

**SLM CORPORATION**  
**Supplemental Earnings Disclosure**

**June 30, 2009**

(In millions, except per share amounts)

	Quarters ended			Six months ended	
	June 30, 2009 (unaudited)	March 31, 2009 (unaudited)	June 30, 2008 (unaudited)	June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
<b>SELECTED FINANCIAL INFORMATION AND RATIOS</b>					
<b>GAAP Basis</b>					
Net income (loss) attributable to SLM Corporation <sup>(1)</sup> . . . . .	\$ (123)	\$ (21)	\$ 266	\$ (144)	\$ 162
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders <sup>(1)</sup> . . . . .	\$ (.32)	\$ (.10)	\$ .50	\$ (.42)	\$ .23
Return on assets . . . . .	(.30)%	(.05)%	.74%	(.18)%	.23%
<b>“Core Earnings” Basis<sup>(2)(3)</sup></b>					
“Core Earnings” net income attributable to SLM Corporation <sup>(1)(3)</sup> . . . . .	\$ 170	\$ 14	\$ 156	\$ 184	\$ 344
“Core Earnings” diluted earnings (loss) per common share attributable to SLM Corporation common shareholders <sup>(1)(3)</sup> . . . . .	\$ .31	\$ (.03)	\$ .27	\$ .28	\$ .62
“Core Earnings” return on assets . . . . .	.34%	.03%	.34%	.19%	.38%
<b>OTHER OPERATING STATISTICS</b>					
Average on-balance sheet student loans . . . . .	\$153,588	\$149,662	\$133,748	\$151,636	\$131,544
Average off-balance sheet student loans . . . . .	34,902	35,577	38,175	35,237	38,670
Average Managed student loans . . . . .	<u>\$188,490</u>	<u>\$185,239</u>	<u>\$171,923</u>	<u>\$186,873</u>	<u>\$170,214</u>
Ending on-balance sheet student loans, net . . . .	\$154,157	\$150,374	\$134,289		
Ending off-balance sheet student loans, net . . . .	33,961	34,961	37,615		
Ending Managed student loans, net . . . . .	<u>\$188,118</u>	<u>\$185,335</u>	<u>\$171,904</u>		
Ending Managed FFELP Stafford and Other Student Loans, net . . . . .	\$ 68,374	\$ 64,690	\$ 51,622		
Ending Managed FFELP Consolidation Loans, net . . . . .	85,272	86,228	89,213		
Ending Managed Private Education Loans, net . .	34,472	34,417	31,069		
Ending Managed student loans, net . . . . .	<u>\$188,118</u>	<u>\$185,335</u>	<u>\$171,904</u>		

<sup>(1)</sup> On January 1, 2009, the Company adopted the Financial Accounting Standards Board’s Statement of Financial Accounting Standards (“SFAS”) No. 160, “Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51,” the provisions of which, among other things, require that minority interests be renamed, “noncontrolling interests,” and that a company present a consolidated net income (loss) measure that includes the amount attributable to such “noncontrolling interests” for all periods presented.

<sup>(2)</sup> See explanation of “Core Earnings” performance measures under “Reconciliation of ‘Core Earnings’ Net Income to GAAP Net Income.”

<sup>(3)</sup> “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 June 30, 2009, March 31, 2009, and June 30, 2008 and the six months ended June 30, 2009 and 2008 was:

	Quarters ended			Six months ended	
	June 30, 2009 (unaudited)	March 31, 2009 (unaudited)	June 30, 2008 (unaudited)	June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax) . . . . .	<u>\$ 89</u>	<u>\$ 79</u>	<u>\$ 22</u>	<u>\$168</u>	<u>\$ 49</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders . . . . .	<u>\$.17</u>	<u>\$.17</u>	<u>\$.05</u>	<u>\$.36</u>	<u>\$.10</u>

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

	<u>June 30,</u> <u>2009</u>	<u>March 31,</u> <u>2009</u>	<u>June 30,</u> <u>2008</u>
	(unaudited)	(unaudited)	(unaudited)
<b>Assets</b>			
FFELP Stafford and Other Student Loans (net of allowance for losses of \$102,857; \$101,375; and \$56,882, respectively) . . . . .	\$ 44,044,636	\$ 43,444,179	\$ 43,146,711
FFELP Stafford Loans Held-for-Sale . . . . .	18,159,232	14,399,802	—
FFELP Consolidation Loans (net of allowance for losses of \$50,181; \$50,919; and \$40,811, respectively) . . . . .	70,102,304	70,885,647	73,171,342
Private Education Loans (net of allowance for losses of \$1,396,707; \$1,384,455; and \$1,129,000, respectively) . . . . .	21,850,688	21,644,579	17,970,556
Other loans (net of allowance for losses of \$68,282; \$66,011; and \$46,794, respectively) . . . . .	489,180	684,913	902,684
Cash and investments . . . . .	8,212,439	3,748,192	7,912,882
Restricted cash and investments . . . . .	5,245,702	3,855,546	3,701,454
Retained Interest in off-balance sheet securitized loans . . . . .	1,820,614	1,950,566	2,544,517
Goodwill and acquired intangible assets, net . . . . .	1,233,871	1,239,556	1,304,941
Other assets . . . . .	10,025,129	9,698,331	12,907,154
Total assets . . . . .	<u>\$181,183,795</u>	<u>\$171,551,311</u>	<u>\$163,562,241</u>
<b>Liabilities</b>			
Short-term borrowings . . . . .	\$ 47,331,576	\$ 46,331,461	\$ 37,191,756
Long-term borrowings . . . . .	125,880,044	116,669,381	117,920,836
Other liabilities . . . . .	3,120,636	3,586,610	2,905,165
Total liabilities . . . . .	<u>176,332,256</u>	<u>166,587,452</u>	<u>158,017,757</u>
<b>Commitments and contingencies</b>			
<b>Equity</b>			
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: 1,150; 1,150; and 1,150 shares, respectively, issued at liquidation preference of \$1,000 per share . . . . .	1,149,770	1,149,770	1,150,000
Common stock, par value \$.20 per share, 1,125,000 shares authorized:			
534,842; 534,698; and 534,010 shares, respectively, issued . . . . .	106,969	106,940	106,802
Additional paid-in capital . . . . .	4,709,053	4,694,155	4,637,731
Accumulated other comprehensive income (loss), net of tax expense (benefit) . . . . .	(48,683)	(70,450)	61,994
Retained earnings . . . . .	229,865	378,387	855,527
Total SLM Corporation stockholders' equity before treasury stock . . . . .	6,711,974	6,823,802	7,377,054
Common stock held in treasury: 67,128; 67,105; and 66,445 shares, respectively . . . . .	1,860,440	1,859,955	1,842,050
Total SLM Corporation stockholders' equity . . . . .	4,851,534	4,963,847	5,535,004
Noncontrolling interest . . . . .	5	12	9,480
Total equity . . . . .	<u>4,851,539</u>	<u>4,963,859</u>	<u>5,544,484</u>
Total liabilities and equity . . . . .	<u>\$181,183,795</u>	<u>\$171,551,311</u>	<u>\$163,562,241</u>

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

	Quarters ended			Six months ended	
	June 30, 2009 (unaudited)	March 31, 2009 (unaudited)	June 30, 2008 (unaudited)	June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
<b>Interest income:</b>					
FFELP Stafford and Other Student Loans . . . . .	\$ 323,939	\$ 342,816	\$ 497,598	\$ 666,755	\$ 962,074
FFELP Consolidation Loans . . . . .	460,690	489,362	769,664	950,052	1,606,320
Private Education Loans . . . . .	393,019	387,041	409,323	780,060	852,845
Other loans . . . . .	18,468	16,420	21,355	34,888	44,699
Cash and investments . . . . .	7,044	5,971	70,521	13,015	194,337
Total interest income . . . . .	<u>1,203,160</u>	<u>1,241,610</u>	<u>1,768,461</u>	<u>2,444,770</u>	<u>3,660,275</u>
Total interest expense . . . . .	<u>819,459</u>	<u>1,026,547</u>	<u>1,365,918</u>	<u>1,846,006</u>	<u>2,981,363</u>
Net interest income . . . . .	383,701	215,063	402,543	598,764	678,912
Less: provisions for loan losses . . . . .	<u>278,112</u>	<u>250,279</u>	<u>143,015</u>	<u>528,391</u>	<u>280,326</u>
Net interest income (loss) after provisions for loan losses . . . . .	<u>105,589</u>	<u>(35,216)</u>	<u>259,528</u>	<u>70,373</u>	<u>398,586</u>
<b>Other income (loss):</b>					
Servicing and securitization revenue (loss) . . . . .	87,488	(95,305)	1,630	(7,817)	109,272
Losses on sales of loans and securities, net . . . . .	—	—	(43,583)	—	(78,249)
Gains (losses) on derivative and hedging activities, net . . . . .	(561,795)	104,025	362,043	(457,770)	89,247
Contingency fee revenue . . . . .	73,368	74,815	83,790	148,183	169,096
Collections revenue (loss) . . . . .	22,068	(21,330)	26,365	738	83,604
Guarantor servicing fees . . . . .	24,772	34,008	23,663	58,780	58,316
Other . . . . .	<u>399,065</u>	<u>192,458</u>	<u>108,728</u>	<u>591,523</u>	<u>202,261</u>
Total other income . . . . .	<u>44,966</u>	<u>288,671</u>	<u>562,636</u>	<u>333,637</u>	<u>633,547</u>
<b>Expenses:</b>					
Restructuring expenses . . . . .	4,430	4,773	46,740	9,203	67,418
Operating expenses . . . . .	<u>315,185</u>	<u>301,483</u>	<u>353,688</u>	<u>616,668</u>	<u>709,336</u>
Total expenses . . . . .	<u>319,615</u>	<u>306,256</u>	<u>400,428</u>	<u>625,871</u>	<u>776,754</u>
Income (loss) before income tax expense (benefit) . . . . .	(169,060)	(52,801)	421,736	(221,861)	255,379
Income tax expense (benefit) . . . . .	<u>(46,551)</u>	<u>(31,696)</u>	<u>153,074</u>	<u>(78,247)</u>	<u>90,586</u>
Net income (loss) . . . . .	(122,509)	(21,105)	268,662	(143,614)	164,793
Less: net income attributable to noncontrolling interest . . . . .	<u>211</u>	<u>281</u>	<u>2,926</u>	<u>492</u>	<u>2,861</u>
<b>Net income (loss) attributable to SLM Corporation</b> . . . . .	<u>(122,720)</u>	<u>(21,386)</u>	<u>265,736</u>	<u>(144,106)</u>	<u>161,932</u>
Preferred stock dividends . . . . .	<u>25,800</u>	<u>26,395</u>	<u>27,391</u>	<u>52,195</u>	<u>56,416</u>
Net income (loss) attributable to SLM Corporation common stock . . . . .	<u>\$ (148,520)</u>	<u>\$ (47,781)</u>	<u>\$ 238,345</u>	<u>\$ (196,301)</u>	<u>\$ 105,516</u>
<b>Basic earnings (loss) per common share attributable to SLM Corporation common shareholders</b> . . . . .					
	<u>\$ (.32)</u>	<u>\$ (.10)</u>	<u>\$ .51</u>	<u>\$ (.42)</u>	<u>\$ .23</u>
Average common shares outstanding . . . . .	<u>466,799</u>	<u>466,761</u>	<u>466,649</u>	<u>466,780</u>	<u>466,615</u>
<b>Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders</b> . . . . .					
	<u>\$ (.32)</u>	<u>\$ (.10)</u>	<u>\$ .50</u>	<u>\$ (.42)</u>	<u>\$ .23</u>
Average common and common equivalent shares outstanding . . . . .	<u>466,799</u>	<u>466,761</u>	<u>517,954</u>	<u>466,780</u>	<u>467,316</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 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 . . . . .	140,877	79,994	84,522	305,393	9,792	315,185
Total expenses . . . . .	145,092	80,362	84,369	309,823	9,792	319,615
Income (loss) before income tax expense (benefit) . . . . .	273,832	10,073	(12,726)	271,179	(440,239)	(169,060)
Income tax expense (benefit) <sup>(1)</sup> . . . . .	101,580	3,634	(4,690)	100,524	(147,075)	(46,551)
Less: net income attributable to noncontrolling interest . . . . .	—	211	—	211	—	211
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 172,252</u>	<u>\$ 6,228</u>	<u>\$ (8,036)</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>		

<sup>(1)</sup> 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 March 31, 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 . . . . .	\$ 361,919	\$ —	\$ —	\$ 361,919	\$ (19,103)	\$ 342,816
FFELP Consolidation Loans . . . . .	438,896	—	—	438,896	50,466	489,362
Private Education Loans . . . . .	563,282	—	—	563,282	(176,241)	387,041
Other loans . . . . .	16,420	—	—	16,420	—	16,420
Cash and investments . . . . .	2,179	—	5,128	7,307	(1,336)	5,971
Total interest income . . . . .	1,382,696	—	5,128	1,387,824	(146,214)	1,241,610
Total interest expense . . . . .	949,248	5,492	4,139	958,879	67,668	1,026,547
Net interest income (loss) . . . . .	433,448	(5,492)	989	428,945	(213,882)	215,063
Less: provisions for loan losses . . . . .	349,086	—	—	349,086	(98,807)	250,279
Net interest income (loss) after provisions for loan losses . . . . .	84,362	(5,492)	989	79,859	(115,075)	(35,216)
Contingency fee revenue . . . . .	—	74,815	—	74,815	—	74,815
Collections revenue (loss) . . . . .	—	(22,019)	—	(22,019)	689	(21,330)
Guarantor servicing fees . . . . .	—	—	34,008	34,008	—	34,008
Other income . . . . .	102,368	—	49,781	152,149	49,029	201,178
Total other income . . . . .	102,368	52,796	83,789	238,953	49,718	288,671
Restructuring expenses . . . . .	1,062	1,655	2,056	4,773	—	4,773
Operating expenses . . . . .	131,178	88,471	71,970	291,619	9,864	301,483
Total expenses . . . . .	132,240	90,126	74,026	296,392	9,864	306,256
Income (loss) before income tax expense (benefit) . . . . .	54,490	(42,822)	10,752	22,420	(75,221)	(52,801)
Income tax expense (benefit) <sup>(1)</sup> . . . . .	20,063	(15,767)	3,959	8,255	(39,951)	(31,696)
Less: net income attributable to noncontrolling interest . . . . .	—	281	—	281	—	281
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 34,427</u>	<u>\$(27,336)</u>	<u>\$ 6,793</u>	<u>\$ 13,884</u>	<u>\$ (35,270)</u>	<u>\$ (21,386)</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 79,388</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 79,388</u>		

<sup>(1)</sup> 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, 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 . . . . .	\$ 524,022	\$ —	\$ —	\$ 524,022	\$ (26,424)	\$ 497,598
FFELP Consolidation Loans . . . . .	907,669	—	—	907,669	(138,005)	769,664
Private Education Loans . . . . .	665,452	—	—	665,452	(256,129)	409,323
Other loans . . . . .	21,355	—	—	21,355	—	21,355
Cash and investments . . . . .	80,445	—	4,902	85,347	(14,826)	70,521
Total interest income . . . . .	2,198,943	—	4,902	2,203,845	(435,384)	1,768,461
Total interest expense . . . . .	1,604,872	6,933	5,074	1,616,879	(250,961)	1,365,918
Net interest income (loss) . . . . .	594,071	(6,933)	(172)	586,966	(184,423)	402,543
Less: provisions for loan losses . . . . .	192,181	—	—	192,181	(49,166)	143,015
Net interest income (loss) after provisions for loan losses . . . . .	401,890	(6,933)	(172)	394,785	(135,257)	259,528
Contingency fee revenue . . . . .	—	83,790	—	83,790	—	83,790
Collections revenue . . . . .	—	27,517	—	27,517	(1,152)	26,365
Guarantor servicing fees . . . . .	—	—	23,663	23,663	—	23,663
Other income . . . . .	61,898	—	45,587	107,485	321,333	428,818
Total other income . . . . .	61,898	111,307	69,250	242,455	320,181	562,636
Restructuring expenses . . . . .	30,947	5,174	10,619	46,740	—	46,740
Operating expenses . . . . .	154,505	110,340	73,871	338,716	14,972	353,688
Total expenses . . . . .	185,452	115,514	84,490	385,456	14,972	400,428
Income (loss) before income taxes expense (benefit) . . . . .	278,336	(11,140)	(15,412)	251,784	169,952	421,736
Income tax expense (benefit) <sup>(1)</sup> . . . . .	102,917	(4,050)	(5,651)	93,216	59,858	153,074
Less: net income attributable to noncontrolling interest . . . . .	—	2,926	—	2,926	—	2,926
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 175,419</u>	<u>\$ (10,016)</u>	<u>\$ (9,761)</u>	<u>\$ 155,642</u>	<u>\$ 110,094</u>	<u>\$ 265,736</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 22,198</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,198</u>		

<sup>(1)</sup> 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)**

Six months 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 . . . . .	\$ 671,472	\$ —	\$ —	\$ 671,472	\$ (4,717)	\$ 666,755
FFELP Consolidation Loans . . . . .	833,184	—	—	833,184	116,868	950,052
Private Education Loans . . . . .	1,121,949	—	—	1,121,949	(341,889)	780,060
Other loans . . . . .	34,888	—	—	34,888	—	34,888
Cash and investments . . . . .	5,862	—	9,447	15,309	(2,294)	13,015
Total interest income . . . . .	2,667,355	—	9,447	2,676,802	(232,032)	2,444,770
Total interest expense . . . . .	1,772,556	10,493	7,860	1,790,909	55,097	1,846,006
Net interest income (loss) . . . . .	894,799	(10,493)	1,587	885,893	(287,129)	598,764
Less: provisions for loan losses . . . . .	750,876	—	—	750,876	(222,485)	528,391
Net interest income (loss) after provisions for loan losses . . . . .	143,923	(10,493)	1,587	135,017	(64,644)	70,373
Contingency fee revenue . . . . .	—	148,183	—	148,183	—	148,183
Collections revenue . . . . .	—	49	—	49	689	738
Guarantor servicing fees . . . . .	—	—	58,780	58,780	—	58,780
Other income . . . . .	461,731	—	96,054	557,785	(431,849)	125,936
Total other income . . . . .	461,731	148,232	154,834	764,797	(431,160)	333,637
Restructuring expenses . . . . .	5,277	2,023	1,903	9,203	—	9,203
Operating expenses . . . . .	272,055	168,465	156,492	597,012	19,656	616,668
Total expenses . . . . .	277,332	170,488	158,395	606,215	19,656	625,871
Income (loss) before income tax expense (benefit) . . . . .	328,322	(32,749)	(1,974)	293,599	(515,460)	(221,861)
Income tax expense (benefit) <sup>(1)</sup> . . . . .	121,643	(12,133)	(731)	108,779	(187,026)	(78,247)
Less: net income attributable to noncontrolling interest . . . . .	—	492	—	492	—	492
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 206,679</u>	<u>\$ (21,108)</u>	<u>\$ (1,243)</u>	<u>\$ 184,328</u>	<u>\$(328,434)</u>	<u>\$ (144,106)</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 168,287</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 168,287</u>		

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

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

Six months ended June 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 . . . . .	\$1,018,404	\$ —	\$ —	\$1,018,404	\$ (56,330)	\$ 962,074
FFELP Consolidation Loans . . . . .	1,896,155	—	—	1,896,155	(289,835)	1,606,320
Private Education Loans . . . . .	1,414,773	—	—	1,414,773	(561,928)	852,845
Other loans . . . . .	44,699	—	—	44,699	—	44,699
Cash and investments . . . . .	<u>222,347</u>	<u>—</u>	<u>11,169</u>	<u>233,516</u>	<u>(39,179)</u>	<u>194,337</u>
Total interest income . . . . .	4,596,378	—	11,169	4,607,547	(947,272)	3,660,275
Total interest expense . . . . .	<u>3,429,343</u>	<u>13,773</u>	<u>10,276</u>	<u>3,453,392</u>	<u>(472,029)</u>	<u>2,981,363</u>
Net interest income (loss) . . . . .	1,167,035	(13,773)	893	1,154,155	(475,243)	678,912
Less: provisions for loan losses . . . . .	<u>373,502</u>	<u>—</u>	<u>—</u>	<u>373,502</u>	<u>(93,176)</u>	<u>280,326</u>
Net interest income (loss) after provisions for loan losses . . . . .	<u>793,533</u>	<u>(13,773)</u>	<u>893</u>	<u>780,653</u>	<u>(382,067)</u>	<u>398,586</u>
Contingency fee revenue . . . . .	—	169,096	—	169,096	—	169,096
Collections revenue . . . . .	—	83,878	—	83,878	(274)	83,604
Guarantor servicing fees . . . . .	—	—	58,316	58,316	—	58,316
Other income . . . . .	<u>106,243</u>	<u>—</u>	<u>96,228</u>	<u>202,471</u>	<u>120,060</u>	<u>322,531</u>
Total other income . . . . .	106,243	252,974	154,544	513,761	119,786	633,547
Restructuring expenses . . . . .	46,497	5,608	15,313	67,418	—	67,418
Operating expenses . . . . .	<u>318,141</u>	<u>216,482</u>	<u>143,526</u>	<u>678,149</u>	<u>31,187</u>	<u>709,336</u>
Total expenses . . . . .	<u>364,638</u>	<u>222,090</u>	<u>158,839</u>	<u>745,567</u>	<u>31,187</u>	<u>776,754</u>
Income (loss) before income tax expense (benefit) . . . . .	535,138	17,111	(3,402)	548,847	(293,468)	255,379
Income tax expense (benefit) <sup>(1)</sup> . . . . .	196,984	6,298	(1,252)	202,030	(111,444)	90,586
Less: net income attributable to noncontrolling interest . . . . .	<u>—</u>	<u>2,861</u>	<u>—</u>	<u>2,861</u>	<u>—</u>	<u>2,861</u>
Net income (loss) attributable to SLM Corporation . . . . .	<u>\$ 338,154</u>	<u>\$ 7,952</u>	<u>\$ (2,150)</u>	<u>\$ 343,956</u>	<u>\$(182,024)</u>	<u>\$ 161,932</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 48,974</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 48,974</u>		

<sup>(1)</sup> 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			Six months ended	
	June 30, 2009 (unaudited)	March 31, 2009 (unaudited)	June 30, 2008 (unaudited)	June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
<b>“Core Earnings” net income attributable to SLM Corporation<sup>(A)(B)</sup></b> . . . . .	\$ 170,444	\$ 13,884	\$ 155,642	\$ 184,328	\$ 343,956
“Core Earnings” adjustments:					
Net impact of securitization accounting . . . . .	(25,861)	(198,590)	(246,506)	(224,451)	(325,652)
Net impact of derivative accounting . . . . .	(494,581)	54,010	450,609	(440,571)	87,241
Net impact of Floor Income . . . . .	90,022	79,023	(18,809)	169,045	(24,386)
Net impact of acquired intangibles . . . . .	(9,819)	(9,664)	(15,342)	(19,483)	(30,671)
Total “Core Earnings” adjustments before income tax effect . . . . .	(440,239)	(75,221)	169,952	(515,460)	(293,468)
Net tax effect . . . . .	147,075	39,951	(59,858)	187,026	111,444
Total “Core Earnings” adjustments . . . . .	(293,164)	(35,270)	110,094	(328,434)	(182,024)
<b>GAAP net income (loss) attributable to SLM Corporation</b> . . . . .	<u>\$ (122,720)</u>	<u>\$ (21,386)</u>	<u>\$ 265,736</u>	<u>\$ (144,106)</u>	<u>\$ 161,932</u>
GAAP diluted earnings (loss) per common share attributable to SLM Corporation common shareholders . . . . .	<u>\$ (.32)</u>	<u>\$ (.10)</u>	<u>\$ .50</u>	<u>\$ (.42)</u>	<u>\$ .23</u>
<hr/>					
<sup>(A)</sup> “Core Earnings” diluted earnings (loss) per common share attributable to SLM Corporation common shareholders . . . . .	<u>\$ .31</u>	<u>\$ (.03)</u>	<u>\$ .27</u>	<u>\$ .28</u>	<u>\$ .62</u>
<sup>(B)</sup> Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax) (dollars in millions) . . . . .	<u>\$ 89</u>	<u>\$ 79</u>	<u>\$ 22</u>	<u>\$ 168</u>	<u>\$ 49</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders . . . . .	<u>\$ .17</u>	<u>\$ .17</u>	<u>\$ .05</u>	<u>\$ .36</u>	<u>\$ .10</u>

#### “Core Earnings”

In accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”). In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments on a basis that, as allowed under the Financial Accounting Standards Board’s Statement of Financial Accounting Standards (“SFAS”) No. 131, “Disclosures about Segments of an Enterprise and Related Information,” differs from GAAP. We refer to management’s basis of evaluating our segment results as “Core Earnings” presentations for each business segment and we refer to 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 SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” 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 SFAS No. 133 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 the amortization of net premiums received in income.
- 4) **Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles.

**SUPPLEMENTAL FINANCIAL INFORMATION RELEASE**  
**SECOND 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 second quarter 2009 earnings, dated July 21, 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 financial projections, 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 give rise to 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 regulations 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; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition and performance 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. 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 six months ended June 30, 2008, to be consistent with classifications adopted for the quarter and six months ended June 30, 2009.

## **RECENT DEVELOPMENTS**

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

During the quarter, 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 new loans and a portion of the approximately \$550 billion outstanding federal student loan portfolio. The contract specifically covers the

servicing of all federally-owned student loans, including the servicing of FFELP loans purchased by ED pursuant to the Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”). We expect the contract to begin in the second half of August 2009 and span five years with one, five-year renewal option. Beginning in August 2010, the contract will also cover the servicing on new Direct Loans.

ED has not yet announced its plans for allocating the initial servicing accounts other than that Sallie Mae will continue to service loans put to ED under ECASLA that are on our systems today. Today we have over 2 million accounts on our system that we expect to be serviced under this contract. Given our cost structure, we expect that this will be profitable and will produce an acceptable risk-adjusted return.

## **DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS**

### ***Three Months Ended June 30, 2009 Compared to Three Months Ended March 31, 2009***

For the three months ended June 30, 2009, net loss attributable to SLM Corporation was \$123 million or \$.32 diluted loss per common share attributable to SLM Corporation common shareholders, compared to a net loss of \$21 million, or \$.10 diluted loss per common share attributable to SLM Corporation common shareholders, for the three months ended March 31, 2009. The effective tax rate for those periods was 28 percent and 60 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of concluding the IRS examination of the Company’s 2005 and 2006 U.S. federal income tax returns in the three months ended June 30, 2009, and by the impact of state tax rate changes and state law changes recorded discretely in the three months ended March 31, 2009. For the three months ended June 30, 2009, the Company’s pre-tax loss was \$169 million compared to a pre-tax loss of \$53 million in the prior quarter. This increase in pre-tax loss of \$116 million was primarily due to an increase in net losses on derivative and hedging activities of \$666 million from a \$104 million gain in the first quarter to a \$562 million net loss in the second quarter of 2009. This increase in net losses on derivative and hedging activities was partially offset by increases in net interest margin, servicing and securitization revenue and gains on debt repurchases.

There were no gains on student loan securitizations in either the second quarter of 2009 or the prior quarter as the Company did not complete any off-balance sheet securitizations. Servicing and securitization revenue increased by \$182 million from a loss of \$95 million in the first quarter of 2009 to a gain of \$87 million in the second quarter of 2009. This increase was primarily due to a larger prior-quarter unrealized mark-to-market loss of \$261 million on the Company’s Residual Interests compared to a current-quarter \$90 million unrealized mark-to-market loss. 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 increased by \$141 million in the second quarter of 2009 from the prior quarter. This increase was due to a \$169 million increase in net interest income offset by a \$28 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*”). For the prior quarter, net interest losses after provisions for loan losses would have resulted in positive net interest income, if net settlements on non-qualifying SFAS No. 133 hedges were included in net interest margin along with the related items for which they are economically hedging, as opposed to being included in net gains (losses) on derivatives and hedging activities. The increase in provisions for loan losses relates 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*”).

In the second quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$120 million, a \$33 million increase from \$87 million in the prior quarter. This increase was primarily the result of a decrease in impairment on our purchased paper portfolios recorded in the second quarter of 2009 versus the prior quarter. Total impairment of \$21 million was recorded in the second quarter of 2009, comprised of \$8 million of impairment related to the declines in the fair value of the mortgage loans and real estate held by the Company’s mortgage purchased paper subsidiary and \$13 million of impairment related to the Company’s non-mortgage purchased paper subsidiary, compared to \$77 million of total impairment

recorded in the prior quarter (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT” and a separate discussion of “*Other Income*” at the end of this section).

The Company continues to restructure its business in response to the impact of The College Cost Reduction and Access Act of 2007 (“CCRAA”), and current challenges in the capital markets. In conjunction with our restructuring plan, we are refocusing our lending activities, exiting certain customer relationships and product lines, and winding down our debt purchased paper businesses. 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 and \$5 million were recognized in the current quarter and prior quarter, respectively. Restructuring expenses from the fourth quarter of 2007 through the second quarter of 2009 totaled \$115 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 and our current restructuring plan will be substantially complete by the end of 2009. During 2009, we will continue to review our business to determine whether there are other opportunities to further streamline the business.

Operating expenses were \$315 million in the second quarter of 2009 compared to \$301 million in the first quarter of 2009. This increase was primarily the result of start-up costs related to the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that will be put to ED, an increase in marketing expenses and an increase in deposit insurance at Sallie Mae Bank due to higher insurance premiums and an industry-wide FDIC special assessment of \$3 million. The amortization of acquired intangibles totaled \$10 million for both the second quarter of 2009 and the prior quarter.

### ***Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008***

For the three months ended June 30, 2009, net loss attributable to SLM Corporation was \$123 million or \$.32 diluted loss per common share attributable to SLM Corporation common shareholders, compared to net income of \$266 million, or \$.50 diluted earnings per common share attributable to SLM Corporation common shareholders, for the three months ended June 30, 2008. The effective tax rate for those periods was 28 percent and 36 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of concluding the IRS examination of the Company’s 2005 and 2006 U.S. federal income tax returns in the three months ended June 30, 2009. For the three months ended June 30, 2009, the Company’s pre-tax loss was \$169 million compared to pre-tax income of \$422 million in the year-ago quarter. The decrease in pre-tax income of \$591 million was primarily due to a net loss on derivative and hedging activities of \$562 million in the second quarter of 2009 from a \$362 million gain in the second quarter of 2008, partially offset by an increase in gains on debt repurchases.

There were no gains on student loan securitizations in either the second 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 \$85 million from revenue of \$2 million in the second quarter of 2008 to \$87 million in the second quarter of 2009. This increase was primarily due to a smaller current-quarter unrealized mark-to-market loss of \$90 million on the Company’s Residual Interests compared to a year-ago quarter \$192 million unrealized mark-to-market loss. 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 \$154 million in the second quarter from the year-ago quarter. This decrease was due to a \$135 million increase in provisions for loan losses and to a \$19 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 decrease in the 2008 Asset Backed Financing Facilities fees and an \$19.8 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*”).

In the second quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$120 million, a \$14 million decrease from \$134 million in the year-ago quarter. This decrease was primarily due to a significantly smaller portfolio in the purchased paper businesses year-over-year, as a result of winding down these businesses. Offsetting this decrease in revenue was a reduction in impairment recognized on our purchased paper portfolios. In the second quarter of 2009, total impairment of \$21 million was comprised of \$8 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 \$13 million of impairment related to the Company’s non-mortgage purchased paper subsidiary, compared to \$58 million of total impairment recorded in the second quarter of 2008 (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT” and a separate discussion of “*Other Income*” at the end of this section).

There were no losses on sales of loans and securities in the second quarter of 2009, as 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.

Restructuring expenses of \$4 million and \$47 million were recognized in the second quarters of 2009 and 2008, respectively, as previously discussed.

Operating expenses, excluding \$6 million of reorganization-related asset impairments recognized in the second quarter of 2008, were \$315 million in the second quarter of 2009 compared to \$348 million in the second quarter of 2008. This decrease was primarily due to the Company’s cost reduction efforts. The amortization of acquired intangibles totaled \$10 million and \$15 million for the second quarters of 2009 and 2008, respectively.

### ***Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008***

For the six months ended June 30, 2009, net loss attributable to SLM Corporation was \$144 million or \$.42 diluted loss per common share attributable to SLM Corporation common shareholders, compared to net income of \$162 million, or \$.23 diluted earnings per common share attributable to SLM Corporation common shareholders, for the six months ended June 30, 2008. The effective tax rate for those periods was 35 percent and 35 percent, respectively. For the six months ended June 30, 2009, the Company’s pre-tax loss was \$222 million compared to pre-tax income of \$255 million in the year-ago period. The decrease in pre-tax income of \$477 million was primarily due to a net loss on derivative and hedging activities of \$458 million for the six months ended June 30, 2009 from a \$89 million gain in the year-ago period, and an increase to provisions for loan losses of \$248 million, partially offset by an increase in gains on debt repurchases.

There were no gains on student loan securitizations in either the six months ended June 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 \$117 million from revenue of \$109 million in the six months ended June 30, 2008 to an \$8 million loss in the six months ended June 30, 2009. This decrease was primarily due to a larger unrealized mark-to-market loss for the six months ended June 30, 2009 of \$351 million on the Company’s Residual Interests compared to a year-ago period \$280 million unrealized mark-to-market loss. 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 \$328 million in the six months ended June 30, 2009 from the year-ago period. This decrease was due to a \$248 million increase in provisions for loan losses and to an \$80 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 an \$20 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 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*”)

For the six months ended June 30, 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$208 million, a \$103 million decrease from \$311 million in the year-ago period. This decrease was primarily due to a significantly smaller portfolio in the purchased paper businesses year-over-year as a result of winding down these businesses. In addition, the decline was the result of \$97 million of impairment on our purchased paper portfolios, recorded in the six months ended June 30, 2009, comprised of \$81 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 \$16 million of impairment related to the Company’s non-mortgage purchased paper subsidiary, compared to \$81 million of total impairment recorded in the six months ended June 30, 2008 (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT” and a separate discussion of “*Other Income*” at the end of this section).

There were no losses on sales of loans and securities in the first half of 2009, as compared to net losses of \$78 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.

Restructuring expenses of \$9 million and \$67 million were recognized in the six months ended June 30, 2009 and 2008, respectively, as previously discussed.

Operating expenses, excluding \$6 million of reorganization-related asset impairments recognized in the six months ended June 30, 2008, were \$617 million in the first half of 2009 compared to \$703 million in the second quarter of 2008. This decrease was primarily due to the Company’s cost reduction efforts. The amortization of acquired intangibles totaled \$19 million and \$31 million for the six months ended June 30, 2009 and 2008, respectively.



### Other Income

The following table summarizes the components of “Other income” in the consolidated statements of income for the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Gains on debt repurchases . . . . .	\$325	\$ 64	\$ 21	\$389	\$ 21
Late fees and forbearance fees . . . . .	32	37	34	69	71
Asset servicing and other transaction fees . . . .	26	25	26	51	52
Loan servicing fees . . . . .	9	10	6	19	12
Foreign currency translation gains (losses) . . . .	(6)	40	4	34	4
Other . . . . .	<u>14</u>	<u>16</u>	<u>18</u>	<u>29</u>	<u>42</u>
Total other income . . . . .	<u>\$400</u>	<u>\$192</u>	<u>\$109</u>	<u>\$591</u>	<u>\$202</u>

The increase in other income for the three and six months ended June 30, 2009 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; and in the second quarter of 2009, the Company repurchased \$1.1 billion face amount of senior unsecured notes compared to \$144 million in the first quarter of 2009 and \$1.2 billion in the second quarter of 2008. Since the second quarter of 2008, the Company has repurchased \$3.2 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

Also contributing to the changes in other income was a foreign currency translation gain recorded in the first quarter of 2009 in connection with the Company’s international non-mortgage purchased paper business, which was sold in the first quarter of 2009.

## 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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

(in thousands)	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Reported net income (loss) attributable to SLM Corporation . . . . .	\$(122,720)	\$(21,386)	\$265,736	\$(144,106)	\$161,932
Preferred stock dividends . . . . .	<u>(25,800)</u>	<u>(26,395)</u>	<u>(27,391)</u>	<u>(52,195)</u>	<u>(56,416)</u>
Reported net income (loss) attributable to common stock . . . . .	(148,520)	(47,781)	238,345	(196,301)	105,516
Expense items disclosed separately (tax-effected):					
Restructuring expenses . . . . .	2,791	3,007	29,446	5,798	42,473
Other reorganization-related asset impairments . . . . .	222	—	3,779	222	3,779
Acceleration of premium amortization expense on loans <sup>(1)</sup> . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,142</u>
Total expense items disclosed separately (tax-effected). . . . .	<u>3,013</u>	<u>3,007</u>	<u>33,225</u>	<u>6,020</u>	<u>80,394</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately . . . . .	(145,507)	(44,774)	271,570	(190,281)	185,910
Adjusted for dividends of convertible preferred stock series C <sup>(2)</sup> . . . . .	<u>—</u>	<u>—</u>	<u>20,844</u>	<u>—</u>	<u>—</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately, adjusted . . . . .	<u>\$(145,507)</u>	<u>\$(44,774)</u>	<u>\$292,414</u>	<u>\$(190,281)</u>	<u>\$185,910</u>
Average common and common equivalent shares outstanding <sup>(3)</sup> . . . . .	<u>466,799</u>	<u>466,761</u>	<u>517,954</u>	<u>466,780</u>	<u>467,316</u>

<sup>(1)</sup> 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 shortening the assumed average lives of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average life of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

<sup>(2)</sup> There was no impact on diluted earnings (loss) per common share for the current and prior quarters of 2009 and the six months ended June 30, 2009 and 2008, because the effect of the assumed conversion was anti-dilutive.

<sup>(3)</sup> Common equivalent shares outstanding were anti-dilutive for the current and prior quarters of 2009, and the six months ended June 30, 2009.

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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

(in thousands)	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
“Core Earnings” net income attributable to SLM Corporation . . . . .	\$170,444	\$ 13,884	\$155,642	\$184,328	\$343,956
Preferred stock dividends . . . . .	(25,800)	(26,395)	(27,391)	(52,195)	(56,416)
“Core Earnings” net income (loss) attributable to SLM Corporation common stock . . . . .	144,644	(12,511)	128,251	132,133	287,540
Expense items disclosed separately (tax-effected):					
Restructuring expenses . . . . .	2,791	3,007	29,446	5,798	42,473
Other reorganization-related asset impairments . . . . .	222	—	3,779	222	3,779
Acceleration of premium amortization expense on loans <sup>(1)</sup> . . . . .	—	—	—	—	51,777
Total expense items disclosed separately (tax-effected) . . . . .	3,013	3,007	33,225	6,020	98,029
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately . . . . .	<u>\$147,657</u>	<u>\$ (9,504)</u>	<u>\$161,476</u>	<u>\$138,153</u>	<u>\$385,569</u>
Average common and common equivalent shares outstanding <sup>(2)</sup> . . . . .	<u>467,437</u>	<u>466,761</u>	<u>467,385</u>	<u>467,318</u>	<u>467,316</u>

<sup>(1)</sup> 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 shortening the assumed average lives of Stafford loans, which previously had an assumption that a portion of the underlying Stafford loans would consolidate internally, extending the average life of such loans. Consolidation Loans generally have longer terms to maturity than Stafford loans.

<sup>(2)</sup> Common equivalent shares outstanding were anti-dilutive for the first quarter of 2009.

## 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. Our 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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 31, 2008	June 30, 2009	June 30, 2008
“Core Earnings” securitization adjustments:					
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions . . . . .	\$(236)	\$(202)	\$(256)	\$(438)	\$(449)
Provisions for loan losses . . . . .	<u>124</u>	<u>99</u>	<u>49</u>	<u>222</u>	<u>93</u>
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions . . . . .	(112)	(103)	(207)	(216)	(356)
Intercompany transactions with off-balance sheet trusts . . . . .	<u>—</u>	<u>—</u>	<u>(42)</u>	<u>—</u>	<u>(79)</u>
Net interest income on securitized loans, after provisions for loan losses . . . . .	(112)	(103)	(249)	(216)	(435)
Servicing and securitization revenue . . . . .	<u>87</u>	<u>(95)</u>	<u>2</u>	<u>(8)</u>	<u>109</u>
Total “Core Earnings” securitization adjustments <sup>(1)</sup> . . . . .	<u>\$ (25)</u>	<u>\$(198)</u>	<u>\$(247)</u>	<u>\$(224)</u>	<u>\$(326)</u>

<sup>(1)</sup> 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 SFAS No. 133 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.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, 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 SFAS No. 133, 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 SFAS No. 133. 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 SFAS No. 133, 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 SFAS No. 133. 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 SFAS No. 133, 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. SFAS No. 133 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 SFAS No. 133. 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 SFAS No. 133 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 SFAS No. 133 on net income for the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	<u>Quarters ended</u>			<u>Six months ended</u>	
	<u>June 30, 2009</u>	<u>March 31, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
"Core Earnings" derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income <sup>(1)</sup> . . . . .	\$(562)	\$104	\$362	\$(458)	\$89
Less: Realized (gains) losses on derivative and hedging activities, net <sup>(1)</sup> . . . . .	<u>78</u>	<u>(76)</u>	<u>90</u>	<u>2</u>	<u>(1)</u>
Unrealized gains (losses) on derivative and hedging activities, net. . . . .	(484)	28	452	(456)	88
Other pre-SFAS No. 133 accounting adjustments . . . .	<u>(11)</u>	<u>26</u>	<u>(1)</u>	<u>15</u>	<u>(1)</u>
Total net impact of SFAS No. 133 derivative accounting <sup>(2)</sup> . . . . .	<u><u>\$ (495)</u></u>	<u><u>\$ 54</u></u>	<u><u>\$ 451</u></u>	<u><u>\$ (441)</u></u>	<u><u>\$ 87</u></u>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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*

SFAS No. 133 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 SFAS No. 133 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 June 30, 2009, March 31, 2009 and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

	<u>Quarters ended</u>			<u>Six months ended</u>	
	<u>June 30, 2009</u>	<u>March 31, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income					
Contracts reclassified to net interest income . .	\$(171)	\$(140)	\$(175)	\$(311)	\$(315)
Net settlement income (expense) on interest rate swaps reclassified to net interest income . . . . .	95	229	86	324	317
Foreign exchange derivatives gains (losses) reclassified to other income . . . . .	(1)	(13)	(5)	(14)	(5)
Net realized gains (losses) on terminated derivative contracts reclassified to other income . . . . .	<u>(1)</u>	<u>—</u>	<u>4</u>	<u>(1)</u>	<u>4</u>
Total reclassifications of realized gains (losses) on derivative and hedging activities . . . . .	(78)	76	(90)	(2)	1
Add: Unrealized gains (losses) on derivative and hedging activities, net <sup>(1)</sup> . . . . .	<u>(484)</u>	<u>28</u>	<u>452</u>	<u>(456)</u>	<u>88</u>
Gains (losses) on derivative and hedging activities, net . . . . .	<u><u>\$(562)</u></u>	<u><u>\$ 104</u></u>	<u><u>\$ 362</u></u>	<u><u>\$(458)</u></u>	<u><u>\$ 89</u></u>

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

	<u>Quarters ended</u>			<u>Six months ended</u>	
	<u>June 30, 2009</u>	<u>March 31, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Floor Income Contracts . . . . .	\$ 236	\$ 166	\$ 569	\$ 402	\$ 274
Basis swaps . . . . .	(217)	(315)	(157)	(532)	(289)
Foreign currency hedges . . . . .	(361)	101	43	(260)	104
Other . . . . .	<u>(142)</u>	<u>76</u>	<u>(3)</u>	<u>(66)</u>	<u>(1)</u>
Total unrealized gains (losses) on derivative and hedging activities, net . . . . .	<u><u>\$(484)</u></u>	<u><u>\$ 28</u></u>	<u><u>\$ 452</u></u>	<u><u>\$(456)</u></u>	<u><u>\$ 88</u></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 the amortization of net premiums received in income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
“Core Earnings” Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts . . . . .	\$120	\$107	\$ 25	\$227	\$ 58
Amortization of net premiums on Floor Income Contracts in net interest income . . . . .	<u>(30)</u>	<u>(28)</u>	<u>(44)</u>	<u>(58)</u>	<u>(82)</u>
Total “Core Earnings” Floor Income adjustments <sup>(1)(2)</sup> . . . . .	<u>\$ 90</u>	<u>\$ 79</u>	<u>\$(19)</u>	<u>\$169</u>	<u>\$(24)</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 June 30, 2009, March 31, 2009 and June 30, 2008 and for the six months ended June 30, 2009 and 2008 that is not included in “Core Earnings” net income:

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in “Core Earnings” . . . . .	\$120	\$107	\$ 25	\$227	\$ 58
Amortization of net premiums on Variable-Rate Floor Income Contracts not included in “Core Earnings” . . . . .	21	19	10	40	20
Amortization of net premiums on Fixed-Rate Floor Income Contracts included in “Core Earnings” . . . . .	<u>30</u>	<u>28</u>	<u>44</u>	<u>58</u>	<u>82</u>
Total Economic Floor Income Earned . . . . .	171	154	79	325	160
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings” . . . . .	<u>(30)</u>	<u>(28)</u>	<u>(44)</u>	<u>(58)</u>	<u>(82)</u>
Total Economic Floor Income earned, not included in “Core Earnings” . . . . .	<u>\$141</u>	<u>\$126</u>	<u>\$ 35</u>	<u>\$267</u>	<u>\$ 78</u>

4) **Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles. For the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008, goodwill and intangible impairment and the amortization of acquired intangibles totaled \$10 million, \$10 million and \$15 million, respectively and for the six months ended June 30, 2009 and 2008, totaled \$19 million and \$31 million, respectively.



## LENDING BUSINESS SEGMENT

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

On a Managed Basis, the Company had \$113.9 billion, \$125.5 billion and \$127.2 billion as of June 30, 2009, March 31, 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 relationship between CP and LIBOR has been broken. 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 for the first and second quarters of 2009. This resulted in a CP/LIBOR spread of 52 basis points and 45 basis points in the first and second 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 and \$105 million higher in the first and second 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 \$141 million in the second quarter of 2009 compared to \$126 million in the first quarter of 2009. Although we exclude these amounts from our “Core Earnings” presentation, the levels earned in both the first and second quarters of 2009 can be viewed as direct and significant 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 sharp decline in CP rates during the first and second quarters of 2009 resulted in \$40 million and \$13 million of higher interest expense in the first and second quarters of 2009, respectively.

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

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
“Core Earnings” interest income:					
FFELP Stafford and Other Student Loans . . . . .	\$ 310	\$ 362	\$ 524	\$ 672	\$1,018
FFELP Consolidation Loans . . . . .	394	439	908	833	1,896
Private Education Loans . . . . .	559	563	665	1,122	1,415
Other loans . . . . .	18	16	21	35	45
Cash and investments . . . . .	<u>4</u>	<u>3</u>	<u>81</u>	<u>6</u>	<u>222</u>
Total “Core Earnings” interest income . . . . .	1,285	1,383	2,199	2,668	4,596
Total “Core Earnings” interest expense . . . . .	<u>824</u>	<u>949</u>	<u>1,605</u>	<u>1,773</u>	<u>3,429</u>
Net “Core Earnings” interest income . . . . .	461	434	594	895	1,167
Less: provisions for loan losses . . . . .	<u>402</u>	<u>349</u>	<u>192</u>	<u>751</u>	<u>374</u>
Net “Core Earnings” interest income after provisions for loan losses . . . . .	59	85	402	144	793
Other income . . . . .	360	102	62	461	106
Restructuring expenses . . . . .	4	1	31	5	46
Operating expenses . . . . .	<u>141</u>	<u>131</u>	<u>155</u>	<u>272</u>	<u>318</u>
Total expenses . . . . .	<u>145</u>	<u>132</u>	<u>186</u>	<u>277</u>	<u>364</u>
Income before income tax expense . . . . .	274	55	278	328	535
Income tax expense . . . . .	<u>102</u>	<u>21</u>	<u>103</u>	<u>122</u>	<u>197</u>
“Core Earnings” net income . . . . .	<u>\$ 172</u>	<u>\$ 34</u>	<u>\$ 175</u>	<u>\$ 206</u>	<u>\$ 338</u>
Economic Floor Income (net of tax) not included in “Core Earnings” . . . . .	<u>\$ 89</u>	<u>\$ 79</u>	<u>\$ 22</u>	<u>\$ 168</u>	<u>\$ 49</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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 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					
	June 30, 2009		March 31, 2009		June 30, 2008	
	Balance	Rate	Balance	Rate	Balance	Rate
<b>Average Assets</b>						
FFELP Stafford and Other Student Loans . . . . .	\$ 60,120	2.16%	\$ 55,681	2.50%	\$ 41,666	4.80%
FFELP Consolidation Loans . . . . .	70,456	2.62	71,310	2.78	73,509	4.21
Private Education Loans . . . . .	23,012	6.85	22,671	6.92	18,573	8.86
Other loans . . . . .	630	11.76	709	9.39	1,018	8.43
Cash and investments . . . . .	<u>10,383</u>	<u>.27</u>	<u>7,409</u>	<u>.33</u>	<u>9,076</u>	<u>3.13</u>
Total interest-earning assets . . . . .	164,601	<u>2.93%</u>	157,780	<u>3.19%</u>	143,842	<u>4.94%</u>
Non-interest-earning assets . . . . .	<u>8,898</u>		<u>9,468</u>		<u>10,391</u>	
Total assets . . . . .	<u>\$173,499</u>		<u>\$167,248</u>		<u>\$154,233</u>	
<b>Average Liabilities and Equity</b>						
ED Participation Program facility . . . . .	\$ 15,990	1.26%	\$ 11,122	3.13%	\$ —	—%
ED Conduit Program facility . . . . .	2,757	.74	—	—	—	—
Term bank deposits . . . . .	980	3.28	1,119	3.57	683	4.11
Other short-term borrowings . . . . .	<u>24,823</u>	<u>2.54</u>	<u>31,601</u>	<u>2.91</u>	<u>34,811</u>	<u>4.86</u>
Total short-term borrowings . . . . .	44,550	1.99	43,842	2.98	35,494	4.85
Long-term borrowings . . . . .	<u>120,073</u>	<u>2.00</u>	<u>114,229</u>	<u>2.50</u>	<u>109,351</u>	<u>3.45</u>
Total interest-bearing liabilities . . . . .	164,623	<u>2.00%</u>	158,071	<u>2.63%</u>	144,845	<u>3.79%</u>
Non-interest-bearing liabilities . . . . .	3,799		3,991		3,888	
Equity . . . . .	<u>5,077</u>		<u>5,186</u>		<u>5,500</u>	
Total liabilities and equity . . . . .	<u>\$173,499</u>		<u>\$167,248</u>		<u>\$154,233</u>	
Net interest margin . . . . .		<u>.94%</u>		<u>.55%</u>		<u>1.13%</u>

	Six months ended			
	June 30, 2009		June 30, 2008	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
<b>Average Assets</b>				
FFELP Stafford and Other Student Loans . . . . .	\$ 57,913	2.32%	\$ 40,008	4.84%
FFELP Consolidation Loans . . . . .	70,881	2.70	73,654	4.39
Private Education Loans . . . . .	22,842	6.89	17,882	9.59
Other loans . . . . .	669	10.51	1,106	8.13
Cash and investments . . . . .	<u>8,904</u>	<u>.29</u>	<u>10,670</u>	<u>3.66</u>
Total interest-earning assets . . . . .	161,209	<u>3.06%</u>	143,320	<u>5.14%</u>
Non-interest-earning assets . . . . .	<u>9,181</u>		<u>9,969</u>	
Total assets . . . . .	<u>\$170,390</u>		<u>\$153,289</u>	
<b>Average Liabilities and Equity</b>				
ED Participation Program facility . . . . .	\$ 13,569	2.03%	\$ —	—%
ED Conduit Program facility . . . . .	1,386	.74	—	—
Term bank deposits . . . . .	1,049	3.43	572	4.32
Other short-term borrowings . . . . .	<u>28,194</u>	<u>2.75</u>	<u>35,163</u>	<u>4.82</u>
Total short-term borrowings . . . . .	44,198	2.48	35,735	4.81
Long-term borrowings . . . . .	<u>117,167</u>	<u>2.24</u>	<u>108,508</u>	<u>3.94</u>
Total interest-bearing liabilities . . . . .	161,365	<u>2.31%</u>	144,243	<u>4.16%</u>
Non-interest-bearing liabilities . . . . .	3,894		3,671	
Equity . . . . .	<u>5,131</u>		<u>5,375</u>	
Total liabilities and equity . . . . .	<u>\$170,390</u>		<u>\$153,289</u>	
Net interest margin . . . . .		<u>.75%</u>		<u>.95%</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			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Student loan spread <sup>(1)(2)</sup> . . . . .	1.32%	.95%	1.52%	1.14%	1.25%
Other asset spread <sup>(1)(3)</sup> . . . . .	(2.08)	(2.18)	.28	(2.12)	.14
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees <sup>(1)</sup> . . . . .	1.10	.79	1.44	.95	1.16
Less: 2008 Asset-Backed Financing Facilities fees . . . . .	(.16)	(.24)	(.31)	(.20)	(.21)
Net interest margin . . . . .	<u>.94%</u>	<u>.55%</u>	<u>1.13%</u>	<u>.75%</u>	<u>.95%</u>

<sup>(1)</sup> 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.)

<sup>(2)</sup> Composition of student loan spread:

Student loan yield, before Floor Income . . . . .	3.21%	3.54%	5.54%	3.38%	5.83%
Gross Floor Income . . . . .	.56	.49	.40	.53	.38
Consolidation Loan Rebate Fees . . . . .	(.47)	(.50)	(.57)	(.49)	(.58)
Repayment Borrower Benefits . . . . .	(.09)	(.09)	(.12)	(.09)	(.12)
Premium and discount amortization . . . . .	(.14)	(.14)	(.21)	(.14)	(.28)
Student loan net yield . . . . .	3.07	3.30	5.04	3.19	5.23
Student loan cost of funds . . . . .	(1.75)	(2.35)	(3.52)	(2.05)	(3.98)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees . . . . .	<u>1.32%</u>	<u>.95%</u>	<u>1.52%</u>	<u>1.14%</u>	<u>1.25%</u>

<sup>(3)</sup> 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 SFAS No. 133 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 second quarter of 2009 increased 37 basis points from the prior quarter. The increase from the prior quarter was primarily due to a decrease in the Company’s cost of funds as discussed below, as well as an increase in Floor Income resulting from a decrease in interest rates during the quarter.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 20 basis points from the year-ago quarter. This decrease was primarily due to an increase in the Company’s cost of funds as discussed below. This decrease was partially off-set by an increase in Floor Income resulting from a decrease in interest rates during the quarter.

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 SFAS No. 133. 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 “ ‘Core Earnings’ Net Interest Margin” in the following table, 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 second quarter of 2009 increased 10 basis points from the prior quarter and decreased 236 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 SFAS No. 133 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 second quarter of 2009 increased 31 basis points from the prior quarter and decreased 34 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 SFAS No. 133 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			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
“Core Earnings” basis student loan spread <sup>(1)</sup> :					
FFELP loan spread . . . . .	.39%	.37%	.87%	.38%	.73%
Private Education Loan spread <sup>(2)</sup> . . . . .	4.50	4.68	5.08	4.58	5.23
Total “Core Earnings” basis student loan spread <sup>(3)</sup> . . . . .	1.17	1.20	1.65	1.19	1.56
“Core Earnings” basis other asset spread <sup>(1)(4)</sup> . . . . .	(.91)	(1.15)	(.25)	(1.01)	(.21)
“Core Earnings” net interest margin, before 2008 Asset-Backed Financing Facilities fees <sup>(1)</sup> . . . . .	1.04	1.08	1.52	1.06	1.42
Less: 2008 Asset-Backed Financing Facilities fees . . . . .	(.13)	(.19)	(.24)	(.16)	(.16)
“Core Earnings” net interest margin . . . . .	<u>.91%</u>	<u>.89%</u>	<u>1.28%</u>	<u>.90%</u>	<u>1.26%</u>

<sup>(1)</sup> 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.)

<sup>(2)</sup> “Core Earnings” basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses . . . . .

	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
	.47%	1.31%	3.02%	.88%	3.15%

<sup>(3)</sup> Composition of “Core Earnings” basis student loan spread:

	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
“Core Earnings” basis student loan yield . . . . .	3.36%	3.70%	5.75%	3.54%	6.06%
Consolidation Loan Rebate Fees . . . . .	(.47)	(.49)	(.54)	(.48)	(.55)
Repayment Borrower Benefits . . . . .	(.09)	(.09)	(.12)	(.09)	(.12)
Premium and discount amortization . . . . .	(.12)	(.13)	(.18)	(.13)	(.27)
“Core Earnings” basis student loan net yield . . . . .	2.68	2.99	4.91	2.84	5.12
“Core Earnings” basis student loan cost of funds . . . . .	(1.51)	(1.79)	(3.26)	(1.65)	(3.56)
“Core Earnings” basis student loan spread, before 2008 Asset-Backed Financing Facilities fees . . . . .	<u>1.17%</u>	<u>1.20%</u>	<u>1.65%</u>	<u>1.19%</u>	<u>1.56%</u>

<sup>(4)</sup> Comprised of investments, cash and other loans.

<sup>(5)</sup> The average balances of our Managed interest-earning assets for the respective periods are:

FFELP loans . . . . .	\$152,482	\$149,422	\$140,033	\$150,960	\$138,891
Private Education Loans . . . . .	36,008	35,817	31,890	35,913	31,323
Total student loans . . . . .	188,490	185,239	171,923	186,873	170,214
Other interest-earning assets . . . . .	12,336	9,622	12,427	10,987	14,211
Total Managed interest-earning assets . . . . .	<u>\$200,826</u>	<u>\$194,861</u>	<u>\$184,350</u>	<u>\$197,860</u>	<u>\$184,425</u>

### *“Core Earnings” Basis Student Loan Spread*

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 3 basis points from the prior quarter. The “Core Earnings” basis student loan spread was negatively impacted by an increase in the Company’s cost of funds primarily resulting from an increase in the credit spreads on the Company’s debt issued during the last year due to the current credit environment. Offsetting this increase in the cost of funds was a 7 basis points tightening of the CP/LIBOR spread between the current and prior quarter, and a lower cost of funds related to the ED Conduit Program, which began in May 2009 (see “LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs”).

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 48 basis points from the year-ago quarter. The “Core Earnings” basis student loan spread was negatively impacted by an increase in the Company’s cost of funds primarily resulting from both a 40 basis points widening of the CP/LIBOR spread between the current and year-ago quarter, and an increase in the credit spreads on the Company’s debt issued during the last year due to the current credit environment.

The “Core Earnings” basis FFELP loan spread for the second quarter of 2009 declined from the year-ago quarter primarily as a result of the increase in the cost of funds previously discussed, 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 second 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 second quarter of 2009 increased 24 basis points and decreased 66 basis points from the prior quarter and year-ago quarter, 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. In addition, the current steepness of the yield curve is negatively impacting this spread. 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 second quarter of 2009 decreased 4 basis points from the prior quarter and decreased 48 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 SFAS No. 140. 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 the American Institute of Certified Public Accountants' ("AICPA") Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." 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 June 30, 2009, March 31, 2009, and June 30, 2008.

	On-Balance Sheet Private Education Loan Delinquencies					
	June 30, 2009		March 31, 2009		June 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$10,355		\$11,205		\$ 9,662	
Loans in forbearance <sup>(2)</sup>	945		861		1,178	
Loans in repayment and percentage of each status:						
Loans current	10,294	84.8%	9,410	83.8%	7,720	89.7%
Loans delinquent 31-60 days <sup>(3)</sup>	504	4.2	515	4.6	326	3.8
Loans delinquent 61-90 days <sup>(3)</sup>	335	2.7	403	3.6	210	2.4
Loans delinquent greater than 90 days <sup>(3)</sup>	1,013	8.3	905	8.0	353	4.1
Total Private Education Loans in repayment	<u>12,146</u>	<u>100%</u>	<u>11,233</u>	<u>100%</u>	<u>8,609</u>	<u>100%</u>
Total Private Education Loans, gross	23,446		23,299		19,449	
Private Education Loan unamortized discount	<u>(537)</u>		<u>(535)</u>		<u>(508)</u>	
Total Private Education Loans	22,909		22,764		18,941	
Private Education Loan receivable for partially charged-off loans	338		265		159	
Private Education Loan allowance for losses	<u>(1,396)</u>		<u>(1,384)</u>		<u>(1,129)</u>	
Private Education Loans, net	<u>\$21,851</u>		<u>\$21,645</u>		<u>\$17,971</u>	
Percentage of Private Education Loans in repayment		<u>51.8%</u>		<u>48.2%</u>		<u>44.3%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>15.2%</u>		<u>16.2%</u>		<u>10.3%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>7.2%</u>		<u>7.1%</u>		<u>12.0%</u>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

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

	June 30, 2009		March 31, 2009		June 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup> . . . . .	\$ 2,974		\$ 3,419		\$ 4,159	
Loans in forbearance <sup>(2)</sup> . . . . .	583		619		1,339	
Loans in repayment and percentage of each status:						
Loans current . . . . .	8,874	90.4%	8,570	90.0%	7,871	95.1%
Loans delinquent 31-60 days <sup>(3)</sup> . . . . .	261	2.7	297	3.1	178	2.2
Loans delinquent 61-90 days <sup>(3)</sup> . . . . .	174	1.8	222	2.3	102	1.2
Loans delinquent greater than 90 days <sup>(3)</sup> . . . . .	<u>505</u>	<u>5.1</u>	<u>434</u>	<u>4.6</u>	<u>124</u>	<u>1.5</u>
Total Private Education Loans in repayment . . . . .	<u>9,814</u>	<u>100%</u>	<u>9,523</u>	<u>100%</u>	<u>8,275</u>	<u>100%</u>
Total Private Education Loans, gross . . . . .	13,371		13,561		13,773	
Private Education Loan unamortized discount . . . . .	<u>(355)</u>		<u>(359)</u>		<u>(356)</u>	
Total Private Education Loans . . . . .	13,016		13,202		13,417	
Private Education Loan receivable for partially charged-off loans . . . . .	149		109		58	
Private Education Loan allowance for losses . . . . .	<u>(544)</u>		<u>(539)</u>		<u>(377)</u>	
Private Education Loans, net . . . . .	<u>\$12,621</u>		<u>\$12,772</u>		<u>\$13,098</u>	
Percentage of Private Education Loans in repayment . . . . .		<u>73.4%</u>		<u>70.2%</u>		<u>60.1%</u>
Delinquencies as a percentage of Private Education Loans in repayment . . . . .		<u>9.6%</u>		<u>10.0%</u>		<u>4.9%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .		<u>5.6%</u>		<u>6.1%</u>		<u>13.9%</u>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

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

	Managed Basis Private Education Loan Delinquencies					
	June 30, 2009		March 31, 2009		June 30, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$13,329		\$14,624		\$13,821	
Loans in forbearance <sup>(2)</sup>	1,528		1,480		2,517	
Loans in repayment and percentage of each status:						
Loans current	19,168	87.3%	17,980	86.6%	15,591	92.3%
Loans delinquent 31-60 days <sup>(3)</sup>	765	3.5	812	3.9	504	3.0
Loans delinquent 61-90 days <sup>(3)</sup>	509	2.3	625	3.0	312	1.9
Loans delinquent greater than 90 days <sup>(3)</sup>	<u>1,518</u>	<u>6.9</u>	<u>1,339</u>	<u>6.5</u>	<u>477</u>	<u>2.8</u>
Total Private Education Loans in repayment	<u>21,960</u>	<u>100%</u>	<u>20,756</u>	<u>100%</u>	<u>16,884</u>	<u>100%</u>
Total Private Education Loans, gross	36,817		36,860		33,222	
Private Education Loan unamortized discount	<u>(892)</u>		<u>(894)</u>		<u>(864)</u>	
Total Private Education Loans	35,925		35,966		32,358	
Private Education Loan receivable for partially charged-off loans	487		374		217	
Private Education Loan allowance for losses	<u>(1,940)</u>		<u>(1,923)</u>		<u>(1,506)</u>	
Private Education Loans, net	<u>\$34,472</u>		<u>\$34,417</u>		<u>\$31,069</u>	
Percentage of Private Education Loans in repayment		<u>59.7%</u>		<u>56.3%</u>		<u>50.8%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>12.7%</u>		<u>13.4%</u>		<u>7.7%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>6.5%</u>		<u>6.7%</u>		<u>13.0%</u>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 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		
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008
Allowance at beginning of period . . . . .	\$ 1,384	\$ 1,308	\$ 1,074	\$ 539	\$ 505	\$ 373	\$ 1,923	\$ 1,813	\$ 1,447
Provision for Private Education Loan losses . . . . .	242	203	120	120	94	43	362	297	163
Charge-offs . . . . .	(239)	(139)	(73)	(116)	(63)	(40)	(355)	(202)	(113)
Reclassification of interest reserve . . . . .	9	12	8	1	3	1	10	15	9
Allowance at end of period . . . . .	<u>\$ 1,396</u>	<u>\$ 1,384</u>	<u>\$ 1,129</u>	<u>\$ 544</u>	<u>\$ 539</u>	<u>\$ 377</u>	<u>\$ 1,940</u>	<u>\$ 1,923</u>	<u>\$ 1,506</u>
Charge-offs as a percentage of average loans in repayment (annualized) . . . . .	8.2%	5.1%	3.6%	4.8%	2.7%	2.1%	6.7%	4.0%	2.9%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized) . . . . .	7.6%	4.7%	3.2%	4.6%	2.5%	1.8%	6.3%	3.7%	2.5%
Allowance as a percentage of the ending total loan balance . . . . .	5.9%	5.9%	5.8%	4.0%	3.9%	2.7%	5.2%	5.2%	4.5%
Allowance as a percentage of ending loans in repayment . . . . .	11.5%	12.3%	13.1%	5.5%	5.7%	4.6%	8.8%	9.3%	8.9%
Average coverage of charge-offs (annualized) . . . . .	1.5	2.5	3.9	1.2	2.1	2.3	1.4	2.3	3.3
Ending total loans <sup>(1)</sup> . . . . .	\$23,784	\$23,564	\$19,608	\$13,520	\$13,669	\$13,831	\$37,304	\$37,233	\$33,439
Average loans in repayment . . . . .	\$11,700	\$11,107	\$ 7,992	\$ 9,630	\$ 9,413	\$ 7,811	\$21,330	\$20,520	\$15,803
Ending loans in repayment . . . . .	\$12,146	\$11,233	\$ 8,609	\$ 9,814	\$ 9,523	\$ 8,275	\$21,960	\$20,756	\$16,884

<sup>(1)</sup> 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	
	Six months ended		Six months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Allowance at beginning of period . . . . .	\$ 1,308	\$ 1,004	\$ 505	\$ 362	\$ 1,813	\$ 1,366
Provision for Private Education Loan losses . . . . .	445	238	214	85	659	323
Charge-offs . . . . .	(378)	(129)	(179)	(73)	(557)	(202)
Reclassification of interest reserve . . . . .	21	16	4	3	25	19
Allowance at end of period . . . . .	<u>\$ 1,396</u>	<u>\$ 1,129</u>	<u>\$ 544</u>	<u>\$ 377</u>	<u>\$ 1,940</u>	<u>\$ 1,506</u>
Charge-offs as a percentage of average loans in repayment (annualized) . . . . .	6.7%	3.5%	3.8%	1.9%	5.4%	2.7%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized) . . . . .	6.2%	3.0%	3.6%	1.6%	5.0%	2.3%
Allowance as a percentage of the ending total loan balance . . . . .	5.9%	5.8%	4.0%	2.7%	5.2%	4.5%
Allowance as a percentage of ending loans in repayment . . . . .	11.5%	13.1%	5.5%	4.6%	8.8%	8.9%
Average coverage of charge-offs (annualized) . . . . .	1.8	4.3	1.5	2.6	1.7	3.7
Ending total loans <sup>(1)</sup> . . . . .	\$23,784	\$19,608	\$13,520	\$13,831	\$37,304	\$33,439
Average loans in repayment . . . . .	\$11,405	\$ 7,544	\$ 9,522	\$ 7,638	\$20,927	\$15,182
Ending loans in repayment . . . . .	\$12,146	\$ 8,609	\$ 9,814	\$ 8,275	\$21,960	\$16,884

<sup>(1)</sup> 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 June 30, 2009, March 31, 2009, and June 30, 2008.

	June 30, 2009			March 31, 2009			June 30, 2008		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans <sup>(1)</sup>	\$32,326	\$4,978	\$37,304	\$32,137	\$5,096	\$37,233	\$28,452	\$4,987	\$33,439
Ending loans in repayment	18,980	2,980	21,960	17,765	2,991	20,756	14,433	2,451	16,884
Private Education Loan allowance for losses	967	973	1,940	959	964	1,923	574	932	1,506
Charge-offs as a percentage of average loans in repayment <sup>(2)</sup>	3.9%	24.0%	6.7%	2.2%	14.5%	4.0%	1.4%	11.5%	2.9%
Allowance as a percentage of total ending loan balance	3.0%	19.6%	5.2%	3.0%	18.9%	5.2%	2.0%	18.7%	4.5%
Allowance as a percentage of ending loans in repayment	5.1%	32.7%	8.8%	5.4%	32.2%	9.3%	4.0%	38.0%	8.9%
Average coverage of charge-offs <sup>(2)</sup>	1.4	1.4	1.4	2.4	2.3	2.3	3.1	3.5	3.3
Delinquencies as a percentage of Private Education Loans in repayment	9.5%	33.5%	12.7%	9.7%	35.1%	13.4%	4.9%	24.0%	7.7%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.8%	20.6%	6.9%	4.3%	19.1%	6.5%	1.6%	9.8%	2.8%
Loans in forbearance as a percentage of loans in repayment and forbearance	6.1%	8.9%	6.5%	6.3%	8.5%	6.7%	12.0%	18.5%	13.0%

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

<sup>(2)</sup> Annualized for the three months ended June 30, 2009, March 31, 2009, and June 30, 2008.

Managed provision expense increased from \$297 million in the first quarter of 2009 to \$362 million in the second quarter of 2009. Provision expense remained elevated in the second 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 from the first quarter of 2009 to the second quarter of 2009. The Company expects a continued increase in charge-off levels in the near term. This increase in charge-off levels was generally anticipated and was previously reflected in our Allowance for Loan Losses as of March 31, 2009 and December 31, 2008. Managed delinquencies as a percentage of Private Education Loans in repayment decreased from 13.4 percent as of March 31, 2009 to 12.7 percent as of June 30, 2009. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 6.7 percent as of March 31, 2009 to 6.5 percent at June 30, 2009. On a year-over-year basis, overall delinquencies as a percentage of loans in repayment increased from 7.7 percent to 12.7 percent, while forbearances decreased from 13.0 percent to 6.5 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 limits on 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, while the monthly average amount of loans granted forbearance in the second quarter of 2009 was consistent with the year-ago quarter at 5 percent of loans in repayment and forbearance. As of June 30, 2009, 2 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 June. 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 13 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

<b>Tracking by First Time in Forbearance Compared to All Loans Entering Repayment</b>			
	<b>Status distribution 36 months after being granted forbearance for the first time</b>	<b>Status distribution 36 months after entering repayment (all loans)</b>	<b>Status distribution 36 months after entering repayment for loans never entering forbearance</b>
In-school/grace/deferment . . .	8.1%	8.0%	2.6%
Current . . . . .	53.8	59.0	65.2
Delinquent 31-60 days . . . . .	3.2	2.0	.4
Delinquent 61-90 days . . . . .	1.8	1.0	.2
Delinquent greater than 90 days . . . . .	3.6	2.2	.3
Forbearance . . . . .	6.6	4.6	—
Defaulted . . . . .	13.0	6.8	4.9
Paid . . . . .	<u>9.9</u>	<u>16.4</u>	<u>26.4</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 June 30, 2009, loans in forbearance status as a percentage of loans in repayment and forbearance are 8.5 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 2.0 percent for loans that have been in active repayment status for more than 48 months. Approximately 88 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

<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>March 31, 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 . . . . .	\$ —	\$ —	\$ —	\$14,624	\$14,624
Loans in forbearance . . . . .	1,356	89	35	—	1,480
Loans in repayment — current . . . . .	11,751	3,971	2,258	—	17,980
Loans in repayment — delinquent 31-60 days . . . . .	674	91	47	—	812
Loans in repayment — delinquent 61-90 days . . . . .	554	49	22	—	625
Loans in repayment — delinquent greater than 90 days . . . . .	<u>1,193</u>	<u>99</u>	<u>47</u>	—	<u>1,339</u>
Total . . . . .	<u>\$15,528</u>	<u>\$4,299</u>	<u>\$2,409</u>	<u>\$14,624</u>	<u>36,860</u>
Unamortized discount . . . . .					(894)
Receivable for partially charged-off loans . . . . .					374
Allowance for loan losses . . . . .					<u>(1,923)</u>
Total Managed Private Education Loans, net . . . . .					<u>\$34,417</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .	<u>8.7%</u>	<u>2.1%</u>	<u>1.5%</u>	<u>—%</u>	<u>6.7%</u>



<u>June 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 . . . . .	\$ —	\$ —	\$ —	\$13,821	\$13,821
Loans in forbearance . . . . .	2,342	125	50	—	2,517
Loans in repayment — current . . . . .	10,632	3,124	1,835	—	15,591
Loans in repayment — delinquent 31-60 days . . . . .	415	58	31	—	504
Loans in repayment — delinquent 61-90 days . . . . .	264	31	17	—	312
Loans in repayment — delinquent greater than 90 days . . . . .	394	51	32	—	477
Total . . . . .	<u>\$14,047</u>	<u>\$3,389</u>	<u>\$1,965</u>	<u>\$13,821</u>	33,222
Unamortized discount . . . . .					(864)
Receivable for partially charged-off loans . . . . .					217
Allowance for loan losses . . . . .					<u>(1,506)</u>
Total Managed Private Education Loans, net . . . . .					<u>\$31,069</u>
Loans in forbearance as a percentage of loans in repayment and forbearance . . . . .	<u>16.7%</u>	<u>3.7%</u>	<u>2.5%</u>	<u>—%</u>	<u>13.0%</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, 6 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>June 30, 2009</u>		<u>March 31, 2009</u>		<u>June 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 . . . . .	\$1,031	68%	\$ 994	67%	\$1,643	65%
13 to 24 months . . . . .	403	26	368	25	736	29
More than 24 months . . . . .	<u>94</u>	<u>6</u>	<u>118</u>	<u>8</u>	<u>138</u>	<u>6</u>
Total . . . . .	<u>\$1,528</u>	<u>100%</u>	<u>\$1,480</u>	<u>100%</u>	<u>\$2,517</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 June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 30, 2009 and 2008.

**Total on-balance sheet loan provisions**

	<u>Quarters ended</u>			<u>Six months ended</u>	
	<u>June 30, 2009</u>	<u>March 31, 2009</u>	<u>June 30, 2008</u>	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Private Education Loans . . . . .	\$242	\$203	\$120	\$445	\$238
FFELP loans . . . . .	25	35	19	60	35
Mortgage and consumer loans . . . . .	<u>11</u>	<u>12</u>	<u>4</u>	<u>23</u>	<u>7</u>
Total on-balance sheet provisions for loan losses . . . . .	<u>\$278</u>	<u>\$250</u>	<u>\$143</u>	<u>\$528</u>	<u>\$280</u>

***Total Managed Basis loan provisions***

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Private Education Loans . . . . .	\$362	\$297	\$163	\$659	\$323
FFELP loans . . . . .	29	40	25	69	44
Mortgage and consumer loans . . . . .	<u>11</u>	<u>12</u>	<u>4</u>	<u>23</u>	<u>7</u>
Total Managed Basis provisions for loan losses . . . . .	<u>\$402</u>	<u>\$349</u>	<u>\$192</u>	<u>\$751</u>	<u>\$374</u>

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

Provision expense for FFELP loans has increased for the three and six months ended June 30, 2009 versus the three and six months ended June 30, 2008 as a result of an expected increase in FFELP loan charge-offs arising from the continued weakening of the U.S. economy.

**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 June 30, 2009, March 31, 2009, and June 30, 2008, and for the six months ended June 30, 2009 and 2008.

***Total on-balance sheet loan charge-offs***

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Private Education Loans . . . . .	\$239	\$139	\$73	\$378	\$129
FFELP loans . . . . .	25	19	16	44	27
Mortgage and consumer loans . . . . .	<u>8</u>	<u>5</u>	<u>2</u>	<u>13</u>	<u>7</u>
Total on-balance sheet loan charge-offs . . . . .	<u>\$272</u>	<u>\$163</u>	<u>\$91</u>	<u>\$435</u>	<u>\$163</u>

***Total Managed loan charge-offs***

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Private Education Loans . . . . .	\$355	\$202	\$113	\$557	\$202
FFELP loans . . . . .	29	23	23	52	39
Mortgage and consumer loans . . . . .	<u>8</u>	<u>5</u>	<u>2</u>	<u>13</u>	<u>7</u>
Total Managed loan charge-offs . . . . .	<u>\$392</u>	<u>\$230</u>	<u>\$138</u>	<u>\$622</u>	<u>\$248</u>

The increase in charge-offs on FFELP loans for the periods presented is primarily a result of the impact of the weakening U.S. economy and to higher loan balances. See “Private Education Loan Losses — *Allowance for Private Education Loan Losses*,” above, for a discussion of charge-offs related to our Private Education Loans.

### Receivable for Partially Charged-Off Loans

The following tables summarize the activity in the receivable for partially charged-off loans) for the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008 and for the six months ended June 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		
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	March 31, 2009	June 30, 2008
Receivable at beginning of period . . . . .	\$265.3	\$222.4	\$134.9	\$108.5	\$ 91.1	\$41.2	\$373.8	\$313.5	\$176.1
Expected future recoveries of current period defaults . . . . .	82.3	53.0	32.4	44.4	19.6	18.9	126.7	72.6	51.3
Recoveries . . . . .	(9.2)	(10.1)	(8.4)	(4.5)	(2.2)	(2.1)	(13.7)	(12.3)	(10.5)
Receivable at end of period . . . . .	<u>\$338.4</u>	<u>\$265.3</u>	<u>\$158.9</u>	<u>\$148.4</u>	<u>\$108.5</u>	<u>\$58.0</u>	<u>\$486.8</u>	<u>\$373.8</u>	<u>\$216.9</u>

	Activity in Receivable for Partially Charged-Off Loans					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Six months ended		Six months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 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 . . . . .	135.3	59.2	64.0	34.3	199.3	93.5
Recoveries . . . . .	(19.3)	(18.3)	(6.7)	(3.9)	(26.0)	(22.2)
Receivable at end of period . . . . .	<u>\$338.4</u>	<u>\$158.9</u>	<u>\$148.4</u>	<u>\$58.0</u>	<u>\$486.8</u>	<u>\$216.9</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 June 30, 2009, March 31, 2009, and June 30, 2008 and six months ended June 30, 2009 and 2008.

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Gains on debt repurchases . . . . .	\$325	\$ 64	\$21	\$389	\$ 21
Late fees and forbearance fees . . . . .	32	37	34	69	71
Gains (losses) on sales of loans and securities, net . . . . .	—	—	1	—	1
Other . . . . .	3	1	6	3	13
Total other income, net . . . . .	<u>\$360</u>	<u>\$102</u>	<u>\$62</u>	<u>\$461</u>	<u>\$106</u>

The Company repurchased \$1.1 billion, \$144 million, and \$1.2 billion face amount of unsecured debt in the second quarter of 2009, the first quarter of 2009 and the second quarter of 2008, respectively. Since the second quarter of 2008, the Company has repurchased \$3.2 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

### 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 June 30, 2009, March 31, 2009, and June 30, 2008, operating expenses for the Lending business segment, excluding \$4 million in other reorganization-related asset impairments recognized in the second quarter of 2008, totaled \$141 million, \$131 million, and \$151 million, respectively. The increase in operating expenses for the second quarter of 2009 versus the prior quarter was primarily the result of costs associated with the ramp-up of staffing for peak origination season, an increase in marketing expenses, and an increase in deposit insurance at Sallie Mae Bank due to higher insurance premiums and an industry-wide FDIC special assessment of \$3 million.

The decrease in operating expenses versus the year-ago quarter was primarily due to the Company's continued cost reduction efforts. As a result, operating expenses were 30 basis points and 35 basis points of average Managed student loans in the second quarter of 2009 versus the second quarter of 2008.

### Loan Originations

Our FFELP internal brand originations were up sharply in the second quarter of 2009, increasing 76 percent from the year-ago quarter. Our FFELP Lender Partner originations declined 30 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 57 percent from the year-ago period to \$.4 billion in the quarter ended June 30, 2009, as a result of our current lending policies and withdrawal from certain markets.

At June 30, 2009, the Company was committed to purchase \$1.3 billion of loans originated by our Lender Partners (\$.6 billion of FFELP loans and \$.7 billion of Private Education Loans). Approximately \$.3 billion of these FFELP loans were originated prior to CCRAA. Approximately \$.2 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			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Loan Originations — Internal lending brands</b>					
Stafford	\$3,008	\$4,925	\$1,650	\$ 7,932	\$4,509
PLUS	162	597	127	759	673
GradPLUS	160	275	113	436	307
Total FFELP	3,330	5,797	1,890	9,127	5,489
Private Education Loans	372	1,356	854	1,728	3,078
Total	<u>\$3,702</u>	<u>\$7,153</u>	<u>\$2,744</u>	<u>\$10,855</u>	<u>\$8,567</u>

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Loan Originations — Lender Partners</b>					
Stafford	\$351	\$ 772	\$513	\$1,126	\$2,621
PLUS	16	51	18	66	290
GradPLUS	9	18	5	26	47
Total FFELP	376	841	536	1,218	2,958
Private Education Loans	15	160	37	174	291
Total	<u>\$391</u>	<u>\$1,001</u>	<u>\$573</u>	<u>\$1,392</u>	<u>\$3,249</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 June 30, 2009				
	FFELP Stafford and Other <sup>(1)</sup>	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 <sup>(2)</sup>	—	—	—	—	—
Securitization-related <sup>(3)</sup>	425	—	425	—	425
Repayments/claims/resales/other	(1,358)	(991)	(2,349)	(528)	(2,877)
Ending balance	\$62,204	\$70,102	\$132,306	\$21,851	\$154,157

	Off-Balance Sheet				
	Three months ended June 30, 2009				
	FFELP Stafford and Other <sup>(1)</sup>	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 <sup>(2)</sup>	—	—	—	—	—
Securitization-related <sup>(3)</sup>	(425)	—	(425)	—	(425)
Repayments/claims/resales/other	(215)	(206)	(421)	(273)	(694)
Ending balance	\$6,170	\$15,170	\$21,340	\$12,621	\$33,961

	Managed Portfolio				
	Three months ended June 30, 2009				
	FFELP Stafford and Other <sup>(1)</sup>	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 <sup>(2)</sup>	—	—	—	—	—
Securitization-related <sup>(3)</sup>	—	—	—	—	—
Repayments/claims/resales/other	(1,573)	(1,197)	(2,770)	(801)	(3,571)
Ending balance <sup>(4)</sup>	\$68,374	\$85,272	\$153,646	\$34,472	\$188,118
Total Managed Acquisitions <sup>(5)</sup>	\$ 5,492	\$ 331	\$ 5,823	\$ 860	\$ 6,683

<sup>(1)</sup> FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

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

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

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

**On-Balance Sheet**  
**Three months ended March 31, 2009**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$52,476	\$71,744	\$124,220	\$20,582	\$144,802
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(243)	(121)	(364)	(4)	(368)
Net consolidations . . . . .	(243)	(121)	(364)	(4)	(368)
Acquisitions . . . . .	7,590	274	7,864	1,594	9,458
Net acquisitions . . . . .	7,347	153	7,500	1,590	9,090
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Repayments/claims/resales/other . . . . .	(1,979)	(1,012)	(2,991)	(527)	(3,518)
Ending balance . . . . .	<u>\$57,844</u>	<u>\$70,885</u>	<u>\$128,729</u>	<u>\$21,645</u>	<u>\$150,374</u>

**Off-Balance Sheet**  
**Three months ended March 31, 2009**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$7,143	\$15,531	\$22,674	\$12,917	\$35,591
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(110)	(26)	(136)	(3)	(139)
Net consolidations . . . . .	(110)	(26)	(136)	(3)	(139)
Acquisitions . . . . .	41	48	89	117	206
Net acquisitions . . . . .	(69)	22	(47)	114	67
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Repayments/claims/resales/other . . . . .	(228)	(210)	(438)	(259)	(697)
Ending balance . . . . .	<u>\$6,846</u>	<u>\$15,343</u>	<u>\$22,189</u>	<u>\$12,772</u>	<u>\$34,961</u>

**Managed Portfolio**  
**Three months ended March 31, 2009**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$59,619	\$87,275	\$146,894	\$33,499	\$180,393
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(353)	(147)	(500)	(7)	(507)
Net consolidations . . . . .	(353)	(147)	(500)	(7)	(507)
Acquisitions . . . . .	7,631	322	7,953	1,711	9,664
Net acquisitions . . . . .	7,278	175	7,453	1,704	9,157
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Repayments/claims/resales/other . . . . .	(2,207)	(1,222)	(3,429)	(786)	(4,215)
Ending balance <sup>(3)</sup> . . . . .	<u>\$64,690</u>	<u>\$86,228</u>	<u>\$150,918</u>	<u>\$34,417</u>	<u>\$185,335</u>
Total Managed Acquisitions <sup>(4)</sup> . . . . .	<u>\$ 7,631</u>	<u>\$ 322</u>	<u>\$ 7,953</u>	<u>\$ 1,711</u>	<u>\$ 9,664</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 March 31, 2009, the ending balance includes \$19.8 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**  
**Three months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$40,168	\$73,868	\$114,036	\$16,977	\$131,013
Net consolidations:					
Incremental consolidations from third parties . . . . .	—	11	11	55	66
Consolidations to third parties . . . . .	(100)	(51)	(151)	(9)	(160)
Net consolidations . . . . .	(100)	(40)	(140)	46	(94)
Acquisitions . . . . .	4,003	338	4,341	1,336	5,677
Net acquisitions . . . . .	3,903	298	4,201	1,382	5,583
Internal consolidations <sup>(2)</sup> . . . . .	(32)	36	4	67	71
Repayments/claims/resales/other . . . . .	(892)	(1,031)	(1,923)	(455)	(2,378)
Ending balance . . . . .	<u>\$43,147</u>	<u>\$73,171</u>	<u>\$116,318</u>	<u>\$17,971</u>	<u>\$134,289</u>

**Off-Balance Sheet**  
**Three months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$9,011	\$16,237	\$25,248	\$13,214	\$38,462
Net consolidations:					
Incremental consolidations from third parties . . . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(30)	(9)	(39)	(12)	(51)
Net consolidations . . . . .	(30)	(9)	(39)	(12)	(51)
Acquisitions . . . . .	73	48	121	197	318
Net acquisitions . . . . .	43	39	82	185	267
Internal consolidations <sup>(2)</sup> . . . . .	(2)	(2)	(4)	(67)	(71)
Repayments/claims/resales/other . . . . .	(577)	(232)	(809)	(234)	(1,043)
Ending balance . . . . .	<u>\$8,475</u>	<u>\$16,042</u>	<u>\$24,517</u>	<u>\$13,098</u>	<u>\$37,615</u>

**Managed Portfolio**  
**Three months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$49,179	\$90,105	\$139,284	\$30,191	\$169,475
Net consolidations:					
Incremental consolidations from third parties . . . . .	—	11	11	55	66
Consolidations to third parties . . . . .	(130)	(60)	(190)	(21)	(211)
Net consolidations . . . . .	(130)	(49)	(179)	34	(145)
Acquisitions . . . . .	4,076	386	4,462	1,533	5,995
Net acquisitions . . . . .	3,946	337	4,283	1,567	5,850
Internal consolidations <sup>(2)</sup> . . . . .	(34)	34	—	—	—
Repayments/claims/resales/other . . . . .	(1,469)	(1,263)	(2,732)	(689)	(3,421)
Ending balance <sup>(3)</sup> . . . . .	<u>\$51,622</u>	<u>\$89,213</u>	<u>\$140,835</u>	<u>\$31,069</u>	<u>\$171,904</u>
Total Managed Acquisitions <sup>(4)</sup> . . . . .	<u>\$ 4,076</u>	<u>\$ 397</u>	<u>\$ 4,473</u>	<u>\$ 1,588</u>	<u>\$ 6,061</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 June 30, 2008, the ending balance includes \$5.5 billion of FFELP Stafford and Other Loans and \$2.7 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**  
Six months ended June 30, 2009

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$52,476	\$71,744	\$124,220	\$20,582	\$144,802
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(406)	(194)	(600)	(3)	(603)
Net consolidations . . . . .	(406)	(194)	(600)	(3)	(603)
Acquisitions . . . . .	13,046	555	13,601	2,327	15,928
Net acquisitions . . . . .	12,640	361	13,001	2,324	15,325
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Securitization-related <sup>(3)</sup> . . . . .	425	—	425	—	425
Repayments/claims/resales/other . . . . .	(3,337)	(2,003)	(5,340)	(1,055)	(6,395)
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**  
Six months ended June 30, 2009

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$7,143	\$15,531	\$22,674	\$12,917	\$35,591
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(182)	(43)	(225)	(8)	(233)
Net consolidations . . . . .	(182)	(43)	(225)	(8)	(233)
Acquisitions . . . . .	77	98	175	244	419
Net acquisitions . . . . .	(105)	55	(50)	236	186
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Securitization-related <sup>(3)</sup> . . . . .	(425)	—	(425)	—	(425)
Repayments/claims/resales/other . . . . .	(443)	(416)	(859)	(532)	(1,391)
Ending balance . . . . .	<u>\$6,170</u>	<u>\$15,170</u>	<u>\$21,340</u>	<u>\$12,621</u>	<u>\$33,961</u>

**Managed Portfolio**  
Six months ended June 30, 2009

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$59,619	\$87,275	\$146,894	\$33,499	\$180,393
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(588)	(237)	(825)	(11)	(836)
Net consolidations . . . . .	(588)	(237)	(825)	(11)	(836)
Acquisitions . . . . .	13,123	653	13,776	2,571	16,347
Net acquisitions . . . . .	12,535	416	12,951	2,560	15,511
Internal consolidations <sup>(2)</sup> . . . . .	—	—	—	—	—
Securitization-related <sup>(3)</sup> . . . . .	—	—	—	—	—
Repayments/claims/resales/other . . . . .	(3,780)	(2,419)	(6,199)	(1,587)	(7,786)
Ending balance <sup>(4)</sup> . . . . .	<u>\$68,374</u>	<u>\$85,272</u>	<u>\$153,646</u>	<u>\$34,472</u>	<u>\$188,118</u>
Total Managed Acquisitions <sup>(5)</sup> . . . . .	<u>\$13,123</u>	<u>\$ 653</u>	<u>\$ 13,776</u>	<u>\$ 2,571</u>	<u>\$ 16,347</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**  
**Six months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total On- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$35,726	\$73,609	\$109,335	\$14,818	\$124,153
Net consolidations:					
Incremental consolidations from third parties . . .	—	461	461	146	607
Consolidations to third parties . . . . .	(341)	(122)	(463)	(25)	(488)
Net consolidations . . . . .	(341)	339	(2)	121	119
Acquisitions . . . . .	10,061	690	10,751	3,799	14,550
Net acquisitions . . . . .	9,720	1,029	10,749	3,920	14,669
Internal consolidations <sup>(2)</sup> . . . . .	(409)	529	120	225	345
Repayments/claims/resales/other . . . . .	(1,890)	(1,996)	(3,886)	(992)	(4,878)
Ending balance . . . . .	<u>\$43,147</u>	<u>\$73,171</u>	<u>\$116,318</u>	<u>\$17,971</u>	<u>\$134,289</u>

**Off-Balance Sheet**  
**Six months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Off- Balance Sheet Portfolio</b>
Beginning balance . . . . .	\$9,472	\$16,441	\$25,913	\$13,510	\$39,423
Net consolidations:					
Incremental consolidations from third parties . . .	—	—	—	—	—
Consolidations to third parties . . . . .	(82)	(23)	(105)	(43)	(148)
Net consolidations . . . . .	(82)	(23)	(105)	(43)	(148)
Acquisitions . . . . .	122	97	219	354	573
Net acquisitions . . . . .	40	74	114	311	425
Internal consolidations <sup>(2)</sup> . . . . .	(84)	(36)	(120)	(225)	(345)
Repayments/claims/resales/other . . . . .	(953)	(437)	(1,390)	(498)	(1,888)
Ending balance . . . . .	<u>\$8,475</u>	<u>\$16,042</u>	<u>\$24,517</u>	<u>\$13,098</u>	<u>\$37,615</u>

**Managed Portfolio**  
**Six months ended June 30, 2008**

	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Total Private Education Loans</b>	<b>Total Managed Basis Portfolio</b>
Beginning balance . . . . .	\$45,198	\$90,050	\$135,248	\$28,328	\$163,576
Net consolidations:					
Incremental consolidations from third parties . . .	—	461	461	146	607
Consolidations to third parties . . . . .	(423)	(145)	(568)	(68)	(636)
Net consolidations . . . . .	(423)	316	(107)	78	(29)
Acquisitions . . . . .	10,183	787	10,970	4,153	15,123
Net acquisitions . . . . .	9,760	1,103	10,863	4,231	15,094
Internal consolidations <sup>(2)</sup> . . . . .	(493)	493	—	—	—
Repayments/claims/resales/other . . . . .	(2,843)	(2,433)	(5,276)	(1,490)	(6,766)
Ending balance <sup>(4)</sup> . . . . .	<u>\$51,622</u>	<u>\$89,213</u>	<u>\$140,835</u>	<u>\$31,069</u>	<u>\$171,904</u>
Total Managed Acquisitions <sup>(5)</sup> . . . . .	<u>\$10,183</u>	<u>\$ 1,248</u>	<u>\$ 11,431</u>	<u>\$ 4,299</u>	<u>\$ 15,730</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 June 30, 2008, the ending balance includes \$5.5 billion of FFELP Stafford and Other Loans and \$2.7 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.

	<b>Three months ended June 30, 2009</b>				
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
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%

	<b>Three months ended March 31, 2009</b>				
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
On-balance sheet . . . . .	\$55,681	\$71,310	\$126,991	\$22,671	\$149,662
Off-balance sheet . . . . .	6,998	15,433	22,431	13,146	35,577
Total Managed . . . . .	<u>\$62,679</u>	<u>\$86,743</u>	<u>\$149,422</u>	<u>\$35,817</u>	<u>\$185,239</u>
% of on-balance sheet FFELP . . . . .	44%	56%	100%		
% of Managed FFELP . . . . .	42%	58%	100%		
% of total . . . . .	34%	47%	81%	19%	100%

	<b>Three months ended June 30, 2008</b>				
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
On-balance sheet . . . . .	\$41,666	\$73,509	\$115,175	\$18,573	\$133,748
Off-balance sheet . . . . .	8,736	16,122	24,858	13,317	38,175
Total Managed . . . . .	<u>\$50,402</u>	<u>\$89,631</u>	<u>\$140,033</u>	<u>\$31,890</u>	<u>\$171,923</u>
% of on-balance sheet FFELP . . . . .	36%	64%	100%		
% of Managed FFELP . . . . .	36%	64%	100%		
% of total . . . . .	29%	52%	81%	19%	100%

	<b>Six months ended June 30, 2009</b>				
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
On-balance sheet . . . . .	\$57,913	\$70,881	\$128,794	\$22,842	\$151,636
Off-balance sheet . . . . .	6,828	15,338	22,166	13,071	35,237
Total Managed . . . . .	<u>\$64,741</u>	<u>\$86,219</u>	<u>\$150,960</u>	<u>\$35,913</u>	<u>\$186,873</u>
% of on-balance sheet FFELP . . . . .	45%	55%	100%		
% of Managed FFELP . . . . .	43%	57%	100%		
% of total . . . . .	35%	46%	81%	19%	100%

	<b>Six months ended June 30, 2008</b>				
	<b>FFELP Stafford and Other<sup>(1)</sup></b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
On-balance sheet . . . . .	\$40,008	\$73,654	\$113,662	\$17,882	\$131,544
Off-balance sheet . . . . .	8,998	16,231	25,229	13,441	38,670
Total Managed . . . . .	<u>\$49,006</u>	<u>\$89,885</u>	<u>\$138,891</u>	<u>\$31,323</u>	<u>\$170,214</u>
% of on-balance sheet FFELP . . . . .	35%	65%	100%		
% of Managed FFELP . . . . .	35%	65%	100%		
% of total . . . . .	29%	53%	82%	18%	100%

<sup>(1)</sup> 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 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>33</u>	<u>7</u>	<u>40</u>	<u>80</u>
Total expenses . . . . .	32	8	40	80
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 . . . . .	(10)	(11)	31	10
Income tax expense (benefit) . . . . .	<u>(3)</u>	<u>(4)</u>	<u>11</u>	<u>4</u>
Income (loss) before noncontrolling interest . . . . .	(7)	(7)	20	6
Noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) . . . . .	<u>\$ (7)</u>	<u>\$ (7)</u>	<u>\$20</u>	<u>\$ 6</u>
	Quarter ended March 31, 2009			
	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$ 2	\$ —	\$73	\$ 75
Collections revenue (loss) . . . . .	<u>43</u>	<u>(65)</u>	<u>—</u>	<u>(22)</u>
Total income (loss) . . . . .	45	(65)	73	53
Restructuring expenses . . . . .	1	1	—	2
Operating expenses . . . . .	<u>39</u>	<u>6</u>	<u>43</u>	<u>88</u>
Total expenses . . . . .	40	7	43	90
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 . . . . .	2	(73)	28	(43)
Income tax expense (benefit) . . . . .	<u>1</u>	<u>(27)</u>	<u>10</u>	<u>(16)</u>
Income (loss) before noncontrolling interest . . . . .	1	(46)	18	(27)
Noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) . . . . .	<u>\$ 1</u>	<u>\$(46)</u>	<u>\$18</u>	<u>\$(27)</u>

**Quarter ended June 30, 2008**

	<b>Purchased Paper — Non- Mortgage</b>	<b>Purchased Paper — Mortgage/ Properties</b>	<b>Contingency &amp; Other</b>	<b>Total APG</b>
Contingency fee income . . . . .	\$ 3	\$ —	\$81	\$ 84
Collections revenue (loss) . . . . .	<u>57</u>	<u>(30)</u>	<u>—</u>	<u>27</u>
Total income (loss) . . . . .	60	(30)	81	111
Restructuring expenses . . . . .	1	—	4	5
Operating expenses . . . . .	<u>51</u>	<u>10</u>	<u>49</u>	<u>110</u>
Total expenses . . . . .	52	10	53	115
Net interest expense . . . . .	<u>4</u>	<u>1</u>	<u>2</u>	<u>7</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest . . . . .	4	(41)	26	(11)
Income tax expense (benefit) . . . . .	<u>1</u>	<u>(15)</u>	<u>10</u>	<u>(4)</u>
Income (loss) before noncontrolling interest . . . . .	3	(26)	16	(7)
Noncontrolling interest . . . . .	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>
“Core Earnings” net income (loss) . . . . .	<u>\$—</u>	<u>\$(26)</u>	<u>\$16</u>	<u>\$(10)</u>

**Six months ended June 30, 2009**

	<b>Purchased Paper — Non- Mortgage</b>	<b>Purchased Paper — Mortgage/ Properties</b>	<b>Contingency &amp; Other</b>	<b>Total APG</b>
Contingency fee income . . . . .	\$ 2	\$ —	\$146	\$148
Collections revenue (loss) . . . . .	<u>67</u>	<u>(67)</u>	<u>—</u>	<u>—</u>
Total income (loss) . . . . .	69	(67)	146	148
Restructuring expenses . . . . .	—	2	—	2
Operating expenses . . . . .	<u>73</u>	<u>13</u>	<u>83</u>	<u>169</u>
Total expenses . . . . .	73	15	83	171
Net interest expense . . . . .	<u>5</u>	<u>2</u>	<u>3</u>	<u>10</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest . . . . .	(9)	(84)	60	(33)
Income tax expense (benefit) . . . . .	<u>(3)</u>	<u>(31)</u>	<u>22</u>	<u>(12)</u>
Income (loss) before noncontrolling interest . . . . .	(6)	(53)	38	(21)
Noncontrolling interest . . . . .	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) . . . . .	<u>\$(6)</u>	<u>\$(53)</u>	<u>\$ 38</u>	<u>\$(21)</u>

## Six months ended June 30, 2008

	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/Properties	Contingency & Other	Total APG
Contingency fee income . . . . .	\$ 6	\$ —	\$163	\$169
Collections revenue (loss) . . . . .	<u>109</u>	<u>(25)</u>	<u>—</u>	<u>84</u>
Total income (loss) . . . . .	115	(25)	163	253
Restructuring expenses . . . . .	1	—	5	6
Operating expenses . . . . .	<u>104</u>	<u>19</u>	<u>93</u>	<u>216</u>
Total expenses . . . . .	105	19	98	222
Net interest expense . . . . .	<u>7</u>	<u>3</u>	<u>4</u>	<u>14</u>
Income (loss) before income tax expense (benefit) and noncontrolling interest . . . . .	3	(47)	61	17
Income tax expense (benefit) . . . . .	<u>1</u>	<u>(17)</u>	<u>22</u>	<u>6</u>
Income (loss) before noncontrolling interest . . . . .	2	(30)	39	11
Noncontrolling interest . . . . .	<u>3</u>	<u>—</u>	<u>—</u>	<u>3</u>
“Core Earnings” net income (loss) . . . . .	<u>\$ (1)</u>	<u>\$(30)</u>	<u>\$ 39</u>	<u>\$ 8</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 will not buy any additional purchased paper in excess of these obligations. The Company recognized \$13 million, \$3 million, and \$7 million of impairment in the second quarter of 2009, the first quarter of 2009 and the second 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 \$8 million, \$74 million, and \$51 million in the second quarter of 2009, the first quarter of 2009, and the second quarter of 2008, respectively. The total impairment for the year ended December 31, 2008 was \$262 million.

**Purchased Paper — Non-Mortgage**

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Face value of purchases for the period . . . . .	\$ 2	\$388	\$1,349	\$390	\$2,878
Purchase price for the period . . . . .	1	29	125	30	268
Purchase price as a percentage of face value purchased . . . . .	32.1%	7.5%	9.3%	7.6%	9.3%
Gross Cash Collections (“GCC”) . . . . .	\$ 87	\$110	\$ 172	\$243	\$ 331
Collections revenue . . . . .	24	43	57	67	109
Collections revenue as a percentage of GCC . . . . .	28%	39%	33%	28%	33%
Carrying value of purchased paper . . . . .	\$ 418	\$459	\$ 633	\$418	\$ 633

## Purchased Paper — Mortgage/Properties

	Quarters ended			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Face value of purchases for the period . . . . .	\$ —	\$ —	\$ —	\$ —	\$ 39
Collections revenue (loss), net of impairments . . . . .	(2)	(65)	(30)	(67)	(25)
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 . . . . .	\$437	\$533	\$1,013	\$437	\$1,013
Carrying value of purchased paper as a percentage of collateral fair value . . . . .	68%	67%	77%	68%	77%

## Contingency Inventory

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

	June 31, 2009	March 31, 2009	June 30, 2008
Contingency:			
Student loans . . . . .	\$ 9,182	\$ 9,234	\$ 8,730
Other . . . . .	1,140	1,725	1,692
Total . . . . .	<u>\$10,322</u>	<u>\$10,959</u>	<u>\$10,422</u>

## Operating Expenses — APG Business Segment

For the quarters ended June 30, 2009, March 31, 2009, and June 30, 2008, operating expenses for the APG business segment, excluding \$1 million in other reorganization-related asset impairments recognized in the second quarter of 2008, totaled \$80 million, \$88 million, and \$109 million, respectively. The decrease in operating expenses from the year-ago quarter was primarily due to the Company's continued cost reduction efforts and the reduction in 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			Six months ended	
	June 30, 2009	March 31, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net interest income after provisions for losses . . . . .	\$ 1	\$ 1	\$ —	\$ 1	\$ 1
Guarantor servicing fees . . . . .	25	34	24	59	58
Loan servicing fees . . . . .	9	10	5	19	11
Uprmise . . . . .	26	25	26	51	52
Other . . . . .	<u>11</u>	<u>14</u>	<u>14</u>	<u>26</u>	<u>34</u>
Total other income . . . . .	71	83	69	155	155
Restructuring expenses . . . . .	—	2	11	2	15
Operating expenses . . . . .	<u>85</u>	<u>72</u>	<u>73</u>	<u>156</u>	<u>144</u>
Total expenses . . . . .	<u>85</u>	<u>74</u>	<u>84</u>	<u>158</u>	<u>159</u>
Income (loss) before income tax expense (benefit) . . . . .	(13)	10	(15)	(2)	(3)
Income tax expense (benefit) . . . . .	<u>(5)</u>	<u>3</u>	<u>(6)</u>	<u>(1)</u>	<u>(1)</u>
"Core Earnings" net income (loss) . . . . .	<u>\$ (8)</u>	<u>\$ 7</u>	<u>\$ (9)</u>	<u>\$ (1)</u>	<u>\$ (2)</u>

The decrease in guarantor servicing fees versus the prior quarter was primarily due to the seasonality of loan disbursements which were higher in the first quarter of 2009 versus the second quarter of 2009.

United Student Aid Funds, Inc. (“USA Funds”), the nation’s largest guarantee agency, accounted for 84 percent, 88 percent and 86 percent, respectively, of guarantor servicing fees and 1 percent, 5 percent and 12 percent, respectively, of revenues associated with other products and services for the quarters ended June 30, 2009, March 31, 2009, and June 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. The increase in operating expenses for the second quarter of 2009 versus the prior quarter was primarily the result of start-up costs related to the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that will be put 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 re-entered 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 to fund Private Education Loan originations. We plan to use term asset-backed securities, asset-backed financing facilities, cash flow 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 at a rate of commercial paper 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 economies 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 on or before the program’s expiration date. 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 address 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 expects its participation to be approved in the third quarter of 2009.

On August 14, 2008, the Company received its initial advance under the Participation Program. As of June 30, 2009, the Company had \$17.2 billion of advances outstanding under the Participation Program.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the “ED Conduit Program”). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements including with respect to borrower benefits. The ED Conduit, commonly referred to as Straight A Funding, was launched on May 11, 2009. 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 ED Conduit Program has a term of five years and will expire on January 19, 2014. 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 foreclosed upon through the Put Agreement provided by the ED. Approximately \$15.5 billion of our Stafford and PLUS loans (excluding loans currently in the Participation Program) are eligible for funding under the ED Conduit Program. As of June 30, 2009, \$11.4 billion of these assets have been funded through this program with a weighted average issuance cost of approximately .74 percent.

### **Additional Funding Sources for General Corporate Purposes**

The Company has encountered many challenges to its business model over the course of the last several years. In order to continue to meet our mission of providing access to higher education, we have worked with Congress, ED and the Treasury Department to find solutions to those challenges that have been created by market conditions.

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 80 percent of our Managed debt outstanding at June 30, 2009 versus 76 percent at June 30, 2008.

### ***Sallie Mae Bank***

During the fourth quarter of 2008, Sallie Mae Bank, our Utah banking 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. In the second quarter of 2009, Sallie Mae Bank raised \$3.4 billion of term bank deposits with a weighted average life of 3.2 years and a weighted average fixed cost of approximately 3.16 percent. As of June 30, 2009, total term bank deposits were \$6.1 billion. As of June 30, 2009, \$3.7 billion of Private Education Loans were held at Sallie Mae Bank. We ultimately expect to raise long-term financing, through Private Education Loan securitizations or otherwise, to fund these loans. In the near term, we expect Sallie Mae Bank to continue to fund newly originated Private Education Loans through 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 term ABS transactions totaling \$5.1 billion. The FFELP transactions were both public and private transactions 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, 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. These transactions were private 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 remain 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 remain 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 \$21.8 billion extended facility contains two contractual reductions, the first of which required the facility limit to be reduced to \$15.2 billion on June 30, 2009. On June 30, 2009, outstandings under the facility were \$12.5 billion. The second contractual reduction is to \$10.9 billion on September 30, 2009. Failure to meet this specified reduction would result in an increase in the spread to the applicable funding rate to 300 basis points. The Company expects to materially reduce the outstandings under the 2008 FFELP ABCP Facility prior to maturity through a combination of asset securitizations and through the utilization of the ED Conduit Program. 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 to 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 June 30, 2009, the maximum borrowing amount was approximately \$14.8 billion under the 2008 FFELP ABCP Facility. 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 June 30, 2009, the Company had \$12.5 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing these facilities as of June 30, 2009 was \$14.1 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 with funding of up to five years for eligible ABS rated by two or more rating agencies in the highest investment-grade rating category. Eligible ABS include ‘AAA’ rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of June 30, 2009, we had approximately \$12.7 billion book basis (\$13.4 billion face amount) of student loans eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. The Federal Reserve Bank launched the TALF program on March 3, 2009. 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.

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 15, 2012. If the issue is called on November 15, 2011, we expect the effective cost of the bond financing will be approximately 1 month LIBOR plus 3.7 percent.

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 15, 2012 and June 15, 2012. If the issue is called on January 15, 2012, we expect the effective cost of the bond financing will be approximately Prime minus 0.71 percent.

### ***Auction Rate Securities***

At June 30, 2009, we had \$3.3 billion of taxable and \$1.3 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively, on a Managed Basis. Since February 2008, an imbalance of supply and demand 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 June 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 \$1.3 billion of tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 3.40 percent during the second 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 June 30, 2009, \$1.5 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 June 30, 2009, on a Managed Basis, the Company had \$2.5 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 \$2.6 billion of the 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, 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 June 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 a subsidiary of Lehman Brothers Holding, 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 a \$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 \$2.9 billion as of June 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 June 30, 2009. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Although we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

During the quarter, the Company completed several new financing transactions and acquired new financing sources. Combined, this activity generated excess liquidity which was used to repurchase \$1.1 billion of the Company's senior unsecured notes, generating a pre-tax gain of \$325 million.

The following table details our primary sources of primary and stand-by liquidity and the available capacity at June 30, 2009, and March 31, 2009.

	<u>June 30, 2009</u> <u>Available Capacity</u>	<u>March 31, 2009</u> <u>Available Capacity</u>
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:		
ED Purchase and Participation Programs <sup>(1)</sup> . . . . .	<i>Unlimited<sup>(1)</sup></i>	<i>Unlimited<sup>(1)</sup></i>
Sources of primary liquidity for general corporate purposes:		
Unrestricted cash and liquid investments:		
Cash and cash equivalents . . . . .	\$ 6,140	\$ 3,064
U.S. Treasury-backed securities . . . . .	—	—
Commercial paper and asset-backed commercial paper . . . . .	1,050	410
Certificates of deposit . . . . .	—	—
Other <sup>(2)</sup> . . . . .	<u>152</u>	<u>184</u>
Total unrestricted cash and liquid investments <sup>(3)(4)(5)</sup> . . . . .	7,342	3,658
Unused commercial paper and bank lines of credit <sup>(6)</sup> . . . . .	3,485	5,192
2008 FFELP ABCP Facilities . . . . .	2,294	122
2008 Private Education Loan ABCP Facility . . . . .	<u>—</u>	<u>5</u>
Total sources of primary liquidity for general corporate purposes . . . . .	<u>13,121</u>	<u>8,977</u>
Sources of stand-by liquidity:		
Unencumbered FFELP loans <sup>(7)</sup> . . . . .	<u>3,110</u>	<u>5,001</u>
Total sources of primary and stand-by liquidity for general corporate purposes <sup>(8)</sup> . . . . .	<u>\$ 16,231</u>	<u>\$ 13,978</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 June 30, 2009 and March 31, 2009, includes \$42 million and \$64 million, respectively, due from The Reserve Primary Fund (see “Counterparty Exposure” below).
- (3) At June 30, 2009 and March 31, 2009, excludes \$27 million and \$18 million, respectively, of investments pledged as collateral related to certain derivative positions and \$843 million and \$73 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.
- (4) At June 30, 2009 and March 31, 2009, includes \$0 million and \$911 million, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.
- (5) At June 30, 2009 and March 31, 2009, includes \$3.5 billion and \$802 million, 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 June 30, 2009 and March 31, 2009, excludes commitments of \$215 million and \$308 million, respectively, from 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 June 30, 2009 and March 31, 2009 included approximately \$687 million and \$605 million, respectively of unencumbered FFELP student loans qualified to be financed by ED’s Participation Program. Additionally, at June 30, 2009, \$1.1 billion 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 June 30, 2009, we had a total of \$36.6 billion of unencumbered assets, including goodwill and acquired intangibles. Student loans, net, comprised \$19.2 billion of this unencumbered asset total.

## Counterparty Exposure

As of June 30, 2009, the Company had certain exposures to counterparties impacted by the ongoing credit market dislocation. 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.

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 a \$215 million commitment as of June 30, 2009. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitment of Lehman Brothers 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 June 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 the 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), 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. In May 2009, following the reduction of SLM's ratings by Moody's Investor Service to below investment grade, we were required to segregate the majority of our collateral position and categorize the cash as restricted on our balance sheet. As of June 30, 2009, the Company did not hold any cash collateral in unrestricted cash accounts.

The table below highlights exposure related to our derivative counterparties at June 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 . . . . .	\$221	\$1,154	\$600
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3 . . . . .	68%	39%	34%
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 SFAS No. 133 valuation adjustments) at June 30, 2009, March 31, 2009, and June 30, 2008.

	<u>June 30, 2009</u>			<u>March 31, 2009</u>			<u>June 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 . . . . .	\$ 4,249	\$ 28,416	\$ 32,665	\$ 5,052	\$ 29,840	\$ 34,892	\$ 7,557	\$ 34,167	\$ 41,724
Term bank deposits . . . . .	901	5,199	6,100	1,066	2,215	3,281	617	—	617
Indentured trusts (on-balance sheet) . . . . .	8	1,761	1,769	—	1,924	1,924	73	2,310	2,383
ABCP borrowings (on-balance sheet) <sup>(1)</sup> . . . . .	12,476	—	12,476	25,519	—	25,519	26,273	—	26,273
ED Participation Program facility (on- balance sheet) <sup>(2)</sup> . . . . .	17,236	—	17,236	13,530	—	13,530	—	—	—
ED Conduit Program facility (on- balance sheet) . . . . .	11,095	—	11,095	—	—	—	—	—	—
Securitizations (on-balance sheet) . . . . .	—	87,386	87,386	—	80,585	80,585	—	76,309	76,309
Securitizations (off-balance sheet) . . . . .	—	35,211	35,211	—	36,359	36,359	—	39,741	39,741
Other . . . . .	1,358	—	1,358	1,154	—	1,154	2,668	—	2,668
Total . . . . .	<u>\$47,323</u>	<u>\$157,973</u>	<u>\$205,296</u>	<u>\$46,321</u>	<u>\$150,923</u>	<u>\$197,244</u>	<u>\$37,188</u>	<u>\$152,527</u>	<u>\$189,715</u>

<sup>(1)</sup> Includes \$0, \$1.9 billion and \$2.0 billion outstanding in the 2008 Asset-Backed Loan Facility at June 30, 2009, March 31, 2009 and June 30, 2008, respectively.

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

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of July 20, 2009.

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

<sup>(1)</sup> 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 June 30, 2009, March 31, 2009, and June 30, 2008.

	As of June 30, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts <sup>(1)</sup>	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) <sup>(2)</sup>				
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) <sup>(3)</sup> . . . . .	.10%	.22%	5.76%	
Residual cash flows discount rate . . . . .	11.5%	13.0%	32.4%	

	As of March 31, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts <sup>(1)</sup>	Private Education Loan Trusts	Total
Fair value of Residual Interests . . . . .	\$ 269	\$ 832	\$ 850	\$ 1,951
Underlying securitized loan balance . . . . .	6,765	14,899	13,669	35,333
Weighted average life . . . . .	2.9 yrs.	8.1 yrs.	6.4 yrs.	
Prepayment speed (annual rate) <sup>(2)</sup>				
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) <sup>(3)</sup> . . . . .	.10%	.23%	5.83%	
Residual cash flows discount rate . . . . .	11.1%	12.1%	31.5%	

	As of June 30, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts <sup>(1)</sup>	Private Education Loan Trusts	Total
Fair value of Residual Interests . . . . .	\$ 410	\$ 619	\$ 1,516	\$ 2,545
Underlying securitized loan balance . . . . .	8,383	15,586	13,773	37,742
Weighted average life . . . . .	2.8 yrs.	7.3 yrs.	6.6 yrs.	
Prepayment speed (annual rate) <sup>(2)</sup>				
Interim status . . . . .	0%	N/A	0%	
Repayment status . . . . .	0-30%	3-8%	1-30%	
Life of loan — repayment status . . . . .	17%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal) <sup>(3)</sup> . . . . .	.10%	.20%	5.36%	
Residual cash flows discount rate . . . . .	12.0%	10.0%	16.4%	

<sup>(1)</sup> Includes \$529 million, \$670 million, and \$295 million related to the fair value of the Embedded Floor Income as of June 30, 2009, March 31, 2009, and June 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Remaining expected credit losses as of the respective balance sheet date.



The Company recorded net unrealized mark-to-market losses of \$90 million, \$261 million, and \$192 million in the second quarter of 2009, first quarter of 2009, and second quarter of 2008, respectively, related to the Residual Interest.

As of June 30, 2009, the Company did not change any significant assumptions compared to those used as of March 31, 2009, to determine the fair value of the Residual Interests. The \$90 million unrealized mark-to-market loss in the second quarter of 2009 was primarily a result of an increase in forward interest rates which resulted in a higher discount rate used to value the Residual Interests as well as a reduction in the fair value of the Embedded Fixed Rate Floor Income.