SLM CORPORATION

Supplemental Earnings Disclosure

March 31, 2009

(In millions, except per share amounts)

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
	(unaudited)	(unaudited)	(unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS			
GAAP Basis			
Net loss attributable to SLM Corporation[1]	$ (21)	$ (216)	$ (104)
Diluted loss per common share attributable to SLM Corporation common shareholders[1]	$ (.10)	$ (.52)	$ (.28)
Return on assets	(.05)%	(.56)%	(.29)%
"Core Earnings" Basis[2]			
"Core Earnings" net income attributable to SLM Corporation[1]	$ 14	$ 65	$ 188
"Core Earnings" diluted earnings (loss) per common share attributable to SLM Corporation common shareholders[1]	$ (.03)	$ .08	$ .34
"Core Earnings" return on assets	.03%	.14%	.41%
OTHER OPERATING STATISTICS			
Average on-balance sheet student loans	$149,662	$144,826	$129,341
Average off-balance sheet student loans	35,577	36,164	39,163
Average Managed student loans	$185,239	$180,990	$168,504
Ending on-balance sheet student loans, net	$150,374	$144,802	$131,013
Ending off-balance sheet student loans, net	34,961	35,591	38,462
Ending Managed student loans, net	$185,335	$180,393	$169,475
Ending Managed FFELP Stafford and Other Student Loans, net	$ 64,690	$ 59,619	$ 49,179
Ending Managed FFELP Consolidation Loans, net	86,228	87,275	90,105
Ending Managed Private Education Loans, net	34,417	33,499	30,191
Ending Managed student loans, net	$185,335	$180,393	$169,475

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

(2) See explanation of "Core Earnings" performance measures under "Reconciliation of 'Core Earnings' Net Income to GAAP Net Income."

SLM CORPORATION

Consolidated Balance Sheets

(In thousands, except per share amounts)

	March 31, 2009 (unaudited)	December 31, 2008	March 31, 2008 (unaudited)
Assets			
FFELP Stafford and Other Student Loans (net of allowance for losses of $101,375; $90,906; and $52,238, respectively)	$ 43,444,179	$ 44,025,361	$ 40,168,284
FFELP Stafford Loans Held-for-Sale	14,399,802	8,450,976	—
FFELP Consolidation Loans (net of allowance for losses of $50,919; $46,637; and $41,759, respectively)	70,885,647	71,743,435	73,867,639
Private Education Loans (net of allowance for losses of $1,384,455; $1,308,043; and $1,073,317, respectively)	21,644,579	20,582,298	16,977,146
Other loans (net of allowance for losses of $66,011; $58,395; and $44,575, respectively)	684,913	729,380	1,140,468
Cash and investments	3,748,192	5,111,407	5,318,506
Restricted cash and investments	3,855,546	3,535,286	4,170,934
Retained Interest in off-balance sheet securitized loans	1,950,566	2,200,298	2,874,481
Goodwill and acquired intangible assets, net	1,239,556	1,249,219	1,319,723
Other assets	9,698,331	11,140,777	13,335,811
Total assets	$171,551,311	$168,768,437	$159,172,992
Liabilities			
ED Participation Program facility	$ 13,529,483	$ 7,364,969	$ —
Term bank deposits	1,066,171	1,147,825	650,752
Other short-term borrowings	31,735,807	33,420,249	37,445,176
Total short-term borrowings	46,331,461	41,933,043	38,095,928
Long-term borrowings	116,669,381	118,224,794	112,485,060
Other liabilities	3,586,610	3,604,260	3,377,229
Total liabilities	166,587,452	163,762,097	153,958,217
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: 1,150; 1,150; and 1,150 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,149,770	1,150,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,698; 534,411; and 533,678 shares, respectively, issued	106,940	106,883	106,736
Additional paid-in capital	4,694,155	4,684,112	4,610,278
Accumulated other comprehensive loss, net of tax benefit	(70,450)	(76,476)	(2,394)
Retained earnings	378,387	426,175	617,184
Total SLM Corporation stockholders' equity before treasury stock	6,823,802	6,855,464	7,046,804
Common stock held in treasury: 67,105; 66,958; and 66,301 shares, respectively	1,859,955	1,856,394	1,838,637
Total SLM Corporation stockholders' equity	4,963,847	4,999,070	5,208,167
Noncontrolling interest	12	7,270	6,608
Total equity	4,963,859	5,006,340	5,214,775
Total liabilities and equity	$171,551,311	$168,768,437	$159,172,992

SLM CORPORATION

Consolidated Statements of Income

(In thousands, except per share amounts)

	Quarters ended		
	March 31, 2009	**December 31, 2008**	**March 31, 2008**
	(unaudited)	**(unaudited)**	**(unaudited)**
Interest income (loss):			
FFELP Stafford and Other Student Loans	$ 342,816	$ 516,204	$ 464,476
FFELP Consolidation Loans	489,362	741,806	836,656
Private Education Loans	387,041	439,137	443,522
Other loans	16,420	18,161	23,344
Cash and investments	5,971	24,773	123,816
Total interest income	1,241,610	1,740,081	1,891,814
Total interest expense	1,026,547	1,529,522	1,615,445
Net interest income	215,063	210,559	276,369
Less: provisions for loan losses	250,279	252,415	137,311
Net interest income (loss) after provisions for loan losses	(35,216)	(41,856)	139,058
Other income (loss):			
Servicing and securitization revenue (loss)	(95,305)	87,557	107,642
Losses on sales of loans and securities, net	—	(64,007)	(34,666)
Gains (losses) on derivative and hedging activities, net	104,025	(292,903)	(272,796)
Contingency fee revenue	74,815	81,626	85,306
Collections revenue (loss)	(21,330)	23,050	57,239
Guarantor servicing fees	34,008	26,199	34,653
Other	192,458	96,719	93,533
Total other income (loss)	288,671	(41,759)	70,911
Expenses:			
Restructuring expenses	4,773	5,849	20,678
Operating expenses	301,483	280,367	355,648
Total expenses	306,256	286,216	376,326
Loss before income tax benefit	(52,801)	(369,831)	(166,357)
Income tax benefit	(31,696)	(154,341)	(62,488)
Net loss	(21,105)	(215,490)	(103,869)
Less: net income (loss) attributable to noncontrolling interest	281	527	(65)
Net loss attributable to SLM Corporation	(21,386)	(216,017)	(103,804)
Preferred stock dividends	26,395	27,316	29,025
Net loss attributable to SLM Corporation common stock	$ (47,781)	$ (243,333)	$ (132,829)
Basic loss per common share attributable to SLM Corporation common shareholders	$ (.10)	$ (.52)	$ (.28)
Average common shares outstanding	466,761	466,692	466,580
Diluted loss per common share attributable to SLM Corporation common shareholders	$ (.10)	$ (.52)	$ (.28)
Average common and common equivalent shares outstanding	466,761	466,692	466,580
Dividends per common share attributable to SLM Corporation common shareholders	$ —	$ —	$ —

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended March 31, 2009					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income (loss):						
FFELP Stafford and Other Student Loans	$ 361,919	$ —	$ —	$ 361,919	$ (19,103)	$ 342,816
FFELP Consolidation Loans	438,896	—	—	438,896	50,466	489,362
Private Education Loans	563,282	—	—	563,282	(176,241)	387,041
Other loans	16,420	—	—	16,420	—	16,420
Cash and investments	2,179	—	5,128	7,307	(1,336)	5,971
Total interest income	1,382,696	—	5,128	1,387,824	(146,214)	1,241,610
Total interest expense	949,248	5,492	4,139	958,879	67,668	1,026,547
Net interest income (loss)	433,448	(5,492)	989	428,945	(213,882)	215,063
Less: provisions for loan losses	349,086	—	—	349,086	(98,807)	250,279
Net interest income (loss) after provisions for loan losses	84,362	(5,492)	989	79,859	(115,075)	(35,216)
Contingency fee revenue	—	74,815	—	74,815	—	74,815
Collections revenue (loss)	—	(22,019)	—	(22,019)	689	(21,330)
Guarantor servicing fees	—	—	34,008	34,008	—	34,008
Other income (loss)	102,368	—	49,781	152,149	49,029	201,178
Total other income (loss)	102,368	52,796	83,789	238,953	49,718	288,671
Restructuring expenses	1,062	1,655	2,056	4,773	—	4,773
Operating expenses	131,178	88,471	71,970	291,619	9,864	301,483
Total expenses	132,240	90,126	74,026	296,392	9,864	306,256
Income (loss) before income tax expense (benefit)	54,490	(42,822)	10,752	22,420	(75,221)	(52,801)
Income tax expense (benefit)[1]	20,063	(15,767)	3,959	8,255	(39,951)	(31,696)
Less: net income attributable to noncontrolling interest	—	281		281	—	281
Net income (loss) attributable to SLM Corporation	$ 34,427	$(27,336)	$ 6,793	$ 13,884	$ (35,270)	$ (21,386)

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

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

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

SLM CORPORATION

Segment and "Core Earnings"

Consolidated Statements of Income

(In thousands)

	Quarter ended March 31, 2008					
	Lending	Asset Performance Group	Corporate and Other	Total "Core Earnings"	Adjustments	Total GAAP
	(unaudited)					
Interest income (loss):						
FFELP Stafford and Other Student Loans	$ 494,382	$ —	$ —	$ 494,382	$ (29,906)	$ 464,476
FFELP Consolidation Loans	988,486	—	—	988,486	(151,830)	836,656
Private Education Loans	749,321	—	—	749,321	(305,799)	443,522
Other loans	23,344	—	—	23,344	—	23,344
Cash and investments	141,902	—	6,267	148,169	(24,353)	123,816
Total interest income	2,397,435	—	6,267	2,403,702	(511,888)	1,891,814
Total interest expense	1,824,471	6,840	5,202	1,836,513	(221,068)	1,615,445
Net interest income (loss)	572,964	(6,840)	1,065	567,189	(290,820)	276,369
Less: provisions for loan losses	181,321	—	—	181,321	(44,010)	137,311
Net interest income (loss) after provisions for loan losses	391,643	(6,840)	1,065	385,868	(246,810)	139,058
Contingency fee revenue	—	85,306	—	85,306	—	85,306
Collections revenue	—	56,361	—	56,361	878	57,239
Guarantor servicing fees	—	—	34,653	34,653	—	34,653
Other income (loss)	44,345	—	50,641	94,986	(201,273)	(106,287)
Total other income (loss)	44,345	141,667	85,294	271,306	(200,395)	70,911
Restructuring expenses	15,550	434	4,694	20,678	—	20,678
Operating expenses	163,636	106,142	69,655	339,433	16,215	355,648
Total expenses	179,186	106,576	74,349	360,111	16,215	376,326
Income (loss) before income tax expense (benefit)	256,802	28,251	12,010	297,063	(463,420)	(166,357)
Income tax expense (benefit)[1]	94,067	10,348	4,399	108,814	(171,302)	(62,488)
Less: net loss attributable to noncontrolling interest	—	(65)	—	(65)	—	(65)
Net income (loss) attributable to SLM Corporation	$ 162,735	$ 17,968	$ 7,611	$ 188,314	$(292,118)	$ (103,804)

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

SLM CORPORATION

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

(In thousands, except per share amounts)

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
	(unaudited)	(unaudited)	(unaudited)
"Core Earnings" net income attributable to SLM Corporation[A]	$ 13,884	$ 65,012	$ 188,314
"Core Earnings" adjustments:			
Net impact of securitization accounting	(198,590)	31,583	(79,146)
Net impact of derivative accounting	54,010	(441,631)	(363,368)
Net impact of Floor Income	79,023	(34,949)	(5,577)
Net impact of acquired intangibles	(9,664)	(10,322)	(15,329)
Total "Core Earnings" adjustments before net tax effect	(75,221)	(455,319)	(463,420)
Net tax effect	39,951	174,290	171,302
Total "Core Earnings" adjustments	(35,270)	(281,029)	(292,118)
GAAP net loss attributable to SLM Corporation	$ (21,386)	$(216,017)	$(103,804)
GAAP diluted loss per common share attributable to SLM Corporation common shareholders	$ (.10)	$ (.52)	$ (.28)

[A] "Core Earnings" diluted earnings (loss) per common share attributable to SLM Corporation common shareholders . . . $ (.03) $ .08 $ .34

"Core Earnings"

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

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

Limitations of "Core Earnings"

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that "Core Earnings" are an important additional tool for providing a more complete

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

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

Pre-Tax Differences between "Core Earnings" and GAAP

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

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

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses

occur in our Lending operating segment. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life.

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

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

SLM CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION RELEASE
FIRST 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 first quarter 2009 earnings, dated April 22, 2009.

The Supplemental Financial Information Release contains forward-looking statements and information based on management's current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due April 2009, (collectively, the "2008 Asset-Backed Financing Facilities"), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Administration's 2010 budget proposals as they relate to the Federal Family Education Loan Program ("FFELP") and regulations and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: various liquidity programs being implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date of this document. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company's expectations.

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

Certain reclassifications have been made to the balances as of and for the quarters ended December 31, 2008 and March 31, 2008, to be consistent with classifications adopted for the quarter ended March 31, 2009.

DISCUSSION OF CONSOLIDATED RESULTS OF OPERATIONS

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

For the three months ended March 31, 2009, net loss attributable to SLM Corporation was $21 million or $.10 diluted loss 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 60 percent and 42 percent, respectively. For the three months ended March 31, 2009, the Company's pre-tax loss was $53 million compared to a pre-tax loss of $370 million in the prior quarter. This decrease in pre-tax loss of $317 million was primarily due to a decrease in net losses on derivative and hedging activities of $397 million from a $293 million loss in the fourth quarter to a $104 million gain in the first quarter of 2009.

There were no gains on student loan securitizations in either the first quarter of 2009 or the prior quarter as the Company did not complete any off-balance sheet securitizations. Servicing and securitization revenue decreased by $183 million from revenue of $88 million in the fourth quarter of 2008 to a loss of $95 million in the first quarter of 2009. This decrease was primarily due to a larger current-quarter unrealized mark-to-market loss of $261 million on the Company's Residual Interests compared to a prior-quarter $64 million unrealized mark-to-market loss. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest losses after provisions for loan losses decreased by $7 million in the first quarter of 2009 from the prior quarter. This decrease was due to a $5 million increase in net interest income and to a $2 million decrease in provisions for loan losses. The increase in net interest income was primarily due to an increase in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). For the current and prior quarter, net interest losses after provisions for loan losses would have resulted in positive net interest income, if net settlements on non-qualifying SFAS No. 133 hedges were included in net interest margin along with the related items for which they are economically hedging, as opposed to being included in net gains (losses) on derivatives and hedging activities. The decrease in provisions for loan losses relates primarily to the Private Education Loan loss provision (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*").

In the first quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled $87 million, a $44 million decrease from $131 million in the prior quarter. This decrease was primarily the result of $77 million of impairment, recorded in the first quarter of 2009, comprised of $74 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $3 million of impairment related to the Company's non-mortgage purchased paper subsidiary, compared to $45 million of total impairment recorded in the fourth quarter of 2008 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT" and a separate discussion of "Other income" at the end of this section).

There were no losses on sales of loans and securities, net, in the first quarter of 2009, compared to losses of $64 million incurred in the prior quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. When Private Education Loans in the Company's off-balance sheet securitization trusts that settled before September 30, 2005, became 180 days delinquent, the Company previously exercised its contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold the contingent call option for any trusts that settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under the Ensuring Continued Access to Student Loans Act ("ECASLA"), which resulted in a $53 million loss.

The Company is restructuring its business in response to the impact of The College Cost Reduction and Access Act of 2007 ("CCRAA"), and current challenges in the capital markets. In conjunction with our

restructuring plan, we are refocusing our lending activities, exiting certain customer relationships and product lines, and winding down our debt purchased paper businesses. As a result, during 2008 we reduced our operating expenses by over 20 percent in the fourth quarter of 2008 compared to the fourth quarter of 2007, after adjusting for restructuring costs, growth and other investments. As part of the Company's cost reduction efforts, restructuring expenses of $5 million and $6 million were recognized in the current quarter and prior quarter, respectively. Restructuring expenses from the fourth quarter of 2007 through the first quarter of 2009 totaled $111 million. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 26 percent of the workforce. We estimate approximately $10 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred and our current restructuring plan will be substantially complete by the end of 2009. During 2009, we will continue to review our business to determine whether there are other opportunities to further streamline the business.

Operating expenses were $301 million in the first quarter of 2009 compared to $280 million in the fourth quarter of 2008. This increase was primarily the result of the Company paying significantly lower bonuses in 2008, which resulted in the reversal of a $20 million bonus expense accrual in the fourth quarter of 2008. The amortization of acquired intangibles totaled $10 million for both the first quarter of 2009 and the prior quarter.

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

For the three months ended March 31, 2009, net loss attributable to SLM Corporation was $21 million or $.10 diluted loss per common share attributable to SLM Corporation common shareholders, compared to a net loss of $104 million, or $.28 diluted loss per common share attributable to SLM Corporation common shareholders, for the three months ended March 31, 2008. The effective tax rate for those periods was 60 percent and 38 percent, respectively. For the three months ended March 31, 2009, the Company's pre-tax loss was $53 million compared to a pre-tax loss of $166 million in the year-ago quarter. The decrease in pre-tax loss of $113 million was primarily due to a decrease in net losses on derivative and hedging activities of $377 million from a $273 million loss in the first quarter of 2008 to a $104 million gain in the first quarter of 2009, offset by an increase to provisions for loan losses of $113 million, and a decrease to servicing and securitization revenue of $203 million discussed below.

There were no gains on student loan securitizations in either the first 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 decreased by $203 million from revenue of $108 million in the first quarter of 2008 to a loss of $95 million in the first quarter of 2009. This decrease was primarily due to a larger current-quarter unrealized mark-to-market loss of $261 million on the Company's Residual Interests compared to a year-ago quarter $88 million unrealized mark-to-market loss. See "LIQUIDITY AND CAPITAL RESOURCES — Retained Interest in Securitized Receivables" for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $174 million in the first quarter from the year-ago quarter. This decrease was due to a $113 million increase in provisions for loan losses and to a $61 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the other asset spread and an increase in the 2008 Asset Backed Financing Facilities Fees (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). For the current quarter, net interest losses after provisions for loan losses would have resulted in positive net interest income, if net settlements on non-qualifying SFAS No. 133 hedges were included in net interest margin along with the related items for which they are economically hedging, as opposed to being included in net gains (losses) on derivatives and hedging activities. The increase in provisions for loan losses relates primarily to increases in delinquencies and charge-off expectations on Private Education Loans (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*") primarily as a result of the continued weakening of the U.S. economy.

In the first quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled $87 million, a $90 million decrease from $177 million in the year-ago quarter. This decrease was primarily the

result of $77 million of impairment, recorded in the first quarter of 2009, comprised of $74 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company's mortgage purchased paper subsidiary and $3 million of impairment related to the Company's non-mortgage purchased paper subsidiary, compared to $23 million of total impairment recorded in the first quarter of 2008 (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT" and a separate discussion of "Other income" at the end of this section).

There were no losses on sales of loans and securities, net, in the first quarter of 2009, as compared to losses of $35 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. As previously discussed, the Company no longer repurchases these loans.

Restructuring expenses of $5 million and $21 million were recognized in the first quarters of 2009 and 2008, respectively, as previously discussed.

Operating expenses were $301 million in the first quarter of 2009 compared to $356 million in the first quarter of 2008. This decrease was primarily due to the Company's cost reduction efforts. The amortization of acquired intangibles totaled $10 million and $15 million for the first quarter of 2009 and 2008, respectively.

Other Income

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Late fees and forbearance fees	$ 37	$ 36	$37
Asset servicing and other transaction fees	25	28	26
Loan servicing fees	10	8	7
Gains on debt repurchases	64	27	—
Foreign currency translation gains (losses)	40	(22)	—
Other	16	20	24
Total other income	$192	$ 97	$94

The increase in other income for the three months ended March 31, 2009 compared to the prior and year-ago quarters was primarily due to two items. First, the Company repurchased unsecured debt at a deeper discount in the first quarter of 2009 versus the prior and year-ago quarters, which resulted in more recognized gains in the current quarter. Also contributing to the increase in other income was a foreign currency translation gain recorded in connection with the Company's international non-mortgage purchased paper business, which was sold in the first quarter of 2009. This translation gain also related to a small amount of foreign currency denominated debt for which the Company does not receive hedge accounting treatment under SFAS No. 133. The Company hedges both of these exposures with derivatives. An offsetting loss was recognized during the current quarter in the "gains (losses) on derivative hedging activities, net" line on the income statement.

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 March 31, 2009, December 31, 2008, and March 31, 2008.

(in thousands)	Quarters ended March 31, 2009	December 31, 2008	March 31, 2008
Reported net loss attributable to SLM Corporation	$ (21,386)	$(216,017)	$(103,804)
Preferred stock dividends	(26,395)	(27,316)	(29,025)
Reported net loss attributable to SLM Corporation common stock	(47,781)	(243,333)	(132,829)
Expense items disclosed separately (tax-effected):			
Restructuring expenses	3,007	3,685	13,027
Other reorganization-related asset impairments	—	131	—
Acceleration of premium amortization expense on loans[1]	—	—	34,142
Total expense items disclosed separately (tax-effected)	3,007	3,816	47,169
Net loss attributable to SLM Corporation common stock, excluding the impact of items disclosed separately	$ (44,774)	$(239,517)	$ (85,660)
Average common and common equivalent shares outstanding[2]	466,761	466,692	466,580

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

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

The following table summarizes "Core Earnings" income statement items (on a tax-effected basis) that are disclosed separately in the Company's press releases of earnings or the Company's quarterly earnings conference calls for the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008.

(in thousands)	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" net income attributable to SLM Corporation	$ 13,884	$ 65,012	$188,314
Preferred stock dividends	(26,395)	(27,316)	(29,025)
"Core Earnings" net income (loss) attributable to SLM Corporation common stock	(12,511)	37,696	159,289
Expense items disclosed separately (tax-effected):			
Restructuring expenses	3,007	3,685	13,027
Other reorganization-related asset impairments	—	131	—
Acceleration of premium amortization expense on loans[1]	—	—	51,777
Total expense items disclosed separately (tax-effected)	3,007	3,816	64,804
Net income (loss) attributable to SLM Corporation common stock excluding the impact of items disclosed separately	$ (9,504)	$ 41,512	$224,093
Average common and common equivalent shares outstanding[2]	466,761	467,108	467,247

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

(2) Common equivalent shares outstanding were anti-dilutive for the current quarter.

BUSINESS SEGMENTS

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

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

Pre-tax Differences between "Core Earnings" and GAAP

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

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

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" securitization adjustments:			
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$(202)	$(179)	$(194)
Provisions for loan losses	99	140	44
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(103)	(39)	(150)
Intercompany transactions with off-balance sheet trusts	—	(17)	(37)
Net interest income on securitized loans, after provisions for loan losses	(103)	(56)	(187)
Servicing and securitization revenue	(95)	88	108
Total "Core Earnings" securitization adjustments[1]	$(198)	$ 32	$ (79)

[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 the contingent call option for any trusts settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

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

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

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

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

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on net income for the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Quarters ended		
	March 31, 2009	**December 31, 2008**	**March 31, 2008**
"Core Earnings" derivative adjustments:			
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$104	$(293)	$(273)
Less: Realized (gains) losses on derivative and hedging activities, net[1]	(76)	(146)	(91)
Unrealized gains (losses) on derivative and hedging activities, net	28	(439)	(364)
Other pre-SFAS No. 133 accounting adjustments	26	(3)	1
Total net impact of SFAS No. 133 derivative accounting[2]	$ 54	$(442)	$(363)

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

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

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized gains (losses) on derivative and hedging activities") that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a "Core Earnings" basis for the years ended December 31, 2008, 2007 and 2006.

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Reclassification of realized gains (losses) on derivative and hedging activities:			
Net settlement expense on Floor Income Contracts reclassified to net interest income	$(140)	$ (98)	$(140)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	229	224	231
Foreign exchange derivatives gains (losses) reclassified to other income	(13)	3	—
Net realized gains (losses) on terminated derivative contracts reclassified to other income	—	17	—
Total reclassifications of realized gains (losses) on derivative and hedging activities	76	146	91
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	28	(439)	(364)
Gains (losses) on derivative and hedging activities, net	$ 104	$(293)	$(273)

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Floor Income Contracts	$ 166	$(770)	$(295)
Basis swaps	(315)	260	(132)
Other	177	71	63
Total unrealized gains (losses) on derivative and hedging activities, net	$ 28	$(439)	$(364)

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on 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. Other unrealized gains 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 exclude such income from "Core Earnings" when it is not economically hedged. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in "Derivative Accounting," these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the "gains (losses) on derivative and hedging activities, net" line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For "Core Earnings," we reverse the fair value adjustments on the Floor

Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received in income.

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" Floor Income adjustments:			
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$107	$ 9	$ 32
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(28)	(44)	(38)
Total "Core Earnings" Floor Income adjustments[1]	$ 79	$(35)	$ (6)

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

4) **Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles. For the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008, goodwill and intangible impairment and the amortization of acquired intangibles totaled $10 million, $10 million and $15 million, respectively.

LENDING BUSINESS SEGMENT

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

On a Managed Basis, the Company had approximately $125.5 billion and $127.2 billion as of March 31, 2009 and December 31, 2008, respectively, of FFELP loans indexed to three-month financial commercial paper rate ("CP") that are funded with debt indexed to LIBOR. Due to the unintended consequences of government actions in other areas of the capital markets and limited issuances of qualifying financial commercial paper, the relationship between CP and LIBOR has been distorted and volatile. To address this issue for the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter, the Federal Reserve's Commercial Paper Funding Facility rates ("CPFF") would be used for those days in which no CP was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF. On April 16, 2009, ED announced that for purposes of calculating the FFELP loan index for the first quarter of 2009, the formula would be based solely on CP, rather than the hybrid rate based on the CPFF and CP indices used for the fourth-quarter formula discussed above. This resulted in a CP/LIBOR spread of 52 basis points in the first quarter 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. If the same hybrid method used in the fourth quarter of 2008 had been used in the first quarter of 2009, the CP/LIBOR spread would have been 26 basis points.

"Core Earnings" net interest income would have been $139 million higher in the first quarter of 2009 if the historical CP/LIBOR spread of 10 basis points had been in place.

Additionally, the index paid on ED's Participation Program is based on the prior quarter's CP rates, whereas the index earned on the underlying loans is based on the current quarter's CP rates. The sharp decline in CP rates during the first quarter of 2009 resulted in $40 million of higher interest expense in the first quarter of 2009 related to loans financed in this program.

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" interest income:			
FFELP Stafford and Other Student Loans	$ 362	$ 586	$ 494
FFELP Consolidation Loans	439	856	989
Private Education Loans	563	659	749
Other loans	16	18	23
Cash and investments	3	21	142
Total "Core Earnings" interest income	1,383	2,140	2,397
Total "Core Earnings" interest expense	949	1,584	1,824
Net "Core Earnings" interest income	434	556	573
Less: provisions for loan losses	349	392	181
Net "Core Earnings" interest income after provisions for loan losses	85	164	392
Other income	102	18	44
Restructuring expenses	1	3	15
Operating expenses	131	129	164
Total expenses	132	132	179
Income before income tax expense	55	50	257
Income tax expense	21	5	94
"Core Earnings" net income	$ 34	$ 45	$ 163

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 March 31, 2009, December 31, 2008, and March 31, 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					
	March 31, 2009		December 31, 2008		March 31, 2008	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
FFELP Stafford and Other Student Loans	$ 55,681	2.50%	$ 51,250	4.01%	$ 38,349	4.87%
FFELP Consolidation Loans	71,310	2.78	72,142	4.09	73,800	4.56
Private Education Loans	22,671	6.92	21,434	8.15	17,192	10.38
Other loans	709	9.39	752	9.61	1,194	7.87
Cash and investments	7,409	.33	7,843	1.26	12,264	4.06
Total interest-earning assets	157,780	3.19%	153,421	4.51%	142,799	5.33%
Non-interest-earning assets	9,468		10,021		9,546	
Total assets	$167,248		$163,442		$152,345	
Average Liabilities and Equity						
ED Participation Program facility	$ 11,122	3.13%	$ 5,909	3.43%	$ —	—%
Term bank deposits	1,119	3.57	937	3.60	460	4.63
Other short-term borrowings	31,601	2.91	31,865	4.60	35,515	4.77
Total short-term borrowings	43,842	2.98	38,711	4.40	35,975	4.77
Long-term borrowings	114,229	2.50	115,370	3.80	107,666	4.44
Total interest-bearing liabilities	158,071	2.63%	154,081	3.95%	143,641	4.52%
Non-interest-bearing liabilities	3,991		3,997		3,454	
Equity	5,186		5,364		5,250	
Total liabilities and equity	$167,248		$163,442		$152,345	
Net interest margin		.55%		.55%		.78%

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		
	March 31, 2009	December 31, 2008	March 31, 2008
Student loan spread[1][2]	.95%	.91%	.98%
Other asset spread[1][3]	(2.18)	(1.73)	.04
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1]	.79	.76	.90
Less: 2008 Asset-Backed Financing Facilities fees	(.24)	(.21)	(.12)
Net interest margin	.55%	.55%	.78%

(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:

	March 31, 2009	December 31, 2008	March 31, 2008
Student loan yield, before Floor Income	3.54%	5.21%	6.12%
Gross Floor Income	.49	.22	.36
Consolidation Loan Rebate Fees	(.50)	(.51)	(.59)
Repayment Borrower Benefits	(.09)	(.09)	(.12)
Premium and discount amortization	(.14)	(.16)	(.35)
Student loan net yield	3.30	4.67	5.42
Student loan cost of funds	(2.35)	(3.76)	(4.44)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	.95%	.91%	.98%

(3) Comprised of investments, cash and other loans

Student Loan Spread — On-Balance Sheet

The student loan spread is impacted by changes in its various components, as reflected in footnote (2) to the *"Net Interest Margin — On-Balance Sheet"* table above. Gross Floor Income is impacted by interest rates and the percentage of the FFELP portfolio eligible to earn Floor Income. Floor Income Contracts used to economically hedge Gross Floor Income do not qualify as SFAS No. 133 hedges and as a result the net settlements on such contracts are not recorded in net interest margin but rather in "gains (losses) on derivative and hedging activities, net" line in the consolidated statements of income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Repayment Borrower Benefits are generally impacted by the terms of the Repayment Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally impacted by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 increased 4 basis points from the prior quarter. The increase from the prior quarter was primarily due to an increase in Floor Income resulting from a decrease in interest rates during the quarter. This increase due to Floor Income was partially offset by an increase in the Company's cost of funds resulting from a 31 basis point widening of the CP/LIBOR spread between quarters, the ED's Participation Program funding index being based on the prior quarter's CP rates (both of which were previously discussed in "LENDING BUSINESS SEGMENT") and an increase in the credit spreads on the Company's debt issued during the last year 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 SFAS No. 133. We extensively use basis swaps to manage our basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges, and as a result, are required to be accounted for in the "gains (losses) on derivatives and hedging activities, net" line on the income statement, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above and therefore, in times of volatile movements of interest rates like those experienced in 2008 and 2009, the student loan spread can significantly change. See *" 'Core Earnings' Net Interest Margin"* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

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 first quarter of 2009 decreased 45 basis points from the prior quarter and 222 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under SFAS No. 133 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the "Core Earnings" basis other asset spread discussed below. In addition, the current steepness of the yield curve is negatively impacting this spread.

Net Interest Margin — On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 increased 3 basis points from the prior quarter. This increase primarily related to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the two periods. Net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 decreased 11 basis points from the year-ago quarter. The increase in the student loan portfolio as a percentage of the overall interest-earning asset portfolio resulted in an increase to net interest margin of 4 basis points due to the student loan portfolio earning a higher spread than the other asset portfolio. The remaining difference relates primarily to the previous discussions of changes in the on-balance sheet student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date. Additional fees associated with the extension of these facilities began amortizing March 1, 2009. (See "LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes" for a discussion of these facilities and their related extensions.)

"Core Earnings" Net Interest Margin

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

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as SFAS No. 133 hedges are recorded as part of the "gain (loss) on derivative and hedging activities, net" line on the income statement and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our "Core Earnings" net

interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

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

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" basis student loan spread[1]:			
FFELP loan spread	.37%	.73%	.59%
Private Education Loan spread[2]	4.68	4.74	5.38
Total "Core Earnings" basis student loan spread[3]	1.20	1.49	1.47
"Core Earnings" basis other asset spread[1][4]	(1.15)	(1.71)	(.19)
"Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.08	1.32	1.33
Less: 2008 Asset-Backed Financing Facilities fees	(.19)	(.17)	(.09)
"Core Earnings" net interest margin	.89%	1.15%	1.24%

(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: 1.31% / .73% / 3.29%

(3) Composition of "Core Earnings" basis student loan spread:

	March 31, 2009	December 31, 2008	March 31, 2008
"Core Earnings" basis student loan yield	3.70%	5.35%	6.35%
Consolidation Loan Rebate Fees	(.49)	(.49)	(.55)
Repayment Borrower Benefits	(.09)	(.09)	(.11)
Premium and discount amortization	(.13)	(.15)	(.36)
"Core Earnings" basis student loan net yield	2.99	4.62	5.33
"Core Earnings" basis student loan cost of funds	(1.79)	(3.13)	(3.86)
"Core Earnings" basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.20%	1.49%	1.47%

(4) Comprised of investments, cash and other loans

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

	March 31, 2009	December 31, 2008	March 31, 2008
FFELP loans	$149,422	$146,373	$137,748
Private Education Loans	35,817	34,617	30,756
Total student loans	185,239	180,990	168,504
Other interest-earning assets	9,622	10,402	15,996
Total Managed interest-earning assets	$194,861	$191,392	$184,500

"Core Earnings" Basis Student Loan Spread

The "Core Earnings" basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 decreased 29 basis points from the prior quarter. The "Core Earnings" basis student loan spread was negatively impacted by an increase in the Company's cost of funds resulting from a

31 basis point widening of the CP/LIBOR spread between quarters, the ED's Participation Program funding index being based on the prior quarter's CP rates (both of which were previously discussed in "LENDING BUSINESS SEGMENT") and an increase in the credit spreads on the Company's debt issued during the last year due to the current credit environment.

The "Core Earnings" basis FFELP loan spread for the first quarter of 2009 declined from the prior quarter primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The "Core Earnings" basis Private Education Loan spread before provision for loan losses for the first quarter of 2009 was negatively impacted by the increase in the cost of funds discussed previously. The changes in the "Core Earnings" basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see "Private Education Loan Losses — *Allowance for Private Education Loan Losses*").

"Core Earnings" Basis Other Asset Spread

The "Core Earnings" basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The "Core Earnings" basis other asset spread for the first quarter of 2009 increased 56 basis points and decreased 96 basis points from the prior quarter and year-ago quarter, respectively. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. In addition, the current steepness of the yield curve is negatively impacting this spread. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

"Core Earnings" Net Interest Margin

The "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 decreased 24 basis points from the prior quarter. This decrease primarily relates to the previously discussed changes in the "Core Earnings" basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the two periods. "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the first quarter of 2009 decreased 25 basis points from the year-ago quarter. The increase in the Managed student loan portfolio as a percentage of the overall Managed interest-earning asset portfolio resulted in an increase to "Core Earnings" net interest margin of 6 basis points due to the Managed student loan portfolio earning a higher spread than the Managed other interest-earning asset portfolio. This was offset by a decrease of 31 basis points primarily due to the previously discussed changes in the student loan and other asset spreads.

The 2008 Asset-Backed Financing Facilities closed on February 29, 2008. Amortization of the upfront commitment and liquidity fees began on that date. Additional fees associated with the extension of these facilities began amortizing March 1, 2009. (See "LIQUIDITY AND CAPITAL RESOURCES — Additional Funding Sources for General Corporate Purposes" for a discussion of these facilities and their related extensions.)

Private Education Loan Losses

On-Balance Sheet versus Managed Basis Presentation

All Private Education Loans are initially acquired on-balance sheet. The securitization of Private Education Loans prior to 2009 has been accounted for off-balance sheet under SFAS No. 140. For our Managed Basis presentation in the table below, when loans are securitized, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then increase the allowance for loan losses for these loans off-balance sheet, with the total of both on-balance sheet and off-balance sheet being the Managed Basis allowance for loan losses.

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

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

Private Education Loan Delinquencies and Forbearance

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

	On-Balance Sheet Private Education Loan Delinquencies					
	March 31, 2009		December 31, 2008		March 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$11,205		$10,159		$ 9,743	
Loans in forbearance[2]	861		862		1,281	
Loans in repayment and percentage of each status:						
Loans current	9,410	83.8%	9,748	87.2%	6,649	90.0%
Loans delinquent 31-60 days[3]	515	4.6	551	4.9	261	3.5
Loans delinquent 61-90 days[3]	403	3.6	296	2.6	148	2.0
Loans delinquent greater than 90 days[3]	905	8.0	587	5.3	330	4.5
Total Private Education Loans in repayment	11,233	100%	11,182	100%	7,388	100%
Total Private Education Loans, gross	23,299		22,203		18,412	
Private Education Loan unamortized discount	(535)		(535)		(496)	
Total Private Education Loans	22,764		21,668		17,916	
Private Education Loan receivable for partially charged-off loans	265		222		135	
Private Education Loan allowance for losses	(1,384)		(1,308)		(1,074)	
Private Education Loans, net	$21,645		$20,582		$16,977	
Percentage of Private Education Loans in repayment		48.2%		50.4%		40.1%
Delinquencies as a percentage of Private Education Loans in repayment		16.2%		12.8%		10.0%
Loans in forbearance as a percentage of loans in repayment and forbearance		7.1%		7.2%		14.8%

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

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

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

	Off-Balance Sheet Private Education Loan Delinquencies					
	March 31, 2009		December 31, 2008		March 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[(1)]	$ 3,419		$ 3,461		$ 4,780	
Loans in forbearance[(2)]	619		700		1,639	
Loans in repayment and percentage of each status:						
Loans current	8,570	90.0%	8,843	92.8%	7,128	95.3%
Loans delinquent 31-60 days[(3)]	297	3.1	315	3.3	151	2.0
Loans delinquent 61-90 days[(3)]	222	2.3	121	1.3	75	1.0
Loans delinquent greater than 90 days[(3)]	434	4.6	251	2.6	128	1.7
Total Private Education Loans in repayment	9,523	100%	9,530	100%	7,482	100%
Total Private Education Loans, gross	13,561		13,691		13,901	
Private Education Loan unamortized discount	(359)		(361)		(355)	
Total Private Education Loans	13,202		13,330		13,546	
Private Education Loan receivable for partially charged-off loans	109		92		41	
Private Education Loan allowance for losses	(539)		(505)		(373)	
Private Education Loans, net	$12,772		$12,917		$13,214	
Percentage of Private Education Loans in repayment		70.2%		69.6%		53.8%
Delinquencies as a percentage of Private Education Loans in repayment		10.0%		7.2%		4.7%
Loans in forbearance as a percentage of loans in repayment and forbearance		6.1%		6.8%		18.0%

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

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

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

	Managed Basis Private Education Loan Delinquencies					
	March 31, 2009		December 31, 2008		March 31, 2008	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$14,624		$13,620		$14,523	
Loans in forbearance[2]	1,480		1,562		2,920	
Loans in repayment and percentage of each status:						
Loans current	17,980	86.6%	18,591	89.8%	13,777	92.6%
Loans delinquent 31-60 days[3]	812	3.9	866	4.2	412	2.8
Loans delinquent 61-90 days[3]	625	3.0	417	2.0	223	1.5
Loans delinquent greater than 90 days[3]	1,339	6.5	838	4.0	458	3.1
Total Private Education Loans in repayment	20,756	100%	20,712	100%	14,870	100%
Total Private Education Loans, gross	36,860		35,894		32,313	
Private Education Loan unamortized discount	(894)		(896)		(851)	
Total Private Education Loans	35,966		34,998		31,462	
Private Education Loan receivable for partially charged-off loans	374		314		176	
Private Education Loan allowance for losses	(1,923)		(1,813)		(1,447)	
Private Education Loans, net	$34,417		$33,499		$30,191	
Percentage of Private Education Loans in repayment		56.3%		57.7%		46.0%
Delinquencies as a percentage of Private Education Loans in repayment		13.4%		10.2%		7.4%
Loans in forbearance as a percentage of loans in repayment and forbearance		6.7%		7.0%		16.4%

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

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

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

Receivable for Partially Charged-Off Loans

The following tables summarize the activity in the receivable for partially charged-off loans (see "*Allowance for Private Education Loan Losses*" below for a further discussion) for the quarters ended March 31, 2009, December 31, 2008 and March 31, 2008.

	Quarter ended March 31, 2009		
	On-balance sheet	Off-balance sheet	Managed Basis
Receivable at beginning of period	$222.4	$ 91.1	$313.5
Expected future recoveries of current period defaults	53.0	19.6	72.6
Recoveries	(10.1)	(2.2)	(12.3)
Receivable at end of period	$265.3	$108.5	$373.8

	Quarter ended December 31, 2008		
	On-balance sheet	Off-balance sheet	Managed Basis
Receivable at beginning of period	$184.1	$72.6	$256.7
Expected future recoveries of current period defaults	47.0	21.3	68.3
Recoveries	(8.7)	(2.8)	(11.5)
Receivable at end of period	$222.4	$91.1	$313.5

	Quarter ended March 31, 2008		
	On-balance sheet	Off-balance sheet	Managed Basis
Receivable at beginning of period	$118.0	$27.6	$145.6
Expected future recoveries of current period defaults	26.8	15.4	42.2
Recoveries	(9.9)	(1.8)	(11.7)
Receivable at end of period	$134.9	$41.2	$176.1

Allowance for Private Education Loan Losses

As discussed in the Company's 2008 Annual Report on Form 10-K, filed with the Securities and Exchange Commission ("SEC") on March 2, 2009, the Company has changed its methodology used to present charge-offs related to Private Education Loans to more clearly reflect the expected loss. Net income, provision for loan loss expense, the net loan balance, default rate and expected recovery rate assumptions were not impacted by this change. Based on our historic experience, we expect to recover a portion of loans that default. This expected recovery is taken into account in arriving at our periodic provision for loan loss expense. Previously, once a loan was delinquent for 212 days, we charged off 100 percent of the loan balance, even though we had provisioned for the estimated loss of the defaulted loan balance, comprised of the full loan balance less the expected recovery.

The Company changed its methodology to charge off the estimated loss of the defaulted loan balance to be consistent with the amount included in the provision. Actual recoveries are applied against the remaining loan balance that was not charged off. If actual periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge off of such amount.

This revised methodology results in a charge-off equal to the amount provided for through the allowance for loan loss. As a result, the Company believes that this methodology better reflects the actual events occurring. Although there is diversity in practice on how charge-offs are presented, this method is more comparable to other financial institutions in how charge-offs and the related charge-off and allowance ratios are presented. The Company emphasizes that although the presentation improves the various charge-off and allowance ratios, the change does not reflect an improvement in the collectability of the Company's loan portfolio.

As a result of this change, a $314 million receivable on a Managed basis ($222 million for GAAP) as of December 31, 2008, was reclassified from the allowance for loan loss to the Private Education Loan balance. This receivable for partially charged-off loans represents the expected future recoveries related to previously defaulted loans (i.e., the amount not charged off when a loan defaults that has not yet been collected). As of March 31, 2009, the Company assumes it will collect, on average, 27 percent of a defaulted loan's balance over an extended period of time. This recovery assumption is based on historic recovery rates achieved and is updated, as appropriate, on a quarterly basis (see *"Receivable for Partially Charged-off Loans,"* above).

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

Activity in Allowance for Private Education Loan Losses

	On-balance sheet			Off-balance sheet			Managed Basis		
	Quarters ended			Quarters ended			Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008	March 31, 2009	December 31, 2008	March 31, 2008	March 31, 2009	December 31, 2008	March 31, 2008
Allowance at beginning of period	$ 1,308	$ 1,197	$ 1,004	$ 505	$ 409	$ 362	$ 1,813	$ 1,606	$ 1,366
Provision for Private Education Loan losses	203	212	119	94	136	41	297	348	160
Charge-offs	(139)	(114)	(58)	(63)	(45)	(31)	(202)	(159)	(89)
Reclassification of interest reserve	12	13	9	3	5	1	15	18	10
Allowance at end of period	$ 1,384	$ 1,308	$ 1,074	$ 539	$ 505	$ 373	$ 1,923	$ 1,813	$ 1,447
Charge-offs as a percentage of average loans in repayment (annualized)	5.1%	4.4%	3.3%	2.7%	2.0%	1.7%	4.0%	3.3%	2.5%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.7%	4.0%	2.8%	2.5%	1.8%	1.4%	3.7%	3.0%	2.0%
Allowance as a percentage of the ending total loan balance	5.9%	5.8%	5.8%	3.9%	3.7%	2.7%	5.2%	5.0%	4.5%
Allowance as a percentage of ending loans in repayment	12.3%	11.7%	14.5%	5.7%	5.3%	5.0%	9.3%	8.8%	9.7%
Average coverage of charge-offs (annualized)	2.5	2.9	4.7	2.1	2.8	2.9	2.3	2.9	4.0
Ending total loans[1]	$23,564	$22,426	$18,547	$13,669	$13,782	$13,942	$37,233	$36,208	$32,489
Average loans in repayment	$11,107	$10,321	$ 7,096	$ 9,413	$ 8,961	$ 7,466	$20,520	$19,282	$14,562
Ending loans in repayment	$11,233	$11,182	$ 7,388	$ 9,523	$ 9,530	$ 7,482	$20,756	$20,712	$14,870

(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 March 31, 2009, December 31, 2008, and March 31, 2008.

	March 31, 2009			December 31, 2008			March 31, 2008		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans[1]	$32,137	$5,096	$37,233	$31,101	$5,107	$36,208	$27,576	$4,913	$32,489
Ending loans in repayment	17,765	2,991	20,756	17,715	2,997	20,712	12,683	2,187	14,870
Private Education Loan allowance for losses	959	964	1,923	859	954	1,813	545	902	1,447
Charge-offs as a percentage of average loans in repayment[2]	2.2%	14.5%	4.0%	1.7%	12.3%	3.3%	1.1%	10.3%	2.5%
Allowance as a percentage of total ending loan balance	3.0%	18.9%	5.2%	2.8%	18.7%	5.0%	2.0%	18.4%	4.5%
Allowance as a percentage of ending loans in repayment	5.4%	32.2%	9.3%	4.8%	31.8%	8.8%	4.3%	41.3%	9.7%
Average coverage of charge-offs[2]	2.4	2.3	2.3	3.0	2.7	2.9	3.9	4.1	4.0
Delinquencies as a percentage of Private Education Loans in repayment	9.7%	35.1%	13.4%	7.1%	28.9%	10.2%	4.6%	23.3%	7.4%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	4.3%	19.1%	6.5%	2.6%	12.7%	4.0%	1.8%	10.7%	3.1%
Loans in forbearance as a percentage of loans in repayment and forbearance	6.3%	8.5%	6.7%	6.7%	9.0%	7.0%	15.5%	21.4%	16.4%

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

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

Managed provision expense decreased from $348 million in the fourth quarter of 2008 to $297 million in the first quarter of 2009. Provision expense remained elevated in the first quarter of 2009 due to the continued

weakening of the U.S. economy. The Private Education Loan portfolio has experienced a significant increase in delinquencies between quarters and the Company expects a continued increase in charge-off levels in the near term. This increase in delinquency and charge-off levels was generally anticipated and was reflected in our Allowance for Loan Losses as of December 31, 2008. Managed delinquencies as a percentage of Private Education Loans in repayment increased from 10.2 percent as of December 31, 2008 to 13.4 percent as of March 31, 2009. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 7.0 percent as of December 31, 2008 to 6.7 percent at March 31, 2009. On a year-over-year basis, overall delinquencies increased 6 percent while forbearances decreased 9.7 percent.

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

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

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month end has decreased over the course of 2008 and 2009, while the monthly average amount of loans granted forbearance in the first quarter of 2009 was consistent with the year-ago quarter at 6.4 percent of loans in repayment and forbearance. As of March 31, 2009, 1.5 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 March. 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 12.2 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	8.1%	8.0%	2.6%
Current	54.9	59.9	66.1
Delinquent 31-60 days	3.2	2.0	.4
Delinquent 61-90 days	1.8	1.0	.2
Delinquent greater than 90 days	3.2	1.9	.3
Forbearance	6.8	4.8	—
Defaulted	12.2	6.3	4.7
Paid	9.8	16.1	25.7
Total	100%	100%	100%

The tables below show the composition and status of the Managed Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At March 31, 2009, loans in forbearance status as a percentage of loans in repayment and forbearance are 8.7 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.5 percent for loans that have been in active repayment status for more than 48 months. Approximately 92 percent of our Managed Private Education Loans in forbearance status have been in active repayment status less than 25 months.

	Monthly Scheduled Payments Due				
March 31, 2009	**0 to 24**	**25 to 48**	**More than 48**	**Not Yet in Repayment**	**Total**
Loans in-school/grace/deferment	$ —	$ —	$ —	$14,624	$14,624
Loans in forbearance	1,356	89	35	—	1,480
Loans in repayment — current	11,751	3,971	2,258	—	17,980
Loans in repayment — delinquent 31-60 days	674	91	47	—	812
Loans in repayment — delinquent 61-90 days	554	49	22	—	625
Loans in repayment — delinquent greater than 90 days	1,193	99	47	—	1,339
Total	$15,528	$4,299	$2,409	$14,624	36,860
Unamortized discount					(894)
Receivable for partially charged-off loans					374
Allowance for loan losses					(1,923)
Total Managed Private Education Loans, net					$34,417
Loans in forbearance as a percentage of loans in repayment and forbearance	8.7%	2.1%	1.5%	—%	6.7%

December 31, 2008	Monthly Scheduled Payments Due 0 to 24	25 to 48	More than 48	Not Yet in Repayment	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$13,620	$13,620
Loans in forbearance	1,406	106	50	—	1,562
Loans in repayment — current	12,551	3,798	2,242	—	18,591
Loans in repayment — delinquent 31-60 days	728	93	45	—	866
Loans in repayment — delinquent 61-90 days	351	44	22	—	417
Loans in repayment — delinquent greater than 90 days	691	97	50	—	838
Total	$15,727	$4,138	$2,409	$13,620	35,894
Unamortized discount					(896)
Receivable for partially charged-off loans					314
Allowance for loan losses					(1,813)
Total Managed Private Education Loans, net					$33,499
Loans in forbearance as a percentage of loans in repayment and forbearance	8.9%	2.6%	2.1%	—%	7.0%

March 31, 2008	Monthly Scheduled Payments Due 0 to 24	25 to 48	More than 48	Not Yet in Repayment	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$14,523	$14,523
Loans in forbearance	2,759	124	37	—	2,920
Loans in repayment — current	9,242	2,884	1,651	—	13,777
Loans in repayment — delinquent 31-60 days	344	42	26	—	412
Loans in repayment — delinquent 61-90 days	194	19	10	—	223
Loans in repayment — delinquent greater than 90 days	388	46	24	—	458
Total	$12,927	$3,115	$1,748	$14,523	32,313
Unamortized discount					(851)
Receivable for partially charged-off loans					176
Allowance for loan losses					(1,447)
Total Managed Private Education Loans, net					$30,191
Loans in forbearance as a percentage of loans in repayment and forbearance	21.4%	4.0%	2.1%	—%	16.4%

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

Cumulative number of months borrower has used forbearance	March 31, 2009 Forbearance Balance	% of Total	December 31, 2008 Forbearance Balance	% of Total	March 31, 2008 Forbearance Balance	% of Total
Up to 12 months	$ 994	67%	$1,075	69%	$2,059	71%
13 to 24 months	368	25	368	23	738	25
More than 24 months	118	8	119	8	123	4
Total	$1,480	100%	$1,562	100%	$2,920	100%

Total Provisions for Loan Losses

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

Total on-balance sheet loan provisions

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Private Education Loans	$203	$212	$119
FFELP loans	35	29	16
Mortgage and consumer loans	12	11	2
Total on-balance sheet provisions for loan losses	$250	$252	$137

Total Managed Basis loan provisions

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Private Education Loans	$297	$348	$160
FFELP loans	40	33	19
Mortgage and consumer loans	12	11	2
Total Managed Basis provisions for loan losses	$349	$392	$181

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

Provision for FFELP loans has increased over the prior quarters presented as a result of an expected increase in FFELP loan charge-offs arising from the continued weakening of the U.S. economy.

Total Loan Charge-offs

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

Total on-balance sheet loan charge-offs

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Private Education Loans	$139	$114	$58
FFELP loans	19	14	11
Mortgage and consumer loans	5	6	5
Total on-balance sheet loan charge-offs	$163	$134	$74

Total Managed loan charge-offs

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Private Education Loans	$202	$159	$ 89
FFELP loans	23	19	16
Mortgage and consumer loans	5	6	5
Total Managed loan charge-offs	$230	$184	$110

The increase in charge-offs on FFELP loans for the quarters presented is a result of the impact of the weakening U.S. economy. See "Private Education Loan Losses — *Allowance for Private Education Loan Losses,*" above, for a discussion of charge-offs related to our Private Education Loans.

Other Income — Lending Business Segment

The following table summarizes the components of "Core Earnings" other income for our Lending business segment for the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008.

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Late fees and forbearance fees	$ 37	$ 36	$37
Gains on debt repurchases	64	27	—
Gains (losses) on sales of loans and securities, net	—	(52)	1
Other	1	7	6
Total other income	$102	$ 18	$44

The Company repurchased unsecured debt at a deeper discount in the first quarter of 2009 versus the previous quarters presented, which resulted in more recognized gains in the current quarter than the previous quarters.

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

Operating Expenses — Lending Business Segment

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses. For the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008, operating expenses for the Lending business segment totaled $131 million, $129 million, and $164 million, respectively. The decrease in operating expenses versus the year-ago period was primarily due to the Company's continued cost reduction efforts. As a result, operating expenses were 29 basis points and 39 basis points of average managed student loans in the first quarter of 2009 versus the first quarter of 2008.

Loan Originations

Our FFELP internal brand originations were up sharply in the first quarter of 2009, increasing 61 percent from the year-ago quarter. Our FFELP lender partner originations declined 65 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.

Consistent with our announcement in the first quarter of 2008 that we are tightening our private credit lending standards and ceasing non-traditional lending, Private Education Loan originations declined 39 percent from the year-ago period to $1.5 billion in the quarter ended March 31, 2009.

At March 31, 2009, the Company was committed to purchase $1.8 billion of loans originated by our Lender Partners ($1.0 billion of FFELP loans and $.8 billion of Private Education Loans). Approximately $.6 billion of these FFELP loans were originated prior to CCRAA. Approximately $.2 billion of these FFELP loans are eligible for ED's Purchase and Participation Programs (see "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs").

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Loan Originations — Internal lending brands			
Stafford	$4,925	$3,082	$2,859
PLUS	597	262	546
GradPLUS	275	175	194
Total FFELP	5,797	3,519	3,599
Private Education Loans	1,356	779	2,225
Total	$7,153	$4,298	$5,824

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Loan Originations — Lender Partners			
Stafford	$ 772	$376	$2,107
PLUS	51	27	272
GradPLUS	18	4	42
Total FFELP	841	407	2,421
Private Education Loans	160	72	253
Total	$1,001	$479	$2,674

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 March 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	(243)	(121)	(364)	(4)	(368)
Net consolidations	(243)	(121)	(364)	(4)	(368)
Acquisitions	7,590	274	7,864	1,594	9,458
Net acquisitions	7,347	153	7,500	1,590	9,090
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,979)	(1,012)	(2,991)	(527)	(3,518)
Ending balance	$57,844	$70,885	$128,729	$21,645	$150,374

	Off-Balance Sheet Three months ended March 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	(110)	(26)	(136)	(3)	(139)
Net consolidations	(110)	(26)	(136)	(3)	(139)
Acquisitions	41	48	89	117	206
Net acquisitions	(69)	22	(47)	114	67
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(228)	(210)	(438)	(259)	(697)
Ending balance	$6,846	$15,343	$22,189	$12,772	$34,961

	Managed Portfolio Three months ended March 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	(353)	(147)	(500)	(7)	(507)
Net consolidations	(353)	(147)	(500)	(7)	(507)
Acquisitions	7,631	322	7,953	1,711	9,664
Net acquisitions	7,278	175	7,453	1,704	9,157
Internal consolidations[2]	—	—	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(2,207)	(1,222)	(3,429)	(786)	(4,215)
Ending balance[3]	$64,690	$86,228	$150,918	$34,417	$185,335
Total Managed Acquisitions[4]	$ 7,631	$ 322	$ 7,953	$ 1,711	$ 9,664

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

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

(3) As of March 31, 2009, the ending balance includes $19.8 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.

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

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

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

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

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

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

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

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

On-Balance Sheet
Three months ended March 31, 2008

	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$35,726	$73,609	$109,335	$14,818	$124,153
Net consolidations:					
Incremental consolidations from third parties	—	450	450	91	541
Consolidations to third parties	(241)	(71)	(312)	(16)	(328)
Net consolidations	(241)	379	138	75	213
Acquisitions	6,058	352	6,410	2,463	8,873
Net acquisitions	5,817	731	6,548	2,538	9,086
Internal consolidations[2]	(377)	493	116	158	274
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(998)	(965)	(1,963)	(537)	(2,500)
Ending balance	$40,168	$73,868	$114,036	$16,977	$131,013

Off-Balance Sheet
Three months ended March 31, 2008

	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$9,472	$16,441	$25,913	$13,510	$39,423
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(52)	(14)	(66)	(31)	(97)
Net consolidations	(52)	(14)	(66)	(31)	(97)
Acquisitions	49	49	98	157	255
Net acquisitions	(3)	35	32	126	158
Internal consolidations[2]	(82)	(34)	(116)	(158)	(274)
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(376)	(205)	(581)	(264)	(845)
Ending balance	$9,011	$16,237	$25,248	$13,214	$38,462

Managed Portfolio
Three months ended March 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	—	450	450	91	541
Consolidations to third parties	(293)	(85)	(378)	(47)	(425)
Net consolidations	(293)	365	72	44	116
Acquisitions	6,107	401	6,508	2,620	9,128
Net acquisitions	5,814	766	6,580	2,664	9,244
Internal consolidations[2]	(459)	459	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,374)	(1,170)	(2,544)	(801)	(3,345)
Ending balance[3]	$49,179	$90,105	$139,284	$30,191	$169,475
Total Managed Acquisitions[4]	$ 6,107	$ 851	$ 6,958	$ 2,711	$ 9,669

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

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

(3) As of March 31, 2008, the ending balance includes $3.5 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 (3) 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 March 31, 2009				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$55,681	$71,310	$126,991	$22,671	$149,662
Off-balance sheet	6,998	15,433	22,431	13,146	35,577
Total Managed	$62,679	$86,743	$149,422	$35,817	$185,239
% of on-balance sheet FFELP	44%	56%	100%		
% of Managed FFELP	42%	58%	100%		
% of total	34%	47%	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	$58,617	$87,756	$146,373	$34,617	$180,990
% of on-balance sheet FFELP	42%	58%	100%		
% of Managed FFELP	40%	60%	100%		
% of total	32%	49%	81%	19%	100%

	Three months ended March 31, 2008				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$38,349	$73,800	$112,149	$17,192	$129,341
Off-balance sheet	9,260	16,339	25,599	13,564	39,163
Total Managed	$47,609	$90,139	$137,748	$30,756	$168,504
% of on-balance sheet FFELP	34%	66%	100%		
% of Managed FFELP	35%	65%	100%		
% of total	28%	54%	82%	18%	100%

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

ASSET PERFORMANCE GROUP (“APG”) BUSINESS SEGMENT

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

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

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

	Quarter ended March 31, 2008			
	Purchased Paper — Non-Mortgage	Purchased Paper — Mortgage/ Properties	Contingency & Other	Total APG
Contingency fee income	$ 3	$—	$82	$ 85
Collections revenue (loss)	51	5	—	56
Total income (loss)	54	5	82	141
Restructuring expenses	1	—	—	1
Operating expenses	51	10	44	105
Total expenses	52	10	44	106
Net interest expense	3	1	3	7
Income (loss) before income tax expense (benefit) and noncontrolling interest	(1)	(6)	35	28
Income tax expense (benefit)	(1)	(2)	13	10
Income (loss) before noncontrolling interest	—	(4)	22	18
Noncontrolling interest	—	—	—	—
"Core Earnings" net income (loss)	$—	$ (4)	$22	$ 18

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

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

The Company's domestic Purchased Paper — Non-Mortgage business has certain forward purchase obligations under which the Company is committed to buy purchased paper in April 2009 at a purchase price of approximately $1 million. The Company will not buy any additional purchased paper in excess of these obligations. The Company recognized $3 million and $9 million of impairment in the first quarter of 2009 and the first quarter of 2008, respectively. There was no impairment recognized in the fourth quarter of 2008. The total impairment for the year ended December 31, 2008 was $55 million.

The Company's Purchased Paper — Mortgage/Properties business has not purchased any new mortgage/ property assets since March 2008 and will work-out and liquidate its portfolio as quickly and economically as possible. In the first quarter of 2009, real estate values continued to decline as a result of the weakening U.S. economy and expected future resolution time-frames were extended, resulting in the impairment of $74 million in the first quarter of 2009 compared to $50 million in the fourth quarter of 2008 and $14 million in the first quarter of 2008. The total impairment for the year ended December 31, 2008 was $262 million.

Purchased Paper — Non-Mortgage

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Face value of purchases for the period	$388	$ 978	$1,529
Purchase price for the period	29	99	143
% of face value purchased	7.5%	10.1%	9.4%
Gross cash collections ("GCC")	$156	$ 158	$ 159
Collections revenue	43	59	52
Collections revenue as a% of GCC	27%	37%	32%
Carrying value of purchased paper	$459	$ 544	$ 623

Purchased Paper — Mortgage/Properties

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Face value of purchases for the period	$ —	$ —	$ 39
Collections revenue (loss), net of impairments	(65)	(37)	5
Collateral value of purchases	—	—	29
Purchase price for the period	—	—	19
Purchase price as a% of collateral value	—%	—%	66%
Carrying value of purchases	$533	$675	$1,130
Carrying value of purchased paper as a% of collateral value	67%	69%	77%

The carrying value of purchases (the basis we carry on our balance sheet) as a percentage of collateral fair value has decreased in the first quarter of 2009 and the fourth quarter of 2008 as a result of the significant impairment recognized those quarters.

Contingency Inventory

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

	March 31, 2009	December 31, 2008	March 31, 2008
Contingency:			
Student loans	$ 9,234	$ 9,852	$ 8,498
Other	1,725	1,726	1,752
Total	$10,959	$11,578	$10,250

Operating Expenses — APG Business Segment

For the quarters ended March 31, 2009, December 31, 2008, and March 31, 2008, operating expenses for the APG business segment totaled $88 million, $76 million, and $105 million, respectively. The decrease in operating expenses from the year-ago quarter was primarily due to the Company's continued cost reduction efforts.

CORPORATE AND OTHER BUSINESS SEGMENT

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

	Quarters ended		
	March 31, 2009	December 31, 2008	March 31, 2008
Net interest income after provisions for losses	$ 1	$ 3	$ 1
Guarantor servicing fees	34	26	35
Loan servicing fees	10	8	6
Upromise	25	28	26
Other	14	16	19
Total other income	83	78	86
Restructuring expenses	2	1	5
Operating expenses	72	65	70
Total expenses	74	66	75
Income before income tax expense	10	15	12
Income tax expense	3	5	5
"Core Earnings" net income	$ 7	$10	$ 7

The increase in guarantor servicing fees versus the prior quarter was primarily due to the seasonality of loan disbursements which were higher in the first quarter of 2009 versus the fourth quarter of 2008.

USA Funds, the nation's largest guarantee agency, accounted for 88 percent, 84 percent and 88 percent, respectively, of guarantor servicing fees and 5 percent, 8 percent and 16 percent, respectively, of revenues associated with other products and services for the quarters ended March 31, 2009, December 31, 2008, and March 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, operate our Upromise subsidiary, as well as information technology expenses related to these functions. Operating expenses also include unallocated corporate overhead expenses for centralized headquarters functions. The increase in operating expenses for the first quarter of 2009 versus the prior quarter was the result of the Company paying significantly lower bonuses in 2008, which resulted in the reversal of a $20 million bonus expense accrual in the fourth quarter of 2008.

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

ED Funding Programs

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

On August 14, 2008, the Company received its initial advance under the Participation Program. As of March 31, 2009, the Company had $13.5 billion of advances outstanding under the Participation Program.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the "ED Conduit Program"). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than June 30, 2009, and fully disbursed before June 30, 2009, and meet certain other requirements including with respect to borrower benefits. Funding for the ED Conduit Program will be provided by the capital markets at a cost based on market rates. The ED Conduit Program will have a term of five years. Approximately $16.0 billion of our Stafford and PLUS loans (excluding loans currently in the Participation Program) were eligible for funding under the ED Conduit Program as of March 31, 2009. We expect to utilize the ED Conduit Program to fund a significant percentage

of these assets over time. The initial funding under the ED Conduit Program is expected to occur in the second quarter of 2009.

Additional Funding Sources for General Corporate Purposes

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

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

During the fourth quarter of 2008, Sallie Mae Bank, our Utah banking subsidiary, began expanding its deposit base to fund new Private Education Loan originations. Sallie Mae Bank raises deposits primarily through intermediaries in the retail brokered CD market. In the first quarter of 2009, Sallie Mae Bank raised $1.2 billion of term bank deposits with a weighted average life of 3.2 years and a weighted average fixed cost of approximately 3.24 percent. As of March 31, 2009, total term bank deposits were $3.3 billion. We expect Sallie Mae Bank to fund newly originated Private Education Loans by continuing to raise term bank deposits. We ultimately expect to raise long-term financing, through Private Education Loan securitizations or otherwise, to fund these loans.

On January 6, 2009, we closed a $1.5 billion, 12.5 year asset-backed securities based facility. This facility will be used to provide up to $1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. 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 at the expected cost of LIBOR plus 5.75 percent.

In April 2009, we completed three FFELP term ABS transactions totaling $5.1 billion. The FFELP transactions were both public and private transactions composed primarily of FFELP consolidation loans which were not eligible for the ED Conduit Program or TALF. Although we have demonstrated our access to the ABS market in 2009 and we expect ABS financing to remain our primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors.

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

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

in the term ABS market. Funding under the 2008 Asset-backed Financing Facilities is subject to usual and customary conditions.

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

The maximum amount the Company may borrow under the 2008 ABCP Facilities is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of March 31, 2009, the maximum borrowing amount was approximately $21.1 billion under the FFELP ABCP Facilities and $2.7 billion under the Private Education Loan ABCP Facility. The 2008 Asset-Backed Financing Facilities are subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Borrowings under the 2008 Asset-Backed Financing Facilities are nonrecourse to the Company. As of March 31, 2009, the Company had $25.5 billion outstanding in connection with the 2008 Asset Backed Financing Facilities. The book basis of the assets securing these facilities as of March 31, 2009 was $31.9 billion.

On February 2, 2009, the Company extended the maturity date of the 2008 ABCP Facilities from February 28, 2009 to April 28, 2009 for a $61 million upfront fee. The other terms of the facilities remain materially unchanged. If the Company does not pay off all outstanding amounts of the 2008 ABCP Facilities at maturity, the facilities will extend by 90 days with the interest rate increasing each month during the 90-day period. The total increase in interest rates during this period is 1.5 percent to 2.0 percent depending on the facility. The Company expects to extend this facility prior to the April 28, 2009 maturity date.

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

Secured borrowings, including securitizations, asset-backed commercial paper ("ABCP") borrowings and indentured trusts, comprised 80 percent of our Managed debt outstanding at March 31, 2009 versus 78 percent at December 31, 2008.

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 asset-backed securities ("ABS") at lower interest rate spreads. As proposed, the U.S. Government's Term Asset-Backed Securities Loan Facility ("TALF") will provide investors with funding of up to three years for eligible ABS rated by two or more rating agencies in the highest investment-grade rating category. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of March 31, 2009, we had approximately $17.4 billion of student loans eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. The Federal Reserve Bank launched the TALF program on March 3, 2009. While we expect TALF to improve our access to and reduce our cost of ABS funding, we are unable to predict, at this time, the impact TALF will ultimately have on our funding activities. To date, we have not participated in this program.

At March 31, 2009, we had $3.3 billion of taxable and $1.4 billion of tax-exempt auction rate securities outstanding in securitizations and indentured trusts, respectively, on a Managed Basis. Since February 2008, an imbalance of supply and demand in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of our auction rate securities' interest rates are set. As a result, all of the Company's auction rate securities as of March 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 $1.4 billion of tax-exempt

auction rate securities is a formula driven rate, which produced various maximum rates up to 3.15 percent during the first quarter of 2009.

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. The Company also has the option to repurchase the reset rate note prior to a failed remarketing and hold it as an investment until such time it can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or repurchased. The Company's repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at March 31, 2009, $903 million of our reset rate notes bore interest at LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. As of March 31, 2009, on a Managed Basis, the Company had $3.7 billion and $2.5 billion of reset rate notes due to be remarketed in 2009 and 2010, respectively, and an additional $8.5 billion to be remarketed thereafter.

Primary Sources of Liquidity and Available Capacity

We expect to fund our ongoing liquidity needs, including the origination of new loans and the repayment of $3.8 billion of the remaining senior unsecured notes maturing in 2009, through our current cash and investment portfolio, cash flow provided by earnings and repayment of principal on unencumbered student loan assets, the liquidity facilities made available by ED, TALF, the 2008 Asset-Backed Financing Facilities, the issuance of term ABS, term bank deposits, and, to a lesser extent, if possible, unsecured debt and other sources.

To supplement our funding sources, we maintained an additional $5.2 billion in unsecured revolving credit facilities as of March 31, 2009. These facilities include a $1.4 billion revolving credit facility maturing in October 2009; $1.9 billion maturing in October 2010; and $1.9 billion maturing in October 2011. They do not include a $0.3 billion commitment from a subsidiary of Lehman Brothers Holding, Inc. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.2 billion as of March 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 the minimum net adjusted revenue test as of the quarter ended March 31, 2009. In the past, we have not relied upon our unsecured revolving credit facilities as a primary source of liquidity. Although we have never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

The following table details our primary sources of primary and stand-by liquidity and the available capacity at March 31, 2009 and December 31, 2008.

	March 31, 2009 Available Capacity	December 31, 2008 Available Capacity
Sources of primary liquidity available for new FFELP Stafford and PLUS loan originations:		
ED Purchase and Participation Programs[1]	*Unlimited*[1]	*Unlimited*[1]
Sources of primary liquidity for general corporate purposes:		
Unrestricted cash and liquid investments:		
Cash and cash equivalents	$ 3,064	$ 4,070
U.S. Treasury-backed securities	—	—
Commercial paper and asset-backed commercial paper	410	801
Certificates of deposit	—	—
Other[2]	184	133
Total unrestricted cash and liquid investments[3][4][5]	3,658	5,004
Unused commercial paper and bank lines of credit[6]	5,192	5,192
2008 FFELP ABCP Facilities	122	807
2008 Private Credit ABCP Facilities	5	332
Total sources of primary liquidity for general corporate purposes	8,977	11,335
Sources of stand-by liquidity:		
Unencumbered FFELP loans[7]	5,001	5,222
Total sources of primary and stand-by liquidity for general corporate purposes[8]	$ 13,978	$ 16,557

(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 March 31, 2009 and December 31, 2008, includes $64 million and $97 million, respectively, due from The Reserve Primary Fund (see "Counterparty Exposure" below).

(3) At March 31, 2009 and December 31, 2008, excludes $18 million and $26 million, respectively, of investments pledged as collateral related to certain derivative positions and $73 million and $82 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.

(4) At March 31, 2009 and December 31, 2008, includes $911 million and $1.6 billion, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.

(5) At March 31, 2009 and December 31, 2008, includes $802 million and $1.1 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 Private Education Loans.

(6) At both March 31, 2009 and December 31, 2008, excludes commitments of $308 million, respectively, from Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. Lehman Brothers Holdings, Inc. declared bankruptcy on September 15, 2008.

(7) The balance at December 31, 2008 included $486 million (face amount and accrued interest) of student loans committed to be sold to ED that settled in January 2009. The balance at March 31, 2009 and December 31, 2008 also included approximately $605 million and $241 million, respectively of unencumbered FFELP student loans qualified to be financed by ED's Participation Program that were subsequently financed under that program.

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

In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At March 31, 2009, we had a total of $32.4 billion of unencumbered assets, including goodwill and acquired intangibles. Student loans, net, comprised $19.2 billion of this unencumbered asset total.

Counterparty Exposure

As of March 31, 2009, the Company had certain exposures to counterparties impacted by the ongoing credit market dislocation. Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to the Company.

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

To provide liquidity for future cash needs, SLM invests in high quality money market investments. At March 31, 2009, the Company had investments of $64 million with The Reserve Primary Fund ("The Fund"). In September 2008, the Company requested redemption of all monies invested in The Fund prior to The Fund's announcement that it suspended distributions as a result of The Fund's exposure to Lehman Brothers Holdings Inc.'s bankruptcy filing and The Fund's net asset value being below one dollar per share. The Company was originally informed by The Fund that the Company would receive its entire investment amount. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. The Company has received, to date, a total of $428 million of an initial investment of $500 million from The Fund. The Company anticipates further delay of remaining distributions and a potential loss on its investments, even though the Company is legally entitled to receive 100 percent of its remaining investment amount. In the fourth quarter of 2008, we recorded an impairment of $8 million related to our investment in the Fund.

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

The Company has liquidity exposure related to collateral movements between SLM Corporation and its derivative counterparties. The collateral movements can increase or decrease our primary liquidity depending on the nature of the collateral (whether cash or securities), and on movements in the value of the derivatives, which are primarily impacted by changes in interest rate and foreign exchange rates. These movements may require the Company to return cash collateral posted or may require the Company to access primary liquidity to post collateral to counterparties. Additionally, when securities are posted as collateral to the Company, the Company generally has the right to re-pledge or sell the security. As of March 31, 2009, the Company held $911 million of cash collateral in unrestricted cash accounts.

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

	SLM Corporation Contracts	On-Balance Sheet Securitizations Contracts	Off-Balance Sheet Securitizations Contracts
Exposure, net of collateral	$187	$823	$581
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	74%	40%	43%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	0%	0%	0%

Managed Borrowings

The following tables present the ending balances of our Managed borrowings (excluding SFAS No. 133 valuation adjustments) at March 31, 2009, December 31, 2008, and March 31, 2008.

	March 31, 2009			December 31, 2008			March 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	$ 5,052	$ 29,840	$ 34,892	$ 6,794	$ 31,182	$ 37,976	$10,086	$ 33,187	$ 43,273
Term bank deposits	1,066	2,215	3,281	1,148	1,108	2,256	651	—	651
Indentured trusts (on-balance sheet)	—	1,924	1,924	31	1,972	2,003	109	2,340	2,449
ABCP borrowings (on-balance sheet)[1]	25,519	—	25,519	24,768	—	24,768	24,717	—	24,717
ED Participation Program facility (on-balance sheet)[2]	13,530	—	13,530	7,365	—	7,365	—	—	—
Securitizations (on-balance sheet)	—	80,585	80,585	—	80,601	80,601	—	71,025	71,025
Securitizations (off-balance sheet)	—	36,359	36,359	—	37,159	37,159	—	40,912	40,912
Other	1,154	—	1,154	1,827	—	1,827	2,521	—	2,521
Total	$46,321	$150,923	$197,244	$41,933	$152,022	$193,955	$38,084	$147,464	$185,548

(1) Includes $1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at March 31, 2009 and December 31, 2008, respectively and $2.0 billion at March 31, 2008.

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

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of April 21, 2009.

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

(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 March 31, 2009, December 31, 2008, and March 31, 2008.

	As of March 31, 2009			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 269	$ 832	$ 850	$ 1,951
Underlying securitized loan balance	6,765	14,899	13,669	35,333
Weighted average life	2.9 yrs.	8.1 yrs.	6.4 yrs.	
Prepayment speed (annual rate)[3]				
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)[4]	.10%	.23%	5.83%	
Residual cash flows discount rate	11.1%	12.1%	31.5%	

	As of December 31, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 250	$ 918	$ 1,032	$ 2,200
Underlying securitized loan balance	7,057	15,077	13,690	35,824
Weighted average life	3.0 yrs.	8.1 yrs.	6.4 yrs.	
Prepayment speed (annual rate)[3]				
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)[4]	.11%	.23%	5.22%	
Residual cash flows discount rate	13.1%	11.9%	26.3%	

	As of March 31, 2008			
	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 414	$ 804	$ 1,656	$ 2,874
Underlying securitized loan balance	8,907	15,777	13,901	38,585
Weighted average life	2.8 yrs.	7.3 yrs.	6.6 yrs.	
Prepayment speed (annual rate)[3]				
Interim status	0%	N/A	0%	
Repayment status	0-30%	3-8%	1-30%	
Life of loan — repayment status	17%	6%	9%	
Expected remaining credit losses (% of outstanding student loan principal)[4]	.11%	.21%	5.56%	
Residual cash flows discount rate	12.0%	9.6%	13.9%	

(1) Includes $670 million, $762 million, and $452 million related to the fair value of the Embedded Floor Income as of March 31, 2009, December 31, 2008, and March 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 had no unrealized gains (pre-tax) in accumulated other comprehensive income that related to the Retained Interests for any of the periods presented.

(3) 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.

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

The Company recorded net unrealized mark-to-market losses of $261 million, $64 million and $88 million in the first quarter of 2009, fourth quarter of 2008 and first quarter of 2008, respectively, related to the Residual Interest.

As of March 31, 2009, the Company had changed the following significant assumptions compared to those used as of December 31, 2008, to determine the fair value of the Residual Interests:

- Life of loan default rate assumptions for Private Education loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $49 million unrealized mark-to-market loss.
- The discount rate assumption related to the Private Education Loan was increased. The Company assessed the appropriateness of the current risk premium, which is added to the risk free rate for the purpose of arriving at a discount rate, in light of the current economic and credit uncertainty that exists in the market as of March 31, 2009. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company increased the risk premium by 500 basis points to take into account the current level of cash flow uncertainty and lack of liquidity that exists with the Residual Interests. This resulted in a $126 million unrealized mark-to-market loss.