SLM CORPORATION

Supplemental Earnings Disclosure

December 31, 2008

(In millions, except per share amounts)

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS					
GAAP Basis					
Net income (loss)	$ (216)	$ (159)	$ (1,635)	$ (213)	$ (896)
Diluted earnings (loss) per common share	$ (.52)	$ (.40)	$ (3.98)	$ (.69)	$ (2.26)
Return on assets	(.56)%	(.43)%	(4.60)%	(.14)%	(.71)%
"Core Earnings" Basis[1]					
"Core Earnings" net income (loss)	$ 65	$ 117	$ (139)	$ 526	$ 560
"Core Earnings" diluted earnings (loss) per common share	$ .08	$ .19	$ (.36)	$ .89	$ 1.23
"Core Earnings" return on assets	.14%	.25%	(.30)%	.28%	.33%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	$144,826	$138,606	$121,685	$136,658	$111,719
Average off-balance sheet student loans	36,164	36,864	40,084	37,586	42,411
Average Managed student loans	$180,990	$175,470	$161,769	$174,244	$154,130
Ending on-balance sheet student loans, net	$144,802	$141,328	$124,153		
Ending off-balance sheet student loans, net	35,591	36,362	39,423		
Ending Managed student loans, net	$180,393	$177,690	$163,576		
Ending Managed FFELP Stafford and Other Student Loans, net	$ 59,619	$ 56,608	$ 45,198		
Ending Managed FFELP Consolidation Loans, net	87,275	88,282	90,050		
Ending Managed Private Education Loans, net	33,499	32,800	28,328		
Ending Managed student loans, net	$180,393	$177,690	$163,576		

[1] See explanation of "Core Earnings" performance measures under "Reconciliation of 'Core Earnings' Net Income to GAAP Net Income."

SLM CORPORATION

Consolidated Balance Sheets

(In thousands, except per share amounts)

	December 31, 2008 (unaudited)	September 30, 2008 (unaudited)	December 31, 2007
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of $90,906; $75,290; and $47,518, respectively)	$ 44,025,361	$ 44,827,445	$ 35,726,062
FFELP Stafford Loans Held-for-Sale	8,450,976	4,097,493	—
FFELP Consolidation Loans (net of allowance for losses of $46,637; $47,965; and $41,211, respectively)	71,743,435	72,565,628	73,609,187
Private Education Loans (net of allowance for losses of $1,085,680; $1,012,838; and $885,931, respectively)	20,582,298	19,837,425	14,817,725
Other loans (net of allowance for losses of $58,395; $53,189; and $43,558, respectively)	729,380	769,923	1,173,666
Cash and investments	5,111,407	5,013,583	10,546,411
Restricted cash and investments	3,535,286	3,897,417	4,600,106
Retained Interest in off-balance sheet securitized loans	2,200,298	2,323,419	3,044,038
Goodwill and acquired intangible assets, net	1,249,219	1,259,541	1,300,689
Other assets	11,140,777	10,399,220	10,747,107
Total assets	$168,768,437	$164,991,094	$155,564,991
Liabilities			
ED Participation Program facility	$ 7,364,969	$ 3,554,618	$ —
Term bank deposits	1,147,825	744,086	254,029
Other short-term borrowings	33,420,249	33,968,849	35,693,378
Total short-term borrowings	41,933,043	38,267,553	35,947,407
Long-term borrowings	118,224,794	118,069,878	111,098,144
Other liabilities	3,604,260	3,297,998	3,284,545
Total liabilities	163,762,097	159,635,429	150,330,096
Commitments and contingencies			
Minority interest in subsidiaries	7,270	8,541	11,360
Stockholders' equity			
Preferred stock, par value $.20 per share, 20,000 shares authorized:			
Series A: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000	165,000
Series B: 4,000; 4,000; and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock: 1,150; 1,150; and 1,000 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,149,770	1,000,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,411; 534,420; and 532,493 shares, respectively, issued	106,883	106,884	106,499
Additional paid-in capital	4,684,112	4,665,614	4,590,174
Accumulated other comprehensive income (loss), net of tax	(76,476)	46,687	236,364
Retained earnings	426,175	669,509	557,204
Stockholders' equity before treasury stock	6,855,464	7,203,464	7,055,241
Common stock held in treasury: 66,958; 66,952; and 65,951 shares, respectively	1,856,394	1,856,340	1,831,706
Total stockholders' equity	4,999,070	5,347,124	5,223,535
Total liabilities and stockholders' equity	$168,768,437	$164,991,094	$155,564,991

SLM CORPORATION

Consolidated Statements of Income

(In thousands, except per share amounts)

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Interest income:					
FFELP Stafford and Other Student Loans	$ 516,204	$ 516,116	$ 553,313	$1,994,394	$ 2,060,993
FFELP Consolidation Loans	741,806	830,566	1,095,565	3,178,692	4,343,138
Private Education Loans	439,137	445,572	395,962	1,737,554	1,456,471
Other loans	18,161	19,874	25,427	82,734	105,843
Cash and investments	24,773	57,154	240,846	276,264	707,577
Total interest income	1,740,081	1,869,282	2,311,113	7,269,638	8,674,022
Total interest expense	1,529,522	1,394,533	1,976,642	5,905,418	7,085,772
Net interest income	210,559	474,749	334,471	1,364,220	1,588,250
Less: provisions for loan losses	252,415	186,909	574,178	719,650	1,015,308
Net interest income (loss) after provisions for loan losses	(41,856)	287,840	(239,707)	644,570	572,942
Other income (loss):					
Gains on student loan securitizations	—	—	—	—	367,300
Servicing and securitization revenue	87,557	64,990	23,289	261,819	437,097
Losses on sales of loans and securities, net	(64,007)	(43,899)	(28,441)	(186,155)	(95,492)
Gains (losses) on derivative and hedging activities, net	(292,903)	(241,757)	(1,337,703)	(445,413)	(1,360,584)
Contingency fee revenue	81,626	89,418	91,872	340,140	335,737
Collections revenue (loss)	23,050	(170,692)	76,105	(64,038)	271,547
Guarantor servicing fees	26,199	36,848	40,980	121,363	156,429
Other	96,719	93,096	92,954	392,076	385,075
Total other income (loss)	(41,759)	(171,996)	(1,040,944)	419,792	497,109
Expenses:					
Restructuring expenses	5,849	10,508	22,505	83,775	22,505
Operating expenses	280,367	367,152	418,469	1,356,855	1,529,342
Total expenses	286,216	377,660	440,974	1,440,630	1,551,847
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(369,831)	(261,816)	(1,721,625)	(376,268)	(481,796)
Income tax expense (benefit)	(154,341)	(103,819)	(86,904)	(167,574)	412,283
Income (loss) before minority interest in net earnings of subsidiaries	(215,490)	(157,997)	(1,634,721)	(208,694)	(894,079)
Minority interest in net earnings of subsidiaries	527	544	537	3,932	2,315
Net income (loss)	(216,017)	(158,541)	(1,635,258)	(212,626)	(896,394)
Preferred stock dividends	27,316	27,474	9,622	111,206	37,145
Net income (loss) attributable to common stock	$ (243,333)	$ (186,015)	$(1,644,880)	$ (323,832)	$ (933,539)
Basic earnings (loss) per common share	$ (.52)	$ (.40)	$ (3.98)	$ (.69)	$ (2.26)
Average common shares outstanding	466,692	466,646	413,049	466,642	412,233
Diluted earnings (loss) per common share	$ (.52)	$ (.40)	$ (3.98)	$ (.69)	$ (2.26)
Average common and common equivalent shares outstanding	466,692	466,646	413,049	466,642	412,233
Dividends per common share	$ —	$ —	$ —	$ —	$ .25

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended December 31, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student Loans	$ 586,206	$ —	$ —	$ 586,206	$ (70,002)	$ 516,204
FFELP Consolidation Loans	856,267	—	—	856,267	(114,461)	741,806
Private Education Loans	659,057	—	—	659,057	(219,920)	439,137
Other loans	18,161	—	—	18,161	—	18,161
Cash and investments	20,606	—	7,032	27,638	(2,865)	24,773
Total interest income	2,140,297	—	7,032	2,147,329	(407,248)	1,740,081
Total interest expense	1,584,442	5,628	4,296	1,594,366	(64,844)	1,529,522
Net interest income (loss)	555,855	(5,628)	2,736	552,963	(342,404)	210,559
Less: provisions for loan losses	392,211	—	—	392,211	(139,796)	252,415
Net interest income (loss) after provisions for loan losses	163,644	(5,628)	2,736	160,752	(202,608)	(41,856)
Contingency fee revenue	—	81,626	—	81,626	—	81,626
Collections revenue	—	21,829	—	21,829	1,221	23,050
Guarantor servicing fees	—	—	26,199	26,199	—	26,199
Other income (loss)	18,563	—	52,042	70,605	(243,239)	(172,634)
Total other income (loss)	18,563	103,455	78,241	200,259	(242,018)	(41,759)
Restructuring expenses	2,881	1,771	1,197	5,849	—	5,849
Operating expenses	128,898	75,931	64,845	269,674	10,693	280,367
Total expenses	131,779	77,702	66,042	275,523	10,693	286,216
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	50,428	20,125	14,935	85,488	(455,319)	(369,831)
Income tax expense (benefit)[1]	5,208	9,610	5,131	19,949	(174,290)	(154,341)
Minority interest in net earnings of subsidiaries	—	527	—	527	—	527
Net income (loss)	$ 45,220	$ 9,988	$ 9,804	$ 65,012	$(281,029)	$ (216,017)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended September 30, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student Loans	$ 611,786	$ —	$ —	$ 611,786	$ (95,670)	$ 516,116
FFELP Consolidation Loans	995,102	—	—	995,102	(164,536)	830,566
Private Education Loans	678,293	—	—	678,293	(232,721)	445,572
Other loans	19,874	—	—	19,874	—	19,874
Cash and investments	61,731	—	6,829	68,560	(11,406)	57,154
Total interest income	2,366,786	—	6,829	2,373,615	(504,333)	1,869,282
Total interest expense	1,651,071	5,984	4,472	1,661,527	(266,994)	1,394,533
Net interest income (loss)	715,715	(5,984)	2,357	712,088	(237,339)	474,749
Less: provisions for loan losses	263,019	—	—	263,019	(76,110)	186,909
Net interest income (loss) after provisions for loan losses	452,696	(5,984)	2,357	449,069	(161,229)	287,840
Contingency fee revenue	—	89,418	—	89,418	—	89,418
Collections revenue (loss)	—	(168,689)	—	(168,689)	(2,003)	(170,692)
Guarantor servicing fees	—	—	36,848	36,848	—	36,848
Other income (loss)	55,315	—	50,661	105,976	(233,546)	(127,570)
Total other income (loss)	55,315	(79,271)	87,509	63,553	(235,549)	(171,996)
Restructuring expenses	(236)	4,177	6,567	10,508	—	10,508
Operating expenses	141,797	105,748	69,161	316,706	50,446	367,152
Total expenses	141,561	109,925	75,728	327,214	50,446	377,660
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	366,450	(195,180)	14,138	185,408	(447,224)	(261,816)
Income tax expense (benefit)[1]	134,440	(71,756)	5,198	67,882	(171,701)	(103,819)
Minority interest in net earnings of subsidiaries	—	544	—	544	—	544
Net income (loss)	$ 232,010	$(123,968)	$ 8,940	$ 116,982	$(275,523)	$ (158,541)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended December 31, 2007					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student Loans	$ 705,051	$ —	$ —	$ 705,051	$ (151,738)	$ 553,313
FFELP Consolidation Loans	1,354,573	—	—	1,354,573	(259,008)	1,095,565
Private Education Loans	731,217	—	—	731,217	(335,255)	395,962
Other loans	25,427	—	—	25,427	—	25,427
Cash and investments	272,875	—	5,837	278,712	(37,866)	240,846
Total interest income	3,089,143	—	5,837	3,094,980	(783,867)	2,311,113
Total interest expense	2,471,613	6,592	5,165	2,483,370	(506,728)	1,976,642
Net interest income (loss)	617,530	(6,592)	672	611,610	(277,139)	334,471
Less: provisions for loan losses	749,460	—	1	749,461	(175,283)	574,178
Net interest income (loss) after provisions for loan losses	(131,930)	(6,592)	671	(137,851)	(101,856)	(239,707)
Contingency fee revenue	—	91,872	—	91,872	—	91,872
Collections revenue	—	73,916	—	73,916	2,189	76,105
Guarantor servicing fees	—	—	40,980	40,980	—	40,980
Other income	44,189	—	55,354	99,543	(1,349,444)	(1,249,901)
Total other income (loss)	44,189	165,788	96,334	306,311	(1,347,255)	(1,040,944)
Restructuring expenses	19,006	1,774	1,725	22,505	—	22,505
Operating expenses	172,434	104,048	88,572	365,054	53,415	418,469
Total expenses	191,440	105,822	90,297	387,559	53,415	440,974
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(279,181)	53,374	6,708	(219,099)	(1,502,526)	(1,721,625)
Income tax expense (benefit)[1]	(103,297)	19,749	2,481	(81,067)	(5,837)	(86,904)
Minority interest in net earnings of subsidiaries	—	537	—	537	—	537
Net income (loss)	$ (175,884)	$ 33,088	$ 4,227	$ (138,569)	$(1,496,689)	$(1,635,258)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Year ended December 31, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student Loans	$2,216,396	$ —	$ —	$2,216,396	$ (222,002)	$1,994,394
FFELP Consolidation Loans	3,747,524	—	—	3,747,524	(568,832)	3,178,692
Private Education Loans	2,752,123	—	—	2,752,123	(1,014,569)	1,737,554
Other loans	82,734	—	—	82,734	—	82,734
Cash and investments	304,684	—	25,030	329,714	(53,450)	276,264
Total interest income	9,103,461	—	25,030	9,128,491	(1,858,853)	7,269,638
Total interest expense	6,664,856	25,385	19,044	6,709,285	(803,867)	5,905,418
Net interest income (loss)	2,438,605	(25,385)	5,986	2,419,206	(1,054,986)	1,364,220
Less: provisions for loan losses	1,028,732	—	—	1,028,732	(309,082)	719,650
Net interest income (loss) after provisions for loan losses	1,409,873	(25,385)	5,986	1,390,474	(745,904)	644,570
Contingency fee revenue	—	340,140	—	340,140	—	340,140
Collections revenue (loss)	—	(62,982)	—	(62,982)	(1,056)	(64,038)
Guarantor servicing fees	—	—	121,363	121,363	—	121,363
Other income (loss)	180,121	—	198,931	379,052	(356,725)	22,327
Total other income (loss)	180,121	277,158	320,294	777,573	(357,781)	419,792
Restructuring expenses	49,142	11,556	23,077	83,775	—	83,775
Operating expenses	588,836	398,161	277,532	1,264,529	92,326	1,356,855
Total expenses	637,978	409,717	300,609	1,348,304	92,326	1,440,630
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	952,016	(157,944)	25,671	819,743	(1,196,011)	(376,268)
Income tax expense (benefit)[(1)]	336,632	(55,848)	9,077	289,861	(457,435)	(167,574)
Minority interest in net earnings of subsidiaries	—	3,932	—	3,932	—	3,932
Net income (loss)	$ 615,384	$(106,028)	$ 16,594	$ 525,950	$ (738,576)	$ (212,626)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Year ended December 31, 2007					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
			(unaudited)			
Interest income:						
FFELP Stafford and Other Student Loans	$ 2,848,283	$ —	$ —	$ 2,848,283	$ (787,290)	$2,060,993
FFELP Consolidation Loans	5,521,931	—	—	5,521,931	(1,178,793)	4,343,138
Private Education Loans	2,834,595	—	—	2,834,595	(1,378,124)	1,456,471
Other loans	105,843	—	—	105,843	—	105,843
Cash and investments	867,659	—	21,208	888,867	(181,290)	707,577
Total interest income	12,178,311	—	21,208	12,199,519	(3,525,497)	8,674,022
Total interest expense	9,597,099	26,523	21,440	9,645,062	(2,559,290)	7,085,772
Net interest income (loss)	2,581,212	(26,523)	(232)	2,554,457	(966,207)	1,588,250
Less: provisions for loan losses	1,393,962	—	607	1,394,569	(379,261)	1,015,308
Net interest income (loss) after provisions for loan losses	1,187,250	(26,523)	(839)	1,159,888	(586,946)	572,942
Contingency fee income	—	335,737	—	335,737	—	335,737
Collections revenue	—	269,184	—	269,184	2,363	271,547
Guarantor servicing fees	—	—	156,429	156,429	—	156,429
Other income	193,810	—	217,655	411,465	(678,069)	(266,604)
Total other income (loss)	193,810	604,921	374,084	1,172,815	(675,706)	497,109
Restructuring expenses	19,006	1,774	1,725	22,505	—	22,505
Operating expenses	689,502	388,228	339,391	1,417,121	112,221	1,529,342
Total expenses	708,508	390,002	341,116	1,439,626	112,221	1,551,847
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	672,552	188,396	32,129	893,077	(1,374,873)	(481,796)
Income tax expense[1]	248,844	69,707	11,887	330,438	81,845	412,283
Minority interest in net earnings of subsidiaries	—	2,315	—	2,315	—	2,315
Net income (loss)	$ 423,708	$116,374	$ 20,242	$ 560,324	$(1,456,718)	$ (896,394)

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

SLM CORPORATION

Reconciliation of "Core Earnings" Net Income to GAAP Net Income

(In thousands, except per share amounts)

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
"Core Earnings" net income(loss)[(A)]	$ 65,012	$ 116,982	$ (138,569)	$ 525,950	$ 560,324
"Core Earnings" adjustments:					
Net impact of securitization accounting	31,583	(148,121)	(2,547)	(442,190)	246,817
Net impact of derivative accounting	(441,631)	(205,991)	(1,396,683)	(560,381)	(1,340,792)
Net impact of Floor Income	(34,949)	(42,721)	(49,844)	(102,056)	(168,501)
Net impact of acquired intangibles	(10,322)	(50,391)	(53,452)	(91,384)	(112,397)
Total "Core Earnings" adjustments before income taxes and minority interest in net earnings of subsidiaries	(455,319)	(447,224)	(1,502,526)	(1,196,011)	(1,374,873)
Net tax effect[(B)]	174,290	171,701	5,837	457,435	(81,845)
Total "Core Earnings" adjustments	(281,029)	(275,523)	(1,496,689)	(738,576)	(1,456,718)
GAAP net income (loss)	$(216,017)	$(158,541)	$(1,635,258)	$ (212,626)	$ (896,394)
GAAP diluted earnings (loss) per common share	$ (.52)	$ (.40)	$ (3.98)	$ (.69)	$ (2.26)
[(A)] "Core Earnings" diluted earnings per common share	$ .08	$ .19	$ (.36)	$ .89	$ 1.23

[(B)] Such tax effect is based upon the Company's "Core Earnings" effective tax rate. For the quarter and year ended December 31, 2007, the "Core Earnings" effective tax rate is different than GAAP primarily from the exclusion of the permanent income tax impact of the equity forward contracts. The Company settled all of its equity forward contracts in January 2008.

"Core Earnings"

In accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management evaluates the Company's business segments on a basis that, as allowed under the Financial Accounting Standards Board's Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," differs from GAAP. We refer to management's basis of evaluating our segment results as "Core Earnings" presentations for each business segment and we refer to this information in our presentations with credit rating agencies and lenders. While "Core Earnings" are not a substitute for reported results under GAAP, we rely on "Core Earnings" to manage each operating segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our "Core Earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core Earnings" net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting and as a result, our management reporting is not necessarily comparable with similar information for any other financial institution. Our operating segments are defined by products and services or by types of customers, and reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in

management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

Limitations of "Core Earnings"

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

Other limitations arise from the specific adjustments that management makes to GAAP results to derive "Core Earnings" results. For example, in reversing the unrealized gains and losses that result from SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on derivatives that do not qualify for "hedge treatment," as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility, changing credit spreads and changes in our stock price on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but not on the underlying hedged item) tend to show more volatility in the short term. While presentation of our results on a "Core Earnings" basis provides important information regarding the performance of our Managed loan portfolio, a limitation of this presentation is that we present the ongoing spread income on loans that have been sold to a trust we manage. While we believe that our "Core Earnings" presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our "Core Earnings" results exclude certain Floor Income, which is cash income, from our reported results and therefore may understate earnings in certain periods. Management's financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is economically hedged through Floor Income Contracts.

Pre-Tax Differences between "Core Earnings" and GAAP

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

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

earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from "Core Earnings" as they are considered intercompany transactions on a "Core Earnings" basis.

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts for the year-ago quarters. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life. "Core Earnings" also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked to market through earnings. The Company settled all of its equity forward contracts in January 2008.

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

4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles.

SLM CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION RELEASE
FOURTH QUARTER 2008
(Dollars in millions, except per share amounts, unless otherwise stated)

The following information (the "Supplemental Financial Information Release" or "Release") should be read in connection with SLM Corporation's (the "Company's") press release for fourth quarter 2008 earnings, dated January 21, 2009.

The Supplemental Financial Information Release contains forward-looking statements and information based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due February 2009, (collectively, the "2008 Asset-Backed Financing Facilities"), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and regulations and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the Federal Family Education Loan Program ("FFELP"), may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: various liquidity programs being implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company's expectations.

Definitions for capitalized terms in this document can be found in the Company's 2007 Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 29, 2008.

Certain reclassifications have been made to the balances as of and for the quarters ended December 31, 2007, to be consistent with classifications adopted for the quarter ended December 31, 2008.

DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

Three Months Ended December 31, 2008 Compared to Three Months Ended September 30, 2008

For the three months ended December 31, 2008, the Company's net loss was $216 million or $.52 diluted loss per share, compared to net loss of $159 million, or $.40 diluted loss per share, for the three months ended September 30, 2008. The effective tax rate for those periods was 42 percent and 40 percent, respectively. Pre-tax loss increased by $108 million from the prior quarter. In the fourth quarter there was $293 million in net losses on derivative and hedging activities versus $242 million net losses on derivative and hedging activities in the prior quarter.

There were no gains on student loan securitizations in either the fourth or third quarters of 2008 as the Company did not complete any off-balance sheet securitizations. The Company adopted SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115," on January 1, 2008, and elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," with changes in fair value recorded through other comprehensive income or under SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments," with changes in fair value recorded through income. The Company reclassified the related accumulated other comprehensive income of $195 million into retained earnings and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through servicing and securitization income. The Company has not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue increased by $23 million from $65 million in the third quarter of 2008 to $88 million in the fourth quarter of 2008. This increase was primarily due to a lower current-quarter unrealized mark-to-market loss of $64 million on the Company's Residual Interests compared to a prior-quarter $81 million unrealized mark-to-market loss. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting this mark-to-market.

Net interest income after provisions for loan losses decreased by $330 million in the fourth quarter of 2008 from the third quarter. This decrease was due to a $264 million decrease in net interest income and to a $66 million increase in provisions for loan losses. The decrease in net interest income was primarily due to a decrease in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The increase in provisions for loan losses relates primarily to increases in delinquencies on Private Education Loans (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*") primarily as a result of the continued weakening of the U.S. economy.

In the fourth quarter of 2008, fee and other income and collections revenue totaled $228 million, a $179 million increase from $49 million in the prior quarter. This increase was primarily the result of $242 million of impairment, recorded in the third quarter of 2008, comprised of both $147 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $95 million of impairment related to the Company's non-mortgage purchased paper subsidiary, compared to $45 million of total impairment recorded in the fourth quarter of 2008 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Losses on loans and securities, net, totaled $64 million for the fourth quarter of 2008, a $20 million increase from $44 million incurred in the prior quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. When Private Education Loans in the Company's off-balance sheet securitization trusts that settled before September 30, 2005, became 180 days delinquent, the Company previously exercised its contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold the contingent call option for any trusts that settled after September 30,

2005. In October 2008, the Company decided to no longer exercise its contingent call option. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under the Ensuring Continued Access to Student Loans Act ("ECASLA"), which resulted in a $53 million loss. See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for further discussion.

The Company is restructuring its business in response to the impact of The College Cost Reduction and Access Act of 2007 ("CCRAA"), and current challenges in the capital markets. As part of the Company's cost reduction efforts, restructuring expenses of $6 million and $11 million were recognized in the current quarter and prior quarter, respectively. Restructuring expenses from the fourth quarter of 2007 through the fourth quarter of 2008 totaled $106 million. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 26 percent of the workforce. The Company estimates approximately $8 million of additional restructuring expenses associated with its current cost reduction efforts will be incurred in future periods.

Operating expenses were $280 million in the fourth quarter of 2008 compared to $367 million in the third quarter of 2008. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company has decided to wind down its purchased paper businesses. This decision resulted in a $36 million impairment of intangible assets in the third quarter of 2008. There was no impairment of goodwill in the fourth quarter of 2008. The remaining $51 million decrease in operating expenses was primarily due to the Company's cost reduction efforts discussed above.

Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007

For the three months ended December 31, 2008, the Company's net loss was $216 million or $.52 diluted loss per share, compared to a net loss of $1.6 billion, or $3.98 diluted loss per share, for the three months ended December 31, 2007. The effective tax rate for those periods was 42 percent and 5 percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under SFAS No. 133 in 2007. The Company settled all of its outstanding equity forward contracts in January 2008. For the three months ended December 31, 2008, the Company's pre-tax loss was $370 million compared to a pre-tax loss of $1.7 billion in the year-ago quarter. The decrease in pre-tax loss of $1.3 billion was primarily due to a decrease in net losses on derivative and hedging activities from $1.3 billion in the year-ago quarter to $293 million in the fourth quarter of 2008, which was primarily a result of the mark-to-market on the equity forward contracts in the fourth quarter of 2007.

There were no gains on student loan securitizations in either the fourth quarter of 2008 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue increased by $64 million from $23 million in the fourth quarter of 2007 to $88 million in the fourth quarter of 2008. This increase was primarily due to a lower current-quarter unrealized mark-to-market loss of $64 million recorded under SFAS No. 159 compared to a year-ago quarter $137 million unrealized mark-to-market loss, which included $117 million of impairment and a $20 million unrealized mark-to-market loss recorded under SFAS No. 155. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest loss after provisions for loan losses decreased by $198 million in the fourth quarter from the year-ago quarter. This decrease was due to a $322 million decrease in provisions for loan losses, offset by a $124 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"), an increase in the 2008 Asset-Backed Financing Facilities Fees, partially offset by a $23 billion increase in the average balance of on-balance sheet student loans. The decrease in provisions for loan losses relates primarily to the higher provision amounts in the fourth quarter of 2007 for Private Education Loans, FFELP loans and mortgage loans, primarily due to a weakening U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*").

In the fourth quarter of 2008, fee and other income and collections revenue totaled $228 million, a $74 million decrease from $302 million in the year-ago quarter. This decrease was primarily the result of $45 million of impairment related to both declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and impairment related to the Company's non-mortgage purchased paper subsidiary recorded in the fourth quarter of 2008 compared to $1 million of impairment in the fourth quarter of 2007 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Losses on loans and securities, net, totaled $64 million for the fourth quarter of 2008, a $36 million increase from $28 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. As previously discussed, the Company no longer repurchases these loans. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under ECASLA, which resulted in a $53 million loss. See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for further discussion.

Restructuring expenses of $6 million and $23 million were recognized in the fourth quarters of 2008 and 2007, respectively, as previously discussed.

Operating expenses were $280 million in the fourth quarter of 2008 compared to $418 million in the fourth quarter of 2007. The $138 million decrease in operating expenses included a $14 million reduction in Merger-related professional fees from the year-ago quarter, a $43 million reduction in goodwill and intangible asset amortization and impairment, with the remaining $81 million reduction primarily related to the Company's cost reduction efforts discussed above.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

For the year ended December 31, 2008, the Company's net loss was $213 million or $.69 diluted loss per share, compared to a net loss of $896 million, or $2.26 diluted loss per share, for the year December 31, 2007. The effective tax rate for those periods was 45 percent and (86) percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under SFAS No. 133 in 2007. Pre-tax loss decreased by $106 million versus the year-ago period primarily due to a decrease in net losses on derivative and hedging activities from $1.4 billion for the year ended December 31, 2007 to $445 million for the year ended December 31, 2008, which was primarily a result of the mark-to-market on the equity forward contracts in the fourth quarter of 2007.

There were no gains on student loan securitizations in the year ended December 31, 2008 compared to gains of $367 million in the year-ago period. The Company did not complete any off-balance sheet securitizations in the year ended December 31, 2008, versus one Private Education Loan securitization in the year-ago period. Servicing and securitization revenue decreased by $175 million from $437 million in the year ended December 31, 2007 to $262 million in the year ended December 31, 2008. This decrease was primarily due to a $425 million unrealized mark-to-market loss recorded under SFAS No. 159 in the current year compared to a $278 million unrealized mark-to-market loss in the prior year, which included both impairment and an unrealized mark-to-market gain recorded under SFAS No. 155. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses increased by $72 million in the year ended December 31, 2008 from the prior year. This increase was due to a $296 million decrease in provisions for loan losses, offset by a $224 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"), an increase in the 2008 Asset-Backed Financing Facilities Fees, partially offset by a $25 billion increase in the average balance of on-balance sheet student loans. The decrease in provisions for loan losses relates to the higher provision amounts in the fourth quarter of 2007 for Private Education Loans, FFELP loans and mortgage loans, primarily due to a weakening U.S. economy. The significant provision in the fourth quarter of 2007 primarily related to the non-traditional

portfolio which was particularly impacted by the weakening U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*").

For the year ended December 31, 2008, fee and other income and collections revenue totaled $790 million, a $359 million decrease from $1.1 billion in the prior year. This decrease was primarily the result of $368 million of impairment related to both declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and related to the Company's non-mortgage purchased paper subsidiary recorded in 2008 compared to $21 million in 2007 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Losses on loans and securities, net, totaled $186 million for the year ended December 31, 2008, a $91 million increase from $95 million incurred in the year ended December 31, 2007. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. As previously discussed, the Company no longer repurchases these loans. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under ECASLA, which resulted in a $53 million loss. See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for further discussion.

Restructuring expenses of $84 million and $23 million were recognized in the years ended December 31, 2008 and 2007, respectively, as previously discussed.

Operating expenses totaled $1.4 billion and $1.5 billion for the years ended December 31, 2008 and 2007, respectively, primarily due to the Company's cost reduction efforts discussed above. Of these amounts, $91 million and $112 million, respectively, relate to amortization and impairment of goodwill and intangible assets.

Other Income

The following table summarizes the components of "Other income" in the consolidated statements of income for the quarters ended December 31, 2008, September 30, 2008 and December 31, 2007 and for the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Late fees and forbearance fees	$36	$36	$34	$143	$136
Asset servicing and other transaction fees	28	28	32	108	110
Loan servicing fees	8	6	6	26	26
Gains on sales of mortgages and other loan fees	—	1	1	3	11
Other	25	23	20	112	102
Total other income	$97	$94	$93	$392	$385

EARNINGS RELEASE SUMMARY

The following table summarizes GAAP income statement items (on a tax-effected basis) that are disclosed separately in the Company's press releases of earnings or the Company's quarterly earnings conference calls for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, and for the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
(in thousands)	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Reported net income (loss)	$(216,017)	$(158,541)	$(1,635,258)	$(212,626)	$(896,394)
Preferred stock dividends	(27,316)	(27,474)	(9,622)	(111,206)	(37,145)
Reported net income (loss) attributable to common stock	(243,333)	(186,015)	(1,644,880)	(323,832)	(933,539)
Expense items disclosed separately (tax-effected):					
Merger-related financing fees[1]	—	—	7,833	—	27,463
Merger-related professional fees and other costs	—	—	9,286	—	35,456
Restructuring expenses	3,685	6,620	14,178	52,778	14,178
Other reorganization-related asset impairments	131	226	—	4,136	—
Impact to FFELP provision for loan losses due to legislative changes	—	—	—	—	18,748
Deceleration of premium amortization expense on loans[2]		(56,868)	—	(56,868)	—
Acceleration of premium amortization expense on loans[3]	—	—	—	34,142	—
Total expense items disclosed separately (tax-effected)	3,816	(50,022)	31,297	34,188	95,845
Net income (loss) attributable to common stock excluding the impact of items disclosed separately	$(239,517)	$(236,037)	$(1,613,583)	$(289,644)	$(837,694)
Average common and common equivalent shares outstanding[4]	466,692	466,646	413,049	466,642	412,233

(1) Merger-related financing fees are the commitment and liquidity fees related to the financing facility in connection with the Merger Agreement, now terminated.

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

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

(4) Common equivalent shares outstanding were anti-dilutive for all periods presented.

The following table summarizes "Core Earnings" income statement items (on a tax-effected basis) that are disclosed separately in the Company's press releases of earnings or the Company's quarterly earnings conference calls for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and for the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
(in thousands)	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
"Core Earnings" net income (loss)	$ 65,012	$116,982	$(138,569)	$ 525,950	$560,324
Preferred stock dividends	(27,316)	(27,474)	(9,622)	(111,206)	(37,145)
"Core Earnings" net income (loss) attributable to common stock	37,696	89,508	(148,191)	414,744	523,179
Expense items disclosed separately (tax-effected):					
Merger-related financing fees[1]	—	—	7,833	—	27,463
Merger-related professional fees and other costs	—	—	9,286	—	35,456
Restructuring expenses	3,685	6,620	14,178	52,778	14,178
Other reorganization-related asset impairments	131	226	—	4,136	—
Impact to FFELP provision for loan losses due to legislative changes	—	—	—	—	27,726
Deceleration of premium amortization expense on loans[2]		(74,138)	—	(74,138)	—
Acceleration of premium amortization expense on loans[3]	—	—	—	51,777	—
Total expense items disclosed separately (tax-effected)	3,816	(67,292)	31,297	34,553	104,823
Net income (loss) attributable to common stock excluding the impact of items disclosed separately	$ 41,512	$ 22,216	$(116,894)	$ 449,297	$628,002
Average common and common equivalent shares outstanding[4]	467,108	467,178	413,049	467,229	426,943

(1) Merger-related financing fees are the commitment and liquidity fees related to the financing facility in connection with the Merger Agreement, now terminated.

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

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

(4) Common equivalent shares outstanding were anti-dilutive for the quarter ended December 31, 2007.

BUSINESS SEGMENTS

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

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

As previously discussed, on January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements," and SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." The fair value adjustments of the items impacted by SFAS No. 157 and SFAS No. 159 under GAAP are not included in "Core Earnings" net income and therefore the adoption of SFAS No. 157 and SFAS No. 159 did not impact the "Core Earnings" presentation for the three months and year ended December 31, 2008.

Pre-tax Differences between "Core Earnings" and GAAP

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

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

The following table summarizes "Core Earnings" securitization adjustments for the Lending operating segment for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and for the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
"Core Earnings" securitization adjustments:					
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$(179)	$(245)	$(169)	$(872)	$(818)
Provisions for loan losses	140	76	176	309	380
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(39)	(169)	7	(563)	(438)
Intercompany transactions with off-balance sheet trusts	(17)	(44)	(32)	(141)	(119)
Net interest income on securitized loans, after provisions for loan losses	(56)	(213)	(25)	(704)	(557)
Gains on student loan securitizations	—	—	—	—	367
Servicing and securitization revenue	88	65	23	262	437
Total "Core Earnings" securitization adjustments[1]	$ 32	$(148)	$ (2)	$(442)	$ 247

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

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

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment, and occurred in our Corporate and Other reportable segment related to equity forward contracts in the year-ago quarters. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life. "Core Earnings" also exclude the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for "hedge treatment" as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The gains and losses described in "Gains (losses) on derivative and hedging activities, net" are primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads and changes in our stock price during the period as well as the volume and term of derivatives not receiving hedge treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the paydown of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Under SFAS No. 133, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Prior to SFAS No. 133, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk, however they generally do not meet this effectiveness test because most of our FFELP student loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

Under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," equity forward contracts that allow a net settlement option either in cash or the Company's stock are required to be accounted for as derivatives in accordance with SFAS No. 133. As a result, we account for our equity forward contracts as derivatives in accordance with SFAS No. 133 and mark them to market through earnings. They do not qualify as effective SFAS No. 133 hedges, as a requirement to achieve hedge accounting is the hedged item must impact net income and the settlement of these contracts through the purchase of our own stock does not impact net income. The Company settled all of its equity forward contracts in January 2008.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on net income for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, and for the years ended December 31, 2008 and 2007, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Quarters ended			Years ended	
	December 31, 2008	**September 30, 2008**	**December 31, 2007**	**December 31, 2008**	**December 31, 2007**
"Core Earnings" derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$(293)	$(242)	$(1,338)	$(445)	$(1,361)
Less: Realized (gains) losses on derivative and hedging activities, net[1]	(146)	41	(61)	(107)	18
Unrealized gains (losses) on derivative and hedging activities, net	(439)	(201)	(1,399)	(552)	(1,343)
Other pre-SFAS No. 133 accounting adjustments	(3)	(5)	2	(8)	2
Total net impact of SFAS No. 133 derivative accounting[2]	$(442)	$(206)	$(1,397)	$(560)	$(1,341)

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

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

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized gains (losses) on derivative and hedging activities") that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a "Core Earnings" basis for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (98)	$ (75)	$ (37)	$(488)	$ (67)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	224	22	95	563	47
Foreign exchange derivatives gains/(losses) reclassified to other income	3	12	—	11	—
Net realized gains (losses) on terminated derivative contracts reclassified to other income	17	—	3	21	2
Total reclassifications of realized (gains) losses on derivative and hedging activities	146	(41)	61	107	(18)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(439)	(201)	(1,399)	(552)	(1,343)
Gains (losses) on derivative and hedging activities, net	$(293)	$(242)	$(1,338)	$(445)	$(1,361)

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

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Floor Income Contracts	$(770)	$ (33)	$ (145)	$(529)	$ (209)
Equity forward contracts	—	—	(1,485)	—	(1,558)
Basis swaps	260	(210)	206	(239)	360
Other	71	42	25	216	64
Total unrealized gains (losses) on derivative and hedging activities, net	$(439)	$(201)	$(1,399)	$(552)	$(1,343)

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on equity forward contracts fluctuate with changes in the Company's stock price. Unrealized gains and losses on basis swaps result from changes in the spread between indices and on changes in the forward interest rate curves that impact basis swaps hedging repricing risk between quarterly reset debt and daily reset assets.

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

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and for the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
	December 31, 2008	**September 30, 2008**	**December 31, 2007**	**December 31, 2008**	**December 31, 2007**
"Core Earnings" Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 9	$ 1	$ —	$ 69	$ —
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(44)	(44)	(50)	(171)	(169)
Total "Core Earnings" Floor Income adjustments[1]	$(35)	$(43)	$(50)	$(102)	$(169)

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

4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles. For the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, goodwill and intangible impairment and the amortization of acquired intangibles totaled $10 million, $50 million and $53 million, respectively, and for the years ended December 31, 2008 and 2007, totaled $91 million and $112 million, respectively. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company has decided to wind down its purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets in the quarter ended September 30, 2008. In the fourth quarter of 2007, we recognized impairments related principally to our mortgage origination and mortgage purchased paper businesses including approximately $20 million of goodwill and $10 million of value attributable to certain banking relationships.

LENDING BUSINESS SEGMENT

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

As a result of the significant changes brought about by the CCRAA, along with the impact of the credit environment, the student loan marketplace has undergone significant change. Over 160 lenders have withdrawn from the student loan market. Substantially all other lenders have altered their student loan offerings including the elimination of certain borrower benefits and premiums paid on secondary market loan purchases. Many FFELP lenders, excluding the Company, have made other significant changes which dramatically reduced the loan volume they originated. These conditions, primarily centered on loan access and loan processing, have led a number of schools to convert from the FFELP to the FDLP or participate in FDLP in addition to FFELP.

As a result of CCRAA, it is no longer economical to purchase loans at historical premiums from our preferred channel clients. Although some clients decided to continue to sell loans to us at significantly lower premiums, some became third-party servicing clients, and others decided to exit the business.

Congress passed ECASLA, under which ED has established various liquidity programs to encourage lenders to continue FFELP lending for the 2008-2009 and 2009-2010 academic years. See "LIQUIDITY AND CAPITAL RESOURCES — ED's Funding Programs," for a discussion of the ED programs pursuant to ECASLA. These programs allow the Company to continue lending FFELP loans during this current funding and credit environment.

As of December 31, 2008, on a Managed Basis, the Company had approximately $127.2 billion of FFELP loans indexed to three-month financial commercial paper rate ("CP") that are funded with debt indexed to LIBOR. Due to the unintended consequences of government actions in other areas of the capital markets and limited issuances of qualifying financial commercial paper, the relationship between the three-month financial CP and LIBOR has been distorted and volatile. To address this issue, ED has announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the quarter, the Federal Reserve's Commercial Paper Funding Facility rates will be used for those days in which no three-month financial commercial paper rate was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 compared to 8 basis points in the third quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if the ED had not addressed the issue by using the Federal Reserve's Commercial Paper Funding Facility rates discussed above.

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

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
"Core Earnings" interest income:					
FFELP Stafford and Other Student Loans	$ 586	$ 612	$ 705	$2,216	$ 2,848
FFELP Consolidation Loans	856	995	1,355	3,748	5,522
Private Education Loans	659	678	731	2,752	2,835
Other loans	18	20	25	83	106
Cash and investments	21	62	273	304	868
Total "Core Earnings" interest income	2,140	2,367	3,089	9,103	12,179
Total "Core Earnings" interest expense	1,584	1,651	2,471	6,665	9,597
Net "Core Earnings" interest income	556	716	618	2,438	2,582
Less: provisions for loan losses	392	263	750	1,029	1,394
Net "Core Earnings" interest income (loss) after provisions for loan losses	164	453	(132)	1,409	1,188
Other income	18	55	44	180	194
Restructuring expenses	3	—	19	49	19
Operating expenses	129	142	172	589	690
Total expenses	132	142	191	638	709
Income (loss) before income taxes	50	366	(279)	951	673
Income tax expense (benefit)	5	134	(103)	336	249
"Core Earnings" net income (loss)	$ 45	$ 232	$ (176)	$ 615	$ 424

Net Interest Income

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

Average Balance Sheets — On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and for the years ended December 31, 2008 and 2007. This table reflects the net interest margin for all on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Quarters ended					
	December 31, 2008		September 30, 2008		December 31, 2007	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	$ 51,250	4.01%	$ 45,804	4.48%	$ 34,819	6.30%
FFELP Consolidation Loans	72,142	4.09	72,926	4.53	71,859	6.05
Private Education Loans	21,434	8.15	19,876	8.92	15,007	10.47
Other loans	752	9.61	859	9.21	1,171	8.62
Cash and investments	7,843	1.26	7,964	2.85	18,196	5.25
Total interest-earning assets	153,421	4.51%	147,429	5.04%	141,052	6.50%
Non-interest-earning assets	10,021		10,035		10,020	
Total assets	$163,442		$157,464		$151,072	
Average Liabilities and Stockholders' Equity						
ED Participation Program facility	$ 5,909	3.43%	$ 960	3.38%	$ —	—%
Term bank deposits	937	3.60	703	3.83	152	5.15
Other short-term borrowings	31,865	4.60	32,387	5.00	35,493	5.40
Total short-term borrowings	38,711	4.40	34,050	4.93	35,645	5.40
Long-term borrowings	115,370	3.80	114,046	3.39	106,727	5.54
Total interest-bearing liabilities	154,081	3.95%	148,096	3.75%	142,372	5.51%
Non-interest-bearing liabilities	4,004		3,821		4,186	
Stockholders' equity	5,357		5,547		4,514	
Total liabilities and stockholders' equity	$163,442		$157,464		$151,072	
Net interest margin		.55%		1.28%		.94%

	Years ended			
	December 31, 2008		December 31, 2007	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	$ 44,291	4.50%	$ 31,294	6.59%
FFELP Consolidation Loans	73,091	4.35	67,918	6.39
Private Education Loans	19,276	9.01	12,507	11.65
Other loans	955	8.66	1,246	8.49
Cash and investments	9,279	2.98	12,710	5.57
Total interest-earning assets	146,892	4.95%	125,675	6.90%
Non-interest-earning assets	9,999		9,715	
Total assets	$156,891		$135,390	
Average Liabilities and Stockholders' Equity				
ED Participation Program facility	$ 1,727	3.43%	$ —	—%
Term bank deposits	696	3.95	166	5.26
Other short-term borrowings	33,636	4.81	16,219	5.75
Total short-term borrowings	36,059	4.73	16,385	5.74
Long-term borrowings	111,625	3.76	109,984	5.59
Total interest-bearing liabilities	147,684	4.00%	126,369	5.61%
Non-interest-bearing liabilities	3,797		4,272	
Stockholders' equity	5,410		4,749	
Total liabilities and stockholders' equity	$156,891		$135,390	
Net interest margin		.93%		1.26%

Net Interest Margin — On-Balance Sheet

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

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Student loan spread[1][2]	.91%	1.71%	1.17%	1.28%	1.44%
Other asset spread[1][3]	(1.73)	.06	(.53)	(.27)	(.16)
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1]	.76	1.61	.94	1.17	1.26
Less: 2008 Asset-Backed Financing Facilities fees	(.21)	(.33)	—	(.24)	—
Net interest margin	.55%	1.28%	.94%	.93%	1.26%

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

[2] Composition of student loan spread

	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Student loan yield, before Floor Income	5.21%	5.57%	7.49%	5.60%	7.92%
Gross Floor Income	.22	.16	.08	.28	.05
Consolidation Loan Rebate Fees	(.51)	(.54)	(.61)	(.55)	(.63)
Repayment Borrower Benefits	(.09)	(.12)	(.12)	(.11)	(.12)
Premium and discount amortization	(.16)	.07	(.18)	(.16)	(.18)
Student loan net yield	4.67	5.14	6.66	5.06	7.04
Student loan cost of funds	(3.76)	(3.43)	(5.49)	(3.78)	(5.60)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	.91%	1.71%	1.17%	1.28%	1.44%

[3] Comprised of investments, cash and other loans

Student Loan Spread — On-Balance Sheet

The student loan spread is impacted by changes in its various components, as reflected in footnote (2) to the *"Net Interest Margin — On-Balance Sheet"* table above. Gross Floor Income is impacted by interest rates and the percentage of the FFELP portfolio eligible to earn Floor Income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Repayment Borrower Benefits are generally impacted by the terms of the Repayment Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally impacted by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 decreased 80 basis points and 26 basis points from the prior quarter and year-ago quarter, respectively. The decrease from the prior quarter was primarily due to a cumulative reduction in premium expense in the third quarter of 2008, related to lowering the prepayment rate assumption (see *" 'Core Earnings' Basis Student Loan Spread"* below for a further discussion of premium amortization impact), an increase in our cost of funds and the wider spread between three-month commercial paper and three-month LIBOR previously discussed.

The cost of funds for on-balance sheet student loans excludes the impact of basis swaps that are intended to economically hedge the re-pricing and basis mismatch between our funding and student loan asset indices, but do not receive hedge accounting treatment under SFAS No. 133. We extensively use basis swaps to manage our basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally

do not qualify as accounting hedges, and as a result, are required to be accounted for in the "gains (losses) on derivatives and hedging activities, net" line on the income statement, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above and therefore, in times of volatile movements of interest rates like those experienced in 2008, the student loan spread can significantly change. See *" 'Core Earnings' Net Interest Margin"* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

The decrease in the student loan spread from the year-ago quarter was primarily due to an increase in the cost of funds and the wider spread between three-month commercial paper and three-month LIBOR previously discussed, which was partially offset by an increase in Gross Floor Income.

Other Asset Spread — On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the fourth quarter of 2008 decreased 179 basis points and 120 basis points from the prior quarter and year-ago quarter, respectively. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under SFAS No. 133 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the "Core Earnings" basis other asset spread discussed below.

Net Interest Margin — On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 decreased 85 basis points from the prior quarter. This decrease primarily related to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the two periods. Net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 decreased 18 basis points from the year-ago quarter. The increase in the student loan portfolio as a percentage of the overall interest-earning asset portfolio resulted in an increase to net interest margin of 14 basis points due to the student loan portfolio earning a higher spread than the other asset portfolio. A decrease of 32 basis points relates primarily to the previous discussions of changes in the on-balance sheet student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

"Core Earnings" Net Interest Margin

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

- includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as SFAS No. 133 hedges are recorded as part of the "gain (loss) on

derivative and hedging activities, net" line on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our "Core Earnings" net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

- excludes unhedged Floor Income earned on the Managed student loan portfolio; and
- includes the amortization of upfront payments on Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
"Core Earnings" basis student loan spread[1]:					
FFELP loan spread	.73%	1.13%	.88%	.83%	.96%
Private Education Loan spread[2]	4.74	5.20	4.67	5.09	5.12
Total "Core Earnings" basis student loan spread[3]	1.49	1.90	1.56	1.63	1.67
"Core Earnings" basis other asset spread[1][4]	(1.71)	(.12)	(.41)	(.51)	(.11)
"Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.32	1.78	1.32	1.49	1.49
Less: 2008 Asset-Backed Financing Facilities fees	(.17)	(.26)	—	(.19)	—
"Core Earnings" net interest margin	1.15%	1.52%	1.32%	1.30%	1.49%

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

(2) "Core Earnings" basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses	.73%	2.76%	(4.52)%	2.41%	.41%
(3) Composition of "Core Earnings" basis student loan spread:					
"Core Earnings" basis student loan yield	5.35%	5.72%	7.69%	5.77%	8.12%
Consolidation Loan Rebate Fees	(.49)	(.52)	(.56)	(.52)	(.57)
Repayment Borrower Benefits	(.09)	(.11)	(.11)	(.11)	(.11)
Premium and discount amortization	(.15)	.09	(.17)	(.14)	(.17)
"Core Earnings" basis student loan net yield	4.62	5.18	6.85	5.00	7.27
"Core Earnings" basis student loan cost of funds	(3.13)	(3.28)	(5.29)	(3.37)	(5.60)
"Core Earnings" basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.49%	1.90%	1.56%	1.63%	1.67%

(4) Comprised of investments, cash and other loans

"Core Earnings" Basis Student Loan Spread

The "Core Earnings" basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 decreased 41 basis points from the prior quarter, and 7 basis points from the year-ago quarter. The decrease in the "Core Earnings" basis student loan spread from the prior quarter was primarily due to the Company's third quarter reduction to its prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation loans, as a result of a significant decrease in prepayment activity. The Company expects this decrease in prepayment activity will continue into the foreseeable future as a result of the CCRAA, and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense in the third quarter of 2008 of approximately 26 basis points. The "Core Earnings" basis student loan spread was also negatively impacted by an increase in the Company's cost of funds resulting from both a 13 basis point widening of the CP/LIBOR spread between quarters (as previously discussed in "LENDING BUSINESS SEGMENT") and an increase in the credit spreads on the Company's debt during the last year due to the current credit environment.

The "Core Earnings" basis FFELP loan spread for the year ended December 31, 2008 declined from the year-ago period primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The decrease in the "Core Earnings" basis FFELP loan spread in the fourth quarter of 2008 compared to the third quarter of 2008, was also due to the one-time premium amortization adjustment discussed above. The "Core Earnings" basis Private Education Loan spread before provision for loan losses for the fourth quarter of 2008 was negatively impacted by the increase in the cost of funds discussed previously. The changes in the "Core Earnings" basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see "Private Education Loan Losses — *Allowance for Private Education Loan Losses*").

"Core Earnings" Basis Other Asset Spread

The "Core Earnings" basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The "Core Earnings" basis other asset spread for the fourth quarter of 2008 decreased 159 basis points and 130 basis points from the prior quarter and year-ago quarter, respectively. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

"Core Earnings" Net Interest Margin

The "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 decreased 46 basis points from the prior quarter. This decrease primarily relates to the previously discussed changes in the "Core Earnings" basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the two periods. "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2008 remained consistent from the year-ago quarter. The increase in the Managed student loan portfolio as a percentage of the overall Managed interest-earning asset portfolio resulted in an increase to "Core Earnings" net interest margin of 13 basis points due to the Managed student loan portfolio earning a higher spread than the Managed other interest-earning asset portfolio. This was offset by a decrease of 13 basis points primarily due to the previously discussed changes in the student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date.

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

All Private Education Loans are initially acquired on-balance sheet. The securitization of Private Education Loans to date has been accounted for off-balance sheet under SFAS No. 140. For our Managed Basis presentation in the table below, when loans are securitized, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then increase the allowance for loan losses for these loans off-balance sheet, with the total of both on-balance sheet and off-balance sheet being the Managed Basis allowance for loan losses.

When Private Education Loans in our securitized trusts settling before September 30, 2005, became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We account for these loans in accordance with the American Institute of Certified Public Accountants' ("AICPA") Statement of Position ("SOP") 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer." Revenue is recognized over the anticipated remaining life of the loan based upon the amount and timing of anticipated cash flows. In October 2008, the Company decided to no longer exercise its contingent call option. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged-off at day 212. We do not hold the contingent call option for any trusts settled after September 30, 2005.

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

Private Education Loan Delinquencies and Forbearance

The tables below present our Private Education Loan delinquency trends as of December 31, 2008, September 30, 2008, and December 31, 2007.

	On-Balance Sheet Private Education Loan Delinquencies					
	December 31, 2008		September 30, 2008		December 31, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$10,159		$11,263		$ 8,151	
Loans in forbearance[2]	862		1,085		974	
Loans in repayment and percentage of each status:						
Loans current	9,748	87.2%	7,902	87.6%	6,236	88.5%
Loans delinquent 31-60 days[3]	551	4.9	393	4.4	306	4.3
Loans delinquent 61-90 days[3]	296	2.6	249	2.8	176	2.5
Loans delinquent greater than 90 days[3]	587	5.3	472	5.2	329	4.7
Total Private Education Loans in repayment	11,182	100%	9,016	100%	7,047	100%
Total Private Education Loans, gross	22,203		21,364		16,172	
Private Education Loan unamortized discount	(535)		(514)		(468)	
Total Private Education Loans	21,668		20,850		15,704	
Private Education Loan allowance for losses	(1,086)		(1,013)		(886)	
Private Education Loans, net	$20,582		$19,837		$14,818	
Percentage of Private Education Loans in repayment		50.4%		42.2%		43.6%
Delinquencies as a percentage of Private Education Loans in repayment		12.8%		12.4%		11.5%
Loans in forbearance as a percentage of loans in repayment and forbearance		7.2%		10.7%		12.1%

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

(2) Loans for borrowers who have 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.

	Off-Balance Sheet Private Education Loan Delinquencies					
	December 31, 2008		September 30, 2008		December 31, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 3,461		$ 4,259		$ 4,963	
Loans in forbearance[2]	700		1,159		1,417	
Loans in repayment and percentage of each status:						
Loans current	8,843	92.8%	7,733	93.9%	7,403	94.7%
Loans delinquent 31-60 days[3]	315	3.3	217	2.6	202	2.6
Loans delinquent 61-90 days[3]	121	1.3	103	1.3	84	1.1
Loans delinquent greater than 90 days[3]	251	2.6	177	2.2	130	1.6
Total Private Education Loans in repayment	9,530	100%	8,230	100%	7,819	100%
Total Private Education Loans, gross	13,691		13,648		14,199	
Private Education Loan unamortized discount	(361)		(349)		(355)	
Total Private Education Loans	13,330		13,299		13,844	
Private Education Loan allowance for losses	(413)		(336)		(334)	
Private Education Loans, net	$12,917		$12,963		$13,510	
Percentage of Private Education Loans in repayment		69.6%		60.3%		55.1%
Delinquencies as a percentage of Private Education Loans in repayment		7.2%		6.1%		5.3%
Loans in forbearance as a percentage of loans in repayment and forbearance		6.8%		12.4%		15.3%

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

(2) Loans for borrowers who have 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.

	Managed Basis Private Education Loan Delinquencies					
	December 31, 2008		September 30, 2008		December 31, 2007	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$13,620		$15,522		$13,114	
Loans in forbearance[2]	1,562		2,244		2,391	
Loans in repayment and percentage of each status:						
Loans current	18,591	89.8%	15,635	90.6%	13,639	91.7%
Loans delinquent 31-60 days[3]	866	4.2	610	3.6	508	3.4
Loans delinquent 61-90 days[3]	417	2.0	352	2.0	260	1.8
Loans delinquent greater than 90 days[3]	838	4.0	649	3.8	459	3.1
Total Private Education Loans in repayment	20,712	100%	17,246	100%	14,866	100%
Total Private Education Loans, gross	35,894		35,012		30,371	
Private Education Loan unamortized discount	(896)		(863)		(823)	
Total Private Education Loans	34,998		34,149		29,548	
Private Education Loan allowance for losses	(1,499)		(1,349)		(1,220)	
Private Education Loans, net	$33,499		$32,800		$28,328	
Percentage of Private Education Loans in repayment		57.7%		49.3%		48.9%
Delinquencies as a percentage of Private Education Loans in repayment		10.2%		9.4%		8.3%
Loans in forbearance as a percentage of loans in repayment and forbearance		7.0%		11.5%		13.9%

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

(2) Loans for borrowers who have 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.

Allowance for Private Education Loan Losses

The following tables summarize changes in the allowance for Private Education Loan losses for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, and for the years ended December 31, 2008 and 2007.

Activity in Allowance for Private Education Loan Losses

	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	September 30, 2008	December 31, 2007
Allowance at beginning of period	$ 1,013	$ 970	$ 454	$ 336	$ 319	$ 199	$ 1,349	$ 1,289	$ 653
Provision for Private Education Loan losses	212	136	503	136	66	164	348	202	667
Charge-offs	(161)	(110)	(80)	(67)	(53)	(29)	(228)	(163)	(109)
Recoveries	8	9	9	4	2	—	12	11	9
Net charge-offs	(153)	(101)	(71)	(63)	(51)	(29)	(216)	(152)	(100)
Reclassification of interest reserve[1]	14	8	—	4	2	—	18	10	—
Allowance at end of period	$ 1,086	$ 1,013	$ 886	$ 413	$ 336	$ 334	$ 1,499	$ 1,349	$ 1,220
Net charge-offs as a percentage of average loans in repayment (annualized)	5.88%	4.64%	4.39%	2.82%	2.48%	1.53%	4.46%	3.60%	2.87%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	5.40%	4.08%	3.88%	2.58%	2.13%	1.29%	4.09%	3.13%	2.48%
Allowance as a percentage of the ending total loan balance	4.89%	4.74%	5.48%	3.02%	2.47%	2.35%	4.18%	3.85%	4.02%
Allowance as a percentage of ending loans in repayment	9.71%	11.23%	12.57%	4.34%	4.09%	4.28%	7.24%	7.82%	8.21%
Average coverage of net charge-offs (annualized)	1.79	2.51	3.12	1.63	1.68	2.97	1.74	2.23	3.08
Ending total loans, gross	$22,203	$21,364	$16,172	$13,691	$13,648	$14,199	$35,894	$35,012	$30,371
Average loans in repayment	$10,321	$ 8,703	$ 6,471	$ 8,961	$ 8,103	$ 7,362	$19,282	$16,806	$13,833
Ending loans in repayment	$11,182	$ 9,016	$ 7,047	$ 9,530	$ 8,230	$ 7,819	$20,712	$17,246	$14,866

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan loss when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the quarter ended December 31, 2007, this amount was $8 million and $11 million on an On-Balance Sheet Basis and a Managed Basis, respectively. This change in presentation results in no impact to net income.

	Activity in Allowance for Private Education Loan Losses					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Years ended		Years ended		Years ended	
	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2007
Allowance at beginning of period	$ 886	$ 308	$ 334	$ 86	$ 1,220	$ 394
Provision for Private Education Loan losses	586	884	288	349	874	1,233
Charge-offs	(460)	(332)	(226)	(107)	(686)	(439)
Recoveries	36	32	9	—	45	32
Net charge-offs	(424)	(300)	(217)	(107)	(641)	(407)
Reclassification of interest reserve[(1)]	38	—	8	—	46	—
Balance before securitization of Private Education Loans	1,086	892	413	328	1,499	1,220
Reduction for securitization of Private Education Loans	—	(6)	—	6	—	—
Allowance at end of period	$ 1,086	$ 886	$ 413	$ 334	$ 1,499	$ 1,220
Net charge-offs as a percentage of average loans in repayment	4.98%	5.04%	2.68%	1.46%	3.86%	3.07%
Net charge-offs as a percentage of average loans in repayment and forbearance	4.39%	4.54%	2.31%	1.27%	3.37%	2.71%
Allowance as a percentage of the ending total loan balance	4.89%	5.64%	3.02%	2.41%	4.18%	4.13%
Allowance as a percentage of ending loans in repayment	9.71%	12.57%	4.34%	4.28%	7.24%	8.21%
Average coverage of net charge-offs	2.56	2.95	1.91	3.13	2.34	3.00
Ending total loans, gross	$22,203	$16,172	$13,691	$14,199	$35,894	$30,371
Average loans in repayment	$ 8,533	$ 5,949	$ 8,088	$ 7,305	$16,621	$13,254
Ending loans in repayment	$11,182	$ 7,047	$ 9,530	$ 7,819	$20,712	$14,866

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan loss when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the year ended December 31, 2007, this amount was $21 million and $27 million on an On-Balance Sheet Basis and a Managed Basis, respectively. This change in presentation results in no impact to net income.

The following table provides detail for the traditional and non-traditional Managed Private Education Loans at December 31, 2008, September 30, 2008, and December 31, 2007.

	December 31, 2008			September 30, 2008			December 31, 2007		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans, gross	$30,949	$4,945	$35,894	$30,060	$4,952	$35,012	$25,791	$4,580	$30,371
Ending loans in repayment	17,715	2,997	20,712	14,605	2,641	17,246	12,711	2,155	14,866
Private Education Loan allowance for losses	707	792	1,499	563	786	1,349	438	782	1,220
Net charge-offs as a percentage of average loans in repayment[(1)]	2.5%	16.1%	4.5%	2.0%	12.9%	3.6%	1.5%	11.9%	3.1%
Allowance as a percentage of total ending loan balance	2.3%	16.0%	4.2%	1.9%	15.9%	3.9%	1.7%	17.1%	4.0%
Allowance as a percentage of ending loans in repayment	4.0%	26.4%	7.2%	3.9%	29.8%	7.8%	3.5%	36.3%	8.2%
Average coverage of net charge-offs[(1)]	1.7	1.7	1.7	2.0	2.4	2.2	2.6	3.3	3.0
Delinquencies as a percentage of Private Education Loans in repayment	7.1%	28.9%	10.2%	6.3%	26.3%	9.4%	5.2%	26.3%	8.3%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	2.6%	12.7%	4.0%	2.3%	11.9%	3.8%	1.7%	11.1%	3.1%
Loans in forbearance as a percentage of loans in repayment and forbearance	6.7%	9.0%	7.0%	11.0%	14.4%	11.5%	12.8%	19.4%	13.9%

(1) Annualized for the three months ended December 31, 2008 and September 30, 2008 and full year actual for December 31, 2007.

Due to the seasoning of the Managed Private Education Loan portfolio, shifts in its mix, certain economic factors, and other operational factors, the Company expected and has seen charge-off rates increase from the

historically low levels experienced prior to 2007. Although charge-off rates have increased, the overall increase for the year ended December 31, 2008 was less than originally expected.

In the fourth quarter of 2007, the Company recorded provision expense of $667 million related to the Managed Private Education Loan portfolio. The increase in provision expense compared to prior and current quarters primarily related to the non-traditional portion of the Company's Private Education Loan portfolio which the Company had been expanding over the past few years. The Company has terminated these non-traditional loan programs because the performance of these loans was found to be materially different from original expectations. The non-traditional portfolio is particularly impacted by the weakening U.S. economy and an underlying borrower's ability to repay. As a result, the Company recorded the additional provision in the fourth quarter of 2007.

Managed provision expense increased to $348 million in the fourth quarter of 2008 from $202 million in the third quarter of 2008. This is a result of an increase in delinquencies, which is primarily a result of the continued weakening of the U.S. economy. Managed delinquencies as a percentage of Private Education Loans in repayment increased from 9.4 percent as of September 30, 2008 to 10.2 percent as of December 31, 2008. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 11.5 percent as of September 30, 2008 to 7.0 percent at December 31, 2008. On a year-over-year basis, overall delinquencies increased from 8.3 percent to 10.2 percent while loans in forbearance decreased from 13.9 percent to 7.0 percent.

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

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance in this manner effectively extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While a loan is in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and limits on the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting the forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of ultimate collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a borrower's unique situation, including assumptions based on historical information and judgements. We combine borrower information with a risk-based segmentation model to assist in our decision making as to who will be granted forbearance based on our expectation as to a borrower's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we

have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is brought current. As a result, the balance of loans in a forbearance status as of month end has decreased over the course of 2008, while the monthly average amount of loans granted forbearance in the fourth quarter of 2008 was consistent with the year-ago quarter at 6.5 percent of loans in repayment and forbearance. As of December 31, 2008, 3 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current during December. The majority of these borrowers would have previously received a forbearance which resulted in their loan being reflected in the forbearance status at month end, and eventually entering repayment status as current at the end of the forbearance period. These borrowers are now being placed in repayment status earlier than they previously would have been.

The table below reflects the historical effectiveness of using forbearance and our experience has shown that three years after being granted forbearance for the first time, over 70 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 12 percent have charged off. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment

	Status distribution 36 months after being granted forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment	7.9%	8.1%	2.5%
Current	55.9	60.6	66.8
Delinquent 31-60 days	3.1	1.9	.4
Delinquent 61-90 days	1.6	.9	.2
Delinquent greater than 90 days	2.8	1.7	.3
Forbearance	7.1	4.9	—
Charged-off	12.0	5.9	4.4
Paid	9.6	16.0	25.4
Total	100%	100%	100%

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At December 31, 2008, loans in forbearance status as a percentage of loans in repayment and forbearance are 8.9 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 2.1 percent for loans that have been in active repayment status for more than 48 months. Approximately 90 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

December 31, 2008	Monthly Scheduled Payments Due			Not Yet in Repayment	Total
	0 to 24	25 to 48	More than 48		
Loans in-school/grace/deferment	$ —	$ —	$ —	$13,620	$13,620
Loans in forbearance	1,406	106	50	—	1,562
Loans in repayment — current	12,551	3,798	2,242	—	18,591
Loans in repayment — delinquent 31-60 days	728	93	45	—	866
Loans in repayment — delinquent 61-90 days	351	44	22	—	417
Loans in repayment — delinquent greater than 90 days	691	97	50	—	838
Total	$15,727	$4,138	$2,409	$13,620	35,894
Unamortized discount					(896)
Allowance for loan losses					(1,499)
Total Managed Private Education Loans, net					$33,499
Loans in forbearance as a percentage of loans in repayment and forbearance	8.9%	2.6%	2.1%	—%	7.0%

September 30, 2008	Monthly Scheduled Payments Due			Not Yet in Repayment	Total
	0 to 24	25 to 48	More than 48		
Loans in-school/grace/deferment	$ —	$ —	$ —	$15,522	$15,522
Loans in forbearance	2,078	117	49	—	2,244
Loans in repayment — current	10,421	3,308	1,906	—	15,635
Loans in repayment — delinquent 31-60 days	499	71	40	—	610
Loans in repayment — delinquent 61-90 days	302	33	17	—	352
Loans in repayment — delinquent greater than 90 days	544	68	37	—	649
Total	$13,844	$3,597	$2,049	$15,522	35,012
Unamortized discount					(863)
Allowance for loan losses					(1,349)
Total Managed Private Education Loans, net					$32,800
Loans in forbearance as a percentage of loans in repayment and forbearance	15.0%	3.3%	2.4%	—%	11.5%

December 31, 2007	Monthly Scheduled Payments Due 0 to 24	25 to 48	More than 48	Not Yet in Repayment	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$13,114	$13,114
Loans in forbearance	2,228	118	45	—	2,391
Loans in repayment — current	9,184	2,807	1,648	—	13,639
Loans in repayment — delinquent 31-60 days	407	64	37	—	508
Loans in repayment — delinquent 61-90 days	221	25	14	—	260
Loans in repayment — delinquent greater than 90 days	376	52	31	—	459
Total	$12,416	$3,066	$1,775	$13,114	30,371
Unamortized discount					(823)
Allowance for loan losses					(1,220)
Total Managed Private Education Loans, net					$28,328
Loans in forbearance as a percentage of loans in repayment and forbearance	17.9%	3.8%	2.5%	—%	13.9%

The table below stratifies the portfolio of Managed Private Education Loans in forbearance status as of the dates indicated by the cumulative number of months the borrower has used forbearance. As detailed in the table below, 8 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

Cumulative number of months borrower has used forbearance	December 31, 2008 Forbearance Balance	% of Total	September 30, 2008 Forbearance Balance	% of Total	December 31, 2007 Forbearance Balance	% of Total
Up to 12 months	$1,075	69%	$1,520	67%	$1,641	69%
13 to 24 months	368	23	598	27	629	26
More than 24 months	119	8	126	6	121	5
Total	$1,562	100%	$2,244	100%	$2,391	100%

Total Provisions for Loan Losses

The following tables summarize the total provisions for loan losses on both an on-balance sheet basis and a Managed Basis for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and the years ended December 31, 2008 and 2007.

Total on-balance sheet loan provisions

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Private Education Loans	$212	$136	$503	$586	$ 884
FFELP loans	29	40	40	106	89
Mortgage and consumer loans	11	11	31	28	42
Total on-balance sheet provisions for loan losses	$252	$187	$574	$720	$1,015

Total Managed Basis loan provisions

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Private Education Loans	$348	$202	$667	$ 874	$1,233
FFELP loans	33	50	52	127	121
Mortgage and consumer loans	11	11	31	28	40
Total Managed Basis provisions for loan losses	$392	$263	$750	$1,029	$1,394

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

The fourth quarter of 2008 provision for FFELP loans is lower than the prior quarter due to the cumulative adjustment for our increase in default expectations made in the third quarter of 2008. The FFELP loan provision for the third quarter of 2008 includes cumulative adjustments of $15 million and $20 million for on-balance sheet and Managed FFELP Risk Sharing, respectively, as a result of an expected increase in FFELP loan charge-offs arising from the continued weakening of the U.S. economy.

The FFELP loan provision for the fourth quarter of 2007 included $19 million and $27 million for on-balance sheet and Managed FFELP loans, respectively, related to the increase in our default expectations due to an increase in charge-offs.

Total Loan Net Charge-offs

The following tables summarize the total loan net charge-offs on both an on-balance sheet basis and a Managed Basis for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and the years ended December 31, 2008 and 2007.

Total on-balance sheet loan net charge-offs

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Private Education Loans	$153	$101	$71	$424	$300
FFELP loans	14	16	8	58	21
Mortgage and consumer loans	6	4	4	17	11
Total on-balance sheet loan net charge-offs	$173	$121	$83	$499	$332

Total Managed loan net charge-offs

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Private Education Loans	$216	$152	$100	$641	$407
FFELP loans	19	21	13	79	36
Mortgage and consumer loans	6	4	4	17	11
Total Managed loan net charge-offs	$241	$177	$117	$737	$454

The increase in net charge-offs on FFELP loans for the year ended December 31, 2008 over the prior year was primarily the result of legislative changes occurring in the fourth quarter of 2007, which repealed the Exceptional Performer Designation (under which claims were paid at 99 percent) and returned the federal guaranty level on claims filed to either 97 percent or 98 percent (depending on date of disbursement), as well as the impact of the weakening U.S. economy. See "Private Education Loan Losses — *Allowance for Private Education Loan Losses,"* above, for a discussion of net charge-offs related to our Private Education Loans.

Other Income — Lending Business Segment

The following table summarizes the components of "Core Earnings" other income for our Lending business segment for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007 and the years ended December 31, 2008 and 2007.

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Late fees and forbearance fees	$ 36	$36	$33	$143	$134
Gains on sales of mortgages and other loan fees	—	1	1	3	11
Gains (losses) on sales of student loans	(52)	—	3	(51)	24
Other	34	18	7	85	25
Total other income	$ 18	$55	$44	$180	$194

The Company periodically sells student loans. The timing and amount of loan sales impacts the amount of recognized gains on sales of student loans. The $52 million loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans sold to ED under ECASLA. (See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for further discussion.)

Operating Expenses — Lending Business Segment

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses. For the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, operating expenses for the Lending business segment totaled $129 million, $142 million, and $172 million, respectively, and for the years ended December 31, 2008 and 2007 totaled $589 million and $690 million, respectively. The decrease in operating expenses in the current period versus the prior period was primarily due to lower origination and servicing expenses related to seasonality and to the impact of our cost reduction initiatives, and to the suspension of certain student loan programs.

Loan Originations

The Company originates loans under its own brand names, which we refer to as internal brands, and also through lender partners under forward contracts to purchase loans at contractual prices. In the past, we referred to these combined channels as preferred channel originations. As discussed at the beginning of this "LENDING BUSINESS SEGMENT," legislative changes and credit market conditions have resulted in other FFELP lenders reducing their participation in the FFELP program.

As a result of the impacts described above, our FFELP internal brand originations in the quarter were up sharply, increasing 67 percent from the year-ago quarter to $3.5 billion. Our FFELP lender partner originations declined 61 percent from the year-ago quarter. A number of these lender partners, including some of our largest originators representing approximately 45 percent and 49 percent of the decline in lender partner originations from the quarter and year ended December 31, 2007, respectively, have converted to third-party servicing arrangements in which we service loans on behalf of these parties.

Consistent with our announcement in the first quarter that we were tightening our private credit lending standards and ceasing non-traditional lending, Private Education Loan originations declined 46 percent from the year-ago quarter to $851 million in the current quarter and declined 20 percent to $6.3 billion in the year ended December 31, 2008.

At December 31, 2008, the Company was committed to purchase $2.3 billion of loans originated by our lender partners ($1.6 billion of FFELP loans and $.7 billion of Private Education Loans). Approximately $.8 billion of these FFELP loans were originated prior to CCRAA. Approximately $.5 billion of these FFELP loans are eligible for ED's Purchase and Participation Programs (see "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs").

The following tables further break down our loan originations by type of loan and source.

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Loan Originations — Internal lending brands					
Stafford	$3,082	$4,002	$1,735	$11,593	$ 7,404
PLUS	262	502	259	1,437	1,439
GradPLUS	175	319	110	801	498
Total FFELP	3,519	4,823	2,104	13,831	9,341
Private Education Loans	779	1,934	1,499	5,791	7,267
Total	$4,298	$6,757	$3,603	$19,622	$16,608

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Loan Originations — Lender partners					
Stafford	$376	$655	$ 930	$3,652	$6,963
PLUS	27	45	91	362	855
GradPLUS	4	11	12	62	103
Total FFELP	407	711	1,033	4,076	7,921
Private Education Loans	72	183	85	545	648
Total	$479	$894	$1,118	$4,621	$8,569

Student Loan Activity

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

	On-Balance Sheet Three months ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$48,925	$72,566	$121,491	$19,837	$141,328
Net consolidations:					
Incremental consolidations from third parties	—	1	1	—	1
Consolidations to third parties	(184)	(122)	(306)	(7)	(313)
Net consolidations	(184)	(121)	(305)	(7)	(312)
Acquisitions	5,187	270	5,457	1,220	6,677
Net acquisitions	5,003	149	5,152	1,213	6,365
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,452)	(971)	(2,423)	(468)	(2,891)
Ending balance	$52,476	$71,744	$124,220	$20,582	$144,802

	Off-Balance Sheet Three months ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$7,683	$15,716	$23,399	$12,963	$36,362
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(121)	(26)	(147)	(6)	(153)
Net consolidations	(121)	(26)	(147)	(6)	(153)
Acquisitions	63	46	109	265	374
Net acquisitions	(58)	20	(38)	259	221
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(482)	(205)	(687)	(305)	(992)
Ending balance	$7,143	$15,531	$22,674	$12,917	$35,591

	Managed Portfolio Three months ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$56,608	$88,282	$144,890	$32,800	$177,690
Net consolidations:					
Incremental consolidations from third parties	—	1	1	—	1
Consolidations to third parties	(305)	(148)	(453)	(13)	(466)
Net consolidations	(305)	(147)	(452)	(13)	(465)
Acquisitions	5,250	316	5,566	1,485	7,051
Net acquisitions	4,945	169	5,114	1,472	6,586
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,934)	(1,176)	(3,110)	(773)	(3,883)
Ending balance[3]	$59,619	$87,275	$146,894	$33,499	$180,393
Total Managed Acquisitions[4]	$ 5,250	$ 317	$ 5,567	$ 1,485	$ 7,052

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

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

(3) As of December 31, 2008, the ending balance includes $13.7 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

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

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

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

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

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

(3) As of September 30, 2008, the ending balance includes $10.6 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

	On-Balance Sheet Three months ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$34,108	$71,371	$105,479	$13,676	$119,155
Net consolidations:					
Incremental consolidations from third parties	—	372	372	61	433
Consolidations to third parties	(409)	(128)	(537)	(16)	(553)
Net consolidations	(409)	244	(165)	45	(120)
Acquisitions	3,732	2,460	6,192	1,802	7,994
Net acquisitions	3,323	2,704	6,027	1,847	7,874
Internal consolidations[2]	(625)	849	224	137	361
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,080)	(1,315)	(2,395)	(842)	(3,237)
Ending balance	$35,726	$73,609	$109,335	$14,818	$124,153

	Off-Balance Sheet Three months ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$10,162	$16,699	$26,861	$13,743	$40,604
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(102)	(26)	(128)	(28)	(156)
Net consolidations	(102)	(26)	(128)	(28)	(156)
Acquisitions	93	50	143	287	430
Net acquisitions	(9)	24	15	259	274
Internal consolidations[2]	(162)	(62)	(224)	(137)	(361)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(519)	(220)	(739)	(355)	(1,094)
Ending balance	$ 9,472	$16,441	$25,913	$13,510	$39,423

	Managed Portfolio Three months ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$44,270	$88,070	$132,340	$27,419	$159,759
Net consolidations:					
Incremental consolidations from third parties	—	372	372	61	433
Consolidations to third parties	(511)	(154)	(665)	(44)	(709)
Net consolidations	(511)	218	(293)	17	(276)
Acquisitions	3,825	2,510	6,335	2,089	8,424
Net acquisitions	3,314	2,728	6,042	2,106	8,148
Internal consolidations[2]	(787)	787	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,599)	(1,535)	(3,134)	(1,197)	(4,331)
Ending balance[3]	$45,198	$90,050	$135,248	$28,328	$163,576
Total Managed Acquisitions[4]	$ 3,825	$ 2,882	$ 6,707	$ 2,150	$ 8,857

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

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

(3) As of December 31, 2007, the ending balance includes $1.3 billion of FFELP Stafford and Other Loans and $1.4 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

	On-Balance Sheet Year ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$35,726	$73,609	$109,335	$14,818	$124,153
Net consolidations:					
Incremental consolidations from third parties	—	462	462	149	611
Consolidations to third parties	(703)	(392)	(1,095)	(41)	(1,136)
Net consolidations	(703)	70	(633)	108	(525)
Acquisitions	21,889	1,358	23,247	7,357	30,604
Net acquisitions	21,186	1,428	22,614	7,465	30,079
Internal consolidations[2]	(409)	529	120	228	348
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(4,027)	(3,822)	(7,849)	(1,929)	(9,778)
Ending balance	$52,476	$71,744	$124,220	$20,582	$144,802

	Off-Balance Sheet Year ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 9,472	$16,441	$25,913	$13,510	$39,423
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(311)	(83)	(394)	(57)	(451)
Net consolidations	(311)	(83)	(394)	(57)	(451)
Acquisitions	246	211	457	742	1,199
Net acquisitions	(65)	128	63	685	748
Internal consolidations[2]	(84)	(36)	(120)	(228)	(348)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(2,180)	(1,002)	(3,182)	(1,050)	(4,232)
Ending balance	$ 7,143	$15,531	$22,674	$12,917	$35,591

	Managed Portfolio Year ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$45,198	$90,050	$135,248	$28,328	$163,576
Net consolidations:					
Incremental consolidations from third parties	—	462	462	149	611
Consolidations to third parties	(1,014)	(475)	(1,489)	(98)	(1,587)
Net consolidations	(1,014)	(13)	(1,027)	51	(976)
Acquisitions	22,135	1,569	23,704	8,099	31,803
Net acquisitions	21,121	1,556	22,677	8,150	30,827
Internal consolidations[2]	(493)	493	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(6,207)	(4,824)	(11,031)	(2,979)	(14,010)
Ending balance[3]	$59,619	$87,275	$146,894	$33,499	$180,393
Total Managed Acquisitions[4]	$22,135	$ 2,031	$ 24,166	$ 8,248	$ 32,414

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

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

(3) As of December 31, 2008, the ending balance includes $13.7 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

	On-Balance Sheet Year ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$24,841	$61,324	$ 86,165	$ 9,755	$ 95,920
Net consolidations:					
Incremental consolidations from third parties	—	2,206	2,206	235	2,441
Consolidations to third parties	(2,352)	(801)	(3,153)	(45)	(3,198)
Net consolidations	(2,352)	1,405	(947)	190	(757)
Acquisitions	19,835	8,437	28,272	8,388	36,660
Net acquisitions	17,483	9,842	27,325	8,578	35,903
Internal consolidations	(4,413)	6,652	2,239	536	2,775
Off-balance sheet securitizations	—	—	—	(1,871)	(1,871)
Repayments/claims/resales/other	(2,185)	(4,209)	(6,394)	(2,180)	(8,574)
Ending balance	$35,726	$73,609	$109,335	$14,818	$124,153

	Off-Balance Sheet Year ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$15,028	$18,311	$33,339	$12,833	$46,172
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(933)	(207)	(1,140)	(93)	(1,233)
Net consolidations	(933)	(207)	(1,140)	(93)	(1,233)
Acquisitions	330	209	539	704	1,243
Net acquisitions	(603)	2	(601)	611	10
Internal consolidations[2]	(1,494)	(745)	(2,239)	(536)	(2,775)
Off-balance sheet securitizations	—	—	—	1,871	1,871
Repayments/claims/resales/other	(3,459)	(1,127)	(4,586)	(1,269)	(5,855)
Ending balance	$ 9,472	$16,441	$25,913	$13,510	$39,423

	Managed Portfolio Year ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$39,869	$79,635	$119,504	$22,588	$142,092
Net consolidations:					
Incremental consolidations from third parties	—	2,206	2,206	235	2,441
Consolidations to third parties	(3,285)	(1,008)	(4,293)	(138)	(4,431)
Net consolidations	(3,285)	1,198	(2,087)	97	(1,990)
Acquisitions	20,165	8,646	28,811	9,092	37,903
Net acquisitions	16,880	9,844	26,724	9,189	35,913
Internal consolidations[2]	(5,907)	5,907	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(5,644)	(5,336)	(10,980)	(3,449)	(14,429)
Ending balance	$45,198	$90,050	$135,248	$28,328	$163,576
Total Managed Acquisitions[3]	$20,165	$10,852	$ 31,017	$ 9,327	$ 40,344

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

(2) Represents FFELP/Stafford loans that we either own on-balance sheet or in our off-balance sheet securitization trusts that we consolidate.

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

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

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

	Three months ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$51,250	$72,142	$123,392	$21,434	$144,826
Off-balance sheet	7,367	15,614	22,981	13,183	36,164
Total Managed	$58,617	$87,756	$146,373	$34,617	$180,990
% of on-balance sheet FFELP	42%	58%	100%		
% of Managed FFELP	40%	60%	100%		
% of total	32%	49%	81%	19%	100%

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

	Three months ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$34,819	$71,859	$106,678	$15,007	$121,685
Off-balance sheet	9,749	16,540	26,289	13,795	40,084
Total Managed	$44,568	$88,399	$132,967	$28,802	$161,769
% of on-balance sheet FFELP	33%	67%	100%		
% of Managed FFELP	34%	66%	100%		
% of total	27%	55%	82%	18%	100%

	Year ended December 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$44,291	$73,091	$117,382	$19,276	$136,658
Off-balance sheet	8,299	15,966	24,265	13,321	37,586
Total Managed	$52,590	$89,057	$141,647	$32,597	$174,244
% of on-balance sheet FFELP	38%	62%	100%		
% of Managed FFELP	37%	63%	100%		
% of total	30%	51%	81%	19%	100%

	Year ended December 31, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$31,294	$67,918	$ 99,212	$12,507	$111,719
Off-balance sheet	11,533	17,195	28,728	13,683	42,411
Total Managed	$42,827	$85,113	$127,940	$26,190	$154,130
% of on-balance sheet FFELP	32%	68%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

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

ASSET PERFORMANCE GROUP ("APG") BUSINESS SEGMENT

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

	Quarter ended December 31, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 2	$ —	$80	$ 82
Collections revenue (loss)	59	(37)	—	22
Total income (loss)	61	(37)	80	104
Restructuring expenses	2	—	—	2
Operating expenses	37	10	29	76
Total expenses	39	10	29	78
Net interest expense	3	1	2	6
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	19	(48)	49	20
Income tax expense (benefit)	8	(15)	16	9
Income (loss) before minority interest in net earnings of subsidiaries	11	(33)	33	11
Minority interest in net earnings of subsidiaries	1	—	—	1
"Core Earnings" net income (loss)	$10	$(33)	$33	$ 10

	Quarter ended September 30, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 2	$ —	$87	$ 89
Collections revenue (loss)	(39)	(130)	—	(169)
Total income (loss)	(37)	(130)	87	(80)
Restructuring expenses	4	—	—	4
Operating expenses	52	9	45	106
Total expenses	56	9	45	110
Net interest expense	3	1	2	6
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(96)	(140)	40	(196)
Income tax expense (benefit)	(36)	(51)	14	(73)
Income (loss) before minority interest in net earnings of subsidiaries	(60)	(89)	26	(123)
Minority interest in net earnings of subsidiaries	1	—	—	1
"Core Earnings" net income (loss)	$(61)	$ (89)	$26	$(124)

	Quarter ended December 31, 2007			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 3	$—	$89	$ 92
Collections revenue	60	14	—	74
Total income	63	14	89	166
Restructuring expenses	1	—	1	2
Operating expenses	44	9	51	104
Total expenses	45	9	52	106
Net interest expense	3	1	3	7
Income before income taxes and minority interest in net earnings of subsidiaries	15	4	34	53
Income tax expense	5	2	12	19
Income before minority interest in net earnings of subsidiaries	10	2	22	34
Minority interest in net earnings of subsidiaries	1	—	—	1
"Core Earnings" net income	$ 9	$ 2	$22	$ 33

	Year ended December 31, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 10	$ —	$330	$ 340
Collections revenue (loss)	129	(192)	—	(63)
Total income (loss)	139	(192)	330	277
Restructuring expenses	6	1	5	12
Operating expenses	193	38	167	398
Total expenses	199	39	172	410
Net interest expense	13	4	8	25
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(73)	(235)	150	(158)
Income tax expense (benefit)	(26)	(83)	53	(56)
Income (loss) before minority interest in net earnings of subsidiaries	(47)	(152)	97	(102)
Minority interest in net earnings of subsidiaries	4	—	—	4
"Core Earnings" net income (loss)	$ (51)	$(152)	$ 97	$(106)

	Year ended December 31, 2007			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 9	$—	$327	$336
Collections revenue	217	52	—	269
Total income	226	52	327	605
Restructuring expenses	1	—	1	2
Operating expenses	164	28	196	388
Total expenses	165	28	197	390
Net interest expense	13	5	9	27
Income before income taxes and minority interest in net earnings of subsidiaries	48	19	121	188
Income tax expense	18	7	45	70
Income before minority interest in net earnings of subsidiaries	30	12	76	118
Minority interest in net earnings of subsidiaries	2	—	—	2
"Core Earnings" net income	$ 28	$12	$ 76	$116

The Company has concluded that its APG purchased paper businesses no longer produce a mutual strategic fit. The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. The Company recorded a $56 million loss on this business in third quarter of 2008, and adjusted this loss amount to $51 million in the fourth quarter of 2008 based on the final sales price.

The Company continues to wind down the domestic side of its Purchased Paper — Non-Mortgage and Purchased Paper — Mortgage/Properties businesses. The Company will continue to consider opportunities to sell these businesses at acceptable prices in the future.

The Company's domestic Purchased Paper — Non-Mortgage business has certain forward purchase obligations under which the Company is committed to buy purchased paper from January 2009 through April 2009 at a purchase price of approximately $28 million. The Company will not buy any additional purchased paper in excess of these obligations. Due to the continued weakening of the U.S. economy, the Company lowered its assumed collection rates it expects to achieve related to this portfolio in the third quarter of 2008. This assumption change resulted in impairments of $39 million in the third quarter of 2008 compared to $16 million in the first half of 2008 ($55 million total impairments in 2008) and $17 million for the year ended December 31, 2007. There was no additional impairment in the fourth quarter of 2008.

The Company's Purchased Paper — Mortgage/Properties business will not purchase any new mortgage/ property assets and will work-out and liquidate its portfolio as quickly and economically as possible. In the fourth quarter of 2008, real estate values continued to decline as a result of the weakening U.S. economy and expected future resolution time-frames were extended, resulting in the impairment of $50 million in the fourth quarter of 2008 compared to $212 million in the nine months ended September 30, 2008 ($262 million total impairment in 2008) and $4 million for the year ended December 31, 2007.

Purchased Paper — Non-Mortgage

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Face value of purchases for the period	$ 978	$1,496	$2,231	$5,353	$6,111
Purchase price for the period	99	116	198	483	556
% of face value purchased	10.1%	7.8%	8.9%	9.0%	9.1%
Gross cash collections (“GCC”)	$ 158	$ 166	$ 106	$ 655	$ 463
Collections revenue (loss)	59	(39)	60	129	217
Collections revenue (loss) as a % of GCC	37%	(23)%	56%	20%	47%
Carrying value of purchased paper	$ 544	$ 544	$ 587	$ 544	$ 587

The decrease in collections revenue as a percentage of gross cash collections (“GCC”) in the quarter ended September 30, 2008 compared to the fourth quarters of 2008 and 2007 was primarily due to the significant impairment recognized in the third quarter of 2008.

Purchased Paper — Mortgage/Properties

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Face value of purchases for the period	$ —	$ —	$ 481	$ 39	$1,307
Collections revenue (loss)	(37)	(130)	14	(192)	52
Collateral value of purchases	—	—	396	29	1,171
Purchase price for the period	—	—	274	19	855
Purchase price as a % of collateral fair value	—%	—%	69%	66%	73%
Carrying value of portfolio	$675	$ 798	$1,162	$ 675	$1,162
Carrying value of purchased paper as a % of collateral fair value	69%	69%	77%	69%	77%

The carrying value of purchases (the basis we carry on our balance sheet) as a percentage of collateral fair value has decreased in the third and fourth quarters of 2008 as a result of the significant impairment recognized those quarters.

Contingency Inventory

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

	December 31, 2008	September 30, 2008	December 31, 2007
Contingency:			
Student loans	$ 9,852	$ 9,482	$8,195
Other	1,726	1,714	1,509
Total	$11,578	$11,196	$9,704

Operating Expenses — APG Business Segment

For the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007, operating expenses for the APG business segment totaled $76 million, $106 million, and $104 million, respectively. The decrease in operating expense from the prior and year-ago quarters is primarily due to lower collections and the impact of cost reduction initiatives.

CORPORATE AND OTHER BUSINESS SEGMENT

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

	Quarters ended			Years ended	
	December 31, 2008	September 30, 2008	December 31, 2007	December 31, 2008	December 31, 2007
Net interest income (loss) after provisions for losses	$ 3	$ 2	$ 1	$ 6	$ (1)
Guarantor servicing fees	26	37	41	121	156
Loan servicing fees	8	6	5	26	23
Upromise	28	28	32	108	110
Other	16	17	18	65	85
Total other income	78	88	96	320	374
Restructuring expenses	1	7	2	23	2
Operating expenses	65	68	88	277	339
Total expenses	66	75	90	300	341
Income before income taxes	15	15	7	26	32
Income tax expense	5	6	3	9	12
"Core Earnings" net income	$10	$ 9	$ 4	$ 17	$ 20

The decrease in guarantor servicing fees versus the prior quarter was primarily due to the seasonality of loan disbursements which were higher in the third quarter of 2008 versus the fourth quarter of 2008. The decrease in guarantor servicing fees versus the year-ago quarter was primarily due to the recognition of $15 million in the fourth quarter of 2007 of previously deferred guarantee issuance fee revenue related to a negotiated settlement with United Student Aid Funds, Inc. ("USA Funds").

USA Funds, the nation's largest guarantee agency, accounted for 84 percent, 81 percent and 87 percent, respectively, of guarantor servicing fees and 8 percent, 12 percent and 14 percent, respectively, of revenues associated with other products and services for the quarters ended December 31, 2008, September 30, 2008, and December 31, 2007.

Operating Expenses — Corporate and Other Business Segment

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties, perform guarantor servicing on behalf of guarantor agencies, operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating expenses also include unallocated corporate overhead expenses for centralized headquarters functions. The decrease in operating expenses for the third quarter of 2008 versus the prior quarters reported above was primarily due to the Company's cost reduction initiatives.

LIQUIDITY AND CAPITAL RESOURCES

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

Historically, we funded new loan originations with a combination of unsecured debt and student loan asset-backed securities. Following the Merger announcement in April 2007, we temporarily suspended issuance of unsecured debt and began funding loan originations primarily through the issuance of student loan asset-backed securities and secured student loan financing facilities. In June 2008, the Company re-entered the corporate bond market with a $2.5 billion issue of 10-year senior unsecured notes. In August 2008, we began funding FFELP Stafford and PLUS student loan originations for the academic year 2008-2009 pursuant to ED's Loan Participation Program, as described below. During the fourth quarter of 2008, the Company began retaining its Private Education Loan originations in our banking subsidiary, Sallie Mae Bank, and funding these assets with term bank deposits. In the near term, we expect to continue to use ED's Purchase and Participation Programs to fund future FFELP Stafford and PLUS loan originations and to use deposits to fund Private Education Loan originations. We plan to use term asset-backed securities, asset-backed financing facilities, cash flow provided by earnings and repayment of principal on our unencumbered student loan assets, as well as other sources to refinance maturing debt, and provide cash for operations and other needs.

ED Funding Programs

In August 2008, ED implemented the Loan Purchase Commitment Program ("Purchase Program") and the Loan Participation Program ("Participation Program") pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of $75 per loan. Under the Participation Program, ED provides interim short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged at a rate of commercial paper plus 0.50 percent on the principal amount of participation interests outstanding. Loans funded under the Participation Program must be either refinanced by the lender or sold to ED pursuant to the Purchase Program prior to its expiration on September 30, 2009. We currently expect to sell all of the loans we fund under the Participation Program to ED on or before the program's expiration date. Loans eligible for the Participation or Purchase Programs were originally limited to FFELP Stafford or PLUS loans made for the academic year 2008-2009, first disbursed between May 1, 2008 and July 1, 2009, with no ongoing borrower benefits, other than permitted rate reductions of 0.25 percent for automatic payment processing. On October 7, 2008, legislation was enacted extending ED's authority to address FFELP Stafford and PLUS loans made for academic years 2009-2010, and allowing for the extension of ED's Purchase and Participation Programs from September 30, 2009 to September 30, 2010. On November 8, 2009, ED formally announced new purchase and participation programs which cover eligible loans originated for the 2009-2010 academic year. On January 15, 2009, ED announced that the terms of the programs for the 2009-2010 academic year will replicate the terms of the programs for the 2008-2009 academic year.

On August 14, 2008, the Company received its initial advance under the Participation Program. As of December 31, 2008, the Company had $7.4 billion of advances outstanding under the Participation Program.

The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. Held-for-sale loans are carried at the lower of cost or market with no premium amortization or provision expenses. At December 31, 2008, the Company had approximately $8.0 billion of FFELP loans classified as held-for-sale related to this program. These loans are included in the "FFELP Stafford Loans Held-for-Sale" line on the consolidated balance sheets.

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 June 30, 2009, and fully disbursed before June 30, 2009, and meet certain other requirements including with respect to borrower benefits. Funding for the ED

Conduit Program will be provided by the capital markets at a cost based on market rates. The ED Conduit Program will have a term of five years. An estimated $16.0 billion of our Stafford and PLUS loans (excluding loans currently in the Participation Program) were eligible for funding under the ED Conduit Program as of December 31, 2008. We expect to utilize the ED Conduit Program to fund a significant percentage of these assets over time. The initial funding under the ED Conduit Program is expected to occur in the first quarter of 2009.

On November 20, 2008, ED announced it was using its authority under ECASLA to directly purchase certain 2007-2008 academic year FFELP Stafford and PLUS loans during a period beginning in December 2008 and ending the earlier of the date the ED Conduit Program becomes operational or February 28, 2009. Pursuant to this program, ED proposed to purchase up to a total of $6.5 billion of loans, in increments of up to $500 million per week, at a price of 97 percent of principal and unpaid interest. In late December 2008, we sold to ED approximately $494 million (principal and accrued interest) of qualifying FFELP loans and realized $480 million in net proceeds. In early January 2009, we executed an additional asset sale under the program of approximately $486 million (principal and accrued interest) and received $472 million in net proceeds. The related loss was recognized in the fourth quarter and year ended December 31, 2008, as the loans were classified as "held-for-sale" under GAAP.

Additional Funding Sources for General Corporate Purposes

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

During the fourth quarter of 2008, Sallie Mae Bank, our Utah banking subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered CD market. From the period October 1, 2008 to December 31, 2008, Sallie Mae Bank raised $1.6 billion of term bank deposits with a weighted average life of 2.2 years and a weighted average cost of approximately three-month LIBOR plus 0.97 percent. As of December 31, 2008, total term bank deposits were $2.3 billion. We expect Sallie Mae Bank to raise deposits to fund Private Education Loan originations for the foreseeable future. We ultimately expect to raise long-term financing, through Private Education Loan securitizations or otherwise, to fund these loans.

We completed nine FFELP term ABS transactions totaling $18.5 billion during the nine months ended September 30, 2008. We did not complete an ABS transaction during the fourth quarter of 2008. Although we expect ABS financing to remain our primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. All-in costs of our new issue FFELP term ABS averaged LIBOR plus 1.25 percent for the full year ended December 31, 2008.

Since late September 2008, there has been severe dislocation in the financial markets. At present, we are unable to predict when market conditions will allow for more regular and reliable access to the term ABS market.

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

Backed Financing Facilities would be reduced through securitization of the underlying student loan collateral in the term ABS market. Funding under the 2008 Asset-backed Financing Facilities is subject to usual and customary conditions.

In the third quarter of 2008, the Company reduced the commitments under its Private Education Loan ABCP conduit facility by approximately $2.2 billion to $3.7 billion and the commitments under its FFELP ABCP Facilities by $4.1 billion to $21.9 billion. There were no changes to interest rates, maturity or other terms of the facilities made in connection with the reductions. The Company reduced these commitments after an analysis of its ongoing liquidity needs and following its acceptance and funding under ED's Participation and Purchase Programs.

The maximum amount the Company may borrow under the 2008 ABCP Facilities is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of December 31, 2008, the maximum borrowing amount was approximately $20.9 billion under the FFELP ABCP Facilities and $3.0 billion under the Private Education Loan ABCP Facility. The 2008 Asset-Backed Financing Facilities are subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Borrowings under the 2008 Asset-Backed Financing Facilities are nonrecourse to the Company. As of December 31, 2008 the Company had $24.8 billion outstanding in connection with the 2008 Asset Backed Financing Facilities. The book basis of the assets securing these facilities as of December 31, 2008 was $33.2 billion.

The 2008 Asset Backed Financing Facilities mature on February 28, 2009. The Company expects to refinance the 2008 ABCP Facilities at a lower aggregate commitment than the $25.6 billion committed as of December 31, 2008. If the Company does not pay off all outstanding amounts of the 2008 ABCP Facilities at maturity, the facilities will extend by 90 days with the interest rate increasing each month during the 90 day period.

On January 6, 2009 we closed a $1.5 billion, 12.5 year asset-backed securities based facility. This facility will be 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.

Secured borrowings, including securitizations, asset-backed commercial paper ("ABCP") borrowings and indentured trusts, comprised 78 percent of our Managed debt outstanding at December 31, 2008 versus 75 percent at December 31, 2007.

On December 19, 2008, the Federal Reserve Board of New York published proposed terms for the TALF, a program designed to facilitate renewed issuance of consumer and small business asset-backed securities ("ABS") at lower interest rate spreads. As proposed, the U.S. Government's Term Asset-Backed Securities Loan Facility ("TALF") will provide investors with funding of up to three years for eligible ABS rated by two or more rating agencies in the highest investment-grade rating category. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of December 31, 2008, we had approximately $14 billion of student loans eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. The Federal Reserve expects to commence lending under TALF in February 2009. While we expect TALF to improve our access to and reduce our cost of ABS funding, we are unable to predict, at this time, the impact TALF will ultimately have on our funding activities.

At December 31, 2008, we had $3.3 billion of taxable and $1.4 billion of tax-exempt auction rate securities outstanding on a Managed Basis. Since February 2008, an imbalance of supply and demand in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities' interest rates are set. As a result, all of the Company's auction rate securities as of December 31, 2008 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our $3.3 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The

maximum allowable interest rates on our $1.4 billion of tax-exempt auction rate securities are formula driven and produced various maximum rates averaging 1.60 percent as of December 31, 2008.

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note prior to a failed remarketing and hold it as an investment until such time it can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or repurchased. The Company's repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at December 31, 2008, $407 million of our reset rate notes, representing a single tranche of a single ABS issue, bore interest at LIBOR plus 0.75% due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. As of December 31, 2008, on a Managed Basis, the Company had $3.7 billion and $2.5 billion of reset rate notes due to be remarketed in 2009 and 2010, respectively, and an additional $8.5 billion to be remarketed thereafter.

Primary Sources of Liquidity and Available Capacity

We expect to fund our ongoing liquidity needs, including the repayment of $6.8 billion of senior unsecured notes maturing in 2009, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets, the liquidity facilities made available by ED, TALF, the 2008 Asset-Backed Financing Facilities, the issuance of term ABS, term bank deposits, and, to a lesser extent, if possible, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional $5.5 billion in unsecured revolving credit facilities as of December 31, 2008. These facilities include a $1.5 billion revolving credit facility maturing in October 2009; $2.0 billion maturing in October 2010; and $2.0 billion maturing in October 2011. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.2 billion as of December 31, 2008. 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 the minimum net adjusted revenue test as of the quarter ended December 31, 2008. In the past, we have not relied upon our $5.5 billion unsecured revolving credit facilities as a primary source of liquidity. Although we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

The following table details our primary sources of primary and stand-by liquidity and the available capacity at December 31, 2008, September 30, 2008, and December 31, 2007.

	December 31, 2008 Available Capacity	September 30, 2008 Available Capacity	December 31, 2007 Available Capacity
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:			
ED Purchase and Participation Programs[1]	*Unlimited*[1]	*Unlimited*[1]	—
Sources of primary liquidity for general corporate purposes:			
Unrestricted cash and liquid investments:			
Cash and cash equivalents	$ 4,070	$ 3,895	$ 7,582
U.S. Treasury-backed securities	—	265	643
Commercial paper and asset-backed commercial paper	801	—	1,349
Certificates of deposit	—	—	600
Other[2]	133	569	83
Total unrestricted cash and liquid investments[3][4][5]	5,004	4,729	10,257
Unused commercial paper and bank lines of credit[6]	5,192	6,172	6,500
2008 FFELP ABCP Facilities	807	1,157	—
2008 Private Credit ABCP Facilities	332	78	—
ABCP borrowing capacity	—	—	5,933
Interim ABCP Facility borrowing capacity	—	—	4,040
Total sources of primary liquidity for general corporate purposes	11,335	12,136	26,730
Sources of stand-by liquidity:			
Unencumbered FFELP loans[7]	5,222	9,043	18,731
Total sources of primary and stand-by liquidity for general corporate purposes[8]	$ 16,557	$ 21,179	$45,461

(1) The ED Purchase and Participation Programs provide unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company for the academic years 2008-2009 and 2009-2010. See "ED Funding Programs" discussed earlier in this section.

(2) At December 31, 2008 and September 30, 2008, includes $97 million and $500 million, respectively, due from The Reserve Primary Fund (see "Counterparty Exposure" below).

(3) Excludes $26 million, $202 million, and $196 million of investments pledged as collateral related to certain derivative positions and $82 million, $83 million, and $93 million of other non-liquid investments classified at December 31, 2008, September 30, 2008, and December 31, 2007, respectively, as cash and investments on our balance sheet in accordance with GAAP.

(4) Includes $1.6 billion, $1.4 billion, and $1.3 billion, at December 31, 2008, September 30, 2008, and December 31, 2007, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.

(5) At December 31, 2008, includes $1.1 billion of cash and liquid investments at Sallie Mae Bank, for which Sallie Mae Bank is not authorized to dividend to the Company without FDIC approval. This cash will be used to originate Private Education Loans primarily in the first quarter of 2009.

(6) At December 31, 2008 and September 30, 2008, excludes commitments of $308 million and a $328 million, respectively, from Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. Lehman Brothers Holdings, Inc. declared bankruptcy on September 15, 2008. The Company's line of credit commitments decreased by $1.0 billion effective October 23, 2008.

(7) At December 31, 2008, includes $486 million (face amount and accrued interest) of student loans committed to be sold to ED, but not settled until January 2009. Also includes approximately $241 million of unencumbered FFELP student loans qualified to be financed by ED's Participation Program that were subsequently financed under that program.

(8) General corporate purposes primarily include originating Private Education Loans and repaying unsecured debt as it matures.

In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At December 31, 2008, we had a total of $36.1 billion of unencumbered assets, including goodwill and acquired intangibles. Student loans, net, comprised $21.1 billion of this unencumbered asset total.

Counterparty Exposure

As of December 31, 2008, the Company had certain exposures to counterparties impacted by the ongoing credit market dislocation. Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to the Company.

Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., is a party to the Company's unsecured revolving credit facilities under which they provide the Company with a $308 million commitment. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitment of Lehman Brothers Bank, FSB, will not be honored if drawn upon. While the Company continues to explore various options it does not anticipate replacing its commitment from Lehman Brothers Bank, FSB.

To provide liquidity for future cash needs, SLM invests in high quality money market investments. At December 31, 2008, the Company had investments of $97 million with The Reserve Primary Fund ("The Fund"). In September 2008, the Company requested redemption of all monies invested from The Fund prior to The Fund's announcement that it suspended distributions as a result of The Fund's exposure to Lehman Brothers Holdings Inc.'s bankruptcy filing and The Fund's net asset value being below one dollar per share. The Company was originally informed by The Fund that the Company would receive its entire investment amount. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. The Company has received, to date, a total of $394 million of an initial investment of $500 million from The Fund. The Company anticipates further delay of remaining distributions and a potential loss on its investments, even though the Company is legally entitled to receive 100 percent of its remaining investment amount.

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

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), and on movements in the value of the derivatives,

which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. As of December 31, 2008, the Company held $1.6 billion of cash collateral in unrestricted cash accounts.

The table below highlights exposure related to our derivative counterparties at December 31, 2008.

	SLM Corporation Contracts	On-Balance Sheet Securitizations Contracts	Off-Balance Sheet Securitizations Contracts
Exposure, net of collateral	$234	$926	$716
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	60%	42%	42%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	0%	0%	0%

Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding SFAS No. 133 valuation adjustments) at December 31, 2008, September 30, 2008, and December 31, 2007.

	December 31, 2008			September 30, 2008			December 31, 2007		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis
Unsecured borrowings	$ 6,794	$ 31,182	$ 37,976	$ 7,262	$ 31,796	$ 39,058	$ 8,297	$ 36,796	$ 45,093
Term bank deposits	1,148	1,108	2,256	744	—	744	254	—	254
Indentured trusts (on-balance sheet)[1]	31	1,972	2,003	44	2,207	2,251	100	2,481	2,581
ABCP borrowings (on-balance sheet)[1][2]	24,768	—	24,768	24,684	—	24,684	25,960	67	26,027
ED Participation Program facility (on-balance sheet)[1][3]	7,365	—	7,365	3,555	—	3,555	—	—	—
Securitizations (on-balance sheet)[1]	—	80,601	80,601	—	81,554	81,554	—	68,048	68,048
Securitizations (off-balance sheet)	—	37,159	37,159	—	38,333	38,333	—	42,088	42,088
Other	1,827	—	1,827	1,979	—	1,979	1,342	—	1,342
Total	$41,933	$152,022	$193,955	$38,268	$153,890	$192,158	$35,953	$149,480	$185,433

(1) The book basis of the assets that secure the on-balance sheet secured financings is approximately $128.8 billion in total.

(2) Includes $1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at both December 31, 2008 and September 30, 2008, respectively.

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

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

	Moody's	S&P	Fitch
Short-term unsecured debt	P-2[1]	A-3	F3
Long-term senior unsecured debt	Baa2[1]	BBB−	BBB

(1) Negative outlook.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of December 31, 2008, September 30, 2008, and December 31, 2007.

	As of December 31, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 250	$ 918	$ 1,032	$ 2,200
Underlying securitized loan balance[3]	7,057	15,077	13,690	35,824
Weighted average life	3.0 yrs.	8.1 yrs.	6.4 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan — repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.23%	5.22%	
Residual cash flows discount rate	13.1%	11.9%	26.3%	

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

	As of December 31, 2007			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 390	$ 730	$ 1,924	$ 3,044
Underlying securitized loan balance[3]	9,338	15,968	14,199	39,505
Weighted average life	2.7 yrs	7.4 yrs.	7.0 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	0-37%	3-8%	1-30%	
Life of loan — repayment status	21%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)	.11%	.21%	5.28%	
Residual cash flows discount rate	12.0%	9.8%	12.9%	

(1) Includes $758 million, $333 million, and $283 million related to the fair value of the Embedded Floor Income as of December 31, 2008, September 30, 2008, and December 31, 2007, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At December 31, 2007, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $301 million that related to the Retained Interests. There were no such gains at September 30, 2008 and December 31, 2008.

(3) In addition to student loans in off-balance sheet trusts, the Company had $80.2 billion, $80.8 billion, and $65.5 billion of securitized student loans outstanding (face amount) as of December 31, 2008, September 30, 2008, and December 31, 2007, respectively, in on-balance sheet securitization trusts.

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

As previously discussed, the Company adopted SFAS No. 159 on January 1, 2008, and has elected the fair value option on all of the Residual Interests effective January 1, 2008. The Company chose this election in order to record all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either under SFAS No. 115 with changes in fair value recorded through other comprehensive income, except if impaired in which case changes in fair value were recorded through income, or under SFAS No. 155 with all changes in fair value recorded through income. Changes in the fair value of Residual Interests from January 1, 2008 forward are recorded through the income statement.

The Company recorded net unrealized mark-to-market losses of $64 million in the fourth quarter of 2008 related to the Residual Interest. As of December 31, 2008, the Company changed the following significant assumption compared to those used as of September 30, 2008, to determine the fair value of the Residual Interests:

- The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that existed in the market as of December 31, 2008. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 1,000 basis points and 250 basis points for Private Education and FFELP, respectively to better take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests. This resulted in a $504 million unrealized mark-to-market loss.

The Company recorded net unrealized mark-to-market losses related to the Residual Interests of $425 million during the year ended December 31, 2008. The mark-to-market losses were primarily related to the increase in the discount rate assumption related to the Private Education Loan Residual Interest. The Company increased the Private Education Residual risk premium by 1,550 basis points from December 31, 2007 to December 31, 2008, to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Private Education Loan Residual Interests in light of the current economic and credit uncertainty that exists in the market. The increase in the risk premium on the Private Education Loan Residual discount rate accounted for $767 million of the net unrealized mark-to-market loss for the year ended December 31, 2008.

The Company recorded impairments to the Retained Interests of $254 million for the year ended December 31, 2007. The impairment charges were primarily the result of FFELP loans prepaying faster than projected through loan consolidations, and an increase in prepayments and acceleration of defaults related to Private Education Loans. In addition, the Company recorded an unrealized mark-to-market loss under SFAS No. 155 of $25 million for the year ended December 31, 2007.

RECENT DEVELOPMENT

The SEC has closed its investigation into trading of SLM stock by certain directors of the Company. Such investigation was originally disclosed by the Company on April 24, 2007.