acquired and originated	(5,497)	(3,166)
Reduction of student loans:		
Installment payments, claims and other	14,167	9,672
Proceeds from sales of student loans	428	568
Other investing activities, net	(101)	(483)
Purchases of available-for-sale securities	(39)	(125)
Proceeds from sales and maturities of available-for-sale securities	56	163
Purchases of held-to-maturity and other securities	(182)	(198)
Proceeds from maturities of held-to-maturity and other securities	161	195
(Increase) decrease in restricted cash variable interest entities	(496)	435
Cash provided by investing activities continuing operations	8,497	7,061
Cash provided by investing activities discontinued operations		109
Total net cash provided by investing activities	8,497	7,170
Financing activities		
Borrowings collateralized by loans in trust issued	10,004	3,034
Borrowings collateralized by loans in trust repaid	(11,565)	(8,506)
Asset-backed commercial paper conduits, net	140	(515)
ED Conduit Program facility, net	(8,960)	(2,517)
Other short-term borrowings issued	23	
Other short-term borrowings repaid	(122)	
Other long-term borrowings issued	3,769	1,967
Other long-term borrowings repaid	(2,952)	(4,294)
Other financing activities, net	224	594
Retail and other deposits, net	327	589

Common stock repurchased		(730)		(300)
Common stock dividends paid		(180)		(103)
Preferred stock dividends paid		(15)		(13)
Net cash used in financing activities		(10,037)		(10,064)
Net increase (decrease) in cash and cash equivalents		289		(820)
Cash and cash equivalents at beginning of period		2,794		4,343
Cash and cash equivalents at end of period	$	3,083	$	3,523
Cash disbursements made (refunds received) for:				
Interest	$	1,913	$	1,814
Income taxes paid	$	416	$	496
Income taxes received	$	(5)	$	(26)
Noncash activity:				
Investing activity Student loans and other assets acquired	$	402	$	783
Operating activity Other assets acquired and other liabilities assumed, net	$	23	$	19
Financing activity Borrowings assumed in acquisition of student loans and other assets	$	425	$	802

See accompanying notes to consolidated financial statements.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2012 and for the three and nine months ended

September 30, 2012 and 2011 is unaudited)

1. Significant Accounting Policies

Basis of Presentation

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

Reclassifications

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

Recently Adopted Accounting Standards

Presentation of Comprehensive Income

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

Fair Value Measurement and Disclosure Requirements

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses

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

Allowance for Loan Losses Metrics

	Allowance for Loan Losses Three Months Ended September 30, 2012			
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Other Loans**	**Total**
Beginning balance	$ 173	$ 2,186	$ 59	$ 2,418
Total provision	18	252		270
Charge-offs[(1)]	(23)	(250)	(6)	(279)
Student loan sales	(2)			(2)
Reclassification of interest reserve[(2)]		8		8
Ending balance	$ 166	$ 2,196	$ 53	$ 2,415
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,056	$ 40	$ 1,096
Ending balance: collectively evaluated for impairment	$ 166	$ 1,140	$ 13	$ 1,319
Loans:				
Ending balance: individually evaluated for impairment	$	$ 7,099	$ 76	$ 7,175
Ending balance: collectively evaluated for impairment	$ 126,441	$ 33,012	$ 146	$ 159,599
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.23%	9.58%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	3.11%	9.58%	
Allowance as a percentage of ending total loans	.13%	5.48%	23.92%	
Allowance as a percentage of ending loans in repayment	.18%	7.09%	23.92%	
Allowance coverage of charge-offs (annualized)	1.8	2.2	2.4	
Ending total loans[(3)]	$ 126,441	$ 40,111	$ 222	
Average loans in repayment	$ 90,898	$ 30,816	$ 231	
Ending loans in repayment	$ 90,481	$ 30,972	$ 222	

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

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

	Allowance for Loan Losses Three Months Ended September 30, 2011			
(Dollars in millions)	FFELP Loans	Private Education Loans	Other Loans	Total
Beginning balance	$ 189	$ 2,043	$ 63	$ 2,295
Total provision	21	384	4	409
Charge-offs[1]	(18)	(272)	(11)	(301)
Student loan sales	(3)			(3)
Reclassification of interest reserve[2]		12		12
Ending balance	$ 189	$ 2,167	$ 56	$ 2,412
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 618	$ 46	$ 664
Ending balance: collectively evaluated for impairment	$ 189	$ 1,549	$ 10	$ 1,748
Loans:				
Ending balance: individually evaluated for impairment	$	$ 4,485	$ 89	$ 4,574
Ending balance: collectively evaluated for impairment	$ 139,130	$ 34,682	$ 180	$ 173,992
Charge-offs as a percentage of average loans in repayment (annualized)	.07%	3.74%	16.95%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.06%	3.57%	16.95%	
Allowance as a percentage of ending total loans	.14%	5.53%	20.75%	
Allowance as a percentage of ending loans in repayment	.20%	7.49%	20.75%	
Allowance coverage of charge-offs (annualized)	2.7	2.0	1.2	
Ending total loans[3]	$ 139,130	$ 39,167	$ 269	
Average loans in repayment	$ 93,961	$ 28,819	$ 276	
Ending loans in repayment	$ 93,552	$ 28,922	$ 269	

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

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

	Allowance for Loan Losses Nine Months Ended September 30, 2012			
(Dollars in millions)	**FFELP Loans**	**Private Education Loans**	**Other Loans**	**Total**
Beginning balance	$ 187	$ 2,171	$ 69	$ 2,427
Total provision	54	712		766
Charge-offs[1]	(68)	(709)	(16)	(793)
Student loan sales	(7)			(7)
Reclassification of interest reserve[2]		22		22
Ending balance	$ 166	$ 2,196	$ 53	$ 2,415
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,056	$ 40	$ 1,096
Ending balance: collectively evaluated for impairment	$ 166	$ 1,140	$ 13	$ 1,319
Loans:				
Ending balance: individually evaluated for impairment	$	$ 7,099	$ 76	$ 7,175
Ending balance: collectively evaluated for impairment	$ 126,441	$ 33,012	$ 146	$ 159,599
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.10%	8.79%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.97%	8.79%	
Allowance as a percentage of ending total loans	.13%	5.48%	23.92%	
Allowance as a percentage of ending loans in repayment	.18%	7.09%	23.92%	
Allowance coverage of charge-offs (annualized)	1.8	2.3	2.5	
Ending total loans[3]	$ 126,441	$ 40,111	$ 222	
Average loans in repayment	$ 92,157	$ 30,577	$ 242	
Ending loans in repayment	$ 90,481	$ 30,972	$ 222	

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

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

	Allowance for Loan Losses Nine Months Ended September 30, 2011			
(Dollars in millions)	FFELP Loans	Private Education Loans	Other Loans	Total
Beginning balance	$ 189	$ 2,022	$ 72	$ 2,283
Total provision	67	924	12	1,003
Charge-offs[1]	(59)	(809)	(28)	(896)
Student loan sales	(8)			(8)
Reclassification of interest reserve[2]		30		30
Ending balance	$ 189	$ 2,167	$ 56	$ 2,412
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 618	$ 46	$ 664
Ending balance: collectively evaluated for impairment	$ 189	$ 1,549	$ 10	$ 1,748
Loans:				
Ending balance: individually evaluated for impairment	$	$ 4,485	$ 89	$ 4,574
Ending balance: collectively evaluated for impairment	$ 139,130	$ 34,682	$ 180	$ 173,992
Charge-offs as a percentage of average loans in repayment (annualized)	.08%	3.80%	12.93%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.07%	3.62%	12.93%	
Allowance as a percentage of ending total loans	.14%	5.53%	20.75%	
Allowance as a percentage of ending loans in repayment	.20%	7.49%	20.75%	
Allowance coverage of charge-offs (annualized)	2.4	2.0	1.4	
Ending total loans[3]	$ 139,130	$ 39,167	$ 269	
Average loans in repayment	$ 94,589	$ 28,481	$ 304	
Ending loans in repayment	$ 93,552	$ 28,922	$ 269	

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

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

Key Credit Quality Indicators

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default; therefore, the key credit quality indicator for this portfolio is loan status. The impact of changes in loan status is incorporated quarterly into the allowance for loan losses calculation.

For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

	Private Education Loans Credit Quality Indicators			
	September 30, 2012		December 31, 2011	
(Dollars in millions)	Balance[3]	% of Balance	Balance[3]	% of Balance
Credit Quality Indicators:				
School Type/FICO Scores:				
Traditional	$ 35,488	91%	$ 34,528	91%
Non-Traditional[1]	3,320	9	3,565	9
Total	$ 38,808	100%	$ 38,093	100%
Cosigners:				
With cosigner	$ 24,819	64%	$ 23,507	62%
Without cosigner	13,989	36	14,586	38
Total	$ 38,808	100%	$ 38,093	100%
Seasoning[2]:				
1-12 payments	$ 7,688	20%	$ 9,246	24%
13-24 payments	6,845	18	6,837	18
25-36 payments	5,703	15	5,677	15
37-48 payments	4,244	11	3,778	10
More than 48 payments	7,528	19	6,033	16
Not yet in repayment	6,800	17	6,522	17
Total	$ 38,808	100%	$ 38,093	100%

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

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

(3) Balance represents gross Private Education Loans.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

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

	FFELP Loan Delinquencies			
	September 30, 2012		December 31, 2011	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 19,512		$ 22,887	
Loans in forbearance[2]	16,448		19,575	
Loans in repayment and percentage of each status:				
Loans current	75,085	83.0%	77,093	81.9%
Loans delinquent 31-60 days[3]	4,970	5.5	5,419	5.8
Loans delinquent 61-90 days[3]	2,546	2.8	3,438	3.7
Loans delinquent greater than 90 days[3]	7,880	8.7	8,231	8.6
Total FFELP Loans in repayment	90,481	100%	94,181	100%
Total FFELP Loans, gross	126,441		136,643	
FFELP Loan unamortized premium	1,472		1,674	
Total FFELP Loans	127,913		138,317	
FFELP Loan allowance for losses	(166)		(187)	
FFELP Loans, net	$ 127,747		$ 138,130	
Percentage of FFELP Loans in repayment		71.6%		68.9%
Delinquencies as a percentage of FFELP Loans in repayment		17.0%		18.1%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		15.4%		17.2%

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

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

	Private Education Traditional Loan Delinquencies			
	September 30, 2012		December 31, 2011	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 6,234		$ 5,866	
Loans in forbearance[2]	898		1,195	
Loans in repayment and percentage of each status:				
Loans current	25,927	91.4%	25,110	91.4%
Loans delinquent 31-60 days[3]	784	2.8	868	3.2
Loans delinquent 61-90 days[3]	399	1.4	393	1.4
Loans delinquent greater than 90 days[3]	1,246	4.4	1,096	4.0
Total traditional loans in repayment	28,356	100%	27,467	100%
Total traditional loans, gross	35,488		34,528	
Traditional loans unamortized discount	(744)		(792)	
Total traditional loans	34,744		33,736	
Traditional loans receivable for partially charged-off loans	762		705	
Traditional loans allowance for losses	(1,634)		(1,542)	
Traditional loans, net	$ 33,872		$ 32,899	
Percentage of traditional loans in repayment		79.9%		80.0%
Delinquencies as a percentage of traditional loans in repayment		8.6%		8.6%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.1%		4.2%
Loans in repayment greater than 12 months as a percentage of loans in repayment		77.8%		73.4%

(1) Deferment includes borrowers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

	Private Education Non-Traditional Loan Delinquencies			
	September 30, 2012		December 31, 2011	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 566		$ 656	
Loans in forbearance[2]	138		191	
Loans in repayment and percentage of each status:				
Loans current	1,959	74.9%	2,012	74.0%
Loans delinquent 31-60 days[3]	170	6.5	208	7.7
Loans delinquent 61-90 days[3]	105	4.0	127	4.7
Loans delinquent greater than 90 days[3]	382	14.6	371	13.6
Total non-traditional loans in repayment	2,616	100%	2,718	100%
Total non-traditional loans, gross	3,320		3,565	
Non-traditional loans unamortized discount	(70)		(81)	
Total non-traditional loans	3,250		3,484	
Non-traditional loans receivable for partially charged-off loans	541		536	
Non-traditional loans allowance for losses	(562)		(629)	
Non-traditional loans, net	$ 3,229		$ 3,391	
Percentage of non-traditional loans in repayment		78.8%		76.2%
Delinquencies as a percentage of non-traditional loans in repayment		25.1%		26.0%
Loans in forbearance as a percentage of loans in repayment and forbearance		5.0%		6.6%
Loans in repayment greater than 12 months as a percentage of loans in repayment		68.8%		63.0%

(1) Deferment includes borrowers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

Receivable for Partially Charged-Off Private Education Loans

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

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

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Receivable at beginning of period	$ 1,277	$ 1,140	$ 1,241	$ 1,040
Expected future recoveries of current period defaults[(1)]	86	100	237	291
Recoveries[(2)]	(45)	(39)	(139)	(115)
Charge-offs[(3)]	(15)	(9)	(36)	(24)
Receivable at end of period	$ 1,303	$ 1,192	$ 1,303	$ 1,192

(1) Represents the difference between the loan balance and our estimate of the amount to be collected in the future.
(2) Current period cash collections.
(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the Allowance for Loan Losses Metrics tables.

Troubled Debt Restructurings

We modify the terms of loans for certain borrowers when we believe such modifications may increase the ability and willingness of a borrower to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. For borrowers experiencing financial difficulty, certain Private Education Loans for which we have granted a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as troubled debt restructurings. Forbearance provides borrowers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. The recorded investment of loans granted a forbearance that was classified as a troubled debt restructuring was $6.1 billion and $4.5 billion at September 30, 2012 and December 31, 2011, respectively. The recorded investment for troubled debt restructurings from loans granted interest rate reductions or extended repayment plans was $0.8 billion and $0.7 billion at September 30, 2012 and December 31, 2011, respectively.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

(Dollars in millions)		Troubled Debt Restructuring Loans Recorded Investment[(1)]	Unpaid Principal Balance	Related Allowance
September 30, 2012				
Private Education Loans	Traditional	$ 5,627	$ 5,697	$ 790
Private Education Loans	Non-Traditional	1,270	1,276	266
Total		$ 6,897	$ 6,973	$ 1,056
December 31, 2011				
Private Education Loans	Traditional	$ 4,201	$ 4,259	$ 546
Private Education Loans	Non-Traditional	1,048	1,054	216
Total		$ 5,249	$ 5,313	$ 762

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

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

		Three Months Ended September 30,			
		2012		2011	
(Dollars in millions)		Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans	Traditional	$ 5,481	$ 87	$ 3,234	$ 51
Private Education Loans	Non-Traditional	1,274	27	863	19
Total		$ 6,755	$ 114	$ 4,097	$ 70

		Nine Months Ended September 30,			
		2012		2011	
(Dollars in millions)		Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans	Traditional	$ 5,010	$ 241	$ 1,286	$ 58
Private Education Loans	Non-Traditional	1,197	78	413	25
Total		$ 6,207	$ 319	$ 1,699	$ 83

18

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Allowance for Loan Losses (continued)

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

		Three Months Ended September 30,			
		2012		2011	
(Dollars in millions)		Modified Loans(1)	Charge-offs(2)	Modified Loans(1)	Charge-offs(2)
Private Education Loans	Traditional	$ 573	$ 96	$ 874	$ 19
Private Education Loans	Non-Traditional	101	37	199	12
Total		$ 674	$ 133	$ 1,073	$ 31

		Nine Months Ended September 30,			
		2012		2011	
(Dollars in millions)		Modified Loans(1)	Charge-offs(2)	Modified Loans(1)	Charge-offs(2)
Private Education Loans	Traditional	$ 1,783	$ 244	$ 3,317	$ 32
Private Education Loans	Non-Traditional	346	99	784	26
Total		$ 2,129	$ 343	$ 4,101	$ 58

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

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

Accrued Interest Receivable

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

		Accrued Interest Receivable		
(Dollars in millions)		Total	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
September 30, 2012				
Private Education Loans	Traditional	$ 895	$ 43	$ 47
Private Education Loans	Non-Traditional	120	19	25
Total		$ 1,015	$ 62	$ 72
December 31, 2011				
Private Education Loans	Traditional	$ 870	$ 36	$ 44
Private Education Loans	Non-Traditional	148	18	28

Total	$ 1,018	$ 54	$ 72

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings

The following table summarizes our borrowings.

(Dollars in millions)	September 30, 2012 Short Term	September 30, 2012 Long Term	September 30, 2012 Total	December 31, 2011 Short Term	December 31, 2011 Long Term	December 31, 2011 Total
Unsecured borrowings:						
Senior unsecured debt	$ 1,230	$ 16,883	$ 18,113	$ 1,801	$ 15,199	$ 17,000
Brokered deposits	737	2,570	3,307	1,733	1,956	3,689
Retail and other deposits	2,450		2,450	2,123		2,123
Other[1]	1,554		1,554	1,329		1,329
Total unsecured borrowings	5,971	19,453	25,424	6,986	17,155	24,141
Secured borrowings:						
FFELP Loan securitizations		106,312	106,312		107,905	107,905
Private Education Loan securitizations		19,471	19,471		19,297	19,297
ED Conduit Program Facility	12,778		12,778	21,313		21,313
FFELP ABCP Facility		4,615	4,615		4,445	4,445
Private Education Loan ABCP Facility		1,491	1,491		1,992	1,992
Acquisition financing[2]		761	761		916	916
FHLB-DM Facility	1,680		1,680	1,210		1,210
Total secured borrowings	14,458	132,650	147,108	22,523	134,555	157,078
Total before hedge accounting adjustments	20,429	152,103	172,532	29,509	151,710	181,219
Hedge accounting adjustments	28	2,683	2,711	64	2,683	2,747
Total	$ 20,457	$ 154,786	$ 175,243	$ 29,573	$ 154,393	$ 183,966

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

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

Secured Borrowings

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

(Dollars in millions)	September 30, 2012 Debt Outstanding Short Term	Debt Outstanding Long Term	Debt Outstanding Total	Carrying Amount of Assets Securing Debt Outstanding Loans	Cash	Other Assets	Total
Secured Borrowings VIEs:							
ED Conduit Program Facility	$ 12,778	$	$ 12,778	$ 12,824	$ 525	$ 239	$ 13,588
FFELP ABCP Facility		4,615	4,615	4,865	101	68	5,034
Private Education Loan ABCP Facility		1,491	1,491	1,991	362	53	2,406

Securitizations	FFELP Loans		106,312	106,312	106,533	4,857	597	111,987
Securitizations	Private Education Loans		19,471	19,471	23,898	357	481	24,736
Total before hedge accounting adjustments		12,778	131,889	144,667	150,111	6,202	1,438	157,751
Hedge accounting adjustments			849	849			778	778
Total		$ 12,778	$ 132,738	$ 145,516	$ 150,111	$ 6,202	$ 2,216	$ 158,529

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (continued)

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

21

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (continued)

Securitizations

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

(Dollars in millions)			AAA-rated bonds	
Issue	Date Issued	Total Issued	Weighted Average All-In Cost	Weighted Average Life
FFELP:				
2011-1	March 2011	$ 812	1 month LIBOR plus 0.89%	5.5 years
2011-2	May 2011	821	1 month LIBOR plus 0.94%	5.5 years
2011-3	November 2011	812(1)	1 month LIBOR plus 1.28%	7.8 years
Total bonds issued in 2011		$ 2,445		
Total loan amount securitized in 2011		$ 2,344		
2012-1	January 2012	$ 765	1 month LIBOR plus 0.96%	4.6 years
2012-2	March 2012	824	1 month LIBOR plus 0.75%	4.7 years
2012-3	May 2012	1,252	1 month LIBOR plus 0.70%	4.6 years
2012-4	June 2012	1,491(2)	1 month LIBOR plus 1.13%	8.2 years
2011-3	July 2012	24	N/A (Retained B Notes sold)	
2012-4	July 2012	45	N/A (Retained B Notes sold)	
2012-5	July 2012	1,252	1 month LIBOR plus 0.72%	4.5 years
2012-6	September 2012	1,249	1 month LIBOR plus 0.66%	4.6 years
Total bonds issued in nine months ended September 30, 2012		$ 6,902		
Total loan amount securitized in nine months ended September 30, 2012		$ 6,826		
Private Education:				
2011-A	April 2011	$ 562	1 month LIBOR plus 1.99%	3.8 years
2011-B	June 2011	825	1 month LIBOR plus 1.89%	4.0 years
2011-C	November 2011	721	1 month LIBOR plus 2.99%	3.4 years
Total bonds issued in 2011		$ 2,108		
Total loan amount securitized in 2011		$ 2,674		
2012-A	February 2012	$ 547	1 month LIBOR plus 2.32%	3.0 years
2012-B	April 2012	891	1 month LIBOR plus 2.25%	2.9 years

2012-C	May 2012	1,135	1 month LIBOR plus 1.90%	2.6 years
2012-D	July 2012	640	1 month LIBOR plus 1.85%	2.5 years
Total bonds issued in nine months ended September 30, 2012		$ 3,213		
Total loan amount securitized in nine months ended September 30, 2012		$ 4,318		

(1) Total size excludes subordinated tranche that was retained at issuance totaling $24 million.
(2) Total size excludes subordinated tranche that was retained at issuance totaling $45 million.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Borrowings (continued)

Additional, Recent Borrowings-Related Transactions

FFELP ABCP Facility

On January 13, 2012, we amended the FFELP ABCP Facility increasing the amount available and extending the step-down dates on the amount available for borrowing and the final maturity date of the facility. The facility amount is currently $7.5 billion, reflecting an increase of $2.5 billion. The scheduled maturity date of the facility is January 9, 2015. The usage fee for the facility remains unchanged at 0.50 percent over the applicable funding rate. The amended facility features two contractual step-down reductions on the amount available for borrowing. The first reduction is on January 11, 2013, to $6.5 billion. The second reduction is on January 10, 2014, to $5.5 billion.

Senior Unsecured Debt

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

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

On September 12, 2012, we issued an aggregate of $800 million of senior unsecured bonds, composed of three-year and five-year unsecured bonds. The three-year bond was issued for $300 million to yield a floating rate equal to an all-in cost of one-month LIBOR plus 3.626 percent. The five-year bond was issued for $500 million to yield a floating rate equal to an all-in cost of one-month LIBOR plus 4.25 percent. The proceeds of these bonds were designated for general corporate purposes.

4. Derivative Financial Instruments

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

Summary of Derivative Financial Statement Impact

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments (continued)

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow Sept. 30, 2012	Cash Flow Dec. 31, 2011	Fair Value Sept. 30, 2012	Fair Value Dec. 31, 2011	Trading Sept. 30, 2012	Trading Dec. 31, 2011	Total Sept. 30, 2012	Total Dec. 31, 2011
Fair Values[1]									
Derivative Assets:									
Interest rate swaps	Interest rate	$	$	$ 1,537	$ 1,471	$ 170	$ 262	$ 1,707	$ 1,733
Cross-currency interest rate swaps	Foreign currency & interest rate			916	1,229	120	130	1,036	1,359
Other[2]	Interest rate					5	1	5	1
Total derivative assets[3]				2,453	2,700	295	393	2,748	3,093
Derivative Liabilities:									
Interest rate swaps	Interest rate	(19)	(26)	(1)		(206)	(244)	(226)	(270)
Floor Income Contracts	Interest rate					(2,386)	(2,544)	(2,386)	(2,544)
Cross-currency interest rate swaps	Foreign currency & interest rate			(189)	(243)			(189)	(243)
Total derivative liabilities[3]		(19)	(26)	(190)	(243)	(2,592)	(2,788)	(2,801)	(3,057)
Net total derivatives		$ (19)	$ (26)	$ 2,263	$ 2,457	$ (2,297)	$ (2,395)	$ (53)	$ 36

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

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

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

(Dollar in millions)	Other Assets Sept. 30, 2012	Other Assets December 31, 2011	Other Liabilities Sept. 30, 2012	Other Liabilities December 31, 2011
Gross position	$ 2,748	$ 3,093	$ (2,801)	$ (3,057)
Impact of master netting agreements	(699)	(891)	699	891
Derivative values with impact of master netting agreements (as carried on balance sheet)	2,049	2,202	(2,102)	(2,166)
Cash collateral (held) pledged	(1,428)	(1,326)	1,103	1,018
Net position	$ 621	$ 876	$ (999)	$ (1,148)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments (continued)

The above fair values include adjustments for counterparty credit risk for both when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at September 30, 2012 and December 31, 2011 by $111 million and $190 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at September 30, 2012 and December 31, 2011 by $109 million and $111 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in billions)	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2012	Dec. 31, 2011
Notional Values:								
Interest rate swaps	$ .8	$ 1.1	$ 15.7	$ 14.0	$ 63.2	$ 73.6	$ 79.7	$ 88.7
Floor Income Contracts					51.6	57.8	51.6	57.8
Cross-currency interest rate swaps			14.5	15.5	.3	.3	14.8	15.8
Other[(1)]					1.3	1.4	1.3	1.4
Total derivatives	$ .8	$ 1.1	$ 30.2	$ 29.5	$ 116.4	$ 133.1	$ 147.4	$ 163.7

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments (continued)

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended September 30,							
	Unrealized Gains (Losses) on Derivatives[(1)(2)]		Realized Gains (Losses) on Derivatives[(3)]		Unrealized Gains (Losses) on Hedged Item[(1)]		Total Gains (Losses)	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Fair Value Hedges:								
Interest rate swaps	$ 20	$ 538	$ 111	$ 119	$ (33)	$ (577)	$ 98	$ 80
Cross-currency interest rate swaps	203	(1,314)	37	80	(239)	1,331	1	97
Total fair value derivatives	223	(776)	148	199	(272)	754	99	177
Cash Flow Hedges:								
Interest rate swaps		1	(6)	(9)			(6)	(8)
Total cash flow derivatives		1	(6)	(9)			(6)	(8)
Trading:								
Interest rate swaps	(6)	102	24	15			18	117
Floor Income Contracts	(12)	(356)	(206)	(246)			(218)	(602)
Cross-currency interest rate swaps	14	27	2	2			16	29
Other		(3)						(3)
Total trading derivatives	(4)	(230)	(180)	(229)			(184)	(459)
Total	219	(1,005)	(38)	(39)	(272)	754	(91)	(290)
Less: realized gains (losses) recorded in interest expense			142	190			142	190
Gains (losses) on derivative and hedging activities, net	$ 219	$ (1,005)	$ (180)	$ (229)	$ (272)	$ 754	$ (233)	$ (480)

(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.

	Nine Months Ended September 30,							
	Unrealized Gains (Losses) on Derivatives[(1)(2)]		Realized Gains (Losses) on Derivatives[(3)]		Unrealized Gains (Losses) on Hedged Item[(1)]		Total Gains (Losses)	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Fair Value Hedges:								
Interest rate swaps	$ 66	$ 543	$ 339	$ 368	$ (98)	$ (602)	$ 307	$ 309
Cross-currency interest rate swaps	(260)	(440)	139	239	126	155	5	(46)

Total fair value derivatives	(194)	103	478	607	28	(447)	312	263
Cash Flow Hedges:								
Interest rate swaps	(1)	(1)	(21)	(31)			(22)	(32)
Total cash flow derivatives	(1)	(1)	(21)	(31)			(22)	(32)
Trading:								
Interest rate swaps	(55)	134	91	72			36	206
Floor Income Contracts	174	(482)	(643)	(674)			(469)	(1,156)
Cross-currency interest rate swaps	(9)	25	5	6			(4)	31
Other	5	21	(1)	12			4	33
Total trading derivatives	115	(302)	(548)	(584)			(433)	(886)
Total	(80)	(200)	(91)	(8)	28	(447)	(143)	(655)
Less: realized gains (losses) recorded in interest expense			457	576			457	576
Gains (losses) on derivative and hedging activities, net	$ (80)	$ (200)	$ (548)	$ (584)	$ 28	$ (447)	$ (600)	$ (1,231)

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

(2) Represents ineffectiveness related to cash flow hedges.

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments (continued)

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

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Total losses on cash flow hedges	$ (2)	$	$ (9)	$ (4)
Realized losses reclassified to interest expense[(1)(2)(3)]	4	10	14	28
Hedge ineffectiveness reclassified to earnings[(1)(4)]			1	1
Total change in stockholders equity for unrealized gains on derivatives	$ 2	$ 10	$ 6	$ 25

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

(2) Includes net settlement income/expense.

(3) We expect to reclassify $0 of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to amortization of cash flow hedges that were hedging debt instruments that are outstanding as of the reporting date.

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

Collateral

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

(Dollars in millions)	September 30, 2012	December 31, 2011
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)[(1)]	$ 1,428	$ 1,326
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[(2)]	534	841
Total collateral held	$ 1,962	$ 2,167
Derivative asset at fair value, including accrued interest	$ 2,350	$ 2,607
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	$ 1,103	$ 1,018
Total collateral pledged	$ 1,103	$ 1,018
Derivative liability at fair value including accrued interest and premium receivable	$ 1,359	$ 1,223

(1) At September 30, 2012 and December 31, 2011, $0 and $26 million, respectively, were held in restricted cash accounts.
(2) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Derivative Financial Instruments (continued)

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating as required, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of $1.1 billion with our counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $321 million and have posted $317 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, we would be required to deliver additional assets totaling $4 million to settle the contracts. Trust-related derivatives do not contain credit contingent features related to our or the trusts credit ratings.

5. Other Assets

The following table provides detail on our other assets.

	September 30, 2012		December 31, 2011	
(Dollars in millions)	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable, net	$ 2,304	28%	$ 2,484	29%
Derivatives at fair value	2,049	25	2,202	25
Income tax asset, net current and deferred	1,493	18	1,427	17
Accounts receivable	1,078	13	1,392	16
Benefit and insurance-related investments	472	6	466	5
Fixed assets, net	212	2	214	3
Other loans, net	168	2	193	2
Other	503	6	280	3
Total	$ 8,279	100%	$ 8,658	100%

The Derivatives at fair value line in the above table represents the fair value of our derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At September 30, 2012 and December 31, 2011, these balances included $2.3 billion and $2.5 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of September 30, 2012 and December 31, 2011, the cumulative mark-to-market adjustment to the hedged debt was $(2.7) billion and $(2.7) billion, respectively.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stockholders Equity

The following table summarizes our common share repurchases and issuances.

	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Common shares repurchased[1]	7,643,999	9,460,512	48,184,145	19,054,115
Average purchase price per share[2]	$ 15.81	$ 15.25	$ 15.16	$ 15.77
Shares repurchased related to employee stock-based compensation plans[3]	1,253,922	244,758	3,660,554	2,880,269
Average purchase price per share	$ 16.13	$ 15.40	$ 15.56	$ 15.82
Common shares issued[4]	1,654,506	288,291	5,252,158	3,722,349

(1) Common shares purchased under our share repurchase program, of which $170 million remained available as of September 30, 2012.

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

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

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

The closing price of our common stock on September 28, 2012 was $15.72.

Dividend and Share Repurchase Program

We increased our regular quarterly common stock dividends to $0.125 per share in 2012, up from $0.10 per share for the last three quarters of 2011. During the second quarter of 2012, we authorized an additional $400 million to be utilized in our ongoing share repurchase program; we previously authorized $500 million in January 2012. During the nine months ended September 30, 2012, we repurchased 48.2 million shares of common stock at an aggregate price of $730 million. At September 30, 2012, we had $170 million of remaining share repurchase authorization.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Earnings (Loss) per Common Share

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

(In millions, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Numerator:				
Net income (loss) attributable to SLM Corporation	$ 188	$ (47)	$ 591	$ 122
Preferred stock dividends	5	5	15	13
Net income (loss) attributable to SLM Corporation common stock	$ 183	$ (52)	$ 576	$ 109
Denominator:				
Weighted average shares used to compute basic EPS	464	511	483	520
Effect of dilutive securities:				
Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP)[1]	7		7	6
Dilutive potential common shares[2]	7		7	6
Weighted average shares used to compute diluted EPS	471	511	490	526
Basic earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	$ .39	$ (.14)	$ 1.19	$ .15
Discontinued operations		.04		.06
Total	$ .39	$ (.10)	$ 1.19	$ .21
Diluted earnings (loss) per common share attributable to SLM Corporation:				
Continuing operations	$ .39	$ (.14)	$ 1.18	$ .15
Discontinued operations		.04		.06
Total	$ .39	$ (.10)	$ 1.18	$ .21

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

(2) For the three months ended September 30, 2012 and 2011, securities covering approximately 10 million and 36 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the nine months ended September 30, 2012 and 2011, securities covering approximately 13 million and 14 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

30

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Measurements

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

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

	Fair Value Measurements on a Recurring Basis as of September 30, 2012				Fair Value Measurements on a Recurring Basis as of December 31, 2011			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Available-for-sale investments:								
Agency residential mortgage backed securities	$	$ 51	$	$ 51	$	$ 59	$	$ 59
Guaranteed investment contracts		11		11		20		20
Other		11		11		11		11
Total available-for-sale investments		73		73		90		90
Derivative instruments:(1)								
Interest rate swaps		1,592	115	1,707		1,550	183	1,733
Cross-currency interest rate swaps		36	1,000	1,036		139	1,220	1,359
Other			5	5			1	1
Total derivative assets(3)		1,628	1,120	2,748		1,689	1,404	3,093
Total	$	$ 1,701	$ 1,120	$ 2,821	$	$ 1,779	$ 1,404	$ 3,183
Liabilities(2)								
Derivative instruments:(1)								
Interest rate swaps	$	$ (43)	$ (183)	$ (226)	$	$ (47)	$ (223)	$ (270)
Floor Income Contracts		(2,386)		(2,386)		(2,544)		(2,544)
Cross-currency interest rate swaps		(32)	(157)	(189)		(44)	(199)	(243)
Other								
Total derivative liabilities(3)		(2,461)	(340)	(2,801)		(2,635)	(422)	(3,057)
Total	$	$ (2,461)	$ (340)	$ (2,801)	$	$ (2,635)	$ (422)	$ (3,057)

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

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Measurements (continued)

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

	Three Months Ended September 30,							
	2012				2011			
	Derivative instruments				Derivative instruments			
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	$ (83)	$ 620	$ 5	$ 542	$ (80)	$ 2,273	$ 3	$ 2,196
Total gains/(losses) (realized and unrealized):								
Included in earnings(1)	19	251		270	30	(1,002)	(3)	(975)
Included in other comprehensive income								
Settlements	(4)	(28)		(32)	(6)	(63)		(69)
Transfers in and/or out of Level 3								
Balance, end of period	$ (68)	$ 843	$ 5	$ 780	$ (56)	$ 1,208	$	$ 1,152
Change in unrealized gains/(losses) relating to instruments still held at the reporting date(2)	$ 15	$ 224	$ (1)	$ 238	$ 24	$ (1,065)	$ (3)	$ (1,044)

	Nine Months Ended September 30,							
	2012				2011			
	Derivative instruments				Derivative instruments			
(Dollars in millions)	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
Balance, beginning of period	$ (40)	$ 1,021	$ 1	$ 982	$ (90)	$ 1,427	$ 26	$ 1,363
Total gains/(losses) (realized and unrealized):								
Included in earnings(1)	(3)	(73)	4	(72)	64	(48)	32	48
Included in other comprehensive income								
Settlements	(25)	(105)		(130)	(30)	(171)	(58)	(259)
Transfers in and/or out of Level 3								
Balance, end of period	$ (68)	$ 843	$ 5	$ 780	$ (56)	$ 1,208	$	$ 1,152
Change in unrealized gains/(losses) relating to instruments still held at the reporting date(2)	$ (26)	$ (178)	$ 5	$ (199)	$ 35	$ (222)	$ 10	$ (177)

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

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Gains (losses) on derivative and hedging activities, net	$ 245	$ (1,035)	$ (172)	$ (119)
Interest expense	25	60	100	167
Total	$ 270	$ (975)	$ (72)	$ 48

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

32

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Measurements (continued)

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

(Dollars in millions)	Fair Value at September 30, 2012	Valuation Technique	Input	Range (Weighted Average)
Derivatives				
Consumer Price Index/LIBOR basis swaps	$ 104	Discounted cash flow	Bid/ask adjustment to discount rate	0.02% 0.04% (0.03%)
Prime/LIBOR basis swaps	(172)	Discounted cash flow	Constant prepayment rate	4.4%
			Bid/ask adjustment to discount rate	0.08% 0.08% (0.08%)
Cross-currency interest rate swaps	843	Discounted cash flow	Constant prepayment rate	2.6%
Other	5			
Total	$ 780			

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

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

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Measurements (continued)

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

	September 30, 2012			December 31, 2011		
(Dollars in millions)	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
Earning assets						
FFELP Loans	$ 126,657	$ 127,747	$ (1,090)	$ 134,196	$ 138,130	$ (3,934)
Private Education Loans	36,459	37,101	(642)	33,968	36,290	(2,322)
Cash and investments[(1)]	10,614	10,614		9,789	9,789	
Total earning assets	173,730	175,462	(1,732)	177,953	184,209	(6,256)
Interest-bearing liabilities						
Short-term borrowings	20,463	20,457	(6)	29,547	29,573	26
Long-term borrowings	147,418	154,786	7,368	141,605	154,393	12,788
Total interest-bearing liabilities	167,881	175,243	7,362	171,152	183,966	12,814
Derivative financial instruments						
Floor Income/Cap contracts	(2,386)	(2,386)		(2,544)	(2,544)	
Interest rate swaps	1,481	1,481		1,463	1,463	
Cross-currency interest rate swaps	847	847		1,116	1,116	
Other	5	5		1	1	
Excess of net asset fair value over carrying value			$ 5,630			$ 6,558

(1) Cash and investments includes available-for-sale investments that consist of investments that are primarily agency securities whose cost basis is $68 million and $85 million at September 30, 2012 and December 31, 2011, respectively, versus a fair value of $73 million and $90 million at September 30, 2011 and December 31, 2011, respectively.

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

Student Loans

FFELP Loans

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Fair Value Measurements (continued)

Private Education Loans

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

Cash and Investments (Including Restricted Cash and Investments)

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

Borrowings

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

9. Commitments and Contingencies

In Re SLM Corporation Securities Litigation. On January 31, 2008, a class action lawsuit was filed in the U.S. District Court for the Southern District of New York alleging the Company and certain officers violated federal securities laws by, among other things, issuing a series of materially false and misleading statements with respect to our financial results for year-end 2006 and the first quarter of 2007. This case and other actions arising out of the same circumstances and alleged acts were consolidated. On March 23, 2012, the parties agreed to a preliminary settlement pursuant to which we would pay $35 million to be funded by our insurers. The court gave final approval for settlement on September 5, 2012. We have denied vigorously all claims asserted against us, but agreed to settle to avoid the burden, expense, risk and uncertainty of continued litigation. As a result there are no loss accruals recorded related to this matter as of September 30, 2012.

Mark A. Arthur et al. v. Sallie Mae, Inc. 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 alleging that we contacted consumers on their cellular telephones via autodialer without their consent in violation of the Telephone Consumer Protection Act, 47 U.S.C. § 227 et seq. (TCPA). On October 7, 2011, we entered into an amended settlement agreement under which the Company agreed to a settlement fund of $24.15 million. The court gave final approval for settlement on September 17, 2012, which approval is pending resolution of an appeal by an objector to the settlement on October 17, 2012. We have denied vigorously all claims asserted against us, but agreed to settle to avoid the burden, expense, risk and uncertainty of continued litigation. As of December 31, 2011, we had accrued the entire $24.15 million related to this matter.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Commitments and Contingencies (continued)

Contingencies

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

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

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

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

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

10. Segment Reporting
Consumer Lending Segment

We originate, acquire, finance and service Private Education Loans. The portfolio totaled $37.1 billion at September 30, 2012. We also provide savings products, primarily in the form of retail deposits, to help customers save for a college education.

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

(Dollars in millions)	September 30, 2012	December 31, 2011
Private Education Loans, net	$ 37,101	$ 36,290
Cash and investments[1]	1,805	3,113
Other	3,526	3,595
Total assets	$ 42,432	$ 42,998

(1) Includes restricted cash and investments.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

Business Services Segment

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

At September 30, 2012 and December 31, 2011, the Business Services segment had total assets of $877 million and $912 million, respectively.

FFELP Loans Segment

Our FFELP Loans segment consists of our $127.7 billion FFELP Loan portfolio as of September 30, 2012 and the underlying debt and capital funding the loans. We no longer originate FFELP Loans; however, we are actively seeking to acquire FFELP Loan portfolios.

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

(Dollars in millions)	September 30, 2012	December 31, 2011
FFELP Loans, net	$ 127,747	$ 138,130
Cash and investments[1]	7,122	6,067
Other	4,012	4,415
Total assets	$ 138,881	$ 148,612

(1) Includes restricted cash and investments.

Other Segment

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

At September 30, 2012 and December 31, 2011, the Other segment had total assets of $2.0 billion and $823 million, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

Measure of Profitability

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

Our Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. Our operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended September 30, 2012									
(Dollars in millions)	**Consumer Lending**	**Business Services**	**FFELP Loans**	**Other**	**Eliminations[1]**	**Total Core Earnings**	**Adjustments Reclassifications**	**Adjustments Additions/ (Subtractions)**	**Total Adjustments[2]**	**Total GAAP**
Interest income:										
Student loans	$ 615	$	$ 712	$	$	$ 1,327	$ 206	$ (78)	$ 128	$ 1,455
Other loans				4		4				4
Cash and investments	1	3	3		(2)	5				5
Total interest income	616	3	715	4	(2)	1,336	206	(78)	128	1,464
Total interest expense	209		399	12	(2)	618	26	1[4]	27	645
Net interest income	407	3	316	(8)		718	180	(79)	101	819
Less: provisions for loan losses	252		18			270				270
Net interest income after provisions for loan losses	155	3	298	(8)		448	180	(79)	101	549
Other income (loss):										
Servicing revenue	12	224	22		(164)	94				94
Contingency revenue		85				85				85
Gains on debt repurchases				44		44				44
Other income (loss)		7		4		11	(180)	(61)[5]	(241)	(230)
Total other income (loss)	12	316	22	48	(164)	234	(180)	(61)	(241)	(7)
Expenses:										
Direct operating expenses	67	112	171	3	(164)	189				189
Overhead expenses				55		55				55
Operating expenses	67	112	171	58	(164)	244				244
Goodwill and acquired intangible assets impairment and amortization								5	5	5
Restructuring expenses	1	1				2				2
Total expenses	68	113	171	58	(164)	246		5	5	251
Income (loss) from continuing operations, before income tax expense (benefit)	99	206	149	(18)		436		(145)	(145)	291
Income tax expense (benefit)[3]	36	76	55	(7)		160		(56)	(56)	104
Net income (loss) from continuing operations	63	130	94	(11)		276		(89)	(89)	187
Income from discontinued operations, net of taxes										
Net income (loss)	63	130	94	(11)		276		(89)	(89)	187
Less: loss attributable to noncontrolling interest		(1)				(1)				(1)

Net income (loss) attributable to SLM Corporation	$ 63	$ 131	$ 94	$ (11)	$	$ 277	$	$ (89)	$ (89)	$ 188

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2012		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 101	$	$ 101
Total other loss	(241)		(241)
Goodwill and acquired intangible assets impairment and amortization		5	5
Total Core Earnings adjustments to GAAP	$ (140)	$ (5)	(145)
Income tax benefit			(56)
Net loss			$ (89)

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

(4) Represents a portion of the $(9) million other derivative accounting adjustments.

(5) Represents the $(53) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(9) million of other derivative accounting adjustments.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

	Three Months Ended September 30, 2011									
							Adjustments			
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
Interest income:										
Student loans	$ 609	$	$ 711	$	$	$ 1,320	$ 246	$ (99)	$ 147	$ 1,467
Other loans				5		5				5
Cash and investments	2	3	1	1	(3)	4				4
Total interest income	611	3	712	6	(3)	1,329	246	(99)	147	1,476
Total interest expense	204		354	16	(3)	571	17	3[4]	20	591
Net interest income	407	3	358	(10)		758	229	(102)	127	885
Less: provisions for loan losses	384		21	4		409				409
Net interest income after provisions for loan losses	23	3	337	(14)		349	229	(102)	127	476
Other income (loss):										
Servicing revenue	16	242	20		(183)	95				95
Contingency revenue		84				84				84
Gains on debt repurchases										
Other income (loss)		11		8		19	(229)	(269)[5]	(498)	(479)
Total other income (loss)	16	337	20	8	(183)	198	(229)	(269)	(498)	(300)
Expenses:										
Direct operating expenses	82	119	188	2	(183)	208				208
Overhead expenses				77		77				77
Operating expenses	82	119	188	79	(183)	285				285
Goodwill and acquired intangible assets impairment and amortization								6	6	6
Restructuring expenses		1				1				1
Total expenses	82	120	188	79	(183)	286		6	6	292
Income (loss) from continuing operations, before income tax expense (benefit)	(43)	220	169	(85)		261		(377)	(377)	(116)
Income tax expense (benefit)[3]	(16)	81	62	(31)		96		(142)	(142)	(46)
Net income (loss) from continuing operations	(27)	139	107	(54)		165		(235)	(235)	(70)
Income from discontinued operations, net of taxes				23		23				23
Net income (loss)	$ (27)	$ 139	$ 107	$ (31)	$	$ 188	$	$ (235)	$ (235)	$ (47)

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

	Three Months Ended September 30, 2011		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 127	$	$ 127
Total other loss	(498)		(498)
Goodwill and acquired intangible assets impairment and amortization		6	6
Total Core Earnings adjustments to GAAP	$ (371)	$ (6)	(377)
Income tax benefit			(142)
Net loss			$ (235)

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $(20) million other derivative accounting adjustments.
(5) Represents the $(252) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(20) million of other derivative accounting adjustments.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations(1)	Total Core Earnings	Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments(2)	Total GAAP
	Nine Months Ended September 30, 2012									
Interest income:										
Student loans	$ 1,856	$	$ 2,090	$	$	$ 3,946	$ 643	$ (274)	$ 369	$ 4,315
Other loans				13		13				13
Cash and investments	6	7	8	2	(7)	16				16
Total interest income	1,862	7	2,098	15	(7)	3,975	643	(274)	369	4,344
Total interest expense	618		1,231	28	(7)	1,870	95	3(4)	98	1,968
Net interest income	1,244	7	867	(13)		2,105	548	(277)	271	2,376
Less: provisions for loan losses	712		54			766				766
Net interest income after provisions for loan losses	532	7	813	(13)		1,339	548	(277)	271	1,610
Other income (loss):										
Servicing revenue	35	691	69		(512)	283				283
Contingency revenue		261				261				261
Gains on debt repurchases				102		102				102
Other income (loss)		24		11		35	(548)	(47)(5)	(595)	(560)
Total other income (loss)	35	976	69	113	(512)	681	(548)	(47)	(595)	86
Expenses:										
Direct operating expenses	199	342	537	6	(512)	572				572
Overhead expenses				171		171				171
Operating expenses	199	342	537	177	(512)	743				743
Goodwill and acquired intangible assets impairment and amortization								14	14	14
Restructuring expenses	3	3		5		11				11
Total expenses	202	345	537	182	(512)	754		14	14	768
Income (loss) from continuing operations, before income tax expense (benefit)	365	638	345	(82)		1,266		(338)	(338)	928
Income tax expense (benefit)(3)	133	233	127	(29)		464		(125)	(125)	339
Net income (loss) from continuing operations	232	405	218	(53)		802		(213)	(213)	589
Income from discontinued operations, net of taxes										

Net income (loss)	232	405	218	(53)		802		(213)	(213)	589
Less: loss attributable to noncontrolling interest		(2)				(2)				(2)
Net income (loss) attributable to SLM Corporation	$ 232	$ 407	$ 218	$ (53)	$	$ 804	$	$ (213)	$ (213)	$ 591

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

(2) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2012		
(Dollars in millions)	**Net Impact of Derivative Accounting**	**Net Impact of Goodwill and Acquired Intangibles**	**Total**
Net interest income after provisions for loan losses	$ 271	$	$ 271
Total other loss	(595)		(595)
Goodwill and acquired intangible assets impairment and amortization		14	14
Total Core Earnings adjustments to GAAP	$ (324)	$ (14)	(338)
Income tax benefit			(125)
Net loss			$ (213)

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

(4) Represents a portion of the $2 million other derivative accounting adjustments.

(5) Represents the $(52) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $2 million of other derivative accounting adjustments.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

	Nine Months Ended September 30, 2011									
							Adjustments			
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
Interest income:										
Student loans	$ 1,813	$	$ 2,168	$	$	$ 3,981	$ 674	$ (258)	$ 416	$ 4,397
Other loans				17		17				17
Cash and investments	7	8	3	4	(8)	14				14
Total interest income	1,820	8	2,171	21	(8)	4,012	674	(258)	416	4,428
Total interest expense	603		1,080	46	(8)	1,721	51	5[4]	56	1,777
Net interest income	1,217	8	1,091	(25)		2,291	623	(263)	360	2,651
Less: provisions for loan losses	924		67	12		1,003				1,003
Net interest income after provisions for loan losses	293	8	1,024	(37)		1,288	623	(263)	360	1,648
Other income (loss):										
Servicing revenue	48	731	66		(559)	286				286
Contingency revenue		248				248				248
Gains on debt repurchases				64		64	(26)		(26)	38
Other income (loss)		31		14		45	(597)	(654)[5]	(1,251)	(1,206)
Total other income (loss)	48	1,010	66	78	(559)	643	(623)	(654)	(1,277)	(634)
Expenses:										
Direct operating expenses	237	368	575	10	(559)	631				631
Overhead expenses				226		226				226
Operating expenses	237	368	575	236	(559)	857				857
Goodwill and acquired intangible assets impairment and amortization								18	18	18
Restructuring expenses	2	2	1	1		6				6
Total expenses	239	370	576	237	(559)	863		18	18	881
Income (loss) from continuing operations, before income tax expense (benefit)	102	648	514	(196)		1,068		(935)	(935)	133
Income tax expense (benefit)[3]	37	238	189	(71)		393		(349)	(349)	44
Net income (loss) from continuing operations	65	410	325	(125)		675		(586)	(586)	89
Income from discontinued operations, net of taxes				33		33				33
Net income (loss)	$ 65	$ 410	$ 325	$ (92)	$	$ 708	$	$ (586)	$ (586)	$ 122

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

	Nine Months Ended September 30, 2011		
(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 360	$	$ 360
Total other loss	(1,277)		(1,277)
Goodwill and acquired intangible assets impairment and amortization		18	18
Total Core Earnings adjustments to GAAP	$ (917)	$ (18)	(935)
Income tax benefit			(349)
Net loss			$ (586)

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $(26) million other derivative accounting adjustments.
(5) Represents the $(633) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the ($26) million of other derivative accounting adjustments.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Segment Reporting (continued)

Summary of Core Earnings Adjustments to GAAP

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

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Core Earnings adjustments to GAAP:				
Net impact of derivative accounting[1]	$ (140)	$ (371)	$ (324)	$ (917)
Net impact of acquired intangible assets[2]	(5)	(6)	(14)	(18)
Net tax effect[3]	56	142	125	349
Total Core Earnings adjustments to GAAP	$ (89)	$ (235)	$ (213)	$ (586)

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

(2) **Goodwill and acquired intangible assets:** Our Core Earnings exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets.

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

Table of Contents

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

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

This report contains forward-looking statements and information based on management s current expectations as of the date of this document. Statements that are not historical facts, including statements about the Company s beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A Risk Factors and elsewhere in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 (the 2011 Form 10-K), in the first and second Quarterly Reports on Form 10-Q, this Quarterly Report on Form 10-Q and subsequent filings with the SEC; increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which the Company is a party; credit risk associated with the Company s exposure to third parties, including counterparties to the Company s derivative transactions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). The Company could also be affected by, among other things: changes in its funding costs and availability; reductions to its credit ratings or the credit ratings of the United States of America; failures of its operating systems or infrastructure, including those of third-party vendors; damage to its reputation; failures to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on its business; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; increased competition from banks and other consumer lenders; the creditworthiness of its customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of its earning assets vs. its funding arrangements; changes in general economic conditions; and changes in the demand for debt management services. The preparation of the Company s consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in its expectations.

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

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

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

Table of Contents

Selected Financial Information and Ratios

(Dollars and shares in millions, except per share data)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
GAAP Basis				
Net income (loss) attributable to SLM Corporation	$ 188	$ (47)	$ 591	$ 122
Diluted earnings (loss) per common share attributable to SLM Corporation	$ .39	$ (.10)	$ 1.18	$ .21
Weighted average shares used to compute diluted earnings (loss) per share	471	511	490	526
Return on assets	.42%	(.10)%	.43%	.09%
Core Earnings Basis[1]				
Core Earnings attributable to SLM Corporation	$ 277	$ 188	$ 804	$ 708
Core Earnings diluted earnings per common share attributable to SLM Corporation	$ .58	$ .36	$ 1.61	$ 1.32
Weighted average shares used to compute diluted earnings per share	471	517	490	526
Core Earnings return on assets	.62%	.39%	.59%	.49%
Other Operating Statistics				
Ending FFELP Loans, net	$ 127,747	$ 140,659	$ 127,747	$ 140,659
Ending Private Education Loans, net	37,101	36,157	37,101	36,157
Ending total student loans, net	$ 164,848	$ 176,816	$ 164,848	$ 176,816
Average student loans	$ 167,166	$ 178,620	$ 171,499	$ 181,242

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

Overview

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

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

Consumer Lending Segment In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are largely to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or borrowers resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, which are primarily late fees. As of September 30, 2012 and December 31, 2011, we had $37.1 billion and $36.3 billion, respectively, of Private Education Loans outstanding.

45

Table of Contents

Business Services Segment   In our Business Services segment, we provide loan servicing for our FFELP Loans, ED and other third parties. Sallie Mae is the nation s largest servicer of student loans, managing or servicing a portfolio of approximately $250 billion as of September 30, 2012. We provide default aversion and contingency collections work on behalf of ED, Guarantors of FFELP Loans, and other institutions. Our Campus Solutions business provides comprehensive transaction processing solutions and associated technology to college financial aid offices and students to streamline the financial aid process. We provide 529 college savings plan account asset servicing and other transaction processing activities. We offer tuition, renters and student health insurance to college students and higher education institutions.

FFELP Loans Segment   Our FFELP Loans segment consists of our $127.7 billion FFELP Loan portfolio at September 30, 2012 and the underlying debt and capital funding these loans. Because we no longer originate FFELP Loans, the portfolio is in runoff and is expected to amortize over approximately the next 20 years with a weighted average remaining life of 7.7 years. We actively seek to acquire FFELP Loan portfolios to leverage our servicing scale and expertise to generate incremental earnings and cash flow. Of our total FFELP Loan portfolio at September 30, 2012, 95 percent was funded with non-recourse, long-term debt; 80 percent of our FFELP Loan portfolio being funded to term by securitization trusts, 10 percent funded through the ED Conduit Program which terminates on January 19, 2014, and 5 percent funded in our multi-year ABCP facility. This segment is expected to generate a stable net interest margin and significant amounts of cash as the FFELP Loan portfolio amortizes.

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

Recent Developments

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

CFPB Supervision of Large Debt Collectors

On October 24, 2012, the CFPB issued its final debt collection larger participant rule and examination procedures that will allow the agency to federally supervise larger consumer debt collectors for the first time. The rule defines larger participants as third-party debt collectors, debt buyers, and collection attorneys with more than $10 million in annual receipts resulting from consumer debt collection. Under the rule, certain of our collection subsidiaries would be classified as larger participants. The rule is effective January 2, 2013.

Key Financial Measures

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

Table of Contents

First Nine Months of 2012 Summary of Results

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

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

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

Third-quarter 2012 GAAP net income was $188 million ($.39 diluted earnings per share), versus a net loss of $(47) million ($(.10) diluted loss per share) in the third-quarter 2011. The changes in GAAP net income are driven by the same types of Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. Third-quarter 2012 and 2011 GAAP results included losses of $140 million and $371 million, respectively, resulting from derivative accounting treatment which is excluded from Core Earnings results.

Core Earnings for the quarter were $277 million ($.58 diluted earnings per share), compared with $188 million ($.36 diluted earnings per share) in the year-ago quarter. Earnings improvement was primarily due to a $139 million lower loan loss provision largely attributable to the adoption of new accounting guidance for troubled debt restructurings (TDRs) in the year-ago quarter. Also, debt repurchase gains were $44 million higher and operating expenses were $41 million lower. Net interest income was $40 million lower primarily due to higher funding costs which were partly due to refinancing debt into longer-term liabilities and lower federally guaranteed student loan balances.

During the first nine months of 2012, we:

- issued $6.9 billion of FFELP asset-backed securities (ABS), $3.2 billion of Private Education Loan ABS and $2.65 billion of unsecured bonds;
- repurchased $520 million of debt and realized Core Earnings gains of $102 million, compared with $894 million of debt repurchased and $64 million of gains in the first nine months of 2011;
- amended our FFELP asset-backed commercial paper facility to increase the current amount available to $7.5 billion and extended the final maturity date by one year to January 9, 2015;
- repurchased 48.2 million common shares for $730 million on the open market as part of our previously announced share repurchase program authorization of up to $900 million; and
- increased our regular quarterly common stock dividend to $.125 per share, up from $.10 per share in the fourth quarter of 2011. We paid our quarterly dividends on March 16, 2012, June 15, 2012 and September 21, 2012.

2012 Management Objectives

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

Prudently Grow Consumer Lending Segment Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2012, currently targeting at least $3.2 billion in new originations for the year compared to $2.7 billion in 2011. We will also be increasing our efforts to improve our return on these assets. We expect further improvements in our charge-off rates and provision for loan losses as the quality of our Private Education Loans continues to improve. Originations were 25 percent higher in the third quarter of 2012 compared with the year-ago quarter. Charge-offs decreased to 3.23 percent (annualized) of loans in repayment from 3.74 percent in the year-ago quarter. Provisions for loans losses decreased to $252 million in the third quarter of 2012 compared to $384 million in the third quarter of 2011.

Sustain Business Services Segment Revenue

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

- We are currently servicing approximately 4.1 million accounts under the ED Servicing Contract as of September 30, 2012 compared to 3.4 million accounts at September 30, 2011. Market share under the ED Servicing Contract is set annually based on the performance rankings of the four servicing companies that are parties to the contract. For the current contract year ending August 15, 2013, our allocation of new customer loans awarded under the ED Servicing Contract was 15 percent. We must remain focused on improving our performance relative to other servicers to increase our allocation for the next contract year.

- Campus Solutions added 19 new refund disbursement clients in the first nine months of 2012.

- Assets under management in 529 college savings plans totaled $43.1 billion at September 30, 2012 and grew 25 percent over the year-ago quarter.

Maximize Cash Flows from FFELP Loans

In 2012 we will continue to focus on opportunistically purchasing additional FFELP Loan portfolios from other lenders. As cash flows from our existing FFELP Loans decline over coming years, it also becomes increasingly important that we actively manage and continue to reduce operating and overhead costs attributable to the maintenance and management of this segment. Continuing to reduce these operating and overhead costs will also increase net income for our Business Services segment. During the first nine months of 2012, we purchased $3.1 billion of FFELP Loans. We expect to make additional purchases during 2012. These acquisitions helped partially offset the approximately $5 billion of loans that were consolidated to ED in 2012 as part of the Special Direct Consolidation Loan Initiative. See FFELP Loans Segment for further discussion regarding the effect of the Special Direct Consolidation Loan Initiative. The Special Direct Consolidation Loan Initiative impact will not be material to future earnings or cash flows. We will continue to actively and aggressively seek to acquire additional portfolios.

Reduce Operating Expenses

We achieved our 2011 management objective of having a quarterly operating expense of $250 million or less in the fourth quarter of 2011. We will remain focused on reducing operating expenses in 2012 and expect to improve on the $1.1 billion of operating expenses incurred in 2011. Third-quarter 2012 operating expenses were $244 million, down from $285 million in the year-ago quarter primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011. For the nine months ended September 30, 2012, our operating expenses were $743 million.

Improve Our Financial Strength

It is management s objective for 2012 to provide increased shareholder distributions while at the same time ending 2012 with a balance sheet and capital position as strong as or stronger than those with which we ended in 2011. We increased our regular quarterly common stock dividends to $0.125 per share in the first, second and third quarters of 2012, up from $0.10 per share for the last three quarters of 2011. During the second quarter of 2012, we authorized an additional $400 million to be utilized in our ongoing share repurchase program; we previously authorized $500 million in January 2012. During the first nine months of 2012, we repurchased 48.2 million shares of common stock at an aggregate price of $730 million. At September 30, 2012, we had $170 million of remaining share repurchase authorization.

Table of Contents

RESULTS OF OPERATIONS

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

GAAP Statements of Income (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
(In millions, except per share data)	**2012**	**2011**	**$**	**%**	**2012**	**2011**	**$**	**%**
Interest income:								
FFELP Loans	$ 840	$ 858	$ (18)	(2)%	$ 2,459	$ 2,584	$ (125)	(5)%
Private Education Loans	615	609	6	1	1,856	1,813	43	2
Other loans	4	5	(1)	(20)	13	17	(4)	(24)
Cash and investments	5	4	1	25	16	14	2	14
Total interest income	1,464	1,476	(12)	(1)	4,344	4,428	(84)	(2)
Total interest expense	645	591	54	9	1,968	1,777	191	11
Net interest income	819	885	(66)	(7)	2,376	2,651	(275)	(10)
Less: provisions for loan losses	270	409	(139)	(34)	766	1,003	(237)	(24)
Net interest income after provisions for loan losses	549	476	73	15	1,610	1,648	(38)	(2)
Other income (loss):								
Losses on derivative and hedging activities, net	(233)	(480)	247	(51)	(600)	(1,231)	631	(51)
Servicing revenue	94	95	(1)	(1)	283	286	(3)	(1)
Contingency revenue	85	84	1	1	261	248	13	5
Gains on debt repurchases	44		44	100	102	38	64	168
Other income (loss)	3	1	2	200	40	25	15	60
Total other income (loss)	(7)	(300)	293	(98)	86	(634)	720	114
Expenses:								
Operating expenses	244	285	(41)	(14)	743	857	(114)	(13)
Goodwill and acquired intangible assets impairment and amortization expense	5	6	(1)	(17)	14	18	(4)	(22)
Restructuring expenses	2	1	1	100	11	6	5	83
Total expenses	251	292	(41)	(14)	768	881	(113)	(13)
Income (loss) from continuing operations before income tax expense (benefit)	291	(116)	407	351	928	133	795	598
Income tax expense (benefit)	104	(46)	150	326	339	44	295	670
Net income (loss) from continuing operations	187	(70)	257	367	589	89	500	562
Income from discontinued operations, net of tax expense		23	(23)	(100)		33	(33)	(100)
Net income (loss)	187	(47)	234	498	589	122	467	383
Less: net loss attributable to noncontrolling interest	(1)		(1)	(100)	(2)		(2)	(100)
Net income (loss) attributable to SLM Corporation	188	(47)	235	500	591	122	469	384
Preferred stock dividends	5	5			15	13	2	15
Net income (loss) attributable to common stock	$ 183	$ (52)	$ 235	452%	$ 576	$ 109	$ 467	428

Basic earnings (loss) per common share attributable to SLM Corporation:								
Continuing operations	$ .39	$ (.14)	$ .53	379%	$ 1.19	$ .15	$ 1.04	693%
Discontinued operations		.04	(.04)	(100)		.06	(.06)	(100)
Total	$ .39	$ (.10)	$ .49	490%	$ 1.19	$ .21	$ .98	467%
Diluted earnings (loss) per common share attributable to SLM Corporation:								
Continuing operations	$ .39	$ (.14)	$ .53	379%	$ 1.18	$ .15	$ 1.03	687%
Discontinued operations		.04	(.04)	(100)		.06	(.06)	(100)
Total	$ .39	$ (.10)	$ .49	490%	$ 1.18	$ .21	$ .97	462%
Dividends per common share	$ .125	$ .10	$ .025	25%	$ .375	$ .20	$ .175	.88%

Table of Contents

Consolidated Earnings Summary GAAP basis

Three Months Ended September 30, 2012 Compared with Three Months Ended September 30, 2011

For the three months ended September 30, 2012, net income was $188 million, or $.39 diluted earnings per common share, compared with a net loss of $47 million, or $.10 diluted loss per common share, for the three months ended September 30, 2011. The increase in net income was primarily due to a $247 million decrease in net losses on derivative and hedging activities, a $139 million decrease in provisions for loan losses, a $41 million decrease in operating expenses, and a $44 million increase in gains on debt repurchases, which were partially offset by a $66 million decline in net interest income.

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

- Net interest income declined by $66 million primarily due to a $12 billion decline in average FFELP Loans outstanding and higher funding costs, which were partly due to refinancing debt into longer term liabilities. The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under ED s Special Direct Consolidation Loan Initiative (SDCL) which expired in June 2012. (See FFELP Loans Segment FFELP Loans Net Interest Margin for further discussion.)

- Provisions for loan losses decreased by $139 million, primarily as a result of $124 million of additional provision included in the year-ago quarter attributable to the cumulative effect of the implementation of new accounting guidance for TDRs (see Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-offs for a further discussion). The remaining decrease was a result of overall improvements in credit quality and delinquency and charge-off trends.

- Gains (losses) on derivative and hedging activities resulted in a net loss of $233 million in the current quarter compared with a net loss of $480 million in the year-ago quarter. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

- Gains on debt repurchases increased $44 million as we repurchased more debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

- Operating expenses decreased $41 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

- Net income from discontinued operations decreased $23 million primarily due to the sale of our Purchased Paper Non-Mortgage portfolio in third-quarter 2011.

- The effective tax rates for the third quarters of 2012 and 2011 were 36 percent and 40 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of significantly higher reported pre-tax income in the current period.

In addition, we repurchased 7.6 million shares of our common stock during the third-quarter 2012 as part of our ongoing common share repurchase program. Primarily as a result of these ongoing repurchases, our average outstanding diluted shares decreased by 40 million common shares.

51

Nine Months Ended September 30, 2012 Compared with Nine Months Ended September 30, 2011

For the nine months ended September 30, 2012 and 2011, net income was $591 million, or $1.18 diluted earnings per common share, and $122 million, or $.21 diluted earnings per common share, respectively. The increase in net income was primarily due to a $631 million decrease in net losses on derivative and hedging activities, a $237 million decrease in provisions for loan losses, a $114 million decrease in operating expenses and a $64 million increase in gains on debt repurchases, which more than offset the $275 million decline in net interest income.

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

- Net interest income declined by $275 million primarily due to a $10.5 billion reduction in average FFELP Loans outstanding, higher cost of funds, which were partly due to refinancing debt into longer term liabilities, as well as the impact from the acceleration of $50 million of non-cash loan premium amortization in the second-quarter 2012 related to SDCL (see FFELP Loans Segment for further discussion). The decline in FFELP Loans outstanding was driven by normal loan amortization as well as loans that were consolidated under SDCL.

- Provisions for loan losses decreased by $237 million. Excluding the effect of $124 million of additional provision in the nine months ended September 30, 2011, related to the implementation of new accounting guidance for TDRs referred to above (see also Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-offs for further discussion), the provision for loan losses decreased by $113 million as a result of overall improvements in credit quality and delinquency and charge-off trends.

- Net losses on derivative and hedging activities decreased by $631 million. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

- Gains on debt repurchases increased $64 million as we repurchased more debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

- Operating expenses decreased $114 million primarily due to the current-year benefit of the cost-cutting efforts we implemented throughout 2011.

- Net income from discontinued operations decreased $33 million due to the sale of our Purchased Paper Non-Mortgage portfolio in third-quarter 2011.

- The effective tax rates for the nine months ended September 30, 2012 and 2011 were 37 percent and 33 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of significantly higher reported pre-tax income in the current period.

In addition, we repurchased 48.2 million shares of our common stock during the nine months ended September 30, 2012, as part of our ongoing common share repurchase program. Primarily as a result of these ongoing repurchases, our average outstanding diluted shares decreased by 36 million common shares.

52

Table of Contents

Core Earnings Definition and Limitations

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

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

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

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

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

Table of Contents

	Three Months Ended September 30, 2012									
							Adjustments			
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
Interest income:										
Student loans	$ 615	$	$ 712	$	$	$ 1,327	$ 206	$ (78)	$ 128	$ 1,455
Other loans				4		4				4
Cash and investments	1	3	3		(2)	5				5
Total interest income	616	3	715	4	(2)	1,336	206	(78)	128	1,464
Total interest expense	209		399	12	(2)	618	26	1[4]	27	645
Net interest income	407	3	316	(8)		718	180	(79)	101	819
Less: provisions for loan losses	252		18			270				270
Net interest income after provisions for loan losses	155	3	298	(8)		448	180	(79)	101	549
Other income (loss):										
Servicing revenue	12	224	22		(164)	94				94
Contingency revenue		85				85				85
Gains on debt repurchases				44		44				44
Other income (loss)		7		4		11	(180)	(61)[5]	(241)	(230)
Total other income (loss)	12	316	22	48	(164)	234	(180)	(61)	(241)	(7)
Expenses:										
Direct operating expenses	67	112	171	3	(164)	189				189
Overhead expenses				55		55				55
Operating expenses	67	112	171	58	(164)	244				244
Goodwill and acquired intangible assets impairment and amortization								5	5	5
Restructuring expenses	1	1				2				2
Total expenses	68	113	171	58	(164)	246		5	5	251
Income (loss) from continuing operations, before income tax expense (benefit)	99	206	149	(18)		436		(145)	(145)	291
Income tax expense (benefit)[3]	36	76	55	(7)		160		(56)	(56)	104
Net income (loss) from continuing operations	63	130	94	(11)		276		(89)	(89)	187
Income from discontinued operations, net of tax expense										
Net income (loss)	63	130	94	(11)		276		(89)	(89)	187
Less: net loss attributable to noncontrolling interest		(1)				(1)				(1)
Net income (loss) attributable to SLM Corporation	$ 63	$ 131	$ 94	$ (11)	$	$ 277	$	$ (89)	$ (89)	$ 188

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

(2) Core Earnings adjustments to GAAP:

Three Months Ended September 30, 2012

(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 101	$	$ 101
Total other loss	(241)		(241)
Goodwill and acquired intangible assets impairment and amortization		5	5
Total Core Earnings adjustments to GAAP	$ (140)	$ (5)	(145)
Income tax benefit			(56)
Net loss			$ (89)

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

(4) Represents a portion of the $(9) million of other derivative accounting adjustments.

(5) Represents the $(53) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(9) million of other derivative accounting adjustments.

Table of Contents

Three Months Ended September 30, 2011

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations(1)	Total Core Earnings	Adjustments Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments(2)	Total GAAP
Interest income:										
Student loans	$ 609	$	$ 711	$	$	$ 1,320	$ 246	$ (99)	$ 147	$ 1,467
Other loans				5		5				5
Cash and investments	2	3	1	1	(3)	4				4
Total interest income	611	3	712	6	(3)	1,329	246	(99)	147	1,476
Total interest expense	204		354	16	(3)	571	17	3(4)	20	591
Net interest income	407	3	358	(10)		758	229	(102)	127	885
Less: provisions for loan losses	384		21	4		409				409
Net interest income after provisions for loan losses	23	3	337	(14)		349	229	(102)	127	476
Other income (loss):										
Servicing revenue	16	242	20		(183)	95				95
Contingency revenue		84				84				84
Gains on debt repurchases										
Other income (loss)		11		8		19	(229)	(269)(5)	(498)	(479)
Total other income (loss)	16	337	20	8	(183)	198	(229)	(269)	(498)	(300)
Expenses:										
Direct operating expenses	82	119	188	2	(183)	208				208
Overhead expenses				77		77				77
Operating expenses	82	119	188	79	(183)	285				285
Goodwill and acquired intangible assets impairment and amortization								6	6	6
Restructuring expenses		1				1				1
Total expenses	82	120	188	79	(183)	286		6	6	292
Income (loss) from continuing operations, before income tax expense (benefit)	(43)	220	169	(85)		261		(377)	(377)	(116)
Income tax expense (benefit)(3)	(16)	81	62	(31)		96		(142)	(142)	(46)
Net income (loss) from continuing operations	(27)	139	107	(54)		165		(235)	(235)	(70)
Income from discontinued operations, net of tax expense				23		23				23
Net income (loss)	$ (27)	$ 139	$ 107	$ (31)	$	$ 188	$	$ (235)	$ (235)	$ (47)

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

(2) Core Earnings adjustments to GAAP:

Three Months Ended September 30, 2011

(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 127	$	$ 127
Total other loss	(498)		(498)
		6	6

Goodwill and acquired intangible assets impairment and amortization				
Total Core Earnings adjustments to GAAP	$ (371)	$	(6)	(377)
Income tax benefit				(142)
Net loss				$ (235)

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $(20) million of other derivative accounting adjustments.
(5) Represents the $(252) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(20) million of other derivative accounting adjustments.

55

Table of Contents

	Nine Months Ended September 30, 2012									
							Adjustments			
(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations(1)	Total Core Earnings	Reclassifications	Additions/ (Subtractions)	Total Adjustments(2)	Total GAAP
Interest income:										
Student loans	$ 1,856	$	$ 2,090	$	$	$ 3,946	$ 643	$ (274)	$ 369	$ 4,315
Other loans				13		13				13
Cash and investments	6	7	8	2	(7)	16				16
Total interest income	1,862	7	2,098	15	(7)	3,975	643	(274)	369	4,344
Total interest expense	618		1,231	28	(7)	1,870	95	3(4)	98	1,968
Net interest income	1,244	7	867	(13)		2,105	548	(277)	271	2,376
Less: provisions for loan losses	712		54			766				766
Net interest income after provisions for loan losses	532	7	813	(13)		1,339	548	(277)	271	1,610
Other income (loss):										
Servicing revenue	35	691	69		(512)	283				283
Contingency revenue		261				261				261
Gains on debt repurchases				102		102				102
Other income (loss)		24		11		35	(548)	(47)(5)	(595)	(560)
Total other income (loss)	35	976	69	113	(512)	681	(548)	(47)	(595)	86
Expenses:										
Direct operating expenses	199	342	537	6	(512)	572				572
Overhead expenses				171		171				171
Operating expenses	199	342	537	177	(512)	743				743
Goodwill and acquired intangible assets impairment and amortization								14	14	14
Restructuring expenses	3	3		5		11				11
Total expenses	202	345	537	182	(512)	754		14	14	768
Income (loss) from continuing operations, before income tax expense (benefit)	365	638	345	(82)		1,266		(338)	(338)	928
Income tax expense (benefit)(3)	133	233	127	(29)		464		(125)	(125)	339
Net income (loss) from continuing operations	232	405	218	(53)		802		(213)	(213)	589
Income from discontinued operations, net of tax expense										
Net income (loss)	232	405	218	(53)		802		(213)	(213)	589
Less: net loss attributable to noncontrolling interest		(2)				(2)				(2)
Net income (loss) attributable to SLM Corporation	$ 232	$ 407	$ 218	$ (53)	$	$ 804	$	$ (213)	$ (213)	$ 591

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

(2) Core Earnings adjustments to GAAP:

Nine Months Ended September 30, 2012

(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	$ 271	$	$ 271
Total other loss	(595)		(595)
Goodwill and acquired intangible assets impairment and amortization		14	14
Total Core Earnings adjustments to GAAP	$ (324)	$ (14)	(338)
Income tax benefit			(125)
Net loss			$ (213)

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $2 million of other derivative accounting adjustments.
(5) Represents the $(52) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $2 million of other derivative accounting adjustments.

Table of Contents

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations[1]	Total Core Earnings	Reclassifications	Adjustments Additions/ (Subtractions)	Total Adjustments[2]	Total GAAP
	Nine Months Ended September 30, 2011									
Interest income:										
Student loans	$ 1,813	$	$ 2,168	$	$	$ 3,981	$ 674	$ (258)	$ 416	$ 4,397
Other loans				17		17				17
Cash and investments	7	8	3	4	(8)	14				14
Total interest income	1,820	8	2,171	21	(8)	4,012	674	(258)	416	4,428
Total interest expense	603		1,080	46	(8)	1,721	51	5[4]	56	1,777
Net interest income	1,217	8	1,091	(25)		2,291	623	(263)	360	2,651
Less: provisions for loan losses	924		67	12		1,003				1,003
Net interest income after provisions for loan losses	293	8	1,024	(37)		1,288	623	(263)	360	1,648
Other income (loss):										
Servicing revenue	48	731	66		(559)	286				286
Contingency revenue		248				248				248
Gains on debt repurchases				64		64	(26)		(26)	38
Other income (loss)		31		14		45	(597)	(654)[5]	(1,251)	(1,206)
Total other income (loss)	48	1,010	66	78	(559)	643	(623)	(654)	(1,277)	(634)
Expenses:										
Direct operating expenses	237	368	575	10	(559)	631				631
Overhead expenses				226		226				226
Operating expenses	237	368	575	236	(559)	857				857
Goodwill and acquired intangible assets impairment and amortization								18	18	18
Restructuring expenses	2	2	1	1		6				6
Total expenses	239	370	576	237	(559)	863		18	18	881
Income (loss) from continuing operations, before income tax expense (benefit)	102	648	514	(196)		1,068		(935)	(935)	133
Income tax expense (benefit)[3]	37	238	189	(71)		393		(349)	(349)	44
Net income (loss) from continuing operations	65	410	325	(125)		675		(586)	(586)	89
Income from discontinued operations, net of tax expense				33		33				33
Net income (loss)	$ 65	$ 410	$ 325	$ (92)	$	$ 708	$	$ (586)	$ (586)	$ 122

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

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
	Nine Months Ended September 30, 2011		
Net interest income after provisions for loan losses	$ 360	$	$ 360
Total other loss	(1,277)		(1,277)

Goodwill and acquired intangible assets impairment and amortization			18	18
Total Core Earnings adjustments to GAAP	$ (917)	$	(18)	(935)
Income tax benefit				(349)
Net loss				$ (586)

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

(4) Represents a portion of the $(26) million of other derivative accounting adjustments.

(5) Represents the $(633) million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $(26) million of other derivative accounting adjustments.

Table of Contents

Differences between Core Earnings and GAAP

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

(Dollars in millions)	Three Months Ended September 30, 2012	2011	Nine Months Ended September 30, 2012	2011
Core Earnings adjustments to GAAP:				
Net impact of derivative accounting	$ (140)	$ (371)	$ (324)	$ (917)
Net impact of goodwill and acquired intangible assets	(5)	(6)	(14)	(18)
Net tax effect	56	142	125	349
Total Core Earnings adjustments to GAAP	$ (89)	$ (235)	$ (213)	$ (586)

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

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

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

Table of Contents

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

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to hedge our student loan assets that are primarily indexed to LIBOR, Prime or Treasury bill index (for $128 billion of our FFELP assets as of April 1, 2012, we elected to change the index from commercial paper to LIBOR on April 1, 2012; see FFELP Loans Segment FFELP Loans Net Interest Margin for further discussion). In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. The accounting for derivatives requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Core Earnings derivative adjustments:				
Gains (losses) on derivative and hedging activities, net, included in other income[(1)]	$ (233)	$ (480)	$ (600)	$ (1,231)
Plus: Realized losses on derivative and hedging activities, net[(1)]	180	228	548	598
Unrealized gains (losses) on derivative and hedging activities, net[(2)]	(53)	(252)	(52)	(633)
Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings	(78)	(99)	(274)	(258)
Other derivative accounting adjustments[(3)]	(9)	(20)	2	(26)
Total net impact of derivative accounting[(4)]	$ (140)	$ (371)	$ (324)	$ (917)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	**2012**	**2011**	**2012**	**2011**
Floor Income Contracts	$ (12)	$ (356)	$ 174	$ (482)
Basis swaps	(7)	57	(55)	76
Foreign currency hedges	(22)	43	(144)	(261)
Other	(12)	4	(27)	34
Total unrealized gains (losses) on derivative and hedging activities, net	$ (53)	$ (252)	$ (52)	$ (633)

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

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

Table of Contents

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

Derivative accounting requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges to be recorded in a separate income statement line item below net interest income. Under our Core Earnings presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a Core Earnings basis.

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Reclassification of realized gains (losses) on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (206)	$ (246)	$ (643)	$ (674)
Net settlement income on interest rate swaps reclassified to net interest income	26	17	95	51
Foreign exchange derivative losses reclassified to other income		1		
Net realized gains (losses) on terminated derivative contracts reclassified to other income				25
Total reclassifications of realized losses on derivative and hedging activities	$ (180)	$ (228)	$ (548)	$ (598)

Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings

As of September 30, 2012, derivative accounting has reduced GAAP equity by approximately $1.2 billion as a result of cumulative net unrealized losses (after tax) recognized for GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these unrealized after tax net losses related to derivative accounting.

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Beginning impact of derivative accounting on GAAP equity	$ (1,098)	$ (1,009)	$ (977)	$ (676)
Net impact of net unrealized gains (losses) under derivative accounting[(1)]	(85)	(223)	(206)	(556)
Ending impact of derivative accounting on GAAP equity	$ (1,183)	$ (1,232)	$ (1,183)	$ (1,232)

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

(Dollars in millions)	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Total pre-tax net impact of derivative accounting recognized in net income[(a)]	$ (140)	$ (371)	$ (324)	$ (917)
Tax impact of derivative accounting adjustments recognized in net income	53	138	112	336
Change in unrealized gain (losses) on derivatives, net of tax recognized in other comprehensive income	2	10	6	25

Net impact of net unrealized gains (losses) under derivative accounting	$ (85)	$ (223)	$ (206)	$ (556)

(a) See Core Earnings derivative adjustments table above.

60

Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods and are presented below net of tax. As of September 30, 2012, the remaining amortization term of the net floor premiums was approximately 3.75 years on existing contracts. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

(Dollars in millions)	September 30, 2012	September 30, 2011
Unamortized net Floor premiums (net of tax)	$ (600)	$ (834)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2012	2011	2012	2011
Core Earnings goodwill and acquired intangible asset adjustments[1]	$ (5)	$ (6)	$ (14)	$ (18)

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

Table of Contents

Business Segment Earnings Summary Core Earnings Basis

Consumer Lending Segment

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

(Dollars in millions)	Three Months Ended September 30, 2012	2011	% Increase (Decrease) 2012 vs. 2011	Nine Months Ended September 30, 2012	% Increase (Decrease)