SLM CORP
Form 10-Q
August 05, 2010

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-13251

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

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

(703) 810-3000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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

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

Class	**Outstanding at June 30, 2010**
Voting common stock, $.20 par value	485,706,763 shares

SLM CORPORATION

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June 30, 2010

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EX-101 DEFINITION LINKBASE DOCUMENT

(1) Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2010	December 31, 2009
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $122,192 and $104,219, respectively)	$ 47,280,248	$ 42,978,874
FFELP Stafford Loans Held-for-Sale	20,177,860	9,695,714
FFELP Consolidation Loans (net of allowance for losses of $66,493 and $56,949, respectively)	81,034,596	68,378,560
Private Education Loans (net of allowance for losses of $2,042,413 and $1,443,440, respectively)	35,150,686	22,753,462
Investments:		
Available-for-sale	399,456	1,273,275
Other	1,013,621	740,553
Total investments	1,413,077	2,013,828
Cash and cash equivalents	6,267,039	6,070,013
Restricted cash and investments	6,252,914	5,168,871
Retained Interest in off-balance sheet securitized loans		1,828,075
Goodwill and acquired intangible assets, net	1,157,888	1,177,310
Other assets	8,584,404	9,920,591
Total assets	$ 207,318,712	$ 169,985,298
Liabilities		
Short-term borrowings	$ 46,472,435	$ 30,896,811
Long-term borrowings	152,250,912	130,546,272
Other liabilities	3,508,617	3,263,593
Total liabilities	202,231,964	164,706,676
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000
	400,000	400,000

Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share		
Series C: 7.25% mandatory convertible preferred stock; 810 and 810 shares, respectively, issued at liquidation preference of $1,000 per share	810,370	810,370
Common stock, par value $.20 per share, 1,125,000 shares authorized: 553,571 and 552,220 shares issued, respectively	110,715	110,444
Additional paid-in capital	5,122,583	5,090,891
Accumulated other comprehensive loss (net of tax benefit of $24,917 and $23,448, respectively)	(43,333)	(40,825)
Retained earnings	391,169	604,467
Total SLM Corporation stockholders equity before treasury stock	6,956,504	7,140,347
Common stock held in treasury at cost: 67,775 and 67,222 shares, respectively	1,869,760	1,861,738
Total SLM Corporation stockholders equity	5,086,744	5,278,609
Noncontrolling interest	4	13
Total equity	5,086,748	5,278,622
Total liabilities and equity	$ 207,318,712	$ 169,985,298

Supplemental information assets and liabilities of variable interest entities:

	June 30, 2010	December 31, 2009
FFELP Stafford and Other Student Loans, net	$ 66,130,975	$ 51,067,680
FFELP Consolidation Loans, net	79,558,032	67,664,019
Private Education Loans, net	23,556,999	10,107,298
Restricted cash and investments	5,881,972	4,596,147
Other assets	2,856,872	3,639,918
Short-term borrowings	37,014,277	23,384,051
Long-term borrowings	127,904,461	101,012,628

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Interest income:				
FFELP Stafford and Other Student Loans	$ 325,042	$ 323,939	$ 608,479	$ 666,755
FFELP Consolidation Loans	550,920	460,690	1,074,245	950,052
Private Education Loans	575,340	393,019	1,140,494	780,060
Other loans	7,254	18,468	16,250	34,888
Cash and investments	6,299	7,044	11,248	13,015
Total interest income	1,464,855	1,203,160	2,850,716	2,444,770
Total interest expense	568,933	819,459	1,100,317	1,846,006
Net interest income	895,922	383,701	1,750,399	598,764
Less: provisions for loan losses	382,239	278,112	741,359	528,391
Net interest income (loss) after provisions for loan losses	513,683	105,589	1,009,040	70,373
Other income (loss):				
Securitization servicing and Residual Interest revenue (loss)		87,488		(7,817)
Gains (losses) on sales of loans and securities, net	(3,515)		5,138	
Gains (losses) on derivative and hedging activities, net	95,316	(561,795)	12,906	(457,770)
Contingency fee revenue	88,181	73,368	168,492	148,183
Collections revenue	17,219	23,933	39,185	67,589
Guarantor servicing fees	22,457	24,772	58,547	58,780
Other	164,899	399,065	355,309	591,523
Total other income	384,557	46,831	639,577	400,488
Expenses:				
Salaries and benefits	140,233	137,783	290,617	272,925
Other operating expenses	206,287	170,381	383,923	330,355
Restructuring expenses	17,666	3,333	43,948	7,106
Total expenses	364,186	311,497	718,488	610,386
Income (loss) from continuing operations, before income tax expense (benefit)	534,054	(159,077)	930,129	(139,525)

Income tax expense (benefit)	196,103	(43,110)	351,898	(48,627)
Net income (loss) from continuing operations	337,951	(115,967)	578,231	(90,898)
Loss from discontinued operations, net of tax benefit		(6,542)		(52,716)
Net income (loss)	337,951	(122,509)	578,231	(143,614)
Less: net income attributable to noncontrolling interest	133	211	273	492
Net income (loss) attributable to SLM Corporation	337,818	(122,720)	577,958	(144,106)
Preferred stock dividends	18,711	25,800	37,389	52,195
Net income (loss) attributable to SLM Corporation common stock	$ 319,107	$ (148,520)	$ 540,569	$ (196,301)
Net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	$ 337,818	$ (116,178)	$ 577,958	$ (91,390)
Discontinued operations, net of tax		(6,542)		(52,716)
Net income (loss) attributable to SLM Corporation	$ 337,818	$ (122,720)	$ 577,958	$ (144,106)
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:				
Continuing operations	$ .66	$ (.31)	$ 1.12	$ (.31)
Discontinued operations		(.01)		(.11)
Total	$ .66	$ (.32)	$ 1.12	$ (.42)
Average common shares outstanding	484,832	466,799	484,547	466,780
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:				
Continuing operations	$ .63	$ (.31)	$ 1.08	$ (.31)
Discontinued operations		(.01)		(.11)
Total	$ .63	$ (.32)	$ 1.08	$ (.42)
Average common and common equivalent shares outstanding	527,391	466,799	527,013	466,780
Dividends per common share attributable to SLM Corporation common shareholders	$	$	$	$

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
Issued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
4,698,117	(67,105,360)	467,592,757	$ 1,714,770	$ 106,940	$ 4,694,155	$ (70,450)	$ 378,387	$ (1,859,9
							(122,720)	
						1,319		
						20,606		
						(158)		
							(2,875)	
							(1,923)	
							(20,840)	
							(2)	
143,762		143,762		29	181			
					162		(162)	
					(1,324)			
					15,879			

	(22,839)	(22,839)						(4
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,4
3,407,785	(67,563,788)	485,843,997	$ 1,375,370	$ 110,682	$ 5,106,094	$ (42,511)	$ 72,062	$ (1,866,0
							337,818	
						1,615		
						(2,439)		
						2		
							(2,875)	
							(1,014)	
							(14,688)	
163,599		163,599		33	3,765			
					134		(134)	
					(1,212)			
					13,802			
	(211,014)	(211,014)						(3,7
3,571,384	(67,774,802)	485,796,582	$ 1,375,370	$ 110,715	$ 5,122,583	$ (43,333)	$ 391,169	$ (1,869,7

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$ 426,175	$ (1,856,39
							(144,106)	
						2,269		
						26,015		
						(491)		
							(5,750)	
							(4,443)	
							(41,680)	
							(9)	
430,608	98	430,706		86	2,226			
					322		(322)	
					(5,819)			
					28,212			

	(169,897)	(169,897)						(4,05
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,44
2,219,576	(67,221,942)	484,997,634	$ 1,375,370	$ 110,444	$ 5,090,891	$ (40,825)	$ 604,467	$ (1,861,73
							577,958	
						1,678		
						(4,151)		
						(35)		
							(5,750)	
							(1,969)	
							(29,376)	
							(11)	
1,351,808		1,351,808		271	10,166			
					294		(294)	
					(4,805)			
					26,037			
							(753,856)	
	(552,860)	(552,860)						(8,02

3,571,384	(67,774,802)	485,796,582	$	1,375,370	$	110,715	$	5,122,583	$	(43,333)	$	391,169	$	(1,869,76

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Operating activities		
Net income (loss)	$ 578,231	$ (143,614)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Loss from discontinued operations, net of tax benefit		52,716
Gains on sales of loans and securities, net	(5,138)	
Stock-based compensation cost	26,097	30,144
Unrealized (gains)/losses on derivative and hedging activities	(444,732)	497,361
Provisions for loan losses	741,359	528,391
Student loans originated for sale, net	(10,482,146)	(10,171,363)
Decrease in restricted cash other	41,403	52,552
(Increase) decrease in accrued interest receivable	(147,462)	481,791
Increase (decrease) in accrued interest payable	34,677	(409,109)
Adjustment for non-cash loss related to Retained Interest		351,331
Decrease (increase) in other assets, goodwill and acquired intangible assets, net	1,221,154	(173,504)
Decrease in other liabilities	(130,832)	(150,321)
Cash used in operating activities continuing operations	(9,145,620)	(8,910,011)
Cash provided by operating activities discontinued operations		174,701
Total net cash used in operating activities	(8,567,389)	(8,878,924)
Investing activities		
Student loans acquired	(4,672,819)	(4,944,270)
Loans purchased from securitized trusts		(3,698)
Reduction of student loans:		
Installment payments, claims and other	7,004,240	5,148,780
Proceeds from sales of student loans	164,046	462,311
Other loans originated		(2,817)
Other loans repaid	100,860	217,557
Other investing activities, net	(282,912)	(736,002)
Purchases of available-for-sale securities	(27,885,519)	(66,062,442)
Proceeds from sales of available-for-sale securities		100,056
Proceeds from maturities of available-for-sale securities	28,725,393	65,615,526
Purchases of other securities	(64,188)	
Proceeds from maturities of held-to-maturity securities and other securities	71,812	68,928
Return of investment from Retained Interest		16,361
Increase in restricted cash on-balance sheet trusts	(218,129)	(663,658)

Net cash provided by (used in) investing activities		2,942,784		(783,368)
Financing activities				
Borrowings collateralized by loans in trust issued		2,723,345		9,040,986
Borrowings collateralized by loans in trust repaid		(4,274,591)		(2,932,288)
Asset-backed commercial paper conduits, net		(1,999,582)		(12,454,223)
ED Participation Program, net		10,849,768		9,871,053
ED Conduit Program facility, net		1,559,198		11,094,745
Other short-term borrowings issued				298,294
Other short-term borrowings repaid		(198,183)		(990,720)
Other long-term borrowings issued		1,463,538		4,333,168
Other long-term borrowings repaid		(4,512,180)		(4,935,047)
Other financing activities, net		247,613		(1,533,226)
Excess tax benefit from the exercise of stock-based awards		355		
Common stock issued		194		5
Preferred dividends paid		(37,095)		(51,873)
Noncontrolling interest, net		(749)		(8,627)
Net cash provided by financing activities		5,821,631		11,732,247
Net increase in cash and cash equivalents		197,026		2,069,955
Cash and cash equivalents at beginning of period		6,070,013		4,070,002
Cash and cash equivalents at end of period	$	6,267,039	$	6,139,957
Cash disbursements made (refunds received) for:				
Interest	$	1,144,499	$	2,303,145
Income taxes, net	$	(450,851)	$	177,478

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company or Sallie Mae) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2010 are not necessarily indicative of the results for the year ending December 31, 2010. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 (the 2009 Form 10-K).

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2009 to be consistent with classifications adopted for 2010, and had no effect on net income, total assets, or total liabilities.

Recently Issued Accounting Standards

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued topic updates to Accounting Standards Codification (ASC) 860, Transfers and Servicing, and to ASC 810, Consolidation.

The topic update to ASC 860, among other things, (1) eliminates the concept of a qualifying special purpose entity (QSPE), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur after December 31, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company s secured borrowing facilities. All of the Company s secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on-balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810, significantly changes the consolidation model for variable interest entities (VIEs). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining which entity should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. The topic update to ASC 810 is effective as of January 1, 2010.

Under ASC 810, if an entity has a variable interest in a VIE and that entity is determined to be the primary beneficiary of the VIE then that entity will consolidate the VIE. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

potentially be significant to the VIE. As it relates to the Company s securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result, the Company is the primary beneficiary of its securitization trusts and consolidated those trusts that were previously off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on-balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

Upon adoption of topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its previously off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of an approximate $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $750 million after-tax reduction of stockholders equity (recorded as a cumulative effect adjustment to retained earnings). After the adoption of topic updates to ASC 810, the Company s results of operations no longer reflect securitization servicing and Residual Interest revenue related to these securitization trusts, but instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties, consistent with the Company s accounting treatment of prior on-balance securitization trusts. As of January 1, 2010, there are no longer differences between the Company s GAAP and Core Earnings presentation for securitization accounting. As a result, effective January 1, 2010, the Company s Managed and on-balance sheet (GAAP) student loan portfolios are the same.

Fair Value Measurements

In January 2010, the FASB issued a topic update to ASC 820, Fair Value Measurements and Disclosures. The update requires separate disclosures of the amounts of significant transfers in and out of Level 1 and 2 of fair value measurements and a description of the reasons for the transfers. In addition, a reporting unit should report separately information about purchases, sales, issuances, and settlements within the reconciliation of activity in Level 3 fair value measurements. Finally, the update clarifies existing disclosure requirements regarding the level of disaggregation in reporting classes of assets and liabilities and discussion of the inputs and valuation techniques used for Level 2 and 3 fair values. This topic update is effective for annual and interim periods beginning January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods beginning January 1, 2011.

Disclosures Regarding Credit Quality of Receivables

In July 2010, the FASB issued an update to the accounting guidance for receivables. This update requires companies to provide additional disclosures about the credit quality of receivables as well as additional information related to the allowance for loan losses. These new rules are effective for the Company s annual reporting period ending December 31, 2010. Other than requiring additional disclosures regarding the credit quality of its loan portfolio, this standard will not have an impact on the Company s financial statements.

2. Allowance for Loan Losses

The Company s provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2010 and for the three and six months ended June 30, 2010 and 2009 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Loan Losses (Continued)

be susceptible to significant changes. The Company believes that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

The following table summarizes the total loan provisions for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Private Education Loans	$ 349,211	$ 241,759	$ 674,233	$ 445,304
FFELP Stafford and Other Student Loans	28,613	25,595	51,609	59,993
Mortgage and consumer loans	4,415	10,758	15,517	23,094
Total provisions for loan losses	$ 382,239	$ 278,112	$ 741,359	$ 528,391

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Allowance at beginning of period	$ 2,018,676	$ 1,384,454	$ 1,443,440	$ 1,308,043
Provision for Private Education Loan losses	349,211	241,759	674,233	445,304
Charge-offs	(335,766)	(238,943)	(620,244)	(377,758)
Reclassification of interest reserve	10,292	9,437	20,934	21,118
Consolidation of off-balance sheet trusts[1]			524,050	
Allowance at end of period	$ 2,042,413	$ 1,396,707	$ 2,042,413	$ 1,396,707
Charge-offs as a percentage of average loans in repayment (annualized)	5.3%	8.2%	5.0%	6.7%
Charge-offs as a percentage of average loans in repayment and forbearance	5.1%	7.6%	4.8%	6.2%

(annualized)				
Allowance as a percentage of the ending total loan balance	5.4%	5.9%	5.4%	5.9%
Allowance as a percentage of ending loans in repayment	7.9%	11.5%	7.9%	11.5%
Allowance coverage of charge-offs (annualized)	1.5	1.5	1.6	1.8
Ending total loans[2]	$ 38,098,535	$ 23,784,039	$ 38,098,535	$ 23,784,039
Average loans in repayment	$ 25,178,957	$ 11,700,129	$ 24,913,768	$ 11,405,253
Ending loans in repayment	$ 25,721,573	$ 12,145,736	$ 25,721,573	$ 12,145,736

(1) Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)*

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

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2. Allowance for Loan Losses (Continued)

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of June 30, 2010, December 31, 2009, and June 30, 2009.

	Private Education Loan Delinquencies					
	June 30, 2010		December 31, 2009		June 30, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 10,051		$ 8,910		$ 10,355	
Loans in forbearance[2]	1,437		967		945	
Loans in repayment and percentage of each status:						
Loans current	22,669	88.2%	12,421	86.4%	10,294	84.8%
Loans delinquent 31-60 days[3]	948	3.7	647	4.5	504	4.2
Loans delinquent 61-90 days[3]	604	2.3	340	2.4	335	2.7
Loans delinquent greater than 90 days[3]	1,501	5.8	971	6.7	1,013	8.3
Total Private Education Loans in repayment	25,722	100.0%	14,379	100.0%	12,146	100.0%
Total Private Education Loans, gross	37,210		24,256		23,446	
Private Education Loan unamortized discount	(905)		(559)		(537)	
Total Private Education Loans	36,305		23,697		22,909	
Private Education Loan receivable for partially charged-off loans	888		499		338	
Private Education Loan allowance for losses	(2,042)		(1,443)		(1,396)	
Private Education Loans, net	$ 35,151		$ 22,753		$ 21,851	
Percentage of Private Education Loans in repayment		69.1%		59.3%		51.8%
		11.9%		13.6%		15.2%

Delinquencies as a percentage of Private Education Loans in repayment			
Loans in forbearance as a percentage of loans in repayment and forbearance	5.3%	6.3%	7.2%

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

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

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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and six months ended June 30, 2010 and 2009.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Allowance at beginning of period	$ 186,215	$ 152,294	$ 161,168	$ 137,543
Provision for FFELP loan losses	28,613	25,595	51,609	59,993
Charge-offs	(24,235)	(24,851)	(45,639)	(43,731)
Decrease for student loan sales and other	(1,908)		(3,602)	(767)
Consolidation of off-balance sheet trusts(1)			25,149	
Allowance at end of period	$ 188,685	$ 153,038	$ 188,685	$ 153,038
Charge-offs as a percentage of average loans in repayment (annualized)	.1%	.1%	.1%	.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.1%	.1%	.1%	.1%
Allowance as a percentage of the ending total loan balance	.1%	.1%	.1%	.1%
Allowance as a percentage of ending loans in repayment	.2%	.2%	.2%	.2%
Allowance coverage of charge-offs (annualized)	1.9	1.5	2.1	1.7
Ending total loans, gross	$ 145,932,811	$ 130,084,026	$ 145,932,811	$ 130,084,026
Average loans in repayment	$ 82,449,191	$ 68,657,756	$ 82,443,391	$ 68,949,585
Ending loans in repayment	$ 82,978,473	$ 70,011,495	$ 82,978,473	$ 70,011,495

(1)

Upon the adoption of topic updates to ASC 810 on January 1, 2010, the Company consolidated all of its previously off-balance sheet securitization trusts. (See Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion.)

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of June 30, 2010, 48 percent of the FFELP loan portfolio was subject to 3 percent Risk Sharing, 51 percent was subject to 2 percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of June 30, 2010, December 31, 2009 and June 30, 2009.

	FFELP Loan Delinquencies					
	June 30, 2010		December 31, 2009		June 30, 2009	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	$ 43,397		$ 35,079		$ 46,644	
Loans in forbearance(2)	19,557		14,121		13,428	
Loans in repayment and percentage of each status:						
Loans current	68,657	82.7%	57,528	82.4%	58,746	83.9%
Loans delinquent 31-60 days(3)	4,837	5.8	4,250	6.1	3,996	5.7
Loans delinquent 61-90 days(3)	2,540	3.1	2,205	3.1	1,959	2.8
Loans delinquent greater than 90 days(3)	6,945	8.4	5,844	8.4	5,311	7.6
Total FFELP loans in repayment	82,979	100.0%	69,827	100.0%	70,012	100.0%
Total FFELP loans, gross	145,933		119,027		130,084	
FFELP loan unamortized premium	2,748		2,187		2,375	
Total FFELP loans	148,681		121,214		132,459	
FFELP loan allowance for losses	(189)		(161)		(153)	
FFELP loans, net	$ 148,492		$ 121,053		$ 132,306	
Percentage of FFELP loans in repayment		56.9%		58.7%		53.8%
Delinquencies as a percentage of FFELP loans in repayment		17.3%		17.6%		16.1%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		19.1%		16.8%		16.1%

(1) Loans for borrowers who 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, as well as loans for borrowers who have requested extension of grace period during employment transition or who have temporarily ceased making full payments due to hardship or other factors.

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

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3. Investments

A summary of investments and restricted investments as of June 30, 2010 and December 31, 2009 follows:

	June 30, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 5,103	$	$	$ 5,103
Other securities:				
Certificates of deposit	300,000			300,000
Asset-backed securities	79,369	1,879	(1)	81,247
Commercial paper and asset-backed commercial paper				
Municipal bonds	9,558	2,168		11,726
Other	1,547		(167)	1,380
Total investment securities available-for-sale	$ 395,577	$ 4,047	$ (168)	$ 399,456
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 40,091	$	$	$ 40,091
Guaranteed investment contracts	23,385			23,385
Total restricted investments available-for-sale	$ 63,476	$	$	$ 63,476
Held-to-maturity:				
Guaranteed investment contracts	$ 3,175	$	$	$ 3,175
Total restricted investments held-to-maturity	$ 3,175	$	$	$ 3,175

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3. Investments (Continued)

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale:				
U.S. Treasury securities	$ 272	$	$	$ 272
Other securities:				
Asset-backed securities	110,336	306	(893)	109,749
Commercial paper and asset-backed commercial paper	1,149,981			1,149,981
Municipal bonds	9,935	1,942		11,877
Other	1,550		(154)	1,396
Total investment securities available-for-sale	$ 1,272,074	$ 2,248	$ (1,047)	$ 1,273,275
Restricted Investments				
Available-for sale:				
U.S. Treasury securities	$ 25,026	$	$	$ 25,026
Guaranteed investment contracts	26,951			26,951
Total restricted investments available-for-sale	$ 51,977	$	$	$ 51,977
Held-to-maturity:				
Guaranteed investment contracts	$ 3,550	$	$	$ 3,550
Other	215			215
Total restricted investments held-to-maturity	$ 3,765	$	$	$ 3,765

In addition to the restricted investments detailed above, at June 30, 2010 and December 31, 2009, the Company had restricted cash and cash equivalents of $6.2 billion and $5.1 billion, respectively. As of June 30, 2010 and December 31, 2009, $40 million (all of which is in restricted cash and investments on the balance sheet) and $50 million ($25 million of which is in restricted cash and investments on the balance sheet), respectively, of available-for-sale investment securities were pledged as collateral.

There were no sales of investments, including available-for-sale securities, during the three and six months ended June 30, 2010 and the three months ended June 30, 2009. In the six months ended June 30, 2009, the Company sold available-for-sale securities with a fair value of $100 million, resulting in no realized gain or loss. The cost basis for these securities was determined through specific identification of the securities sold.

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3. Investments (Continued)

As of June 30, 2010, the stated maturities for the investments (including restricted investments) are as follows:

	June 30, 2010		
	Held-to-Maturity	Available-for-Sale[1]	Other
Year of Maturity			
2010	$	$ 346,574	$ 976,358
2011			4,823
2012			
2013		599	
2014			
2015-2019		11,726	58,027
After 2019	3,175	104,033	761
Total	$ 3,175	$ 462,932	$ 1,039,969

(1) Available-for-sale securities are stated at fair value.

At June 30, 2010 and December 31, 2009, the Company also had other investments of $1.0 billion and $741 million, respectively. At June 30, 2010 and December 31, 2009, other investments included $950 million and $636 million, respectively, of receivables for cash collateral posted with derivative counterparties. Other investments also included leveraged leases which at June 30, 2010 and December 31, 2009, totaled $57 million and $66 million, respectively, that are general obligations of American Airlines and Federal Express Corporation.

4. Goodwill and Acquired Intangible Assets

Goodwill

All acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as or one level below an operating segment. The following table summarizes the Company s historical allocation of goodwill to its reporting units, accumulated impairments and net goodwill for each reporting unit.

	As of June 30, 2010 and December 31, 2009
	Accumulated

(Dollars in millions)	Gross	Impairments	Net
Lending	$ 412	$ (24)	$ 388
APG	401		401
Guarantor Servicing	62		62
Upromise	140		140
Other	1	(1)	
Total	$ 1,016	$ (25)	$ 991

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4. Goodwill and Acquired Intangible Assets (Continued)

Impairment Testing

The Company performs goodwill impairment testing annually in the fourth quarter as of a September 30 valuation date or more frequently if an event occurs or circumstances change such that it is more likely than not that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On March 30, 2010, President Obama signed into law H.R. 4872, which included the Student Aid and Fiscal Responsibility Act (SAFRA). Effective July 1, 2010, this law eliminated the authority to provide new loans under FFELP and requires that all new federal loans are to be made through the Direct Student Loan Program (DSLP). The new law did not alter or affect the terms and conditions of existing FFELP loans. The Company is currently in the process of restructuring its operations to reflect this change in law. This restructuring will result in both a significant amount of restructuring expenses incurred as well as a significant reduction of on-going operating costs once the restructuring is complete. See Note 13, Restructuring Activities for further details.

In connection with SAFRA becoming law on March 30, 2010, a trigger event occurred for the Lending, APG and Guarantor Servicing reporting units which required the Company to assess potential goodwill impairment as of March 31, 2010. As part of the impairment assessment, the Company considered the implications of the SAFRA legislation to these reporting units as well as continued uncertainty in the economy and the tight credit markets during the first quarter of 2010. The impairment assessment methodology utilized a discounted cash flow analysis for each reporting unit affected by the new SAFRA legislation. This assessment resulted in estimated fair values of the Company s reporting units in excess of their carrying values at March 31, 2010. Accordingly, there was no indicated impairment for these reporting units in the first quarter of 2010. Likewise, in conjunction with the Company s annual impairment assessment in the fourth quarter of 2009, the cash flow projections for the Lending, APG and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation was passed. There was no indicated impairment for any of the reporting units in the fourth quarter of 2009.

During the second quarter of 2010, no trigger event occured to warrant an impairment assessment.

As a result of the passage of SAFRA, certain revenue streams in the Lending and APG reporting units and the entire revenue stream of the Guarantor Servicing reporting unit will wind down over time. As these revenue streams wind down, goodwill impairment may be triggered in future periods for the Lending and APG reporting units and will definitely be triggered in the future for the Guarantor Servicing reporting unit due to the passage of time and depletion of projected cash flows stemming from FFELP-related contracts.

Management acknowledges that the economic slowdown could adversely affect the operating results of the Company s reporting units. If the forecasted performance of the Company s reporting units is not achieved, or if the Company s stock price declines to a depressed level resulting in deterioration in the Company s total market capitalization, the fair value of one or more of the reporting units could be significantly reduced, and the Company may be required to record a charge, which could be material, for an impairment of goodwill.

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4. Goodwill and Acquired Intangible Assets (Continued)

Goodwill by Reportable Segments

A summary of the Company s goodwill by reportable segment is as follows:

(Dollars in millions)	December 31, 2009	June 30, 2010
Lending	$ 388	$ 388
Asset Performance Group	401	401
Other	202	202
Total	$ 991	$ 991

Acquired Intangible Assets

Acquired intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of June 30, 2010 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services and lending relationships	13 years	$ 332	$ (226)	$ 106
Software and technology	7 years	98	(91)	7
Non-compete agreements		11	(11)	
Total		441	(328)	113
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (328)	$ 167

(Dollars in millions)	Average Amortization Period	As of December 31, 2009 Gross	Accumulated Amortization	Net

Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 332	$ (208)	$ 124
Software and technology	7 years	98	(89)	9
Non-compete agreements		11	(11)	
Total		441	(308)	133
Intangible assets not subject to amortization:				
Trade names and trademarks	Indefinite	54		54
Total acquired intangible assets		$ 495	$ (308)	$ 187

The Company recorded amortization of acquired intangible assets from continuing operations totaling $10 million for both the three months ended June 30, 2010 and 2009, respectively and $20 million and $19 million for the six months ended June 30, 2010 and 2009, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

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5. Borrowings

The following table summarizes the Company s borrowings as of June 30, 2010 and December 31, 2009.

	June 30, 2010			December 31, 2009		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings	$ 5,544	$ 19,681	$ 25,225	$ 5,185	$ 22,797	$ 27,982
Unsecured term bank deposits	1,687	3,291	4,978	842	4,795	5,637
FHLB-DM facility	575		575			
ED Participation Program facility	19,856		19,856	9,006		9,006
ED Conduit Program facility	15,873		15,873	14,314		14,314
ABCP borrowings	1,238	5,000	6,238		8,801	8,801
Securitizations		121,373	121,373		89,200	89,200
Indentured trusts	47	1,415	1,462	64	1,533	1,597
Other[1]	1,527		1,527	1,472		1,472
Total before hedge accounting adjustments	46,347	150,760	197,107	30,883	127,126	158,009
Hedge accounting adjustments	125	1,491	1,616	14	3,420	3,434
Total	$ 46,472	$ 152,251	$ 198,723	$ 30,897	$ 130,546	$ 161,443

(1) Other primarily consists of cash collateral held related to derivative exposures that are recorded as a short-term debt obligation.

Secured Borrowings

VIEs are required to be consolidated by their primary beneficiaries. The criteria to be considered the primary beneficiary changed on January 1, 2010 upon the adoption of topic updates to ASC 810 (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards* - Transfers of Financial Assets and the VIE Consolidation Model for further discussion). A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The

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5. Borrowings (Continued)

Company is the primary beneficiary of and currently consolidates the following financing VIEs as of June 30, 2010 and December 31, 2009:

	June 30, 2010						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 19,856	$	$ 19,856	$ 20,056	$ 227	$ 291	$ 20,574
ED Conduit Program facility	15,873		15,873	16,022	472	436	16,930
ABCP borrowings	1,238	5,000	6,238	7,032	140	60	7,232
Securitizations		121,373	121,373	124,376	4,851	2,051	131,278
Indentured trusts	47	1,415	1,462	1,760	192	19	1,971
Total before hedge accounting adjustments	37,014	127,788	164,802	169,246	5,882	2,857	177,985
Hedge accounting adjustments		117	117				
Total	$ 37,014	$ 127,905	$ 164,919	$ 169,246	$ 5,882	$ 2,857	$ 177,985

	December 31, 2009						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings:							
ED Participation Program facility	$ 9,006	$	$ 9,006	$ 9,397	$ 115	$ 61	$ 9,573
	14,314		14,314	14,594	478	372	15,444

ED Conduit Program facility							
ABCP borrowings		8,801	8,801	9,929	204	100	10,233
Securitizations		89,200	89,200	93,021	3,627	3,083	99,731
Indentured trusts	64	1,533	1,597	1,898	172	24	2,094
Total before hedge accounting adjustments	23,384	99,534	122,918	128,839	4,596	3,640	137,075
Hedge accounting adjustments		1,479	1,479				
Total	$ 23,384	$ 101,013	$ 124,397	$ 128,839	$ 4,596	$ 3,640	$ 137,075

The Department of Education (ED) Funding Programs

In August 2008, ED implemented the Loan Purchase Commitment Program (the Purchase Program) and the Loan Purchase Participation Program (the Participation Program) pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (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

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5. Borrowings (Continued)

origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate equal to the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. Under the terms of the Participation Program, on September 30, 2010, academic year (AY) 2009-2010 loans funded under the Participation Program must be either repurchased by the Company or sold to ED pursuant to the Participation Program, which has identical economics to the Purchase Program. Given the state of the credit markets, we currently expect to sell all of the loans we fund under the Participation Program to ED for settlement in the fourth quarter of 2010. Loans eligible for the Participation or Purchase Programs are limited to FFELP Stafford or PLUS Loans, first disbursed on or after May 1, 2008 but no later than July 1, 2010, with no ongoing borrower benefits other than permitted rate reductions of 0.25 percent for automatic payment processing. As of June 30, 2010, the Company had $19.9 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 those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and accepted eligible loans through July 1, 2010. The ED Conduit Program expires on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (FFB). The FFB will hold the notes for a short period of time and, if at the end of that time, the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through a put agreement at a price of 97 percent of the face amount of the loans. As of June 30, 2010, approximately $16.0 billion face amount of our Stafford and PLUS Loans were funded through the ED Conduit Program. For the second quarter of 2010, the average interest rate paid on this facility was approximately 0.72 percent.

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) to fund FFELP and Private Education Loans. In 2009, the FFELP facilities were subsequently amended and reduced and the Private Education facility was retired.

On January 15, 2010, the Company terminated the 2008 Asset-Backed Financing Facilities for FFELP and entered into new multi-year ABCP facilities (the 2010 Facility) which will continue to provide funding for the Company s federally guaranteed student loans. The 2010 Facility provides for maximum funding of $10 billion for the first year, $5 billion for the second year and $2 billion for the third year. Upfront fees related to the 2010 Facility were approximately $4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the

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5. Borrowings (Continued)

Company s failure to comply with the principal financial covenants in its unsecured revolving credit facility. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon. As of June 30, 2010, there was approximately $6.2 billion outstanding in this facility. The book basis of the assets securing this facility at June 30, 2010 was $7.2 billion.

Securitizations

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. The Term Asset-Backed Securities Loan Facility (TALF) was initiated on March 17, 2009 and provided investors who purchase eligible ABS with funding of up to five years. Eligible ABS include AAA rated student loan ABS backed by FFELP and Private Education Loans first disbursed since May 1, 2007. For student loan collateral, TALF expired on March 31, 2010.

In 2009, the Company completed four FFELP long-term ABS transactions totaling $5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the TALF.

During 2009, the Company completed $7.5 billion of Private Education Loan term ABS transactions, all of which were private placement transactions. On January 6, 2009, the Company closed a $1.5 billion 12.5 year ABS based facility (Total Return Swap 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, the Company completed one Private Education Loan term ABS transaction totaling $1.5 billion in the first quarter of 2009. The net funding received under the ABS based facility for this issuance was $1.1 billion. In addition, the Company completed $6.0 billion of Private Education Loan term ABS transactions which were TALF-eligible.

On March 3, 2010, the Company priced a $1.6 billion Private Education Loan term ABS transaction which was TALF-eligible. The notes settled on March 11, 2010 and the issuance included one $149 million tranche bearing a coupon of Prime minus 0.05 percent and a second $1.401 billion tranche bearing a coupon of 1-month LIBOR plus 3.25 percent.

On April 12, 2010, the Company priced a $1.2 billion FFELP long-term ABS transaction. The transaction settled on April 15, 2010 and includes $1.2 billion A Notes bearing a coupon of 1-month LIBOR plus 0.40 percent and $37 million B Notes bearing a coupon of 1-month LIBOR plus 0.90 percent. The B Notes were purchased by the Company in their entirety on the settlement date. This transaction was composed primarily of FFELP Stafford and

PLUS loans.

On July 22, 2010, the Company redeemed its $1.5 billion SLM Private Education Loan Trust 2009-A ABS issue and closed new offerings of its $869 million SLM 2010-B and $1.7 billion SLM 2010-C Private Education Loan Trust ABS issues. Approximately $875 million of the 2010-B and 2010-C bonds were issued at a weighted average coupon of 1-month LIBOR plus 2.23 percent; the remaining $1.7 billion of bonds were financed under the Company s Total Return Swap Facility. These concurrent transactions raised approximately $1.0 billion of net additional cash for the Company.

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5. Borrowings (Continued)

The Company has $5.3 billion face amount of Private Education Loan securitization bonds outstanding at June 30, 2010, where the Company has the ability to call the bonds at a discount to par between 2011 and 2014. The Company has concluded that it is probable it will call these bonds at the call date at the respective discount. Probability is based on the Company s assessment of whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date. If it becomes less than probable that the Company will call these bonds at a future date, it will result in the Company reversing this prior accretion as a cumulative catch-up adjustment. The Company has accreted approximately $112 million, cumulatively, and $27 million in the second quarter of 2010 as a reduction of interest expense.

Auction Rate Securities

At June 30, 2010, the Company had $3.3 billion of taxable and $1.1 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of the Company s auction rate securities interest rates are set. As a result, $3.5 billion of the Company s auction rate securities as of June 30, 2010 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on the Company s taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company s tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 0.84 percent during the second quarter of 2010. As of June 30, 2010, $0.9 billion of auction rate securities with shorter weighted average terms to maturity have had successful auctions, resulting in an average rate of 1.12 percent.

Indentured Trusts

The Company has secured assets and outstanding bonds in indentured trusts resulting from the acquisition of various student loan providers in prior periods. The indentures were created and bonds issued to finance the acquisition of student loans guaranteed under the Higher Education Act. The bonds are limited obligations of the Company and are secured by and payable from payments associated with the underlying secured loans.

Federal Home Loan Bank in Des Moines (FHLB-DM)

On January 15, 2010, HICA Education Loan Corporation (HICA), a subsidiary of the Company, entered into a lending agreement with the FHLB-DM. Under the agreement, the FHLB-DM will provide advances backed by Federal Housing Finance Agency approved collateral which includes federally-guaranteed student loans. The initial borrowing of $25 million at a rate of 0.23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of June 30, 2010, subject to available collateral, is approximately $11 billion. As of June 30, 2010 borrowing under the facility totaled $575 million, of which $300 million matured on July 26, 2010 and $275 million matures on August 24, 2010. The Company has provided a guarantee to the FHLB-DM for the performance and payment of HICA s obligations.

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5. Borrowings (Continued)

Other Funding Sources

Sallie Mae Bank

During the fourth quarter of 2008, Sallie Mae Bank, the Company s Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered Certificate of Deposit (CD) market and through retail deposit channels. As of June 30, 2010, total term bank deposits were $5.0 billion and cash and liquid investments totaled $2.6 billion. In addition to its deposit base, Sallie Mae Bank has borrowing capacity with the Federal Reserve Bank (FRB) through a collateralized lending facility. Borrowing capacity is limited by the availability of acceptable collateral. As of June 30, 2010, borrowing capacity was approximately $0.6 billion and there were no outstanding borrowings.

Unsecured Revolving Credit Facility

As of June 30, 2010, the Company had $1.6 billion in an unsecured revolving credit facility which provides liquidity support for general corporate purposes. This facility matures in October 2011. On May 5, 2010, the $1.9 billion revolving credit facility maturing in October 2010 was terminated.

The principal financial covenants in the unsecured revolving credit facility require the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.2 billion as of June 30, 2010. 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, 2010. In the past, the Company has not relied upon the Company s unsecured revolving credit facilities as a primary source of liquidity. Even though the Company has never borrowed under these facilities, the revolving credit facility maturing October 2011 remains available to be drawn upon for general corporate purposes.

6. Student Loan Securitization

The Company securitizes its FFELP Stafford loans, FFELP Consolidation Loans and Private Education Loan assets. Prior to the adoption of topic updates to the FASB s ASC 810 on January 1, 2010, for transactions qualifying as sales, the Company retained a Residual Interest and servicing rights (as the Company retained the servicing responsibilities), all of which were referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. As a result of adopting the topic updates to ASC 810, the Company removed the $1.8 billion of Residual Interests (associated with its previously off-balance sheet securitization trusts as of December 31, 2009) from the consolidated balance sheet (see Note 1, Significant Accounting Policies *Recently Issued Accounting Standards -* Transfers of Financial Assets and the VIE Consolidation Model for further details). While this accounting has changed, our economic interest in these assets remains unchanged.

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6. Student Loan Securitization (Continued)

Securitization Activity

The following table summarizes the Company s securitization activity for the three and six months ended June 30, 2010 and 2009. The securitizations in the periods presented below were accounted for as financings under ASC 860.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2010		2009		2010		2009	
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized	No. of Transactions	Loan Amount Securitized
Securitizations:								
FFELP Stafford/PLUS Loans	1	$ 1,211		$	1	$ 1,211		$
FFELP Consolidation Loans			2	4,524			2	4,524
Private Education Loans			1	3,527	1	1,929	2	6,419
Total securitizations	1	$ 1,211	3	$ 8,051	2	$ 3,140	4	$ 10,943

The following table summarizes cash flows received from or paid to the previously off-balance sheet securitization trusts during the three and six months ended June 30, 2009.

(Dollars in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Net proceeds from new securitizations completed during the period	$	$
Cash distributions from trusts related to Residual Interests	154	268
Servicing fees received[1]	57	115
Purchases of previously transferred financial assets for representation and warranty violations	(2)	(5)
Reimbursements of borrower benefits[2]	(8)	(16)
Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option		
Purchases of loans using clean-up call option		

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

(2) Under the terms of the securitizations, the transaction documents require that the Company reimburse the trusts for any borrower benefits afforded the borrowers of the underlying securitized loans.

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

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6. Student Loan Securitization (Continued)

as sales as of December 31, 2009. As noted previously, the Residual Interest was removed from the balance sheet on January 1, 2010.

	As of December 31, 2009			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts[1]**	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests	$ 243	$ 791	$ 794	$ 1,828
Underlying securitized loan balance	5,377	14,369	12,986	32,732
Weighted average life	3.3 yrs.	9.0 yrs.	6.3 yrs.	
Prepayment speed (annual rate)[2]				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal)[3][4]	.10%	.25%	5.31%	
Residual cash flows discount rate	10.6%	12.3%	27.5%	

(1) Includes $569 million related to the fair value of the Embedded Floor Income as of December 31, 2009.

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

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

(4) For Private Education Loan trusts, estimated defaults from settlement to maturity are 12.2 percent at December 31, 2009. These estimated defaults do not include recoveries related to defaults but do include prior purchases of loans at par by the Company when loans reached 180 days delinquent (prior to default) under a contingent call option. Although these loan purchases do not result in a realized loss to the trust, the Company has included them here. Not including these purchases in the disclosure would result in estimated defaults of 9.3 percent at December 31, 2009.

The Company recorded net unrealized mark-to-market losses in securitization servicing and Residual Interest revenue (loss) of $90 million and $351 million for the three and six months ended June 30, 2009.

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.

The $351 million mark-to-market loss for the six months ended June 30, 2009 was primarily due to:

- Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $49 million unrealized mark-to-market loss.

- The discount rate risk premium assumption related to the Private Education Loan Residual Interests was increased by 500 basis points to take into account the level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests as of June 30, 2009. This resulted in a $126 million unrealized mark-to-market loss.

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6. Student Loan Securitization (Continued)

An increase in the forward curves interest rates used to value the Embedded Fixed Rate Floor Income component of the Residual Interests resulted in a $133 million mark-to-market loss.

The table below shows the Company s off-balance sheet Private Education Loan delinquencies as of June 30, 2009.

	Off-Balance Sheet Private Education Loan Delinquencies June 30, 2009	
(Dollars in millions)	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 2,974	
Loans in forbearance[2]	583	
Loans in repayment and percentage of each status:		
Loans current	8,874	90.4%
Loans delinquent 31-60 days[3]	261	2.7
Loans delinquent 61-90 days[3]	174	1.8
Loans delinquent greater than 90 days[3]	505	5.1
Total off-balance sheet Private Education Loans in repayment	9,814	100.0%
Total off-balance sheet Private Education Loans, gross	$ 13,371	

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

(2) Loans for borrowers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardships 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.

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the three and six months ended June 30, 2009.

(Dollars in millions)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Charge-offs	$ 116	$ 179
Charge-offs as a percentage of average loans in repayment (annualized)	4.8%	3.8%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.6%	3.6%
Ending off-balance sheet total Private Education Loans[1]	$ 13,520	$ 13,520
Average off-balance sheet Private Education Loans in repayment	$ 9,630	$ 9,522
Ending off-balance sheet Private Education Loans in repayment	$ 9,814	$ 9,814

[1] Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 2, Allowance for Loan Losses).

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7. Derivative Financial Instruments

Derivative instruments are used as part of the Company s interest rate and foreign currency risk management strategy and include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. (For a full discussion of the Company s risk management strategy and use of derivatives, please see the Company s 2009 Form 10-K, Note 9, Derivative Financial Instruments, to the consolidated financial statements.) The accounting of the Company s derivatives requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company s derivative instruments are classified and accounted for by the Company as fair value hedges, cash flow hedges or trading activities.

Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. Changes in value for both the hedge and the hedged item are recorded to earnings. These amounts offset each other with the net amount representing the ineffectiveness of the relationship.

Cash Flow Hedges

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings.

Trading Activities

When instruments do not qualify as hedges, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. In general, derivative instruments included in trading activities include Floor Income Contracts, basis swaps and various other derivatives that do not qualify for hedge accounting.

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7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2010 and December 31, 2009, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2010 and 2009.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow June 30, 2010	Cash Flow Dec. 31, 2009	Fair Value June 30, 2010	Fair Value Dec. 31, 2009	Trading June 30, 2010	Trading Dec. 31, 2009	Total June 30, 2010	Total Dec. 31, 2009
Fair Values[(1)]									
Derivative Assets									
Interest rate swaps	Interest rate	$	$	$ 1,170	$ 684	$ 252	$ 133	$ 1,422	$ 817
Cross currency interest rate swaps	Foreign currency and interest rate			919	2,932	69	44	988	2,976
Total derivative assets[(3)]									