

SLM CORPORATION
Supplemental Earnings Disclosure
September 30, 2009
(In millions, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2009 (unaudited)	June 30, 2009 (unaudited)	September 30, 2008 (unaudited)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS					
GAAP Basis					
Net income (loss) attributable to SLM Corporation	\$ 159	\$ (123)	\$ (159)	\$ 15	\$ 3
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	\$.25	\$ (.32)	\$ (.40)	\$ (.17)	\$ (.17)
Return on assets . . . . .	.37%	(.30)%	(.43)%	.01%	.01%
“Core Earnings” Basis⁽¹⁾⁽²⁾					
“Core Earnings” net income attributable to SLM Corporation ⁽²⁾	\$ 164	\$ 170	\$ 117	\$ 348	\$ 461
“Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders ⁽²⁾	\$.26	\$.31	\$.19	\$.54	\$.81
“Core Earnings” return on assets . . . . .	.31%	.34%	.25%	.23%	.33%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	\$157,530	\$153,588	\$138,606	\$153,622	\$133,915
Average off-balance sheet student loans	<u>33,929</u>	<u>34,902</u>	<u>36,864</u>	<u>34,797</u>	<u>38,064</u>
Average Managed student loans	<u>\$191,459</u>	<u>\$188,490</u>	<u>\$175,470</u>	<u>\$188,419</u>	<u>\$171,979</u>
Ending on-balance sheet student loans, net	\$158,846	\$154,157	\$141,328		
Ending off-balance sheet student loans, net	<u>33,335</u>	<u>33,961</u>	<u>36,362</u>		
Ending Managed student loans, net	<u>\$192,181</u>	<u>\$188,118</u>	<u>\$177,690</u>		
Ending Managed FFELP Stafford and Other Student Loans, net	\$ 73,040	\$ 68,374	\$ 56,608		
Ending Managed FFELP Consolidation Loans, net	84,235	85,272	88,282		
Ending Managed Private Education Loans, net	<u>34,906</u>	<u>34,472</u>	<u>32,800</u>		
Ending Managed student loans, net	<u>\$192,181</u>	<u>\$188,118</u>	<u>\$177,690</u>		

⁽¹⁾ See explanation of “Core Earnings” performance measures under “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income.”

⁽²⁾ “Core Earnings” does not include Floor Income unless it is Fixed Rate Floor Income that is economically hedged. The amount of this Economic Floor Income (net of tax) excluded from “Core Earnings” for the three months ended September 30, 2009, June 30, 2009, and September 30, 2008 and the nine months ended September 30, 2009 and 2008 was:

	Quarters ended			Nine months ended	
	September 30, 2009 (unaudited)	June 30, 2009 (unaudited)	September 30, 2008 (unaudited)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)
Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax)	<u>\$ 23</u>	<u>\$ 89</u>	<u>\$ 1</u>	<u>\$191</u>	<u>\$ 50</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders	<u>\$.05</u>	<u>\$.17</u>	<u>\$—</u>	<u>\$.41</u>	<u>\$.11</u>

SLM CORPORATION
Consolidated Balance Sheets
(In thousands, except per share amounts)

	September 30, 2009	June 30, 2009	September 30, 2008
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of \$101,343; \$102,857; and \$75,290, respectively)	\$ 43,257,743	\$ 44,044,636	\$ 44,827,445
FFELP Stafford Loans Held-for-Sale	23,846,566	18,159,232	4,097,493
FFELP Consolidation Loans (net of allowance for losses of \$54,384; \$50,181; and \$47,965, respectively)	69,246,231	70,102,304	72,565,628
Private Education Loans (net of allowance for losses of \$1,401,496; \$1,396,707; and \$1,012,838, respectively)	22,494,955	21,850,688	19,837,425
Other loans (net of allowance for losses of \$74,057; \$68,282; and \$53,189, respectively)	454,557	489,180	769,923
Cash and investments	7,021,808	8,212,439	5,013,583
Restricted cash and investments	5,760,583	5,245,702	3,897,417
Retained Interest in off-balance sheet securitized loans	1,838,203	1,820,614	2,323,419
Goodwill and acquired intangible assets, net	1,224,272	1,233,871	1,259,541
Other assets	<u>11,299,006</u>	<u>10,025,129</u>	<u>10,399,220</u>
Total assets	<u>\$186,443,924</u>	<u>\$181,183,795</u>	<u>\$164,991,094</u>
Liabilities			
Short-term borrowings	\$ 53,406,554	\$ 47,331,576	\$ 38,267,553
Long-term borrowings	124,647,818	125,880,044	118,069,878
Other liabilities	<u>3,400,527</u>	<u>3,120,636</u>	<u>3,297,998</u>
Total liabilities	<u>181,454,899</u>	<u>176,332,256</u>	<u>159,635,429</u>
Commitments and contingencies			
Equity			
Preferred stock, par value \$.20 per share, 20,000 shares authorized:			
Series A: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of \$50 per share	165,000	165,000	165,000
Series B: 4,000; 4,000; and 4,000 shares, respectively, issued at stated value of \$100 per share	400,000	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock: 1,012; 1,150; and 1,150 shares, respectively, issued at liquidation preference of \$1,000 per share	1,012,370	1,149,770	1,149,770
Common stock, par value \$.20 per share, 1,125,000 shares authorized:			
541,849; 534,842; and 534,420 shares, respectively, issued	108,362	106,969	106,884
Additional paid-in capital	4,862,071	4,709,053	4,665,614
Accumulated other comprehensive income (loss), net of tax expense (benefit)	(44,143)	(48,683)	46,687
Retained earnings	<u>346,347</u>	<u>229,865</u>	<u>669,509</u>
Total SLM Corporation stockholders' equity before treasury stock	6,850,007	6,711,974	7,203,464
Common stock held in treasury: 67,159; 67,128; and 66,952 shares, respectively	<u>1,860,989</u>	<u>1,860,440</u>	<u>1,856,340</u>
Total SLM Corporation stockholders' equity	4,989,018	4,851,534	5,347,124
Noncontrolling interest	<u>7</u>	<u>5</u>	<u>8,541</u>
Total equity	<u>4,989,025</u>	<u>4,851,539</u>	<u>5,355,665</u>
Total liabilities and equity	<u>\$186,443,924</u>	<u>\$181,183,795</u>	<u>\$164,991,094</u>

SLM CORPORATION
Consolidated Statements of Income
(In thousands, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2009 (unaudited)	June 30, 2009 (unaudited)	September 30, 2008 (unaudited)	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)
Interest income:					
FFELP Stafford and Other Student Loans	\$ 303,192	\$ 323,939	\$ 516,116	\$ 969,947	\$1,478,190
FFELP Consolidation Loans	481,592	460,690	830,566	1,431,644	2,436,886
Private Education Loans	396,339	393,019	445,572	1,176,399	1,298,417
Other loans	11,042	18,468	19,874	45,930	64,573
Cash and investments	6,881	7,044	57,154	19,896	251,491
Total interest income	<u>1,199,046</u>	<u>1,203,160</u>	<u>1,869,282</u>	<u>3,643,816</u>	<u>5,529,557</u>
Total interest expense	<u>673,870</u>	<u>819,459</u>	<u>1,394,533</u>	<u>2,519,876</u>	<u>4,375,896</u>
Net interest income	525,176	383,701	474,749	1,123,940	1,153,661
Less: provisions for loan losses	<u>321,127</u>	<u>278,112</u>	<u>186,909</u>	<u>849,518</u>	<u>467,235</u>
Net interest income after provisions for loan losses	<u>204,049</u>	<u>105,589</u>	<u>287,840</u>	<u>274,422</u>	<u>686,426</u>
Other income (loss):					
Servicing and securitization revenue	155,065	87,488	64,990	147,248	174,262
Gains (losses) on sales of loans and securities, net	12,452	268	(43,899)	12,752	(122,148)
Gains (losses) on derivative and hedging activities, net	(111,556)	(561,795)	(241,757)	(569,326)	(152,510)
Contingency fee revenue	82,200	73,368	89,418	230,383	258,514
Collections revenue (loss)	15,580	22,068	(170,692)	16,318	(87,088)
Guarantor servicing fees	48,087	24,772	36,848	106,867	95,164
Other	<u>150,006</u>	<u>398,797</u>	<u>93,096</u>	<u>741,229</u>	<u>295,357</u>
Total other income (loss)	<u>351,834</u>	<u>44,966</u>	<u>(171,996)</u>	<u>685,471</u>	<u>461,551</u>
Expenses:					
Restructuring expenses	3,592	4,430	10,508	12,795	77,926
Operating expenses	<u>318,620</u>	<u>315,185</u>	<u>367,152</u>	<u>935,288</u>	<u>1,076,488</u>
Total expenses	<u>322,212</u>	<u>319,615</u>	<u>377,660</u>	<u>948,083</u>	<u>1,154,414</u>
Income (loss) before income tax expense (benefit) . .	233,671	(169,060)	(261,816)	11,810	(6,437)
Income tax expense (benefit)	<u>74,363</u>	<u>(46,551)</u>	<u>(103,819)</u>	<u>(3,884)</u>	<u>(13,233)</u>
Net income (loss)	159,308	(122,509)	(157,997)	15,694	6,796
Less: net income attributable to noncontrolling interest	<u>198</u>	<u>211</u>	<u>544</u>	<u>690</u>	<u>3,405</u>
Net income (loss) attributable to SLM Corporation	<u>159,110</u>	<u>(122,720)</u>	<u>(158,541)</u>	<u>15,004</u>	<u>3,391</u>
Preferred stock dividends	<u>42,627</u>	<u>25,800</u>	<u>27,474</u>	<u>94,822</u>	<u>83,890</u>
Net income (loss) attributable to SLM Corporation common stock	<u>\$ 116,483</u>	<u>\$ (148,520)</u>	<u>\$ (186,015)</u>	<u>\$ (79,818)</u>	<u>\$ (80,499)</u>
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders					
	<u>\$.25</u>	<u>\$ (.32)</u>	<u>\$ (.40)</u>	<u>\$ (.17)</u>	<u>\$ (.17)</u>
Average common shares outstanding	<u>470,280</u>	<u>466,799</u>	<u>466,646</u>	<u>467,960</u>	<u>466,625</u>
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders					
	<u>\$.25</u>	<u>\$ (.32)</u>	<u>\$ (.40)</u>	<u>\$ (.17)</u>	<u>\$ (.17)</u>
Average common and common equivalent shares outstanding	<u>471,058</u>	<u>466,799</u>	<u>466,646</u>	<u>467,960</u>	<u>466,625</u>
Dividends per common share attributable to SLM Corporation common shareholders	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

Quarter ended September 30, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 340,652	\$ —	\$ —	\$ 340,652	\$ (37,460)	\$ 303,192
FFELP Consolidation Loans	429,617	—	—	429,617	51,975	481,592
Private Education Loans	560,791	—	—	560,791	(164,452)	396,339
Other loans	11,042	—	—	11,042	—	11,042
Cash and investments	2,337	—	5,156	7,493	(612)	6,881
Total interest income	1,344,439	—	5,156	1,349,595	(150,549)	1,199,046
Total interest expense	652,017	4,584	3,370	659,971	13,899	673,870
Net interest income (loss)	692,422	(4,584)	1,786	689,624	(164,448)	525,176
Less: provisions for loan losses	447,963	—	—	447,963	(126,836)	321,127
Net interest income (loss) after provisions for loan losses	244,459	(4,584)	1,786	241,661	(37,612)	204,049
Contingency fee revenue	—	82,200	—	82,200	—	82,200
Collections revenue	—	15,580	—	15,580	—	15,580
Guarantor servicing fees	—	—	48,087	48,087	—	48,087
Other income	129,286	—	55,821	185,107	20,860	205,967
Total other income	129,286	97,780	103,908	330,974	20,860	351,834
Restructuring expenses	1,399	1,440	753	3,592	—	3,592
Operating expenses	154,165	79,920	74,739	308,824	9,796	318,620
Total expenses	155,564	81,360	75,492	312,416	9,796	322,212
Income before income tax expense	218,181	11,836	30,202	260,219	(26,548)	233,671
Income tax expense ⁽¹⁾	80,514	4,404	11,161	96,079	(21,716)	74,363
Less: net income attributable to noncontrolling interest	—	198	—	198	—	198
Net income attributable to SLM Corporation	<u>\$ 137,667</u>	<u>\$ 7,234</u>	<u>\$ 19,041</u>	<u>\$ 163,942</u>	<u>\$ (4,832)</u>	<u>\$ 159,110</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 22,607</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,607</u>		

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

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

Quarter ended June 30, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 309,553	\$ —	\$ —	\$ 309,553	\$ 14,386	\$ 323,939
FFELP Consolidation Loans	394,288	—	—	394,288	66,402	460,690
Private Education Loans	558,667	—	—	558,667	(165,648)	393,019
Other loans	18,468	—	—	18,468	—	18,468
Cash and investments	3,683	—	4,319	8,002	(958)	7,044
Total interest income	1,284,659	—	4,319	1,288,978	(85,818)	1,203,160
Total interest expense	823,308	5,001	3,721	832,030	(12,571)	819,459
Net interest income (loss)	461,351	(5,001)	598	456,948	(73,247)	383,701
Less: provisions for loan losses	401,790	—	—	401,790	(123,678)	278,112
Net interest income (loss) after provisions for loan losses	59,561	(5,001)	598	55,158	50,431	105,589
Contingency fee revenue	—	73,368	—	73,368	—	73,368
Collections revenue	—	22,068	—	22,068	—	22,068
Guarantor servicing fees	—	—	24,772	24,772	—	24,772
Other income (loss)	359,363	—	46,273	405,636	(480,878)	(75,242)
Total other income	359,363	95,436	71,045	525,844	(480,878)	44,966
Restructuring expenses	4,215	368	(153)	4,430	—	4,430
Operating expenses	147,599	85,818	71,976	305,393	9,792	315,185
Total expenses	151,814	86,186	71,823	309,823	9,792	319,615
Income (loss) before income tax expense (benefit)	267,110	4,249	(180)	271,179	(440,239)	(169,060)
Income tax expense (benefit) ⁽¹⁾	99,084	1,464	(24)	100,524	(147,075)	(46,551)
Less: net income attributable to noncontrolling interest	—	211	—	211	—	211
Net income (loss) attributable to SLM Corporation	<u>\$ 168,026</u>	<u>\$ 2,574</u>	<u>\$ (156)</u>	<u>\$ 170,444</u>	<u>\$(293,164)</u>	<u>\$ (122,720)</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 88,899</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 88,899</u>		

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

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

Quarter ended September 30, 2008

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 611,786	\$ —	\$ —	\$ 611,786	\$ (95,670)	\$ 516,116
FFELP Consolidation Loans	995,102	—	—	995,102	(164,536)	830,566
Private Education Loans	678,293	—	—	678,293	(232,721)	445,572
Other loans	19,874	—	—	19,874	—	19,874
Cash and investments	<u>61,731</u>	<u>—</u>	<u>6,829</u>	<u>68,560</u>	<u>(11,406)</u>	<u>57,154</u>
Total interest income	2,366,786	—	6,829	2,373,615	(504,333)	1,869,282
Total interest expense	<u>1,651,071</u>	<u>5,984</u>	<u>4,472</u>	<u>1,661,527</u>	<u>(266,994)</u>	<u>1,394,533</u>
Net interest income (loss)	715,715	(5,984)	2,357	712,088	(237,339)	474,749
Less: provisions for loan losses	<u>263,019</u>	<u>—</u>	<u>—</u>	<u>263,019</u>	<u>(76,110)</u>	<u>186,909</u>
Net interest income (loss) after provisions for loan losses	452,696	(5,984)	2,357	449,069	(161,229)	287,840
Contingency fee revenue	—	89,418	—	89,418	—	89,418
Collections revenue (loss)	—	(168,689)	—	(168,689)	(2,003)	(170,692)
Guarantor servicing fees	—	—	36,848	36,848	—	36,848
Other income (loss)	<u>55,315</u>	<u>—</u>	<u>50,661</u>	<u>105,976</u>	<u>(233,546)</u>	<u>(127,570)</u>
Total other income (loss)	<u>55,315</u>	<u>(79,271)</u>	<u>87,509</u>	<u>63,553</u>	<u>(235,549)</u>	<u>(171,996)</u>
Restructuring expenses	(236)	4,177	6,567	10,508	—	10,508
Operating expenses	<u>141,797</u>	<u>105,748</u>	<u>69,161</u>	<u>316,706</u>	<u>50,446</u>	<u>367,152</u>
Total expenses	<u>141,561</u>	<u>109,925</u>	<u>75,728</u>	<u>327,214</u>	<u>50,446</u>	<u>377,660</u>
Income (loss) before income tax expense (benefit)	366,450	(195,180)	14,138	185,408	(447,224)	(261,816)
Income tax expense (benefit) ⁽¹⁾	134,440	(71,756)	5,198	67,882	(171,701)	(103,819)
Less: net income attributable to noncontrolling interest	<u>—</u>	<u>544</u>	<u>—</u>	<u>544</u>	<u>—</u>	<u>544</u>
Net income (loss) attributable to SLM Corporation	<u>\$ 232,010</u>	<u>\$(123,968)</u>	<u>\$ 8,940</u>	<u>\$ 116,982</u>	<u>\$(275,523)</u>	<u>\$ (158,541)</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 1,008</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,008</u>		

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

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

Nine months ended September 30, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
				(unaudited)		
Interest income:						
FFELP Stafford and Other						
Student Loans	\$1,012,124	\$ —	\$ —	\$1,012,124	\$ (42,177)	\$ 969,947
FFELP Consolidation Loans	1,262,801	—	—	1,262,801	168,843	1,431,644
Private Education Loans	1,682,740	—	—	1,682,740	(506,341)	1,176,399
Other loans	45,930	—	—	45,930	—	45,930
Cash and investments	8,199	—	14,603	22,802	(2,906)	19,896
Total interest income	4,011,794	—	14,603	4,026,397	(382,581)	3,643,816
Total interest expense	2,424,573	15,077	11,230	2,450,880	68,996	2,519,876
Net interest income (loss)	1,587,221	(15,077)	3,373	1,575,517	(451,577)	1,123,940
Less: provisions for loan losses	1,198,839	—	—	1,198,839	(349,321)	849,518
Net interest income (loss) after provisions for loan losses	388,382	(15,077)	3,373	376,678	(102,256)	274,422
Contingency fee revenue	—	230,383	—	230,383	—	230,383
Collections revenue	—	15,629	—	15,629	689	16,318
Guarantor servicing fees	—	—	106,867	106,867	—	106,867
Other income	591,017	—	151,875	742,892	(410,989)	331,903
Total other income	591,017	246,012	258,742	1,095,771	(410,300)	685,471
Restructuring expenses	6,676	3,463	2,656	12,795	—	12,795
Operating expenses	435,513	259,419	210,904	905,836	29,452	935,288
Total expenses	442,189	262,882	213,560	918,631	29,452	948,083
Income (loss) before income tax expense (benefit)	537,210	(31,947)	48,555	553,818	(542,008)	11,810
Income tax expense (benefit) ⁽¹⁾	198,714	(11,817)	17,961	204,858	(208,742)	(3,884)
Less: net income attributable to noncontrolling interest	—	690	—	690	—	690
Net income (loss) attributable to SLM Corporation	\$ 338,496	\$ (20,820)	\$ 30,594	\$ 348,270	\$ (333,266)	\$ 15,004
Economic Floor Income (net of tax) not included in “Core Earnings”	\$ 190,894	\$ —	\$ —	\$ 190,894		

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

SLM CORPORATION
Segment and “Core Earnings”
Consolidated Statements of Income
(In thousands)

Nine months ended September 30, 2008

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
				(unaudited)		
Interest income:						
FFELP Stafford and Other						
Student Loans	\$1,630,190	\$ —	\$ —	\$1,630,190	\$ (152,000)	\$1,478,190
FFELP Consolidation Loans	2,891,257	—	—	2,891,257	(454,371)	2,436,886
Private Education Loans	2,093,066	—	—	2,093,066	(794,649)	1,298,417
Other loans	64,573	—	—	64,573	—	64,573
Cash and investments	284,078	—	17,998	302,076	(50,585)	251,491
Total interest income	6,963,164	—	17,998	6,981,162	(1,451,605)	5,529,557
Total interest expense	5,080,414	19,757	14,748	5,114,919	(739,023)	4,375,896
Net interest income (loss)	1,882,750	(19,757)	3,250	1,866,243	(712,582)	1,153,661
Less: provisions for loan losses	636,521	—	—	636,521	(169,286)	467,235
Net interest income (loss) after provisions for loan losses	1,246,229	(19,757)	3,250	1,229,722	(543,296)	686,426
Contingency fee revenue	—	258,514	—	258,514	—	258,514
Collections revenue (loss)	—	(84,811)	—	(84,811)	(2,277)	(87,088)
Guarantor servicing fees	—	—	95,164	95,164	—	95,164
Other income	161,558	—	146,889	308,447	(113,486)	194,961
Total other income	161,558	173,703	242,053	577,314	(115,763)	461,551
Restructuring expenses	46,261	9,785	21,880	77,926	—	77,926
Operating expenses	459,938	322,230	212,687	994,855	81,633	1,076,488
Total expenses	506,199	332,015	234,567	1,072,781	81,633	1,154,414
Income (loss) before income tax expense (benefit)	901,588	(178,069)	10,736	734,255	(740,692)	(6,437)
Income tax expense (benefit) ⁽¹⁾	331,424	(65,458)	3,946	269,912	(283,145)	(13,233)
Less: net income attributable to noncontrolling interest	—	3,405	—	3,405	—	3,405
Net income (loss) attributable to SLM Corporation	<u>\$ 570,164</u>	<u>\$(116,016)</u>	<u>\$ 6,790</u>	<u>\$ 460,938</u>	<u>\$ (457,547)</u>	<u>\$ 3,391</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 49,982</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 49,982</u>		

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

SLM CORPORATION

Reconciliation of “Core Earnings” Net Income to GAAP Net Income (In thousands, except per share amounts)

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
“Core Earnings” net income attributable to SLM Corporation⁽¹⁾⁽²⁾	\$163,942	\$ 170,444	\$ 116,982	\$ 348,270	\$ 460,938
“Core Earnings” adjustments:					
Net impact of securitization accounting	27,885	(25,861)	(148,121)	(196,566)	(473,773)
Net impact of derivative accounting	(36,598)	(494,581)	(205,991)	(477,169)	(118,750)
Net impact of Floor Income	(8,020)	90,022	(42,721)	161,025	(67,107)
Net impact of acquired intangibles	(9,815)	(9,819)	(50,391)	(29,298)	(81,062)
Total “Core Earnings” adjustments before income tax effect	(26,548)	(440,239)	(447,224)	(542,008)	(740,692)
Net tax effect	21,716	147,075	171,701	208,742	283,145
Total “Core Earnings” adjustments	(4,832)	(293,164)	(275,523)	(333,266)	(457,547)
GAAP net income (loss) attributable to SLM Corporation	<u>\$159,110</u>	<u>\$(122,720)</u>	<u>\$(158,541)</u>	<u>\$ 15,004</u>	<u>\$ 3,391</u>
GAAP diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	<u>\$.25</u>	<u>\$ (.32)</u>	<u>\$ (.40)</u>	<u>\$ (.17)</u>	<u>\$ (.17)</u>
<hr/>					
⁽¹⁾ “Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders	<u>\$.26</u>	<u>\$.31</u>	<u>\$.19</u>	<u>\$.54</u>	<u>\$.81</u>
⁽²⁾ Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax)	<u>\$ 22,607</u>	<u>\$ 88,899</u>	<u>\$ 1,008</u>	<u>\$ 190,894</u>	<u>\$ 49,982</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders	<u>\$.05</u>	<u>\$.17</u>	<u>\$ —</u>	<u>\$.41</u>	<u>\$.11</u>

FASB Accounting Standards Codification

The Company adopted, as of July 1, 2009, the Financial Accounting Standards Board’s (“FASB’s”) Accounting Standards Codification (“ASC”) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with generally accepted accounting principles in the United States of America (“GAAP”). The ASC does not change authoritative guidance. Accordingly, implementing the ASC did not change any of the Company’s accounting, and therefore, did not have an impact on the consolidated results of the Company. References to authoritative GAAP literature have been updated accordingly.

“Core Earnings”

In accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments on a basis that, as allowed under ASC 280, “Segment Reporting,” differs from GAAP. We refer to management’s basis of evaluating our segment results as “Core Earnings” presentations for each business segment and we refer to this information in our presentations with credit rating agencies and lenders. While “Core Earnings” are not a substitute for

reported results under GAAP, we rely on “Core Earnings” to manage each operating segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

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

Limitations of “Core Earnings”

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

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

Pre-Tax Differences between “Core Earnings” and GAAP

Our “Core Earnings” are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a “Core Earnings” basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Our “Core Earnings” are used in developing our financial plans and tracking results, and also

in establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company's core business activities. "Core Earnings" net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between "Core Earnings" and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our "Core Earnings" segment presentation to our GAAP earnings.

- 1) **Securitization Accounting:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under "Core Earnings" for the Lending operating segment, we present all securitization transactions on a "Core Earnings" basis as long-term non-recourse financings. The upfront "gains" on sale from securitization transactions, as well as ongoing "servicing and securitization revenue" presented in accordance with GAAP, are excluded from "Core Earnings" and are replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from "Core Earnings" as they are considered intercompany transactions on a "Core Earnings" basis.
- 2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life.
- 3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in "Core Earnings" when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in "Derivative Accounting," these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the "gains (losses) on derivative and hedging activities, net" line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For "Core Earnings," we reverse the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.
- 4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles.

SUPPLEMENTAL FINANCIAL INFORMATION RELEASE
THIRD QUARTER 2009
(Dollars in millions, except per share amounts, unless otherwise stated)

The following information (the “Supplemental Financial Information Release” or “Release”) should be read in connection with SLM Corporation’s (the “Company’s”) press release for third quarter 2009 earnings, dated October 20, 2009.

The Supplemental Financial Information Release contains forward-looking statements and information based on management’s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could affect our ability to cost-effectively refinance asset-backed financing facilities due April 2010, (collectively, the “2008 Asset-Backed Financing Facilities”), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Administration’s 2010 budget proposals as they relate to the Federal Family Education Loan Program (“FFELP”) and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: various liquidity programs being implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company’s expectations.

Definitions for capitalized terms in this document can be found in the Company’s 2008 Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 2, 2009.

Certain reclassifications have been made to the balances as of and for the quarter and nine months ended September 30, 2008, to be consistent with classifications adopted for the quarter and nine months ended September 30, 2009, and had no effect on net income, total assets, or total liabilities.

RECENT DEVELOPMENTS

Department of Education Federal Student Aid Title IV Student Loan Management/Servicing Contract (the “ED Servicing Contract”)

In the second quarter of 2009, the Department of Education (“ED”) named Sallie Mae as one of four private sector servicers awarded a servicing contract (the “ED Servicing Contract”) to service loans we sell to ED plus a portion of the loans others sell to ED, existing Direct Student Loan Program loans, and loans originated in the future. The contract specifically covers the servicing of all federally-owned student loans,

including the servicing of FFELP loans purchased by ED as part of the Purchase Program pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”). See “LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs” for a further discussion. Beginning in 2010, the contract will also cover the servicing of new Direct Loans. The contract will span five years with one, five year renewal option.

Through October 15, 2009, the Company has sold to ED approximately \$18.5 billion face amount of loans as part of the Purchase Program (approximately \$840 million face amount of this amount was sold in the third quarter of 2009). Outstanding debt of \$18.5 billion has been paid down related to the Participation Program in connection with these loan sales. The Company is servicing approximately \$19 billion of loans under the ED Servicing Contract as of October 15, 2009.

Legislative and Regulatory Developments

On September 17, 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act (“SAFRA”), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. The Senate is likely to take up the legislation in the next couple months. The Senate Health, Education, Labor, and Pensions Committee has indicated that it plans to mark-up its version of the legislation in late October or November. In addition to reform included in the House-passed legislation, there are several other reforms that may be considered as the legislation moves forward. These include a possible extension of ECASLA, which expires on July 1, 2010, and the Student Loan Community Proposal, an alternative student loan proposal endorsed by a cross-section of FFELP service providers (including Sallie Mae).

DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

Three Months Ended September 30, 2009 Compared to Three Months Ended June 30, 2009

For the three months ended September 30, 2009, net income attributable to SLM Corporation was \$159 million or \$.25 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net loss of \$123 million, or \$.32 diluted loss per common share attributable to SLM Corporation common shareholders, for the three months ended June 30, 2009. The effective tax rate for those periods was 32 percent and 28 percent, respectively. For the three months ended September 30, 2009, the Company’s pre-tax income was \$234 million compared to a pre-tax loss of \$169 million in the prior quarter. This increase in pre-tax income of \$403 million was primarily due to a decrease in net losses on derivative and hedging activities of \$450 million from \$562 million net losses in the second quarter of 2009 to \$112 million net losses in the third quarter of 2009.

Net interest income after provisions for loan losses increased by \$98 million in the third quarter of 2009 from the prior quarter. This increase was due to a \$141 million increase in net interest income offset by a \$43 million increase in provisions for loan losses. The increase in net interest income was primarily due to an increase in the student loan spread and a reduction in the 2008 Asset Backed Financing Facilities fees (see “LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*”). The increase in provisions for loan losses related primarily to the Private Education Loan loss provision (see “LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*” and “— *Allowance for Private Education Loan Losses*”).

There were no gains on student loan securitizations in either the third quarter of 2009 or the prior quarter as the Company did not complete any off-balance sheet securitizations during those periods. Servicing and securitization revenue increased by \$68 million from \$87 million in the second quarter of 2009 to \$155 million in the third quarter of 2009. This increase was primarily due to the current quarter’s unrealized mark-to-market gain of \$13 million on the Company’s Residual Interest compared to the prior quarter’s unrealized mark-to-market loss of \$90 million.

The \$12 million of gains on sales of loans and securities, net, in the third quarter 2009 related to the gain on sale of approximately \$840 million face amount of FFELP loans to the ED as part of the Purchase Program. Approximately \$17.6 billion face amount of additional FFELP loans were sold to the ED on October 15, 2009.

In the third quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$146 million, a \$26 million increase from \$120 million in the prior quarter. This increase was primarily the result of an increase in guarantor servicing fees due to the seasonality of loan disbursements.

In response to the College Cost Reduction and Access Act of 2007 (“CCRAA”) and challenges in the capital markets, the Company initiated a restructuring plan in 2008. The plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down our debt purchased paper businesses, and significantly reducing our operating expenses. The restructuring plan is essentially completed and our objectives have been met. During 2008, we reduced the run-rate of our operating expenses by 20 percent versus the end of 2007, after adjusting for restructuring costs, growth and other investments. As part of the Company’s cost reduction efforts, restructuring expenses of \$4 million were recognized in both the current quarter and prior quarter. Restructuring expenses from the fourth quarter of 2007 through the third quarter of 2009 totaled \$119 million. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,800 positions, or approximately 25 percent of the workforce. We estimate approximately \$7 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred. On September 17, 2009 the House passed the SAFRA which would eliminate FFELP and require that, after July 1, 2010, all new federal loans be made through the Direct Lending program. The Senate is expected to take up similar legislation in the fourth quarter of 2009. If this legislation is signed into law, the Company will undertake another significant restructuring to conform its infrastructure to the elimination of the FFELP and achieve additional expense reduction. See “RECENT DEVELOPMENTS — Legislative and Regulatory Developments” for a further discussion of SAFRA.

Operating expenses were \$318 million in the third quarter of 2009 compared to \$315 million in the second quarter of 2009. When compared to the second quarter, the Company incurred higher costs related to the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that will be sold to ED, higher origination costs related to peak origination season, and higher direct-to-consumer marketing costs related to Private Education Loans. The amortization of acquired intangibles totaled \$10 million for both the third quarter of 2009 and the prior quarter.

During the third quarter of 2009, the Company induced conversion of approximately \$137 million of its Series C Preferred Stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) the number of common shares they would receive when the preferred stock mandatorily converts to common shares in the fourth quarter of 2010 plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this induced conversion resulted in a loss recorded in preferred stock dividends for the period of approximately \$20 million.

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

For the three months ended September 30, 2009, net income attributable to SLM Corporation was \$159 million or \$.25 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to net loss of \$159 million, or \$.40 diluted loss per common share attributable to SLM Corporation common shareholders, for the three months ended September 30, 2008. The effective tax rate for those periods was 32 percent and 40 percent, respectively. The movement in the effective tax rate was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions. For the three months ended September 30, 2009, the Company’s pre-tax income was \$234 million compared to pre-tax loss of \$262 million in the year-ago quarter. The increase in pre-tax income of \$496 million was primarily due to a decrease in net losses on derivative and hedging activities of \$130 million in the third quarter of 2009 from \$242 million net losses in the third quarter of 2008 to \$112 million net losses in the third quarter of 2009, along with an increase in collections revenue of \$187 million, and an increase in gains on debt repurchases of \$58 million.

Net interest income after provisions for loan losses decreased by \$84 million in the third quarter from the year-ago quarter. This decrease was due to a \$134 million increase in provisions for loan losses offset by a

\$50 million increase in net interest income. The increase in net interest income was primarily due to a decrease in the 2008 Asset Backed Financing Facilities fees and an \$18.9 billion increase in the average balance of on-balance sheet student loans (see “LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*”). The increase in provisions for loan losses relates primarily to the increase in charge-off expectations on Private Education Loans from the year-ago period, primarily as a result of the continued weakening of the U.S. economy (see “LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*” and “— *Allowance for Private Education Loan Losses*”).

There were no gains on student loan securitizations in either the third quarter of 2009 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue increased by \$90 million from revenue of \$65 million in the third quarter of 2008 to \$155 million in the third quarter of 2009. This increase was primarily due to a current-quarter’s unrealized mark-to-market gain of \$13 million on the Company’s Residual Interests compared to a year-ago quarter’s unrealized mark-to-market loss of \$81 million. See “LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables” for further discussion of the factors impacting the fair values.

There were \$12 million in net gains on sales of loans and securities in the third quarter of 2009 related to the ED Purchase Program as previously discussed, compared to net losses of \$44 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company’s repurchase of delinquent Private Education Loans from the Company’s off-balance sheet securitization trusts. When Private Education Loans in the Company’s off-balance sheet securitization trusts that settled before September 30, 2005, became 180 days delinquent, the Company previously exercised its contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold the contingent call option for any trusts that settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

In the third quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$146 million, a \$190 million increase from a loss of \$44 million in the year-ago quarter. This increase was primarily due to a reduction in impairment recognized on our purchased paper portfolios, which was partially offset by a decline in revenue due to significantly smaller portfolios in our purchased paper businesses year-over-year, as a result of winding down these businesses. In the third quarter of 2009, total impairment of \$21 million was comprised of \$12 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company’s mortgage purchased paper subsidiary and \$9 million of impairment related to the Company’s non-mortgage purchased paper subsidiary, compared to \$242 million of total impairment recorded in the third quarter of 2008, of which \$147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company’s mortgage purchased paper subsidiary and \$95 million, including a loss on the sale of the Company’s international purchased paper business, related to the Company’s non-mortgage purchased paper subsidiary (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT”).

Restructuring expenses of \$4 million and \$11 million were recognized in the third quarters of 2009 and 2008, respectively, as previously discussed.

Operating expenses were \$318 million in the third quarter of 2009 compared to \$367 million in the third quarter of 2008. As previously discussed, in 2008 the Company decided to wind down its purchased paper businesses. This decision resulted in a \$36 million impairment of intangible assets in the third quarter of 2008. The remaining \$13 million decrease in operating expenses was primarily due to the Company’s cost reduction efforts discussed above. The amortization and impairment of acquired intangibles totaled \$10 million and \$50 million for the third quarters of 2009 and 2008, respectively.

As previously discussed, preferred stock dividends for the third quarter of 2009 included a loss of \$20 million due to the induced conversion of \$137 million of Series C Preferred Stock.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

For the nine months ended September 30, 2009, net income attributable to SLM Corporation was \$15 million or \$.17 diluted loss per common share attributable to SLM Corporation common shareholders, compared to net income of \$3 million, or \$.17 diluted loss per common share attributable to SLM Corporation common shareholders, for the nine months ended September 30, 2008. The effective tax rate for those periods was (33) percent and 206 percent, respectively. The movement in the effective tax rate was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions in both periods, as well as the permanent tax impact of deducting Proposed Merger-related transaction costs in the nine months ended September 30, 2008. For the nine months ended September 30, 2009, the Company's pre-tax income was \$12 million compared to pre-tax loss of \$7 million in the year-ago period. The increase in pre-tax income of \$19 million was primarily due an increase in gains on debt repurchases of \$426 million, offset by an increase of \$417 million in net losses on derivative and hedging activities.

There were no gains on student loan securitizations in either the nine months ended September 30, 2009 or the year-ago period as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue decreased by \$27 million from \$174 million in the nine months ended September 30, 2008 to \$147 million in the nine months ended September 30, 2009. This decrease was primarily due to a decrease in net Embedded Floor Income. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by \$412 million in the nine months ended September 30, 2009 from the year-ago period. This decrease was due to a \$383 million increase in provisions for loan losses and to a \$29 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread and other asset spread partially offset by a \$19.7 billion increase in the average balance of on-balance sheet student loans (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The increase in provisions for loan losses related primarily to increases in charge-off expectations on Private Education Loans primarily as a result of the continued weakening of the U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*")

There were \$12 million in net gains on sales of loans and securities in the nine months ended September 30, 2009 related to the ED Purchase Program as previously discussed, compared to net losses of \$122 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. As previously discussed, the Company no longer repurchases these loans.

For the nine months ended September 30, 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$353 million, an \$86 million increase from \$267 million in the year-ago period. This increase was primarily due to a reduction in impairment recognized on our purchased paper portfolios, which was partially offset by a decline in revenue due to significantly smaller portfolios in our purchased paper businesses, as a result of winding down these businesses. In the nine months ended September 30, 2009, total impairment of \$118 million was comprised of \$93 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and \$25 million of impairment related to the Company's non-mortgage purchased paper subsidiary, compared to \$323 million of total impairment recorded in the nine months ended September 30, 2008, of which \$212 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and \$111 million, including a loss on the sale of the Company's international purchased paper business, related to the Company's non-mortgage purchased paper subsidiary (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Restructuring expenses of \$13 million and \$78 million were recognized in the nine months ended September 30, 2009 and 2008, respectively, as previously discussed.

Operating expenses were \$935 million for the nine months ended September 30, 2009 compared to \$1.1 billion in the year-ago period. The decrease in operating expenses was primarily due to the Company's cost reduction efforts discussed above. The amortization and impairment of acquired intangibles totaled \$29 million and \$81 million (including a \$36 million impairment of intangible assets in the third quarter of 2008 as discussed above) for the nine months ended September 30, 2009 and 2008, respectively.

As previously discussed, preferred stock dividends for the nine months ended September 30, 2009 included a loss of \$20 million due to the induced conversion of \$137 million of Series C Preferred Stock in the third quarter of 2009.

Other Income

The following table summarizes the components of "Other income" in the consolidated statements of income for the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Gains on debt repurchases	\$ 74	\$325	\$ 16	\$463	\$ 37
Late fees and forbearance fees	39	32	36	107	107
Asset servicing and other transaction fees	28	26	28	79	80
Loan servicing fees	17	9	6	35	19
Foreign currency translation gains (losses)	(23)	(6)	(13)	11	(9)
Other	<u>16</u>	<u>14</u>	<u>21</u>	<u>47</u>	<u>61</u>
Total other income	<u>\$151</u>	<u>\$400</u>	<u>\$ 94</u>	<u>\$742</u>	<u>\$295</u>

The change in other income over all periods presented is primarily the result of the gains on debt repurchases. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased \$1.4 billion, \$1.1 billion, and \$580 million face amount of its senior unsecured notes for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, respectively, and repurchased \$2.7 billion and \$1.8 billion face amount of its senior unsecured notes for the nine months ended September 30, 2009 and 2008, respectively. The increase in the gain on debt repurchases between 2009 and 2008 was the result of differences in the characteristics of debt repurchased and larger unsecured credit spreads in 2009. Since the second quarter of 2008, the Company repurchased \$4.6 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

EARNINGS RELEASE SUMMARY

The following table summarizes GAAP income statement items (on a tax-effected basis) that are disclosed separately in the Company's press releases of earnings or the Company's quarterly earnings conference calls for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

(in thousands)	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Reported net income (loss) attributable to SLM Corporation	\$159,110	\$(122,720)	\$(158,541)	\$ 15,004	\$ 3,391
Preferred stock dividends	<u>(42,627)</u>	<u>(25,800)</u>	<u>(27,474)</u>	<u>(94,822)</u>	<u>(83,890)</u>
Reported net income (loss) attributable to common stock.	116,483	(148,520)	(186,015)	(79,818)	(80,499)
Expense items disclosed separately (tax-effected):					
Restructuring expenses	2,263	2,791	6,620	8,061	49,093
Other reorganization-related asset impairments	—	222	226	222	4,005
De-acceleration of premium amortization expense on loans ⁽¹⁾	(22,970)	—	(56,868)	(22,970)	(56,868)
Acceleration of premium amortization expense on loans ⁽²⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,142</u>
Total expense items disclosed separately (tax-effected)	<u>(20,707)</u>	<u>3,013</u>	<u>(50,022)</u>	<u>(14,687)</u>	<u>30,372</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately	<u>\$ 95,776</u>	<u>\$(145,507)</u>	<u>\$(236,037)</u>	<u>\$ (94,505)</u>	<u>\$ (50,127)</u>
Average common and common equivalent shares outstanding	<u>471,058</u>	<u>466,799</u>	<u>466,646</u>	<u>467,960</u>	<u>466,625</u>

⁽¹⁾ The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in both the third quarter of 2009 and 2008, as a result of a significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense.

⁽²⁾ The Company's decision in the first quarter of 2008 to cease consolidating FFELP Stafford loans and Consolidation Loans for the foreseeable future (considering the CCRAA's impact on the economics of a Consolidation Loan as well as the Company's increased cost of funds given the current credit market environment) resulted in a one-time, cumulative catch-up adjustment in premium amortization expense in the first quarter of 2008, due to increasing the prepayment speeds of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average lives of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

The following table summarizes “Core Earnings” income statement items (on a tax-effected basis) that are disclosed separately in the Company’s press releases of earnings or the Company’s quarterly earnings conference calls for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

(in thousands)	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” net income attributable to SLM Corporation	\$163,942	\$170,444	\$116,982	\$348,270	\$460,938
Preferred stock dividends	(42,627)	(25,800)	(27,474)	(94,822)	(83,890)
“Core Earnings” net income attributable to SLM Corporation common stock	121,315	144,644	89,508	253,448	377,048
Expense items disclosed separately (tax-effected):					
Restructuring expenses	2,263	2,791	6,620	8,061	49,093
Other reorganization-related asset impairments	—	222	226	222	4,005
De-acceleration of premium amortization expense on loans ⁽¹⁾	(34,627)	—	(74,138)	(34,627)	(74,138)
Acceleration of premium amortization expense on loans ⁽²⁾	—	—	—	—	51,777
Total expense items disclosed separately (tax-effected)	(32,364)	3,013	(67,292)	(26,344)	30,737
“Core Earnings” net income attributable to SLM Corporation common stock, excluding the impact of items disclosed separately	<u>\$ 88,951</u>	<u>\$147,657</u>	<u>\$ 22,216</u>	<u>\$227,104</u>	<u>\$407,785</u>
Average common and common equivalent shares outstanding	<u>471,058</u>	<u>467,437</u>	<u>467,178</u>	<u>468,579</u>	<u>467,270</u>

⁽¹⁾ The Company decreased the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in both the third quarter of 2009 and 2008, as a result of a significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense. The adjustment in the table above is primarily related to this change.

⁽²⁾ The Company’s decision in the first quarter of 2008 to cease consolidating FFELP Stafford loans and Consolidation Loans for the foreseeable future (considering the CCRAA’s impact on the economics of a Consolidation Loan as well as the Company’s increased cost of funds given the current credit market environment) resulted in a one-time, cumulative catch-up adjustment in premium amortization expense in the first quarter of 2008, due to increasing the prepayment speeds of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average lives of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

BUSINESS SEGMENTS

The results of operations of the Company's Lending, Asset Performance Group ("APG"), and Corporate and Other business segments are presented below, using our "Core Earnings" presentation.

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

Pre-tax Differences between "Core Earnings" and GAAP

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

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

The following table summarizes “Core Earnings” securitization adjustments for the Lending operating segment for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” securitization adjustments:					
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	\$(254)	\$(236)	\$(245)	\$(693)	\$(694)
Provisions for loan losses	<u>127</u>	<u>124</u>	<u>76</u>	<u>349</u>	<u>169</u>
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(127)	(112)	(169)	(344)	(525)
Intercompany transactions with off-balance sheet trusts	<u>—</u>	<u>—</u>	<u>(44)</u>	<u>—</u>	<u>(123)</u>
Net interest income on securitized loans, after provisions for loan losses	(127)	(112)	(213)	(344)	(648)
Servicing and securitization revenue	<u>155</u>	<u>87</u>	<u>65</u>	<u>147</u>	<u>174</u>
Total “Core Earnings” securitization adjustments ⁽¹⁾	<u>\$ 28</u>	<u>\$ (25)</u>	<u>\$(148)</u>	<u>\$(197)</u>	<u>\$(474)</u>

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

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

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

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

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

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

The table below quantifies the adjustments for derivative accounting under ASC 815 on net income for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, and for the nine months ended September 30, 2009 and 2008, when compared with the accounting principles employed in all years prior to the ASC 815 implementation.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income ⁽¹⁾ . .	\$(112)	\$(562)	\$(242)	\$(569)	\$(153)
Less: Realized (gains) losses on derivative and hedging activities, net ⁽¹⁾	<u>118</u>	<u>78</u>	<u>41</u>	<u>120</u>	<u>39</u>
Unrealized gains (losses) on derivative and hedging activities, net	6	(484)	(201)	(449)	(114)
Other pre-ASC 815 accounting adjustments . .	<u>(43)</u>	<u>(11)</u>	<u>(5)</u>	<u>(28)</u>	<u>(5)</u>
Total net impact of ASC 815 derivative accounting ⁽²⁾	<u>\$ (37)</u>	<u>\$(495)</u>	<u>\$(206)</u>	<u>\$(477)</u>	<u>\$(119)</u>

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

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

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

ASC 815 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as “realized gains (losses) on derivative and hedging activities”) that do not qualify as hedges under ASC 815 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a “Core Earnings” basis for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$(189)	\$(171)	\$ (75)	\$(500)	\$(390)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	72	95	22	396	339
Foreign exchange derivatives gains (losses) reclassified to other income	—	(1)	12	(14)	8
Net realized gains (losses) on terminated derivative contracts reclassified to other income	<u>(1)</u>	<u>(1)</u>	<u>—</u>	<u>(2)</u>	<u>4</u>
Total reclassifications of realized gains (losses) on derivative and hedging activities	(118)	(78)	(41)	(120)	(39)
Add: Unrealized gains (losses) on derivative and hedging activities, net ⁽¹⁾	<u>6</u>	<u>(484)</u>	<u>(201)</u>	<u>(449)</u>	<u>(114)</u>
Gains (losses) on derivative and hedging activities, net	<u>\$(112)</u>	<u>\$(562)</u>	<u>\$(242)</u>	<u>\$(569)</u>	<u>\$(153)</u>

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

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Floor Income Contracts	\$(80)	\$ 236	\$ (33)	\$ 323	\$ 240
Basis swaps	97	(217)	(210)	(435)	(498)
Foreign currency hedges	24	(361)	44	(256)	147
Other	<u>(35)</u>	<u>(142)</u>	<u>(2)</u>	<u>(81)</u>	<u>(3)</u>
Total unrealized gains (losses) on derivative and hedging activities, net	<u>\$ 6</u>	<u>\$(484)</u>	<u>\$(201)</u>	<u>\$(449)</u>	<u>\$(114)</u>

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

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

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts . .	\$ 36	\$120	\$ 1	\$ 263	\$ 60
Amortization of net premiums on Floor Income Contracts in net interest income . .	(44)	(30)	(44)	(102)	(127)
Total “Core Earnings” Floor Income adjustments ⁽¹⁾⁽²⁾	<u>\$ (8)</u>	<u>\$ 90</u>	<u>\$(43)</u>	<u>\$ 161</u>	<u>\$ (67)</u>

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

(2) The following table summarizes the amount of Economic Floor Income earned during the quarters ended September 30, 2009, June 30, 2009 and September 30, 2008 and for the nine months ended September 30, 2009 and 2008 that is not included in “Core Earnings” net income:

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in “Core Earnings”	\$ 36	\$120	\$ 1	\$ 263	\$ 60
Amortization of net premiums on Variable Rate Floor Income Contracts not included in “Core Earnings”	—	21	—	40	20
Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings”	44	30	44	102	127
Total Economic Floor Income Earned	80	171	45	405	207
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings”	(44)	(30)	(44)	(102)	(127)
Total Economic Floor Income earned, not included in “Core Earnings”	<u>\$ 36</u>	<u>\$141</u>	<u>\$ 1</u>	<u>\$ 303</u>	<u>\$ 80</u>

- 4) **Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles. For the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, goodwill and intangible impairment and the amortization of acquired intangibles totaled \$10 million, \$10 million and \$50 million, respectively, and for the nine months ended September 30, 2009 and 2008, totaled \$29 million and \$81 million, respectively. In the third quarter of 2008, the Company decided to wind down its purchased paper businesses. This decision resulted in \$36 million of impairment of intangible assets in the quarter ended September 30, 2008.

LENDING BUSINESS SEGMENT

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

On a Managed Basis, the Company had \$108.9 billion, \$113.9 billion, and \$127.2 billion as of September 30, 2009, June 30, 2009, and December 31, 2008, respectively, of FFELP loans indexed to three-month financial commercial paper rate (“CP”) funded with debt indexed to LIBOR. Due to the unintended consequences of government actions in other areas of the capital markets and limited issuances of qualifying financial commercial paper, the historical relationship between CP and LIBOR has been broken recently. For the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter, the Federal Reserve’s Commercial Paper Funding Facility rates (“CPFF”) would be used for those days in which no CP was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF. ED has decided that no such correction was required during 2009. This resulted in a CP/LIBOR spread of 52 basis points, 45 basis points, and 13 basis points, in the first, second and third quarters of 2009, respectively, compared to the CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 and the historic average spread through the third quarter of 2008 of approximately 10 basis points.

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

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

The following table includes “Core Earnings” results for our Lending business segment.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” interest income:					
FFELP Stafford and Other Student Loans	\$ 340	\$ 310	\$ 612	\$1,012	\$1,630
FFELP Consolidation Loans	430	394	995	1,263	2,891
Private Education Loans	561	559	678	1,683	2,093
Other loans	11	18	20	46	65
Cash and investments	<u>3</u>	<u>4</u>	<u>62</u>	<u>8</u>	<u>284</u>
Total “Core Earnings” interest income	1,345	1,285	2,367	4,012	6,963
Total “Core Earnings” interest expense	<u>652</u>	<u>824</u>	<u>1,651</u>	<u>2,424</u>	<u>5,080</u>
Net “Core Earnings” interest income . .	693	461	716	1,588	1,883
Less: provisions for loan losses	<u>448</u>	<u>402</u>	<u>263</u>	<u>1,199</u>	<u>636</u>
Net “Core Earnings” interest income after provisions for loan losses	245	59	453	389	1,247
Other income	129	360	55	591	161
Restructuring expenses	2	4	—	7	46
Operating expenses	<u>154</u>	<u>148</u>	<u>142</u>	<u>435</u>	<u>460</u>
Total expenses	<u>156</u>	<u>152</u>	<u>142</u>	<u>442</u>	<u>506</u>
Income before income tax expense . . .	218	267	366	538	902
Income tax expense	<u>80</u>	<u>99</u>	<u>134</u>	<u>199</u>	<u>332</u>
“Core Earnings” net income	<u>\$ 138</u>	<u>\$ 168</u>	<u>\$ 232</u>	<u>\$ 339</u>	<u>\$ 570</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . .	<u>\$ 23</u>	<u>\$ 89</u>	<u>\$ 1</u>	<u>\$ 191</u>	<u>\$ 50</u>

Net Interest Income

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

Average Balance Sheets — On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008. This table reflects the net interest margin for all on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Quarters ended					
	September 30, 2009		June 30, 2009		September 30, 2008	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	\$ 64,673	1.86%	\$ 60,120	2.16%	\$ 45,804	4.48%
FFELP Consolidation Loans	69,643	2.74	70,456	2.62	72,926	4.53
Private Education Loans	23,214	6.77	23,012	6.85	19,876	8.92
Other loans	469	9.33	630	11.76	859	9.21
Cash and investments	<u>13,694</u>	<u>.20</u>	<u>10,383</u>	<u>.27</u>	<u>7,964</u>	<u>2.85</u>
Total interest-earning assets	171,693	<u>2.77%</u>	164,601	<u>2.93%</u>	147,429	<u>5.04%</u>
Non-interest-earning assets	<u>8,686</u>		<u>8,898</u>		<u>10,035</u>	
Total assets	<u>\$180,379</u>		<u>\$173,499</u>		<u>\$157,464</u>	
Average Liabilities and Equity						
Short-term borrowings	\$ 50,700	1.31%	\$ 44,550	1.99%	\$ 34,050	4.93%
Long-term borrowings	<u>121,060</u>	<u>1.66</u>	<u>120,073</u>	<u>2.00</u>	<u>114,046</u>	<u>3.39</u>
Total interest-bearing liabilities	171,760	<u>1.56%</u>	164,623	<u>2.00%</u>	148,096	<u>3.75%</u>
Non-interest-bearing liabilities	3,679		3,799		3,812	
Equity	<u>4,940</u>		<u>5,077</u>		<u>5,556</u>	
Total liabilities and equity	<u>\$180,379</u>		<u>\$173,499</u>		<u>\$157,464</u>	
Net interest margin		<u>1.21%</u>		<u>.94%</u>		<u>1.28%</u>

	Nine months ended			
	September 30, 2009		September 30, 2008	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
Average Assets				
FFELP Stafford and Other Student Loans	\$ 60,190	2.15%	\$ 41,954	4.71%
FFELP Consolidation Loans	70,464	2.72	73,410	4.43
Private Education Loans	22,968	6.85	18,551	9.35
Other loans	602	10.20	1,023	8.43
Cash and investments	<u>10,518</u>	<u>.25</u>	<u>9,762</u>	<u>3.44</u>
Total interest-earning assets	164,742	<u>2.96%</u>	144,700	<u>5.10%</u>
Non-interest-earning assets	<u>9,015</u>		<u>9,991</u>	
Total assets	<u>\$173,757</u>		<u>\$154,691</u>	
Average Liabilities and Equity				
Short-term borrowings	\$ 46,389	2.05%	\$ 35,169	4.85%
Long-term borrowings	<u>118,479</u>	<u>2.04</u>	<u>110,368</u>	<u>3.75</u>
Total interest-bearing liabilities	164,868	<u>2.04%</u>	145,537	<u>4.02%</u>
Non-interest-bearing liabilities	3,822		3,718	
Equity	<u>5,067</u>		<u>5,436</u>	
Total liabilities and equity	<u>\$173,757</u>		<u>\$154,691</u>	
Net interest margin		<u>.91%</u>		<u>1.06%</u>

Net Interest Margin — On-Balance Sheet

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

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Student loan spread ⁽¹⁾⁽²⁾	1.58%	1.32%	1.71%	1.29%	1.41%
Other asset spread ⁽¹⁾⁽³⁾	<u>(2.07)</u>	<u>(2.08)</u>	<u>.06</u>	<u>(2.10)</u>	<u>.12</u>
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees ⁽¹⁾	1.28	1.10	1.61	1.06	1.32
Less: 2008 Asset-Backed Financing Facilities fees	<u>(.07)</u>	<u>(.16)</u>	<u>(.33)</u>	<u>(.15)</u>	<u>(.25)</u>
Net interest margin	<u>1.21%</u>	<u>.94%</u>	<u>1.28%</u>	<u>.91%</u>	<u>1.06%</u>

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

(2) Composition of student loan spread:

Student loan yield, before Floor Income	3.12%	3.21%	5.57%	3.29%	5.74%
Gross Floor Income . . . . .	.43	.56	.16	.49	.31
Consolidation Loan Rebate Fees	(.45)	(.47)	(.54)	(.48)	(.57)
Repayment Borrower Benefits	(.10)	(.09)	(.12)	(.09)	(.12)
Premium and discount amortization	<u>(.03)</u>	<u>(.14)</u>	<u>.07</u>	<u>(.10)</u>	<u>(.16)</u>
Student loan net yield	2.97	3.07	5.14	3.11	5.20
Student loan cost of funds	<u>(1.39)</u>	<u>(1.75)</u>	<u>(3.43)</u>	<u>(1.82)</u>	<u>(3.79)</u>
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	<u>1.58%</u>	<u>1.32%</u>	<u>1.71%</u>	<u>1.29%</u>	<u>1.41%</u>

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

Student Loan Spread — On-Balance Sheet

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

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 increased 26 basis points from the prior quarter. The increase from the prior quarter was primarily due to a 32 basis point tightening of the CP/LIBOR spread, lower cost of funds related to the ED Conduit Program which began in May 2009 (see “LIQUIDITY AND CAPITAL RESOURCES — Ed Funding Programs”), a decrease in premium amortization of 11 basis points (see “Core Earnings Basis Student Loan Spread” below for a further discussion of premium amortization impact) and a lower cost of funds due to the impact of ASC 815 (discussed below). Partially offsetting these improvements to student loan spread were higher credit spreads on the Company’s ABS debt issued in 2009 as well as a reduction in Gross Floor Income.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 decreased 13 basis points from the year-ago quarter. This decrease was primarily due an increase in the credit spreads on the Company's ABS and unsecured debt issued in the last two years due to the current credit environment, a 5 basis point widening of the CP/LIBOR spread, a higher cost of funds due to the impact of ASC 815 (discussed below) and an increase in premium amortization of 10 basis points between the current and year-ago quarters. The increase in premium expense was primarily due to both quarters having changes to prepayment assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans. The decreases made to these prepayment speed assumptions were larger in the third quarter of 2008 than the third quarter of 2009. Partially offsetting these decreases to the student loan spread was an increase in Gross Floor Income.

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

Other Asset Spread — On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the third quarter of 2009 increased 1 basis point from the prior quarter and decreased 213 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under ASC 815 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the "Core Earnings" basis other asset spread discussed below.

Net Interest Margin — On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 increased 18 basis points from the prior quarter and decreased 33 basis points from the year-ago quarter. These changes primarily relate to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the periods.

See "LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — Asset-Backed Financing Facilities" for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

"Core Earnings" Net Interest Margin

The following table analyzes the earnings from our portfolio of Managed interest-earning assets on a "Core Earnings" basis (see "BUSINESS SEGMENTS — Pre-tax Differences between "Core Earnings' and GAAP"). The "Core Earnings' Net Interest Margin" presentation and certain components used in the calculation differ from the "Net Interest Margin — On-Balance Sheet" presentation. The "Core Earnings" presentation, when compared to our on-balance sheet presentation, is different in that it:

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as ASC 815 hedges are recorded as part of the "gain (loss) on derivative and hedging activities, net" line on the income statement and are therefore not recognized in the on-

balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our “Core Earnings” net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

- Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and
- Includes the amortization of upfront payments on Fixed Rate Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
“Core Earnings” basis student loan spread ⁽¹⁾ :					
FFELP loan spread . . . . .	.90%	.39%	1.13%	.56%	.87%
Private Education Loan spread ⁽²⁾	<u>4.45</u>	<u>4.50</u>	<u>5.20</u>	<u>4.54</u>	<u>5.22</u>
Total “Core Earnings” basis student loan spread ⁽³⁾	1.56	1.17	1.90	1.32	1.68
“Core Earnings” basis other asset spread ⁽¹⁾⁽⁴⁾	<u>(.93)</u>	<u>(.91)</u>	<u>(.12)</u>	<u>(.98)</u>	<u>(.19)</u>
“Core Earnings” net interest margin, before 2008 Asset-Backed Financing Facilities fees ⁽¹⁾	1.38	1.04	1.78	1.18	1.54
Less: 2008 Asset-Backed Financing Facilities fees	<u>(.06)</u>	<u>(.13)</u>	<u>(.26)</u>	<u>(.13)</u>	<u>(.20)</u>
“Core Earnings” net interest margin ⁽⁵⁾	<u>1.32%</u>	<u>.91%</u>	<u>1.52%</u>	<u>1.05%</u>	<u>1.35%</u>
⁽¹⁾ Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the “2008 Asset-Backed Financing Facilities fees.” (See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes” for a further discussion.)					
⁽²⁾ “Core Earnings” basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses					
	(.10)%	.47%	2.76%	.55%	3.02%
⁽³⁾ Composition of “Core Earnings” basis student loan spread:					
“Core Earnings” basis student loan yield	3.29%	3.36%	5.72%	3.45%	5.94%
Consolidation Loan Rebate Fees	(.45)	(.47)	(.52)	(.47)	(.54)
Repayment Borrower Benefits	(.10)	(.09)	(.11)	(.09)	(.11)
Premium and discount amortization	<u>.01</u>	<u>(.12)</u>	<u>.09</u>	<u>(.08)</u>	<u>(.15)</u>
“Core Earnings” basis student loan net yield	2.75	2.68	5.18	2.81	5.14
“Core Earnings” basis student loan cost of funds	<u>(1.19)</u>	<u>(1.51)</u>	<u>(3.28)</u>	<u>(1.49)</u>	<u>(3.46)</u>
“Core Earnings” basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	<u>1.56%</u>	<u>1.17%</u>	<u>1.90%</u>	<u>1.32%</u>	<u>1.68%</u>
⁽⁴⁾ Comprised of investments, cash and other loans.					
⁽⁵⁾ The average balances of our Managed interest-earning assets for the respective periods are:					
FFELP loans	\$155,434	\$152,482	\$142,372	\$152,468	\$140,060
Private Education Loans	<u>36,025</u>	<u>36,008</u>	<u>33,098</u>	<u>35,951</u>	<u>31,919</u>
Total student loans	191,459	188,490	175,470	188,419	171,979
Other interest-earning assets	<u>15,378</u>	<u>12,336</u>	<u>10,829</u>	<u>12,466</u>	<u>13,075</u>
Total Managed interest-earning assets	<u>\$206,837</u>	<u>\$200,826</u>	<u>\$186,299</u>	<u>\$200,885</u>	<u>\$185,054</u>

“Core Earnings” Basis Student Loan Spread

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 increased 39 basis points from the prior quarter. The “Core Earnings” basis student loan spread was positively impacted by a 32 basis point tightening of the CP/LIBOR spread, lower cost of funds related to the ED Conduit Program which began in May 2009 (See “LIQUIDITY AND CAPITAL RESOURCES — Ed Funding Programs”), and a decrease in premium amortization of 13 basis points between the current and prior quarters. The decrease in premium expense was primarily due to the Company decreasing the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in the third quarter of 2009 as a result of a significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense. Partially offsetting these improvements to the “Core Earnings” basis student loan spread were higher credit spreads on the Company’s ABS debt issued in 2009 due to the current credit environment.

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 decreased 34 basis points from the year-ago quarter. The “Core Earnings” basis student loan spread was negatively impacted by an increase in the credit spreads on the Company’s ABS and unsecured debt issued in the last two years due to the current credit environment, a 5 basis point widening of the CP/LIBOR spread, and an increase in premium amortization of 8 basis points between the current and year-ago quarters. The increase in premium expense was primarily due to both quarters having changes to prepayment assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans. The decreases made to these prepayment speed assumptions were larger in the third quarter of 2008 than the third quarter of 2009. Partially offsetting these decreases to the “Core Earnings” basis student loan spread was lower cost of funds related to the ED Conduit Program which began in May 2009.

The “Core Earnings” basis FFELP loan spread for the third quarter of 2009 increased from the prior quarter due to the same reasons discussed above related to the entire “Core Earnings” basis student loan spread. The “Core Earnings” basis FFELP loan spread for the third quarter of 2009 decreased from the year-ago quarter due to the same reasons discussed above related to the entire “Core Earnings” basis student loan spread, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007, which have lower yields as a result of the CCRAA. The “Core Earnings” basis Private Education Loan spread before provision for loan losses for the third quarter of 2009 was negatively impacted by the increase in the cost of funds discussed previously. The changes in the “Core Earnings” basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see “Private Education Loan Losses — Allowance for Private Education Loan Losses”).

“Core Earnings” Basis Other Asset Spread

The “Core Earnings” basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The “Core Earnings” basis other asset spread for the third quarter of 2009 decreased 2 basis points and decreased 81 basis points from the prior and year-ago quarters, respectively. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

“Core Earnings” Net Interest Margin

The “Core Earnings” net interest margin, before the 2008 Asset-Backed Financing Facilities fees, for the third quarter of 2009 increased 34 basis points from the prior quarter and decreased 40 basis points from the

year-ago quarter. These changes primarily relate to the previously discussed changes in the “Core Earnings” basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the periods.

See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes — *Asset-Backed Financing Facilities*” for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

All Private Education Loans are initially acquired on-balance sheet. The securitization of Private Education Loans prior to 2009 has been accounted for off-balance sheet under ASC 860, “Transfers and Servicing.” For our Managed Basis presentation in the table below, when loans are securitized, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then increase the allowance for loan losses for these loans off-balance sheet, with the total of both on-balance sheet and off-balance sheet being the Managed Basis allowance for loan losses.

When Private Education Loans in our securitized trusts settling before September 30, 2005, became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We account for these loans in accordance with ASC 310, “Receivables.” Revenue is recognized over the anticipated remaining life of the loan based upon the amount and timing of anticipated cash flows. Beginning in October 2008, the Company decided to no longer exercise its contingent call option. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged-off at day 212. We do not hold the contingent call option for any trusts settled after September 30, 2005.

When measured as a percentage of ending loans in repayment, the off-balance sheet allowance for loan losses percentage is lower than the on-balance sheet percentage because of the different mix and aging of loans on-balance sheet and off-balance sheet.

Private Education Loan Delinquencies and Forbearance

The tables below present our Private Education Loan delinquency trends as of September 30, 2009, June 30, 2009, and September 30, 2008.

	On-Balance Sheet Private Education Loan Delinquencies					
	September 30, 2009		June 30, 2009		September 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$10,899		\$10,355		\$11,263	
Loans in forbearance ⁽²⁾	851		945		1,085	
Loans in repayment and percentage of each status:						
Loans current	10,458	85.3%	10,294	84.8%	7,902	87.6%
Loans delinquent 31-60 days ⁽³⁾	551	4.5	504	4.2	393	4.4
Loans delinquent 61-90 days ⁽³⁾	353	2.9	335	2.7	249	2.8
Loans delinquent greater than 90 days ⁽³⁾	892	7.3	1,013	8.3	472	5.2
Total Private Education Loans in repayment	<u>12,254</u>	<u>100%</u>	<u>12,146</u>	<u>100%</u>	<u>9,016</u>	<u>100%</u>
Total Private Education Loans, gross	24,004		23,446		21,364	
Private Education Loan unamortized discount	<u>(543)</u>		<u>(537)</u>		<u>(514)</u>	
Total Private Education Loans	23,461		22,909		20,850	
Private Education Loan receivable for partially charged-off loans	435		338		184	
Private Education Loan allowance for losses	<u>(1,401)</u>		<u>(1,396)</u>		<u>(1,197)</u>	
Private Education Loans, net	<u>\$22,495</u>		<u>\$21,851</u>		<u>\$19,837</u>	
Percentage of Private Education Loans in repayment		<u>51.1%</u>		<u>51.8%</u>		<u>42.2%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>14.7%</u>		<u>15.2%</u>		<u>12.4%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>6.5%</u>		<u>7.2%</u>		<u>10.7%</u>

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

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

**Off-Balance Sheet
Private Education Loan Delinquencies**

	September 30, 2009		June 30, 2009		September 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 3,148		\$ 2,974		\$ 4,259	
Loans in forbearance ⁽²⁾	474		583		1,159	
Loans in repayment and percentage of each status:						
Loans current	8,516	90.0%	8,874	90.4%	7,733	93.9%
Loans delinquent 31-60 days ⁽³⁾	312	3.3	261	2.7	217	2.6
Loans delinquent 61-90 days ⁽³⁾	161	1.7	174	1.8	103	1.3
Loans delinquent greater than 90 days ⁽³⁾	<u>469</u>	<u>5.0</u>	<u>505</u>	<u>5.1</u>	<u>177</u>	<u>2.2</u>
Total Private Education Loans in repayment	<u>9,458</u>	<u>100%</u>	<u>9,814</u>	<u>100%</u>	<u>8,230</u>	<u>100%</u>
Total Private Education Loans, gross	13,080		13,371		13,648	
Private Education Loan unamortized discount	<u>(347)</u>		<u>(355)</u>		<u>(349)</u>	
Total Private Education Loans	12,733		13,016		13,299	
Private Education Loan receivable for partially charged-off loans	200		149		73	
Private Education Loan allowance for losses	<u>(522)</u>		<u>(544)</u>		<u>(409)</u>	
Private Education Loans, net	<u>\$12,411</u>		<u>\$12,621</u>		<u>\$12,963</u>	
Percentage of Private Education Loans in repayment		<u>72.3%</u>		<u>73.4%</u>		<u>60.3%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>10.0%</u>		<u>9.6%</u>		<u>6.1%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>4.8%</u>		<u>5.6%</u>		<u>12.4%</u>

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

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

**Managed Basis
Private Education Loan Delinquencies**

	September 30, 2009		June 30, 2009		September 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$14,047		\$13,329		\$15,522	
Loans in forbearance ⁽²⁾	1,325		1,528		2,244	
Loans in repayment and percentage of each status:						
Loans current	18,974	87.4%	19,168	87.3%	15,635	90.6%
Loans delinquent 31-60 days ⁽³⁾	863	4.0	765	3.5	610	3.6
Loans delinquent 61-90 days ⁽³⁾	514	2.4	509	2.3	352	2.0
Loans delinquent greater than 90 days ⁽³⁾	<u>1,361</u>	<u>6.2</u>	<u>1,518</u>	<u>6.9</u>	<u>649</u>	<u>3.8</u>
Total Private Education Loans in repayment	<u>21,712</u>	<u>100%</u>	<u>21,960</u>	<u>100%</u>	<u>17,246</u>	<u>100%</u>
Total Private Education Loans, gross	37,084		36,817		35,012	
Private Education Loan unamortized discount	<u>(890)</u>		<u>(892)</u>		<u>(863)</u>	
Total Private Education Loans	36,194		35,925		34,149	
Private Education Loan receivable for partially charged-off loans	635		487		257	
Private Education Loan allowance for losses	<u>(1,923)</u>		<u>(1,940)</u>		<u>(1,606)</u>	
Private Education Loans, net	<u>\$34,906</u>		<u>\$34,472</u>		<u>\$32,800</u>	
Percentage of Private Education Loans in repayment		<u>58.6%</u>		<u>59.7%</u>		<u>49.3%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>12.6%</u>		<u>12.7%</u>		<u>9.4%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>5.8%</u>		<u>6.5%</u>		<u>11.5%</u>

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

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

Allowance for Private Education Loan Losses

The following tables summarize changes in the allowance for Private Education Loan losses for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Activity in Allowance for Private Education Loan Losses								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	June 30, 2009	September 30, 2008
Allowance at beginning of period	\$ 1,396	\$ 1,384	\$ 1,129	\$ 544	\$ 539	\$ 377	\$ 1,940	\$ 1,923	\$ 1,506
Provision for Private Education Loan losses	287	242	136	126	120	66	413	362	202
Charge-offs	(293)	(239)	(76)	(150)	(116)	(36)	(443)	(355)	(112)
Reclassification of interest reserve	11	9	8	2	1	2	13	10	10
Allowance at end of period	<u>\$ 1,401</u>	<u>\$ 1,396</u>	<u>\$ 1,197</u>	<u>\$ 522</u>	<u>\$ 544</u>	<u>\$ 409</u>	<u>\$ 1,923</u>	<u>\$ 1,940</u>	<u>\$ 1,606</u>
Charge-offs as a percentage of average loans in repayment (annualized)	9.6%	8.2%	3.5%	6.2%	4.8%	1.8%	8.1%	6.7%	2.7%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	8.9%	7.6%	3.1%	5.9%	4.6%	1.5%	7.6%	6.3%	2.3%
Allowance as a percentage of the ending total loan balance	5.7%	5.9%	5.6%	3.9%	4.0%	3.0%	5.1%	5.2%	4.6%
Allowance as a percentage of ending loans in repayment	11.4%	11.5%	13.3%	5.5%	5.5%	5.0%	8.9%	8.8%	9.3%
Average coverage of charge-offs (annualized)	1.2	1.5	3.9	.9	1.2	2.9	1.1	1.4	3.6
Ending total loans ⁽¹⁾	\$24,439	\$23,784	\$21,548	\$13,280	\$13,520	\$13,721	\$37,719	\$37,304	\$35,269
Average loans in repayment	\$12,083	\$11,700	\$ 8,703	\$ 9,585	\$ 9,630	\$ 8,103	\$21,668	\$21,330	\$16,806
Ending loans in repayment	\$12,254	\$12,146	\$ 9,016	\$ 9,458	\$ 9,814	\$ 8,230	\$21,712	\$21,960	\$17,246

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

	Activity in Allowance for Private Education Loan Losses					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Allowance at beginning of period	\$ 1,308	\$ 1,004	\$ 505	\$ 362	\$ 1,813	\$ 1,366
Provision for Private Education Loan losses	733	374	339	152	1,072	526
Charge-offs	(671)	(206)	(329)	(109)	(1,000)	(315)
Reclassification of interest reserve	31	25	7	4	38	29
Allowance at end of period	<u>\$ 1,401</u>	<u>\$ 1,197</u>	<u>\$ 522</u>	<u>\$ 409</u>	<u>\$ 1,923</u>	<u>\$ 1,606</u>
Charge-offs as a percentage of average loans in repayment (annualized)	7.7%	3.5%	4.6%	1.9%	6.3%	2.7%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	7.1%	3.0%	4.3%	1.6%	5.9%	2.3%
Allowance as a percentage of the ending total loan balance	5.7%	5.6%	3.9%	3.0%	5.1%	4.6%
Allowance as a percentage of ending loans in repayment	11.4%	13.3%	5.5%	5.0%	8.9%	9.3%
Average coverage of charge-offs (annualized)	1.6	4.4	1.2	2.8	1.4	3.8
Ending total loans ⁽¹⁾	\$24,439	\$21,548	\$13,280	\$13,721	\$37,719	\$35,269
Average loans in repayment	\$11,634	\$ 7,933	\$ 9,543	\$ 7,794	\$21,177	\$15,727
Ending loans in repayment	\$12,254	\$ 9,016	\$ 9,458	\$ 8,230	\$21,712	\$17,246

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

The following table provides detail for the traditional and non-traditional Managed Private Education Loans at September 30, 2009, June 30, 2009, and September 30, 2008.

	September 30, 2009			June 30, 2009			September 30, 2008		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans ⁽¹⁾	\$32,891	\$4,828	\$37,719	\$32,326	\$4,978	\$37,304	\$30,177	\$5,092	\$35,269
Ending loans in repayment	18,922	2,790	21,712	18,980	2,980	21,960	14,605	2,641	17,246
Private Education Loan allowance for losses	1,005	918	1,923	967	973	1,940	681	925	1,606
Charge-offs as a percentage of average loans in repayment ⁽²⁾	5.1%	28.5%	8.1%	3.9%	24.0%	6.7%	1.4%	10.0%	2.7%
Allowance as a percentage of total ending loan balance	3.1%	19.0%	5.1%	3.0%	19.6%	5.2%	2.3%	18.2%	4.6%
Allowance as a percentage of ending loans in repayment	5.3%	32.9%	8.9%	5.1%	32.7%	8.8%	4.7%	35.0%	9.3%
Average coverage of charge-offs ⁽²⁾	1.1	1.1	1.1	1.4	1.4	1.4	3.5	3.7	3.6
Delinquencies as a percentage of Private Education Loans in repayment	9.7%	32.2%	12.6%	9.5%	33.5%	12.7%	6.3%	26.3%	9.4%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.6%	17.8%	6.3%	4.8%	20.6%	6.9%	2.3%	11.9%	3.8%
Loans in forbearance as a percentage of loans in repayment and forbearance	5.4%	8.1%	5.8%	6.1%	8.9%	6.5%	11.0%	14.4%	11.5%

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

⁽²⁾ Annualized for the three months ended September 30, 2009, June 30, 2009, and September 30, 2008.

Managed provision expense increased from \$362 million in the second quarter of 2009 to \$413 million in the third quarter of 2009. Provision expense remained elevated in the third quarter of 2009 due to the continued uncertainty of the U.S. economy. The Private Education Loan portfolio had experienced a significant increase in delinquencies through the first quarter of 2009; however, delinquencies declined in the second and third quarters of 2009. The Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters. The increase in charge-off levels through the third quarter of 2009 was generally anticipated and was previously reflected in our Allowance for Loan Losses. Managed delinquencies as a percentage of Private Education Loans in repayment decreased from 12.7 percent as of June 30, 2009 to 12.6 percent as of September 30, 2009. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 6.5 percent as of June 30, 2009 to 5.8 percent at September 30, 2009. On a year-over-year basis, overall delinquencies as a percentage of loans in repayment increased from 9.4 percent to 12.6 percent, while forbearances decreased from 11.5 percent to 5.8 percent.

Borrowers use the proceeds of Private Education Loans to obtain higher education, which increases the likelihood of obtaining employment at higher income levels than would be available without the additional education. As a result, borrowers' repayment capability is expected to improve between the time the loan is made and the time they enter the post-education work force. Consistent with FFELP loans, we generally allow the loan repayment period on higher education Private Education Loans to begin six months after the borrower graduates (or "grace period"). This provides the borrower time after graduation to obtain a job to service the debt. For borrowers that need more time or experience hardships, we offer periods of forbearance similar to that provided to borrowers in the FFELP.

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance in this manner effectively extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While a loan is in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting the forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the

likelihood of ultimate collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a borrower's unique situation, including assumptions based on historical information and judgments. We combine borrower information with a risk-based segmentation model to assist in our decision making as to who will be granted forbearance based on our expectation as to a borrower's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month end has decreased over the course of 2008 and 2009. In addition, the monthly average amount of loans granted forbearance as a percentage of loans in repayment and forbearance declined to 5.5 percent for the third quarter of 2009 compared to the year-ago quarter of 6.1 percent. As of September 30, 2009, 3 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current during September. The majority of these borrowers would have previously received a forbearance which resulted in their loan being reflected in the forbearance status at month end, and eventually entering repayment status as current at the end of the forbearance period. These borrowers are now being placed in repayment status earlier than they previously would have been.

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, over 70 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 14 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment			
	Status distribution 36 months after being granted forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment . . .	8.2%	8.1%	3.0%
Current	52.9	58.5	64.7
Delinquent 31-60 days	3.2	2.0	0.5
Delinquent 61-90 days	1.9	1.1	0.2
Delinquent greater than 90 days	3.9	2.3	0.3
Forbearance	6.3	4.5	—
Defaulted	13.8	7.2	5.1
Paid	<u>9.8</u>	<u>16.3</u>	<u>26.2</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At September 30, 2009, loans in forbearance status as a percentage of loans in repayment and forbearance are 7.6 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 2.6 percent for loans that have been in active repayment status for more than 48 months. Approximately 86 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

<u>September 30, 2009</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$14,047	\$14,047
Loans in forbearance	1,135	133	57	—	1,325
Loans in repayment — current	11,594	4,685	2,695	—	18,974
Loans in repayment — delinquent 31-60 days	696	114	53	—	863
Loans in repayment — delinquent 61-90 days	422	63	29	—	514
Loans in repayment — delinquent greater than 90 days	<u>1,124</u>	<u>162</u>	<u>75</u>	—	<u>1,361</u>
Total	<u>\$14,971</u>	<u>\$5,157</u>	<u>\$2,909</u>	<u>\$14,047</u>	<u>37,084</u>
Unamortized discount					(890)
Receivable for partially charged-off loans					635
Allowance for loan losses					<u>(1,923)</u>
Total Managed Private Education Loans, net					<u>\$34,906</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>7.6%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>5.8%</u>

<u>June 30, 2009</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$13,329	\$13,329
Loans in forbearance	1,349	125	54	—	1,528
Loans in repayment — current	12,238	4,403	2,527	—	19,168
Loans in repayment — delinquent 31-60 days	612	103	50	—	765
Loans in repayment — delinquent 61-90 days	420	60	29	—	509
Loans in repayment — delinquent greater than 90 days	<u>1,304</u>	<u>147</u>	<u>67</u>	—	<u>1,518</u>
Total	<u>\$15,923</u>	<u>\$4,838</u>	<u>\$2,727</u>	<u>\$13,329</u>	<u>36,817</u>
Unamortized discount					(892)
Receivable for partially charged-off loans					487
Allowance for loan losses					<u>(1,940)</u>
Total Managed Private Education Loans, net					<u>\$34,472</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>8.5%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>6.5%</u>

<u>September 30, 2008</u>	<u>Monthly Scheduled Payments Due</u>			<u>Not Yet in Repayment</u>	<u>Total</u>
	<u>0 to 24</u>	<u>25 to 48</u>	<u>More than 48</u>		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$15,522	\$15,522
Loans in forbearance	2,078	117	49	—	2,244
Loans in repayment — current	10,421	3,308	1,906	—	15,635
Loans in repayment — delinquent 31-60 days	499	71	40	—	610
Loans in repayment — delinquent 61-90 days	302	33	17	—	352
Loans in repayment — delinquent greater than 90 days	544	68	37	—	649
Total	<u>\$13,844</u>	<u>\$3,597</u>	<u>\$2,049</u>	<u>\$15,522</u>	35,012
Unamortized discount					(863)
Receivable for partially charged-off loans					257
Allowance for loan losses					<u>(1,606)</u>
Total Managed Private Education Loans, net					<u>\$32,800</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>15.0%</u>	<u>3.3%</u>	<u>2.4%</u>	<u>—%</u>	<u>11.5%</u>

The table below stratifies the portfolio of Managed Private Education Loans in forbearance status as of the dates indicated by the cumulative number of months the borrower has used forbearance. As detailed in the table below, 4 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

<u>Cumulative number of months borrower has used forbearance</u>	<u>September 30, 2009</u>		<u>June 30, 2009</u>		<u>September 30, 2008</u>	
	<u>Forbearance Balance</u>	<u>% of Total</u>	<u>Forbearance Balance</u>	<u>% of Total</u>	<u>Forbearance Balance</u>	<u>% of Total</u>
Up to 12 months	\$ 928	70%	\$1,031	68%	\$1,520	67%
13 to 24 months	344	26	403	26	598	27
More than 24 months	53	4	94	6	126	6
Total	<u>\$1,325</u>	<u>100%</u>	<u>\$1,528</u>	<u>100%</u>	<u>\$2,244</u>	<u>100%</u>

Total Provisions for Loan Losses

The following tables summarize the total provisions for loan losses on both an on-balance sheet basis and a Managed Basis for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

Total on-balance sheet loan provisions

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September 30, 2009</u>	<u>June 30, 2009</u>	<u>September 30, 2008</u>	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Private Education Loans	\$287	\$242	\$136	\$733	\$374
FFELP loans	21	25	40	81	76
Mortgage and consumer loans	13	11	11	36	17
Total on-balance sheet provisions for loan losses	<u>\$321</u>	<u>\$278</u>	<u>\$187</u>	<u>\$850</u>	<u>\$467</u>

Total Managed Basis loan provisions

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Private Education Loans	\$413	\$362	\$202	\$1,072	\$526
FFELP loans	22	29	50	91	94
Mortgage and consumer loans	<u>13</u>	<u>11</u>	<u>11</u>	<u>36</u>	<u>17</u>
Total Managed Basis provisions for loan losses	<u>\$448</u>	<u>\$402</u>	<u>\$263</u>	<u>\$1,199</u>	<u>\$637</u>

Provision expense for Private Education Loans was previously discussed above (see “Private Education Loan Losses — *Allowance for Private Education Loan Losses*”).

Total Loan Charge-offs

The following tables summarize the total loan charge-offs on both an on-balance sheet basis and a Managed Basis for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, and for the nine months ended September 30, 2009 and 2008.

Total on-balance sheet loan charge-offs

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Private Education Loans	\$293	\$239	\$76	\$671	\$206
FFELP loans	17	25	16	61	43
Mortgage and consumer loans	<u>9</u>	<u>8</u>	<u>4</u>	<u>24</u>	<u>11</u>
Total on-balance sheet loan charge-offs . . .	<u>\$319</u>	<u>\$272</u>	<u>\$96</u>	<u>\$756</u>	<u>\$260</u>

Total Managed loan charge-offs

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Private Education Loans	\$443	\$355	\$112	\$1,000	\$315
FFELP loans	20	29	21	72	60
Mortgage and consumer loans	<u>9</u>	<u>8</u>	<u>4</u>	<u>24</u>	<u>11</u>
Total Managed Basis loan charge-offs	<u>\$472</u>	<u>\$392</u>	<u>\$137</u>	<u>\$1,096</u>	<u>\$386</u>

Receivable for Partially Charged-Off Private Education Loans

The Company charges 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 charged off and immediately included in provision expense.

The following tables summarize the activity in the receivable for partially charged-off loans (see “Allowance for Private Education Loan Losses,” above, for a further discussion) for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and for the nine months ended September 30, 2009 and 2008.

	Activity in Receivable for Partially Charged-Off Loans								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Three months ended			Three months ended			Three months ended		
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	June 30, 2009	September 30, 2008
Receivable at beginning of period	\$338.4	\$265.3	\$158.9	\$148.4	\$108.5	\$58.0	\$486.8	\$373.8	\$216.9
Expected future recoveries of current period defaults . . .	107.5	82.3	33.9	55.8	44.4	17.1	163.3	126.7	51.0
Recoveries	(10.8)	(9.2)	(8.7)	(4.1)	(4.5)	(2.5)	(14.9)	(13.7)	(11.2)
Receivable at end of period . .	<u>\$435.1</u>	<u>\$338.4</u>	<u>\$184.1</u>	<u>\$200.1</u>	<u>\$148.4</u>	<u>\$72.6</u>	<u>\$635.2</u>	<u>\$486.8</u>	<u>\$256.7</u>

	Activity in Receivable for Partially Charged-Off Loans					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Receivable at beginning of period . . .	\$222.4	\$118.0	\$91.1	\$27.6	\$313.5	\$145.6
Expected future recoveries of current period defaults	242.8	93.1	119.8	51.4	362.6	144.5
Recoveries	(30.1)	(27.0)	(10.8)	(6.4)	(40.9)	(33.4)
Receivable at end of period	<u>\$435.1</u>	<u>\$184.1</u>	<u>\$200.1</u>	<u>\$72.6</u>	<u>\$635.2</u>	<u>\$256.7</u>

Other Income — Lending Business Segment

The following table summarizes the components of “Core Earnings” other income for our Lending business segment for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008 and nine months ended September 30, 2009 and 2008.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Gains on debt repurchases	\$74	\$325	\$16	\$463	\$37
Late fees and forbearance fees	39	32	36	107	107
Gains on sales of loans	12	—	—	12	1
Other	4	3	3	9	16
Total other income, net	<u>\$129</u>	<u>\$360</u>	<u>\$55</u>	<u>\$591</u>	<u>\$161</u>

The change in other income over the prior periods presented is primarily the result of the gains on debt repurchased. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased \$1.4 billion, \$1.1 billion, and \$580 million face amount of its senior unsecured notes for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, respectively, and repurchased \$2.7 billion and \$1.8 billion face amount of its senior unsecured notes for the nine months ended September 30, 2009 and 2008, respectively. Since the second quarter of 2008, the Company repurchased \$4.6 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

The \$12 million of gains on sales of loans in the third quarter 2009 related to the gain on sale of approximately \$840 million face amount of FFELP loans to the ED as part of the ED Purchase Program.

Operating Expenses — Lending Business Segment

Operating expenses for our Lending business segment include costs incurred to acquire student loans and to service our Managed student loan portfolio, as well as other general and administrative expenses. For the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, operating expenses for the Lending business segment totaled \$154 million, \$148 million, and \$142 million, respectively. The increase in operating expenses for the third quarter of 2009 versus the prior quarter was primarily the result of costs associated with the ramp-up of staffing for peak origination season, as well as an increase in marketing expenses related to the Private Education Loan portfolio. Operating expenses were 32 basis points of average Managed student loans in both the third quarters of 2009 and 2008.

Loan Originations

Our FFELP internal brand originations were up sharply in the third quarter of 2009, increasing 28 percent from the year-ago quarter. Our FFELP Lender Partner originations increased 10 percent over the same period. A number of these Lender Partners, including some of our largest originators, have converted to third-party servicing arrangements in which we service loans on their behalf.

Private Education Loan originations declined 58 percent from the year-ago period to \$893 million in the quarter ended September 30, 2009, as a result of a continued tightening of our underwriting criteria, an increase in guaranteed student loan limits and the Company's withdrawal from certain markets.

At September 30, 2009, the Company was committed to purchase \$1.3 billion of loans originated by our Lender Partners (\$0.8 billion of FFELP loans and \$0.5 billion of Private Education Loans). Approximately \$0.3 billion of these FFELP loans were originated prior to CCRAA. Approximately \$0.4 billion of these FFELP loans are eligible for ED's Purchase and Participation Programs (see "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs").

The following tables summarize our loan originations by type of loan and source.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Loan Originations — Internal lending brands					
Stafford	\$5,134	\$3,008	\$4,002	\$13,068	\$ 8,511
PLUS	582	162	502	1,341	1,175
GradPLUS	443	160	319	878	626
Total FFELP	6,159	3,330	4,823	15,287	10,312
Private Education Loans	871	372	1,934	2,599	5,012
Total	<u>\$7,030</u>	<u>\$3,702</u>	<u>\$6,757</u>	<u>\$17,886</u>	<u>\$15,324</u>

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Loan Originations — Lender Partners					
Stafford	\$ 703	\$ 351	\$ 655	\$ 1,826	\$ 3,275
PLUS	51	16	45	118	335
GradPLUS	27	9	11	54	59
Total FFELP	781	376	711	1,998	3,669
Private Education Loans	22	15	183	196	473
Total	<u>\$ 803</u>	<u>\$ 391</u>	<u>\$ 894</u>	<u>\$ 2,194</u>	<u>\$ 4,142</u>

Student Loan Activity

The following tables summarize the activity in our on-balance sheet, off-balance sheet and Managed portfolios of FFELP student loans and Private Education Loans and highlight the effects of Consolidation Loan activity on our FFELP portfolios.

	On-Balance Sheet Three months ended September 30, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$62,204	\$70,102	\$132,306	\$21,851	\$154,157
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(384)	(191)	(575)	(2)	(577)
Net consolidations	(384)	(191)	(575)	(2)	(577)
Acquisitions	7,645	316	7,961	1,235	9,196
Net acquisitions	7,261	125	7,386	1,233	8,619
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Repayments/claims/resales/other	(2,360)	(981)	(3,341)	(589)	(3,930)
Ending balance	<u>\$67,105</u>	<u>\$69,246</u>	<u>\$136,351</u>	<u>\$22,495</u>	<u>\$158,846</u>

	Off-Balance Sheet Three months ended September 30, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$6,170	\$15,170	\$21,340	\$12,621	\$33,961
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(135)	(56)	(191)	(4)	(195)
Net consolidations	(135)	(56)	(191)	(4)	(195)
Acquisitions	30	63	93	81	174
Net acquisitions	(105)	7	(98)	77	(21)
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Repayments/claims/resales/other	(130)	(188)	(318)	(287)	(605)
Ending balance	<u>\$5,935</u>	<u>\$14,989</u>	<u>\$20,924</u>	<u>\$12,411</u>	<u>\$33,335</u>

	Managed Portfolio Three months ended September 30, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$68,374	\$85,272	\$153,646	\$34,472	\$188,118
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(519)	(247)	(766)	(6)	(772)
Net consolidations	(519)	(247)	(766)	(6)	(772)
Acquisitions	7,675	379	8,054	1,316	9,370
Net acquisitions	7,156	132	7,288	1,310	8,598
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Repayments/claims/resales/other	(2,490)	(1,169)	(3,659)	(876)	(4,535)
Ending balance ⁽⁴⁾	<u>\$73,040</u>	<u>\$84,235</u>	<u>\$157,275</u>	<u>\$34,906</u>	<u>\$192,181</u>
Total Managed Acquisitions ⁽⁵⁾	<u>\$ 7,675</u>	<u>\$ 379</u>	<u>\$ 8,054</u>	<u>\$ 1,316</u>	<u>\$ 9,370</u>

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) Represents loans within securitization trusts that we are required to consolidate under GAAP once the trusts' loan balances are below the clean-up call threshold.

(4) As of September 30, 2009, the ending balance includes \$29.7 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

(5) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

On-Balance Sheet					
Three months ended June 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$57,844	\$70,885	\$128,729	\$21,645	\$150,374
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(163)	(73)	(236)	1	(235)
Net consolidations	(163)	(73)	(236)	1	(235)
Acquisitions	5,456	281	5,737	733	6,470
Net acquisitions	5,293	208	5,501	734	6,235
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	425	—	425	—	425
Repayments/claims/resales/other	(1,358)	(991)	(2,349)	(528)	(2,877)
Ending balance	<u>\$62,204</u>	<u>\$70,102</u>	<u>\$132,306</u>	<u>\$21,851</u>	<u>\$154,157</u>

Off-Balance Sheet					
Three months ended June 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$6,846	\$15,343	\$22,189	\$12,772	\$34,961
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(72)	(17)	(89)	(5)	(94)
Net consolidations	(72)	(17)	(89)	(5)	(94)
Acquisitions	36	50	86	127	213
Net acquisitions	(36)	33	(3)	122	119
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	(425)	—	(425)	—	(425)
Repayments/claims/resales/other	(215)	(206)	(421)	(273)	(694)
Ending balance	<u>\$6,170</u>	<u>\$15,170</u>	<u>\$21,340</u>	<u>\$12,621</u>	<u>\$33,961</u>

Managed Portfolio					
Three months ended June 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$64,690	\$86,228	\$150,918	\$34,417	\$185,335
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(235)	(90)	(325)	(4)	(329)
Net consolidations	(235)	(90)	(325)	(4)	(329)
Acquisitions	5,492	331	5,823	860	6,683
Net acquisitions	5,257	241	5,498	856	6,354
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Repayments/claims/resales/other	(1,573)	(1,197)	(2,770)	(801)	(3,571)
Ending balance ⁽⁴⁾	<u>\$68,374</u>	<u>\$85,272</u>	<u>\$153,646</u>	<u>\$34,472</u>	<u>\$188,118</u>
Total Managed Acquisitions ⁽⁵⁾	<u>\$ 5,492</u>	<u>\$ 331</u>	<u>\$ 5,823</u>	<u>\$ 860</u>	<u>\$ 6,683</u>

- (1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.
- (2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.
- (3) Represents loans within securitization trusts that we are required to consolidate under GAAP once the trusts' loan balances are below the clean-up call threshold.
- (4) As of June 30, 2009, the ending balance includes \$23.9 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
- (5) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet				
	Three months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$43,147	\$73,171	\$116,318	\$17,971	\$134,289
Net consolidations:					
Incremental consolidations from third parties	—	—	—	3	3
Consolidations to third parties	(178)	(148)	(326)	(9)	(335)
Net consolidations	(178)	(148)	(326)	(6)	(332)
Acquisitions	6,641	398	7,039	2,338	9,377
Net acquisitions	6,463	250	6,713	2,332	9,045
Internal consolidations ⁽²⁾	—	—	—	3	3
Repayments/claims/resales/other	(685)	(855)	(1,540)	(469)	(2,009)
Ending balance	<u>\$48,925</u>	<u>\$72,566</u>	<u>\$121,491</u>	<u>\$19,837</u>	<u>\$141,328</u>

	Off-Balance Sheet				
	Three months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$8,475	\$16,042	\$24,517	\$13,098	\$37,615
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(108)	(34)	(142)	(8)	(150)
Net consolidations	(108)	(34)	(142)	(8)	(150)
Acquisitions	61	68	129	123	252
Net acquisitions	(47)	34	(13)	115	102
Internal consolidations ⁽²⁾	—	—	—	(3)	(3)
Repayments/claims/resales/other	(745)	(360)	(1,105)	(247)	(1,352)
Ending balance	<u>\$7,683</u>	<u>\$15,716</u>	<u>\$23,399</u>	<u>\$12,963</u>	<u>\$36,362</u>

	Managed Portfolio				
	Three months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$51,622	\$89,213	\$140,835	\$31,069	\$171,904
Net consolidations:					
Incremental consolidations from third parties	—	—	—	3	3
Consolidations to third parties	(286)	(182)	(468)	(17)	(485)
Net consolidations	(286)	(182)	(468)	(14)	(482)
Acquisitions	6,702	466	7,168	2,461	9,629
Net acquisitions	6,416	284	6,700	2,447	9,147
Internal consolidations ⁽²⁾	—	—	—	—	—
Repayments/claims/resales/other	(1,430)	(1,215)	(2,645)	(716)	(3,361)
Ending balance ⁽³⁾	<u>\$56,608</u>	<u>\$88,282</u>	<u>\$144,890</u>	<u>\$32,800</u>	<u>\$177,690</u>
Total Managed Acquisitions ⁽⁴⁾	<u>\$ 6,702</u>	<u>\$ 466</u>	<u>\$ 7,168</u>	<u>\$ 2,464</u>	<u>\$ 9,632</u>

- (1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.
- (2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.
- (3) As of September 30, 2008, the ending balance includes \$10.6 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
- (4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

On-Balance Sheet					
Nine months ended September 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$52,476	\$71,744	\$124,220	\$20,582	\$144,802
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(790)	(385)	(1,175)	(5)	(1,180)
Net consolidations	(790)	(385)	(1,175)	(5)	(1,180)
Acquisitions	20,691	871	21,562	3,562	25,124
Net acquisitions	19,901	486	20,387	3,557	23,944
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	425	—	425	—	425
Repayments/claims/resales/other	(5,697)	(2,984)	(8,681)	(1,644)	(10,325)
Ending balance	<u>\$67,105</u>	<u>\$69,246</u>	<u>\$136,351</u>	<u>\$22,495</u>	<u>\$158,846</u>

Off-Balance Sheet					
Nine months ended September 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$7,143	\$15,531	\$22,674	\$12,917	\$35,591
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(317)	(99)	(416)	(12)	(428)
Net consolidations	(317)	(99)	(416)	(12)	(428)
Acquisitions	107	161	268	325	593
Net acquisitions	(210)	62	(148)	313	165
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	(425)	—	(425)	—	(425)
Repayments/claims/resales/other	(573)	(604)	(1,177)	(819)	(1,996)
Ending balance	<u>\$5,935</u>	<u>\$14,989</u>	<u>\$20,924</u>	<u>\$12,411</u>	<u>\$33,335</u>

Managed Portfolio					
Nine months ended September 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$59,619	\$87,275	\$146,894	\$33,499	\$180,393
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(1,107)	(484)	(1,591)	(17)	(1,608)
Net consolidations	(1,107)	(484)	(1,591)	(17)	(1,608)
Acquisitions	20,798	1,032	21,830	3,887	25,717
Net acquisitions	19,691	548	20,239	3,870	24,109
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Repayments/claims/resales/other	(6,270)	(3,588)	(9,858)	(2,463)	(12,321)
Ending balance ⁽⁴⁾	<u>\$73,040</u>	<u>84,235</u>	<u>\$157,275</u>	<u>\$34,906</u>	<u>\$192,181</u>
Total Managed Acquisitions ⁽⁵⁾	<u>\$20,798</u>	<u>\$ 1,032</u>	<u>\$ 21,830</u>	<u>\$ 3,887</u>	<u>\$ 25,717</u>

- (1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.
- (2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.
- (3) Represents loans within securitization trusts that we are required to consolidate under GAAP once the trusts' loan balances are below the clean-up call threshold.
- (4) As of September 30, 2009, the ending balance includes \$29.7 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
- (5) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet				
	Nine months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$35,726	\$73,609	\$109,335	\$14,818	\$124,153
Net consolidations:					
Incremental consolidations from third parties	—	461	461	149	610
Consolidations to third parties	(519)	(270)	(789)	(34)	(823)
Net consolidations	(519)	191	(328)	115	(213)
Acquisitions	16,702	1,088	17,790	6,137	23,927
Net acquisitions	16,183	1,279	17,462	6,252	23,714
Internal consolidations ⁽²⁾	(409)	529	120	228	348
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(2,575)	(2,851)	(5,426)	(1,461)	(6,887)
Ending balance	<u>\$48,925</u>	<u>\$72,566</u>	<u>\$121,491</u>	<u>\$19,837</u>	<u>\$141,328</u>

	Off-Balance Sheet				
	Nine months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$ 9,472	\$16,441	\$25,913	\$13,510	\$39,423
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(190)	(57)	(247)	(51)	(298)
Net consolidations	(190)	(57)	(247)	(51)	(298)
Acquisitions	183	165	348	477	825
Net acquisitions	(7)	108	101	426	527
Internal consolidations ⁽²⁾	(84)	(36)	(120)	(228)	(348)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,698)	(797)	(2,495)	(745)	(3,240)
Ending balance	<u>\$ 7,683</u>	<u>\$15,716</u>	<u>\$23,399</u>	<u>\$12,963</u>	<u>\$36,362</u>

	Managed Portfolio				
	Nine months ended September 30, 2008				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$45,198	\$90,050	\$135,248	\$28,328	\$163,576
Net consolidations:					
Incremental consolidations from third parties	—	461	461	149	610
Consolidations to third parties	(709)	(327)	(1,036)	(85)	(1,121)
Net consolidations	(709)	134	(575)	64	(511)
Acquisitions	16,885	1,253	18,138	6,614	24,752
Net acquisitions	16,176	1,387	17,563	6,678	24,241
Internal consolidations ⁽²⁾	(493)	493	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(4,273)	(3,648)	(7,921)	(2,206)	(10,127)
Ending balance ⁽³⁾	<u>\$56,608</u>	<u>\$88,282</u>	<u>\$144,890</u>	<u>\$32,800</u>	<u>\$177,690</u>
Total Managed Acquisitions ⁽⁴⁾	<u>\$16,885</u>	<u>\$ 1,714</u>	<u>\$ 18,599</u>	<u>\$ 6,763</u>	<u>\$ 25,362</u>

- (1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.
- (2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.
- (3) As of September 30, 2008, the ending balance includes \$10.6 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
- (4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

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

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

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

Three months ended June 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$60,120	\$70,456	\$130,576	\$23,012	\$153,588
Off-balance sheet	6,661	15,245	21,906	12,996	34,902
Total Managed	<u>\$66,781</u>	<u>\$85,701</u>	<u>\$152,482</u>	<u>\$36,008</u>	<u>\$188,490</u>
% of on-balance sheet FFELP	46%	54%	100%		
% of Managed FFELP	44%	56%	100%		
% of total	35%	46%	81%	19%	100%

Three months ended September 30, 2008					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$45,804	\$72,926	\$118,730	\$19,876	\$138,606
Off-balance sheet	7,848	15,794	23,642	13,222	36,864
Total Managed	<u>\$53,652</u>	<u>\$88,720</u>	<u>\$142,372</u>	<u>\$33,098</u>	<u>\$175,470</u>
% of on-balance sheet FFELP	39%	61%	100%		
% of Managed FFELP	38%	62%	100%		
% of total	31%	50%	81%	19%	100%

Nine months ended September 30, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$60,190	\$70,464	\$130,654	\$22,968	\$153,622
Off-balance sheet	6,567	15,247	21,814	12,983	34,797
Total Managed	<u>\$66,757</u>	<u>\$85,711</u>	<u>\$152,468</u>	<u>\$35,951</u>	<u>\$188,419</u>
% of on-balance sheet FFELP	46%	54%	100%		
% of Managed FFELP	44%	56%	100%		
% of total	35%	46%	81%	19%	100%

Nine months ended September 30, 2008					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$41,954	\$73,410	\$115,364	\$18,551	\$133,915
Off-balance sheet	8,612	16,084	24,696	13,368	38,064
Total Managed	<u>\$50,566</u>	<u>\$89,494</u>	<u>\$140,060</u>	<u>\$31,919</u>	<u>\$171,979</u>
% of on-balance sheet FFELP	36%	64%	100%		
% of Managed FFELP	36%	64%	100%		
% of total	29%	52%	81%	19%	100%

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

ASSET PERFORMANCE GROUP (“APG”) BUSINESS SEGMENT

The following tables include “Core Earnings” results for our APG business segment.

	Quarter ended September 30, 2009			
	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ —	\$ —	\$82	\$82
Collections revenue (loss)	<u>21</u>	<u>(5)</u>	<u>—</u>	<u>16</u>
Total income (loss)	21	(5)	82	98
Restructuring expenses	—	1	—	1
Operating expenses	<u>33</u>	<u>6</u>	<u>41</u>	<u>80</u>
Total expenses	33	7	41	81
Net interest expense	<u>2</u>	<u>1</u>	<u>2</u>	<u>5</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest	(14)	(13)	39	12
Income tax expense (benefit)	<u>(5)</u>	<u>(5)</u>	<u>15</u>	<u>5</u>
Income (loss) before noncontrolling interest	(9)	(8)	24	7
Noncontrolling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss)	<u>\$ (9)</u>	<u>\$ (8)</u>	<u>\$24</u>	<u>\$ 7</u>

	Quarter ended June 30, 2009			
	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ —	\$ —	\$73	\$73
Collections revenue (loss)	<u>24</u>	<u>(2)</u>	<u>—</u>	<u>22</u>
Total income (loss)	24	(2)	73	95
Restructuring expenses	(1)	1	—	—
Operating expenses	<u>35</u>	<u>7</u>	<u>44</u>	<u>86</u>
Total expenses	34	8	44	86
Net interest expense	<u>2</u>	<u>1</u>	<u>2</u>	<u>5</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest	(12)	(11)	27	4
Income tax expense (benefit)	<u>(4)</u>	<u>(4)</u>	<u>10</u>	<u>2</u>
Income (loss) before noncontrolling interest	(8)	(7)	17	2
Noncontrolling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss)	<u>\$ (8)</u>	<u>\$ (7)</u>	<u>\$17</u>	<u>\$ 2</u>

Quarter ended September 30, 2008

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ 2	\$ —	\$87	\$ 89
Collections revenue (loss)	<u>(39)</u>	<u>(130)</u>	<u>—</u>	<u>(169)</u>
Total income (loss)	(37)	(130)	87	(80)
Restructuring expenses	4	—	—	4
Operating expenses	<u>52</u>	<u>9</u>	<u>45</u>	<u>106</u>
Total expenses	56	9	45	110
Net interest expense	<u>3</u>	<u>1</u>	<u>2</u>	<u>6</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest	(96)	(140)	40	(196)
Income tax expense (benefit)	<u>(36)</u>	<u>(51)</u>	<u>14</u>	<u>(73)</u>
Income (loss) before noncontrolling interest	(60)	(89)	26	(123)
Noncontrolling interest	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
“Core Earnings” net income (loss)	<u><u>\$(61)</u></u>	<u><u>\$(89)</u></u>	<u><u>\$26</u></u>	<u><u>\$(124)</u></u>

Nine months ended September 30, 2009

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ 2	\$ —	\$228	\$230
Collections revenue (loss)	<u>88</u>	<u>(72)</u>	<u>—</u>	<u>16</u>
Total income (loss)	90	(72)	228	246
Restructuring expenses	—	3	—	3
Operating expenses	<u>108</u>	<u>20</u>	<u>132</u>	<u>260</u>
Total expenses	108	23	132	263
Net interest expense	<u>7</u>	<u>3</u>	<u>5</u>	<u>15</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest	(25)	(98)	91	(32)
Income tax expense (benefit)	<u>(9)</u>	<u>(36)</u>	<u>33</u>	<u>(12)</u>
Income (loss) before noncontrolling interest	(16)	(62)	58	(20)
Noncontrolling interest	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
“Core Earnings” net income (loss)	<u><u>\$(17)</u></u>	<u><u>\$(62)</u></u>	<u><u>\$ 58</u></u>	<u><u>\$(21)</u></u>

Nine months ended September 30, 2008

	<u>Purchased Paper — Non- Mortgage</u>	<u>Purchased Paper — Mortgage/ Properties</u>	<u>Contingency & Other</u>	<u>Total APG</u>
Contingency fee income	\$ 9	\$ —	\$250	\$ 259
Collections revenue (loss)	<u>70</u>	<u>(155)</u>	<u>—</u>	<u>(85)</u>
Total income (loss)	79	(155)	250	174
Restructuring expenses	5	—	5	10
Operating expenses	<u>156</u>	<u>28</u>	<u>138</u>	<u>322</u>
Total expenses	161	28	143	332
Net interest expense	<u>10</u>	<u>4</u>	<u>6</u>	<u>20</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest	(92)	(187)	101	(178)
Income tax expense (benefit)	<u>(33)</u>	<u>(69)</u>	<u>37</u>	<u>(65)</u>
Income (loss) before noncontrolling interest	(59)	(118)	64	(113)
Noncontrolling interest	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>
“Core Earnings” net income (loss)	<u><u>\$(62)</u></u>	<u><u>\$(118)</u></u>	<u><u>\$ 64</u></u>	<u><u>\$(116)</u></u>

The Company has concluded that its APG purchased paper businesses are no longer a strategic fit. The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. The Company continues to wind down the domestic side of its Purchased Paper — Non-Mortgage and Purchased Paper — Mortgage/Properties businesses. The Company will continue to consider opportunities to sell these businesses at acceptable prices in the future.

The Company’s domestic Purchased Paper — Non-Mortgage business has certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company has not bought any additional purchased paper in excess of these obligations. The Company recognized \$9 million, \$13 million, and \$39 million of impairment in the third quarter of 2009, the second quarter of 2009 and the third quarter of 2008, respectively. The total impairment for the year ended December 31, 2008 was \$55 million.

The Company’s Purchased Paper — Mortgage/Properties business has not purchased any new mortgage/property assets since March 2008 and will work-out and liquidate its portfolio as quickly and economically as possible. During 2009, real estate values continued to decline as a result of the weakening U.S. economy and expected future resolution time-frames were extended. As a result, the Company recorded impairment of \$12 million, \$8 million, and \$147 million in the third quarter of 2009, the second quarter of 2009, and the third quarter of 2008, respectively. The total impairment for the year ended December 31, 2008 was \$262 million.

Purchased Paper — Non-Mortgage

	<u>Quarters ended</u>			<u>Nine months ended</u>	
	<u>September 30, 2009</u>	<u>June 30, 2009</u>	<u>September 30, 2008</u>	<u>September 30, 2009</u>	<u>September 30, 2008</u>
Face value of purchases for the period . .	\$ —	\$ 2	\$1,496	\$390	\$4,375
Purchase price for the period	—	1	116	30	384
Purchase price as a percentage of face value purchased	—%	32.1%	7.8%	7.6%	8.8%
Gross Cash Collections (“GCC”)	\$ 72	\$ 87	\$ 166	\$315	\$ 497
Collections revenue (loss)	21	24	(39)	88	70
Collections revenue (loss) as a percentage of GCC	34%	28%	(23)%	29%	14%
Carrying value of purchased paper	\$373	\$ 418	\$ 544	\$373	\$ 544

Purchased Paper — Mortgage/Properties

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Face value of purchases for the period	\$ —	\$ —	\$ —	\$ —	\$ 39
Collections revenue (loss), net of impairments . .	(5)	(2)	(130)	(72)	(155)
Collateral value of purchases	—	—	—	—	29
Purchase price for the period	—	—	—	—	19
Purchase price as a percentage of collateral value	—%	—%	—%	—%	66%
Carrying value of purchased paper	\$375	\$437	\$ 798	\$375	\$ 798
Carrying value of purchased paper as a percentage of collateral fair value	68%	68%	69%	68%	69%

Contingency Inventory

The following table presents the outstanding inventory of receivables that are currently being serviced through our APG business segment.

	September 30, 2009	June 30, 2009	September 30, 2008
Contingency:			
Student loans	\$ 9,191	\$ 9,182	\$ 9,482
Other	<u>1,472</u>	<u>1,140</u>	<u>1,714</u>
Total	<u>\$10,663</u>	<u>\$10,322</u>	<u>\$11,196</u>

Operating Expenses — APG Business Segment

For the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, operating expenses for the APG business segment totaled \$80 million, \$86 million, and \$106 million, respectively. The decrease in operating expenses from the prior and year-ago quarters was primarily due to the Company's continued cost reduction efforts and the reduction in the size of the purchased paper portfolios.

CORPORATE AND OTHER BUSINESS SEGMENT

The following table includes "Core Earnings" results for our Corporate and Other business segment.

	Quarters ended			Nine months ended	
	September 30, 2009	June 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net interest income after provisions for losses . .	\$ 2	\$ 1	\$ 2	\$ 3	\$ 3
Guarantor servicing fees	48	25	37	107	95
Loan servicing fees	17	9	6	35	17
Upromise	28	26	28	79	80
Other	<u>11</u>	<u>11</u>	<u>17</u>	<u>38</u>	<u>50</u>
Total other income	104	71	88	259	242
Restructuring expenses	1	—	7	3	22
Operating expenses	<u>75</u>	<u>72</u>	<u>68</u>	<u>211</u>	<u>213</u>
Total expenses	<u>76</u>	<u>72</u>	<u>75</u>	<u>214</u>	<u>235</u>
Income before income tax expense	30	—	15	48	10
Income tax expense	<u>11</u>	<u>—</u>	<u>6</u>	<u>18</u>	<u>3</u>
"Core Earnings" net income	<u>\$ 19</u>	<u>\$—</u>	<u>\$ 9</u>	<u>\$ 30</u>	<u>\$ 7</u>

The increase in guarantor servicing fees versus the prior quarter was primarily due to the seasonality of loan disbursements, which were higher in the third quarter of 2009 compared to the prior quarter.

Loan servicing fees increased in the third quarter 2009 over the prior quarters presented primarily due to additional loan conversion fees that were earned by the Company when third-party servicing clients sold their FFELP loans to ED under the ED Purchase Program in the third quarter of 2009.

United Student Aid Funds, Inc. (“USA Funds”), the nation’s largest guarantee agency, accounted for 85 percent, 84 percent and 81 percent, respectively, of guarantor servicing fees and 3 percent, 1 percent and 12 percent, respectively, of revenues associated with other products and services for the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008.

Operating Expenses — Corporate and Other Business Segment

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties, perform guarantor servicing on behalf of guarantor agencies, operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating expenses also include unallocated corporate overhead expenses for centralized headquarters functions. For the quarters ended September 30, 2009, June 30, 2009, and September 30, 2008, operating expenses for the Corporate and Other business segment totaled \$75 million, \$72 million, and \$68 million, respectively. The increase in operating expenses for the third quarter of 2009 versus the prior and year-ago quarters was primarily due to higher expenses incurred to reconfigure the Company’s servicing system to meet the requirements of the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that will be sold to ED.

LIQUIDITY AND CAPITAL RESOURCES

The following “LIQUIDITY AND CAPITAL RESOURCES” discussion concentrates on our Lending business segment. Our APG contingency collections and Corporate and Other business segments are not capital intensive businesses and, as such, a minimal amount of debt capital is allocated to these segments.

Historically, we funded new loan originations with a combination of term unsecured debt and student loan asset-backed securities. Following the Proposed Merger announcement in April 2007, we temporarily suspended issuance of unsecured debt and began funding loan originations primarily through the issuance of student loan asset-backed securities and short-term secured student loan financing facilities. In June 2008, the Company accessed the corporate bond market with a \$2.5 billion issue of 10-year senior unsecured notes. In August 2008, we began funding new FFELP Stafford and PLUS student loan originations for AY 2008-2009 pursuant to ED’s Loan Participation Program. During the fourth quarter of 2008, the Company began retaining its Private Education Loan originations in its banking subsidiary, Sallie Mae Bank, and funding these assets with term bank deposits. In May 2009, we began using the ED Conduit Program. We discuss these liquidity sources below.

In the near term, we expect to continue to use ED’s Purchase and Participation Programs to fund future FFELP Stafford and PLUS loan originations and to use deposits at Sallie Mae Bank and potentially term asset-backed securities to fund Private Education Loan originations. We plan to use term asset-backed securities, asset-backed financing facilities, cash flows provided by earnings and repayment of principal on our unencumbered student loan assets, as well as other sources, to refinance maturing debt and provide cash for operations and other needs.

ED Funding Programs

In August 2008, ED implemented the Loan Purchase Commitment Program (“Purchase Program”) and the Loan Purchase Participation Program (“Participation Program”) pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of \$75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. AY 2008-2009 loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Participation Program under identical economics to the Purchase Program prior to its expiration on September 30, 2009, or shortly thereafter. Given the state of the credit markets, we currently expect to sell all of the loans we fund under the Participation Program to ED. Loans eligible for the Participation or Purchase Programs were originally limited to FFELP Stafford or PLUS, first disbursed on or after May 1, 2008 but no later than July 1, 2009, with no ongoing borrower benefits, other than permitted rate reductions of 0.25 percent for automatic payment processing. On October 7, 2008, legislation was enacted extending ED’s authority to finance and purchase FFELP Stafford and PLUS loans made for AY’s 2009-2010, and allowing for the extension of ED’s Purchase and Participation Programs from September 30, 2009 to September 30, 2010. On November 8, 2008, ED formally announced new purchase and participation programs which cover eligible loans originated for the AY 2009-2010. On January 15, 2009, ED announced that the terms of the programs for AY 2009-2010 will replicate in all material respects the terms of the programs for AY 2008-2009. The Company applied for these AY 2009-2010 funding programs in June 2009 and its participation was approved on July 31, 2009.

On August 14, 2008, the Company received its initial advance under the Participation Program. As of September 30, 2009, the Company had \$22.9 billion of advances outstanding under the Participation Program. Through October 15, 2009, the Company has sold to ED approximately \$18.5 billion face amount of loans as part of the Purchase Program (approximately \$840 million face amount of this amount was sold in the third quarter of 2009). Outstanding debt of \$18.5 billion has been paid down related to the Participation Program in connection with these loan sales. The remaining loans are part of the AY 2009-2010 funding program and, given current market conditions, we expect to sell these loans in the third quarter of 2010.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the "ED Conduit Program"). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements including with respect to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and will accept eligible loans through July 1, 2010. The ED Conduit Program has a term of five years and will expire on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. The Student Loan Short-Term Notes ("SLST Notes"), issued by the ED Conduit, are supported by a combination of i) Funding Notes backed by FFELP student loans, ii) the Liquidity Agreement with the Federal Financing Bank ("FFB"), and iii) the Put Agreement provided by ED. If the conduit does not have sufficient funds to pay all SLST Notes, then those SLST Notes will be repaid with funds from the FFB. The FFB will hold the notes for a short period of time and, if at the end of that time, the SLST Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. As of September 30, 2009, approximately \$14.1 billion face amount of our Stafford and PLUS loans were funded through the ED Conduit Program with a weighted average issuance cost of approximately 0.87 percent. As of September 30, 2009, there are approximately \$1.1 billion face amount of additional FFELP Stafford and PLUS loans (excluding loans currently in the Participation Program) that can be funded through the ED Conduit Program.

Additional Funding Sources for General Corporate Purposes

In addition to funding FFELP loans through ED's Participation and Purchase Programs and the ED Conduit Program, the Company employs other financing sources for general corporate purposes, which includes originating Private Education Loans, repurchases and repayments of unsecured debt obligations.

Secured borrowings, including securitizations, asset-backed commercial paper ("ABCP") borrowings and indentured trusts, comprised 82 percent of our Managed debt outstanding at September 30, 2009 versus 78 percent at September 30, 2008.

Sallie Mae Bank

During the fourth quarter of 2008, Sallie Mae Bank, our Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered CD market. Given the disruptions in the capital markets during the first half of 2009, Sallie Mae Bank raised deposits in excess of loan growth for that period to prefund expected asset growth in the second half of 2009. As a result, in the third quarter of 2009, Sallie Mae Bank did not raise additional deposits. As of September 30, 2009, total term bank deposits were \$5.9 billion. As of September 30, 2009, \$4.2 billion of Private Education Loans were held at Sallie Mae Bank. We ultimately expect to raise additional long-term financing, through Private Education Loan securitizations or other financings, to fund these loans. In the near term, we expect Sallie Mae Bank to continue to fund newly originated Private Education Loans through long-term bank deposits.

ABS Transactions

On January 6, 2009, we closed a \$1.5 billion 12.5 year asset-backed securities ("ABS") based facility. This facility is used to provide up to \$1.5 billion term financing for Private Education Loans. The fully-utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. In connection with this facility, we completed one Private Education Loan term ABS transaction totaling \$1.5 billion in the first quarter of 2009. The net funding received under the asset-backed securities based facility for this issuance was \$1.1 billion.

In April 2009, we completed three FFELP long-term ABS transactions totaling \$5.1 billion. The FFELP transactions were composed primarily of FFELP consolidation loans which were not eligible for the ED

Conduit Program or the Term Asset-Backed Securities Loan Facility (“TALF”) discussed below. Although we have demonstrated our access to the ABS market in 2009 and we expect ABS financing to remain a primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. At present, while the markets have demonstrated some signs of recovery, we are unable to predict when market conditions will allow for more regular, reliable and cost-effective access to the term ABS market. In May 2009, we completed a \$2.6 billion Private Education Loan term ABS issue. In July 2009, we completed a \$1.1 billion Private Education Loan term ABS issue. In August 2009, we completed a \$1.7 billion Private Education Loan term ABS issue. These transactions were private placements and TALF-eligible. See “*Term Asset-Backed Securities Loan Facility (“TALF”)*” below for additional details.

Asset-Backed Financing Facilities

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the “2008 Asset-Backed Financing Facilities”): (i) a \$26.0 billion FFELP student loan ABCP conduit facility (the “2008 FFELP ABCP Facility”); (ii) a \$5.9 billion Private Education Loan ABCP conduit facility (the “2008 Private Education Loan ABCP Facility”) (collectively, the “2008 ABCP Facilities”); and (iii) a \$2.0 billion secured FFELP loan facility (the “2008 Asset-Backed Loan Facility”). The initial term of the 2008 Asset-Backed Financing Facilities was 364 days. The underlying cost of borrowing under the 2008 ABCP Facilities was approximately LIBOR plus 0.68 percent for the FFELP loan facilities and LIBOR plus 1.55 percent for the Private Education Loan facility, excluding up-front and unused commitment fees. All-in pricing on the 2008 ABCP Facilities varies based on usage. For the full year 2008, the combined, all-in cost of borrowings related to the 2008 Asset-Backed Financing Facilities, including amortized up-front fees and unused commitment fees, was three-month LIBOR plus 2.47 percent. The primary use of the 2008 Asset-Backed Financing Facilities was to refinance comparable ABCP facilities incurred in connection with the Proposed Merger, with the expectation that outstanding balances under the 2008 Asset-Backed Financing Facilities would be reduced through securitization of the underlying student loan collateral in the term ABS market.

On February 2, 2009, the Company extended the maturity date of the 2008 ABCP Facilities from February 28, 2009 to April 28, 2009 for a \$61 million upfront fee. The other terms of the facilities remained materially unchanged.

On February 27, 2009, the Company extended the maturity date of the 2008 Asset-Backed Loan Facility from February 28, 2009 to April 28, 2009 for a \$4 million upfront fee. The other terms of this facility remained materially unchanged.

On April 24, 2009, the Company extended the maturity of \$21.8 billion of the 2008 FFELP ABCP Facility for one year to April, 23, 2010. The Company also extended its 2008 Asset-Backed Loan Facility in the amount of \$1.5 billion. The 2008 Asset-Backed Loan Facility matured on June 26, 2009 and was paid in full. A total of \$86 million in fees were paid related to these extensions. The 2008 Private Education Loan ABCP Facility was paid off and terminated on April 24, 2009. The stated borrowing rate of the 2008 FFELP ABCP Facility is the applicable funding rate plus 130 basis points excluding upfront fees. The applicable funding rate generally will be either a LIBOR or commercial paper rate. The terms of the 2008 FFELP ABCP Facility call for an increase in the applicable funding spread to 300 basis points if the outstanding borrowing amount is not reduced to \$15.2 billion and \$10.9 billion as of June 30, 2009 and September 30, 2009, respectively. The outstanding borrowings were reduced to \$12.5 billion and \$9.4 billion on June 30, 2009 and September 30, 2009, respectively. If the Company does not negotiate an extension or pay off all outstanding amounts of the 2008 FFELP ABCP Facility at maturity, the facility will extend by 90 days with the interest rate generally increasing from LIBOR plus 250 basis points to 550 basis points over the 90 day period. The other terms of the facilities remained materially unchanged.

The maximum amount the Company may borrow under the 2008 FFELP ABCP Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of

September 30, 2009, the maximum borrowing amount was approximately \$10.5 billion. Funding under the 2008 FFELP ABCP Facility is subject to usual and customary conditions. The 2008 FFELP ABCP Facility is subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Borrowings under the 2008 FFELP ABCP Facility are nonrecourse to the Company. As of September 30, 2009, the Company had \$9.4 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing this facility as of September 30, 2009 was \$10.9 billion.

Term Asset-Backed Securities Loan Facility ("TALF")

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. TALF was initiated on March 17, 2009 and currently provides investors who purchase eligible ABS with funding of up to five years. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of September 30, 2009, we had approximately \$10.6 billion book basis of student loans (including \$7.3 billion book basis of Private Education Loans and \$3.3 billion book basis of Consolidation Loans) eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. While TALF has improved our access to and reduced our cost of ABS funding relative to 2009 pre-TALF levels, we are unable to predict, at this time, the full impact TALF will ultimately have on our funding activities. For student loan collateral, TALF is scheduled to expire on March 31, 2010.

On May 5, 2009, we priced a \$2.6 billion Private Education Loan securitization which closed on May 12, 2009. The issue bears a coupon of 1-month LIBOR plus 6.0 percent and is callable at the issuer's option at 93 percent of the outstanding balance of the ABS between November 15, 2011 and April 16, 2012. If the issue is called on November 15, 2011, we expect the effective cost of the financing will be approximately 1-month LIBOR plus 3.7 percent. This transaction was TALF-eligible.

On July 2, 2009, we priced a \$1.1 billion Private Education Loan securitization which closed on July 14, 2009. The issue bears a coupon of Prime plus 1.25 percent and is callable at the issuer's option at 94 percent of the outstanding balance of the ABS between January 16, 2012 and June 15, 2012. If the issue is called on January 16, 2012, we expect the effective cost of the financing will be approximately Prime minus 0.71 percent. This transaction was TALF-eligible.

On August 5, 2009, we priced a \$1.7 billion Private Education Loan securitization which closed on August 13, 2009. The issue bears a coupon of Prime plus 0.25 percent and is callable at the issuer's option at 94 percent of the outstanding balance of the ABS between August 15, 2013 and July 15, 2014. If the issue is called on August 15, 2013, we expect the effective cost of the financing will be approximately Prime minus 0.55 percent. This transaction was TALF-eligible.

Auction Rate Securities

At September 30, 2009, we had \$3.3 billion of taxable and \$1.2 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively, on a Managed Basis. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities' interest rates are set. As a result, all of the Company's auction rate securities as of September 30, 2009 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our \$3.3 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company's \$1.2 billion of tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 2.25 percent during the third quarter of 2009.

Reset Rate Notes

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note prior to a failed remarketing and hold it as an investment until such time it

can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or repurchased. The Company's repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at September 30, 2009, \$1.8 billion of our reset rate notes bore interest at, or were swapped to LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. As of September 30, 2009, on a Managed Basis, the Company had \$2.4 billion and \$2.5 billion of reset rate notes due to be remarketed in 2009 and 2010, respectively, and an additional \$8.5 billion to be remarketed thereafter.

Primary Sources of Liquidity and Available Capacity

We expect to fund our ongoing liquidity needs, including the origination of new loans and the repayment of \$0.5 billion of senior unsecured notes maturing in the remainder of 2009, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets and distributions from our securitization trusts, the liquidity facilities made available by ED, TALF, the 2008 Asset-Backed Financing Facilities, the issuance of term ABS, term bank deposits, and, to a lesser extent, if possible, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional \$3.5 billion in unsecured revolving credit facilities as of September 30, 2009; \$1.9 billion of our unsecured revolving facilities matures in October 2010 and \$1.6 billion matures in October 2011. These figures do not include a \$215 million commitment from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. On April 24, 2009, in conjunction with the extension of the 2008 ABCP Facilities, a \$1.4 billion revolving credit facility maturing in October 2009 was retired and the \$1.9 billion revolving credit facility maturing in October 2011 was reduced to \$1.6 billion. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain tangible net worth of at least \$1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was \$3.1 billion as of September 30, 2009. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters' adjusted "Core Earnings" financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended September 30, 2009. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Even though we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

During the quarter, the Company's new financing transactions generated excess liquidity, some of which was used to repurchase \$1.4 billion of the Company's short-term senior unsecured notes, generating pre-tax gains of \$74 million.

The following table details our primary sources of primary and stand-by liquidity and the available capacity at September 30, 2009, and June 30, 2009.

	<u>September 30, 2009</u> <u>Available Capacity</u>	<u>June 30, 2009</u> <u>Available Capacity</u>
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:		
ED Purchase and Participation Programs ⁽¹⁾	<i>Unlimited</i> ⁽¹⁾	<i>Unlimited</i> ⁽¹⁾
Sources of primary liquidity for general corporate purposes:		
Unrestricted cash and liquid investments:		
Cash and cash equivalents	\$ 5,187	\$ 6,140
Commercial paper and asset-backed commercial paper	850	1,050
Other ⁽²⁾	<u>151</u>	<u>152</u>
Total unrestricted cash and liquid investments ⁽³⁾⁽⁴⁾⁽⁵⁾	6,188	7,342
Unused commercial paper and bank lines of credit ⁽⁶⁾	3,485	3,485
2008 FFELP ABCP Facilities	<u>1,057</u>	<u>2,294</u>
Total sources of primary liquidity for general corporate purposes	<u>10,730</u>	<u>13,121</u>
Sources of stand-by liquidity:		
Unencumbered FFELP loans, net ⁽⁷⁾	<u>2,660</u>	<u>3,157</u>
Total sources of primary and stand-by liquidity for general corporate purposes ⁽⁸⁾	<u>\$ 13,390</u>	<u>\$ 16,278</u>

- ⁽¹⁾ The ED Purchase and Participation Programs provide unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company for the academic years 2008-2009 and 2009-2010. See “ED Funding Programs” discussed earlier in this section.
- ⁽²⁾ At both September 30, 2009 and June 30, 2009, includes \$42 million due from The Reserve Primary Fund (see “Counterparty Exposure” below).
- ⁽³⁾ At September 30, 2009 and June 30, 2009, excludes \$26 million and \$27 million, respectively, of investments pledged as collateral related to certain derivative positions and \$808 million and \$843 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.
- ⁽⁴⁾ At September 30, 2009 and June 30, 2009, includes \$608 million and \$0 million, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.
- ⁽⁵⁾ At September 30, 2009 and June 30, 2009, includes \$2.8 billion and \$3.5 billion, respectively, of cash and liquid investments at Sallie Mae Bank, for which Sallie Mae Bank is not authorized to dividend to the Company without FDIC approval. This cash will be used primarily to originate or acquire student loans.
- ⁽⁶⁾ At both September 30, 2009 and June 30, 2009, excludes commitments of \$215 million, respectively, from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. Lehman Brothers Holdings, Inc. declared bankruptcy on September 15, 2008.
- ⁽⁷⁾ The balance at September 30, 2009 and June 30, 2009 included approximately \$0.7 billion and \$0.7 billion, respectively of unencumbered FFELP student loans qualified to be financed by ED’s Participation Program. Additionally, at September 30, 2009 and June 30, 2009, includes approximately \$0.4 billion and \$1.1 billion, respectively, of loans qualified to be financed in the ED Conduit Program.
- ⁽⁸⁾ General corporate purposes primarily include originating Private Education Loans and repaying unsecured debt as it matures.

In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At September 30, 2009, we had a total of \$32.2 billion of unencumbered assets, including goodwill and acquired intangibles. Total student loans, net, comprised \$16.0 billion of this unencumbered asset total. Private Education Student Loans, net, comprised \$13.3 billion of this unencumbered asset total.

Counterparty Exposure

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to the Company.

Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., is a party to the Company's unsecured revolving credit facilities under which they provide the Company with commitments totaling \$215 million as of September 30, 2009. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitments of Aurora Bank, FSB, will not be honored if drawn upon.

To provide liquidity for future cash needs, SLM invests in high quality money market investments. At September 30, 2009, the Company had investments of \$42 million with The Reserve Primary Fund ("The Fund"). In September 2008, the Company requested redemption of all monies invested in The Fund prior to The Fund's announcement that it suspended distributions as a result of The Fund's exposure to Lehman Brothers Holdings Inc.'s bankruptcy filing and The Fund's net asset value being below one dollar per share. The Company was originally informed by The Fund that the Company would receive its entire investment amount. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. The Company has received, to date, a total of \$450 million of an initial investment of \$500 million from The Fund. The Company anticipates further delay of remaining distributions and a potential loss on its investments, even though the Company is legally entitled to receive 100 percent of its remaining investment amount. In the fourth quarter of 2008, we recorded an impairment of \$8 million related to our investment in the Fund.

Protection against counterparty risk in derivative transactions is generally provided by International Swaps and Derivatives Association, Inc. ("ISDA") Credit Support Annexes ("CSAs"). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. The Company is a party to derivative contracts for its corporate purposes and also within its securitization trusts. The Company has CSAs and collateral requirements with all of its corporate derivative counterparties requiring collateral to be exchanged based on the net fair value of derivatives with each counterparty above a threshold. Additionally, credit downgrades below a preset level can eliminate this threshold. The Company's securitization trusts require collateral in all cases if the counterparty's credit rating is withdrawn or downgraded below a certain level. If the counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. Failure to post the collateral or find a replacement counterparty could result in a termination event under the derivative contract. The Company considers counterparties' credit risk when determining the fair value of derivative positions on its exposure net of collateral. Securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative regardless of credit rating. The trusts are not required to post collateral to the counterparties. If we were unable to collect from a counterparty related to SLM Corporation and on-balance sheet trust derivatives, we would have a loss equal to the amount the derivative is recorded on our balance sheet. If we were unable to collect from a counterparty related to an off-balance sheet trust derivative, the value of our Residual Interest on our balance sheet would be reduced through earnings.

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), the Company's and counterparties' credit ratings and on movements in the value of the derivatives, which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. As of September 30, 2009, the Company held \$608 million cash collateral in unrestricted cash accounts. If the Company's credit ratings are downgraded from current levels, it may be required to segregate such collateral in restricted accounts.

The table below highlights exposure related to our derivative counterparties at September 30, 2009.

	<u>SLM Corporation Contracts</u>	<u>On-Balance Sheet Securitizations Contracts</u>	<u>Off-Balance Sheet Securitizations Contracts</u>
Exposure, net of collateral	\$360	\$1,247	\$633
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	41%	58%	71%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	0%	0%	0%

Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding ASC 815 valuation adjustments) at September 30, 2009, June 30, 2009, and September 30, 2008.

	<u>September 30, 2009</u>			<u>June 30, 2009</u>			<u>September 30, 2008</u>		
	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>	<u>Short Term</u>	<u>Long Term</u>	<u>Total Managed Basis</u>
Unsecured borrowings	\$ 4,330	\$ 24,869	\$ 29,199	\$ 4,249	\$ 28,416	\$ 32,665	\$ 7,262	\$ 31,796	\$ 39,058
Unsecured term bank deposits	762	5,129	5,891	901	5,199	6,100	744	—	744
Indentured trusts (on-balance sheet)	66	1,629	1,695	8	1,761	1,769	44	2,207	2,251
ABCP borrowings (on-balance sheet) ⁽¹⁾	9,434	—	9,434	12,476	—	12,476	24,684	—	24,684
ED Participation Program facility (on- balance sheet) ⁽²⁾	22,864	—	22,864	17,236	—	17,236	3,555	—	3,555
ED Conduit Program facility (on- balance sheet)	14,190	—	14,190	11,095	—	11,095	—	—	—
Securitizations (on-balance sheet)	—	88,961	88,961	—	87,386	87,386	—	81,554	81,554
Securitizations (off-balance sheet)	—	34,534	34,534	—	35,211	35,211	—	38,333	38,333
Other	1,732	—	1,732	1,358	—	1,358	1,979	—	1,979
Total	<u>\$53,378</u>	<u>\$155,122</u>	<u>\$208,500</u>	<u>\$47,323</u>	<u>\$157,973</u>	<u>\$205,296</u>	<u>\$38,268</u>	<u>\$153,890</u>	<u>\$192,158</u>

⁽¹⁾ Includes \$1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at September 30, 2008. There was no balance outstanding at September 30, 2009 and June 30, 2009, respectively.

⁽²⁾ The Company has the option of paying off this amount with cash or by selling the loans to ED as previously discussed.

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of October 19, 2009.

	<u>Moody's</u>	<u>S&P</u>	<u>Fitch</u>
Short-term unsecured debt	Not Prime ⁽¹⁾	A-3 ⁽¹⁾	F3
Long-term senior unsecured debt	Ba1 ⁽¹⁾	BBB- ⁽¹⁾	BBB-

⁽¹⁾ Under review for potential downgrade.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of September 30, 2009, June 30, 2009, and September 30, 2008.

	As of September 30, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 254	\$ 858	\$ 726	\$ 1,838
Underlying securitized loan balance	5,810	14,551	13,079	33,440
Weighted average life	3.2 yrs.	9.1 yrs.	6.3 yrs.	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan — repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾10%	.25%	5.57%	
Residual cash flows discount rate	10.6%	12.1%	32.0%	

	As of June 30, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 272	\$ 721	\$ 827	\$ 1,820
Underlying securitized loan balance	6,046	14,736	13,372	34,154
Weighted average life	3.1 yrs.	8.0 yrs.	6.4 yrs.	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan — repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾10%	.22%	5.76%	
Residual cash flows discount rate	11.5%	13.0%	32.4%	

	As of September 30, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 309	\$ 612	\$ 1,402	\$ 2,323
Underlying securitized loan balance	7,600	15,252	13,648	36,500
Weighted average life	3.0 yrs.	8.2 yrs.	6.6 yrs.	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan — repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾11%	.23%	5.59%	
Residual cash flows discount rate	12.7%	11.3%	18.3%	

⁽¹⁾ Includes \$641 million, \$529 million, and \$333 million related to the fair value of the Embedded Floor Income as of September 30, 2009, June 30, 2009, and September 30, 2008, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

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

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

The Company recorded net unrealized mark-to-market gains/(losses) of \$13 million, (\$90) million, and (\$81) million in the third quarter of 2009, second quarter of 2009, and third quarter of 2008, respectively, related to the Residual Interests.

The tables above disclose the assumptions that are used to value the Residual Interests. As of September 30, 2009, the Company changed the following significant assumptions compared to those used as of June 30, 2009, to determine the fair value of the Residual Interests:

- Prepayment speed assumptions on FFELP Stafford and Consolidation Loans were decreased. This change reflects the significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment.
- The discount rate assumption related to FFELP Residual Interests decreased by 75 basis points. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market as of September 30, 2009. The Company reduced the risk premium to reflect improved conditions in the credit markets. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions.