

SLM CORP
Form 10-Q
July 22, 2015

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-13251

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

Delaware 52-2013874
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

300 Continental Drive, Newark, Delaware 19713
(Address of principal executive offices) (Zip Code)

(302) 451-0200
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Class	Outstanding at June 30, 2015
Common Stock, \$0.20 par value	425,882,829 shares

SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
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SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$1,278,863	\$2,359,780
Available-for-sale investments at fair value (cost of \$175,158 and \$167,740, respectively)	173,845	168,934
Loans held for investment (net of allowance for losses of \$91,866 and \$83,842, respectively)	10,422,908	9,509,786
Other interest-earning assets	55,260	77,283
Accrued interest receivable	562,239	469,697
Premises and equipment, net	80,432	78,470
Acquired intangible assets, net	2,485	3,225
Tax indemnification receivable	228,910	240,311
Other assets	70,019	64,757
Total assets	\$12,874,961	\$12,972,243
Liabilities		
Deposits	\$10,340,605	\$10,540,555
Income taxes payable, net	185,849	191,499
Upromise related liabilities	283,584	293,004
Other liabilities	102,750	117,227
Total liabilities	10,912,788	11,142,285
Commitments and contingencies		
Equity		
Preferred stock, par value \$0.20 per share, 20 million shares authorized Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of \$50 per share	165,000	165,000
Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share	400,000	400,000
Common stock, par value \$0.20 per share, 1.125 billion shares authorized: 430 million and 425 million shares issued, respectively	86,003	84,961
Additional paid-in capital	1,120,923	1,090,511
Accumulated other comprehensive loss (net of tax benefit of \$7,171 and \$7,186, respectively)	(11,448)	(11,393)
Retained earnings	240,967	113,066
Total SLM Corporation stockholders' equity before treasury stock	2,001,445	1,842,145
Less: Common stock held in treasury at cost: 4 million and 1 million shares, respectively	(39,272)	(12,187)
Total equity	1,962,173	1,829,958
Total liabilities and equity	\$12,874,961	\$12,972,243

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Interest income:				
Loans	\$ 195,287	\$ 162,238	\$ 393,143	\$ 322,273
Investments	2,386	2,236	5,106	3,204
Cash and cash equivalents	801	1,099	1,581	1,965
Total interest income	198,474	165,573	399,830	327,442
Interest expense:				
Deposits	29,482	21,034	59,052	43,624
Other interest expense	735	—	1,567	41
Total interest expense	30,217	21,034	60,619	43,665
Net interest income	168,257	144,539	339,211	283,777
Less: provisions for loan losses	15,558	1,014	32,176	40,173
Net interest income after provisions for loan losses	152,699	143,525	307,035	243,604
Noninterest income:				
Gains on sales of loans, net	76,874	1,928	76,874	35,816
Gains (losses) on derivatives and hedging activities, net	1,602	(9,458)	4,894	(10,222)
Other	10,912	15,229	18,919	23,365
Total noninterest income	89,388	7,699	100,687	48,959
Expenses:				
Compensation and benefits	38,572	31,667	79,775	61,334
Other operating expenses	51,227	28,812	91,211	62,744
Total operating expenses	89,799	60,479	170,986	124,078
Acquired intangible asset amortization expense	370	1,156	740	2,995
Restructuring and other reorganization expenses	744	13,520	5,401	13,749
Total expenses	90,913	75,155	177,127	140,822
Income before income tax expense	151,174	76,069	230,595	151,741
Income tax expense	60,158	31,941	91,880	60,599
Net income	91,016	44,128	138,715	91,142
Less: net loss attributable to noncontrolling interest	—	—	—	(434)
Net income attributable to SLM Corporation	91,016	44,128	138,715	91,576
Preferred stock dividends	4,870	3,228	9,693	3,228
Net income attributable to SLM Corporation common stock	\$ 86,146	\$ 40,900	\$ 129,022	\$ 88,348
Basic earnings per common share attributable to SLM Corporation	\$ 0.20	\$ 0.10	\$ 0.30	\$ 0.21
Average common shares outstanding	425,688	422,805	425,061	424,751
Diluted earnings per common share attributable to SLM Corporation	\$ 0.20	\$ 0.09	\$ 0.30	\$ 0.20
Average common and common equivalent shares outstanding	432,742	430,750	432,523	432,689

See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income	\$91,016	\$44,128	\$138,715	\$91,142
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	(3,180)	2,749	(2,507)	4,155
Unrealized gains on cash flow hedges	18,156	—	2,467	—
Total unrealized gains (losses)	14,976	2,749	(40)	4,155
Income tax (expense) benefit	(5,840)	(962)	(15)	(1,496)
Other comprehensive income (loss), net of tax benefit (expense)	9,136	1,787	(55)	2,659
Comprehensive income	100,152	45,915	138,660	93,801
Less: comprehensive loss attributable to noncontrolling interest	—	—	—	(434)
Total comprehensive income attributable to SLM Corporation	\$100,152	\$45,915	\$138,660	\$94,235

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares				Preferred Stock	Common Stock	Additional Paid-In Capital	Navient's Subsidiary Investment	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
	Preferred Stock Shares	Issued	Treasury	Outstanding						
Balance at December 31, 2013	—	—	—	—	\$—	\$—	\$—	\$1,164,495	\$(3,024)	\$—
Net income (loss)	—	—	—	—	—	—	—	68,173	—	23,
Other comprehensive income, net of tax	—	—	—	—	—	—	—	—	2,659	—
Total comprehensive income (loss)	—	—	—	—	—	—	—	—	—	—
Net transfers from affiliate	—	—	—	—	—	—	—	479,409	—	—
Separation adjustments related to Spin-Off of Navient Corporation	7,300,000	422,790,320	—	422,790,320	565,000	84,558	1,062,519	(1,712,077)	—	—
Sale of non-controlling interest	—	—	—	—	—	—	—	—	—	—
Cash dividends: Preferred Stock, series A (\$.87 per share)	—	—	—	—	—	—	—	—	—	(1,
Preferred Stock, series B (\$.49 per share)	—	—	—	—	—	—	—	—	—	(1,
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	8	—	—	(8
Issuance of common shares	—	504,929	—	504,929	—	101	2,344	—	—	—

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Stock-based compensation expense	—	—	—	—	—	—	7,045	—	—	—
Shares repurchased related to employee stock-based compensation plans	—	—	(358,771)	(358,771)	—	—	—	—	—
Balance at June 30, 2014	7,300,000	423,295,249	(358,771)	422,936,478	\$565,000	\$84,659	\$1,071,916	\$—	\$(365) \$2

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares				Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Preferred Stock Shares	Issued	Treasury	Outstanding						
Balance at December 31, 2014	7,300,000	424,804,125	(1,365,277)	423,438,848	\$565,000	\$84,961	\$1,090,511	\$(11,393)	\$113,066	\$0
Net income	—	—	—	—	—	—	—	—	138,715	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(55)	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A (\$0.87 per share)	—	—	—	—	—	—	—	—	(5,750)	—
Preferred Stock, series B (\$0.50 per share)	—	—	—	—	—	—	—	—	(3,943)	—
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	1,121	—	(1,121)	—
Issuance of common shares	—	5,208,074	—	5,208,074	—	1,042	12,307	—	—	—
Tax benefit related to employee	—	—	—	—	—	—	5,774	—	—	—

stock-based compensation										
Stock-based compensation expense	—	—	—	—	—	—	11,210	—	—	—
Shares repurchased related to employee stock-based compensation plans										
Balance at June 30, 2015	7,300,000	430,012,199	(4,129,370)	425,882,829	\$565,000	\$86,003	\$1,120,923	\$(11,448)	\$240,967	\$(

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended	
	June, 30	
	2015	2014
Operating activities		
Net income	\$ 138,715	\$ 91,142
Adjustments to reconcile net income to net cash used in operating activities:		
Provisions for loan losses	32,176	40,173
Income tax expense	91,880	60,599
Amortization of brokered deposit placement fee	5,352	5,222
Amortization of asset-backed commercial paper upfront fee	1,202	—
Amortization of deferred loan origination costs and fees, net	1,558	847
Net amortization of discount on investments	883	236
Depreciation of premises and equipment	3,436	2,598
Amortization of acquired intangibles	740	2,275
Stock-based compensation expense	11,210	8,468
Unrealized (gains)/losses on derivative and hedging activities, net	(3,219)	8,025
Gains on sale of loans, net	(76,874)	(35,816)
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	55	6,183
Origination of loans held for sale	(55)	(6,183)
Increase in accrued interest receivable	(191,011)	(175,919)
Decrease (increase) in other interest-earning assets	22,023	(41,062)
Decrease in tax indemnification receivable	11,401	—
(Increase) in other assets	(25,214)	(19,182)
Decrease in income tax payable, net	(97,545)	(199,782)
Decrease in accrued interest payable	(352)	(2,931)
(Decrease) increase in payable due to entity that is a subsidiary of Navient	(6,542)	11,109
(Decrease) increase in other liabilities	(3,707)	12,140
Total adjustments	(222,603)	(323,000)
Total net cash used in operating activities	(83,888)	(231,858)
Investing activities		
Loans acquired and originated	(2,070,373)	(1,921,390)
Net proceeds from sales of loans held for investment	785,481	755,746
Proceeds from claim payments	67,769	91,089
Net decrease in loans held for investment	445,610	285,496
Purchases of available-for-sale securities	(26,237)	(47,087)
Proceeds from sales and maturities of available-for-sale securities	17,936	3,712
Total net cash used in investing activities	(779,814)	(832,434)
Financing activities		

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Asset-backed commercial paper upfront placement fee	(104)	—
Net decrease in certificates of deposit	(140,693)	(836,822)
Net (decrease) increase in other deposits	(72,499)	763,160
Net decrease in deposits with entity that is a subsidiary of Navient	—	(5,633)
Special cash contribution from Navient	—	472,718
Net capital contributions from entity that is a subsidiary of Navient	—	15,408
Excess tax benefit from the exercise of stock-based awards	5,774	—
Preferred stock dividends paid	(9,693)	(3,228)
Net cash (used in) provided by financing activities	(217,215)	405,603
Net decrease in cash and cash equivalents	(1,080,917)	(658,689)

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Cash and cash equivalents at beginning of period	2,359,780	2,182,865
Cash and cash equivalents at end of period	\$1,278,863	\$1,524,176
Cash disbursements made for:		
Interest	\$52,789	\$42,819
Income taxes paid	\$91,472	\$199,782
See accompanying notes to consolidated financial statements.		

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (“we,” “us,” “our,” “Sallie Mae,” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”).

On April 30, 2014, we completed our plan to legally separate into two distinct publicly traded entities - an education loan management, servicing and asset recovery business, Navient Corporation (“Navient”), and a consumer banking business, SLM Corporation. The separation of Navient from SLM Corporation (the “Spin-Off”) was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business.

For periods before the Spin-Off, the financial statements are presented on a basis of accounting that reflects a change in reporting entity and have been adjusted for the effects of the Spin-Off. These carved-out financial statements and selected financial information represent only those operations, assets, liabilities and equity that form Sallie Mae on a stand-alone basis. Because the Spin-Off occurred on April 30, 2014, the balances before that date include the carved-out financial results.

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

Recently Issued Accounting Pronouncements

On February 18, 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-02, “Consolidation (Topic 810): Amendments to the Consolidation Analysis,” which amends the current consolidation guidance. The amendments reduce the number of consolidation models through the elimination of the indefinite deferral of ASC 810 and place more emphasis on risk of loss when determining a controlling financial interest. The standard is effective for fiscal periods beginning after December 15, 2015. We do not expect this new guidance to have a material impact to our financial results.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment

Loans Held for Investment consist of Private Education Loans and FFELP Loans.

“Private Education Loans” are education loans to students or their families that are not issued, insured or guaranteed by any state or federal government. Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, government loans or customers’ resources. Private Education Loans bear the full credit risk of the borrower and any cosigners. We manage this risk through risk-performance underwriting strategies and the addition of qualified cosigners. Our Private Education Loans generally carry a variable interest rate indexed to LIBOR. As of June 30, 2015, 82 percent of all Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on our Private Education Loans, and the vast majority of Private Education Loans in our portfolio are cosigned. We also encourage our Private Education Loan customers to make payments while in school.

FFELP Loans are insured by the federal government as to their principal and accrued interest in the event of default, subject to a risk sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement on all qualifying claims. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying claims. For loans disbursed prior to October 1, 1993, we receive 100 percent reimbursement on all qualifying claims.

Loans held for investment are summarized as follows:

	June 30, 2015	December 31, 2014
Private Education Loans	\$9,312,937	\$8,311,376
Deferred origination costs	19,632	13,845
Allowance for loan losses	(87,310)	(78,574)
Total Private Education Loans, net	9,245,259	8,246,647
FFELP Loans	1,178,876	1,264,807
Unamortized acquisition costs, net	3,329	3,600
Allowance for loan losses	(4,556)	(5,268)
Total FFELP Loans, net	1,177,649	1,263,139
Loans held for investment, net	\$10,422,908	\$9,509,786

The estimated weighted average life of education loans in our portfolio was approximately 6.2 years at both June 30, 2015 and December 31, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment (Continued)

The average balance and the respective weighted average interest rates are summarized as follows:

	Three Months Ended				Six Months Ended				
	June 30, 2015		2014		June 30, 2015		2014		
	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	
Private									
Education	\$9,361,711	7.96	% \$7,357,599	8.22	% \$9,407,888	8.01	% \$7,388,484	8.18	%
Loans									
FFELP Loans	1,194,309	3.22	1,378,206	3.32	1,214,384	3.20	1,391,327	3.26	
Total portfolio	\$10,556,020		\$8,735,805		\$10,622,272		\$8,779,811		

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses

Our provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

Allowance for Loan Losses Metrics

	Allowance for Loan Losses Three Months Ended June 30, 2015		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$4,569	\$ 85,236	\$89,805
Total provision	466	15,092	15,558
Net charge-offs:			
Charge-offs	(479)	(13,278)	(13,757)
Recoveries	—	1,780	1,780
Net charge-offs	(479)	(11,498)	(11,977)
Loan sales ⁽¹⁾	—	(1,520)	(1,520)
Ending Balance	\$4,556	\$ 87,310	\$91,866
Allowance:			
Ending balance: individually evaluated for impairment	\$—	\$ 32,446	\$32,446
Ending balance: collectively evaluated for impairment	\$4,556	\$ 54,864	\$59,420
Loans:			
Ending balance: individually evaluated for impairment	\$—	\$ 187,143	\$187,143
Ending balance: collectively evaluated for impairment	\$1,178,876	\$ 9,125,794	\$10,304,670
Net charge-offs as a percentage of average loans in repayment (annualized) ⁽²⁾	0.22	% 0.81	%
Allowance as a percentage of the ending total loan balance	0.39	% 0.94	%
Allowance as a percentage of the ending loans in repayment ⁽²⁾	0.54	% 1.54	%
Allowance coverage of net charge-offs (annualized)	2.38	1.90	
Ending total loans, gross	\$1,178,876	\$ 9,312,937	
Average loans in repayment ⁽²⁾	\$861,453	\$ 5,712,559	
Ending loans in repayment ⁽²⁾	\$836,545	\$ 5,666,645	

⁽¹⁾ Represents fair value write-downs on loans sold.

(2) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses		
	Three Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$6,181	\$ 71,453	\$77,634
Total provision	685	329	1,014
Net charge-offs:			
Charge-offs ⁽¹⁾	(654) —	(654)
Recoveries	—	—	—
Net charge-offs	(654) —	(654)
Loan sales ⁽²⁾	—	(17,467) (17,467)
Ending Balance	\$6,212	\$ 54,315	\$60,527
Allowance:			
Ending balance: individually evaluated for impairment	\$—	\$ 1,037	\$1,037
Ending balance: collectively evaluated for impairment	\$6,212	\$ 53,278	\$59,490
Loans:			
Ending balance: individually evaluated for impairment	\$—	\$ 4,508	\$4,508
Ending balance: collectively evaluated for impairment	\$1,360,107	\$ 7,478,286	\$8,838,393
Net charge-offs as a percentage of average loans in repayment (annualized) ⁽³⁾	0.07	% —	%
Allowance as a percentage of the ending total loan balance	0.46	% 0.73	%
Allowance as a percentage of the ending loans in repayment ⁽³⁾	0.66	% 1.23	%
Allowance coverage of net charge-offs (annualized)	2.40	—	
Ending total loans, gross	\$1,360,107	\$ 7,482,794	
Average loans in repayment ⁽³⁾	\$973,894	\$ 4,322,356	
Ending loans in repayment ⁽³⁾	\$947,972	\$ 4,425,573	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.

(2) Represents fair value write-downs on loans sold.

(3) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses		
	Six Months Ended June 30, 2015		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$5,268	\$ 78,574	\$83,842
Total provision	901	31,275	32,176
Net charge-offs:			
Charge-offs	(1,613)	(22,005)	(23,618)
Recoveries	—	3,168	3,168
Net charge-offs	(1,613)	(18,837)	(20,450)
Loan sales ⁽¹⁾	—	(3,702)	(3,702)
Ending Balance	\$4,556	\$ 87,310	\$91,866
Allowance:			
Ending balance: individually evaluated for impairment	\$—	\$ 32,446	\$32,446
Ending balance: collectively evaluated for impairment	\$4,556	\$ 54,864	\$59,420
Loans:			
Ending balance: individually evaluated for impairment	\$—	\$ 187,143	\$187,143
Ending balance: collectively evaluated for impairment	\$1,178,876	\$ 9,125,794	\$10,304,670
Net charge-offs as a percentage of average loans in repayment (annualized) ⁽²⁾	0.37	% 0.66	%
Allowance as a percentage of the ending total loan balance	0.39	% 0.94	%
Allowance as a percentage of the ending loans in repayment ⁽²⁾	0.54	% 1.54	%
Allowance coverage of net charge-offs (annualized)	1.41	2.32	
Ending total loans, gross	\$1,178,876	\$ 9,312,937	
Average loans in repayment ⁽²⁾	\$880,953	\$ 5,667,912	
Ending loans in repayment ⁽²⁾	\$836,545	\$ 5,666,645	

⁽¹⁾ Represents fair value write-downs on loans sold.⁽²⁾ Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

	Allowance for Loan Losses		
	Six Months Ended June 30, 2014		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$6,318	\$ 61,763	\$68,081
Total provision	1,191	38,982	40,173
Charge-offs ⁽¹⁾	(1,297) —	(1,297)
Loan sales ⁽²⁾	—	(46,430)	(46,430)
Ending Balance	\$6,212	\$ 54,315	\$60,527
Allowance:			
Ending balance: individually evaluated for impairment	\$—	\$ 1,037	\$1,037
Ending balance: collectively evaluated for impairment	\$6,212	\$ 53,278	\$59,490
Loans:			
Ending balance: individually evaluated for impairment	\$—	\$ 4,508	\$4,508
Ending balance: collectively evaluated for impairment	\$1,360,107	\$ 7,478,286	\$8,838,393
Charge-offs as a percentage of average loans in repayment (annualized) ⁽³⁾	0.13	% —	%
Allowance as a percentage of the ending total loan balance	0.46	% 0.73	%
Allowance as a percentage of the ending loans in repayment ⁽³⁾	0.66	% 1.23	%
Allowance coverage of charge-offs (annualized)	2.40	—	
Ending total loans, gross	\$1,360,107	\$ 7,482,794	
Average loans in repayment ⁽³⁾	\$994,290	\$ 4,354,878	
Ending loans in repayment ⁽³⁾	\$947,972	\$ 4,425,573	

(1) Prior to the Spin-Off, Private Education Loans were sold to an entity that is now a subsidiary of Navient prior to being charged-off.

(2) Represents fair value write-downs on loans sold.

(3) Loans in repayment include loans making interest only and fixed payments as well as loans that have entered full principal and interest repayment status.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

Troubled Debt Restructurings (“TDRs”)

All of our loans are collectively assessed for impairment, except for loans classified as TDRs. Prior to the Spin-Off, we did not have TDR loans because the loans generally were sold to a now unrelated affiliate in the same month that the terms were restructured. Subsequent to May 1, 2014, we have individually assessed \$187.1 million of Private Education Loans as TDRs. When these TDR loans are determined to be impaired, we provide for an allowance for losses sufficient to cover life-of-loan expected losses through an impairment calculation based on the difference between the loan's basis and the present value of expected future cash flows discounted at the loan's original effective interest rate. The majority of our loans that are considered TDRs involve a temporary forbearance of payments and do not change the contractual interest rate of the loan.

Within the Private Education Loan portfolio, loans greater than 90 days past due are considered to be nonperforming. FFELP Loans are at least 97 percent guaranteed as to their principal and accrued interest by the federal government in the event of default, and therefore, we do not deem FFELP Loans as nonperforming from a credit risk standpoint at any point in their life cycle prior to claim payment, and we continue to accrue interest on those loans through the date of claim.

At June 30, 2015 and December 31, 2014, all our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

	Recorded Investment	Unpaid Principal Balance	Allowance
June 30, 2015			
TDR Loans	\$ 189,585	\$ 187,143	\$ 32,446
December 31, 2014			
TDR Loans	\$ 60,278	\$ 59,402	\$ 9,815

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

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
TDR Loans	\$ 155,763	\$ 3,206	\$ 2,267	\$ 31
	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
TDR Loans	\$ 121,690	\$ 5,116	\$ 1,295	\$ 31

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

The following table provides information regarding the loan status of TDR loans and the aging of TDR loans that are past due.

	June 30, 2015		December 31, 2014		
	Balance	%	Balance	%	
TDR loans in in-school/grace/deferment ⁽¹⁾	\$ 1,761		\$ 2,915		
TDR loans in forbearance ⁽²⁾	56,008		18,620		
TDR loans in repayment and percentage of each status:					
Loans current	116,609	90.1	34,554	91.2	%
Loans delinquent 31-60 days ⁽³⁾	7,561	5.8	1,953	5.2	
Loans delinquent 61-90 days ⁽³⁾	4,092	3.2	983	2.6	
Loans delinquent greater than 90 days ⁽³⁾	1,112	0.9	377	1.0	
Total TDR loans in repayment	129,374	100.0	37,867	100.0	%
Total TDR loans, gross	\$ 187,143		\$ 59,402		

Deferment includes customers who have returned to school or are engaged in other permitted educational activities⁽¹⁾ 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).

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

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

The following tables provides the amount of modified loans (which includes forbearance and reductions in interest rates) that resulted in a TDR in the periods presented. Additionally, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the current period and within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure.

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
	Modified Loans ⁽¹⁾	Charge-offs	Payment- Default	Modified Loans ⁽¹⁾	Charge-offs	Payment- Default
TDR Loans	\$75,183	\$1,740	\$8,394	\$4,508	\$—	\$68
	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
	Modified Loans ⁽¹⁾	Charge-offs	Payment- Default	Modified Loans ⁽¹⁾	Charge-offs	Payment- Default
TDR Loans	\$139,091	\$2,388	\$13,177	\$4,508	\$—	\$68

⁽¹⁾ Represents the principal balance of loans that have been modified during the period and resulted in a TDR.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses (Continued)

Key Credit Quality Indicators

For Private Education Loans, the key credit quality indicators are FICO scores, the existence of a cosigner, loan status and loan seasoning. The FICO scores are assessed at origination and periodically refreshed/updated through the loan's term. The following table highlights the gross principal balance of our Private Education Loan portfolio stratified by key credit quality indicators.

Credit Quality Indicators:	Private Education Loans Credit Quality Indicators				
	June 30, 2015		December 31, 2014		
	Balance ⁽¹⁾	% of Balance	Balance ⁽¹⁾	% of Balance	
Cosigners:					
With cosigner	\$8,341,122	90	% \$7,465,339	90	%
Without cosigner	971,815	10	846,037	10	
Total	\$9,312,937	100	% \$8,311,376	100	%