

SLM CORPORATION
Supplemental Earnings Disclosure
December 31, 2009
(In millions, except per share amounts)

	Quarters ended			Years ended	
	December 31, 2009 (unaudited)	September 30, 2009 (unaudited)	December 31, 2008 (unaudited)	December 31, 2009 (unaudited)	December 31, 2008 (unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS					
GAAP Basis⁽¹⁾					
Net income (loss) attributable to SLM Corporation	\$ 309	\$ 159	\$ (216)	\$ 324	\$ (213)
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	\$.52	\$.25	\$ (.52)	\$.38	\$ (.69)
Return on assets . . . . .	.77%	.37%	(.56)%	.20%	(.14)%
“Core Earnings” Basis⁽¹⁾⁽²⁾⁽³⁾					
“Core Earnings” net income attributable to SLM Corporation	\$ 249	\$ 164	\$ 65	\$ 597	\$ 526
“Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders	\$.41	\$.26	\$.08	\$.96	\$.89
“Core Earnings” return on assets . . . . .	.51%	.31%	.14%	.30%	.28%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	\$145,964	\$157,530	\$144,826	\$151,692	\$136,658
Average off-balance sheet student loans	33,277	33,929	36,164	34,413	37,586
Average Managed student loans	<u>\$179,241</u>	<u>\$191,459</u>	<u>\$180,990</u>	<u>\$186,105</u>	<u>\$174,244</u>
Ending on-balance sheet student loans, net	\$143,807	\$158,846	\$144,802		
Ending off-balance sheet student loans, net	32,638	33,335	35,591		
Ending Managed student loans, net	<u>\$176,445</u>	<u>\$192,181</u>	<u>\$180,393</u>		
Ending Managed FFELP Stafford and Other Student Loans, net	\$ 58,174	\$ 73,040	\$ 59,619		
Ending Managed FFELP Consolidation Loans, net	83,176	84,235	87,275		
Ending Managed Private Education Loans, net	<u>35,095</u>	<u>34,906</u>	<u>33,499</u>		
Ending Managed student loans, net	<u>\$176,445</u>	<u>\$192,181</u>	<u>\$180,393</u>		

(1) Diluted earnings per common share attributable to SLM Corporation common shareholders from continuing and discontinued operations on both a GAAP basis and “Core Earnings” basis for the three months ended December 31, 2009, September 30, 2009, and December 31, 2008 and the years ended December 31, 2009 and 2008 was:

	Quarters ended			Years ended	
	December 31, 2009 (unaudited)	September 30, 2009 (unaudited)	December 31, 2008 (unaudited)	December 31, 2009 (unaudited)	December 31, 2008 (unaudited)
GAAP Basis					
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	\$.71	\$.26	\$ (.47)	\$.71	\$ (.39)
Discontinued operations	\$ (.19)	\$ (.01)	\$ (.05)	\$ (.33)	\$ (.30)
Total	<u>\$.52</u>	<u>\$.25</u>	<u>\$ (.52)</u>	<u>\$.38</u>	<u>\$ (.69)</u>
“Core Earnings” Basis⁽²⁾⁽³⁾					
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	\$.60	\$.27	\$.13	\$1.29	\$1.19
Discontinued operations	\$ (.19)	\$ (.01)	\$ (.05)	\$ (.33)	\$ (.30)
Total	<u>\$.41</u>	<u>\$.26</u>	<u>\$.08</u>	<u>\$.96</u>	<u>\$.89</u>

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

(3) “Core Earnings” does not include Floor Income unless it is Fixed Rate Floor Income that is economically hedged. The amount of this Economic Floor Income (net of tax) excluded from “Core Earnings” for the three months ended December 31, 2009, September 30, 2009, and December 31, 2008 and the years ended December 31, 2009 and 2008 was:

	Quarters ended			Years ended	
	December 31, 2009 (unaudited)	September 30, 2009 (unaudited)	December 31, 2008 (unaudited)	December 31, 2009 (unaudited)	December 31, 2008 (unaudited)
Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax)	\$ 14	\$ 23	\$ 6	\$205	\$ 55
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders	<u>\$.03</u>	<u>\$.05</u>	<u>\$.01</u>	<u>\$.43</u>	<u>\$.12</u>

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

	December 31, 2009	September 30, 2009	December 31, 2008
	<u>(unaudited)</u>	<u>(unaudited)</u>	<u>(unaudited)</u>
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of \$104,219; \$101,343; and \$90,906, respectively)	\$ 42,978,874	\$ 43,257,743	\$ 44,025,361
FFELP Stafford Loans Held-for-Sale	9,695,714	23,846,566	8,450,976
FFELP Consolidation Loans (net of allowance for losses of \$56,949; \$54,384; and \$46,637, respectively)	68,378,560	69,246,231	71,743,435
Private Education Loans (net of allowance for losses of \$1,443,440; \$1,401,496; and \$1,308,043, respectively)	22,753,462	22,494,955	20,582,298
Other loans (net of allowance for losses of \$73,985; \$74,057; and \$58,395, respectively)	420,233	454,557	729,380
Cash and investments	8,083,841	7,021,808	5,111,407
Restricted cash and investments	5,168,871	5,760,583	3,535,286
Retained Interest in off-balance sheet securitized loans	1,828,075	1,838,203	2,200,298
Goodwill and acquired intangible assets, net	1,177,310	1,224,272	1,249,219
Other assets	9,500,358	11,299,006	11,140,777
Total assets	<u>\$169,985,298</u>	<u>\$186,443,924</u>	<u>\$168,768,437</u>
Liabilities			
Short-term borrowings	\$ 39,698,227	\$ 53,406,554	\$ 41,933,043
Long-term borrowings	121,744,857	124,647,818	118,224,794
Other liabilities	3,263,592	3,400,527	3,604,260
Total liabilities	<u>164,706,676</u>	<u>181,454,899</u>	<u>163,762,097</u>
Commitments and contingencies			
Equity			
Preferred stock, par value \$.20 per share, 20,000 shares authorized:			
Series A: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of \$50 per share	165,000	165,000	165,000
Series B: 4,000; 4,000; and 4,000 shares, respectively, issued at stated value of \$100 per share	400,000	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock: 810; 1,012; and 1,150 shares, respectively, issued at liquidation preference of \$1,000 per share	810,370	1,012,370	1,149,770
Common stock, par value \$.20 per share, 1,125,000 shares authorized:			
552,220; 541,849; and 534,411 shares, respectively, issued	110,444	108,362	106,883
Additional paid-in capital	5,090,891	4,862,071	4,684,112
Accumulated other comprehensive loss, net of tax benefit	(40,825)	(44,143)	(76,476)
Retained earnings	604,467	346,347	426,175
Total SLM Corporation stockholders' equity before treasury stock	7,140,347	6,850,007	6,855,464
Common stock held in treasury: 67,222; 67,159; and 66,958 shares, respectively	1,861,738	1,860,989	1,856,394
Total SLM Corporation stockholders' equity	5,278,609	4,989,018	4,999,070
Noncontrolling interest	13	7	7,270
Total equity	<u>5,278,622</u>	<u>4,989,025</u>	<u>5,006,340</u>
Total liabilities and equity	<u>\$169,985,298</u>	<u>\$186,443,924</u>	<u>\$168,768,437</u>

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Interest income:					
FFELP Stafford and Other Student Loans	\$ 241,640	\$ 303,192	\$ 516,204	\$1,211,587	\$1,994,394
FFELP Consolidation Loans	450,551	481,592	741,806	1,882,195	3,178,692
Private Education Loans	406,115	396,339	439,137	1,582,514	1,737,554
Other loans	10,075	11,042	18,161	56,005	82,734
Cash and investments	6,168	6,881	24,773	26,064	276,264
Total interest income	<u>1,114,549</u>	<u>1,199,046</u>	<u>1,740,081</u>	<u>4,758,365</u>	<u>7,269,638</u>
Total interest expense	<u>515,763</u>	<u>673,870</u>	<u>1,529,522</u>	<u>3,035,639</u>	<u>5,905,418</u>
Net interest income	598,786	525,176	210,559	1,722,726	1,364,220
Less: provisions for loan losses	269,442	321,127	252,415	1,118,960	719,650
Net interest income (loss) after provisions for loan losses	<u>329,344</u>	<u>204,049</u>	<u>(41,856)</u>	<u>603,766</u>	<u>644,570</u>
Other income (loss):					
Servicing and securitization revenue	148,049	155,065	87,557	295,297	261,819
Gains (losses) on sales of loans and securities, net	271,084	12,452	(64,007)	283,836	(186,155)
Gains (losses) on derivative and hedging activities, net	(35,209)	(111,556)	(292,903)	(604,535)	(445,413)
Contingency fee revenue	65,500	82,200	81,626	295,883	340,140
Collections revenue (loss).	(37,678)	21,241	59,828	51,152	127,823
Guarantor servicing fees	28,695	48,087	26,199	135,562	121,363
Other	187,922	150,006	96,719	929,151	392,076
Total other income (loss).	<u>628,363</u>	<u>357,495</u>	<u>(4,981)</u>	<u>1,386,346</u>	<u>611,653</u>
Expenses:					
Restructuring expenses	4,169	2,492	5,748	13,767	83,516
Operating expenses.	339,122	312,904	270,864	1,255,306	1,314,951
Total expenses	<u>343,291</u>	<u>315,396</u>	<u>276,612</u>	<u>1,269,073</u>	<u>1,398,467</u>
Income (loss) from continuing operations, before income tax expense (benefit)	614,416	246,148	(323,449)	721,039	(142,244)
Income tax expense (benefit)	206,568	80,423	(132,263)	238,364	(76,769)
Net income (loss) from continuing operations	407,848	165,725	(191,186)	482,675	(65,475)
Loss from discontinued operations, net of tax	(98,557)	(6,417)	(24,304)	(157,690)	(143,219)
Net income (loss)	309,291	159,308	(215,490)	324,985	(208,694)
Less: net income attributable to noncontrolling interest	157	198	527	847	3,932
Net income (loss) attributable to SLM Corporation	<u>309,134</u>	<u>159,110</u>	<u>(216,017)</u>	<u>324,138</u>	<u>(212,626)</u>
Preferred stock dividends	51,014	42,627	27,316	145,836	111,206
Net income (loss) attributable to SLM Corporation common stock	<u>\$ 258,120</u>	<u>\$ 116,483</u>	<u>\$ (243,333)</u>	<u>\$ 178,302</u>	<u>\$ (323,832)</u>
Net income (loss) attributable to SLM Corporation:					
Continuing operations, net of tax	\$ 407,691	\$ 165,527	\$ (191,713)	\$ 481,828	\$ (69,407)
Discontinued operations, net of tax	(98,557)	(6,417)	(24,304)	(157,690)	(143,219)
Net income (loss) attributable to SLM Corporation	<u>\$ 309,134</u>	<u>\$ 159,110</u>	<u>\$ (216,017)</u>	<u>\$ 324,138</u>	<u>\$ (212,626)</u>
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	\$.74	\$.26	\$ (.47)	\$.71	\$ (.39)
Discontinued operations	\$ (.20)	\$ (.01)	\$ (.05)	\$ (.33)	\$ (.30)
Total	<u>\$.54</u>	<u>\$.25</u>	<u>\$ (.52)</u>	<u>\$.38</u>	<u>\$ (.69)</u>
Average common shares outstanding	<u>479,459</u>	<u>470,280</u>	<u>466,692</u>	<u>470,858</u>	<u>466,642</u>
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:					
Continuing operations	\$.71	\$.26	\$ (.47)	\$.71	\$ (.39)
Discontinued operations	\$ (.19)	\$ (.01)	\$ (.05)	\$ (.33)	\$ (.30)
Total	<u>\$.52</u>	<u>\$.25</u>	<u>\$ (.52)</u>	<u>\$.38</u>	<u>\$ (.69)</u>
Average common and common equivalent shares outstanding	<u>521,740</u>	<u>471,058</u>	<u>466,692</u>	<u>471,584</u>	<u>466,642</u>
Dividends per common share attributable to SLM Corporation common shareholders	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

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

Quarter ended December 31, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 269,297	\$ —	\$ —	\$ 269,297	\$ (27,657)	\$ 241,640
FFELP Consolidation Loans	382,681	—	—	382,681	67,870	450,551
Private Education Loans	571,423	—	—	571,423	(165,308)	406,115
Other loans	10,075	—	—	10,075	—	10,075
Cash and investments	1,052	—	5,477	6,529	(361)	6,168
Total interest income	1,234,528	—	5,477	1,240,005	(125,456)	1,114,549
Total interest expense	546,343	4,576	3,542	554,461	(38,698)	515,763
Net interest income (loss)	688,185	(4,576)	1,935	685,544	(86,758)	598,786
Less: provisions for loan losses	365,211	—	—	365,211	(95,769)	269,442
Net interest income (loss) after provisions for loan losses	322,974	(4,576)	1,935	320,333	9,011	329,344
Contingency fee revenue	—	65,500	—	65,500	—	65,500
Collections revenue (loss)	—	(37,678)	—	(37,678)	—	(37,678)
Guarantor servicing fees	—	—	28,695	28,695	—	28,695
Other income	383,093	—	63,017	446,110	125,736	571,846
Total other income	383,093	27,822	91,712	502,627	125,736	628,363
Restructuring expenses	3,334	331	504	4,169	—	4,169
Operating expenses	151,726	74,661	66,263	292,650	46,472	339,122
Total expenses	155,060	74,992	66,767	296,819	46,472	343,291
Income (loss) from continuing operations, before income tax expense (benefit)	551,007	(51,746)	26,880	526,141	88,275	614,416
Income tax expense (benefit) ⁽¹⁾	187,550	(17,237)	8,638	178,951	27,617	206,568
Net income (loss) from continuing operations	363,457	(34,509)	18,242	347,190	60,658	407,848
Loss from discontinued operations, net of tax	—	(98,250)	—	(98,250)	(307)	(98,557)
Net income (loss)	363,457	(132,759)	18,242	248,940	60,351	309,291
Less: net income attributable to noncontrolling interest	—	157	—	157	—	157
Net income (loss) attributable to SLM Corporation	<u>\$ 363,457</u>	<u>\$ (132,916)</u>	<u>\$ 18,242</u>	<u>\$ 248,783</u>	<u>\$ 60,351</u>	<u>\$ 309,134</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 14,111</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,111</u>		

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

Net income (loss) attributable to SLM Corporation:						
Continuing operations, net of tax	\$ 363,457	\$ (34,666)	\$ 18,242	\$ 347,033	\$ 60,658	\$ 407,691
Discontinued operations, net of tax	—	(98,250)	—	(98,250)	(307)	(98,557)
Net income (loss) attributable to SLM Corporation	<u>\$ 363,457</u>	<u>\$ (132,916)</u>	<u>\$ 18,242</u>	<u>\$ 248,783</u>	<u>\$ 60,351</u>	<u>\$ 309,134</u>

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

Quarter ended September 30, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
				(unaudited)		
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 340,652	\$ —	\$ —	\$ 340,652	\$ (37,460)	\$ 303,192
FFELP Consolidation Loans	429,617	—	—	429,617	51,975	481,592
Private Education Loans	560,791	—	—	560,791	(164,452)	396,339
Other loans	11,042	—	—	11,042	—	11,042
Cash and investments	2,337	—	5,156	7,493	(612)	6,881
Total interest income	<u>1,344,439</u>	<u>—</u>	<u>5,156</u>	<u>1,349,595</u>	<u>(150,549)</u>	<u>1,199,046</u>
Total interest expense	<u>652,017</u>	<u>4,584</u>	<u>3,370</u>	<u>659,971</u>	<u>13,899</u>	<u>673,870</u>
Net interest income (loss)	692,422	(4,584)	1,786	689,624	(164,448)	525,176
Less: provisions for loan losses	<u>447,963</u>	<u>—</u>	<u>—</u>	<u>447,963</u>	<u>(126,836)</u>	<u>321,127</u>
Net interest income (loss) after provisions for loan losses	<u>244,459</u>	<u>(4,584)</u>	<u>1,786</u>	<u>241,661</u>	<u>(37,612)</u>	<u>204,049</u>
Contingency fee revenue	—	82,200	—	82,200	—	82,200
Collections revenue	—	21,241	—	21,241	—	21,241
Guarantor servicing fees	—	—	48,087	48,087	—	48,087
Other income	129,286	—	55,821	185,107	20,860	205,967
Total other income	<u>129,286</u>	<u>103,441</u>	<u>103,908</u>	<u>336,635</u>	<u>20,860</u>	<u>357,495</u>
Restructuring expenses	1,399	340	753	2,492	—	2,492
Operating expenses	154,165	74,309	74,739	303,213	9,691	312,904
Total expenses	<u>155,564</u>	<u>74,649</u>	<u>75,492</u>	<u>305,705</u>	<u>9,691</u>	<u>315,396</u>
Income (loss) from continuing operations, before income tax expense (benefit)	218,181	24,208	30,202	272,591	(26,443)	246,148
Income tax expense (benefit) ⁽¹⁾	<u>80,514</u>	<u>10,423</u>	<u>11,161</u>	<u>102,098</u>	<u>(21,675)</u>	<u>80,423</u>
Net income from continuing operations	137,667	13,785	19,041	170,493	(4,768)	165,725
Loss from discontinued operations, net of tax	—	(6,353)	—	(6,353)	(64)	(6,417)
Net income	137,667	7,432	19,041	164,140	(4,832)	159,308
Less: net income attributable to noncontrolling interest	—	198	—	198	—	198
Net income attributable to SLM Corporation	<u>\$ 137,667</u>	<u>\$ 7,234</u>	<u>\$ 19,041</u>	<u>\$ 163,942</u>	<u>\$ (4,832)</u>	<u>\$ 159,110</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 22,607</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 22,607</u>		

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

**Net income attributable to SLM
Corporation:**

Continuing operations, net of tax	\$ 137,667	\$ 13,587	\$ 19,041	\$ 170,295	\$ (4,768)	\$ 165,527
Discontinued operations, net of tax	—	(6,353)	—	(6,353)	(64)	(6,417)
Net income attributable to SLM Corporation	<u>\$ 137,667</u>	<u>\$ 7,234</u>	<u>\$ 19,041</u>	<u>\$ 163,942</u>	<u>\$ (4,832)</u>	<u>\$ 159,110</u>

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

Quarter ended December 31, 2008

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
				(unaudited)		
Interest income:						
FFELP Stafford and Other						
Student Loans	\$ 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	—	58,607	—	58,607	1,221	59,828
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	140,233	78,241	237,037	(242,018)	(4,981)
Restructuring expenses	2,881	1,670	1,197	5,748	—	5,748
Operating expenses	123,355	93,602	43,232	260,189	10,675	270,864
Total expenses	126,236	95,272	44,429	265,937	10,675	276,612
Income (loss) from continuing operations, before income tax expense (benefit)	55,971	39,333	36,548	131,852	(455,301)	(323,449)
Income tax expense (benefit) ⁽¹⁾	7,350	22,077	12,592	42,019	(174,282)	(132,263)
Net income (loss) from continuing operations	48,621	17,256	23,956	89,833	(281,019)	(191,186)
Loss from discontinued operations, net of tax	—	(24,294)	—	(24,294)	(10)	(24,304)
Net income (loss)	48,621	(7,038)	23,956	65,539	(281,029)	(215,490)
Less: net income attributable to noncontrolling interest	—	527	—	527	—	527
Net income (loss) attributable to SLM Corporation	<u>\$ 48,621</u>	<u>\$ (7,565)</u>	<u>\$23,956</u>	<u>\$ 65,012</u>	<u>\$(281,029)</u>	<u>\$ (216,017)</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 5,502</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5,502</u>		

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

Net income (loss) attributable to SLM Corporation						
Continuing operations, net of tax	\$ 48,621	\$ 16,729	\$ 23,956	\$ 89,306	\$ (281,019)	\$ (191,713)
Discontinued operations, net of tax	—	(24,294)	—	(24,294)	(10)	(24,304)
Net income (loss) attributable to SLM Corporation	<u>\$ 48,621</u>	<u>\$ (7,565)</u>	<u>\$ 23,956</u>	<u>\$ 65,012</u>	<u>\$ (281,029)</u>	<u>\$ (216,017)</u>

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

Year ended December 31, 2009

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
				(unaudited)		
Interest income:						
FFELP Stafford and Other Student Loans	\$1,281,421	\$ —	\$ —	\$1,281,421	\$ (69,834)	\$1,211,587
FFELP Consolidation Loans	1,645,482	—	—	1,645,482	236,713	1,882,195
Private Education Loans	2,254,163	—	—	2,254,163	(671,649)	1,582,514
Other loans	56,005	—	—	56,005	—	56,005
Cash and investments	9,251	—	20,080	29,331	(3,267)	26,064
Total interest income	5,246,322	—	20,080	5,266,402	(508,037)	4,758,365
Total interest expense	2,970,916	19,653	14,772	3,005,341	30,298	3,035,639
Net interest income (loss)	2,275,406	(19,653)	5,308	2,261,061	(538,335)	1,722,726
Less: provisions for loan losses	1,564,050	—	—	1,564,050	(445,090)	1,118,960
Net interest income (loss) after provisions for loan losses	711,356	(19,653)	5,308	697,011	(93,245)	603,766
Contingency fee revenue	—	295,883	—	295,883	—	295,883
Collections revenue	—	50,463	—	50,463	689	51,152
Guarantor servicing fees	—	—	135,562	135,562	—	135,562
Other income	974,110	—	214,892	1,189,002	(285,253)	903,749
Total other income	974,110	346,346	350,454	1,670,910	(284,564)	1,386,346
Restructuring expenses	10,010	597	3,160	13,767	—	13,767
Operating expenses	581,239	315,292	283,167	1,179,698	75,608	1,255,306
Total expenses	591,249	315,889	286,327	1,193,465	75,608	1,269,073
Income (loss) from continuing operations, before income tax expense (benefit)	1,094,217	10,804	69,435	1,174,456	(453,417)	721,039
Income tax expense (benefit) ⁽¹⁾	388,228	6,504	24,635	419,367	(181,003)	238,364
Net income (loss) from continuing operations	705,989	4,300	44,800	755,089	(272,414)	482,675
Loss from discontinued operations, net of tax	—	(157,189)	—	(157,189)	(501)	(157,690)
Net income (loss)	705,989	(152,889)	44,800	597,900	(272,915)	324,985
Less: net income attributable to noncontrolling interest	—	847	—	847	—	847
Net income (loss) attributable to SLM Corporation	<u>\$ 705,989</u>	<u>\$(153,736)</u>	<u>\$ 44,800</u>	<u>\$ 597,053</u>	<u>\$(272,915)</u>	<u>\$ 324,138</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 205,005</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 205,005</u>		

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

Net income (loss) attributable to SLM

Corporation:						
Continuing operations, net of tax	\$ 705,989	\$ 3,453	\$ 44,800	\$ 754,242	\$ (272,414)	\$ 481,828
Discontinued operations, net of tax	—	(157,189)	—	(157,189)	(501)	(157,690)
Net income (loss) attributable to SLM Corporation	<u>\$ 705,989</u>	<u>\$(153,736)</u>	<u>\$ 44,800</u>	<u>\$ 597,053</u>	<u>\$ (272,915)</u>	<u>\$ 324,138</u>

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

Year ended December 31, 2008

	<u>Lending</u>	<u>Asset Performance Group</u>	<u>Corporate and Other</u>	<u>Total “Core Earnings”</u>	<u>Adjustments</u>	<u>Total GAAP</u>
	(unaudited)					
Interest income:						
FFELP Stafford and Other Student Loans	\$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	—	128,879	—	128,879	(1,056)	127,823
Guarantor servicing fees	—	—	121,363	121,363	—	121,363
Other income	180,121	—	198,931	379,052	(356,725)	22,327
Total other income	180,121	469,019	320,294	969,434	(357,781)	611,653
Restructuring expenses	49,142	11,297	23,077	83,516	—	83,516
Operating expenses	582,781	388,778	256,431	1,227,990	86,961	1,314,951
Total expenses	631,923	400,075	279,508	1,311,506	86,961	1,398,467
Income (loss) from continuing operations, before income tax expense (benefit)	958,071	43,559	46,772	1,048,402	(1,190,646)	(142,244)
Income tax expense (benefit) ⁽¹⁾	338,774	23,280	16,538	378,592	(455,361)	(76,769)
Net income (loss) from continuing operations	619,297	20,279	30,234	669,810	(735,285)	(65,475)
Loss from discontinued operations, net of tax	—	(139,928)	—	(139,928)	(3,291)	(143,219)
Net income (loss)	619,297	(119,649)	30,234	529,882	(738,576)	(208,694)
Less: net income attributable to noncontrolling interest	—	3,932	—	3,932	—	3,932
Net income (loss) attributable to SLM Corporation	<u>\$ 619,297</u>	<u>\$(123,581)</u>	<u>\$ 30,234</u>	<u>\$ 525,950</u>	<u>\$ (738,576)</u>	<u>\$ (212,626)</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 55,483</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 55,483</u>		

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

Net income (loss) attributable to SLM

Corporation:						
Continuing operations, net of tax	\$ 619,297	\$ 16,347	\$ 30,234	\$ 665,878	\$ (735,285)	\$ (69,407)
Discontinued operations, net of tax	—	(139,928)	—	(139,928)	(3,291)	(143,219)
Net income (loss) attributable to SLM Corporation	<u>\$ 619,297</u>	<u>\$(123,581)</u>	<u>\$ 30,234</u>	<u>\$ 525,950</u>	<u>\$ (738,576)</u>	<u>\$ (212,626)</u>

SLM CORPORATION

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
“Core Earnings” net income attributable to SLM Corporation⁽¹⁾⁽²⁾	\$248,783	\$163,942	\$ 65,012	\$ 597,053	\$ 525,950
“Core Earnings” adjustments:					
Net impact of securitization accounting	(4,094)	27,885	31,583	(200,660)	(442,190)
Net impact of derivative accounting	171,068	(36,598)	(441,631)	(306,101)	(560,381)
Net impact of Floor Income	(32,222)	(8,020)	(34,949)	128,803	(102,056)
Net impact of acquired intangibles	<u>(46,784)</u>	<u>(9,774)</u>	<u>(10,314)</u>	<u>(75,960)</u>	<u>(89,310)</u>
Total “Core Earnings” adjustments before income tax effect	87,968	(26,507)	(455,311)	(453,918)	(1,193,937)
Net tax effect	<u>(27,617)</u>	<u>21,675</u>	<u>174,282</u>	<u>181,003</u>	<u>455,361</u>
Total “Core Earnings” adjustments	<u>60,351</u>	<u>(4,832)</u>	<u>(281,029)</u>	<u>(272,915)</u>	<u>(738,576)</u>
GAAP net income (loss) attributable to SLM Corporation	<u>\$309,134</u>	<u>\$159,110</u>	<u>\$(216,017)</u>	<u>\$ 324,138</u>	<u>\$ (212,626)</u>
GAAP diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	<u>\$.52</u>	<u>\$.25</u>	<u>\$ (.52)</u>	<u>\$.38</u>	<u>\$ (.69)</u>
⁽¹⁾ “Core Earnings” diluted earnings per common share attributable to SLM Corporation common shareholders	<u>\$.41</u>	<u>\$.26</u>	<u>\$.08</u>	<u>\$.96</u>	<u>\$.89</u>
⁽²⁾ Total Economic Floor Income earned on Managed loans, not included in “Core Earnings” (net of tax)	<u>\$ 14,111</u>	<u>\$ 22,607</u>	<u>\$ 5,502</u>	<u>\$ 205,005</u>	<u>\$ 55,483</u>
Total Economic Floor Income earned, not included in “Core Earnings” (net of tax) per common share attributable to SLM Corporation common shareholders	<u>\$.03</u>	<u>\$.05</u>	<u>\$.01</u>	<u>\$.43</u>	<u>\$.12</u>

FASB Accounting Standards Codification

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

“Core Earnings”

In accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company’s GAAP-based financial information, management evaluates the Company’s business segments on a basis that, as allowed under ASC 280, “Segment Reporting,” differs from GAAP. We refer to management’s basis of evaluating our segment results as “Core Earnings” presentations for each business segment and we refer to this information in

our presentations with credit rating agencies and lenders. While “Core Earnings” are not a substitute for reported results under GAAP, we rely on “Core Earnings” to manage each operating segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

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

Limitations of “Core Earnings”

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

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

Pre-Tax Differences between “Core Earnings” and GAAP

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

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

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

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

The following information (the “Supplemental Financial Information Release” or “Release”) should be read in connection with SLM Corporation’s (the “Company’s”) press release for fourth quarter 2009 earnings, dated January 20, 2010.

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, increases in financing costs; limits on liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Administration’s 2010 budget proposals as they relate to the Federal Family Education Loan Program (“FFELP”) and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: changes in or the termination of various liquidity programs implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; changes in the demand for debt management services; and new laws or changes in existing laws. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company’s expectations.

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

Certain reclassifications have been made to the balances as of and for the quarter and year ended December 31, 2008, to be consistent with classifications adopted for the quarter and year ended December 31, 2009, and had no effect on net income, total assets, or total liabilities.

RECENT DEVELOPMENTS

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

In the second quarter of 2009, the Department of Education (“ED”) named Sallie Mae as one of four private sector servicers awarded a servicing contract (the “ED Servicing Contract”) to service loans we sell to ED plus a portion of the loans others sell to ED, existing Direct Student Loan Program loans, and loans originated in the future. The contract covers the servicing of all federally-owned student loans, including the servicing of FFELP loans purchased by ED as part of the Loan Purchase Commitment Program (“Purchase Program”) pursuant to The Ensuring Continued Access to Student Loans Act of 2008 (“ECASLA”). See “LIQUIDITY AND CAPITAL

RESOURCES — ED Funding Programs” for a further discussion. Beginning in 2010, the contract will also cover the servicing of new Direct Loans. The contract will span five years with one, five-year renewal at the option of ED.

Through December 31, 2009, the Company has sold to ED approximately \$18.5 billion face amount of loans as part of the Purchase Program (approximately \$840 million face amount of this amount was sold in the third quarter of 2009, with the remainder sold in the fourth quarter of 2009). Outstanding debt of \$18.5 billion has been paid down related to the Loan Purchase Participation Program (“Participation Program”) pursuant to ECASLA in connection with these loan sales. The Company is servicing approximately \$19 billion of loans under the ED Servicing Contract as of December 31, 2009. This amount serviced includes loans sold by the Company to ED as well as loans sold by other companies to ED.

Legislative and Regulatory Developments

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

On January 14, 2010, President Obama announced his intention to propose a Financial Crisis Responsibility Fee that would require certain institutions which own insured depository institutions to pay a tax of 15 basis points (0.15 percent) of certain liabilities. This tax is intended to raise up to \$117 billion to reimburse the federal government for the projected cost of the Troubled Asset Relief Program (“TARP”). Congress has not yet taken up any legislation and no legislative language has been proposed. As such the Company cannot say whether it will be subject to this new tax, if enacted. Additionally, since the Company did not receive any money from the TARP, the Company’s position is that the Company should not be subject to the tax. Moreover, the majority of loans held by the Company were originated under the FFELP, with program terms and interest rates determined by Congress, and subjecting those assets to this new tax would not be consistent with the behavior the tax is intended to penalize.

DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

Three Months Ended December 31, 2009 Compared to Three Months Ended September 30, 2009

For the three months ended December 31, 2009, net income attributable to SLM Corporation was \$309 million or \$.52 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net income of \$159 million, or \$.25 diluted earnings per common share attributable to SLM Corporation common shareholders, for the three months ended September 30, 2009. The effective tax rate for those periods was 37 percent and 32 percent, respectively. The movement in the effective tax rate was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions in the three months ended September 30, 2009. For the three months ended December 31, 2009, net income attributable to SLM Corporation from continuing operations was \$408 million or \$.71 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to net income from continuing operations of \$166 million, or \$.26 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, for the three months ended September 30, 2009. For the three months ended December 31, 2009, net loss attributable to SLM Corporation from discontinued operations was \$99 million or \$.19 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from discontinued operations of \$6 million, or \$.01 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, for the three months ended September 30, 2009.

For the three months ended December 31, 2009, the Company’s pre-tax income from continuing operations was \$614 million compared to pre-tax income of \$246 million in the prior quarter. This increase in

pre-tax income from continuing operations of \$368 million was primarily due to a \$259 million increase in gains from sales of loans related to the ED Purchase Program, a \$125 million increase in net interest income after provisions for loan losses and a decrease in net losses on derivative and hedging activities of \$77 million from \$112 million net losses in the third quarter of 2009 to \$35 million net losses in the fourth quarter of 2009. The change in net losses on derivative and hedging activities is primarily the result of mark-to-market derivative valuations on derivatives that do not qualify for “hedge treatment” under GAAP.

Net interest income after provisions for loan losses increased by \$125 million in the fourth quarter of 2009 from the prior quarter. This increase was due to a \$74 million increase in net interest income accompanied by a \$51 million decrease in provisions for loan losses. The increase in net interest income was primarily due to an increase in the student loan spread and a reduction in the 2008 Asset Backed Financing Facilities fees (see “LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*”). The decrease in provisions for loan losses primarily related to the Private Education Loan loss provision (see “LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*” and “— *Allowance for Private Education Loan Losses*”).

There were no gains on student loan securitizations in either the fourth quarter of 2009 or the prior quarter as the Company did not complete any off-balance sheet securitizations during those periods. Servicing and securitization revenue decreased by \$7 million from \$155 million in the third quarter of 2009 to \$148 million in the fourth quarter of 2009. This decrease was primarily due to the current quarter’s unrealized mark-to-market gain of \$8 million on the Company’s Residual Interest compared to the prior quarter’s unrealized mark-to-market gain of \$13 million.

The \$271 million of net gains on sales of loans and securities in the fourth quarter 2009 related to the gain on sale of approximately \$17.6 billion face amount of FFELP loans to the ED as part of the Purchase Program. In the prior quarter approximately \$840 million face amount of FFELP loans were sold to the ED which resulted in a \$12 million gain.

In the fourth quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$56 million, a \$95 million decrease from \$151 million in the prior quarter. This decrease was primarily due to an increase in impairment recognized on our non-mortgage purchased paper portfolio. Total impairment in the non-mortgage purchased paper portfolio was \$54 million in the fourth quarter of 2009 compared to \$9 million in the prior quarter. The increase in impairment is a result of the impact of the economy on the ability to collect on these assets (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT”).

In response to the College Cost Reduction and Access Act of 2007 (“CCRAA”) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. The plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down our debt purchased paper businesses, and significantly reducing our operating expenses. The restructuring plan is essentially completed and our objectives have been met. As part of the Company’s cost reduction efforts, restructuring expenses of \$4 million and \$2 million were recognized in continuing operations in the fourth and third quarters of 2009, respectively. Restructuring expenses from the fourth quarter of 2007 through the fourth quarter of 2009 totaled \$129 million of which \$120 million was recorded in continuing operations and \$9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 25 percent of the workforce. We estimate approximately \$5 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred. On September 17, 2009, the House passed SAFRA which, if signed into law, would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the Direct Loan program. The Senate has yet to take up the legislation. If this legislation is signed into law, the Company will undertake another significant restructuring to conform its infrastructure to the elimination of the FFELP and achieve additional expense reduction. See “RECENT DEVELOPMENTS — Legislative and Regulatory Developments” for a further discussion of SAFRA.

Operating expenses were \$339 million in the fourth quarter of 2009 compared to \$313 million in the third quarter of 2009. The \$26 million increase from the prior quarter was due to a \$37 million increase in the

amortization and impairment related to acquired intangibles offset by an \$11 million decrease in operating expenses primarily due to the seasonality of peak originations in the prior quarter, higher consumer marketing costs related to Private Education Loans in the prior quarter and the Company's continued cost reduction efforts, as discussed above. The amortization and impairment of acquired intangibles for continuing operations totaled \$47 million in the fourth quarter of 2009 compared to \$10 million in the prior quarter. The increase in this expense relates to the impairment of a portion of Guarantor Servicing's intangible assets in the fourth quarter of 2009 as a result of the legislative uncertainty surrounding the role of Guarantors in the future.

During the fourth quarter of 2009, the Company converted \$202 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 10 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as a part of preferred stock dividends for the period of approximately \$33 million. In the third quarter of 2009, the Company converted \$137 million of its Series C Preferred Stock to approximately 7 million common shares, resulting in an additional expense of \$20 million recorded as part of preferred stock dividends.

Net loss attributable to SLM Corporation from discontinued operations was \$99 million for the three months ended December 31, 2009 compared to \$6 million for the previous quarter. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for \$280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after-tax loss of \$95 million. The prior quarter included \$7 million of after-tax asset impairments associated with the Purchased Paper — Mortgage/Properties business. The loss on the sale of the assets in the fourth quarter is the primary reason the net loss attributable to SLM Corporation from discontinued operations increased from the prior quarter.

Three Months Ended December 31, 2009 Compared to Three Months Ended December 31, 2008

For the three months ended December 31, 2009, net income attributable to SLM Corporation was \$309 million or \$.52 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net loss of \$216 million, or \$.52 diluted loss per common share attributable to SLM Corporation common shareholders, for the three months ended December 31, 2008. The effective tax rate for those periods was 37 percent and 42 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of separate company state tax expense. Subsidiaries that generated losses had higher separate company state tax rates than subsidiaries that generated income in the period ended December 31, 2008. For the three months ended December 31, 2009, net income attributable to SLM Corporation from continuing operations was \$408 million or \$.71 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of \$192 million, or \$.47 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for the three months ended December 31, 2008. For the three months ended December 31, 2009, net loss attributable to SLM Corporation from discontinued operations was \$99 million or \$.19 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from discontinued operations of \$24 million, or \$.05 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, for the three months ended December 31, 2008.

For the three months ended December 31, 2009, the Company's pre-tax income from continuing operations was \$614 million compared to a pre-tax loss of \$323 million in the year-ago quarter. The increase in pre-tax income of \$937 million was primarily due to a \$335 million increase in gains from sales of loans, a \$371 million increase in net interest income after provisions for loan losses and a decrease in net losses on derivative and hedging activities of \$258 million in the fourth quarter of 2009 from \$293 million net losses in the fourth quarter of 2008 to \$35 million net losses in the fourth quarter

of 2009. The change in net losses on derivative and hedging activities is primarily the result of mark-to-market derivative valuations on derivatives that do not qualify for “hedge treatment” under GAAP.

Net interest income after provisions for loan losses increased by \$371 million in the fourth quarter from the year-ago quarter. This increase was due to a \$389 million increase in net interest income offset by an \$18 million increase in provisions for loan losses. The increase in net interest income was primarily due to an increase in the student loan spread, a decrease in the 2008 Asset Backed Financing Facilities fees and a \$1.1 billion increase in the average balance of on-balance sheet student loans (see “LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*”). The increase in provisions for loan losses related primarily to the Private Education Loan loss provision (see “LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*” and “— *Allowance for Private Education Loan Losses*”).

There were no gains on student loan securitizations in either the fourth quarter of 2009 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue increased by \$60 million from revenue of \$88 million in the fourth quarter of 2008 to \$148 million in the fourth quarter of 2009. This increase was primarily due to a current-quarter’s unrealized mark-to-market gain of \$8 million on the Company’s Residual Interests compared to a year-ago quarter’s unrealized mark-to-market loss of \$64 million. See “LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables” for further discussion of the factors impacting the fair values.

There were \$271 million in net gains on sales of loans and securities in the fourth quarter of 2009 related to the ED Purchase Program as previously discussed, compared to net losses of \$64 million incurred in the year-ago quarter. The net losses 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.

In the fourth quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$56 million, a \$112 million decrease from \$168 million in the year-ago quarter. This decrease was primarily due to an increase in impairment recognized on our non-mortgage purchased paper portfolio, in addition to a decline in revenue due to a significantly smaller portfolio in this purchased paper business year-over-year, as a result of winding down this business. Total impairment in the non-mortgage purchased paper portfolio was \$54 million in the fourth quarter of 2009 compared to none in the fourth quarter of 2008. The impairment is a result of the impact of the economy on the ability to collect on these assets (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT”).

Restructuring expenses of \$4 million and \$6 million were recognized in the fourth quarters of 2009 and 2008, respectively, as previously discussed.

Operating expenses were \$339 million in the fourth quarter of 2009 compared to \$271 million in the fourth quarter of 2008. The \$68 million increase from the year-ago quarter was primarily due to a \$37 million increase in the amortization and impairment related to acquired intangibles as well as higher costs related to the ED Servicing Contract awarded to the Company in June 2009 to service FFELP loans that have been and will be sold to ED, higher collection costs from a higher number of loans in repayment and delinquent status and higher direct-to-consumer marketing costs related to Private Education Loans. The amortization and impairment of acquired intangibles for continuing operations totaled \$47 million in the fourth quarter of 2009 compared to \$10 million in the year-ago quarter. The increase in this expense relates to the impairment of a portion of Guarantor Servicing’s intangible assets in the fourth quarter of 2009 as a result of the legislative uncertainty surrounding the role of Guarantors in the future.

As previously discussed, preferred stock dividends for the fourth quarter of 2009 included additional expense of \$33 million due to the conversion of \$202 million of Series C Preferred Stock to common stock.

Net loss attributable to SLM Corporation from discontinued operations was \$99 million for the three months ended December 31, 2009 compared to a net loss of \$24 million for the year-ago quarter. As discussed above, the Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 which resulted in an after-tax loss of \$95 million. The year-ago quarter had \$31 million of after-tax asset impairments associated with the Purchased Paper — Mortgage/Properties business. The loss on

the sale of the assets in the fourth quarter is the primary reason the net loss attributable to SLM Corporation from discontinued operations increased from the prior quarter.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

For the year ended December 31, 2009, net income attributable to SLM Corporation was \$324 million or \$.38 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net loss of \$213 million, or \$.69 diluted loss per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008. The effective tax rate for those periods was 36 percent and 45 percent, respectively. The movement in the effective tax rate was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions in both periods, as well as the permanent tax impact of deducting Proposed Merger-related transaction costs in the year ended December 31, 2008. For the year ended December 31, 2009, net income attributable to SLM Corporation from continuing operations was \$482 million or \$.71 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of \$69 million, or \$.39 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for year ended December 31, 2008. For the year ended December 31, 2009, net loss attributable to SLM Corporation from discontinued operations was \$158 million or \$.33 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from discontinued operations of \$143 million, or \$.30 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008.

For the year ended December 31, 2009, the Company's pre-tax income from continuing operations was \$721 million compared to a pre-tax loss of \$142 million in the year-ago period. The increase in pre-tax income of \$863 million was primarily due to an increase in gains on debt repurchases of \$472 million, an increase in gains on sales of loans and securities of \$470 million offset by an increase of \$159 million in net losses on derivative and hedging activities. The change in the net losses on derivative and hedging activities is primarily the result of mark-to-market derivative valuations on derivatives that do not qualify for "hedge treatment" under GAAP.

There were no gains on student loan securitizations in either the year ended December 31, 2009 or the prior year as the Company did not complete any off-balance sheet securitizations in those years. Servicing and securitization revenue increased by \$33 million from \$262 million in the year ended December 31, 2008 to \$295 million in the year ended December 31, 2009. This increase was primarily due to a \$95 million decrease in the current-year unrealized mark-to-market loss of \$330 million on the Company's Residual Interests compared to the prior-year unrealized mark-to-market loss of \$425 million, offset by the decrease in net Embedded Floor Income. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by \$40 million in the year ended December 31, 2009 from the prior year. This decrease was due to a \$399 million increase in provisions for loan losses offset by a \$359 million increase in net interest income. The increase in net interest income was primarily due to an increase in the student loan spread, a decrease in the 2008 Asset Backed Financing Facilities fees and a \$15 billion increase in the average balance of on-balance sheet student loans (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The increase in provisions for loan losses related primarily to increases in charge-off expectations on Private Education Loans primarily as a result of the continued weakening of the U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "*— Allowance for Private Education Loan Losses*").

There were \$284 million in net gains on sales of loans and securities in the year ended December 31, 2009, primarily related to the ED Purchase Program as previously discussed, compared to net losses of \$186 million incurred in the prior year. 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 this 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 2008 also relates to the sale of approximately \$1.0 billion FFELP loans to the ED under ECASLA, which resulted in a \$53 million loss.

For the year ended December 31, 2009, contingency fee, collections and guarantor servicing fee revenue totaled \$482 million, a \$107 million decrease from \$589 million in the prior year. This decrease was primarily due to a decline in revenue due to a significantly smaller non-mortgage purchased paper portfolio year-over-year, as a result of winding down this collections business. Total impairment in the non-mortgage purchased paper portfolio was \$79 million in 2009 compared to \$111 million in 2008. The impairment is a result of the continued impact of the economy on the ability to collect on these assets (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Restructuring expenses of \$14 million and \$84 million were recognized in the years ended December 31, 2009 and 2008, respectively, as previously discussed.

Operating expenses were \$1.26 billion in the year ended December 31, 2009 compared to \$1.31 billion in the prior year. The \$60 million decrease in operating expenses was primarily due to the Company's cost reduction efforts discussed above as well as an \$11 million reduction in amortization and impairment of acquired intangible assets. The amortization and impairment of acquired intangibles for continuing operations totaled \$75 million and \$86 million for the years ended December 31, 2009 and 2008, respectively.

As previously discussed, preferred stock dividends for the year ended December 31, 2009 included additional expense of \$53 million due to the conversion of \$339 million of Series C Preferred Stock to common stock in the third and fourth quarters of 2009.

Net loss attributable to SLM Corporation from discontinued operations was \$158 million for the year ended December 31, 2009 compared to \$143 million for the prior year. As discussed above, the Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 which resulted in an after-tax loss of \$95 million. In the current year, the Company incurred \$154 million of after-tax asset impairments associated with this business line compared to the prior year, during which the Company incurred \$161 million of after-tax asset impairments.

Other Income

The following table summarizes the components of "Other income" in the consolidated statements of income for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Gains on debt repurchases	\$ 73	\$ 74	\$ 27	\$536	\$ 64
Late fees and forbearance fees	39	39	36	146	143
Asset servicing and other transaction fees . . .	33	28	28	112	108
Loan servicing fees	18	17	8	53	26
Foreign currency translation gains (losses) . .	12	(23)	(22)	23	(31)
Other	<u>13</u>	<u>16</u>	<u>20</u>	<u>59</u>	<u>82</u>
Total other income	<u>\$188</u>	<u>\$151</u>	<u>\$ 97</u>	<u>\$929</u>	<u>\$392</u>

The change in other income over the year-ago periods presented is primarily the result of the gains on debt repurchases. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased \$741 million, \$1.4 billion, and \$127 million face amount of its senior unsecured notes for the

quarters ended December 31, 2009, September 30, 2009 and December 31, 2008, respectively, and repurchased \$3.4 billion and \$1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company repurchased \$5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016.

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, 2009, September 30, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008.

(in thousands)	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Reported net income (loss) attributable to SLM Corporation	\$309,134	\$159,110	\$(216,017)	\$ 324,138	\$(212,626)
Preferred stock dividends	<u>(51,014)</u>	<u>(42,627)</u>	<u>(27,316)</u>	<u>(145,836)</u>	<u>(111,206)</u>
Reported net income (loss) attributable to common stock	258,120	116,483	(243,333)	178,302	(323,832)
Expense items disclosed separately (tax-effected):					
Restructuring expenses	2,626	1,570	3,621	8,673	52,615
Other reorganization-related asset impairments	84	—	131	306	4,136
De-acceleration of premium amortization expense on loans ⁽¹⁾	—	(22,970)	—	(22,970)	(56,868)
Acceleration of premium amortization expense on loans ⁽²⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>34,142</u>
Total expense items disclosed separately (tax-effected)	<u>2,710</u>	<u>(21,400)</u>	<u>3,752</u>	<u>(13,991)</u>	<u>34,025</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately	260,830	95,083	(239,581)	164,311	(289,807)
Adjusted for dividends of convertible Series C Preferred Stock ⁽³⁾	<u>14,688</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income (loss) attributable to SLM Corporation common stock, excluding the impact of items disclosed separately, adjusted	<u>\$275,518</u>	<u>\$ 95,083</u>	<u>\$(239,581)</u>	<u>\$ 164,311</u>	<u>\$(289,807)</u>
Average common and common equivalent shares outstanding	<u>521,740</u>	<u>471,058</u>	<u>466,692</u>	<u>471,584</u>	<u>466,642</u>

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

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

⁽³⁾ There was no impact on diluted earnings (loss) per common share for the prior and year-ago quarter and the years ended December 31, 2009 and 2008, because the effect of the assumed conversion was anti-dilutive.

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, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

<u>(in thousands)</u>	<u>Quarters ended</u>			<u>Years ended</u>	
	<u>December 31, 2009</u>	<u>September 30, 2009</u>	<u>December 31, 2008</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
“Core Earnings” net income attributable to SLM Corporation	\$248,783	\$163,942	\$ 65,012	\$ 597,053	\$ 525,950
Preferred stock dividends	<u>(51,014)</u>	<u>(42,627)</u>	<u>(27,316)</u>	<u>(145,836)</u>	<u>(111,206)</u>
“Core Earnings” net income attributable to SLM Corporation common stock	197,769	121,315	37,696	451,217	414,744
Expense items disclosed separately (tax-effected):					
Restructuring expenses	2,626	1,570	3,621	8,673	52,615
Other reorganization-related asset impairments	84	—	131	306	4,136
De-acceleration of premium amortization expense on loans ⁽¹⁾	—	(34,627)	—	(34,627)	(74,138)
Acceleration of premium amortization expense on loans ⁽²⁾	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>51,777</u>
Total expense items disclosed separately (tax-effected)	<u>2,710</u>	<u>(33,057)</u>	<u>3,752</u>	<u>(25,648)</u>	<u>34,390</u>
“Core Earnings” net income attributable to SLM Corporation common stock, excluding the impact of items disclosed separately	200,479	88,258	41,448	425,569	449,134
Adjusted for dividends of convertible Series C Preferred Stock ⁽³⁾	<u>14,688</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income attributable to SLM Corporation common stock, excluding the impact of items disclosed separately, adjusted	<u>\$215,167</u>	<u>\$ 88,258</u>	<u>\$ 41,448</u>	<u>\$ 425,569</u>	<u>\$ 449,134</u>
Average common and common equivalent shares outstanding	<u>521,740</u>	<u>471,058</u>	<u>467,108</u>	<u>471,584</u>	<u>467,229</u>

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

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

⁽³⁾ There was no impact on diluted earnings (loss) per common share for the prior and year-ago quarter and the years ended December 31, 2009 and 2008, because the effect of the assumed conversion was anti-dilutive.

BUSINESS SEGMENTS

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

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

Pre-tax Differences between "Core Earnings" and GAAP

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

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

The following table summarizes "Core Earnings" securitization adjustments for the Lending operating segment for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
"Core Earnings" securitization adjustments:					
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	\$(248)	\$(254)	\$(179)	\$(942)	\$(872)
Provisions for loan losses	<u>96</u>	<u>127</u>	<u>140</u>	<u>445</u>	<u>309</u>
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(152)	(127)	(39)	(497)	(563)
Intercompany transactions with off-balance sheet trusts	<u>—</u>	<u>—</u>	<u>(17)</u>	<u>1</u>	<u>(141)</u>
Net interest income on securitized loans, after provisions for loan losses	(152)	(127)	(56)	(496)	(704)
Servicing and securitization revenue	<u>148</u>	<u>155</u>	<u>88</u>	<u>295</u>	<u>262</u>
Total "Core Earnings" securitization adjustments ⁽¹⁾	<u>\$ (4)</u>	<u>\$ 28</u>	<u>\$ 32</u>	<u>\$(201)</u>	<u>\$(442)</u>

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

“Intercompany transactions with off-balance sheet trusts” in the above table relate primarily to losses that result from the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold this 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 mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for “hedge treatment” under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item’s life.

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

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

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

The table below quantifies the adjustments for derivative accounting under ASC 815 on net income for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008, and for the years ended December 31, 2009 and 2008, when compared with the accounting principles employed in all years prior to the ASC 815 implementation.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
“Core Earnings” derivative adjustments:					
Gains (losses) on derivative and hedging activities, net, included in other income ⁽¹⁾ . .	\$ (35)	\$(112)	\$(293)	\$(604)	\$(445)
Less: Realized (gains) losses on derivative and hedging activities, net ⁽¹⁾	<u>202</u>	<u>118</u>	<u>(146)</u>	<u>322</u>	<u>(107)</u>
Unrealized gains (losses) on derivative and hedging activities, net.	167	6	(439)	(282)	(552)
Other pre-ASC 815 accounting adjustments . . .	<u>4</u>	<u>(43)</u>	<u>(3)</u>	<u>(24)</u>	<u>(8)</u>
Total net impact of ASC 815 derivative accounting ⁽²⁾	<u>\$171</u>	<u>\$ (37)</u>	<u>\$(442)</u>	<u>\$(306)</u>	<u>\$(560)</u>

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

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

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

ASC 815 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as “realized (gains) losses on derivative and hedging activities”) that do not qualify as hedges under ASC 815 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a “Core Earnings” basis for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Reclassification of realized gains (losses) on derivative and hedging activities:					
Net settlement expense on Floor Income					
Contracts reclassified to net interest income . . .	\$ (217)	\$ (189)	\$ (98)	\$ (717)	\$ (488)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	15	72	224	412	563
Foreign exchange derivatives gains (losses) reclassified to other income	—	—	3	(15)	11
Net realized gains (losses) on terminated derivative contracts reclassified to other income	—	(1)	17	(2)	21
Total reclassifications of realized gains (losses) on derivative and hedging activities	(202)	(118)	146	(322)	107
Add: Unrealized gains (losses) on derivative and hedging activities, net ⁽¹⁾	167	6	(439)	(282)	(552)
Gains (losses) on derivative and hedging activities, net	<u>\$ (35)</u>	<u>\$ (112)</u>	<u>\$ (293)</u>	<u>\$ (604)</u>	<u>\$ (445)</u>

⁽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, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Floor Income Contracts	\$160	\$ (80)	\$ (770)	\$ 483	\$ (529)
Basis swaps	22	97	260	(413)	(239)
Foreign currency hedges	1	24	181	(255)	328
Other	(16)	(35)	(110)	(97)	(112)
Total unrealized gains (losses) on derivative and hedging activities, net	<u>\$167</u>	<u>\$ 6</u>	<u>\$ (439)</u>	<u>\$ (282)</u>	<u>\$ (552)</u>

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

- 3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in “Core Earnings” when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts, to economically hedge Floor Income. As discussed above in “Derivative Accounting,” these derivatives do not qualify as effective accounting hedges, and

therefore, under GAAP, they are marked-to-market through the “gains (losses) on derivative and hedging activities, net” line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For “Core Earnings,” we reverse the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
“Core Earnings” Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts . .	\$ 23	\$ 36	\$ 9	\$ 286	\$ 69
Amortization of net premiums on Floor Income Contracts in net interest income . .	<u>(55)</u>	<u>(44)</u>	<u>(44)</u>	<u>(157)</u>	<u>(171)</u>
Total “Core Earnings” Floor Income adjustments ⁽¹⁾⁽²⁾	<u><u>\$(32)</u></u>	<u><u>\$ (8)</u></u>	<u><u>\$(35)</u></u>	<u><u>\$ 129</u></u>	<u><u>\$(102)</u></u>

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

⁽²⁾ The following table summarizes the amount of Economic Floor Income earned during the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008 that is not included in “Core Earnings” net income:

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in “Core Earnings”	\$ 23	\$ 36	\$ 9	\$ 286	\$ 69
Amortization of net premiums on Variable Rate Floor Income Contracts not included in “Core Earnings”	—	—	—	40	20
Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings” . .	<u>55</u>	<u>44</u>	<u>44</u>	<u>157</u>	<u>171</u>
Total Economic Floor Income Earned	78	80	53	483	260
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in “Core Earnings”	<u>(55)</u>	<u>(44)</u>	<u>(44)</u>	<u>(157)</u>	<u>(171)</u>
Total Economic Floor Income earned, not included in “Core Earnings”	<u><u>\$ 23</u></u>	<u><u>\$ 36</u></u>	<u><u>\$ 9</u></u>	<u><u>\$ 326</u></u>	<u><u>\$ 89</u></u>

- 4) **Acquired Intangibles:** Our “Core Earnings” exclude goodwill and intangible impairment and the amortization of acquired intangibles. The following table summarizes the goodwill and acquired intangible adjustments for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
“Core Earnings” goodwill and acquired intangibles adjustments ⁽¹⁾ :					
Goodwill and intangible impairment and the amortization of acquired intangibles from continuing operations	\$(47)	\$(10)	\$(10)	\$(75)	\$(86)
Goodwill and intangible impairment and the amortization of acquired intangibles from discontinued operations.	—	—	—	(1)	(5)
Total “Core Earnings” acquired intangibles adjustments	<u>\$(47)</u>	<u>\$(10)</u>	<u>\$(10)</u>	<u>\$(76)</u>	<u>\$(91)</u>

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

In the fourth quarter of 2009, \$37 million of Guarantor Servicing’s intangible assets were impaired as a result of the legislative uncertainty surrounding the role of Guarantors in the future. In the third quarter of 2008, the Company decided to wind down its purchased paper businesses. This decision resulted in \$36 million of impairment of intangible assets for the year ended December 31, 2008, \$5 million of which is related to discontinued operations and \$31 million is related to continuing operations.

LENDING BUSINESS SEGMENT

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

On a Managed Basis, the Company had \$107.2 billion, \$108.9 billion, and \$127.2 billion as of December 31, 2009, September 30, 2009, and December 31, 2008, respectively, of FFELP Loans indexed to three-month financial commercial paper rate (“CP”) funded with debt indexed to LIBOR. As a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then.

For the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter of 2008, the Federal Reserve’s Commercial Paper Funding Facility rates (“CPFF”) would be used for those days in which no CP was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF. ED decided that no such correction was required during 2009. This resulted in a CP/LIBOR spread of 52 basis points, 45 basis points, 13 basis points and 6 basis points in the first, second, third and fourth quarters of 2009, respectively, (29 basis points for the full year of 2009) compared to the CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 and the historic average spread through the third quarter of 2008 of approximately 10 basis points.

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

Additionally, the index paid on borrowings under ED’s Participation Program is based on the prior quarter’s CP rates, whereas the index earned on the underlying loans is based on the current quarter’s CP rates. The declines in CP rates during the first, second, third and fourth quarters of 2009 resulted in \$40 million, \$13 million, \$6 million and \$2 million of higher interest expense in the first, second, third and fourth quarters of 2009, respectively.

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
“Core Earnings” interest income:					
FFELP Stafford and Other Student Loans . .	\$ 269	\$ 340	\$ 586	\$1,282	\$2,216
FFELP Consolidation Loans	383	430	856	1,645	3,748
Private Education Loans	571	561	659	2,254	2,752
Other loans	10	11	18	56	83
Cash and investments	<u>1</u>	<u>3</u>	<u>21</u>	<u>9</u>	<u>304</u>
Total “Core Earnings” interest income	1,234	1,345	2,140	5,246	9,103
Total “Core Earnings” interest expense	<u>546</u>	<u>652</u>	<u>1,584</u>	<u>2,971</u>	<u>6,665</u>
Net “Core Earnings” interest income	688	693	556	2,275	2,438
Less: provisions for loan losses	<u>365</u>	<u>448</u>	<u>392</u>	<u>1,564</u>	<u>1,029</u>
Net “Core Earnings” interest income after provisions for loan losses	323	245	164	711	1,409
Other income	383	129	18	974	180
Restructuring expenses	3	2	3	10	49
Operating expenses	<u>151</u>	<u>154</u>	<u>123</u>	<u>581</u>	<u>583</u>
Total expenses	<u>154</u>	<u>156</u>	<u>126</u>	<u>591</u>	<u>632</u>
Income from continuing operations, before income tax expense	552	218	56	1,094	957
Income tax expense	<u>188</u>	<u>80</u>	<u>7</u>	<u>388</u>	<u>338</u>
Net income	364	138	49	706	619
Less: net income attributable to noncontrolling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income attributable to SLM Corporation	<u>\$ 364</u>	<u>\$ 138</u>	<u>\$ 49</u>	<u>\$ 706</u>	<u>\$ 619</u>
Economic Floor Income (net of tax) not included in “Core Earnings”	<u>\$ 14</u>	<u>\$ 23</u>	<u>\$ 6</u>	<u>\$ 205</u>	<u>\$ 55</u>
“Core Earnings” net income attributable to SLM Corporation:					
Continuing operations, net of tax	\$ 364	\$ 138	\$ 49	\$ 706	\$ 619
Discontinued operations, net of tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income attributable to SLM Corporation	<u>\$ 364</u>	<u>\$ 138</u>	<u>\$ 49</u>	<u>\$ 706</u>	<u>\$ 619</u>

Net Interest Income

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

Average Balance Sheets — On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008. This table reflects the net interest margin for all on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Quarters ended					
	December 31, 2009		September 30, 2009		December 31, 2008	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	\$ 53,451	1.79%	\$ 64,673	1.86%	\$ 51,250	4.01%
FFELP Consolidation Loans	68,806	2.60	69,643	2.74	72,142	4.09
Private Education Loans	23,707	6.80	23,214	6.77	21,434	8.15
Other loans	440	9.09	469	9.33	752	9.61
Cash and investments	<u>12,613</u>	<u>.19</u>	<u>13,694</u>	<u>.20</u>	<u>7,843</u>	<u>1.26</u>
Total interest-earning assets	159,017	<u>2.78%</u>	171,693	<u>2.77%</u>	153,421	<u>4.51%</u>
Non-interest-earning assets	<u>7,738</u>		<u>8,686</u>		<u>10,021</u>	
Total assets	<u>\$166,755</u>		<u>\$180,379</u>		<u>\$163,442</u>	
Average Liabilities and Equity						
Short-term borrowings	\$ 38,832	1.10%	\$ 50,700	1.31%	\$ 38,711	4.40%
Long-term borrowings	<u>119,354</u>	<u>1.36</u>	<u>121,060</u>	<u>1.66</u>	<u>115,370</u>	<u>3.80</u>
Total interest-bearing liabilities	158,186	<u>1.29%</u>	171,760	<u>1.56%</u>	154,081	<u>3.95%</u>
Non-interest-bearing liabilities	3,412		3,679		3,997	
Equity	<u>5,157</u>		<u>4,940</u>		<u>5,364</u>	
Total liabilities and equity	<u>\$166,755</u>		<u>\$180,379</u>		<u>\$163,442</u>	
Net interest margin		<u>1.49%</u>		<u>1.21%</u>		<u>.55%</u>

	Years ended			
	December 31, 2009		December 31, 2008	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	\$ 58,492	2.07%	\$ 44,291	4.50%
FFELP Consolidation Loans	70,046	2.69	73,091	4.35
Private Education Loans	23,154	6.83	19,276	9.01
Other loans	561	9.98	955	8.66
Cash and investments	<u>11,046</u>	<u>.24</u>	<u>9,279</u>	<u>2.98</u>
Total interest-earning assets	163,299	<u>2.91%</u>	146,892	<u>4.95%</u>
Non-interest-earning assets	<u>8,693</u>		<u>9,999</u>	
Total assets	<u>\$171,992</u>		<u>\$156,891</u>	
Average Liabilities and Equity				
Short-term borrowings	\$ 44,485	1.84%	\$ 36,059	4.73%
Long-term borrowings	<u>118,699</u>	<u>1.87</u>	<u>111,625</u>	<u>3.76</u>
Total interest-bearing liabilities	163,184	<u>1.86%</u>	147,684	<u>4.00%</u>
Non-interest-bearing liabilities	3,719		3,789	
Equity	<u>5,089</u>		<u>5,418</u>	
Total liabilities and equity	<u>\$171,992</u>		<u>\$156,891</u>	
Net interest margin		<u>1.05%</u>		<u>.93%</u>

Net Interest Margin — On-Balance Sheet

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Student loan spread ⁽¹⁾⁽²⁾	1.83%	1.58%	.91%	1.42%	1.28%
Other asset spread ⁽¹⁾⁽³⁾	<u>(1.61)</u>	<u>(2.07)</u>	<u>(1.73)</u>	<u>(1.96)</u>	<u>(.27)</u>
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees ⁽¹⁾ . . .	1.54	1.28	.76	1.18	1.17
Less: 2008 Asset-Backed Financing Facilities fees	<u>(.05)</u>	<u>(.07)</u>	<u>(.21)</u>	<u>(.13)</u>	<u>(.24)</u>
Net interest margin	<u>1.49%</u>	<u>1.21%</u>	<u>.55%</u>	<u>1.05%</u>	<u>.93%</u>

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

⁽²⁾ Composition of student loan spread:

Student loan yield, before Floor Income	3.18%	3.12%	5.21%	3.27%	5.60%
Gross Floor Income . . . . .	.50	.43	.22	.49	.28
Consolidation Loan Rebate Fees	(.48)	(.45)	(.51)	(.48)	(.55)
Repayment Borrower Benefits	(.09)	(.10)	(.09)	(.09)	(.11)
Premium and discount amortization	<u>(.12)</u>	<u>(.03)</u>	<u>(.16)</u>	<u>(.11)</u>	<u>(.16)</u>
Student loan net yield	2.99	2.97	4.67	3.08	5.06
Student loan cost of funds	<u>(1.16)</u>	<u>(1.39)</u>	<u>(3.76)</u>	<u>(1.66)</u>	<u>(3.78)</u>
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	<u>1.83%</u>	<u>1.58%</u>	<u>.91%</u>	<u>1.42%</u>	<u>1.28%</u>

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

Student Loan Spread — On-Balance Sheet

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

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2009 increased 25 basis points from the prior quarter. The student loan spread was positively impacted by a 7 basis point tightening of the CP/LIBOR spread, lower cost of funds related to the ED Conduit Program (See “LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs”), an increase in Gross Floor Income, a lower cost of funds due to the impact of ASC 815 (discussed below) and the sale of \$18.5 billion of FFELP loans to ED under the Purchase Program in September and October of 2009. The loans sold had a significantly lower spread than the remainder of the portfolio which has the effect of increasing the student loan spread upon their sale. Offsetting these improvements to the student loan spread was an increase in premium amortization of 9 basis points between the current and prior quarter (see “Core Earnings Basis Student Loan Spread” below for a further discussion of premium amortization impact) as well as higher credit spreads on the Company’s ABS debt issued in 2009 due to the current credit environment.

The student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2009 increased 92 basis points from the year-ago quarter. The student loan spread was positively impacted by a 15 basis point tightening of the CP/LIBOR spread, a lower cost of funds related to the ED Conduit Program which began in May 2009, an increase in Gross Floor Income, a lower cost of funds due to the impact of ASC 815 (discussed below) and the sale of \$18.5 billion of FFELP loans to ED under the Purchase Program in September and October of 2009 (as previously discussed). Offsetting these improvements to the student loan spread was higher credit spreads on the Company's ABS debt issued in 2009 due to the current credit environment.

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

Other Asset Spread — On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the fourth quarter of 2009 increased 46 basis points from the prior quarter and increased 12 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under ASC 815 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the "Core Earnings" basis other asset spread discussed below.

Net Interest Margin — On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2009 increased 26 basis points from the prior quarter and increased 78 basis points from the year-ago quarter. These changes primarily relate to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the current quarter and prior quarter; however, the decrease in the percentage from the year-ago quarter negatively impacted the net interest margin by 7 basis points.

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

"Core Earnings" Net Interest Margin

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

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;

- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as ASC 815 hedges are recorded as part of the “gain (loss) on derivative and hedging activities, net” line on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our “Core Earnings” net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;
- Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and
- Includes the amortization of upfront payments on Fixed Rate Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
“Core Earnings” basis student loan spread ⁽¹⁾ :					
FFELP loan spread . . . . .	.89%	.90%	.73%	.63%	.83%
Private Education Loan spread ⁽²⁾	<u>4.55</u>	<u>4.45</u>	<u>4.74</u>	<u>4.54</u>	<u>5.09</u>
Total “Core Earnings” basis student loan spread ⁽³⁾	1.63	1.56	1.49	1.39	1.63
“Core Earnings” basis other asset spread ⁽¹⁾⁽⁴⁾	<u>(.80)</u>	<u>(.93)</u>	<u>(1.71)</u>	<u>(.93)</u>	<u>(.51)</u>
“Core Earnings” net interest margin, before 2008 Asset-Backed Financing Facilities fees ⁽¹⁾	1.44	1.38	1.32	1.25	1.49
Less: 2008 Asset-Backed Financing Facilities fees	<u>(.04)</u>	<u>(.06)</u>	<u>(.17)</u>	<u>(.11)</u>	<u>(.19)</u>
“Core Earnings” net interest margin ⁽⁵⁾	<u>1.41%</u>	<u>1.32%</u>	<u>1.15%</u>	<u>1.14%</u>	<u>1.30%</u>
⁽¹⁾ Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the “2008 Asset-Backed Financing Facilities fees.” (See “LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes” for a further discussion.)					
⁽²⁾ “Core Earnings” basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses. . . . .	.98%	(.10)%	.73%	.66%	2.41%
⁽³⁾ Composition of “Core Earnings” basis student loan spread:					
“Core Earnings” basis student loan yield	3.40%	3.29%	5.35%	3.25%	5.77%
Consolidation Loan Rebate Fees	(.48)	(.45)	(.49)	(.47)	(.52)
Repayment Borrower Benefits	(.09)	(.10)	(.09)	(.09)	(.11)
Premium and discount amortization	<u>(.12)</u>	<u>.01</u>	<u>(.15)</u>	<u>.09</u>	<u>(.14)</u>
“Core Earnings” basis student loan net yield	2.71	2.75	4.62	2.78	5.00
“Core Earnings” basis student loan cost of funds	<u>(1.08)</u>	<u>(1.19)</u>	<u>(3.13)</u>	<u>(1.39)</u>	<u>(3.37)</u>
“Core Earnings” basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	<u>1.63%</u>	<u>1.56%</u>	<u>1.49%</u>	<u>1.39%</u>	<u>1.63%</u>
⁽⁴⁾ Comprised of investments, cash and other loans.					
⁽⁵⁾ The average balances of our Managed interest-earning assets for the respective periods are:					
FFELP loans	\$142,913	\$155,434	\$146,373	\$150,059	\$141,647
Private Education Loans	<u>36,328</u>	<u>36,025</u>	<u>34,617</u>	<u>36,046</u>	<u>32,597</u>
Total student loans	179,241	191,459	180,990	186,105	174,244
Other interest-earning assets	<u>14,171</u>	<u>15,378</u>	<u>10,402</u>	<u>12,897</u>	<u>12,403</u>
Total Managed interest-earning assets	<u>\$193,412</u>	<u>\$206,837</u>	<u>\$191,392</u>	<u>\$199,002</u>	<u>\$186,647</u>

“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 2009 increased 7 basis points from the prior quarter. The “Core Earnings” basis student loan spread was positively impacted by a 7 basis point tightening of the CP/LIBOR spread, lower cost of funds related to the ED Conduit Program (See “LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs”), an increase in floor hedge income and the sale of \$18.5 billion of FFELP loans to ED under the Purchase Program in September and October of 2009. The loans sold had a significantly lower spread than the remainder of the portfolio which has the effect of increasing the student loan spread upon their sale. Offsetting these improvements to the student loan spread was an increase in premium amortization of 13 basis points between the current and prior quarter as well as higher credit spreads on the Company’s ABS debt issued in 2009 due to the current credit environment. The increase in premium expense was primarily due to the Company decreasing the prepayment speed assumptions used to amortize premiums on FFELP Stafford and Consolidation Loans in the third quarter of 2009 as a result of a significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. Decreasing the prepayment speeds has the effect of lengthening the assumed lives of these loans and resulted in a one-time, cumulative catch-up adjustment to reverse prior premium expense.

The “Core Earnings” basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2009 increased 14 basis points from the year-ago quarter. The “Core Earnings” basis student loan spread was positively impacted by a 15 basis point tightening of the CP/LIBOR spread, a lower cost of funds related to the ED Conduit Program which began in May 2009, an increase in floor hedge income and the sale of \$18.5 billion of FFELP loans to ED under the Purchase Program in September and October of 2009 (as previously discussed). Offsetting these improvements to the student loan spread were higher credit spreads on the Company’s ABS debt issued in 2009 due to the current credit environment.

The “Core Earnings” basis FFELP Loan spread for the fourth quarter of 2009 remained relatively consistent from the prior quarter due to the same reasons discussed above related to the entire “Core Earnings” basis student loan spread. The “Core Earnings” basis FFELP loan spread for the fourth quarter of 2009 increased from the year-ago quarter due to the same reasons discussed above related to the entire “Core Earnings” basis student loan spread, which was partially offset due to the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007, which have lower yields as a result of the CCRAA.

The “Core Earnings” basis Private Education Loan spread before provision for loan losses for the fourth quarter of 2009 was relatively consistent compared to the prior and year-ago quarters. 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 2009 increased 13 basis points and increased 91 basis points from the prior and year-ago quarters, respectively. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

“Core Earnings” Net Interest Margin

The “Core Earnings” net interest margin, before the 2008 Asset-Backed Financing Facilities fees, for the fourth quarter of 2009 increased 6 basis points from the prior quarter and increased 12 basis points from the year-ago quarter. These changes primarily relate to the previously discussed changes in the “Core Earnings” basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the current quarter and the prior quarter, however, the decrease from the year-ago quarter percentage, negatively impacted net interest margin by 6 basis points.

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

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

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

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

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

Private Education Loan Delinquencies and Forbearance

The tables below present our Private Education Loan delinquency trends as of December 31, 2009, September 30, 2009, and December 31, 2008.

	On-Balance Sheet Private Education Loan Delinquencies					
	December 31, 2009		September 30, 2009		December 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 8,910		\$10,899		\$10,159	
Loans in forbearance ⁽²⁾	967		851		862	
Loans in repayment and percentage of each status:						
Loans current	12,421	86.4%	10,458	85.3%	9,748	87.2%
Loans delinquent 31-60 days ⁽³⁾	647	4.5	551	4.5	551	4.9
Loans delinquent 61-90 days ⁽³⁾	340	2.4	353	2.9	296	2.6
Loans delinquent greater than 90 days ⁽³⁾	971	6.7	892	7.3	587	5.3
Total Private Education Loans in repayment	<u>14,379</u>	<u>100%</u>	<u>12,254</u>	<u>100%</u>	<u>11,182</u>	<u>100%</u>
Total Private Education Loans, gross	24,256		24,004		22,203	
Private Education Loan unamortized discount	<u>(559)</u>		<u>(543)</u>		<u>(535)</u>	
Total Private Education Loans	23,697		23,461		21,668	
Private Education Loan receivable for partially charged-off loans	499		435		222	
Private Education Loan allowance for losses	<u>(1,443)</u>		<u>(1,401)</u>		<u>(1,308)</u>	
Private Education Loans, net	<u>\$22,753</u>		<u>\$22,495</u>		<u>\$20,582</u>	
Percentage of Private Education Loans in repayment		<u>59.3%</u>		<u>51.1%</u>		<u>50.4%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>13.6%</u>		<u>14.7%</u>		<u>12.8%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>6.3%</u>		<u>6.5%</u>		<u>7.2%</u>

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

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

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

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

	December 31, 2009		September 30, 2009		December 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 2,546		\$ 3,148		\$ 3,461	
Loans in forbearance ⁽²⁾	453		474		700	
Loans in repayment and percentage of each status:						
Loans current	8,987	90.0%	8,516	90.0%	8,843	92.8%
Loans delinquent 31-60 days ⁽³⁾	332	3.3	312	3.3	315	3.3
Loans delinquent 61-90 days ⁽³⁾	151	1.5	161	1.7	121	1.3
Loans delinquent greater than 90 days ⁽³⁾	<u>517</u>	<u>5.2</u>	<u>469</u>	<u>5.0</u>	<u>251</u>	<u>2.6</u>
Total Private Education Loans in repayment	<u>9,987</u>	<u>100%</u>	<u>9,458</u>	<u>100%</u>	<u>9,530</u>	<u>100%</u>
Total Private Education Loans, gross	12,986		13,080		13,691	
Private Education Loan unamortized discount	<u>(349)</u>		<u>(347)</u>		<u>(361)</u>	
Total Private Education Loans	12,637		12,733		13,330	
Private Education Loan receivable for partially charged-off loans	229		200		92	
Private Education Loan allowance for losses	<u>(524)</u>		<u>(522)</u>		<u>(505)</u>	
Private Education Loans, net	<u>\$12,342</u>		<u>\$12,411</u>		<u>\$12,917</u>	
Percentage of Private Education Loans in repayment		<u>76.9%</u>		<u>72.3%</u>		<u>69.6%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>10.0%</u>		<u>10.0%</u>		<u>7.2%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>4.3%</u>		<u>4.8%</u>		<u>6.8%</u>

- ⁽¹⁾ Loans for borrowers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
- ⁽²⁾ Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.
- ⁽³⁾ The period of delinquency is based on the number of days scheduled payments are contractually past due.

	Managed Basis Private Education Loan Delinquencies					
	December 31, 2009		September 30, 2009		December 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$11,456		\$14,047		\$13,620	
Loans in forbearance ⁽²⁾	1,420		1,325		1,562	
Loans in repayment and percentage of each status:						
Loans current	21,408	87.9%	18,974	87.4%	18,591	89.8%
Loans delinquent 31-60 days ⁽³⁾	979	4.0	863	4.0	866	4.2
Loans delinquent 61-90 days ⁽³⁾	491	2.0	514	2.4	417	2.0
Loans delinquent greater than 90 days ⁽³⁾	<u>1,488</u>	<u>6.1</u>	<u>1,361</u>	<u>6.2</u>	<u>838</u>	<u>4.0</u>
Total Private Education Loans in repayment	<u>24,366</u>	<u>100%</u>	<u>21,712</u>	<u>100%</u>	<u>20,712</u>	<u>100%</u>
Total Private Education Loans, gross	37,242		37,084		35,894	
Private Education Loan unamortized discount	<u>(908)</u>		<u>(890)</u>		<u>(896)</u>	
Total Private Education Loans	36,334		36,194		34,998	
Private Education Loan receivable for partially charged-off loans	728		635		314	
Private Education Loan allowance for losses	<u>(1,967)</u>		<u>(1,923)</u>		<u>(1,813)</u>	
Private Education Loans, net	<u>\$35,095</u>		<u>\$34,906</u>		<u>\$33,499</u>	
Percentage of Private Education Loans in repayment		<u>65.4%</u>		<u>58.6%</u>		<u>57.7%</u>
Delinquencies as a percentage of Private Education Loans in repayment		<u>12.1%</u>		<u>12.6%</u>		<u>10.2%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>5.5%</u>		<u>5.8%</u>		<u>7.0%</u>

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

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

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

Allowance for Private Education Loan Losses

The following tables summarize changes in the allowance for Private Education Loan losses for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Activity in Allowance for Private Education Loan Losses								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	September 30, 2009	December 31, 2008
Allowance at beginning of period	\$ 1,401	\$ 1,396	\$ 1,197	\$ 522	\$ 544	\$ 409	\$ 1,923	\$ 1,940	\$ 1,606
Provision for Private Education Loan losses	234	287	212	93	126	136	327	413	348
Charge-offs	(205)	(293)	(114)	(93)	(150)	(45)	(298)	(443)	(159)
Reclassification of interest reserve	13	11	13	2	2	5	15	13	18
Allowance at end of period	<u>\$ 1,443</u>	<u>\$ 1,401</u>	<u>\$ 1,308</u>	<u>\$ 524</u>	<u>\$ 522</u>	<u>\$ 505</u>	<u>\$ 1,967</u>	<u>\$ 1,923</u>	<u>\$ 1,813</u>
Charge-offs as a percentage of average loans in repayment (annualized)	6.0%	9.6%	4.4%	3.8%	6.2%	2.0%	5.1%	8.1%	3.3%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	5.6%	8.9%	4.0%	3.6%	5.9%	1.8%	4.8%	7.6%	3.0%
Allowance as a percentage of the ending total loan balance	5.8%	5.7%	5.8%	4.0%	3.9%	3.7%	5.2%	5.1%	5.0%
Allowance as a percentage of ending loans in repayment	10.0%	11.4%	11.7%	5.2%	5.5%	5.3%	8.1%	8.9%	8.8%
Average coverage of charge-offs (annualized)	1.8	1.2	2.9	1.4	.9	2.8	1.7	1.1	2.9
Ending total loans ⁽¹⁾	\$24,755	\$24,439	\$22,426	\$13,215	\$13,280	\$13,782	\$37,970	\$37,719	\$36,208
Average loans in repayment	\$13,632	\$12,083	\$10,321	\$ 9,756	\$ 9,585	\$ 8,961	\$23,388	\$21,668	\$19,282
Ending loans in repayment	\$14,379	\$12,254	\$11,182	\$ 9,987	\$ 9,458	\$ 9,530	\$24,366	\$21,712	\$20,712

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

	Activity in Allowance for Private Education Loan Losses					
	On-balance sheet		Off-balance sheet		Managed Basis	
	Years ended		Years ended		Years ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Allowance at beginning of period	\$ 1,308	\$ 1,004	\$ 505	\$ 362	\$ 1,813	\$ 1,366
Provision for Private Education Loan losses	967	586	432	288	1,399	874
Charge-offs	(876)	(320)	(423)	(153)	(1,299)	(473)
Reclassification of interest reserve	44	38	10	8	54	46
Allowance at end of period	<u>\$ 1,443</u>	<u>\$ 1,308</u>	<u>\$ 524</u>	<u>\$ 505</u>	<u>\$ 1,967</u>	<u>\$ 1,813</u>
Charge-offs as a percentage of average loans in repayment	7.2%	3.8%	4.4%	1.9%	6.0%	2.9%
Charge-offs as a percentage of average loans in repayment and forbearance	6.7%	3.3%	4.2%	1.6%	5.6%	2.5%
Allowance as a percentage of the ending total loan balance	5.8%	5.8%	4.0%	3.7%	5.2%	5.0%
Allowance as a percentage of ending loans in repayment	10.0%	11.7%	5.2%	5.3%	8.1%	8.8%
Average coverage of charge-offs	1.6	4.1	1.2	3.3	1.5	3.8
Ending total loans ⁽¹⁾	\$24,755	\$22,426	\$13,215	\$13,782	\$37,970	\$36,208
Average loans in repayment	\$12,137	\$ 8,533	\$ 9,597	\$ 8,088	\$21,734	\$16,621
Ending loans in repayment	\$14,379	\$11,182	\$ 9,987	\$ 9,530	\$24,366	\$20,712

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

The following table provides detail for the traditional and non-traditional Managed Private Education Loans at December 31, 2009, September 30, 2009, and December 31, 2008.

	December 31, 2009			September 30, 2009			December 31, 2008		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans ⁽¹⁾	\$33,223	\$4,747	\$37,970	\$32,891	\$4,828	\$37,719	\$31,101	\$5,107	\$36,208
Ending loans in repayment	21,453	2,913	24,366	18,922	2,790	21,712	17,715	2,997	20,712
Private Education Loan allowance for losses	1,056	911	1,967	1,005	918	1,923	859	954	1,813
Charge-offs as a percentage of average loans in repayment ⁽²⁾	3.2%	18.6%	5.1%	5.1%	28.5%	8.1%	1.7%	12.3%	3.3%
Allowance as a percentage of total ending loan balance	3.2%	19.2%	5.2%	3.1%	19.0%	5.1%	2.8%	18.7%	5.0%
Allowance as a percentage of ending loans in repayment	4.9%	31.3%	8.1%	5.3%	32.9%	8.9%	4.8%	31.8%	8.8%
Average coverage of charge-offs ⁽²⁾	1.6	1.7	1.7	1.1	1.1	1.1	3.0	2.7	2.9
Delinquencies as a percentage of Private Education Loans in repayment	9.5%	31.4%	12.1%	9.7%	32.2%	12.6%	7.1%	28.9%	10.2%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.6%	17.5%	6.1%	4.6%	17.8%	6.3%	2.6%	12.7%	4.0%
Loans in forbearance as a percentage of loans in repayment and forbearance	5.3%	7.1%	5.5%	5.4%	8.1%	5.8%	6.7%	9.0%	7.0%
Percentage of Private Education Loans with a cosigner	61%	28%	57%	61%	27%	57%	59%	26%	55%
Average FICO at origination	725	623	713	725	623	713	723	622	710

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

⁽²⁾ Annualized for the three months ended December 31, 2009, September 30, 2009, and December 31, 2008.

Managed provision expense was \$327 million in the fourth quarter of 2009, \$413 million in the third quarter of 2009 and \$348 million in the fourth quarter of 2008. For the full year of 2009, Managed provision expense was \$1.4 billion compared to \$874 million for the full year of 2008. Provision expense has remained elevated since the fourth quarter of 2008 primarily as a result of the continued uncertainty of the U.S. economy. The Private Education Loan portfolio had experienced a significant increase in delinquencies through the first quarter of 2009; however, delinquencies as a percentage of loans in repayment declined in the second, third and fourth quarters of 2009. The Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters as evidenced by the 33 percent decline in charge-offs that occurred between the third and fourth quarters of 2009. The increase in charge-off levels through the third quarter of 2009 was generally anticipated and was previously reflected in our allowance for loan losses. As of December 31, 2009, the Managed Private Education Loan allowance coverage of annualized current-quarter charge-offs ratio was 1.7 compared to 1.1 as of September 30, 2009 and 2.9 as of December 31, 2008. The decrease in the allowance coverage ratio over the last year from 2.9 to 1.7 was expected as the Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters. The allowance for loan losses as a percentage of ending Private Education Loans in repayment has remained relatively consistent at approximately 8.1 percent at December 31, 2009 and 8.8 percent at December 31, 2008. Managed delinquencies as a percentage of Private Education Loans in repayment decreased from 12.6 percent as of September 30, 2009 to 12.1 percent as of December 31, 2009. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 5.8 percent as of September 30, 2009 to 5.5 percent at December 31, 2009. On a year-over-year basis, overall delinquencies as a percentage of loans in repayment increased from 10.2 percent to 12.1 percent, while loans in forbearance decreased from 7.0 percent to 5.5 percent. As part of concluding that the allowance for loan losses for Private Education Loans is appropriate as of December 31, 2009, the Company analyzed changes in the key ratios disclosed in the tables above.

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

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month-end has decreased over the course of 2008 and 2009. In addition, the monthly average amount of loans granted forbearance as a percentage of loans in repayment and forbearance declined to 5.6 percent in the fourth quarter of 2009 compared to the year-ago quarter of 6.5 percent. As of December 31, 2009, 1.9 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. Our experience has shown that three years after being granted forbearance for the first time, over 70 percent of the loans are current, paid-in-full or receiving an in-school grace or deferment, and 14 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment			
	Status distribution 36 months after being granted forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment . . .	8.4%	8.2%	3.2%
Current	52.2	57.9	63.9
Delinquent 31-60 days	3.2	2.0	.4
Delinquent 61-90 days	1.9	1.1	.2
Delinquent greater than 90 days	4.1	2.4	.3
Forbearance	6.0	4.1	—
Defaulted	14.3	7.5	4.9
Paid	<u>9.9</u>	<u>16.8</u>	<u>27.1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At December 31, 2009, loans in forbearance status as a percentage of loans in repayment and forbearance are 7.3 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.8 percent for loans that have been in active repayment status for more than 48 months. Approximately 86 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

December 31, 2009	Monthly Scheduled Payments Due			Not Yet in Repayment	Total
	0 to 24	25 to 48	More than 48		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$11,456	\$11,456
Loans in forbearance	1,224	136	60	—	1,420
Loans in repayment — current	13,122	5,194	3,092	—	21,408
Loans in repayment — delinquent 31-60 days	779	135	65	—	979
Loans in repayment — delinquent 61-90 days	386	71	34	—	491
Loans in repayment — delinquent greater than 90 days	<u>1,210</u>	<u>193</u>	<u>85</u>	—	<u>1,488</u>
Total	<u>\$16,721</u>	<u>\$5,729</u>	<u>\$3,336</u>	<u>\$11,456</u>	37,242
Unamortized discount					(908)
Receivable for partially charged-off loans					728
Allowance for loan losses					<u>(1,967)</u>
Total Managed Private Education Loans, net					<u>\$35,095</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>7.3%</u>	<u>2.4%</u>	<u>1.8%</u>	<u>—%</u>	<u>5.5%</u>

	Monthly Scheduled Payments Due			Not Yet in Repayment	Total
	0 to 24	25 to 48	More than 48		
September 30, 2009					
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$14,047	\$14,047
Loans in forbearance	1,135	133	57	—	1,325
Loans in repayment — current	11,594	4,685	2,695	—	18,974
Loans in repayment — delinquent 31-60 days	696	114	53	—	863
Loans in repayment — delinquent 61-90 days	422	63	29	—	514
Loans in repayment — delinquent greater than 90 days	1,124	162	75	—	1,361
Total	<u>\$14,971</u>	<u>\$5,157</u>	<u>\$2,909</u>	<u>\$14,047</u>	37,084
Unamortized discount					(890)
Receivable for partially charged-off loans					635
Allowance for loan losses					(1,923)
Total Managed Private Education Loans, net					<u>\$34,906</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>7.6%</u>	<u>2.6%</u>	<u>2.0%</u>	<u>—%</u>	<u>5.8%</u>
December 31, 2008					
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	<u>\$15,727</u>	<u>\$4,138</u>	<u>\$2,409</u>	<u>\$13,620</u>	35,894
Unamortized discount					(896)
Receivable for partially charged-off loans					314
Allowance for loan losses					(1,813)
Total Managed Private Education Loans, net					<u>\$33,499</u>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>8.9%</u>	<u>2.6%</u>	<u>2.1%</u>	<u>—%</u>	<u>7.0%</u>

The table below stratifies the portfolio of Managed Private Education Loans in forbearance status as of the dates indicated by the cumulative number of months the borrower has used forbearance. As detailed in the table below, only 3 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

Cumulative number of months borrower has used forbearance	December 31, 2009		September 30, 2009		December 31, 2008	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total	Forbearance Balance	% of Total
Up to 12 months	\$1,050	74%	\$ 928	70%	\$1,075	69%
13 to 24 months	332	23	344	26	368	23
More than 24 months	38	3	53	4	119	8
Total	<u>\$1,420</u>	<u>100%</u>	<u>\$1,325</u>	<u>100%</u>	<u>\$1,562</u>	<u>100%</u>

Total Provisions for Loan Losses

The following tables summarize the total provisions for loan losses on both an on-balance sheet basis and a Managed Basis for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008 and for the years ended December 31, 2009 and 2008.

Total on-balance sheet loan provisions

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Private Education Loans	\$234	\$287	\$212	\$ 967	\$586
FFELP loans	25	21	29	106	106
Mortgage and consumer loans	10	13	11	46	28
Total on-balance sheet provisions for loan losses	<u>\$269</u>	<u>\$321</u>	<u>\$252</u>	<u>\$1,119</u>	<u>\$720</u>

Total Managed Basis loan provisions

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Private Education Loans	\$327	\$413	\$348	\$1,399	\$ 874
FFELP loans	28	22	33	119	127
Mortgage and consumer loans	10	13	11	46	28
Total Managed Basis provisions for loan losses	<u>\$365</u>	<u>\$448</u>	<u>\$392</u>	<u>\$1,564</u>	<u>\$1,029</u>

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

Total Loan Charge-offs

The following tables summarize the total loan charge-offs on both an on-balance sheet basis and a Managed Basis for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008, and for the years ended December 31, 2009 and 2008.

Total on-balance sheet loan charge-offs

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Private Education Loans	\$205	\$293	\$114	\$876	\$320
FFELP loans	18	17	14	79	58
Mortgage and consumer loans	11	9	6	35	17
Total on-balance sheet loan charge-offs . .	<u>\$234</u>	<u>\$319</u>	<u>\$134</u>	<u>\$990</u>	<u>\$395</u>

Total Managed loan charge-offs

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Private Education Loans	\$298	\$443	\$159	\$1,299	\$473
FFELP loans	21	20	19	94	79
Mortgage and consumer loans	11	9	6	35	17
Total Managed Basis loan charge-offs . . .	<u>\$330</u>	<u>\$472</u>	<u>\$184</u>	<u>\$1,428</u>	<u>\$569</u>

Receivable for Partially Charged-Off Private Education Loans

The Company charges off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the “receivable for partially charged off loans.” If actual periodic recoveries are less than expected, the difference is charged off and immediately included in provision expense.

The following tables summarize the activity in the receivable for partially charged-off loans (see “*Allowance for Private Education Loan Losses*,” above, for a further discussion) for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008 and for the years ended December 31, 2009 and 2008.

	Activity in Receivable for Partially Charged-Off Loans								
	On-balance sheet			Off-balance sheet			Managed Basis		
	Three months ended			Three months ended			Three months ended		
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	September 30, 2009	December 31, 2008
Receivable at beginning of period	\$435	\$338	\$184	\$200	\$149	\$73	\$635	\$487	\$257
Expected future recoveries of current period defaults ⁽¹⁾	77	108	47	35	55	21	112	163	68
Recoveries	<u>(13)</u>	<u>(11)</u>	<u>(9)</u>	<u>(6)</u>	<u>(4)</u>	<u>(2)</u>	<u>(19)</u>	<u>(15)</u>	<u>(11)</u>
Receivable at end of period	<u>\$499</u>	<u>\$435</u>	<u>\$222</u>	<u>\$229</u>	<u>\$200</u>	<u>\$92</u>	<u>\$728</u>	<u>\$635</u>	<u>\$314</u>

	Activity in Receivable for Partially Charged-Off Loans					
	On-balance Sheet		Off-balance Sheet		Managed Basis	
	Years ended		Years ended		Years ended	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Receivable at beginning of period	\$222	\$118	\$ 92	\$28	\$314	\$146
Expected future recoveries of current period defaults ⁽¹⁾	320	140	154	72	474	212
Recoveries	<u>(43)</u>	<u>(36)</u>	<u>(17)</u>	<u>(8)</u>	<u>(60)</u>	<u>(44)</u>
Receivable at end of period	<u>\$499</u>	<u>\$222</u>	<u>\$229</u>	<u>\$92</u>	<u>\$728</u>	<u>\$314</u>

⁽¹⁾ Net of any current period recoveries that were less than expected.

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, 2009, September 30, 2009 and December 31, 2008 and years ended December 31, 2009 and 2008.

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Gains on sales of loans	\$271	\$ 12	\$(52)	\$284	\$(51)
Gains on debt repurchases	73	74	27	536	64
Late fees and forbearance fees	39	39	36	146	143
Other	<u>—</u>	<u>4</u>	<u>7</u>	<u>8</u>	<u>24</u>
Total other income, net	<u>\$383</u>	<u>\$129</u>	<u>\$ 18</u>	<u>\$974</u>	<u>\$180</u>

The change in other income over the prior periods presented is primarily the result of the gains on debt repurchased and gains on sales of loans. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased \$741 million, \$1.4 billion and \$127 million face amount of its senior unsecured notes for the quarters ended December 31, 2009, September 30, 2009, and December 31, 2008, respectively, and repurchased \$3.4 billion and \$1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company

repurchased \$5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016. The \$271 million of gains on sales of loans and securities, net, in the fourth quarter of 2009 related to the sale of approximately \$17.6 billion face amount of FFELP loans to the ED as part of the Purchase Program. In the prior quarter, approximately \$840 million face amount of FFELP loans were sold to the ED which resulted in a \$12 million gain. 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.

Operating Expenses — Lending Business Segment

Operating expenses for our Lending business segment include costs incurred to acquire student loans and to service our Managed student loan portfolio, as well as other general and administrative expenses. For the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008, operating expenses for the Lending business segment totaled \$151 million, \$154 million and \$123 million, respectively. The decrease in operating expenses for the fourth quarter of 2009 versus the prior quarter was primarily due to the seasonality of peak originations in the prior quarter and higher consumer marketing costs related to Private Education Loans in the prior quarter. Operating expenses were 33 basis points and 27 basis points, respectively, of average Managed student loans in the fourth quarters of 2009 and 2008. The increase from the prior year was primarily the result of higher collection costs from a higher number of loans in repayment and delinquent status and higher direct-to-consumer marketing costs related to Private Education Loans.

Loan Originations

Our FFELP internal brand originations in the fourth quarter of 2009 increased 16 percent over the year-ago quarter. Our FFELP Lender Partner originations decreased 5 percent over the same period. A number of these Lender Partners, including some of our largest originators, have converted to third-party servicing arrangements in which we service loans on their behalf.

Total Private Education Loan originations declined 55 percent from the year-ago quarter to \$381 million in the quarter ended December 31, 2009, as a result of a continued tightening of our underwriting criteria, an increase in guaranteed student loan limits and the Company's withdrawal from certain markets.

At December 31, 2009, the Company was committed to purchase \$1.3 billion of loans originated by our Lender Partners (\$820 million of FFELP loans and \$456 million of Private Education Loans). Approximately \$240 million of these FFELP loans were originated prior to CCRAA. Approximately \$533 million of these FFELP loans are eligible for ED's Purchase and Participation Programs (see "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs").

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

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Loan Originations — Internal lending brands					
Stafford	\$3,608	\$5,134	\$3,082	\$16,675	\$11,593
PLUS	253	582	262	1,594	1,437
GradPLUS	216	443	175	1,094	801
Total FFELP	4,077	6,159	3,519	19,363	13,831
Private Education Loans	370	871	779	2,969	5,791
Total	<u>\$4,447</u>	<u>\$7,030</u>	<u>\$4,298</u>	<u>\$22,332</u>	<u>\$19,622</u>

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Loan Originations — Lender Partners					
Stafford	\$353	\$703	\$376	\$2,178	\$3,652
PLUS	26	51	27	144	362
GradPLUS	6	27	4	61	62
Total FFELP	385	781	407	2,383	4,076
Private Education Loans	11	22	72	207	545
Total	<u>\$396</u>	<u>\$803</u>	<u>\$479</u>	<u>\$2,590</u>	<u>\$4,621</u>

Student Loan Activity

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

	On-Balance Sheet				
	Three months ended December 31, 2009				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$ 67,105	\$69,246	\$136,351	\$22,495	\$158,846
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(323)	(133)	(456)	(3)	(459)
Net consolidations	(323)	(133)	(456)	(3)	(459)
Acquisitions	4,986	279	5,265	781	6,046
Net acquisitions	4,663	146	4,809	778	5,587
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	220	—	220	—	220
Sales	(17,942)	—	(17,942)	—	(17,942)
Repayments/claims/other	(1,371)	(1,013)	(2,384)	(520)	(2,904)
Ending balance	<u>\$ 52,675</u>	<u>\$68,379</u>	<u>\$121,054</u>	<u>\$22,753</u>	<u>\$143,807</u>

	Off-Balance Sheet				
	Three months ended December 31, 2009				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$5,935	\$14,989	\$20,924	\$12,411	\$33,335
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(96)	(39)	(135)	(6)	(141)
Net consolidations	(96)	(39)	(135)	(6)	(141)
Acquisitions	28	47	75	173	248
Net acquisitions	(68)	8	(60)	167	107
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	(220)	—	(220)	—	(220)
Sales	—	—	—	—	—
Repayments/claims/other	(147)	(200)	(347)	(237)	(584)
Ending balance	<u>\$5,500</u>	<u>\$14,797</u>	<u>\$20,297</u>	<u>\$12,341</u>	<u>\$32,638</u>

	Managed Portfolio				
	Three months ended December 31, 2009				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$ 73,040	\$84,235	\$157,275	\$34,906	\$192,181
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(419)	(172)	(591)	(9)	(600)
Net consolidations	(419)	(172)	(591)	(9)	(600)
Acquisitions	5,014	326	5,340	954	6,294
Net acquisitions	4,595	154	4,749	945	5,694
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Sales	(17,942)	—	(17,942)	—	(17,942)
Repayments/claims/other	(1,518)	(1,213)	(2,731)	(757)	(3,488)
Ending balance ⁽⁴⁾	<u>\$ 58,175</u>	<u>\$83,176</u>	<u>\$141,351</u>	<u>\$35,094</u>	<u>\$176,445</u>
Total Managed Acquisitions ⁽⁵⁾	<u>\$ 5,014</u>	<u>\$ 326</u>	<u>\$ 5,340</u>	<u>\$ 954</u>	<u>\$ 6,294</u>

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

⁽²⁾ Represents borrowers consolidating their loans into a new Consolidation Loan. Loans in our off-balance sheet securitization trusts that are consolidated are bought out of the trusts and moved on-balance sheet.

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

⁽⁴⁾ As of December 31, 2009, the ending balance includes \$15.9 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

	On-Balance Sheet				
	Three months ended September 30, 2009				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$62,204	\$70,102	\$132,306	\$21,851	\$154,157
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(384)	(191)	(575)	(2)	(577)
Net consolidations	(384)	(191)	(575)	(2)	(577)
Acquisitions	7,645	316	7,961	1,235	9,196
Net acquisitions	7,261	125	7,386	1,233	8,619
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Sales	(897)	—	(897)	—	(897)
Repayments/claims/other	(1,463)	(981)	(2,444)	(589)	(3,033)
Ending balance	<u>\$67,105</u>	<u>\$69,246</u>	<u>\$136,351</u>	<u>\$22,495</u>	<u>\$158,846</u>

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

	Managed Portfolio				
	Three months ended September 30, 2009				
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$68,374	\$85,272	\$153,646	\$34,472	\$188,118
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(519)	(247)	(766)	(6)	(772)
Net consolidations	(519)	(247)	(766)	(6)	(772)
Acquisitions	7,675	379	8,054	1,316	9,370
Net acquisitions	7,156	132	7,288	1,310	8,598
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Sales	(897)	—	(897)	—	(897)
Repayments/claims/other	(1,593)	(1,169)	(2,762)	(876)	(3,638)
Ending balance ⁽⁴⁾	<u>\$73,040</u>	<u>\$84,235</u>	<u>\$157,275</u>	<u>\$34,906</u>	<u>\$192,181</u>
Total Managed Acquisitions ⁽⁵⁾	<u>\$ 7,675</u>	<u>\$ 379</u>	<u>\$ 8,054</u>	<u>\$ 1,316</u>	<u>\$ 9,370</u>

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

	On-Balance Sheet				
	Three months ended 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	—	—	—	—	—
Sales	(522)	—	(522)	—	(522)
Repayments/claims/other	(930)	(971)	(1,901)	(468)	(2,369)
Ending balance	<u>\$52,476</u>	<u>\$71,744</u>	<u>\$124,220</u>	<u>\$20,582</u>	<u>\$144,802</u>

	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	—	—	—	—	—
Sales	—	—	—	—	—
Repayments/claims/other	(482)	(205)	(687)	(305)	(992)
Ending balance	<u>\$7,143</u>	<u>\$15,531</u>	<u>\$22,674</u>	<u>\$12,917</u>	<u>\$35,591</u>

	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	—	—	—	—	—
Sales	(522)	—	(522)	—	(522)
Repayments/claims/other	(1,412)	(1,176)	(2,588)	(773)	(3,361)
Ending balance ⁽³⁾	<u>\$59,619</u>	<u>\$87,275</u>	<u>\$146,894</u>	<u>\$33,499</u>	<u>\$180,393</u>
Total Managed Acquisitions ⁽⁴⁾	<u>\$ 5,250</u>	<u>\$ 317</u>	<u>\$ 5,567</u>	<u>\$ 1,485</u>	<u>\$ 7,052</u>

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(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				
	Years ended December 31, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On- Balance Sheet Portfolio
Beginning balance	\$ 52,476	\$71,744	\$124,220	\$20,582	\$144,802
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(1,113)	(518)	(1,631)	(8)	(1,639)
Net consolidations	(1,113)	(518)	(1,631)	(8)	(1,639)
Acquisitions	25,677	1,150	26,827	4,343	31,170
Net acquisitions	24,564	632	25,196	4,335	29,531
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	645	—	645	—	645
Sales	(19,300)	—	(19,300)	—	(19,300)
Repayments/claims/other	(5,710)	(3,997)	(9,707)	(2,164)	(11,871)
Ending balance	\$ 52,675	\$68,379	\$121,054	\$22,753	\$143,807

	Off-Balance Sheet				
	Years ended December 31, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off- Balance Sheet Portfolio
Beginning balance	\$7,143	\$15,531	\$22,674	\$12,917	\$35,591
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(413)	(138)	(551)	(18)	(569)
Net consolidations	(413)	(138)	(551)	(18)	(569)
Acquisitions	135	208	343	498	841
Net acquisitions	(278)	70	(208)	480	272
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	(645)	—	(645)	—	(645)
Sales	—	—	—	—	—
Repayments/claims/other	(720)	(804)	(1,524)	(1,056)	(2,580)
Ending balance	\$5,500	\$14,797	\$20,297	\$12,341	\$32,638

	Managed Portfolio				
	Years ended December 31, 2009				
	FFELP Stafford and Other ⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	\$ 59,619	\$87,275	\$146,894	\$33,499	\$180,393
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(1,526)	(656)	(2,182)	(26)	(2,208)
Net consolidations	(1,526)	(656)	(2,182)	(26)	(2,208)
Acquisitions	25,812	1,358	27,170	4,841	32,011
Net acquisitions	24,286	702	24,988	4,815	29,803
Internal consolidations ⁽²⁾	—	—	—	—	—
Securitization-related ⁽³⁾	—	—	—	—	—
Sales	(19,300)	—	(19,300)	—	(19,300)
Repayments/claims/other	(6,430)	(4,801)	(11,231)	(3,220)	(14,451)
Ending balance ⁽⁴⁾	\$ 58,175	\$83,176	\$141,351	\$35,094	\$176,445
Total Managed Acquisitions ⁽⁵⁾	\$ 25,812	\$ 1,358	\$ 27,170	\$ 4,841	\$ 32,011

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(4) As of December 31, 2009, the ending balance includes \$15.9 billion of FFELP Stafford and Other Loans and \$2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

	On-Balance Sheet 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	—	—	—	—	—
Sales	(522)	(26)	(548)	—	(548)
Repayments/claims/other	(3,505)	(3,796)	(7,301)	(1,929)	(9,230)
Ending balance	<u>\$52,476</u>	<u>\$71,744</u>	<u>\$124,220</u>	<u>\$20,582</u>	<u>\$144,802</u>

	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	—	—	—	—	—
Sales	—	—	—	—	—
Repayments/claims/other	(2,180)	(1,002)	(3,182)	(1,050)	(4,232)
Ending balance	<u>\$ 7,143</u>	<u>\$15,531</u>	<u>\$22,674</u>	<u>\$12,917</u>	<u>\$35,591</u>

	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	—	—	—	—	—
Sales	(522)	(26)	(548)	—	(548)
Repayments/claims/other	(5,685)	(4,798)	(10,483)	(2,979)	(13,462)
Ending balance ⁽³⁾	<u>\$59,619</u>	<u>\$87,275</u>	<u>\$146,894</u>	<u>\$33,499</u>	<u>\$180,393</u>
Total Managed Acquisitions ⁽⁴⁾	<u>\$22,135</u>	<u>\$ 2,031</u>	<u>\$ 24,166</u>	<u>\$ 8,248</u>	<u>\$ 32,414</u>

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(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.

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, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$53,451	\$68,806	\$122,257	\$23,707	\$145,964
Off-balance sheet	5,770	14,886	20,656	12,621	33,277
Total Managed	<u>\$59,221</u>	<u>\$83,692</u>	<u>\$142,913</u>	<u>\$36,328</u>	<u>\$179,241</u>
% of on-balance sheet FFELP	44%	56%	100%		
% of Managed FFELP	41%	59%	100%		
% of total	33%	47%	80%	20%	100%

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

Three months ended 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	<u>\$58,617</u>	<u>\$87,756</u>	<u>\$146,373</u>	<u>\$34,617</u>	<u>\$180,990</u>
% of on-balance sheet FFELP	42%	58%	100%		
% of Managed FFELP	40%	60%	100%		
% of total	32%	49%	81%	19%	100%

Year ended December 31, 2009					
	FFELP Stafford and Other⁽¹⁾	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$58,492	\$70,046	\$128,538	\$23,154	\$151,692
Off-balance sheet	6,365	15,156	21,521	12,892	34,413
Total Managed	<u>\$64,857</u>	<u>\$85,202</u>	<u>\$150,059</u>	<u>\$36,046</u>	<u>\$186,105</u>
% of on-balance sheet FFELP	46%	54%	100%		
% of Managed FFELP	43%	57%	100%		
% of total	35%	46%	81%	19%	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	<u>\$52,590</u>	<u>\$89,057</u>	<u>\$141,647</u>	<u>\$32,597</u>	<u>\$174,244</u>
% of on-balance sheet FFELP	38%	62%	100%		
% of Managed FFELP	37%	63%	100%		
% of total	30%	51%	81%	19%	100%

⁽¹⁾ FFELP category is primarily Stafford Loans, but also includes federally guaranteed 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, 2009			
	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ —	\$ —	\$66	\$ 66
Collections revenue (loss)	(38)	—	—	(38)
Total income (loss)	(38)	—	66	28
Restructuring expenses	—	—	—	—
Operating expenses	30	—	45	75
Total expenses	30	—	45	75
Net interest expense	2	—	3	5
Income (loss) from continuing operations before income tax expense (benefit)	(70)	—	18	(52)
Income tax expense (benefit)	(24)	—	7	(17)
Net income (loss) from continuing operations	(46)	—	11	(35)
Loss from discontinued operations, net of tax	—	(98)	—	(98)
Net income (loss)	(46)	(98)	11	(133)
Less: net income attributable to noncontrolling interest	—	—	—	—
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$(46)</u>	<u>\$(98)</u>	<u>\$11</u>	<u>\$(133)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	\$(46)	\$ —	\$11	\$ (35)
Discontinued operations, net of tax	—	(98)	—	(98)
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$(46)</u>	<u>\$(98)</u>	<u>\$11</u>	<u>\$(133)</u>

Quarter ended September 30, 2009

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ —	\$—	\$82	\$ 82
Collections revenue	<u>21</u>	<u>—</u>	<u>—</u>	<u>21</u>
Total income	21	—	82	103
Restructuring expenses	—	—	—	—
Operating expenses	<u>33</u>	<u>—</u>	<u>41</u>	<u>74</u>
Total expenses	33	—	41	74
Net interest expense	<u>2</u>	<u>—</u>	<u>3</u>	<u>5</u>
Income (loss) from continuing operations before income tax expense (benefit)	(14)	—	38	24
Income tax expense (benefit)	<u>(5)</u>	<u>—</u>	<u>16</u>	<u>11</u>
Net income (loss) from continuing operations	(9)	—	22	13
Loss from discontinued operations, net of tax	<u>—</u>	<u>(6)</u>	<u>—</u>	<u>(6)</u>
Net income (loss)	(9)	(6)	22	7
Less: net income attributable to noncontrolling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ (9)</u>	<u>\$ (6)</u>	<u>\$22</u>	<u>\$ 7</u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	\$ (9)	\$—	\$22	\$ 13
Discontinued operations, net of tax	<u>—</u>	<u>(6)</u>	<u>—</u>	<u>(6)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ (9)</u>	<u>\$ (6)</u>	<u>\$22</u>	<u>\$ 7</u>

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	<u>59</u>	<u>—</u>	<u>—</u>	<u>59</u>
Total income	61	—	80	141
Restructuring expenses	2	—	—	2
Operating expenses	<u>46</u>	<u>—</u>	<u>47</u>	<u>93</u>
Total expenses	48	—	47	95
Net interest expense	<u>3</u>	<u>—</u>	<u>3</u>	<u>6</u>
Income from continuing operations before income tax expense	10	—	30	40
Income tax expense	<u>5</u>	<u>—</u>	<u>18</u>	<u>23</u>
Net income from continuing operations	5	—	12	17
Loss from discontinued operations, net of tax	<u>—</u>	<u>(24)</u>	<u>—</u>	<u>(24)</u>
Net income (loss)	5	(24)	12	(7)
Less: net income attributable to noncontrolling interest	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ 4</u>	<u>\$(24)</u>	<u>\$12</u>	<u>\$ (8)</u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	\$ 4	\$ —	\$12	\$ 16
Discontinued operations, net of tax	<u>—</u>	<u>(24)</u>	<u>—</u>	<u>(24)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ 4</u>	<u>\$(24)</u>	<u>\$12</u>	<u>\$ (8)</u>

Year ended December 31, 2009

	Purchased Paper — Non- Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	\$ 2	\$ —	\$294	\$ 296
Collections revenue (loss)	<u>50</u>	<u>—</u>	<u>—</u>	<u>50</u>
Total income (loss)	52		294	346
Restructuring expenses	—	—	1	1
Operating expenses	<u>138</u>	<u>—</u>	<u>177</u>	<u>315</u>
Total expenses	138		178	316
Net interest expense	<u>10</u>	<u>—</u>	<u>9</u>	<u>19</u>
Income (loss) from continuing operations before income tax expense (benefit)	(96)	—	107	11
Income tax expense (benefit)	<u>(34)</u>	<u>—</u>	<u>41</u>	<u>7</u>
Net income (loss) from continuing operations	(62)	—	66	4
Loss from discontinued operations, net of tax	<u>—</u>	<u>(157)</u>	<u>—</u>	<u>(157)</u>
Net income (loss)	(62)	(157)	66	(153)
Less: net income attributable to noncontrolling interest	<u>1</u>	<u>—</u>	<u>—</u>	<u>1</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ (63)</u>	<u>\$ (157)</u>	<u>\$ 66</u>	<u>\$ (154)</u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	\$ (63)	\$ —	\$ 66	\$ 3
Discontinued operations, net of tax	<u>—</u>	<u>(157)</u>	<u>—</u>	<u>(157)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u>\$ (63)</u>	<u>\$ (157)</u>	<u>\$ 66</u>	<u>\$ (154)</u>

	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	<u>129</u>	<u>—</u>	<u>—</u>	<u>129</u>
Total income	139	—	330	469
Restructuring expenses	6	—	5	11
Operating expenses	<u>202</u>	<u>—</u>	<u>187</u>	<u>389</u>
Total expenses	208	—	192	400
Net interest expense	<u>13</u>	<u>—</u>	<u>12</u>	<u>25</u>
Income (loss) from continuing operations before income tax expense (benefit)	(82)	—	126	44
Income tax expense (benefit)	<u>(29)</u>	<u>—</u>	<u>52</u>	<u>23</u>
Net income (loss) from continuing operations	(53)	—	74	21
Loss from discontinued operations, net of tax	<u>—</u>	<u>(140)</u>	<u>—</u>	<u>(140)</u>
Net income (loss)	(53)	(140)	74	(119)
Less: net income attributable to noncontrolling interest	<u>4</u>	<u>—</u>	<u>—</u>	<u>4</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u><u>\$ (57)</u></u>	<u><u>\$(140)</u></u>	<u><u>\$ 74</u></u>	<u><u>\$(123)</u></u>
<hr/>				
“Core Earnings” net income (loss) attributable to SLM Corporation:				
Continuing operations, net of tax	\$ (57)	\$ —	\$ 74	\$ 17
Discontinued operations, net of tax	<u>—</u>	<u>(140)</u>	<u>—</u>	<u>(140)</u>
“Core Earnings” net income (loss) attributable to SLM Corporation	<u><u>\$ (57)</u></u>	<u><u>\$(140)</u></u>	<u><u>\$ 74</u></u>	<u><u>\$(123)</u></u>

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

The Company’s domestic Purchased Paper — Non-Mortgage business has certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company has not bought any additional purchased paper in excess of these obligations. The Company recognized \$54 million, \$9 million and \$0 of impairments in the fourth quarter of 2009, the third quarter of 2009 and the fourth quarter of 2008, respectively. The total impairments for the years ended December 31, 2009 and 2008 was \$79 million and \$111 million, respectively. The impairment is a result of the impact of the economy on the ability to collect on these assets. Similar to the Purchased Paper — Mortgage/Properties business discussion below, when the Purchased Paper — Non-Mortgage business either sells all of its remaining assets or completely winds down its operations, its results will be shown as discontinued operations.

Net loss attributable to SLM Corporation from discontinued operations was \$98 million for the quarter ended December 31, 2009 compared to \$6 million for the previous quarter and \$24 million for the year-ago quarter. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for \$280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after tax loss of \$95 million. The prior quarter and the year-ago quarter included \$7 million

and \$31 million, respectively, of after-tax asset impairments. Total after-tax impairments for the years ended December 31, 2009 and 2008 were \$154 million and \$161 million, respectively.

Purchased Paper — Non-Mortgage

	Quarters ended			Years ended	
	December 31, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Gross Cash Collections (“GCC”)	\$ 62	\$ 72	\$158	\$376	\$655
Carrying value of purchased paper . . .	\$285	\$373	\$544	\$285	\$544

Contingency Inventory

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

	December 31, 2009	September 30, 2009	December 31, 2008
Contingency:			
Student loans	\$ 8,762	\$ 9,191	\$ 9,852
Other	<u>1,262</u>	<u>1,472</u>	<u>1,726</u>
Total	<u>\$10,024</u>	<u>\$10,663</u>	<u>\$11,578</u>

Operating Expenses — APG Business Segment

For the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008, operating expenses for the APG business segment totaled \$75 million, \$74 million and \$93 million, respectively. The decrease in operating expenses from the year-ago quarter was primarily due to lower collection costs on the Purchased Paper-Non-Mortgage portfolio due to the decreasing size of the portfolio as a result of winding down the business.

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, 2009	September 30, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Net interest income after provisions for losses	\$ 2	\$ 2	\$ 3	\$ 5	\$ 6
Guarantor servicing fees	29	48	26	136	121
Loan servicing fees	18	17	8	53	26
Upromise	33	28	28	112	108
Other	<u>11</u>	<u>11</u>	<u>16</u>	<u>50</u>	<u>65</u>
Total other income	91	104	78	351	320
Restructuring expenses	1	1	1	3	23
Operating expenses	<u>66</u>	<u>75</u>	<u>44</u>	<u>284</u>	<u>256</u>
Total expenses	<u>67</u>	<u>76</u>	<u>45</u>	<u>287</u>	<u>279</u>
Income from continuing operations, before income tax expense	26	30	36	69	47
Income tax expense	<u>8</u>	<u>11</u>	<u>12</u>	<u>24</u>	<u>17</u>
Net income	18	19	24	45	30
Less: net income attributable to noncontrolling interest	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income attributable to SLM Corporation	<u>\$18</u>	<u>\$ 19</u>	<u>\$24</u>	<u>\$ 45</u>	<u>\$ 30</u>
“Core Earnings” net income attributable to SLM Corporation Continuing operations, net of tax	\$18	\$ 19	\$24	\$ 45	\$ 30
Discontinued operations, net of tax	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
“Core Earnings” net income attributable to SLM Corporation	<u>\$18</u>	<u>\$ 19</u>	<u>\$24</u>	<u>\$ 45</u>	<u>\$ 30</u>

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

Loan servicing fees in the third quarter of 2009 included \$8 million of additional loan conversion fees that were earned by the Company when third-party servicing clients sold their FFELP loans to ED under the ED Purchase Program in the third quarter of 2009. Loan servicing fees in the fourth quarter of 2009 included \$9 million of servicing revenue related to the \$19 billion of loans the Company is servicing under the ED Servicing Contract.

United Student Aid Funds, Inc. (“USA Funds”), the nation’s largest guarantee agency, accounted for 86 percent, 85 percent and 84 percent, respectively, of guarantor servicing fees and 2 percent, 3 percent and 8 percent, respectively, of revenues associated with other products and services for the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008.

Operating Expenses — Corporate and Other Business Segment

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties, perform guarantor servicing on behalf of guarantor agencies and operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating

expenses also include unallocated corporate overhead expenses for centralized headquarters functions. For the quarters ended December 31, 2009, September 30, 2009 and December 31, 2008, operating expenses for the Corporate and Other business segment totaled \$66 million, \$75 million and \$44 million, respectively. The increase in operating expenses for the fourth quarter of 2009 versus the year-ago quarter was primarily due to higher expenses incurred to reconfigure the Company's servicing system to meet the requirements of the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that have been and will be sold to ED as well as professional services fees incurred in connection with strategic planning.

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

ED Funding Programs

In August 2008, ED implemented the Purchase Program and the Loan Purchase Participation Program (the "Participation Program") pursuant to ECASLA. Under the Purchase Program, ED purchases eligible FFELP loans at a price equal to the sum of (i) par value, (ii) accrued interest, (iii) the one-percent origination fee paid to ED, and (iv) a fixed amount of \$75 per loan. Under the Participation Program, ED provides short-term liquidity to FFELP lenders by purchasing participation interests in pools of FFELP loans. FFELP lenders are charged a rate of the preceding quarter commercial paper rate plus 0.50 percent on the principal amount of participation interests outstanding. Under the terms of the Participation Program, on September 30, 2010, AY 2009-2010 loans funded under the Participation Program must be either repurchased by the Company or sold to ED pursuant to the Participation Program, which has identical economics to the Purchase Program. Given the state of the credit markets, we currently expect to sell all of the loans we fund under the Participation Program to ED. Loans eligible for the Participation or Purchase Programs are limited to FFELP Stafford or PLUS, first disbursed on or after May 1, 2008 but no later than July 1, 2010, with no ongoing borrower benefits other than permitted rate reductions of 0.25 percent for automatic payment processing.

As of December 31, 2009, the Company had \$9.0 billion of advances outstanding under the Participation Program. Through December 31, 2009, the Company has sold to ED approximately \$18.5 billion face amount of loans as part of the Purchase Program. Outstanding debt of \$18.5 billion has been paid down related to the Participation Program in connection with these loan sales.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the "ED Conduit Program"). Loans eligible for the ED Conduit Program must be first

disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements including with respect to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and will accept eligible loans through July 1, 2010. The ED Conduit Program has a term of five years and will expire on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank (“FFB”). The FFB will hold the notes for a short period of time and, if at the end of that time, the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. As of December 31, 2009, approximately \$14.6 billion face amount of our Stafford and PLUS loans were funded through the ED Conduit Program. For 2009, the average interest rate paid on this facility was approximately 0.75 percent. As of December 31, 2009, there are approximately \$820 million face amount of additional FFELP Stafford and PLUS loans (excluding loans currently in the Participation Program) that can be funded through the ED Conduit Program.

Additional Funding Sources for General Corporate Purposes

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

Secured borrowings, including securitizations, asset-backed commercial paper (“ABCP”) borrowings, ED financing facilities and indentured trusts, comprised 82 percent of our Managed debt outstanding at December 31, 2009 versus 78 percent at December 31, 2008.

Sallie Mae Bank

During the fourth quarter of 2008, Sallie Mae Bank, our Utah industrial bank subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered CD market. As of December 31, 2009, total term bank deposits were \$5.6 billion and cash and liquid investments totaled \$2.4 billion. As of December 31, 2009, \$4.2 billion of Private Education Loans were held at Sallie Mae Bank. We ultimately expect to raise additional long-term financing, through Private Education Loan securitizations or other financings, to fund these loans. In the near term, we expect Sallie Mae Bank to continue to fund newly originated Private Education Loans through long-term bank deposits.

ABS Transactions

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

In 2009, we completed four FFELP long-term ABS transactions totaling \$5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the Term Asset-Backed Securities Loan Facility (“TALF”) discussed below. In 2009, we completed \$6.0 billion of Private Education Loan term ABS transactions which were private placements and TALF-eligible. See “Term Asset-Backed Securities Loan Facility (“TALF”)” below for additional details. Although we have demonstrated our access to the ABS market in 2009 and we expect ABS financing to remain a primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. At present, while the

markets have demonstrated some signs of recovery, we are unable to predict when market conditions will allow for more regular, reliable and cost-effective access to the term ABS market.

Asset-Backed Financing Facilities

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

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

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

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

The maximum amount the Company may borrow under the 2008 FFELP ABCP Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of December 31, 2009, the maximum borrowing amount was approximately \$10.5 billion. Funding under the 2008 FFELP ABCP Facility is subject to usual and customary conditions. The 2008 FFELP ABCP Facility is subject to termination under certain circumstances, including the Company’s failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Borrowings under the 2008 FFELP ABCP Facility are non-recourse to the Company. As of December 31, 2009, the Company had \$8.8 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing this facility as of December 31, 2009 was \$10.1 billion.

On January 15, 2010, the Company terminated the 2008 FFELP ABCP Facility and entered into new multi-year ABCP facilities (the “2010 Facility”) which will continue to provide funding for the Company’s federally guaranteed student loans. The 2010 Facility provides for maximum funding of \$10 billion for the

first year, \$5 billion for the second year and \$2 billion for the third year. Upfront fees paid related to the 2010 Facility were approximately \$4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of January 15, 2010, the maximum borrowing amount was approximately \$10 billion. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Term Asset-Backed Securities Loan Facility (“TALF”)

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. TALF was initiated on March 17, 2009 and currently provides investors who purchase eligible ABS with funding of up to five years. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of December 31, 2009, we had approximately \$9.4 billion book basis of student loans (including \$6.9 billion book basis of Private Education Loans and \$2.5 billion book basis of Consolidation Loans) eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. For student loan collateral, TALF is scheduled to expire on March 31, 2010.

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

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

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

On December 2, 2009, we priced a \$590 million Private Education Career Training Loan securitization which closed on December 10, 2009. The issue includes one tranche that bears a coupon of Prime minus 0.90 percent and a second tranche that bears a coupon of 1-month LIBOR plus 1.85 percent. This transaction was TALF-eligible.

Federal Home Loan Bank in Des Moines

On January 15, 2010, HICA Education Loan Corporation, a subsidiary of the Company, entered into a lending agreement with the Federal Home Loan Bank of Des Moines (the “FHLB”). Under the agreement, the FHLB will provide advances backed by eligible collateral including federally-guaranteed student loans. The initial borrowing of \$25 million under this facility occurred on January 15, 2010 to mature on January 22, 2010 at a rate of .23 percent. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing.

Auction Rate Securities

At December 31, 2009, we had \$3.3 billion of taxable and \$1.1 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively, on a Managed Basis. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities' interest rates are set. As a result, all of the Company's auction rate securities as of December 31, 2009 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on our \$3.3 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company's \$1.1 billion of tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 1.14 percent during the fourth quarter of 2009. Since December 31, 2009, \$300 million of our taxable auction rate securities have had successful auctions.

Reset Rate Notes

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note upon 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, 2009, \$1.8 billion of our reset rate notes bore interest at, or were swapped to LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. On October 26, 2009, the Company successfully remarketed a \$590 million reset rate note at LIBOR plus 0.40 percent to maturity. All subsequent remarketings have been unsuccessful. As of December 31, 2009, on a Managed Basis, the Company had \$4.3 billion and \$2.0 billion of reset rate notes due to be remarketed in 2010 and 2011, respectively, and an additional \$6.5 billion to be remarketed thereafter.

Senior Unsecured Debt

On January 11, 2010, the Company announced that it repurchased \$812 million U.S. dollar equivalent face amount of its non-U.S. dollar denominated senior unsecured notes through a tender offer which settled on January 14, 2010. This transaction resulted in a gain of approximately \$45 million.

Primary Sources of Liquidity and Available Capacity

We expect to fund our ongoing liquidity needs, including the origination of new loans and the repayment of \$5.2 billion of senior unsecured notes maturing in 2010, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets and distributions from our securitization trusts (including servicing fees which have priority payments within the trusts), the liquidity facilities made available by ED, TALF, the 2010 Facility, the issuance of term ABS, term bank deposits, and, to a lesser extent, if possible, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional \$3.5 billion in unsecured revolving credit facilities as of December 31, 2009; \$1.9 billion of our unsecured revolving facilities matures in October 2010 and \$1.6 billion matures in October 2011. These figures reflect the amended size of the facilities as a \$215 million commitment from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. was removed in the fourth quarter of 2009 (see "Counterparty Exposure," below). On April 24, 2009, in conjunction with the extension of the 2008 ABCP Facilities, a \$1.4 billion revolving credit facility maturing in October 2009 was retired and the \$1.9 billion revolving credit facility maturing in October 2011 was reduced to \$1.6 billion. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain consolidated tangible net worth of at least \$1.38 billion at all times. Consolidated

tangible net worth as calculated for purposes of this covenant was \$3.5 billion as of December 31, 2009. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters' adjusted "Core Earnings" financial performance. The Company was compliant with both of the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended December 31, 2009. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Even though we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

During the quarter, the Company's new financing transactions generated excess liquidity, some of which was used to repurchase \$741 million of the Company's short-term senior unsecured notes, generating pre-tax gains of \$73 million.

The following table details our main sources of primary liquidity and the available capacity at December 31, 2009 and September 30, 2009.

	<u>December 31, 2009</u> <u>Available Capacity</u>	<u>September 30, 2009</u> <u>Available Capacity</u>
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:		
ED Purchase and Participation Programs ⁽¹⁾	<i>Unlimited⁽¹⁾</i>	<i>Unlimited⁽¹⁾</i>
Sources of primary liquidity for general corporate purposes:		
Unrestricted cash and liquid investments:		
Cash and cash equivalents	\$ 6,070	\$ 5,187
Commercial paper and asset-backed commercial paper	1,150	850
Other ⁽²⁾	<u>131</u>	<u>151</u>
Total unrestricted cash and liquid investments ⁽³⁾⁽⁴⁾⁽⁵⁾	7,351	6,188
Unused commercial paper and bank lines of credit	3,485	3,485
2008 FFELP ABCP Facilities ⁽⁶⁾	<u>1,703</u>	<u>1,057</u>
Total sources of primary liquidity for general corporate purposes ⁽⁷⁾	<u>\$ 12,539</u>	<u>\$ 10,730</u>

- (1) The ED Purchase and Participation Programs provide unlimited funding for eligible FFELP Stafford and PLUS loans made by the Company for the academic years 2008-2009 and 2009-2010. See "ED Funding Programs" discussed earlier in this section.
- (2) At December 31, 2009 and September 30, 2009, includes \$32 million and \$42 million, respectively, due from The Reserve Primary Fund (see "Counterparty Exposure" below).
- (3) At December 31, 2009 and September 30, 2009, excludes \$25 million and \$26 million, respectively, of investments pledged as collateral related to certain derivative positions and \$708 million and \$808 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.
- (4) At December 31, 2009 and September 30, 2009, includes \$821 million and \$608 million, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.
- (5) At December 31, 2009 and September 30, 2009, includes \$2.4 billion and \$2.8 billion, respectively, of cash and liquid investments at Sallie Mae Bank, for which Sallie Mae Bank is not authorized to dividend to the Company without FDIC approval. This cash will be used primarily to originate or acquire student loans.
- (6) Borrowing capacity is subject to availability of collateral. As of December 31, 2009 and September 30, 2009, the Company had \$2.1 billion and \$2.7 billion, respectively, of outstanding unencumbered FFELP loans, net.
- (7) 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, 2009, we had a total of \$31.3 billion of unencumbered assets, including goodwill and acquired intangibles. Total student loans, net, comprised \$14.6 billion of this unencumbered asset total of which \$12.5 billion relates to Private Education Student Loans, net.

The following table reconciles encumbered and unencumbered assets and their net impact on total equity.

<u>(Dollars in billions)</u>	<u>December 31, 2009</u>	<u>September 30, 2009</u>
Net assets in secured financing facilities	\$ 14.5	\$ 14.7
Unencumbered assets	31.3	32.2
Unsecured debt	(35.1)	(36.8)
ASC 815 mark-to-market on all hedged debt ⁽¹⁾	(3.4)	(4.1)
Other liabilities, net	<u>(2.0)</u>	<u>(1.0)</u>
Total GAAP equity	<u>\$ 5.3</u>	<u>\$ 5.0</u>

⁽¹⁾ At December 31, 2009 and September 30, 2008, there are \$3.4 billion and \$4.0 billion, respectively, of net gains on derivatives hedging this debt, which partially offsets these losses. These gains are a part of the net assets in secured financing facilities and unencumbered assets.

Counterparty Exposure

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

Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., was a party to the Company’s unsecured revolving credit facilities under which they provided the Company with commitments totaling \$215 million as of September 30, 2009. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company and the other banks party to the agreement amended the unsecured revolving credit facilities in the fourth quarter of 2009 to eliminate this exposure.

To provide liquidity for future cash needs, we invest in high quality money market investments. At December 31, 2009, the Company had investments of \$32 million with The Reserve Primary Fund (“The Fund”). In September 2008, the Company requested redemption of all monies invested in The Fund prior to The Fund’s announcement that it suspended distributions as a result of The Fund’s exposure to Lehman Brothers Holdings Inc.’s bankruptcy filing and The Fund’s net asset value being below one dollar per share. We were originally informed by The Fund that we would receive our entire investment amount. We have received, to date, a total of \$460 million of an initial investment of \$500 million from The Fund. In the fourth quarter of 2008, we recorded an impairment of \$8 million related to our investment in The Fund in anticipation of these losses. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. On November 25, 2009, the court issued an order providing for the distribution of the remaining assets (less amounts on hold in the expense fund) on a pro rata basis; an injunction barring all claims against the fund and any of the defendants; and provided for the appointment of a monitor to oversee the distribution and to review any claims by the fund’s advisor or distributor for management fees and expenses. At this time it is not known if any appeals have been filed against this order. We anticipate further delay of remaining distributions and a potential loss on our investments.

Protection against counterparty risk in derivative transactions is generally provided by International Swaps and Derivatives Association, Inc. (“ISDA”) Credit Support Annexes (“CSAs”). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. The Company is a party to derivative contracts for its corporate purposes and also within its securitization trusts. The Company has CSAs and collateral requirements with all of its derivative counterparties requiring collateral to be exchanged based on the net fair value of derivatives with each counterparty above a threshold. Additionally, credit downgrades below a preset level can eliminate this threshold. The Company’s securitization trusts require collateral in all cases if the counterparty’s credit rating is withdrawn or downgraded below a certain level. If the counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. Failure to post the collateral or find a replacement counterparty could result in a termination event under the derivative contract. The Company considers counterparties’ credit risk when

determining the fair value of derivative positions on its exposure net of collateral. Securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative regardless of credit rating. The trusts are not required to post collateral to the counterparties. If we were unable to collect from a counterparty related to SLM Corporation and on-balance sheet trust derivatives, we would have a loss equal to the amount the derivative is recorded on our balance sheet. If we were unable to collect from a counterparty related to an off-balance sheet trust derivative, the value of our Residual Interest on our balance sheet would be reduced through earnings.

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), the Company's and counterparties' credit ratings and on movements in the value of the derivatives, which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. As of December 31, 2009, the Company held \$821 million cash collateral in unrestricted cash accounts. If the Company's credit ratings are downgraded from current levels, it may be required to segregate such collateral in restricted accounts.

The table below highlights exposure related to our derivative counterparties at December 31, 2009.

	<u>SLM Corporation Contracts</u>	<u>On-Balance Sheet Securitizations Contracts</u>	<u>Off-Balance Sheet Securitizations Contracts</u>
Exposure, net of collateral	\$246	\$1,182	\$603
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	56%	42%	28%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	0%	0%	0%

Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding ASC 815 valuation adjustments) at December 31, 2009, September 30, 2009 and December 31, 2008.

	December 31, 2009			September 30, 2009			December 31, 2008		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis
Unsecured borrowings	\$ 5,185	\$ 22,797	\$ 27,982	\$ 4,330	\$ 24,869	\$ 29,199	\$ 6,794	\$ 31,182	\$ 37,976
Unsecured term bank deposits	842	4,795	5,637	762	5,129	5,891	1,148	1,108	2,256
Indentured trusts (on-balance sheet)	64	1,533	1,597	66	1,629	1,695	31	1,972	2,003
ED Participation Program facility (on-balance sheet) ⁽¹⁾	9,006	—	9,006	22,864	—	22,864	7,365	—	7,365
ED Conduit Program facility (on-balance sheet)	14,314	—	14,314	14,190	—	14,190	—	—	—
ABCP borrowings (on-balance sheet) ⁽²⁾	8,801	—	8,801	9,434	—	9,434	24,768	—	24,768
Securitized (on-balance sheet)	—	89,200	89,200	—	88,961	88,961	—	80,601	80,601
Securitized (off-balance sheet)	—	33,615	33,615	—	34,534	34,534	—	37,159	37,159
Other	1,472	—	1,472	1,732	—	1,732	1,827	—	1,827
Total	<u>\$39,684</u>	<u>\$151,940</u>	<u>\$191,624</u>	<u>\$53,378</u>	<u>\$155,122</u>	<u>\$208,500</u>	<u>\$41,933</u>	<u>\$152,022</u>	<u>\$193,955</u>

⁽¹⁾ The Company has the option of paying off this amount with cash or by selling the loans to ED as previously discussed.

⁽²⁾ Includes \$1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at December 31, 2008. There was no balance outstanding at December 31, 2009 or September 30, 2009.

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of January 19, 2010.

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

⁽¹⁾ Under review for potential downgrade.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of December 31, 2009, September 30, 2009 and December 31, 2008.

	As of December 31, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 243	\$ 791	\$ 794	\$ 1,828
Underlying securitized loan balance	5,377	14,369	12,986	32,732
Weighted average life	3.3 yrs.	9.0 yrs.	6.3 yrs	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan — repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾⁽⁴⁾10%	.25%	5.31%	
Residual cash flows discount rate	10.6%	12.3%	27.5%	
	As of September 30, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 254	\$ 858	\$ 726	\$ 1,838
Underlying securitized loan balance	5,810	14,551	13,079	33,440
Weighted average life	3.2 yrs.	9.1 yrs.	6.3 yrs.	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	0-14%	2-4%	2-15%	
Life of loan — repayment status	9%	3%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾⁽⁴⁾10%	.25%	5.57%	
Residual cash flows discount rate	10.6%	12.1%	32.0%	
	As of December 31, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts ⁽¹⁾	Private Education Loan Trusts	Total
Fair value of Residual Interests	\$ 250	\$ 918	\$ 1,032	\$ 2,200
Underlying securitized loan balance	7,057	15,077	13,690	35,824
Weighted average life	3.0 yrs.	8.1 yrs.	6.4 yrs.	
Prepayment speed (annual rate) ⁽²⁾				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan — repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal) ⁽³⁾⁽⁴⁾11%	.23%	5.22%	
Residual cash flows discount rate	13.1%	11.9%	26.3%	

(1) Includes \$569 million, \$641 million and \$762 million related to the fair value of the Embedded Floor Income as of December 31, 2009, September 30, 2009 and December 31, 2008, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

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

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

(4) For Private Education Loan trusts, estimated defaults from settlement to maturity are 12.2 percent, 11.6 percent and 9.1 percent at December 31, 2009, September 30, 2009 and December 31, 2008, respectively. These estimated defaults do not include recoveries related to defaults but do include prior purchases of loans at par by the Company when loans reached 180 days delinquent (prior to default) under a contingent call option. Although these loan purchases do not result in a realized loss to the trust, the Company has included them here. Not including these purchases in the disclosure would result in estimated defaults of 9.3 percent, 8.7 percent and 6.1 percent at December 31, 2009, September 30, 2009 and December 31, 2008, respectively.

The Company recorded net unrealized mark-to-market gains/(losses) of \$8 million, \$13 million, and \$(64) million in the fourth quarter of 2009, third quarter of 2009 and fourth quarter of 2008, respectively, related to the Residual Interests.

The tables above disclose the assumptions that are used to value the Residual Interests. As of December 31, 2009, the Company changed the following significant assumptions compared to those used as of September 30, 2009, to determine the fair value of the Residual Interests:

- The discount rate assumption related to Private Education and FFELP Residual Interests decreased by 500 and 25 basis points, respectively. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate, for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market as of December 31, 2009. The Company reduced the risk premium to reflect improved conditions in the credit markets. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions.