AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 25, 1997

REGISTRATION NO. 333-21217

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-4
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

SLM HOLDING CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

6199
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

52-2013874
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

1050 THOMAS JEFFERSON STREET, N.W.
WASHINGTON, D.C. 20007
(202) 298-3152
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICES)

TIMOTHY G. GREENE
GENERAL COUNSEL
SLM HOLDING CORPORATION
1050 THOMAS JEFFERSON STREET, N.W.
WASHINGTON, D.C. 20007
(202) 298-3150
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE OF THE SECURITIES TO THE PUBLIC: UPON CONSUMMATION OF THE REORGANIZATION DESCRIBED HEREIN.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. [ ]

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

CROSS REFERENCE SHEET
PURSUANT TO ITEM 501 (b) OF REGULATION S-K

ITEM NO.	DESCRIPTION	CAPTION IN PROSPECTUS
Item 1	Forepart of Registration Statement and Outside Front Cover Page of Prospectus.....	Cover of Registration Statement; Outside Front Cover Page of Prospectus; Cross Reference Sheet
Item 2	Inside Front and Outside Back Cover Pages of Prospectus.....	Available Information; Table of Contents
Item 3	Risk Factors, Ratio of Earnings to Fixed Charges and Other Information.....	Summary
Item 4	Terms of the Transaction.....	Summary; The Reorganization; Terms of the Reorganization Agreement; Comparison of Stockholder Rights; Appendix A: Agreement and Plan of Reorganization; Appendix B: Student Loan Marketing Association Reorganization Act of 1996
Item 5	Pro Forma Financial Information.....	Summary; Capitalization
Item 6	Material Contacts With the Company Being Acquired.....	Summary; The Reorganization; Terms of the Reorganization Agreement; Appendix A: Agreement and Plan of Reorganization
Item 7	Additional Information required for Reoffering by Persons and Parties Deemed to be Underwriters.....	*
Item 8	Interests of Named Experts and Counsel.....	Legal Matters; Experts
Item 9	Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	*
Item 10	Information With Respect to S-3 Registrants.....	*
Item 11	Incorporation of Certain Information by Reference.....	*
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Item 13	Incorporation of Certain Information by Reference.....	*
Item 14	Information With Respect to Registrants Other Than S-2 or S-3 Registrants.....	Summary; The Reorganization; Terms of the Reorganization Agreement; Business; Regulation
Item 15	Information With Respect to S-3 Companies....	*
Item 16	Information With Respect to S-2 or S-3 Companies.....	*

ITEM NO.	DESCRIPTION	CAPTION IN PROSPECTUS
Item 17	Information With Respect to Companies Other Than S-3 or S-2 Companies.....	Summary; The Reorganization; Terms of the Reorganization Agreement; Selected Financial Data; Financial Statements; Management's Discussion and Analysis of Financial Condition and Results of Operation; Business; Regulation
Item 18	Information if Proxies, Consents or Authorizations are to be Solicited.....	Front Cover Page of Prospectus; Summary; Information Regarding the Special Meeting; The Reorganization; -- Reasons for the Reorganization; Recommendation of the Board of Directors
Item 19	Information if Proxies, Consents or Authorizations are not to be Solicited or in an Exchange Offer.....	*

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* Omitted because inapplicable or answer is negative.

STUDENT LOAN MARKETING ASSOCIATION
1050 THOMAS JEFFERSON STREET, N.W.
WASHINGTON, D.C. 20007
(202) 298-3152

, 1997

Dear Sallie Mae Shareholder:

The Board of Directors of the Student Loan Marketing Association ("Sallie Mae") invites you to attend a Special Meeting of Shareholders (the "Special Meeting") to be held on Thursday, May 15, 1997, at _____ _.m., local time, at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102. At the Special Meeting, Sallie Mae shareholders will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a subsidiary of a new holding company named SLM Holding Corporation (the "Holding Company"). If the Reorganization is approved, each outstanding share of common stock, par value $.20 per share, of Sallie Mae shall be converted into one share of common stock, par value $.20 per share, of the Holding Company. The Reorganization is described in the attached Proxy Statement/Prospectus, including the reasons why a majority of the Board approved the Reorganization. The Holding Company Board will include six members of the Sallie Mae Board, Sallie Mae's CEO, and nine outstanding new members. For information concerning the Board of Directors of the Holding Company, see the section entitled "MANAGEMENT" in the attached Proxy Statement/Prospectus. Eight members of the Sallie Mae Board, none of whom will serve on the Holding Company Board, voted against the Reorganization. A statement provided to Sallie Mae on behalf of these directors of the reasons for their vote is transcribed at Appendix D.

Federal legislation described herein authorized the Sallie Mae Board to develop a plan for reorganizing Sallie Mae as a subsidiary of a new holding company. The Reorganization Agreement is the plan approved by a majority of the Sallie Mae Board. The Reorganization would effectively "privatize" Sallie Mae by phasing out its federal sponsorship. This is a unique and important opportunity for Sallie Mae and its shareholders.

NO MATTER HOW MANY SHARES YOU HOLD, YOU ARE URGED TO COMPLETE, SIGN AND RETURN THE ENCLOSED PROXY CARD AT YOUR EARLIEST CONVENIENCE. This will help to establish a quorum and avoid the cost of further solicitation. We hope that you will be able to attend the meeting and encourage you to read the enclosed materials describing the meeting agenda, the Reorganization and Sallie Mae in detail.

We look forward to seeing you on May 15, 1997.

Sincerely,

William Arceneaux
Chairman of the Board

STUDENT LOAN MARKETING ASSOCIATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 15, 1997

Consistent with the By-Laws of the Student Loan Marketing Association ("Sallie Mae"), notice is hereby given on behalf of the Board of Directors that a Special Meeting of Shareholders of Sallie Mae (the "Special Meeting") will be held on Thursday, May 15, 1997, at _____ _.m., local time at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102.

The purpose of the meeting is to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a subsidiary of a new holding company named SLM Holding Corporation (the "Holding Company"). If the Reorganization is approved, each outstanding share of common stock, par value $.20 per share, of Sallie Mae shall be converted into one share of common stock, par value $.20 per share, of the Holding Company.

Holders of record of Sallie Mae Common Stock at the close of business on March 17, 1997 will be entitled to vote at the Special Meeting or any adjournments or postponements thereof. Accompanying this Notice of Special Meeting are the form of proxy and the Proxy Statement/Prospectus describing in detail the business to come before the Special Meeting.

THE BOARD OF DIRECTORS SOLICITS YOUR PROXY AND ASKS YOU TO COMPLETE, SIGN AND RETURN THE ENCLOSED FORM OF PROXY AT YOUR EARLIEST CONVENIENCE IN ORDER TO BE SURE YOUR VOTE IS RECEIVED AND COUNTED. RETURNING YOUR FORM OF PROXY WILL HELP AVOID THE COSTS OF FURTHER SOLICITATION. PLEASE CHECK THE BOX ON THE FORM OF PROXY IF YOU PLAN TO ATTEND THE SPECIAL MEETING OR ADVISE MY OFFICE DIRECTLY AT (202) 298-3152.

YOUR VOTE IS IMPORTANT REGARDLESS OF THE NUMBER OF SHARES YOU HOLD.

By Order of the Board of Directors

Ann Marie Plubell
Vice President, Associate General
Counsel and
Secretary

, 1997
Washington, D.C.

YOU ARE URGED TO MARK, SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT IN THE ACCOMPANYING ENVELOPE AS SOON AS POSSIBLE. THE PROXY IS REVOCABLE AT ANY TIME PRIOR TO ITS USE. THE AFFIRMATIVE VOTE OF HOLDERS OF AT LEAST A MAJORITY OF THE OUTSTANDING COMMON STOCK OF SALLIE MAE IS REQUIRED FOR APPROVAL OF THE REORGANIZATION.

INFORMATION CONTAINED HEREIN IS SUBJECT TO COMPLETION OR AMENDMENT. A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THESE SECURITIES MAY NOT BE SOLD NOR MAY OFFERS TO BUY BE ACCEPTED PRIOR TO THE TIME THE REGISTRATION STATEMENT BECOMES EFFECTIVE. THIS PROXY STATEMENT/PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY NOR SHALL THERE BE ANY SALE OF THESE SECURITIES IN ANY STATE IN WHICH SUCH OFFER, SOLICITATION OR SALE WOULD BE UNLAWFUL PRIOR TO REGISTRATION OR QUALIFICATION UNDER THE SECURITIES LAWS OF ANY SUCH STATE.

SUBJECT TO COMPLETION, DATED MARCH 25, 1997

PROXY STATEMENT OF STUDENT LOAN MARKETING ASSOCIATION

PROSPECTUS OF SLM HOLDING CORPORATION

This Proxy Statement/Prospectus is being furnished to holders of record on March 17, 1997 (the "Record Date") of the common stock, par value $.20 per share (the "Sallie Mae Common Stock"), of the Student Loan Marketing Association, a federally-chartered government-sponsored enterprise ("Sallie Mae"), in connection with the solicitation of proxies by the Sallie Mae Board of Directors (the "Sallie Mae Board") for use at the Special Meeting of Sallie Mae shareholders (the "Special Meeting") to be held on Thursday, May 15, 1997 at _____ _.m. at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102 and at any adjournments or postponements thereof.

At the Special Meeting, Sallie Mae shareholders will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a wholly-owned subsidiary of a new holding company named SLM Holding Corporation (the "Holding Company"). If the Reorganization is approved, each outstanding share of Sallie Mae Common Stock shall be converted into one share of common stock, par value $.20 per share, of the Holding Company ("Holding Company Common Stock").

The Reorganization is described herein. The reasons why a majority of the Board approved the Reorganization are set forth in the section entitled "BACKGROUND TO THE REORGANIZATION." The Holding Company Board of Directors will include six members of the Sallie Mae Board, Sallie Mae's CEO, and nine new members. For information concerning the Holding Company Board, see the section herein entitled "MANAGEMENT." Eight members of the Sallie Mae Board, none of whom will serve on the Holding Company Board, voted against the Reorganization. A statement provided to Sallie Mae on behalf of these directors of the reasons for their vote is transcribed at Appendix D.

This Proxy Statement/Prospectus also serves as the prospectus included as part of a Registration Statement on Form S-4 that has been filed with the Securities and Exchange Commission (the "SEC") covering the 54,600,000 shares of Holding Company Common Stock issuable in the Reorganization. This Proxy Statement/Prospectus and accompanying form of proxy are first being mailed to the holders of Sallie Mae Common Stock on or about , 1997.

The following legend is required by the Privatization Act (as defined herein) in connection with the offering of securities by the Holding Company, including the Holding Company Common Stock:

OBLIGATIONS OF THE HOLDING COMPANY AND ANY SUBSIDIARY OF THE HOLDING COMPANY ARE NOT GUARANTEED BY THE FULL FAITH AND CREDIT OF THE UNITED STATES AND NEITHER THE HOLDING COMPANY NOR ANY SUBSIDIARY OF THE HOLDING COMPANY IS A GOVERNMENT-SPONSORED ENTERPRISE (OTHER THAN SALLIE MAE) OR AN INSTRUMENTALITY OF THE UNITED STATES.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROXY STATEMENT/ PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THE DATE OF THIS PROXY STATEMENT/PROSPECTUS IS 1997.

AVAILABLE INFORMATION

A Registration Statement on Form S-4 has been filed with the SEC under the Securities Act of 1933, as amended (the "1933 Act"), with respect to the shares of Holding Company Common Stock issuable in exchange for Sallie Mae Common Stock in the Reorganization as described herein (the "Registration Statement"). For further information pertaining to the Holding Company Common Stock offered hereby, reference is made to such Registration Statement and to the exhibits thereto, which may be inspected and copied at prescribed rates at the public reference facilities maintained by the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can also be obtained from the SEC at prescribed rates by writing to the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549.

Sallie Mae is exempt from the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Holding Company was formed to effectuate the transactions described under "THE REORGANIZATION." The Holding Company has not previously been subject to the requirements of the Exchange Act, and there currently is no public market for its stock. However, if the Reorganization described herein is approved and consummated, the Holding Company will become subject to the information, reporting and proxy statement requirements of the Exchange Act, and such information may be obtained from the SEC at prescribed rates by addressing written requests for such copies to the public reference facilities of the SEC at the above-stated address and should be available at the SEC's regional offices located at Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and at Seven World Trade Center, 13th Floor, New York, New York 10048. The SEC also maintains a site on the World Wide Web at http://www.sec.gov that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. Sallie Mae Common Stock is presently listed on the New York Stock Exchange (the "NYSE") under the symbol "SLM" and Sallie Mae files quarterly Information Statements and annual reports to shareholders with the NYSE. In addition, Sallie Mae and the Holding Company have applied to have the Holding Company Common Stock listed on the NYSE as of the effective date of the Reorganization described herein. If the Reorganization is approved, Exchange Act reports, proxy statements and other information concerning the Holding Company will be available for inspection and copying at the offices of the NYSE at 20 Broad Street, New York, New York 10005.

No person is authorized to give any information or to make any representation not contained in this Proxy Statement/Prospectus in connection with the solicitation made hereby, and if given or made, such information or representation must not be relied upon as having been authorized by Sallie Mae or the Holding Company. This Proxy Statement/Prospectus does not constitute an offer to sell, or a solicitation of an offer to purchase, any securities, or solicitation of a proxy, to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction. Neither the delivery of this Proxy Statement/Prospectus nor any distribution of the securities to which this Proxy Statement/Prospectus relates shall, under any circumstances, create any inference that there has been no change in the affairs of either Sallie Mae or the Holding Company since the date of this Proxy Statement/Prospectus. Statements contained in this Proxy Statement/Prospectus as to the contents of any contract or other document referred to herein are not necessarily complete, and in each instance, reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.

FORWARD-LOOKING INFORMATION

This Proxy Statement/Prospectus contains certain forward-looking statements and information relating to Sallie Mae and the Holding Company that are based on the beliefs of Sallie Mae and Holding Company management as well as assumptions made by and information currently available to Sallie Mae and Holding Company. When used in this document, the words "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to Sallie Mae and Holding Company management, are intended to identify forward-looking statements. Such statements reflect the current views of Sallie Mae and the Holding Company with respect to future events and are subject to certain risks, uncertainties and assumptions, described in this Proxy Statement/Prospectus. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Sallie Mae and the Holding Company do not intend to update these forward-looking statements.

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SUMMARY

The following is a summary of certain important aspects of the Reorganization (as defined below) and related information discussed elsewhere in this Proxy Statement/Prospectus. This Summary does not purport to be complete and is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements, including the notes thereto, appearing elsewhere in this Proxy Statement/Prospectus. Shareholders of the Student Loan Marketing Association are urged to carefully read this Proxy Statement/Prospectus in its entirety. Capitalized terms used but not otherwise defined in this Summary have the meanings ascribed to them elsewhere in this Proxy Statement/Prospectus.

SALLIE MAE AND THE HOLDING COMPANY

The Student Loan Marketing Association ("Sallie Mae" or the "GSE") was established in 1972 as a for-profit, stockholder-owned, government-sponsored enterprise to support the education credit needs of students by, among other things, promoting liquidity in the student loan marketplace through secondary market purchases. Sallie Mae is the largest source of financing and servicing for education loans in the United States. The student loan industry in the United States developed primarily to support federal student loan programs and, accordingly, is highly regulated. The principal government program, the Federal Family Education Loan Program (formerly the Guaranteed Student Loan Program) (the "FFELP"), was created to ensure low cost access by both needy and middle class families to post-secondary education. Sallie Mae's products and services include student loan purchases, commitments to purchase student loans and secured advances to originators of student loans. Sallie Mae also offers operational support to originators of student loans and to post-secondary education institutions. In addition, Sallie Mae provides other education-related financial services. See "BUSINESS."

The Privatization Act (as defined below) authorized the restructuring of the common stock ownership of Sallie Mae so that all of its outstanding common stock would be owned directly by a holding company. If the Reorganization is approved, SLM Holding Corporation, a recently formed Delaware corporation (the "Holding Company"), will become the holding company of Sallie Mae, See "THE REORGANIZATION" and "THE PRIVATIZATION ACT." AS USED HEREIN, THE "COMPANY" REFERS TO SALLIE MAE PRIOR TO THE REORGANIZATION AND TO THE HOLDING COMPANY AS A CONSOLIDATED ENTITY FROM AND AFTER THE EFFECTIVE TIME (AS DEFINED BELOW) OF THE REORGANIZATION.

THE SPECIAL MEETING

The Special Meeting of Sallie Mae shareholders (the "Special Meeting") will be held on Thursday, May 15, 1997 at _____ _.m., at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102. At the Special Meeting, Sallie Mae shareholders will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a wholly-owned subsidiary of the Holding Company pursuant to the merger (the "Merger") of a newly-formed subsidiary of the Holding Company ("MergerCo") with and into Sallie Mae, with Sallie Mae as the surviving corporation. If the Reorganization is consummated, each outstanding share of common stock, par value $.20 per share, of Sallie Mae ("Sallie Mae Common Stock") would be converted into one share of common stock, par value $.20 per share, of the Holding Company ("Holding Company Common Stock"). See "INFORMATION REGARDING THE SPECIAL MEETING."

Under the Privatization Act and Delaware law, the Reorganization requires approval by the affirmative vote of the holders of a majority of the outstanding shares of Sallie Mae Common Stock. This document and the enclosed form of proxy are being furnished to you in connection with the solicitation by Sallie Mae's Board of Directors (the "Sallie Mae Board") of proxies in the enclosed form for use at the Special Meeting. Only holders of record of Sallie Mae Common Stock as of the close of business on March 17, 1997 will be entitled to notice of and to vote at the Special Meeting or any adjournments or postponements thereof.

As of the Record Date 53,092,020 shares of Sallie Mae Common Stock were outstanding and eligible to be voted, held by approximately 23,000 shareholders. As of the Record Date, Sallie Mae's directors and

named executive officers beneficially owned 285,084 shares of Sallie Mae Common Stock, or less than 1% of the shares of Sallie Mae Common Stock outstanding as of such date.

The vote on the Reorganization is being held at a Special Meeting rather than an Annual Meeting because of the importance of the Reorganization to the Company's future and the determination that shareholders should have an opportunity to consider the Reorganization at a meeting dedicated to that purpose. If the Reorganization is consummated, the Sallie Mae Board would be appointed by the Holding Company. If the Reorganization is not approved by shareholders, an Annual Meeting of Sallie Mae shareholders will be held as soon as practicable to, among other things, elect Sallie Mae directors.

THE REORGANIZATION

BACKGROUND

For the last several years, Sallie Mae has advocated the "privatization" of its business through a corporate restructuring that would permit a transition from government-sponsored enterprise status to a fully private, state-chartered corporation. Sallie Mae's federal charter restricts its business activities to specified education finance related activities and imposes special obligations on it as a government-sponsored enterprise. On September 30, 1996, Congress enacted the Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act"), which authorized the creation of a holding company through which the Company could pursue new business opportunities beyond the limited scope of the Sallie Mae's restrictive federal charter and effect an orderly wind-down of Sallie Mae following the transfer of ongoing business activities to such a holding company. See "THE REORGANIZATION."

REASONS FOR THE REORGANIZATION; RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The majority of the Sallie Mae Board has determined that the Reorganization, upon the terms and conditions set forth in the Privatization Act and the Reorganization Agreement, is in the best interests of Sallie Mae and its shareholders. ACCORDINGLY, THE SALLIE MAE BOARD HAS APPROVED THE REORGANIZATION AGREEMENT. THE MAJORITY OF THE SALLIE MAE BOARD RECOMMENDS THAT THE HOLDERS OF THE OUTSTANDING SHARES OF SALLIE MAE COMMON STOCK VOTE FOR APPROVAL OF THE REORGANIZATION AT THE SPECIAL MEETING. THE REORGANIZATION WAS APPROVED BY THE SALLIE MAE BOARD BY A VOTE OF 13 MEMBERS IN FAVOR OF THE REORGANIZATION AND EIGHT MEMBERS AGAINST THE REORGANIZATION. FOR A SUMMARY OF THE SALLIE MAE BOARD DELIBERATIONS, SEE "THE REORGANIZATION." A statement provided to Sallie Mae on behalf of the directors who voted against the Reorganization of the reasons for their vote is transcribed at Appendix D. None of the directors who voted against the Reorganization will serve on the Holding Company Board.

CORPORATE STRUCTURE BEFORE AND AFTER THE REORGANIZATION

Sallie Mae currently operates as a government-sponsored enterprise, subject to the restrictions of its federal charter. Following the Reorganization, the GSE would be one of several subsidiaries of the Holding Company. The Privatization Act will impose certain restrictions on intercompany relations between the GSE and its affiliates during the period prior to the GSE's dissolution. In particular, the GSE must not extend credit to, nor guarantee any debt obligations of, the Holding Company or the Holding Company's non-GSE subsidiaries. Although the GSE may not finance the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Holding Company, which in turn may use such amounts to support its non-GSE subsidiaries. The Sallie Mae Charter (as defined below) effectively requires that it maintain a minimum capital ratio. The Privatization Act further directs that under no circumstances shall the assets of the GSE be available or used to pay claims or debts of or incurred by the Holding Company. See "THE REORGANIZATION -- Corporate Structure Before and After the Reorganization."

TERMS OF THE REORGANIZATION AGREEMENT

Pursuant to the Reorganization Agreement, MergerCo, a newly-formed, wholly-owned subsidiary of the Holding Company, will be merged with and into the GSE with the GSE surviving, each outstanding share of Sallie Mae Common Stock will be converted into one share of Holding Company Common Stock and the outstanding shares of the common stock of MergerCo will be converted into all of the issued and outstanding

shares of Sallie Mae Common Stock, all of which will then be owned by the Holding Company. If the Reorganization is approved, the Reorganization will become effective at the time the certificate of merger is filed with the Secretary of State of the State of Delaware (the "Effective Time"), which management expects to be on or about May 16, 1997. As a result of the Reorganization, Sallie Mae will become a subsidiary of the Holding Company and all of the Holding Company Common Stock outstanding immediately after the Reorganization will be owned by the holders of Sallie Mae Common Stock outstanding immediately prior to the Reorganization. Following the Reorganization, the GSE will be gradually liquidated and its federal charter will be rescinded on or before September 30, 2008.

The Reorganization will not result in any change to Sallie Mae's outstanding class of preferred stock or to its outstanding debt obligations and all of the outstanding securities of Sallie Mae (other than the Sallie Mae Common Stock and common stock equivalents) will remain outstanding immediately after the Reorganization. The Privatization Act requires that the GSE's preferred stock be repurchased or redeemed upon the GSE's dissolution, no later than September 30, 2008. See "THE REORGANIZATION -- Treatment of Preferred Stock." The Privatization Act provides that the Reorganization will not modify the attributes accorded to the debt obligations of Sallie Mae by the Sallie Mae Charter.

It will not be necessary for holders of Sallie Mae Common Stock to immediately exchange their existing stock certificates for stock certificates of the Holding Company in connection with the Reorganization. Following the Reorganization, new certificates bearing the name of SLM Holding Corporation will be issued by ChaseMellon Shareholder Services as outstanding certificates are presented for transfer. In addition, new certificates of the Holding Company will be issued in exchange for old certificates of the GSE upon the request of any shareholder. Certificates presented for transfer to a name other than that in which the surrendered certificate is registered must be properly endorsed, with the signature guaranteed, and accompanied by evidence of payment of any applicable stock transfer taxes. See "TERMS OF THE REORGANIZATION AGREEMENT."

BUSINESS ACTIVITIES AFTER THE REORGANIZATION

Sallie Mae currently has no plans to effect any substantial changes to its business following the Reorganization and expects that its principal income-generating business activity will remain the purchase of federally-insured loans. Following the Reorganization, the Company's non-GSE affiliates will provide loan servicing and management support to the GSE and are expected to engage in certain new business activities. For example, the Company expects to begin to develop capabilities in a number of new areas, principally government contracting and other fee-based businesses, that will leverage its back-office resources and are expected to gradually expand its franchise. At this time, however, Sallie Mae has no specific plans to invest materially or take on any material risks in connection with such new business activities. Following the Reorganization, the Company will have the opportunity to consider certain strategic opportunities, such as acquisitions and joint ventures, that currently are not feasible due to restrictions contained in the Sallie Mae Charter. At this time, Sallie Mae has not actively explored the desirability of any such specific strategic opportunities. See "BUSINESS -- Operations Following the Reorganization."

THE PRIVATIZATION ACT

The Privatization Act provides the framework for effecting the Reorganization and imposes certain restrictions on the operations of the Holding Company and its subsidiaries after the Reorganization is consummated. See "THE PRIVATIZATION ACT" and "REGULATION." The Privatization Act requires the Company to pay $5 million to the District of Columbia Financial Responsibility and Management Assistance Authority (the "D.C. Financial Control Board") for the restricted use of the "Sallie Mae" name and to issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock, exercisable at any time prior to September 30, 2008 at $72.43 per share.

SUBSIDIARY STOCK AND ASSET TRANSFERS

The Privatization Act requires that at the Effective Time, or as soon as practicable thereafter, the GSE shall transfer to the Holding Company or one or more of its non-GSE subsidiaries, certain assets, including all

of the capital stock of which the GSE is the beneficial owner in certain subsidiaries (the "Transferred Subsidiaries"). It is anticipated that net asset transfers (including the transfer of the Transferred Subsidiaries) occurring in the first year after the Reorganization will aggregate approximately $100 million and that certain fixed assets will be transferred within approximately three years of the Reorganization. Based on preliminary discussions with commercial banking sources, the Company believes it will be able to secure financing at a reasonable cost through the Holding Company for such asset transfers. Although the foregoing asset transfers will likely result in some incremental financing costs and state taxes, such expenses are not expected to have any material impact on the Company's financial results. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Liquidity and Capital Resources."

EMPLOYEE AND BENEFIT TRANSFERS

As required by the Privatization Act, all GSE employees will be transferred from the GSE at the Effective Time. In connection with the Reorganization, employee benefit obligations and benefit plans of the GSE will be transferred to the Holding Company or one of its non-GSE subsidiaries. After the Reorganization, Sallie Mae stock-based employee benefit plans will be amended to provide for the delivery of Holding Company Common Stock instead of Sallie Mae Common Stock.

WIND-DOWN PERIOD

Following the Reorganization, the GSE entity will be gradually liquidated and its federal charter will be rescinded on or before September 30, 2008. During this wind-down period, it is expected that the GSE's operations will be managed by its non-GSE affiliates. Also, during this period, the Holding Company will remain a passive entity which supports the operations of the GSE and its other subsidiaries, and all business activities will be conducted through the GSE and by the other subsidiaries. The use of the "Sallie Mae" name by the Holding Company and its subsidiaries is restricted by the Privatization Act, as described herein.

During the wind-down period, the GSE's new business activities are limited. The GSE generally may continue to purchase student loans only through September 30, 2007. The GSE's other lines of business, such as warehousing advances, letters of credit and standby bond purchase commitments, will be limited to takedowns on contractual financing and guarantee commitments in place as of the Effective Time.

In addition, the business activities of the Holding Company and its non-GSE subsidiaries are also subject to certain limitations, including a de facto limitation against purchases of FFELP loans for so long as the GSE continues this type of activity. Subject to the foregoing, the Holding Company could elect at any time to commence FFELP student loan purchases through its non-GSE subsidiaries. At this time, management anticipates that the GSE will not be dissolved prior to the year 2008 and that it will continue to be used for all insured student loan purchase activity until the year 2007. However, the GSE's student loan purchase activity may be transferred to one of the Holding Company's non-GSE subsidiaries prior to such time if it becomes advantageous to do so. In particular, such a transfer would be considered if certain litigation relating to the offset fee described below is ultimately resolved adversely to the Company, see "BUSINESS -- Legal Proceedings," or if Congress amends the Sallie Mae Charter to extend such fee to securitized loans, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Other Related Events." In addition, it is expected that during the wind-down period the GSE would provide financing and letter of credit support under existing contractual commitments which aggregate approximately $2.4 billion and $3.7 billion, respectively, as of December 31, 1996. The GSE would also maintain an investment portfolio during the wind-down.

After the Reorganization, Sallie Mae will be able to continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions, although the maturity date of such issuances generally may not extend beyond September 30, 2008, Sallie Mae's final dissolution date. If at any time during the wind-down period the GSE's capital ratio falls below certain required levels (2 percent of assets until January 1, 2000 and 2.25 percent of assets thereafter), the Holding Company is required to supplement the GSE's capital to achieve the required level. Upon dissolution of the GSE, any remaining GSE

obligations will be transferred into a defeasance trust for the benefit of the holders of such obligations. If the GSE has insufficient assets to fully fund such defeasance trust, the Holding Company must transfer sufficient assets to such trust to account for this shortfall.

A law enacted at the same time as the Privatization Act contains amendments to the Federal Deposit Insurance Act that prohibit depository institutions from being affiliates of government-sponsored enterprises. This restriction effectively limits the ability of the Company and its affiliates to originate insured student loans through an affiliated depository institution as long as the GSE remains in existence.

CHARTER SUNSET IF REORGANIZATION DOES NOT OCCUR

If a reorganization pursuant to the Privatization Act does not occur on or prior to March 31, 1998, the Privatization Act requires that it submit an alternative wind-down plan to Congress and the Treasury Department by 2007. This plan would call for the dissolution of Sallie Mae by 2013. During this alternative wind-down period, Sallie Mae could not engage in new business activities beyond those contemplated by the Sallie Mae Charter but could transfer assets, except for the "Sallie Mae" name, at any time its statutory capital requirements were satisfied. As with the Reorganization, any remaining obligations, and assets sufficient to pay such obligations, would be transferred to a fully collateralized trust at the time of dissolution. All other assets would be distributed to Sallie Mae shareholders. Under this alternative, Sallie Mae generally would have to cease its business activities after 2009 and could not issue debt obligations that mature after 2013. The Secretary of the Treasury, who would monitor the wind-down, could require Sallie Mae to amend its plan of dissolution if deemed necessary to ensure full payment of its obligations.

The Sallie Mae directors who approved the Reorganization Agreement, representing a majority of the Board, expect that the Reorganization Agreement will be approved by Sallie Mae shareholders. As a result, the Sallie Mae Board has not determined what action, if any, it may take with respect to privatization in the event the Reorganization Agreement is not approved. If the Reorganization Agreement is not approved by shareholders, an Annual Meeting of Sallie Mae shareholders will be held as soon as practicable to, among other things, elect Sallie Mae directors. Under the Privatization Act, the effective date of a reorganization providing for the restructuring of common stock ownership of Sallie Mae so that all of its outstanding common stock would be owned directly by a holding company must occur on or prior to March 31, 1998. If the effective date has not occurred prior to such date, the charter sunset provisions would apply. If the Reorganization Agreement is not approved, there can be no assurance that the Sallie Mae Board will adopt an alternate plan of reorganization, and, if the Sallie Mae Board adopted an alternate plan, there can be no assurance as to the terms of such a plan or as to whether it would be approved by holders of the requisite number of shares of Sallie Mae Common Stock in a timely manner.

OTHER PROVISIONS OF THE REORGANIZATION

NO DISSENTERS' APPRAISAL RIGHTS

Sallie Mae shareholders have no statutory appraisal rights. See "COMPARISON OF STOCKHOLDER RIGHTS -- United States and Delaware Law -- Dissenters' Rights."

DIVIDEND POLICY

It is anticipated that the Holding Company will initially pay dividends on Holding Company Common Stock at the rate most recently paid, and on approximately the same schedule, as dividends have been paid on Sallie Mae Common Stock. No assurance, however, can be given as to the amount of future dividends, which will necessarily be dependent on future earnings and the financial requirements of the Holding Company and its subsidiaries, including the GSE, after the Reorganization. The Holding Company's principal source of funds is expected to be funds from dividends on the stock of its subsidiaries and proceeds from any issuances of the Holding Company's equity or debt securities. The ability of the GSE to pay dividends is generally subject to the capital requirements included in Sallie Mae's federal charter set forth in Section 439, Part B, Title VI of the Higher Education Act of 1965, as amended, codified at 20 U.S.C. sec.1087-2, (the "Sallie Mae

Charter"), and to the priority of dividends on the preferred stock. See "THE REORGANIZATION -- Dividend Policy."

STOCK EXCHANGE LISTING

Sallie Mae has filed an application to list the shares of Holding Company Common Stock to be issued in connection with the Reorganization on the New York Stock Exchange ("NYSE"), subject to approval of the Reorganization Agreement by the Sallie Mae shareholders and official notice of issuance. The shares of Sallie Mae Common Stock are traded, and the shares of Holding Company Common Stock are expected to be traded, on the NYSE under the symbol "SLM." If the Reorganization is consummated, shares of Sallie Mae Common Stock will be delisted at the same time the Holding Company shares are listed. See "THE REORGANIZATION -- Stock Exchange Listing."

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The obligation of Sallie Mae to consummate the Reorganization is conditioned upon the receipt by Sallie Mae of an opinion of Skadden, Arps, Slate, Meagher & Flom LLP in form and substance reasonably satisfactory to Sallie Mae, dated as of the Effective Time, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion and set forth in certificates of officers of the Holding Company, Sallie Mae and others, as well as representation letters of certain holders of Sallie Mae Common Stock, all of which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for U.S. federal income tax purposes as a nonrecognition transfer of shares of Sallie Mae Common Stock by the holders thereof to the Holding Company for shares of Holding Company Common Stock. See "TERMS OF THE REORGANIZATION" and "CERTAIN FEDERAL INCOME TAX CONSEQUENCES."

REGULATION

The GSE will continue to be subject to the requirements of the Sallie Mae Charter and to certain regulations irrespective of whether the Reorganization is approved. The Privatization Act amends the Sallie Mae Charter to provide for increased oversight of GSE operations by, and the reimbursement of certain oversight costs to, the Secretary of the Treasury as well as the increase of Sallie Mae's required shareholders' equity ratio from the current level of 2 percent of assets to 2.25 percent of assets beginning after January 1, 2000.

Following the Reorganization, the Company will be an eligible lender under the Higher Education Act of 1965, as amended, for purposes only of purchasing and holding student loans made by other lenders. Like other participants in the insured student loan programs, the Company will be subject, from time to time, to review of its student lending operations by the U.S. Department of Education, certain guarantee agencies and the General Accounting Office. In addition, Sallie Mae Servicing Corporation, a wholly-owned subsidiary of Sallie Mae, as a servicer of student loans, is subject to certain U.S. Department of Education regulations regarding financial responsibility and administrative capability that govern all third party servicers of insured student loans. See "REGULATION."

COMPARISON OF STOCKHOLDER RIGHTS

There are certain differences between the present rights of holders of Sallie Mae Common Stock and the rights of holders of Holding Company Common Stock after the Reorganization. Certain of the material differences are discussed below. While the Sallie Mae Charter provides for cumulative voting in the election of directors, the Holding Company Charter would provide that directors would be elected by a plurality of the shares voted. The Sallie Mae Board includes 14 members who are elected to one year terms and seven members appointed by the President. The Holding Company Board includes 16 members who will be elected to one year terms. Seven of the Sallie Mae elected members must be affiliated with financial institutions and seven must be affiliated with educational institutions, while the Holding Company Board would have no affiliation requirements. The Sallie Mae Charter may only be amended by enactment of federal law. The

Holding Company Charter may be amended by action of the Holding Company Board and the Holding Company stockholders. For a more comprehensive comparison of the relative rights of holders of Sallie Mae Common Stock and holders of Holding Company Common Stock, see "COMPARISON OF STOCKHOLDER RIGHTS."

HOLDING COMPANY BOARD OF DIRECTORS

Sallie Mae, as the sole stockholder of the Holding Company prior to the Reorganization, will appoint the members of the Holding Company Board to serve until their successors are duly elected. After the Effective Time, the Company stockholders will elect all of the members of the Holding Company Board at each annual meeting beginning with the 1998 Annual Meeting of the Company, which meeting is expected to take place in April of 1998. The persons whom Sallie Mae intends to appoint are identified elsewhere in this Proxy Statement/Prospectus and are not identical to the current Sallie Mae Board. The Holding Company Board will include six members of the Sallie Mae Board, Sallie Mae's CEO, and nine new members. None of the eight members of the Sallie Mae Board that voted against the Reorganization will serve on the Holding Company Board. See "MANAGEMENT -- Holding Company Board of Directors."

SUMMARY SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of Sallie Mae. The selected financial data in the table are derived from the consolidated financial statements of Sallie Mae. The data should be read in conjunction with the consolidated financial statements, related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	YEARS ENDED DECEMBER 31,				
	1996	1995(1)	1994(1)	1993(1)	1992(1)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
OPERATING DATA:					
Net interest income	$ 866	$ 901	$ 955	$ 1,149	$ 975
Net income	419	496	403	430	394
Earnings per common share	7.32	7.20	4.91	4.83	4.21
Dividends per common share	1.64	1.51	1.42	1.25	1.05
Return on common stockholders' equity	50.13%(3)	39.85%(3)	29.06%(3)	40.26%	40.22%
Net interest margin	1.90%	1.84%	2.09%	2.70%	2.30%
Return on assets	.88	.96	.84	.97	.88
Dividend payout ratio	22.40	20.97	28.89	25.88	24.92
Average equity/average assets	2.09	2.68	3.16	2.75	2.53
BALANCE SHEET DATA:					
Student loans purchased	$32,308	$34,336	$30,370	$26,804	$24,173
Student loan participations	1,446	-	-	-	-
Warehousing advances	2,789	3,865	7,032	7,034	8,085
Academic facilities financings	1,473	1,312	1,548	1,359	1,189
Total assets	47,630	50,002	52,961	46,509	46,621
Long-term notes	22,606	30,083	34,319	30,925	30,724
Total borrowings	44,763	47,530	50,335	44,544	44,440
Stockholders' equity	1,048(3)	1,081(3)	1,471(3)	1,280	1,220
Book value per common share	15.53	15.03	17.10	12.69	11.25
OTHER DATA:					
Securitized student loans outstanding	$ 6,263	$ 954	$ -	$ -	$ -
Core earnings(2)	391	361	356	398	402
Premiums on debt extinguished	7	8	14	211	141

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(1) 1995 results reflect the change in method of accounting for student loan income. The effect of the change increased net income by $151 million and earnings per common share by $2.23. On a pro forma basis, assuming the method of accounting for student loan income was applied retroactively prior to 1992, net income would increase by $17 million ($.22 per common share), $13 million ($.15 per common share), and $8 million ($.09 per common share) for the years ended December 31, 1994, 1993, and 1992, respectively.

(2) Core earnings is defined as Sallie Mae's net income less the after-tax effect of floor revenues, the cumulative effect of accounting changes and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles (GAAP), are important because they depict Sallie Mae's earnings before the effects of one time events such as floor revenues which are largely outside of Sallie Mae's control. Management believes that core earnings as defined, while not necessarily comparable to other companies use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in Sallie Mae's student loan operations.

(3) At December 31, 1996, 1995 and 1994, stockholders' equity reflects the addition to stockholders' equity of $349 million, $371 million, and $300 million, respectively, net of tax, of unrealized gains on certain investments recognized pursuant to the adoption of FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

MARKET DATA

Because the Holding Company is a newly-formed corporation and there is currently no established trading market for its securities, no information can be provided as to historical market prices for the Holding Company Common Stock. Historical market prices for Sallie Mae Common Stock, however, may provide relevant historical market information for determining the market value of the Holding Company. Sallie Mae and the Holding Company will take all actions necessary or advisable to ensure that the Holding Company Common Stock will be approved for listing on the NYSE upon consummation of the Reorganization. The Sallie Mae Common Stock trades on the NYSE under the symbol "SLM." The following table sets forth, for the periods indicated, the high and low sales prices per share of Sallie Mae Common Stock as reported on the NYSE Composite Tape, and the quarterly cash dividends per share declared with respect thereto.

	HIGH	LOW	DIVIDEND
1994			
First Quarter	49 7/8	42 7/8	.35
Second Quarter	44 1/8	35 3/4	.35
Third Quarter	39 1/8	32	.35
Fourth Quarter	35	31 1/4	.37
1995			
First Quarter	39	32 7/8	.37
Second Quarter	48 3/8	34 1/2	.37
Third Quarter	55 3/4	47	.37
Fourth Quarter	70 7/8	54	.40
1996			
First Quarter	86 1/8	63 1/4	.40
Second Quarter	83 1/2	66	.40
Third Quarter	77	69 1/4	.40
Fourth Quarter	98 1/4	77 1/4	.44
1997			
First Quarter (through March 17, 1997)	114 1/4	89	.44

On January 23, 1997, the last trading day before the announcement that the Sallie Mae Board had approved the Reorganization, the last sales price of Sallie Mae Common Stock was $108.00 per share, as reported on the NYSE Composite Tape.

On , 1997, the date prior to the printing of this Proxy Statement/Prospectus, the last sales price of Sallie Mae Common Stock was $ per share, as reported on the NYSE Composite Tape.

At March 17, 1997, the Record Date 53,092,020 shares of Sallie Mae Common Stock were outstanding and eligible to be voted, held by approximately 23,000 shareholders.

INFORMATION REGARDING THE SPECIAL MEETING

PURPOSE

At the Special Meeting of Shareholders (the "Special Meeting") of the Student Loan Marketing Association ("Sallie Mae" or the "GSE"), the shareholders of Sallie Mae will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") among Sallie Mae, SLM Holding Corporation, a newly-formed Delaware corporation and wholly-owned subsidiary of Sallie Mae (the "Holding Company"), and Sallie Mae Merger Company, a newly-formed Delaware corporation and wholly-owned subsidiary of the Holding Company ("MergerCo"). The Reorganization Agreement provides for the reorganization (the "Reorganization") of Sallie Mae into a wholly-owned subsidiary of the Holding Company pursuant to the merger (the "Merger") of MergerCo with and into Sallie Mae, with Sallie Mae as the surviving corporation. If the Reorganization Agreement is approved and the Merger is consummated, (i) each outstanding share of common stock, par value $.20 per share, of Sallie Mae ("Sallie Mae Common Stock") would be converted into one share of common stock, par value $.20 per share of the Holding Company ("Holding Company Common Stock") and (ii) all of the outstanding shares of MergerCo would be converted into all of the issued and outstanding shares of Sallie Mae Common Stock, all of which will then be owned by the Holding Company.

STOCKHOLDERS ARE REQUESTED TO COMPLETE, SIGN AND DATE THE ACCOMPANYING PROXY CARD AND RETURN IT PROMPTLY TO SALLIE MAE IN THE ENCLOSED, POSTAGE-PAID ENVELOPE.

This Proxy Statement/Prospectus is also furnished to Sallie Mae shareholders as the prospectus of the Holding Company relating to the shares of Holding Company Common Stock issuable in connection with the Reorganization. The vote on the Reorganization is being held at a Special Meeting rather than an Annual Meeting because of the importance of the Reorganization to the Company's future and the determination that shareholders should have an opportunity to consider the Reorganization at a meeting dedicated to that purpose. If the Reorganization is consummated, the Sallie Mae Board would be appointed by the Holding Company. If the Reorganization is not approved by shareholders, an Annual Meeting of Sallie Mae shareholders will be held as soon as practicable to, among other things, elect Sallie Mae directors.

PLACE, TIME AND DATE OF MEETING

The Special Meeting will be held on Thursday, May 15, 1997 at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102, beginning at _____ _.m., local time, and at any adjournments or postponements thereof.

RECORD DATE; SHARES ENTITLED TO VOTE

Only holders of record (each, a "Record Holder") of shares of Sallie Mae Common Stock at the close of business on March 17, 1997, the record date for the Special Meeting (the "Record Date"), are entitled to notice of, and to vote at, the Special Meeting and any adjournments or postponements thereof.

QUORUM; VOTES REQUIRED

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of Sallie Mae Common Stock entitled to vote at the Special Meeting will be necessary to constitute a quorum for the transaction of business. If such a quorum is not present, a majority of shares so represented may adjourn the Special Meeting to a future date. Abstentions and broker non-votes are counted when determining the presence of a quorum for the transaction of business.

Approval of the Reorganization requires the affirmative vote of holders of at least a majority of the outstanding shares of Sallie Mae Common Stock. Abstentions and broker non-votes have the same effect as a vote against the Reorganization.

COMMON STOCK INFORMATION

As of the Record Date, 53,092,020 shares of Sallie Mae Common Stock were outstanding and eligible to be voted, held by approximately 23,000 shareholders. As of the Record Date, Sallie Mae's directors, named

executive officers beneficially owned 285,084 shares of Sallie Mae Common Stock, or less than 1% of the shares of Sallie Mae Common Stock outstanding as of such date. The Sallie Mae Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "SLM."

VOTING AND REVOCATION OF PROXIES

Shares of Sallie Mae Common Stock that are entitled to vote and are represented at the Special Meeting by properly executed proxies received and not properly revoked will be voted at the Special Meeting in the manner directed on such proxies. Shares may be voted in person or by proxy. Any proxy given by a Record Holder may be revoked by the person giving such proxy at any time before the closing of the polls by executing a new proxy or voting in person his or her shares at the Special Meeting. At the Special Meeting, the Chairman of the Board shall designate the time that the polls shall close. Only those proxies received and not properly revoked or votes cast prior to the closing of the polls shall be valid.

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before the shares represented by such proxy are voted at the Special Meeting by (i) filing with the Secretary of Sallie Mae a written notice of such revocation bearing a later date than the proxy, (ii) duly executing a proxy relating to the same shares bearing a later date and delivering it to the Secretary of Sallie Mae before the taking of the vote at the Special Meeting, or (iii) voting in person at the Special Meeting. Attendance at the Special Meeting will not in and of itself constitute a revocation of a proxy. All written notices of revocation or other communication with respect to revocation of proxies should be addressed as follows: Student Loan Marketing Association, 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007, Attention: Ann Marie Plubell, Secretary, and must be received before the taking of the vote at the Special Meeting.

PROXIES THAT ARE PROPERLY EXECUTED WITHOUT INDICATING ANY VOTING INSTRUCTIONS AND TIMELY RECEIVED WILL BE VOTED FOR THE PROPOSAL TO APPROVE THE REORGANIZATION

If the Reorganization is not approved, Sallie Mae will hold the Annual Meeting of Shareholders of the Student Loan Marketing Association as soon as practicable after the Special Meeting votes are tabulated.

SOLICITATION OF PROXIES

Sallie Mae will bear all expenses of this solicitation, including the cost of preparing and mailing this Proxy Statement/Prospectus. In addition to solicitation by mail, directors, officers, regular employees or other agents of Sallie Mae, who will not be specifically compensated for such services but may be reimbursed for reasonable out-of-pocket expenses in connection with such solicitation, may solicit proxies from Sallie Mae shareholders personally or by telephone, telecopy, telegram or other means of communication. Sallie Mae will also arrange with custodians, nominees and fiduciaries for the forwarding of proxy solicitation materials to the beneficial owners of shares held of record by such persons. Sallie Mae may reimburse such custodians, nominees and fiduciaries reasonable out-of-pocket expenses incurred in connection therewith. Sallie Mae has retained D.F. King & Co., Inc. to solicit proxies on its behalf. D.F. King will be paid a fee, estimated not to exceed $50,000 and will be reimbursed its reasonable out-of-pocket expenses in connection with such solicitation services.

NO DISSENTERS' APPRAISAL RIGHTS

Sallie Mae shareholders have no statutory appraisal rights in connection with the matters to be considered at the Special Meeting. See "COMPARISON OF STOCKHOLDER RIGHTS -- United States and Delaware Law -- Dissenters' Rights."

SHAREHOLDERS SHOULD NOT SEND ANY STOCK CERTIFICATES WITH THEIR PROXY CARDS.

THE REORGANIZATION

BACKGROUND

The Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") was the result of a multi-year effort on the part of Sallie Mae to win executive branch and Congressional support for privatization. As a government-sponsored enterprise Sallie Mae has access to the "government agency" debt market, exemptions from state taxes and certain securities laws, and lower capital requirements. However, Sallie Mae's business activities are subject to restrictions and burdens contained in Sallie Mae's federal charter, which is set forth at Section 439, Part B, Title IV of the Higher Education Act of 1965, as amended, codified at 20 U.S.C. sec. 1087-2 (the "Sallie Mae Charter"). The Sallie Mae Charter may be changed by Congress, subject only to constitutional limitations, without approval from Sallie Mae directors or shareholders. Sallie Mae sought privatization to protect the value of its franchise from the political risks of its government-sponsored enterprise status and the new Federal Direct Student Loan Program (the "FDSLP"). As a government-sponsored enterprise, Sallie Mae is exposed to the ongoing risk of targeted legislation. Over recent years, a number of legislative actions have adversely and uniquely impacted Sallie Mae including: (i) the imposition of a 30 basis point per annum offset fee applicable solely to Sallie Mae, (ii) charter restrictions on the scope of its business and (iii) unfunded mandates requiring certain actions by Sallie Mae (e.g., acting as lender of last resort for the post-secondary education credit program). Moreover, the 1993 expansion of the FDSLP, which originally was intended to ultimately replace the FFELP, demonstrated Sallie Mae's vulnerability to shifts in federal policy. Privatization will reduce the risk of targeted legislation and shifts in federal policy and will allow the Company to invest in new products and services designed to improve its competitive position vis a vis FFELP participants and the FDSLP. In addition, Sallie Mae recognized that changes in the student loan market, including the advent of student loan securitization, had reduced the comparative advantages of government-sponsored enterprise funding and capital levels. After passage of the 1993 Omnibus Budget Reconciliation Act ("OBRA"), which imposed the 30 basis point offset fee referenced above and expanded the FDSLP, Sallie Mae worked with the executive branch to produce a study on the "future of Sallie Mae" and put forward a specific legislative framework to effect privatization through a transitional holding company arrangement. During 1995 and 1996, Sallie Mae negotiated with Congress and the executive branch to arrive at legislation intended to provide a fair outcome for the government, Sallie Mae noteholders and Sallie Mae shareholders. The Privatization Act, which was enacted on September 30, 1996, will allow Sallie Mae to transition from a limited purpose government-sponsored enterprise to a general purpose corporation that will independently determine which new business opportunities to pursue.

The Privatization Act authorized the Sallie Mae Board of Directors (the "Sallie Mae Board") to adopt a plan of reorganization pursuant to which Sallie Mae would become a wholly-owned subsidiary of a holding company. Set forth below is a summary of the deliberations of the Sallie Mae Board and committees thereof.

At a Sallie Mae Board meeting held on November 22, 1996, the Sallie Mae Board charged (i) the Nominations and Board Affairs Committee with consideration of the corporate governance structure for the Holding Company, the composition and selection of the Holding Company Board of Directors and the structure of the proposal for presentation to shareholders and (ii) the Finance Committee with consideration of various financial and operational aspects of the plan of reorganization and related asset transfers. Each of these Committees was instructed to formulate recommendations for action by the full Sallie Mae Board at the regular meeting held January 24, 1997.

Consistent with its charge, the Nominations and Board Affairs Committee met on December 17, 1996, January 16, 1997, January 23, 1997 and January 24, 1997.

At its meeting on December 17, 1996, the Committee considered the relative merits of a broad range of corporate governance provisions and determined to solicit the further views of the members of the Committee concerning a variety of governance issues. In addition, the Committee determined to solicit the members of the Sallie Mae Board and the President and Chief Executive Officer for the names and qualifications of potential nominees to the Holding Company Board of Directors.

At the meetings of December 17, 1996 and January 16 and 23, 1997, the Committee also discussed guidelines for the qualifications of Holding Company Directors, as individuals and as members of a cohesive body. The Nominations and Board Affairs Committee unanimously approved guidelines aimed at bringing to the Holding Company Board persons of the highest individual character with diverse resources and background. The guidelines adopted by the Committee provide generally that the Holding Company Board must (i) be able to engage in effective, cohesive conduct that is respectful of divergent views, (ii) be composed of leaders of sufficient professional stature to attract other well-qualified candidates, (iii) be able to attract the support of, and retain the highest quality, managers on behalf of the shareholders and (iv) reflect diverse points of view together with a balance of freshness of views and continuity. According to such guidelines, individuals to be elected to the Holding Company Board should be recognized for having added value within their organizations, be qualified to timely deal with complex business and policy issues and have significant experience of current application to the Company's present business and new, potentially beneficial initiatives. In addition, such guidelines provide that such persons must be able to commit the time required to provide the energy and focus necessary to perform productively as a member of the Holding Company Board, be able to function within the context of a governing body and understand their duties to all shareholders, be capable of independence in their deliberations and decision making and be committed to quality products and services, ethical behavior and excellence.

At the meetings of January 16 and January 23, 1997, Mr. Brandon, moved that the 14 members of the Sallie Mae Board who were elected by shareholders in 1996 be nominated as a body to constitute the entire Holding Company Board. The motion was defeated, with Messrs. Jacobsen, Durmer, Spiegel and Thayer voting against because the action would have given effective control of the Holding Company to a minority of the present Sallie Mae Board who were initially elected in 1995 representing a group under the name "The Committee to Restore Value at Sallie Mae" (the "CRV"). The materials used to solicit proxies for their election in 1995 stated that such directors were not seeking control of the Sallie Mae Board and that their election would not result in their obtaining control of the Sallie Mae Board. In addition, the majority believed such a slate would not provide the breadth and depth desired for the Holding Company Board. Specifically, unlike Sallie Mae, there is no requirement that directors of the Holding Company be affiliated with financial or educational institutions. The majority of the Nominations Committee believed that the Holding Company Board should have representation from persons with a broader range of experience, particularly since the seven directors appointed by the President could not serve on the Holding Company Board. In addition, Mr. Brandon's proposal would not have resulted in a diversity of background, providing for only one minority member and no women on the Holding Company Board.

At the meeting of January 16, 1997, Mr. Brandon moved that the Company separate the vote on the initial election of the Holding Company Board members from the vote on the plan of reorganization. The motion was defeated, with Messrs. Jacobsen, Durmer, Spiegel and Thayer voting against. The majority of the Board believed that the identity of the members of the Board of Directors was an essential component of the plan of reorganization, since such individuals would have critical leadership responsibility going forward.

At its January 23, 1997 meeting, the Committee determined, by a vote of 4-1 (with Mr. Brandon voting against and Mr. Lambert absent) to recommend that the full Sallie Mae Board adopt the charter and by-laws substantially in the form described in this Proxy Statement/Prospectus.

At the January 23, 1997 meeting, Mr. Jacobsen also noted that on January 21, 1997 the names and qualifications of 26 individuals were provided to the Committee members for their comment and review. He then moved that the 18 persons who are identified in the "Management -- Holding Company Board of Directors" section of this Proxy Statement/Prospectus be recommended for election to the initial Holding Company Board of Directors. After discussion, the Committee voted 4-1 (with Mr. Brandon voting against and Mr. Lambert absent) to recommend to the full Sallie Mae Board that these individuals be nominated for election by Sallie Mae as the members of the Holding Company Board.

The Finance Committee met on December 19, 1996 and considered a number of financial and operational issues related to the plan of reorganization. These included the structure of the transaction to effect the new entity, the structure of the new entity after reorganization, the transfer of employees and assets

and the capital structure of the new entity. On January 23, 1997, the Operations and Finance Committees held a joint meeting to review the strategic considerations relating to privatization, to summarize the economic and business rationale for privatization and to review the mechanics of the Reorganization. For a further discussion of such considerations, see "-- Reasons for the Reorganization; Recommendation of the Board of Directors." The Company's outside legal and financial advisors were available to answer questions at both the January 23, 1997 Committee meeting and the January 24, 1997 Board meeting discussed below. Members of management made presentations concerning terms and financial aspects of the proposal at each of the Committee's meetings.

On January 24, 1997, the Sallie Mae Board met to consider, among other business, the proposed plan of reorganization. Mr. Jacobsen, Chairman of the Nominations and Board Affairs Committee, reviewed the activity of the Committee in detail, including a description of the recommended corporate governance provisions and the proposed slate of the Holding Company Directors and moved adoption of the recommendations.

As part of the Board's discussion, Mr. Hunt indicated that, while he favored privatization, he opposed the plan of reorganization because he does not view the plan as friendly to shareholders in its governance structure and believes it should provide for a separate vote on the Holding Company Board of Directors. Mr. Lord indicated that he had similar objections.

Mr. Hunt further stated that he was willing to serve on the slate and pledged that, if he were to engage in any active solicitation of shareholder opposition to the reorganization plan, then he would withdraw from the slate. As noted below, Mr. Hunt later voted against the Reorganization Agreement and subsequently withdrew from the slate.

A majority of the Sallie Mae Board expressed the view that having nominees on the Holding Company Board who were actively opposed to the plan of reorganization would be confusing and not be in the best interests of shareholders. As a result of this concern the Sallie Mae Board voted to provide that Messrs. Hunt and Lord would have until close of business on January 31, 1997 to confirm that they had no objection to the plan of reorganization other than as summarized in this Proxy Statement/Prospectus, and that neither Mr. Hunt nor Mr. Lord would organize or participate in opposition to the plan of reorganization and the slate of nominees contained therein. The motion was approved with Messrs. Arceneaux, Berger, Daberko, Durmer, Jacobsen, Moore, Rohr, Spiegel, Thayer, Vitale and Mmes. Gilleland, Montoya and Natividad voting for and Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield voting against such motion.

The Sallie Mae Board then voted to approve the recommendations of the Nominations and Board Affairs Committee as set out above. The recommendations were approved with Messrs. Arceneaux, Berger, Daberko, Durmer, Jacobsen, Moore, Rohr, Spiegel, Thayer, Vitale and Mmes. Gilleland, Montoya and Natividad voting for and Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield voting against such recommendations.

Mr. Vitale, Chairman of the Finance Committee, reviewed the activity of the Finance Committee in detail, including a description of the finance provisions relating to the plan of reorganization and moved that the Sallie Mae Board approve the provisions as described. The Sallie Mae Board voted unanimously to approve the finance provisions relating to the proposed plan of reorganization. The Sallie Mae Board, however, voted 13-8 to approve the recommendations of the Nominations and Board Affairs Committee, including the corporate governance provisions, and 13-8 to approve the proposed plan of reorganization, as a whole. No plan of reorganization or business plan other than the plan of reorganization contained in these documents was presented for consideration.

On January 31, 1997, Mr. Hunt advised the Chairman of the Sallie Mae Board that, after evaluating his fiduciary duties, he was unable at that date to provide the Sallie Mae Board with the confirmation it sought. On the same date, Mr. Lord advised the Sallie Mae Board that his position on the plan of reorganization and the opposition to the persons named to serve on the Holding Company Board had not changed. Prior to any action in this regard by the Sallie Mae Board, by letters dated March 3, 1997 and March 4, 1997, respectively, Messrs. Lord and Hunt withdrew their consent to serve as members of the Holding Company Board.

On February 5, 1997, a written statement was delivered to the Company on behalf of Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield (collectively, the "Dissenting Directors") stating their reasons for their votes, including certain of the reasons noted above. The Dissenting Directors include eight of the 14 members of the Sallie Mae Board elected by the shareholders and none of the seven members appointed by the President. Of the 16 persons who have consented to be named as directors of the Holding Company, six are current members of the Sallie Mae Board. THE DISSENTING DIRECTORS' STATEMENT HAS BEEN INCLUDED IN THIS PROXY STATEMENT/PROSPECTUS AT THEIR REQUEST AND IS SET FORTH IN APPENDIX D.

On March 10, 1997, Sallie Mae received a copy of a solicitation statement (the "CRV Solicitation Statement") soliciting agent designations from Sallie Mae shareholders to appoint certain individuals as shareholders' agents in order to call and convene a special meeting of the shareholders of Sallie Mae on behalf of the CRV, a group including the Dissenting Directors. Under the Sallie Mae By-Laws, a special meeting must be called by the Chairman upon the written request of holders of at least one-third of the shares of Sallie Mae having voting power. According to the CRV Solicitation Statement, the purposes of the CRV's proposed special meeting would be to consider and vote upon (i) a reorganization plan proposed by the CRV, (ii) the individuals who would be named by Sallie Mae to the Holding Company Board under the CRV reorganization plan and (iii) a proposal to amend the Sallie Mae By-Laws to provide for the reimbursement of reasonable expenses incurred by Sallie Mae shareholders in calling a special meeting of shareholders. Although the CRV Solicitation Materials indicate that a vote at such a special meeting could be binding, Sallie Mae believes that a vote held at such a meeting would be precatory. On March 18, 1997, Sallie Mae mailed certain materials (the "Revocation Materials") to Sallie Mae shareholders in opposition to the CRV's solicitation and soliciting agent revocations. The Revocation Materials ask shareholders not to give agent designations to the CRV and provide instructions to revoke any agent designations that shareholders may have given already to the CRV. From time to time Sallie Mae may distribute similar materials to shareholders in the future.

At the regular meeting of the Sallie Mae Board held on March 21, 1997, at the recommendation of management, the Sallie Mae Board approved certain modifications to the corporate governance structure of the Reorganization. The modifications included elimination of a classified board and a related requirement for a super-majority vote of stockholders to amend certain provisions of the Holding Company Charter. As a result, commencing in April 1998, stockholders will elect the entire Holding Company Board annually. In addition, Holding Company stockholders will be authorized, along with the Holding Company Board, to fill vacancies on the Holding Company Board. Under the existing Holding Company By-Laws, holders of one-third of the Holding Company's outstanding shares could request the calling of a special meeting of stockholders for any purpose. Under the modified governance structure, at such a special meeting, holders of a majority of the shares can replace any directors or the entire Holding Company Board, with or without cause.

REASONS FOR THE REORGANIZATION; RECOMMENDATION OF THE BOARD OF DIRECTORS

The majority of the Sallie Mae Board has determined that the Reorganization, upon the terms and conditions set forth in the Privatization Act and the Reorganization Agreement, is in the best interests of the shareholders of Sallie Mae. ACCORDINGLY, THE SALLIE MAE BOARD (IN A 13-8 VOTE) HAS APPROVED THE REORGANIZATION AGREEMENT. THE MAJORITY OF THE SALLIE MAE BOARD RECOMMENDS THAT THE HOLDERS OF OUTSTANDING SHARES OF SALLIE MAE COMMON STOCK VOTE FOR APPROVAL OF THE REORGANIZATION AT THE SPECIAL MEETING.

In reaching their determination to adopt the Reorganization Agreement and recommend that the Sallie Mae shareholders approve the Reorganization, the majority of the Sallie Mae Board considered a number of factors, including the following material factors:

a. The expectation that, based upon their own analysis and management presentations, the Reorganization will enhance Sallie Mae's core business by enabling the Holding Company to more effectively respond to intensified competition in the student loan marketplace among the Federal Family Education Loan Program ("FFELP") participants, and with the FDSLP by extending Sallie Mae's school-based strategy and engaging in a broader array of campus-based services.

b. The expectation that, based upon their own analysis and management presentations, the Reorganization will provide a mechanism for expansion of the business, new sources of revenue and, over time, business diversification.

c. The belief, based on its experience through 1996 with five successful securitization transactions, that, with the advent of student loan securitizations, Sallie Mae's government-sponsored enterprise status is no longer necessary to ensure its ability to obtain large volume, long term funding on advantageous terms.

d. The belief that the persons selected to serve as the Holding Company Board are best able to lead the Company through privatization, and reflect strong and diverse backgrounds, attributes and skills, including technology, marketing, finance and vision as well as diversity of gender, race, age and geography.

e. The belief that the Holding Company corporate governance provisions provide a proper balance of the interests of all of the shareholders and permit the Holding Company to effectively pursue the creation of stockholder value over the longer term.

f. The belief that the current management's performance in managing Sallie Mae's business and preparing for privatization was a significant factor in Sallie Mae's results and the increases in the price of Sallie Mae Common Stock over the past year, and that their retention was important to the effective transition to privatization and to the Company's future.

g. The expectation that the Reorganization will reduce the level of political risk to which Sallie Mae is subject because of its status as a government-sponsored enterprise.

h. The belief that the terms and conditions of the Privatization Act and the Reorganization Agreement which, among other things, permit the Company to retain GSE status during a transition period while developing the Company's future business, were generally favorable to Sallie Mae, based on presentations by management developed in consultation with the Company's outside legal and financial advisors. See "THE PRIVATIZATION ACT" and "TERMS OF THE REORGANIZATION AGREEMENT."

i. The fact that the Reorganization will privatize the Company, by making all members of the Board of Directors subject to shareholder vote and by phasing out federal government involvement with corporate governance of the Company.

j. The determination that liquidation pursuant to the charter sunset provisions of the Privatization Act is not in the best interests of Sallie Mae and its shareholders because it would surrender a highly valuable, well established franchise, limit future growth, foreclose business diversification opportunities and leave Sallie Mae vulnerable to business risks associated with liquidation. The liquidation charter sunset scenario, while extending the GSE's ability to purchase loans by two years and its wind-down period by five years, would force a break-up of the GSE and would pose uncertain political risks, including risks relating to establishment of the terms of the wind-down plan. See "THE PRIVATIZATION ACT -- Charter Sunset If Reorganization Does Not Occur."

k. The expectation that the Merger will be treated for U.S. federal income tax purposes as a nonrecognition transfer of shares of Sallie Mae Common Stock by the holders thereof to the Holding Company for shares of Holding Company Common Stock. See "CERTAIN FEDERAL INCOME TAX CONSEQUENCES."

In view of the wide variety of factors considered in connection with its evaluation of the terms of the Reorganization, the Sallie Mae Board did not find it practicable to, and did not, quantify or otherwise attempt to assign relative weights to the specific factors considered in reaching their determinations. In addition, individual members of the Sallie Mae Board may have given different weights to different factors.

THE MAJORITY OF THE SALLIE MAE BOARD OF DIRECTORS RECOMMENDS APPROVAL OF THE REORGANIZATION AND URGES EACH SHAREHOLDER TO VOTE "FOR" THE REORGANIZATION.

CORPORATE STRUCTURE BEFORE AND AFTER THE REORGANIZATION

Sallie Mae was created in 1972 as a federally-chartered, government-sponsored enterprise. The Sallie Mae Charter defines and limits its corporate authority to education finance related activities, while imposing certain fees and obligations on Sallie Mae. The Privatization Act authorizes the reorganization of Sallie Mae into a subsidiary of a state-chartered corporation and provides that Sallie Mae will be gradually liquidated and its federal charter will be rescinded on or before September 30, 2008. Under the Privatization Act, consummation of the Reorganization is conditioned on approval by the requisite vote of Sallie Mae shareholders on or prior to March 31, 1998. If shareholder approval is not obtained within this time frame, the Privatization Act's "charter sunset" provisions would require Sallie Mae to restrict operations in the future and to ultimately dissolve by July 1, 2013. See "THE PRIVATIZATION ACT -- Charter Sunset If Reorganization Does Not Occur."

To carry out the Reorganization, Sallie Mae has formed the Holding Company as a new Delaware corporation. All of the outstanding stock of the Holding Company is owned by Sallie Mae. Two other new Delaware corporations, Sallie Mae Merger Company ("MergerCo") and Sallie Mae, Inc. (the "Management Company") have been organized. Prior to the Reorganization, none of the Holding Company, MergerCo or the Management Company has any business, properties or liabilities of its own except that all of the outstanding stock of MergerCo is owned by the Holding Company.

The Reorganization would be effected pursuant to the Reorganization Agreement by merging MergerCo with and into Sallie Mae, with Sallie Mae as the surviving corporation, resulting in Sallie Mae becoming a wholly-owned subsidiary of the Holding Company. In addition, as soon as practicable after consummation of the Reorganization, the stock of certain of the GSE's subsidiaries, including Sallie Mae Servicing Corporation (collectively, the "Transferred Subsidiaries") would be transferred to the Holding Company or one of its non-GSE subsidiaries. See "BUSINESS -- Operation Following the Reorganization."

Sallie Mae's outstanding class of preferred stock and debt securities will remain outstanding as securities of Sallie Mae immediately after the Reorganization. See "Treatment of Preferred Stock" below. Pursuant to the Privatization Act, the Holding Company will issue to the District of Columbia Financial Responsibility and Management Assistance Authority (the "D.C. Financial Control Board") warrants to purchase 555,015 shares of Holding Company Common Stock, exercisable at any time prior to September 30, 2008, at $72.43 per share. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

DIAGRAMS OF CURRENT AND PROPOSED CORPORATE STRUCTURES

The following diagrams show the current corporate structure of the Company and the proposed structure of the Company following the Reorganization.

[CURRENT CORPORATE STRUCTURE DIAGRAM]

Graphic: Current Corporate Strcuture
Box: with words "Student Loan Marketing Association (GSE)" connected by vertical lines to boxes: with words "Sallie Mae Servicing Corporation," "Education Securities, Inc.," "HICA Companies," "MPC Associates, Inc." and "Kaludis Consulting Group."

[PROPOSED STRUCTURE DIAGRAM]

Graphic: Proposed Structure following the Reorganization
Box: with words "SLM Holding Corporation" connected by vertical lines to boxes: with words "Student Loan Marketing Association (GSE)"; "Sallie Mae Servicing Corporation," "Sallie Mae, Inc." (with its own vertical lines to boxes with words "Kaludis, Consulting Group" and HICA Companies") "MPC Associates, Inc." and "Education Securities, Inc."

EXCHANGE OF STOCK CERTIFICATES

Because the Reorganization Agreement provides that, at the Effective Time (as defined below), each outstanding share of Sallie Mae Common Stock shall be converted automatically into one share of Holding Company Common Stock, it will not be necessary for holders of Sallie Mae Common Stock to exchange their existing stock certificates for certificates of Holding Company Common Stock.

Following the Reorganization, as outstanding certificates for Sallie Mae Common Stock are presented to Chase Mellon Shareholder Services for transfer, new certificates bearing the name of the Holding Company will be issued in their place. In addition, upon the request of any shareholder, new certificates for Holding Company Common Stock will be issued in exchange for old certificates of Sallie Mae Common Stock. Certificates presented for transfer to a name other than that in which the surrendered certificate is registered must be properly endorsed, with the signature guaranteed, and accompanied by evidence of payment of any applicable stock transfer taxes.

SHAREHOLDERS SHOULD NOT SEND ANY STOCK CERTIFICATES WITH THEIR PROXY CARDS.

TREATMENT OF PREFERRED STOCK

The proposed Reorganization will not result in any change in Sallie Mae's outstanding class of preferred stock. The Privatization Act requires that upon the dissolution date of September 30, 2008, Sallie Mae shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding shares of Sallie Mae preferred stock. Sallie Mae has the option of effecting an earlier dissolution if certain conditions are met. Sallie Mae's preferred stock will continue to rank senior to Sallie Mae Common Stock (all of which, after the Reorganization, will be held by the Holding Company) as to dividends and as to the distribution of assets of Sallie Mae in the event of the liquidation of Sallie Mae. The preferred stock is carried at its liquidation value of $50 per share for a total of $214 million and pays a variable dividend that has been at its minimum rate of 5 percent per annum for the last several years. See "FINANCIAL STATEMENTS -- Footnote 13."

EFFECT ON STOCK OPTIONS AND EMPLOYEE BENEFITS

After the Reorganization, all stock-based Sallie Mae director, officer and employee benefit plans, including the Sallie Mae Employees' Stock Purchase Plan, Employee's Thrift and Savings Plan, Supplemental Employees' Thrift and Savings Plan, Deferred Compensation Plan for Key Employees, key employee stock option plans, Stock Compensation Plan, Incentive Performance Plan, Board of Director's Stock Option Plan, Board of Directors' Deferred Compensation Plan and Board of Directors' Restricted Stock Plan (collectively, the "Plans") will be amended to provide for the delivery of Holding Company Common Stock instead of Sallie Mae Common Stock thereunder. Each right to acquire shares of Sallie Mae Common Stock, including, without limitation, rights (including stock options) to acquire Sallie Mae Common Stock pursuant to any of the Plans, granted and outstanding immediately prior to the Effective Time shall, by virtue of the Reorganization and without any action on the part of the holder thereof, be converted into and become a right to acquire the same number of shares of Holding Company Common Stock at the same price per share, and upon the same terms and subject to the same conditions as were applicable immediately prior to the Reorganization under the relevant right.

DIVIDEND POLICY

It is anticipated that the Holding Company will initially pay dividends on Holding Company Common Stock at the rate most recently paid, and on approximately the same schedule, as dividends have been paid on Sallie Mae Common Stock. No assurance, however, can be given as to the amount of future dividends, which will necessarily be dependent on future earnings and financial requirements of the Holding Company and its subsidiaries, including Sallie Mae after the Reorganization.

The Holding Company's principal sources of funds are expected to be dividends on the stock of its subsidiaries and proceeds from any issuances of the Holding Company's equity or debt securities.

The ability of Sallie Mae to pay dividends on its capital stock is generally subject to the capital requirements set forth in the Sallie Mae Charter, see "REGULATION -- Current Regulation," and to the priority of dividends on outstanding Sallie Mae preferred stock. See "THE REORGANIZATION -- Treatment of Preferred Stock."

Holders of Holding Company Common Stock will be entitled to receive dividends when, as and if declared by the Board of Directors of the Holding Company out of funds legally available therefor. The timing and amount of future dividends will be within the discretion of the Board of Directors of the Holding Company and will depend on the consolidated earnings, financial condition, liquidity and capital requirements of the Holding Company and its subsidiaries, applicable governmental regulations and policies, and other factors deemed relevant by the Board of Directors.

Subject to the earnings and financial condition of the GSE after the Reorganization, dividends on the GSE's preferred stock will continue to be paid at the prescribed times and rates. See "THE REORGANIZATION -- Treatment of Preferred Stock." If the Holding Company issues preferred stock subsequent to the Reorganization, the payment of dividends on Holding Company Common Stock may be restricted to the extent that dividends on such preferred stock of the Holding Company have not been paid in accordance with the terms of such stock established by the Board of Directors upon its issuance.

STOCK EXCHANGE LISTING

Sallie Mae has filed an application to list the shares of Holding Company Common Stock to be issued in connection with the Reorganization on the NYSE, subject to approval of the Reorganization Agreement by the Sallie Mae shareholders and official notice of issuance. The shares of Sallie Mae Common Stock are traded, and the shares of Holding Company Common Stock are expected to be traded, on the NYSE under the symbol "SLM." If the Reorganization is consummated, shares of Sallie Mae Common Stock will be delisted in conjunction with the listing of the shares of Holding Company Common Stock.

CERTAIN CONSEQUENCES OF SHAREHOLDER VOTE

Under the Privatization Act, the effective date of a reorganization providing for the restructuring of common stock ownership of Sallie Mae so that all of its outstanding common stock would be owned directly by a holding company must occur on or prior to March 31, 1998. If the effective date has not occurred prior to such date, the charter sunset provisions would apply. The Sallie Mae directors who approved the Reorganization Agreement, representing a majority of the Board, expect that the Reorganization Agreement will be approved by Sallie Mae shareholders. As a result, the Sallie Mae Board has not determined what action, if any, it may take with respect to privatization in the event the Reorganization is not approved. If the Reorganization is not approved by shareholders, an Annual Meeting of Sallie Mae shareholders will be held as soon as practicable to, among other things, elect Sallie Mae directors. If the Reorganization Agreement is not approved, the Privatization Act would permit Sallie Mae to privatize pursuant to another plan of reorganization. However, to be effective under the Privatization Act, such a plan would have to be adopted by the Sallie Mae Board and approved by the holders of a majority of the outstanding shares of Sallie Mae Common Stock. There can be no assurance that the Sallie Mae Board would adopt an alternate plan of reorganization, and if the Sallie Mae Board adopted an alternate plan, there can be no assurance as to the terms of such a plan or as to whether it would be approved by holders of the requisite number of shares of Sallie Mae Common Stock in a timely manner. See "THE PRIVATIZATION ACT -- Charter Sunset If Reorganization Does Not Occur."

TERMS OF THE REORGANIZATION AGREEMENT

The following discussion of the terms and conditions of the Reorganization Agreement is qualified in its entirety by reference to the provisions of the Reorganization Agreement, which are attached to this Proxy Statement/Prospectus as Appendix A and incorporated herein by reference.

Pursuant to the Reorganization Agreement, MergerCo will be merged with and into Sallie Mae, each outstanding share of Sallie Mae Common Stock will be converted into one share of Holding Company Common Stock, and the outstanding shares of the common stock of MergerCo will be converted into all of the issued and outstanding shares of Sallie Mae Common Stock, all of which will then be owned by the Holding Company. If the Reorganization is approved, it will become effective at the time the certificate of merger is filed with the Secretary of State of the State of Delaware (the "Effective Time"), which management expects to be on or about May 16, 1997. As a result of the Reorganization, Sallie Mae will become a subsidiary of the Holding Company and all of the Holding Company Common Stock outstanding immediately after the Reorganization will be owned by the holders of Sallie Mae Common Stock outstanding immediately prior to the Reorganization. Shares of Holding Company Common Stock held by Sallie Mae and the Sallie Mae Common Stock held in treasury will be canceled and retired. Shares of the outstanding class of preferred stock of Sallie Mae will not be affected by the Reorganization, and will remain outstanding, with the same voting powers, designations, preferences, rights, qualifications, limitations and restrictions. See "The REORGANIZATION -- Treatment of Preferred Stock."

Consummation of the Reorganization is subject to the fulfillment of the following conditions: (i) the approval of the Reorganization Agreement by the affirmative vote of the holders of a majority of the issued and outstanding shares of Sallie Mae Common Stock, (ii) receipt of an opinion of counsel with respect to the federal income tax consequences of the Merger and (iii) approval by the NYSE of Holding Company Common Stock for listing upon official notice of issuance. See "CERTAIN FEDERAL INCOME TAX CONSEQUENCES."

THE PRIVATIZATION ACT

The Privatization Act establishes the basic framework for effecting the Reorganization and imposes certain restrictions on the operations of the Holding Company and its subsidiaries after the Reorganization is consummated and prior to the ultimate dissolution of Sallie Mae. The Privatization Act amends the Higher Education Act of 1965, as amended, to permit Sallie Mae, which is now a federally-chartered, government-sponsored enterprise, to be reorganized as a wholly-owned subsidiary of a state-chartered holding company owning all of Sallie Mae's outstanding common stock. See "THE REORGANIZATION." The Privatization Act also amends the Sallie Mae Charter (i) to require certain enhanced regulatory oversight of Sallie Mae to ensure its financial safety and soundness, see "REGULATION -- Current Regulation," and (ii) to provide for the dissolution of Sallie Mae by July 1, 2013 if Sallie Mae does not reorganize pursuant to the Privatization Act on or before March 31, 1998, see "Charter Sunset If Reorganization Does Not Occur."

REORGANIZATION

The Privatization Act requires the Sallie Mae Board to propose to shareholders a restructuring plan under which their share ownership in the GSE will be automatically converted to an equivalent share ownership in a state-chartered holding company that will own all of the common stock of the GSE. Following the Reorganization, the remaining GSE entity will be liquidated on or before September 30, 2008, and its federal charter will be rescinded. During this wind-down period, the Holding Company will remain a passive entity that supports the operations of the GSE and its other non-GSE subsidiaries, and any new business activities would be conducted through such subsidiaries. See "REGULATION." The legislation provides a maximum eighteen month period for the Sallie Mae Board to obtain shareholder approval for privatization on the terms contained in the Privatization Act.

The Privatization Act requires certain personnel and asset transfers in connection with the Reorganization, including the transfer of the GSE's interest in the Transferred Subsidiaries. The GSE's student loans and related contracts, warehousing advances and other program-related or financial assets (such as portfolio investments, letters of credit, swap agreements and forward purchase commitments) and any non-material assets that the Sallie Mae Board determines to be necessary for or appropriate to continued GSE operations, may be retained by the GSE. It is anticipated that net asset transfers occurring in the first year after the Reorganization will aggregate approximately $100 million and that certain fixed assets will be transferred within approximately three years of the Reorganization. It is anticipated that employees of the GSE will be transferred to the Management Company at the Effective Time. Employees of non-GSE subsidiaries of the GSE will continue to be employed by such subsidiaries.

During the wind-down period, following the Reorganization and prior to the GSE's dissolution, the GSE will be restricted in the new business activities it may undertake. The GSE may continue to purchase student loans only through September 30, 2007, and warehousing advance, letter of credit and standby bond purchase activity by the GSE will be limited to takedowns on contractual financing and guarantee commitments in place at the Effective Time. In addition, the GSE must discontinue its FFELP loan purchase activity once the Holding Company, or its non-GSE subsidiaries, commence such activity.

The GSE will continue to serve as a lender of last resort and will provide secondary market support for the FFELP upon the request of the Secretary of Education. If and to the extent the GSE performs such functions, however, it will not be required to pay the offset fee on such loans. The GSE will be able to transfer assets and to declare dividends, from time to time, provided it maintains the minimum capital ratio of at least 2 percent until the year 2000. After that time, charter amendments effected by the Privatization Act require that the GSE maintain a minimum capital ratio of at least 2.25 percent. In the event that the GSE does not maintain the required minimum capital ratio, the Holding Company is required to recapitalize the GSE in an amount necessary to achieve such minimum capital ratio.

The GSE's debt obligations that are outstanding at the time of Reorganization will continue to be outstanding obligations of the GSE immediately after the Reorganization and will not be transferred to any other entity (except in connection with the defeasance trust described below). See "-- GSE Dissolution After Reorganization." The Privatization Act provides that the Reorganization will not modify the attributes accorded to the debt obligations of Sallie Mae by the Sallie Mae Charter. After the Reorganization, the GSE

will be able to continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions. The maturity date of such issuances, however, may not extend beyond September 30, 2008, the GSE's final dissolution date. This restriction will not apply to debt issued to finance any lender of last resort or secondary market purchase activity requested by the Secretary of Education. The Privatization Act makes it clear that the Reorganization (and the subsequent transfer of any remaining GSE debt to the defeasance trust described below) will not modify the legal status of any GSE debt obligations, whether such obligations exist at the time of Reorganization or are subsequently issued.

OVERSIGHT AUTHORITY

During the wind-down period, the Secretary of the Treasury is granted extended oversight authority to monitor the activities of the Holding Company and its non-GSE subsidiaries, to the extent that the activities of such entities are reasonably likely to have a material impact on the financial condition of the GSE. During this period, the Secretary of the Treasury may require that Sallie Mae submit periodic reports regarding any potentially material financial risk of its associated persons and its procedures for monitoring and controlling such risk. The Holding Company is expressly prohibited from transferring ownership of Sallie Mae or causing Sallie Mae to file bankruptcy without the approval of the Secretary of the Treasury and the Secretary of Education. Each of the Secretary of Education and the Secretary of the Treasury has express authority to request that the Attorney General bring an action, or may bring an action under the direction and control of the Attorney General, in the United States District Court for the District of Columbia, for the enforcement of any provision of Sallie Mae's safety and soundness requirements or the requirements of the Privatization Act in general.

RESTRICTIONS ON INTERCOMPANY RELATIONS

During the wind-down period, Sallie Mae operations will be managed by its affiliates or independent third parties. The Privatization Act also provides certain restrictions on intercompany relations between Sallie Mae and its affiliates during the wind-down period. Specified corporate formalities must be followed to ensure that the separate corporate identities of Sallie Mae and its affiliates are maintained. Specifically, the Privatization Act provides that Sallie Mae must maintain books and records that clearly reflect the assets and liabilities of Sallie Mae, separate from the assets and liabilities of the Holding Company. In addition, the Privatization Act also provides that (i) the funds and assets of Sallie Mae must at all times be maintained separately from the funds and assets of the Holding Company, (ii) Sallie Mae must not extend credit to, nor guarantee any debt obligations of, the Holding Company, (iii) Sallie Mae must maintain a corporate office that is physically separate from any office of the Holding Company, (iv) no director of Sallie Mae who is appointed by the President may serve as a director of the Holding Company and (v) at least one officer of Sallie Mae must be an officer solely of Sallie Mae.

Furthermore, the Privatization Act mandates that transactions between Sallie Mae and the Holding Company, including any loan servicing arrangements, shall be on terms no less favorable to Sallie Mae than Sallie Mae could obtain from an unrelated third party, and any amounts collected on behalf of Sallie Mae by the Holding Company pursuant to a servicing contract or other arrangement between Sallie Mae and the Holding Company shall be immediately deposited by the Holding Company to an account under the sole control of Sallie Mae.

LIMITATIONS ON HOLDING COMPANY ACTIVITIES

The Holding Company must remain a passive entity that holds the stock of its subsidiaries and provides funding and management support to such subsidiaries. It is prohibited from directly engaging in any business activities until the GSE is dissolved. After the Effective Time and prior to the dissolution of the GSE, all business activities of the Holding Company must be conducted through its subsidiaries. The Privatization Act extends to the Holding Company and its subsidiaries the GSE's "eligible lender" status for loan consolidation and secondary market purchases. See "BUSINESS."

The Holding Company generally may begin to purchase FFELP student loans only after the GSE discontinues such activity. Subject to the foregoing, the Holding Company could elect, at any time, to transfer new student loan purchase activity from the GSE to one of its non-GSE subsidiaries. Under OBRA, loans

acquired after August 10, 1993 and held by the GSE are subject to a 30 basis point per annum "offset fee." The GSE has challenged the offset fee's constitutionality and the Secretary of Education's statutory authority to apply the fee on loans securitized by the GSE. See "BUSINESS -- Legal Proceedings." The offset fee does not apply to loans held or securitized by the Holding Company or non-GSE subsidiaries of the Holding Company.

Although the GSE may not finance the activities of the non-GSE subsidiaries, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Holding Company, which in turn may use such amounts to support its non-GSE subsidiaries. The Sallie Mae Charter requires that the GSE maintain a minimum capital ratio of at least 2 percent until 2000, and charter amendments effected by the Privatization Act require that the GSE maintain a minimum capital ratio of at least 2.25 percent thereafter (whether or not the Reorganization occurs). In the event that the GSE's capital falls below the applicable required level, the Holding Company is required to supplement the GSE's capital to achieve such required level. The Privatization Act further directs that under no circumstances shall the assets of the GSE be available or used to pay claims or debts of or incurred by the Holding Company.

In exchange for the payment of $5 million to the D.C. Financial Control Board, the Holding Company and its other subsidiaries may continue to use the "Sallie Mae" name, but not the name "Student Loan Marketing Association," as part of their legal names or as a trademark or service mark. Interim disclosure requirements in connection with securities offerings and promotional materials are required to avoid marketplace confusion regarding the separateness of the GSE from its affiliated entities. During the GSE wind-down, the "Sallie Mae" name may not be used by any Holding Company unit that issues debt obligations or other securities to any person or entity other than the Holding Company or its subsidiaries.

GSE DISSOLUTION AFTER REORGANIZATION

If shareholders of Sallie Mae approve the Reorganization, the Privatization Act provides that the wind-down period will terminate and Sallie Mae will liquidate and dissolve on September 30, 2008, unless an earlier dissolution is requested by Sallie Mae and the Secretary of Education makes no finding that Sallie Mae continues to be needed as a lender of last resort under the Sallie Mae Charter or to purchase loans under certain agreements with the Secretary of Education. In connection with such dissolution, the GSE must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the Secretary of the Treasury, to pay the principal and interest on the deposited obligations. At December 31, 1996, Sallie Mae had $372 million in current carrying value of debt obligations outstanding with maturities after September 30, 2008. If the GSE has insufficient assets to fully fund such GSE debt obligations outstanding at the time of dissolution, the Holding Company must transfer sufficient assets to the trust to account for this shortfall. The Privatization Act also requires that on the dissolution date, the GSE shall repurchase or redeem, or make proper provisions for the repurchase or redemption of any outstanding shares of Sallie Mae preferred stock. The preferred stock is carried at its liquidation value of $50 per share for a total of $214 million and pays a variable dividend that has been at its minimum rate of 5 percent per annum for the last several years. See "FINANCIAL STATEMENTS -- Footnote 13." Upon dissolution, the Sallie Mae Charter will terminate, and any assets that Sallie Mae continues to hold after establishment of the trust or which remain in the trust after full payment of the remaining obligations of Sallie Mae assumed by the trust, will be transferred to the Holding Company or its affiliates, as determined by the Holding Company Board of Directors.

CHARTER SUNSET IF REORGANIZATION DOES NOT OCCUR

If a reorganization pursuant to the Privatization Act does not occur on or prior to March 31, 1998, certain "charter sunset" provisions will apply. These provisions will result in the dissolution of Sallie Mae by July 1, 2013, after the discharge of all outstanding debt obligations and liquidations (the "Sunset Dissolution Date"). Notwithstanding these charter sunset provisions, Sallie Mae may dissolve prior to the Sunset Dissolution Date unless the Secretary of Education finds that Sallie Mae continues to be needed as a lender of last resort under the Sallie Mae Charter or to purchase loans under certain agreements with the Secretary of Education.

Prior to July 1, 2007, Sallie Mae would be required to submit a detailed plan for the orderly winding-up of its business activities to the Secretary of the Treasury and to the Chairman and Ranking Member of the Committee on Labor and Human Resources of the Senate and the Chairman and Ranking Member of the Committee on Economic and Educational Opportunities of the House of Representatives. Upon implementation, this dissolution plan would (i) ensure that Sallie Mae will have adequate assets to transfer to the trust to ensure full payment of its remaining obligations; (ii) provide that all assets not used to pay liabilities will be distributed to shareholders; and (iii) ensure that the operations of Sallie Mae remain separate and distinct from those of any entity to which such assets are transferred. While the Privatization Act would allow Sallie Mae to amend the dissolution plan to reflect changed circumstances, no amendments could extend the date for full implementation of the plan beyond the Sunset Dissolution Date. The Privatization Act also allows the Secretary of the Treasury to require that Sallie Mae amend the dissolution plan, if the Secretary of the Treasury deems such amendments necessary to ensure full payment of all obligations of Sallie Mae.

If the charter sunset provisions apply, the GSE could not engage in new business activities beyond its GSE charter, but could generally transfer assets at any time that its statutory capital requirements were satisfied. In addition, the GSE would have to cease its business activities other than certain specified permitted activities at the request of the Secretary of Education and with the approval of the Secretary of the Treasury. In addition, except in connection with such permitted activities, the GSE will be prohibited, after July 1, 2009, from issuing debt obligations that mature later than July 1, 2013. The charter sunset provisions also prohibit the GSE from transferring or permitting the use of the names "Student Loan Marketing Association," "Sallie Mae," or any variations thereof, to or by any entity other than a subsidiary of the GSE.

If the Reorganization does not occur, the final liquidation of Sallie Mae would occur on the Sunset Dissolution Date. At that time, Sallie Mae would be required to take actions similar to those required at the time of a dissolution after reorganization. See "-- GSE Dissolution After Reorganization." Remaining obligations would be transferred to a defeasance trust and proper provision would need to be made for the repurchase or redemption of any preferred stock of Sallie Mae then outstanding. Finally, any assets remaining after establishment of the trust or any assets remaining in the trust after full pay-off of Sallie Mae debt would be transferred to holders of Sallie Mae Common Stock.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

In the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, the following summary, based upon current law, is a discussion of certain United States federal income tax consequences of the Merger to Holding Company, Sallie Mae, MergerCo and holders of shares of Sallie Mae Common Stock. The summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations, judicial decisions, administrative pronouncements and current administrative rulings, all of which are subject to change, possibly with retroactive effect. Any such change could affect the continuing validity of this summary. The summary does not purport to be a comprehensive description of all of the tax consequences applicable to a particular taxpayer. In particular, the summary does not address any aspect of state, local or foreign taxation or the tax treatment to holders subject to special tax rules, such as insurance companies, foreign persons, tax-exempt organizations, dealers in securities, banks and other financial institutions, holders who acquired their shares of Sallie Mae Common Stock pursuant to the exercise of options or otherwise as compensation or through a tax-qualified retirement plan. In addition, the summary only applies to holders who hold shares of Sallie Mae Common Stock as capital assets. No rulings have been or will be requested from the Internal Revenue Service (the "IRS") with respect to any of the matters discussed herein. There can be no assurance that future legislation, regulations, court decisions or administrative pronouncements or rulings would not alter the tax consequences set forth below. Opinions of counsel are not binding on the IRS. HOLDERS OF SALLIE MAE COMMON STOCK SHOULD CONSULT THEIR TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

The obligation of Sallie Mae to consummate the Reorganization is conditioned upon the receipt by Sallie Mae of an opinion of Skadden, Arps, Slate, Meagher & Flom LLP in form and substance reasonably satisfactory to Sallie Mae, dated as of the Effective Time, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion and set forth in certificates of officers of the Holding Company, Sallie Mae and others, as well as representation letters of certain holders of Sallie Mae Common Stock, all of which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for U.S. federal income tax purposes as a nonrecognition transfer of shares of Sallie Mae Common Stock by the holders thereof to the Holding Company for shares of Holding Company Common Stock.

If, in accordance with the opinion referred to in the preceding paragraph, the Merger will be treated as a nonrecognition transfer of shares of Sallie Mae Common Stock by holders thereof under the Code, then, (i) no gain or loss will be recognized by Holding Company, Sallie Mae or MergerCo as a result of the Merger, and (ii) a holder of Sallie Mae Common Stock whose shares of Sallie Mae Common Stock are converted in the Merger into Holding Company Common Stock will not recognize gain or loss upon such conversion. The aggregate tax basis of the Holding Company Common Stock received by such holder will be equal to the aggregate tax basis of the Sallie Mae Common Stock so converted, and the holding period of the Holding Company Common Stock will include the holding period of the Sallie Mae Common Stock so converted.

REPORTING REQUIREMENT

Each holder of Sallie Mae Common Stock that receives Holding Company Stock in the Merger will be required to retain records and file with such holder's federal income tax return a statement setting forth certain facts relating to the Merger.

THE DISCUSSION OF FEDERAL INCOME TAX CONSEQUENCES SET FORTH ABOVE IS FOR INFORMATION PURPOSES ONLY AND IS BASED ON EXISTING LAW AS OF THE DATE OF THIS PROXY STATEMENT/PROSPECTUS. SHAREHOLDERS OF SALLIE MAE ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM OF THE MERGER (INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS).

BUSINESS

As used herein, the "Company" refers to Sallie Mae prior to the Reorganization and to the Holding Company, on a consolidated basis, from and after the Effective Time of the Reorganization.

Industry data on the FFELP and the FDSLP contained in this Proxy Statement/Prospectus is based on sources that the Company believes to be reliable and to represent the best available information for these purposes, including published and unpublished Department of Education data and industry publications.

GENERAL

The Company provides a wide range of financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders and students. Founded in 1972 as a government sponsored enterprise, Sallie Mae's stated mission was to enhance access to post-secondary education by providing a national secondary market and financing for guaranteed student loans. As of December 31, 1996, the Company's managed portfolio of student loans totaled approximately $40 billion (including loans owned, loans securitized and loan participations). The Company also had commitments to purchase an additional $15.8 billion of student loans or participations therein. While the Company continues to be the leading purchaser of student loans, its business has expanded over its first quarter of a century, reflecting changes in both the education sector and the financial markets.

Primarily a wholesale provider of credit and a servicer of student loans, the Company has as clients over 900 financial and education institutions and state agencies. Through its six regional loan servicing centers, the Company processes student loans for more than 4 million borrowers and is recognized as the nation's pre-eminent servicer of student loans. The Company is also a provider and arranger of infrastructure finance for colleges and universities. See "-- Specialized Financial Services -- Academic Facilities Financings and Student Loan Revenue Bonds."

Management believes that the Company has successfully fulfilled its original government-sponsored-enterprise mandate by fostering a thriving, competitive secondary market in student loans and has maintained its leadership position in the education finance industry due to its focus on customer relationships, value-added products and services, superior loan servicing capabilities and sound financial management strategy. In recognition of the increasingly important role that college and university administrators play in the loan process, the Company adopted a school-based focus. The Company's core marketing strategy is to provide schools and their students with simple, flexible and cost-effective products and services so that schools will elect to work with lenders committed to the Company. This strategy, combined with superior servicing and technology capabilities, has also enabled the Company to build valuable partnerships with lenders, guarantee agencies and others.

In 1993, the Company launched a three year effort to obtain Congressional approval to recharter as a fully private, state-chartered corporation. Legislation to privatize the Company was approved by Congress and signed by President Clinton in September 1996.

Immediately following the Reorganization, the principal business of the Company will continue to be the acquisition, financing and servicing of student loans, as presently conducted by the GSE. Although the GSE's activities will be phased out over time as described in "REGULATION" and the student loan business will eventually be conducted through the Company's non-GSE units, it is expected that student loan acquisitions will continue to be effected through the GSE exclusively (as generally required by the Privatization Act) for so long as it is advantageous to do so. See "-- Operations Following the Reorganization."

INDUSTRY OVERVIEW

The student loan industry provides affordable financing to students and their families to fund post-secondary education. Banks and other eligible lenders are able to make student loans at below market rates due to subsidies and guarantees provided under programs sponsored principally by the federal government. The largest student loan program, originally called the Guaranteed Student Loan Program and now known as the FFELP, was created in 1965 to ensure low cost access by families to a full range of post-secondary education institutions. In 1972, to encourage further bank participation in the program, Congress established the Company as a for-profit, stockholder-owned national secondary market for student loans. The FFELP

industry currently includes a network of approximately 5,300 originators and 6,300 educational institutions. Also, 39 state-sponsored or non-profit guarantee agencies collectively guarantee and administer the FFELP under contract with the Department of Education. In addition to the Company, a number of non-profit entities, banks and other financial intermediaries operate as secondary markets. The Company believes that lender participation in the program is relatively concentrated, with an estimated 90% of outstanding loans held by the top 100 participants, including approximately one-third owned by the Company as of September 30, 1994. The FFELP is reauthorized by the Congress about every five years. The next reauthorization is required in 1998. The provisions of the FFELP are also subject to revision from time to time by the Congress. For an overview of the FFELP and other federally sponsored student loan programs, see Appendix C "The Federal Family Education Loan Program."

The demand for student loans has risen substantially over the last several years. Higher education tuition cost and fee increases continue to exceed the inflation rate. Over half of all full-time college students today depend on some form of borrowing, compared to just over 35% in 1985. Federal legislation enacted in late 1992 expanded loan limits and borrower eligibility that, in part, resulted in an increase of over 50% in annual loan volume of federally-guaranteed student loans ($21 billion in 1994 from $13.3 billion in 1992). Estimated future increases in tuition costs and college enrollments are expected to prompt further growth in the student loan market.

In 1993, Congress expanded a previously established pilot program into the FDSLP administered by the U.S. Department of Education. Established as an alternative to the private sector-based FFELP, the FDSLP accounted for approximately one-third of all new federally-sponsored student loans issued in academic year 1995-6. The federal government contracts out loan administration and collections services while financing its lending activity through U.S. Treasury borrowing. The FDSLP had a legislated market share goal of up to 50% for academic year 1996-7, but, based on current Department of Education projections, management expects direct loan volume to reach between 35-40% of total student loan volume for such academic year. See "-- Competition".

BUSINESS STRATEGY

Sallie Mae's strategy is to expand its higher education franchise as a preferred provider of branded products and services to higher education institutions, consumers and lenders, while leveraging the unrealized value embedded in its consumer database and servicing operation. Management believes the Company's statutory mandate, to provide liquidity to FFELP lenders, no longer adequately characterizes the breadth of the Company's products and services or the customer needs they currently address. Management believes privatization will allow the Company to exploit its servicing, technology and financing expertise to better and more broadly serve higher education institutions and students. In addition, management believes that privatization will allow the Company to realize value-enhancing opportunities to expand beyond its core business, leveraging its servicing capability and unique consumer database.

Competition in the student loan industry has intensified both among the participants in the FFELP, and, with the expansion of the FDSLP, between private industry participants and the government's direct student loan program. To address these pressures and legislatively-directed margin reductions, the Company's strategy has been to increase its share of owned and committed FFELP loans and encourage consumer support for private sector solutions to higher education credit needs. To this end, Sallie Mae has developed a school-based strategy that brings value more directly to the higher education customer, generating loan product flows at the source for Sallie Mae's network of affiliated lenders. This school-based strategy has resulted in substantial volume growth over the past five years, notwithstanding increased competition. The expansion of Sallie Mae's customer focus to include colleges and universities, in addition to lenders, is based on the increasingly active role played by college administrators in the referral of loan providers to their students.

As the cost of education continues to rise, schools are looking for the least expensive, most efficient source of student loan credit. To meet customer needs and differentiate its lender partners, the Company has developed a "branded" family of products and services. These include borrower benefits, which reward on-time repayment by reducing total loan cost; flexible repayment options; and specialized software and electronic communications systems. Products such as LineSS(R) (school loan processing software) and ExportSS(R) (a loan origination and administration outsourcing service) demonstrate Sallie Mae's expertise in providing

technology and operational support to help schools and lenders manage student loan-related costs. The recently formed relationship with PeopleSoft to develop a student information system and financial aid software and the acquisition of Kaludis Consulting Group, a higher education strategic consulting firm, are expected to enhance the Company's capabilities in this regard. Management believes that privatization will further allow the Company to develop new products for certain segments of the education market.

The Company's academic facilities financing business has complemented its expanded customer focus. This business, now conducted through Education Securities, Inc. ("ESI"), a wholly-owned, broker-dealer subsidiary, has allowed the Company to strengthen relationships at several hundred schools across the country and has increased the Company's name recognition on campus. See "-- Specialized Financial Services -- Academic Facilities Financings and Student Loan Revenue Bonds."

The Company's valuable network of lender clients is an established and reliable nationwide source of loan originations. The Company plans to continue to support and expand its network of lending partners. Leveraging their relationship with the Company, many of these lenders have developed a reputation for service to schools and strong name recognition with students, both of which are critical to being selected as the lender. Although the Company is well known on campuses as the industry's leading servicer of student loans, it is less well known among families who are in need of college loans. The Company plans to heighten its visibility with consumers to favorably position itself for future new product offerings. To improve its competitive position vis a vis FFELP participants and the FDSLP, the Company's business strategy entails the development of products and businesses which improve the delivery, distribution and servicing of education credit for the private sector program. The Company also plans to continue to build strong relationships with colleges and families by providing state-of-the-art loan origination capabilities, best-in-class loan servicing and preferred loan programs. Privatization is expected to provide enhanced flexibility to pursue investments in ventures related to the Company's core student loan business.

In addition, privatization will permit the Company to pursue opportunities outside the student loan industry. Although at this time the Company has no specific plans to make any material investments outside of its core business, over time it expects to broaden the services it provides to higher education institutions. In addition, privatization will permit the Company to explore opportunities to (i) leverage its servicing and technology expertise, (ii) capitalize on its unique consumer database and (iii) build upon its existing school and lender relationships.

The Company intends to supplement its business strategy by continuing to aggressively control costs and proficiently manage its capital base. The Company reduced operating expenses as a percentage of managed student loans from 1.36% for the year ended December 31, 1994 to 1.09% for the year ended December 31, 1996. In addition, the number of shares of Sallie Mae Common Stock outstanding was reduced by approximately 36% from January 1, 1994 to December 31, 1996 through stock repurchases. Prudent capital management, including the potential for further stock repurchases, is expected to remain a priority for the Company.

PRODUCTS AND SERVICES

LOAN PURCHASES. The Company's purchases of student loans primarily involve two federally sponsored programs. The Company principally purchases Stafford loans, PLUS loans, and SLS loans originated under the FFELP, all of which are insured by state-related or non-profit guarantee agencies and are reinsured by the United States Department of Education. The FFELP is more fully described in Appendix C. The Company also purchases student loans originated under the Health Education Assistance Loan Program ("HEAL"), which are insured directly by the United States Department of Health and Human Services. HEAL loans are made to health professions graduate students under the Public Health Services Act. As of December 31, 1996, the Company's managed portfolio of student loans totaled $40 billion, including $36.2 billion (including loans owned, loans securitized and loan participations) of FFELP loans and $2.8 billion of HEAL loans.

In order to further meet the educational credit needs of students, the Company in 1996 sponsored the creation of the private Signature Education Loan(sm) program, with numerous lenders participating nationwide. Under this program, the Company performs certain origination services on behalf of the participating lenders. Upon sale of the loans to the Company, the Company intends to insure the loans through its HEMAR

Insurance Corporation of America ("HICA") subsidiary (if not already insured by HICA prior to sale). Most of the HICA insured loans acquired by the Company are part of "bundled" loan programs that include FFELP loans. The Company also purchases loans originated under various other HICA-insured loan programs. As of December 31, 1996, the Company owned approximately $1.0 billion of such private education loans, including HICA insured Signature Education Loans(sm).

The Company purchases student loans primarily from commercial banks. In addition, the Company purchases student loans from other eligible FFELP lenders, including savings and loan associations, mutual savings banks, credit unions, certain pension funds and insurance companies, education institutions, and state and private nonprofit loan originating and secondary market agencies.

Most lenders using the secondary market hold loans while borrowers are in school and sell loans shortly before their conversion to repayment status, when servicing costs increase significantly. Traditionally, the Company has purchased most loans just prior to their conversion to repayment status, although the Company also buys "in-school" loans and those in repayment. The Company purchases loans primarily through commitment contracts but also makes "spot" purchases. Approximately two-thirds of the Company's new loan purchases were effected pursuant to purchase commitments in 1996 and 1995. The Company enters into commitment contracts with lenders to purchase loans up to a specified aggregate principal amount over the term of the contract. Under the commitment contracts, lenders have the right, and in most cases the obligation, to sell to the Company the loans they own over a specified period of time, usually two to three years, at a purchase price that is based on certain loan characteristics.

In conjunction with commitment contracts, the Company frequently provides the selling institutions with operational support in the form of PortSS(R), an automated loan administration system for the lender to use at its own offices prior to loan sale, or in the form of loan origination and interim servicing provided through one of the Company's loan servicing centers (ExportSS(R)). In 1995 and 1996, more than 80% of purchase commitment volume came from users of PortSS(R) and ExportSS(R). The Company also offers commitment clients the ability to originate loans and then transfer them to the Company for servicing (TransportSS(sm)). PortSS(R), TransportSS(sm), and ExportSS(R) provide the Company and the lender with the assurance that the loans will be efficiently administered by the Company and that the borrowers will have access to the Company's repayment options and benefits.

In a spot purchase, the Company competes with other secondary market participants to purchase a portfolio of eligible loans from a selling holder when such holder decides to offer its loans for sale. The Company made approximately one-third of its purchases of educational loans through spot purchases in 1995 and 1996. In general, spot purchase volume is more competitively priced than volume purchased under commitment contracts. The growth in volume generated by PortSS(R), ExportSS(R) and TransportSS(sm) demonstrates the importance of the Company's investment in these systems in past years.

The Company also offers eligible borrowers a program for the consolidation of eligible insured loans into a single new insured loan with terms of from 10 to 30 years. The Higher Education Act of 1965, as amended provides that borrowers may consolidate with one of their loan holders or may consolidate with a separate lender if they cannot obtain a consolidation loan with an income sensitive repayment plan. As of December 31, 1996, the Company owned approximately $7.7 billion of such consolidation loans, known as SMART(sm) Loan Accounts.

BORROWER BENEFITS AND PROGRAM TECHNOLOGY SUPPORT. To create customer preferences and compete more effectively in the student loan marketplace, the Company developed a comprehensive set of loan programs and services for borrowers, including numerous loan restructuring and repayment options and programs that encourage and reward good repayment habits. The Company also provides counseling and information programs (including a world wide web site) that not only help borrowers, but also help reinforce relationships with college and university customers and lender partners.

Under the Company's "Great Rewards(R)" program, certain FFELP borrowers who make their first 48 monthly payments on-time receive a two-percentage-point interest rate reduction for the remaining term of the loan. Other programs pay students an amount equal to part of the loan origination fees and modestly reduce interest costs for use of automatic debit accounts. The Company also provides financial aid

administrators at colleges and universities with innovative products and services that simplify the lending process, including electronic funds transfer services and loan information and management software that enables college application data to be transferred electronically between program participants.

JOINT VENTURE WITH THE CHASE MANHATTAN BANK. In the third quarter of 1996, the Company restructured its business relationship with The Chase Manhattan Bank ("Chase"), the largest originator of student loans under the FFELP with an estimated market share of 7.0%. Historically, Chase has also been the Company's largest client, representing 11% of 1995 purchases. The Company and TCB Education First Corporation, a wholly-owned subsidiary of Chase, are equal owners of Education First Finance LLC and Education First Marketing LLC (collectively, the "Chase Joint Venture"). Education First Marketing LLC is responsible for marketing education loans to be made by Chase and its affiliates to schools and borrowers. Shortly after such loans are made by Chase and its affiliates, the loans are purchased on behalf of Education First Finance LLC by the Chase/Sallie Mae Education Loan Trust (the "Trust"), which presently finances these purchases through the sale of loan participations to the Company and Chase. As of the date hereof, the Trust owns approximately $2.9 billion in federally-insured education loans. Substantially all loans owned by the Trust are serviced on behalf of the Trust by Sallie Mae Servicing Corporation on a fee-for-service basis. Management believes the Chase Joint Venture reflects its ability to leverage its servicing operations and differentiated product line to strengthen its position in its core student loan purchasing business.

SERVICING

In 1980, the Company began servicing its own portfolios in order to better control costs and manage risks. In late 1995, in connection with the commencement of its securitization program, the Company transferred its servicing operations to a wholly-owned subsidiary, Sallie Mae Servicing Corporation ("SMSC"). The Company is now the largest FFELP loan servicer and management believes that the Company is recognized as the premier service quality and technology provider in its field. The Company believes that its processing capability and service excellence is integral to its school-based growth strategy. As of December 31, 1996, the Company serviced approximately $38 billion of loans, including approximately $25.5 billion of loans owned by Sallie Mae and $6.3 billion owned by five securitization trusts sponsored by Sallie Mae, $4.3 billion of loans currently owned by ExportSS(R) customers and $1.9 billion of the $2.9 billion owned by the Chase Joint Venture Trust. The remaining $1.0 billion of loans owned by the Chase Joint Venture Trust will eventually be serviced by the Company.

The Company currently has six loan servicing centers located in Florida, Kansas, Massachusetts, Pennsylvania, Texas and Washington. This geographical coverage, together with total systems integration among centers, facilitates operations and customer service.

The United States Department of Education and the various guarantee agencies prescribe rules and regulations that govern the servicing of federally insured student loans. The Company's originations and servicing systems, internal procedures and highly trained staff support compliance with these regulations, ensure asset integrity and provide superior service to borrowers. The Company has recently introduced imaging technology to further increase servicing productivity and capacity. Management believes that ongoing investments in servicing technology and personnel training will continue to enhance its leading position in student loan servicing.

Management believes that a long-term commitment to developing loan servicing expertise and efficiency has created new opportunities for the Company. The Company is beginning to bid on federal and state government contracts to provide various services including loan collection, claims processing, and administration of prepaid tuition plan records. It is expected that privatization will allow for new opportunities for government contracting and third-party servicing activities for the Company.

SPECIALIZED FINANCIAL SERVICES

The Company has engaged in a number of specialty financial services related to higher education credit, including collateralized financing of FFELP and other education loan portfolios (warehousing advances), credit support for student loan revenue bonds, portfolio investments of student loan revenue and facilities

bonds, underwritings of academic facilities bonds and surety bond support for non-federally insured student loans.

WAREHOUSING ADVANCES. Warehousing advances are secured loans to financial and educational institutions to fund FFELP and HEAL loans and other forms of education-related credit. As of December 31, 1996, the Company held approximately $2.8 billion of warehouse loans with an average term of 1.0 year. These loans will remain assets of the GSE. The GSE will be able to extend new warehousing advances during its wind-down only pursuant to financing commitments in place as of the Effective Time. As of December 31, 1996, the GSE held approximately $2.4 billion of such commitments. The non-GSE affiliates are not expected to continue this line of business.

ACADEMIC FACILITIES FINANCINGS AND STUDENT LOAN REVENUE BONDS. Since 1987, the GSE has provided facilities financing and commitments for future facilities financing to approximately 250 educational institutions. Certain of these financings are secured either by a mortgage on the underlying facility or by other collateral. The GSE also invests in student loan revenue obligations. In late 1995, the GSE established a broker-dealer subsidiary, Education Securities, Inc., which manages the GSE's municipal bond portfolio and is developing an array of specialized underwriting and financial advisory services for the education sector. It is expected that following the Reorganization, the Company will reduce its investment activity in the academic facilities and student loan revenue bond products, but will expand its underwriting and financial advisory activities in these and other market segments. As of December 31, 1996, this portfolio totaled $1.5 billion.

LETTERS OF CREDIT. In the past, the GSE has also offered letters of credit to guarantee issues of state and nonprofit agency student loan revenue bonds. Currently outstanding letters of credit have original terms of up to 17 years. As of December 31, 1996, the GSE held approximately $3.7 billion of such commitments outstanding. After the Reorganization is consummated, letter of credit activity by the GSE will be limited to guarantee commitments in place at the Effective Time.

PRIVATE STUDENT LOAN INSURANCE. In 1995, the GSE acquired HICA, a South Dakota stock insurance company exclusively engaged in protecting lenders against credit loss on their education-related, non-federally insured loans to students attending post-secondary educational institutions. A significant portion of HICA's insured loan portfolio is made up of loans owned by the GSE. See "Products and Services -- Loan Purchases."

FINANCING/SECURITIZATION

The Company obtains funds for its operations primarily from the sale of GSE debt securities in the domestic and overseas capital markets, through public offerings and private placements of U.S. dollar and foreign currency denominated debt of varying maturities and interest rate characteristics. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." Sallie Mae debt securities are currently rated at the highest credit rating level by Moody's Investor Services and Standard & Poor's, in part due to the GSE's current status as a government-sponsored-enterprise. The GSE is expected to retain its credit ratings after the Reorganization. Although the Company has not begun specific discussions with the ratings agencies as of the date of this Proxy Statement/Prospectus, it is expected that the credit rating on debt securities of the Holding Company would be lower than debt securities of the GSE.

The GSE uses interest rate and currency exchange agreements (collateralized where appropriate), U.S. Treasury securities, interest rate futures contracts and other hedging techniques to reduce the exposure to interest rate and currency fluctuations arising out of its financing activities and to match the characteristics of its assets and liabilities. The GSE has also issued preferred stock to obtain funds. The Reorganization provides for access to the government-sponsored-enterprise debt market to fund student loans and other permitted asset acquisitions with maturity dates through September 30, 2008. In connection with such dissolution, the GSE must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the Secretary of the Treasury, to pay the principal and interest on the deposited obligations. If the GSE has insufficient assets to fully fund such GSE debt, the Holding Company must transfer sufficient assets to the trust to account for this shortfall. The Privatization Act requires that upon the

dissolution of the GSE on or before September 30, 2008, the GSE shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding preferred stock.

In addition, since late 1995, the Company has further diversified its funding sources independent of its GSE borrower status by securitizing a portion of its student loan assets. Securitization is an off-balance sheet funding mechanism that the Company effects through the sale of portfolios of student loans by the GSE to SLM Funding Corporation, a bankruptcy-remote, special purpose wholly-owned subsidiary of the GSE, that, in turn, sells the student loans to an independent owner trust that issues securities to fund the purchase of the student loans. The securitization trusts typically issue several classes of debt securities rated at the highest investment grade level. The GSE has not guaranteed such debt securities and has no obligation to ensure their repayment. Because the securities issued by the trusts through its securitization program are not GSE securities, the Company has been and in the future expects to be able to fund its student loans to term through such program, even for those assets whose final maturities extend beyond 2008. The Company has taken the position that the 30 basis point per annum offset fee does not apply to securitized loans. See "Legal Proceedings." It is anticipated that securitization will remain a primary student loan funding mechanism for the Company once it conducts student loan purchase activity through a non-GSE subsidiary.

Management believes that the initial financing requirements of the Holding Company will be relatively modest and can be accommodated through a number of alternative sources, including public and private debt placement, bank borrowings and dividends from subsidiaries. Securitization is expected to provide the principal funding source for the student loan purchases of the Holding Company after such function is transferred to the GSE. However, there will be a need for on-balance sheet financing for such activities during the period prior to securitization. Such financings may require the Holding Company to obtain a bond rating. Ratings for Holding Company debt will not be known until specific debt is issued. Although the Company has not begun specific discussions with the ratings agencies as of the date of this Proxy Statement/Prospectus, it is expected that these ratings will be below the GSE's current credit rating levels.

ECONOMIC IMPACT OF THE PRIVATIZATION ACT ON THE COMPANY'S BUSINESS

The economics of Sallie Mae's contemplated privatization reflect a trade-off between government-sponsored-enterprise benefits, which have been significantly eroded in recent years, and the opportunity for an expanded franchise. It is difficult to precisely quantify either the changing value of government-sponsored-enterprise status or the potential value of new business opportunities. However, management believes that Sallie Mae's competitive posture is now primarily a function of strategic marketplace issues rather than its government-sponsored-enterprise status. Moreover, in management's view the costs and risks of privatization, within the framework of the Privatization Act and with the advent of securitization, are manageable and are expected to have a relatively modest impact on the core student loan business. The additional economic advantage of privatization is that it mitigates the potential for further erosion of net returns based on political actions targeted at Sallie Mae.

FUNDING COSTS AND LEVERAGE. The Reorganization would eventually remove the Company's ability to issue GSE debt on relatively attractive terms based on the perception of implicit federal support. In addition, as described under "Financing/Securitization", the Company will be obligated to repay or defease GSE debt obligations remaining on the dissolution date. However, management believes that funding costs should not be a significant issue following the Reorganization for several reasons.

First, the Privatization Act allows Sallie Mae to continue to issue debt securities as a government-sponsored-enterprise with maturities no later than September 30, 2008. Second, the 30 basis point offset fee on student loans Sallie Mae holds effectively raises funding costs. Third, the recent availability of securitization greatly reduces the need for capital and the traditional government-sponsored-enterprise advantage of relatively high balance sheet leverage.

Management believes that Sallie Mae's experience with its securitization program and the growth in student loan securitizations generally demonstrate that, following the Reorganization, the Company can efficiently fund its core business. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Securitization"

PREFERRED STOCK REDEMPTION. As described above, the Privatization Act requires that upon the dissolution date, Sallie Mae shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding shares of Sallie Mae preferred stock. The preferred stock is carried at its liquidation value of $50 per share for a total of $214 million and pays a variable dividend that has been at its minimum rate of 5 percent per annum for the last several years.

STATE TAXES. As a government-sponsored-enterprise, Sallie Mae is exempt from certain state and local taxes. The Company's non-GSE's units will not be exempt from such taxes. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- FEDERAL AND STATE TAXES."

IMPACT ON OTHER BUSINESS LINES. It is anticipated that following the Reorganization, the GSE will maintain an investment portfolio consistent with liquidity needs, the availability of attractive credit spreads and prudent capital management. As the level of the GSE's investment portfolio (including tax exempt securities) gradually declines, the Company will forego certain earnings opportunities. It is expected that swaps and other derivatives will continue to be utilized by the GSE to manage interest rate risk and match asset and liability characteristics.

Privatization will limit Sallie Mae's warehousing advance activity, letter of credit business and academic facilities portfolio lending, all areas of decreasing business opportunity. While contractual commitments in place at the Effective Time will be honored by the GSE, it is expected that the Holding Company will not pursue these business lines. Instead, the Company will seek to maintain client relationships in these areas by refocusing its product lines primarily through its broker-dealer subsidiary, ESI.

CONSIDERATION. Under the Privatization Act, the Company must pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name within 60 days after the Effective Time. In addition, if the Reorganization is consummated the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

OPERATIONS FOLLOWING THE REORGANIZATION

Privatization will enable the Company to commence new business activities without regard to the GSE's charter restrictions immediately after the Effective Time. Specifically, after the consummation of the Reorganization, the stock of certain GSE subsidiaries, including Sallie Mae Servicing Corporation, HICA and ESI, would be transferred to the Holding Company, see "THE REORGANIZATION -- Structure Before and After the Reorganization," such that the business activities of such subsidiaries would no longer be subject to restrictions contained in the Sallie Mae Charter. In addition, the GSE's employees will be transferred to the Management Company at the Effective Time.

The Privatization Act also provides for a wind-down of the GSE's business operations by September 30, 2007. At the time of the Reorganization or as soon as practicable thereafter, the GSE will transfer personnel and certain assets to the Holding Company or other non-GSE affiliates. Student loans, warehousing advances and other program-related or financial assets (such as portfolio investments, letters of credit, swap agreements and forward purchase commitments) are generally not expected to be transferred. During the wind-down period following the Reorganization, the GSE generally will be prohibited from conducting new business except in connection with student loan purchases through September 30, 2007 or with other outstanding contractual commitments and from issuing new debt obligations which mature beyond September 30, 2008. Neither the Holding Company nor any of its non-GSE affiliates may purchase FFELP loans for so long as the GSE remains an active purchaser in this secondary market. See "PRIVATIZATION ACT -- Limitations on Holding Company Activity." During the wind-down period, GSE operations will be managed pursuant to arms-length service agreements between the GSE and one or more of its non-GSE affiliates. The Privatization Act also provides certain restrictions on intercompany relations between the GSE and its affiliates during the wind-down period. See "PRIVATIZATION ACT -- Separate Operation of Corporations."

Although loans held by the Holding Company and its non-GSE affiliates will not be subject to the 30 basis point per annum offset fee, it is expected that the Company will continue its secondary market purchase activities and on-balance sheet funding through the GSE until the Holding Company's creditworthiness is established. While student loans held on balance sheet by the GSE would remain subject to the offset fee, the GSE's funding costs and exemption from state taxes lessen its effect. Moreover, loans sold by the GSE to asset-backed securitization trusts would not be subject to the offset fee if certain litigation regarding this matter is resolved in favor of the Company. See "-- Legal Proceedings."

At this time, management anticipates that the GSE will not be dissolved prior to the year 2008 and that the GSE will continue to be used for all insured student loan purchase activity until the year 2007. However, the GSE's student loan purchase activity may be transferred to one of the Holding Company's non-GSE subsidiaries prior to such time if it becomes advantageous to do so. In particular, such a transfer could occur if certain litigation relating to the offset fee described below is ultimately resolved adversely to the Company, see "BUSINESS -- Legal Proceedings," or if Congress amends the GSE's charter to extend such fee to securitized loans, see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Other Related Events." In addition, it is expected that during the wind-down period, the GSE would provide financing and letter of credit support under existing contractual commitments which aggregate $2.4 billion and $3.7 billion, respectively, as of December 31, 1996.

The GSE's investment portfolio will be maintained consistent with liquidity needs, the availability of attractive credit spreads and prudent capital management. Similarly, swaps and other derivatives will continue to be utilized by the GSE to manage interest rate risk and match asset and liability characteristics.

The non-GSE subsidiaries of the Holding Company would provide loan servicing support for the loans owned and securitized by the GSE and are expected to develop new business opportunities in the higher education finance arena and beyond, as described above. At this time, Sallie Mae has no specific plans to invest materially or take on any material risks in connection with such new business activities. Following the Reorganization, the Company may consider certain strategic opportunities, such as acquisitions and joint ventures, that currently are not feasible due to restrictions contained in the Sallie Mae Charter. At this time, Sallie Mae has not actively explored the desirability of any such specific strategic opportunities. See generally "-- Economic Impact of the Privatization Act on the Company's Business."

COMPETITION

The Company is the major financial intermediary for higher education credit, but it is subject to competition on a national basis from several large commercial banks and nonprofit secondary market agencies as well as on a state or local basis by smaller banks and state-based secondary markets. While Congress establishes loan limits and interest rates on student loans, market share in the FFELP industry is increasingly becoming a function of school and student desire for borrower benefits and superior customer service. FFELP providers have been aggressively competing on the basis of enhanced products and services in recent years, particularly to offset legislated reductions in profitability and the impact of the FDSLP.

Because the Company's historic statutory role is confined to secondary market activity, it depends mainly on its network of lender partners and its school-based strategy for new loan volume. Through this approach, which is based on the Company's branded products and services, the Company competes to acquire FFELP loans from originators of those loans. In addition, the availability of securitization for student loan assets has created new competitive pressures for traditional secondary market purchasers. Based on the most recent information from the U.S. Department of Education, at the end of fiscal year 1994, Sallie Mae's share (in dollars) of outstanding FFELP loans was 33%, banks and other financial institutions held 48% and state secondary market participants held 19%.

The Company also faces competition from the FDSLP, both for new and existing loan volume. Based upon current Department of Education projections, the Company estimates that total student loan origination for the academic years 1994-95, 1995-96 and 1996-97 were $22.3 billion, $24.3 billion and $26.0 billion, respectively, of which FDSLP originations represented approximately 7%, 31% and 36%, respectively. The Department of Education projects that FDSLP originations will represent 38% of total student loan originations in the 1997-98 academic year. Loans made under the direct loan program are not available for

purchase by the Company. The Department of Education has also begun to offer FFELP borrowers the opportunity to refinance or consolidate FFELP loans into FDSLP loans upon certification that the holder of their FFELP loans does not offer a satisfactory income-sensitive payment plan. Approximately $320 million of the GSE's FFELP loans have been consolidated into the FDSLP. In early 1995, the GSE began offering an income-sensitive plan to compete with FDSLP refinancing. However, the FDSLP also provides an income contingent option not available under the FFELP program pursuant to which the government will ultimately forgive student loan debt after 25 years. At this time it is not certain what action, if any, the Congress will take with regard to the FDSLP in connection with the anticipated 1998 reauthorization of the Higher Education Act. However, management believes, based upon public statements by members of Congress and the administration, that the FFELP and the FDSLP will continue to coexist as competing programs for the forseeable future.

COLLEGE CONSTRUCTION LOAN INSURANCE ASSOCIATION

In 1987, Sallie Mae assisted in creating the College Construction Loan Insurance Association ("Connie Lee"), a for-profit, stockholder-owned corporation, authorized by Congress to insure and reinsure educational facilities obligations. The carrying value of Sallie Mae's investment in Connie Lee was approximately $44 million and at December 31, 1996, Sallie Mae effectively controlled 36 percent of Connie Lee's outstanding voting stock through its ownership of preferred and common stock and through agreements with other shareholders. On February 1997, Connie Lee privatized pursuant to statutory provisions enacted at the same time as the Privatization Act, that required Connie Lee to repurchase shares of its stock owned by the U.S. government at a purchase price determined by an independent appraisal.

PROPERTIES

The Company's principal office is located at leased space at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007.

The following table lists the principal facilities owned by the Company:

LOCATION	FUNCTION	APPROXIMATE SQUARE FEET
Reston, VA	Operations Headquarters	375,000
Wilkes Barre, PA	Loan Servicing Center	135,000
Killeen, TX	Loan Servicing Center	133,000
Lynn Haven, FL	Loan Servicing Center	133,000
Lawrence, KS	Loan Servicing Center	52,000

It is expected that these properties will be retained by the GSE until the year 2000 at which time they will be transferred to the Holding Company or one of its non-GSE subsidiaries. In addition, the Company leases approximately 35,000 square feet of office space for its loan servicing center in Waltham, Massachusetts, 37,800 square feet of office space for its loan servicing center in Spokane, Washington and 47,000 square feet and 33,000 square feet of additional space for its loan servicing centers in Lawrence, Kansas and Killeen, Texas, respectively.

With the exception of the Pennsylvania loan servicing center, none of the Company's facilities is encumbered by a mortgage.

The Company believes that its headquarters and loan servicing centers are generally adequate to meet its long-term student loan and new business goals. Sallie Mae's Washington, D.C. headquarters lease expires in 2001.

EMPLOYEES

As of December 31, 1996, the Company employed 4,792 employees nationwide.

LEGAL PROCEEDINGS

OBRA included a provision which applied a 30 basis point per annum fee to student loans held by Sallie Mae. The Secretary of Education interpreted the provisions of OBRA in such a manner as to apply that fee

not only to loans held by Sallie Mae but also to loans sold by Sallie Mae to securitization trusts. In April 1995, the Company filed suit in the U.S. District Court for the District of Columbia to challenge the constitutionality of the 30 basis point fee and the application of the fee to loans securitized by the Company. On November 16, 1995, the District Court ruled that the fee is constitutional, but that, contrary to the Secretary of Education's interpretation, the fee does not apply to securitized loans. Both Sallie Mae and the United States appealed. On January 10, 1997, the U.S. Court of Appeals for the District of Columbia issued a decision affirming the District Court's ruling as to the constitutionality of the fee, and striking down the interpretation of OBRA by which the Secretary of Education had sought to apply the fee to securitized loans. Under the Court of Appeals' decision, however, the case was remanded to the District Court for remand to the Secretary of Education. At this time, it is uncertain whether the Secretary of Education will seek to develop a new interpretation of OBRA in a further attempt to apply the fee to securitized loans, and whether any such interpretation could withstand legal challenge. If the final outcome following the remand is that the offset fee is not applicable to loans securitized by Sallie Mae, the gains resulting from prior securitizations would be increased. As of December 31, 1996, the gains resulting from such securitizations would have been increased by approximately $55 million, pre-tax. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS -- Securitization."

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various bond offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold Sallie Mae responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. The complaint against the Company is one of numerous cases that have been coordinated for discovery purposes. Other defendants include Merrill Lynch, Morgan Stanley, KPMG Peat Marwick, Standard & Poor's and Fannie Mae. The complaint includes a claim of fraud under Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. In addition, the complaint includes counts under the California Corporations Code, as well as a count for common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, management believes the impact of the lawsuit will not be material to the Company.

In September 1996, Sallie Mae obtained a declaratory judgment against the Secretary of Education in the U.S. District Court for the District of Columbia. The Court found that the Secretary acted erroneously in refusing to allow Sallie Mae to claim adjustments to special allowance payments on certain FFELP loans which were required to be converted retrospectively from a fixed rate to a variable rate. The Secretary has filed a notice of appeal of the District Court's decision.

REGULATION

As a government-sponsored-enterprise, the GSE is organized under federal law and its operations are restricted by its government charter. While the Reorganization will permit an expansion of the Holding Company's private activities through unregulated subsidiaries, such activities will be restricted in certain ways until the GSE is dissolved, and the GSE's operations will continue to be subject to broad federal regulation.

CURRENT REGULATION

GSE REGULATION. Sallie Mae's structure and the scope of its business activities are set forth in the Sallie Mae Charter. The Sallie Mae Charter, which is subject to review and change by Congress, sets forth certain restrictions on Sallie Mae's business and financing activities and charges the federal government with certain oversight responsibilities with respect to these activities. In addition to the limitation on its corporate purposes described under "COMPARISON OF STOCKHOLDER RIGHTS -- Purpose," the Sallie Mae Charter also grants it certain exemptions from federal and state laws. The Sallie Mae Charter's primary regulatory restrictions and exemptions, including certain provisions added by the Privatization Act, may be summarized as follows:

1. One-third of Sallie Mae's 21 member Board of Directors is appointed by the President of the United States. The other 14 members are elected by the holders of Sallie Mae Common Stock. The Chairman of the Board is designated by the President of the United States from among the 21 members.

2. Debt obligations issued by Sallie Mae are exempt from state taxation to the same extent as United States government obligations. Sallie Mae is exempt from all taxation by any state or by any county, municipality, or local taxing authority except with respect to real property taxes. Sallie Mae is not exempt from the payment of federal corporate income taxes.

3. All stock and other securities of Sallie Mae are deemed to be exempt securities under the laws administered by the Securities and Exchange Commission to the same extent as obligations of the United States.

4. Sallie Mae may conduct its business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States (although the scope of Sallie Mae's business is generally limited by its federal charter).

5. The issuance of Sallie Mae's debt obligations must be approved by the Secretary of the Treasury.

6. Sallie Mae is required to have its financial statements examined annually by independent certified public accountants and to submit a report of the audit to the Secretary of the Treasury. The Treasury Department is also authorized to conduct audits of Sallie Mae and to otherwise monitor Sallie Mae's financial condition. Sallie Mae is required to submit annual reports of its operations and activities to the President of the United States and the Congress. Sallie Mae must pay up to $800,000 per year to the Department of the Treasury to cover the costs of its oversight.

7. Sallie Mae is subject to certain "safety and soundness" regulations including the requirement that Sallie Mae maintain a 2.00 percent capital adequacy ratio (increasing to 2.25 percent after January 1, 2000). Sallie Mae may pay dividends only upon certification that, at the time of a dividend declaration and after giving effect to the payment of such dividend, the capital adequacy ratio is satisfied.

8. The Secretary of Education or the Secretary of the Treasury may request that the Attorney General bring an action in the United States District Court for the District of Columbia to enforce the safety and soundness requirements placed on Sallie Mae by the Sallie Mae Charter.

9. A 30 basis point annual "offset fee" unique to Sallie Mae is payable to the Secretary of Education on student loans purchased and held by Sallie Mae on or after August 10, 1993. Sallie Mae has challenged the constitutionality of the 30 basis point fee and the application of the fee to loans securitized by Sallie Mae. See "BUSINESS -- Legal Proceedings."

10. At the request of the Secretary of Education, Sallie Mae is required to act as a lender of last resort to make FFELP loans when other private lenders are not available. Such loans are not subject to the 30 basis point fee on loans held by Sallie Mae.

OTHER REGULATION. Under the Higher Education Act of 1965, as amended, Sallie Mae is and, following the Reorganization the Company will be, an "eligible lender" for purposes only of purchasing and holding loans made by other lenders. Like other participants in the insured student loan programs, Sallie Mae is and, the Company will be subject, from time to time, to review of its student lending operations by the General Accounting Office, the Department of Education and certain guarantee agencies. In addition, Sallie Mae Servicing Corporation, a wholly-owned subsidiary of Sallie Mae, as a servicer of student loans, is subject to certain U.S. Department of Education regulations regarding financial responsibility and administrative capability that govern all third party servicers of insured student loans. ESI, a wholly-owned subsidiary of Sallie Mae, is a broker-dealer registered with the Securities and Exchange Commission and the National Association of Securities Dealers (the "NASD") and is licensed to do business in 50 states. ESI is subject to regulation by the SEC and the NASD as a municipal security broker-dealer. HICA, a South Dakota stock insurance company and indirect subsidiary of Sallie Mae, is subject to the ongoing regulatory authority of the South Dakota Division of Insurance and that of comparable governmental agencies in six other states.

REGULATION FOLLOWING REORGANIZATION

The Privatization Act modifies the Sallie Mae Charter and sets forth the basic framework for effecting the Reorganization and the ultimate dissolution of the GSE. Although the Privatization Act generally imposes no constraints on the types of permissible activities of the privatized business, it does impose certain restrictions on transactions between the GSE and the Holding Company and its non-GSE subsidiaries after the Reorganization is consummated and prior to the dissolution of the GSE. See "THE PRIVATIZATION ACT -- Reorganization; -- Oversight Authority; -- Restrictions on Intercompany Relations; -- Limitations on Holding Company Activities." In addition, the Company will also be subject to the regulations described above under "-- Current Regulation -- Other Regulation."

NON-DISCRIMINATION AND LIMITATIONS ON AFFILIATION WITH DEPOSITORY INSTITUTIONS

The Privatization Act also amended the Higher Education Act to provide that Sallie Mae and, if the Reorganization occurs, any successor entity (including the Holding Company) functioning as a secondary market for federally insured student loans, may not engage, directly or indirectly, in any pattern or practice that results in a denial of a borrower's access to insured loans because of the borrower's race, sex, color, religion, national origin, age, disability status, income, attendance at a particular institution, length of a borrower's educational program or the borrower's academic year at an eligible institution.

Pub. L. No. 104-208, the federal budget legislation of which the Privatization Act was a part, contains amendments to the Federal Deposit Insurance Act and the Federal Credit Union Act which prohibit all government-sponsored enterprises from directly or indirectly sponsoring or providing non-routine financial support to certain credit unions and depository institutions. Depository institutions are also prohibited from being affiliates of government-sponsored enterprises. Thus, neither the Holding Company nor any of its subsidiaries could be affiliated with a depository institution until Sallie Mae is dissolved. These restrictions effectively limit the ability of the Holding Company and its affiliates to originate insured student loans through an affiliated depository institution as long as the GSE remains in existence. Most originators of insured student loans are depository institutions that qualify as "eligible lenders" under the Higher Education Act, as amended.

CAPITALIZATION

The following table sets forth the capitalization of Sallie Mae at December 31, 1996 and the capitalization of the Holding Company "as adjusted" for the Reorganization as of that date. No other pro forma information of the Holding Company related to the Reorganization is included herein, since such pro forma information would reflect no material change from the financial statements of Sallie Mae at the time of such effectiveness. The information set forth in the table below should be read in conjunction with the audited financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations of Sallie Mae" included elsewhere herein.

	DECEMBER 31, 1996	
	ACTUAL	AS ADJUSTED
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		(UNAUDITED)
Borrowed funds:		
Short-term borrowings	$22,156,548	$22,156,548
Long-term notes	22,606,226	22,606,226
Total borrowed funds	44,762,774	44,762,774
Minority interest in wholly-owned subsidiary	-	213,883(a)
Stockholders' equity:		
Preferred stock, par value $50.00 per share, 5,000,000 shares authorized and issued, 4,277,650 shares outstanding	213,883	-
Common stock, par value $.20 per share, 250,000,000 shares authorized, 65,695,571 shares issued (53,690,595 shares issued, as adjusted)	13,139	10,738
Additional paid-in capital	-	-(b)
Unrealized gains on investment, net of tax	349,235	349,235
Retained earnings	1,008,737	489,143
Stockholders' equity before treasury stock	1,584,994	849,116
Common stock held in treasury at cost, 12,004,976 shares (none, as adjusted)	537,164	-(c)
Total stockholders' equity	1,047,830	849,116
Total capitalization	$45,810,604	$45,825,773

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(a) After the Reorganization, the preferred stock of Sallie Mae will not become Holding Company Stock. Accordingly, the preferred stock of Sallie Mae will be reflected as minority interest in a wholly-owned subsidiary in the consolidated financial statements of the Company. Preferred dividends paid by the GSE will be reflected as an expense of the Company affecting net income; however, such payments will have no effect on earnings available for common shareholders.

(b) Pursuant to the terms of the Privatization Act, the Holding Company will issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock at a price of $72.43 per share. The fair value of the warrants will be capitalized as an organization asset with a resulting increase in stockholders' equity at the time of the Reorganization. The fair value of the warrants was established at $27.33 per share, using an option pricing model, for a total of $15.2 million.

(c) Concurrent with the consummation of the Reorganization, all existing treasury shares of Sallie Mae's Common Stock will be retired and cancelled.

SELECTED FINANCIAL DATA

The following table sets forth selected financial and other operating information of Sallie Mae. The selected financial data in the table are derived from the consolidated financial statements of Sallie Mae. The data should be read in conjunction with the consolidated financial statements, related notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein.

	YEARS ENDED DECEMBER 31,				
	1996	1995(1)	1994(1)	1993(1)	1992(1)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
OPERATING DATA:					
Net interest income	$ 866	$ 901	$ 955	$ 1,149	$ 975
Net income	419	496	403	430	394
Earnings per common share	7.32	7.20	4.91	4.83	4.21
Dividends per common share	1.64	1.51	1.42	1.25	1.05
Return on common stockholders' equity	50.13%(3)	39.85%(3)	29.06%(3)	40.26%	40.22%
Net interest margin	1.90%	1.84%	2.09%	2.70%	2.30%
Return on assets	.88	.96	.84	.97	.88
Dividend payout ratio	22.40	20.97	28.89	25.88	24.92
Average equity/average assets	2.09	2.68	3.16	2.75	2.53
BALANCE SHEET DATA:					
Student loans purchased	$32,308	$34,336	$30,370	$26,804	$24,173
Student loan participations	1,446	-	-	-	-
Warehousing advances	2,789	3,865	7,032	7,034	8,085
Academic facilities financings	1,473	1,312	1,548	1,359	1,189
Total assets	47,630	50,002	52,961	46,509	46,621
Long-term notes	22,606	30,083	34,319	30,925	30,724
Total borrowings	44,763	47,530	50,335	44,544	44,440
Stockholders' equity	1,048(3)	1,081(3)	1,471(3)	1,280	1,220
Book value per common share	15.53	15.03	17.10	12.69	11.25
OTHER DATA:					
Securitized student loans outstanding	$ 6,263	$ 954	$ -	$ -	$ -
Core earnings(2)	391	361	356	398	402
Premiums on debt extinguished	7	8	14	211	141

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(1) 1995 results reflect the change in method of accounting for student loan income. The effect of the change increased net income by $151 million and earnings per common share by $2.23. On a pro forma basis, assuming the method of accounting for student loan income was applied retroactively prior to 1992, net income would increase by $17 million ($.22 per common share), $13 million ($.15 per common share), and $8 million ($.09 per common share) for the years ended December 31, 1994, 1993, and 1992, respectively.

(2) Core earnings is defined as Sallie Mae's net income less the after-tax effect of floor revenues, the cumulative effect of accounting changes and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles (GAAP), are important because they depict Sallie Mae's earnings before the effects of one time events such as floor revenues which are largely outside of Sallie Mae's control. Management believes that core earnings as defined, while not necessarily comparable to other companies use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in Sallie Mae's student loan operations.

(3) At December 31, 1996, 1995 and 1994, stockholders' equity reflects the addition to stockholders' equity of $349 million, $371 million, and $300 million, respectively, net of tax, of unrealized gains on certain investments recognized pursuant to the adoption of FAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1994-1996
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

OVERVIEW

THE CONSOLIDATED STATEMENTS OF INCOME FOR THE YEARS ENDED DECEMBER 31, 1996, 1995 AND 1994 ARE PRESENTED IN A NEW FORMAT FROM PRIOR PRESENTATIONS OF THE PUBLICLY AVAILABLE FINANCIAL STATEMENTS OF THE STUDENT LOAN MARKETING ASSOCIATION ("SALLIE MAE" OR THE "GSE") TO BETTER PORTRAY THE CHANGING NATURE OF SALLIE MAE'S REVENUE STREAMS. WHILE THE PRINCIPAL SOURCE OF EARNINGS CONTINUES TO BE FROM STUDENT LOANS, THE NATURE OF THOSE EARNINGS IS CHANGING AS A RESULT OF SECURITIZATION. THE MAJOR DIFFERENCES BETWEEN THE OLD AND NEW FORMAT ARE THAT THE SECURITIZATION RELATED INCOME, FEE INCOME AND GAINS AND LOSSES ON SALES OF AVAILABLE FOR SALE SECURITIES WERE RECLASSIFIED FROM THE INTEREST INCOME SECTION TO THE OTHER INCOME SECTION AND SERVICING AND ACQUISITION COSTS WERE COMBINED WITH GENERAL AND ADMINISTRATIVE EXPENSES AND PRESENTED AS OPERATING EXPENSES IN THE CONSOLIDATED STATEMENTS OF INCOME.

THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1995 WAS RESTATED ASSUMING THE CHANGE IN METHOD OF ACCOUNTING FOR STUDENT LOAN INCOME WAS ADOPTED ON JANUARY 1, 1995. SEE NOTE 2 TO THE SALLIE MAE CONSOLIDATED FINANCIAL STATEMENTS. FOR COMPARATIVE PURPOSES THE CONDENSED STATEMENTS OF INCOME, STUDENT LOAN SPREAD ANALYSIS, NET INTEREST INCOME TABLE, AVERAGE BALANCE SHEETS, RATE VOLUME ANALYSIS AND THE COMPARATIVE DISCUSSIONS OF EARNINGS THAT FOLLOW ARE PRESENTED ON A PRO FORMA BASIS ASSUMING THE CHANGE IN METHOD OF ACCOUNTING FOR STUDENT LOAN INCOME WAS APPLIED RETROACTIVELY PRIOR TO 1994.

Sallie Mae was established in 1972 as a for-profit, stockholder-owned, government-sponsored enterprise to support the education credit needs of students by, among other things, promoting liquidity in the student loan marketplace through secondary market purchases. Sallie Mae is the largest source of financing and servicing for education loans in the United States. The student loan industry in the United States developed primarily to support federal student loan programs and, accordingly, is highly regulated. The principal government program, the Federal Family Education Loan Program (formerly the Guaranteed Student Loan Program) (the "FFELP"), was created to ensure low cost access by both needy and middle class families to post-secondary education. Sallie Mae's products and services include student loan purchases, commitments to purchase student loans and secured advances to originators of student loans. Sallie Mae also offers operational support to originators of student loans and to post-secondary education institutions. In addition, Sallie Mae provides other education-related financial services.

Sallie Mae purchases student loans from originating lenders, typically just before the student leaves school and is required to begin repayment of the loan. Sallie Mae's portfolio consists principally of loans originated under two federally sponsored programs -- the FFELP and the Health Education Assistance Loan Program ("HEAL"). Sallie Mae also purchases privately insured loans from time to time, principally those insured by a wholly-owned subsidiary. There are four principal categories of FFELP loans: Stafford loans, PLUS loans, SLS loans and consolidation loans. Generally, these loans have repayment periods of between five and ten years, with the exception of consolidation loans, and obligate the borrower to pay interest at a stated fixed rate or an annually reset variable rate that has a cap. However, the yield to holders is subsidized on the borrowers' behalf by the federal government to provide a market rate of return. The subsidy is referred to as the Special Allowance Payment ("SAP"). The federal government pays SAP to holders of FFELP loans whenever the average of all of the 91-day Treasury bill auctions in a calendar quarter, plus a spread of between 2.50 and 3.50 percentage points depending on the loan status and when it was originated, exceeds the rate of interest which the borrower is obligated to pay. In low interest rate environments, the rate which the borrower is obligated to pay may exceed the rate determined by the special allowance formula. In those instances, no SAP is paid and the interest rate paid on the loan by the borrower becomes, in effect, a floor on an otherwise variable rate asset. When this happens, the difference between the interest rate paid by the borrower and the rate determined by the SAP formula is referred to as student loan floor revenue or floor revenue.

SELECTED FINANCIAL DATA
CONDENSED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,			INCREASE (DECREASE) 1996 VS. 1995		INCREASE (DECREASE) 1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Net interest income	$ 866	$ 901	$ 981	$ (35)	(4)%	$(80)	(8)%
Other operating income	147	50	14	97	191	36	265
Operating expenses	406	439	390	(33)	(8)	49	13
Federal income taxes	183	141	176	42	30	(35)	(20)
Income before premiums on debt extinguished	424	371	429	53	14	(58)	(14)
Premiums on debt extinguished, net of tax	(5)	(5)	(9)	-	2	4	47
NET INCOME	419	366	420	53	15	(54)	(13)
Preferred stock dividend	11	11	11	-	-	-	-
Net income attributable to common stock	$ 408	$ 355	$ 409	$ 53	15%	$(54)	(13)%
EARNINGS PER COMMON SHARE	$7.32	$5.27	$5.13	$2.05	39%	$.14	3%
Dividends per common share	$1.64	$1.51	$1.42	$ .13	9%	$.09	6%
CORE EARNINGS	$ 391	$ 361	$ 356	$ 30	8%	$ 5	1%

CONDENSED BALANCE SHEETS

	DECEMBER 31,		INCREASE (DECREASE) 1996 VS. 1995		INCREASE (DECREASE) 1995 VS. 1994	
	1996	1995	$	%	$	%
ASSETS						
Student loans	$33,754	$34,336	$ (582)	(2)%	$ 3,965	13%
Warehousing advances	2,790	3,865	(1,075)	(28)	(3,167)	(45)
Academic facilities financings	1,473	1,313	160	12	(235)	(15)
Cash and investments	7,706	8,867	(1,161)	(13)	(3,830)	(30)
Other assets	1,907	1,621	286	18	308	23
Total assets	$47,630	$50,002	$(2,372)	(5)%	$(2,959)	(6)%
LIABILITIES AND STOCKHOLDERS' EQUITY						
Short-term borrowings	$22,157	$17,447	$ 4,710	27%	$ 1,431	9%
Long-term notes	22,606	30,083	(7,477)	(25)	(4,236)	(12)
Other liabilities	1,819	1,391	428	31	236	20
Total liabilities	46,582	48,921	(2,339)	(5)	(2,569)	(5)
Stockholders' equity before treasury stock	1,585	3,876	(2,291)	(59)	470	14
Common stock held in treasury at cost	537	2,795	(2,258)	(81)	860	44
Total stockholders' equity	1,048	1,081	(33)	(3)	(390)	(27)
Total liabilities and stockholders' equity	$47,630	$50,002	$(2,372)	(5)%	$(2,959)	(6)%

RESULTS OF OPERATIONS

Sallie Mae's net income was $419 million ($7.32 per common share) for 1996 compared to $366 million ($5.27 per common share) in 1995 before the cumulative effect of an accounting change.

The net income increase of $53 million (15 percent) in 1996 was primarily a result of continued growth in managed student loan assets and, on an after-tax basis, the effect of accelerating income recognition associated with the securitization of student loans of $14 million, lower short-term U.S. Treasury rates which resulted in an increase of $23 million in floor revenues, lower operating expenses of $21 million and $6 million due to the reversal of a previously established loss reserve based on the successful outcome of a lawsuit against the

federal government regarding SAP on certain student loans. These positive factors were somewhat offset by the increase in loans subject to Omnibus Budget Reconciliation Act ("OBRA") fees, as discussed below, and $9 million in additions to other student loan loss reserves unrelated to risk-sharing on FFELP loans. Earnings per common share were further enhanced by repurchases of 4.6 million shares (7 percent of shares outstanding) in 1996.

The 1995 net income before the cumulative effect of the accounting change of $366 million decreased $54 million (13 percent) from 1994 due principally to higher short-term U.S. Treasury rates which resulted in a decrease in after-tax floor revenues of $73 million, somewhat offset by higher after-tax gains on sales of securities of $16 million. The 1995 earnings per common share before the cumulative effect of the accounting change were $5.27, an increase of $.14 (3 percent) from 1994, largely a result of Sallie Mae's repurchase of 16.1 million common shares (22 percent of shares outstanding) during 1995.

OBRA imposed legislative fees and risk-sharing on Sallie Mae and other participants in the Federal Family Education Loan Program ("FFELP") including an offset fee applicable only to Sallie Mae, consolidation loan rebate fees, and risk-sharing on defaulted loans applicable to all FFELP participants. The impact of these fees and reserves for risk-sharing on Sallie Mae's on-balance sheet portfolio of student loans reduced net income by $62 million, $37 million and $17 million in 1996, 1995 and 1994, respectively. In addition to these fees, OBRA also imposed other yield reductions on all FFELP participants, principally loan origination fees paid to the federal government and reduced SAP during the period when a borrower is not in an active repayment status. Sallie Mae effectively shares the impact of these costs through the pricing of loan portfolios it purchases in the secondary market. Management believes the spreads earned on Sallie Mae's portfolio of student loans will continue to be adversely affected as a result of these changes to the FFELP program for the next several years as older loans in its portfolio, which were not affected by OBRA, amortize and are replaced by more recently originated loans which are affected by OBRA.

Core Earnings and Core Student Loan Spread

Important measures of Sallie Mae's operating performance are core earnings and the core student loan spread. Core earnings is defined as Sallie Mae's net income less the after-tax effect of floor revenues, the cumulative effect of accounting changes and other one-time charges. Management believes that these measures, which are not measures under generally accepted accounting principles (GAAP), are important because they depict Sallie Mae's earnings before the effects of one time events such as floor revenues which are largely outside of Sallie Mae's control. Management believes that core earnings as defined, while not necessarily comparable to other companies use of similar terminology, provide for meaningful period to period comparisons as a basis for analyzing trends in Sallie Mae's core student loan operations.

The following table analyzes the earning spreads on student loans for 1996, 1995 and 1994. The line captioned "Adjusted Student Loan Yields", reflects contractual yields adjusted for premiums paid to purchase loan portfolios and the estimated costs of borrower benefits. Sallie Mae, as the servicer of student loans that it securitizes, will continue to earn fee revenues over the life of the securitized student loan portfolios. The off-balance sheet information presented in the Student Loan Spread Analysis that follows analyzes the on-going fee revenues associated with the securitized portfolios of student loans.

STUDENT LOAN SPREAD ANALYSIS

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
ON-BALANCE SHEET			
Adjusted student loan yields	7.92%	8.40%	7.29%
Amortization of floor swap payments	.07	-	-
Floor income	.13	.04	.44
Direct OBRA costs	(.29)	(.17)	(.09)
Student loan income	7.83	8.27	7.64
Cost of funds	(5.49)	(5.95)	(4.69)
Student loan spread	2.34%	2.32%	2.95%
Core student loan spread	2.21%	2.28%	2.51%
OFF-BALANCE SHEET			
Servicing and securitization revenue	1.43%	.80%	-%
AVERAGE BALANCES (IN MILLIONS OF DOLLARS)			
Student loans, including participations	$33,273	$32,758	$28,642
Securitized loans	4,020	177	-
Managed student loans	$37,293	$32,935	$28,642

The decrease in the core student loan spread in 1996 was due principally to higher OBRA fees, the effect of student loan participations which contractually yield a lower rate than the underlying student loans, and increased student loan loss reserves, offset by the impact of the monetization of student loan floors and a one time gain from the reversal of a previously established loss reserve due to the successful outcome of litigation related to SAP payments on certain loans. The decrease in the core student loan spread in 1995 was due principally to higher OBRA fees and the relative lower spreads earned on student loans acquired in recent years due to increased competition.

In the third quarter of 1996, Sallie Mae restructured its business relationship with Chase Manhattan Bank ("Chase") whereby Sallie Mae and Chase formed a joint venture ("the Chase Joint Venture") that will market education loans to be made by Chase and sold to a trust which holds the loans on behalf of the Joint Venture. The Chase Joint Venture finances the loan purchases through sales of student loan participations to Sallie Mae and Chase. The contractual interest rate paid on student loan participations is a variable rate determined based on the yield of the underlying student loans less amounts to cover its operating expenses of the Chase Joint Venture. Sallie Mae's investment in the Chase Joint Venture is accounted for using the equity method. At December 31, 1996, the Chase Joint Venture owned $2.9 billion of federally insured education loans with substantially all of the loans serviced by Sallie Mae's servicing subsidiary.

Student Loan Floor Revenues

The yield to holders of FFELP loans is subsidized on the borrower's behalf by the federal government to provide a market rate of return through the payment of SAP. Depending on the loan's status and when it was originated, the SAP increases the yield on loans to a variable 91-day Treasury bill-based rate plus 2.50 percent, 3.10 percent, 3.25 percent or 3.50 percent, if that yield exceeds the borrower's interest rate. The interest rate paid by the borrower is either at a fixed rate or a rate that resets annually. Thus, the yield to holders of student loans varies with the 91-day Treasury bill rate. In low interest rate environments, when the interest rate which the borrower is obligated to pay exceeds the variable rate determined by the SAP formula, the borrower's interest rate which is the minimum interest rate earned on FFELP loans becomes, in effect, a floor rate. The floor enables Sallie Mae to earn wider spreads on these student loans since Sallie Mae's variable cost of funds, which are indexed to the Treasury bill rate, reflects lower market rates. The floor generally becomes a factor when the Treasury bill rate is less than 5.90 percent. For loans which have fixed borrower interest rates, the floor remains a factor until Treasury bill rates rise to a level at which the yield determined by the SAP formula exceeds the borrower's interest rate. For loans with annually reset borrower rates, the floor is a factor until either Treasury bill rates rise or the borrower's interest rate is reset which

occurs on July 1 of each year. Under the FFELP program, the majority of loans disbursed after July 1992 have variable borrower interest rates that reset annually.

As of December 31, 1996, approximately $30 billion of Sallie Mae's managed student loans were eligible to earn floors ($16 billion with fixed borrower interest rates and $14 billion with variable borrower interest rates that reset annually). During 1996, Sallie Mae "monetized" the value of the floors related to $13 billion of such loans by entering into contracts with third parties under which it agreed to pay the future floor revenues received, in exchange for upfront payments. These upfront payments are being amortized over the remaining lives of these contracts, which is approximately 2 years. The amortization of these payments, which are not dependent on future interest rate levels, is included in core earnings. In 1996, the amortization contributed $22 million pre-tax to core earnings. In addition, Sallie Mae earned $43 million net of $12 million in payments under the floor revenue contracts, $14 million and $126 million in floor revenues in 1996, 1995 and 1994, respectively, as the average bond equivalent 91-day Treasury bill rate was 5.16 percent in 1996 versus 5.68 percent in 1995 and 4.38 percent in 1994. Of the remaining $17 billion of such loans at December 31, 1996, $9 billion were earning floor revenues based upon current interest rates.

Securitization

During 1996 Sallie Mae completed four securitization transactions in which a total of $6.0 billion of student loans was sold to a special purpose finance subsidiary and by the subsidiary to trusts that issued asset-backed securities to fund the student loans to term. When loans are securitized a gain on sale is recorded that is equal to the present value of the expected net cash flows from the trust taking into account principal, interest and SAP on the student loans less principal and interest payments on the notes and certificates financing the student loans, the cost of servicing the student loans, the estimated cost of Sallie Mae's borrower benefit programs, losses from defaulted loans (which include risk-sharing, claim interest penalties, and reject costs), transaction costs and the current carrying value of the loans including any premiums paid. Accordingly, such gain effectively accelerates recognition of earnings versus the earnings that would have been recorded had the loans remained on the balance sheet. The gains on sales to date have been reduced by the present value effect of the payment of future offset fees on loans securitized. (See below for further discussion of the offset fee litigation.) The pre-tax securitization gains on the transactions recorded in 1996 totaled $49 million and were immaterial for 1995. Gains on future securitizations will vary depending on the characteristics of the loan portfolios securitized as well as the outcome of the offset fee litigation described below.

In November 1995, the U.S. District Court for the District of Columbia ruled, contrary to the Secretary of Education's statutory interpretation, that student loans owned by the securitization trusts are not subject to the 30 basis point annual offset fee which Sallie Mae is required to pay on student loans which it owns. The Department of Education appealed this decision and in January 1997, the U.S. Court of Appeals for the District of Columbia issued a decision affirming the District Court's ruling. However the Court of Appeals remanded the case to the District Court with instructions for remand to the Secretary of Education. It is therefore uncertain what the final outcome of this litigation will be. If the final outcome following the remand is that the offset fee is not applicable to loans securitized by Sallie Mae, the gains resulting from prior securitizations would be increased. As of December 31, 1996, the gains resulting from such securitizations would have been increased by approximately $55 million, pre-tax. Management considers this increase in gains as a contingent asset which will be recognized upon a favorable final ruling in this matter. Offset fees relating to securitizations have not been paid pending the final resolution of the case.

In addition to the initial gain on sale, Sallie Mae is entitled to the residual earnings from the trust. Although the loans are sold to the trusts, Sallie Mae continues to service such loans for a fee. The residual earnings and the fees for servicing the loans are reflected as servicing and securitization revenues in the Consolidated Statements of Income.

To compare nontaxable asset yields to taxable yields on a similar basis, the amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal corporate tax rate of 35%.

NET INTEREST INCOME

	YEARS ENDED DECEMBER 31,			INCREASE (DECREASE) 1996 VS. 1995		INCREASE (DECREASE) 1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Interest income							
Student loans	$2,607	$2,708	$2,189	$(101)	(4)%	$519	24%
Warehousing advances	194	408	334	(214)	(53)	74	22
Academic facilities financings	100	108	102	(8)	(7)	6	6
Investments	542	697	499	(155)	(22)	198	40
Taxable equivalent adjustment	36	52	54	(16)	(30)	(2)	(5)
Total taxable equivalent interest income	3,479	3,973	3,178	(494)	(12)	795	25
Interest expense	2,577	3,020	2,143	(443)	(15)	877	41
Taxable equivalent net interest income	$ 902	$ 953	$1,035	$ (51)	(5)%	$(82)	(8)%

Taxable equivalent net interest income in 1996 declined by $51 million from 1995. This decline was due to the increase of $4.5 billion in loans subject to OBRA fees such as the 30 basis point offset fee (unique to Sallie Mae) and risk sharing on claim payments (applicable to loans originated on or after October 1, 1993) plus loan origination fees and rebates to the Department of Education on consolidation loans. Other factors contributing to the decline in taxable equivalent net interest income include an increase in the non-risk sharing loss reserves for student loans of $14 million and lower average earning assets of $4.4 billion. In total, the impact of OBRA on income from student loans, including the fees paid directly by Sallie Mae and reserves for risk-sharing on claims payments, reduced taxable equivalent net interest income and net interest margin by $96 million and .20 percent, respectively, in 1996 as compared to $57 million and .11 percent, respectively, in 1995 and $26 million and .05 percent in 1994, respectively. These negative factors were somewhat offset by the continued growth in managed student loan assets, lower short-term Treasury rates which result in higher floor revenue of $23 million and the reversal of a previously established reserve of $9 million as a result of the successful outcome of the SAP litigation. The decrease in interest income from warehousing advances and investments is due to a decline in the overall level of interest rates as well as to the decrease in the average balance of those assets as Sallie Mae reduced these assets and utilized the capital supporting them to purchase shares of its common stock. Since Sallie Mae's borrowings are largely variable rate in nature the year over year decrease in interest expense is reflective of the level of interest rates in general. In addition, the absolute level of borrowings decreased as the balance sheet was reduced in size through the securitization of student loans as well as the aforementioned reductions in the investment and warehousing advance portfolios. (See Rate/ Volume Analysis.)

Taxable equivalent net interest income in 1995 declined by $82 million from 1994 due primarily to student loan floor revenues totaling $14 million in 1995 compared to $126 million in floor revenues in 1994 and the increased effects of OBRA on student loan spreads. Also contributing to the decline in student loan spreads were the relatively lower spreads earned on student loans acquired in recent years due to increased competition in the secondary market for student loan portfolios. These factors were somewhat offset by a higher percentage of student loans relative to average earning assets.

Allowance for Student Loans

The provision for student loan losses is the periodic expense of maintaining an adequate allowance at the amount estimated to be sufficient to absorb possible future losses, net of recoveries inherent in the existing on-balance sheet loan portfolio. In evaluating the adequacy of the allowance for loan losses, the Company takes into consideration several factors including trends in claims rejected for payment by guarantors and the amount of FFELP loans subject to 2 percent risk-sharing. To recognize these potential losses on student loans, Sallie Mae maintained a reserve of $84 million, $60 million and $65 million at December 31, 1996, 1995, and 1994, respectively. In 1996, Sallie Mae increased this reserve by $20 million due to increasing default rates on privately-insured loans,. The provision for loan losses, net of recoveries, did not change materially in 1995 and 1994. Once a student loan is charged off as a result of an unpaid claim, it is the Company's policy to continue to pursue the recovery of principal and interest.

Management believes that the allowance for loan losses is adequate to cover anticipated losses in the on-balance sheet student loan portfolio. However, this evaluation is inherently subjective as it requires material estimates that may be susceptible to significant changes.

The following table reflects the rates earned on earning assets and paid on liabilities for the years ended December 31, 1996, 1995 and 1994. Managed net interest margin includes net interest income plus gains on securitization sales and servicing and securitization income divided by average managed assets.

AVERAGE BALANCE SHEETS

	YEARS ENDED DECEMBER 31,					
	1996		1995		1994	
	BALANCE	RATE	BALANCE	RATE	BALANCE	RATE
AVERAGE ASSETS						
Student loans	$33,273	7.83%	$32,758	8.27%	$28,642	7.64%
Warehousing advances	3,206	6.04	6,342	6.43	6,981	4.82
Academic facilities financings	1,500	8.43	1,527	8.92	1,489	8.62
Investments	9,444	5.85	11,154	6.46	11,283	4.65
Total interest earning assets	47,423	7.34%	51,781	7.67%	48,395	6.57%
Non-interest earning assets	1,858		1,673		1,240	
Total assets	$49,281		$53,454		$49,635	
AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY						
Six month floating rate notes	$ 2,485	5.42%	$ 3,609	5.86%	$ 3,410	4.52%
Other short-term borrowings	18,366	5.43	11,802	5.88	13,167	4.43
Long-term notes	26,024	5.55	35,373	5.98	30,397	4.62
Total interest bearing liabilities	46,875	5.50%	50,784	5.95%	46,974	4.56%
Non-interest bearing liabilities	1,377		1,237		977	
Stockholders' equity	1,029		1,433		1,684	
Total liabilities and stockholders' equity	$49,281		$53,454		$49,635	
Net interest margin		1.90%		1.84%		2.14%
Managed net interest margin		1.96%		1.84%		-%

The increase in net interest margin in 1996 from 1995 is due to the increase in higher yielding student loans as a percentage of overall average assets which were offset by increased OBRA costs. The increase in managed net interest margin in 1996 is due to the increase in securitization gains of $49 million and servicing and securitization income of $56 million as Sallie Mae securitized $6 billion of student loans in 1996 versus $1 billion in 1995. The decrease in net interest margin from 1994 to 1995 is mainly attributable to the decline in student loan floor revenues to $14 million in 1995 from $126 million of student loan floor revenues in 1994 and the increase in OBRA costs.

FUNDING COSTS

Sallie Mae's borrowings are generally variable rate indexed principally to the 91-day Treasury bill rate. The following table summarizes the average balance of debt (by index after giving effect to the impact of interest rate swaps) for the years ended December 31, 1996, 1995 and 1994 (dollars in millions).

	YEARS ENDED DECEMBER 31,					
	1996		1995		1994	
INDEX	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE
Treasury bill, principally 91-day.....	$35,375	5.48%	$34,039	5.93%	$31,204	4.70%
LIBOR.....	7,797	5.38	14,290	5.87	11,888	4.03
Discount notes.....	2,694	5.35	1,209	5.85	2,718	4.48
Fixed.....	720	6.81	811	6.68	792	6.60
Zero coupon.....	123	11.12	123	11.06	111	11.06
Other.....	166	4.93	312	6.11	261	5.71
Total.....	$46,875	5.50%	$50,784	5.95%	$46,974	4.56%

In the above table, for the years ended December 31, 1996, 1995 and 1994, spreads for Treasury bill indexed borrowings averaged .25 percent, .26 percent and .29 percent, respectively, over the weighted average Treasury bill rates for those years and spreads for London Interbank Offered Rate ("LIBOR") indexed borrowings averaged .26 percent, .31 percent and .39 percent, respectively, under the weighted average LIBOR rates.

The rate/volume analysis below shows the relative contribution of changes in interest rates and asset volumes.

RATE/VOLUME ANALYSIS

	TAXABLE EQUIVALENT INCREASE (DECREASE)	INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN	
		RATE	VOLUME
1996 VS. 1995			
Taxable equivalent interest income.....	$ (494)	$(202)	$(292)
Interest expense.....	(443)	(175)	(268)
Taxable equivalent net interest income.....	$ (51)	$ (27)	$ (24)
1995 VS. 1994			
Taxable equivalent interest income.....	$ 795	$ 540	$ 255
Interest expense.....	877	650	227
Taxable equivalent net interest income.....	$ (82)	$(110)	$ 28

The $27 million decrease in taxable equivalent net interest income attributable to the change in rates in 1996 was principally due to increased OBRA costs of $39 million, an increase in student loan loss reserves (exclusive of risk sharing) of $14 million and to increased leverage of $15 million, offset by the increase of $29 million in floor revenues, net of payments under the floor contracts, in 1996 versus 1995. Other items offsetting the decreases in taxable equivalent net interest income discussed above include $22 million of revenues from the amortization of the upfront payments received from student loan floor contracts, the $9 million reversal of a previously established reserve due to the successful outcome of the SAP litigation, and a higher percentage of student loans relative to average earning assets. The $24 million decrease in volume is primarily due to the decrease in the balance of warehousing advances and investments.

The $110 million decrease attributable to the change in rates in 1995 was due to $14 million of pre-tax student loan floor revenue in 1995 versus $126 million in 1994 and declining core spreads on student loans. Core student loan spreads declined due principally to the growth in the balance of federally insured student

loans subject to the fees and default risk-sharing provisions of OBRA. Also contributing to the decline were the relatively lower spreads earned on student loans acquired in recent years due to increased competition in the secondary market for student loan portfolios. These factors were somewhat offset by a higher percentage of student loans relative to average earning assets.

OPERATING EXPENSES

Operating expenses include general and administrative costs, costs incurred to service Sallie Mae's managed student loan portfolio and operational costs incurred in the process of acquiring student loan portfolios. Total operating expenses as a percentage of average managed student loans were 109 basis points, 133 basis points and 136 basis points for the years ended December 31, 1996, 1995 and 1994, respectively. Operating expenses are summarized in the following tables:

	YEARS ENDED DECEMBER 31,								
	1996			1995			1994		
	CORPORATE	SERVICING AND ACQUISITION	TOTAL	CORPORATE	SERVICING AND ACQUISITION	TOTAL	CORPORATE	SERVICING AND ACQUISITION	TOTAL
Salaries and employee benefits	$ 68	$138	$206	$ 75	$137	$212	$ 68	$128	$196
Occupancy and equipment	24	60	84	25	49	74	21	37	58
Professional fees	22	8	30	40	11	51	22	9	31
Office operations	8	32	40	9	35	44	9	34	43
Other	9	2	11	12	2	14	10	2	12
Total internal operating expenses	131	240	371	161	234	395	130	210	340
Third party servicing costs	-	35	35	-	44	44	-	50	50
Total operating expenses	$131	$275	$406	$161	$278	$439	$130	$260	$390
Employees at end of the year	781	4,011	4,792	875	3,866	4,741	876	4,121	4,997

	YEARS ENDED DECEMBER 31,			INCREASE/(DECREASE)			
				1996 VS. 1995		1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Servicing costs	$211	$205	$190	$ 6	3%	$15	8 %
Acquisition costs	64	73	70	(9)	(13)	3	5
							-
Total servicing and acquisition costs	$275	$278	$260	$(3)	(1)%	$18	7 %

The decrease of $30 million in corporate operating expenses in 1996 versus 1995 was due principally to the divestiture of a majority interest in CyberMark, a wholly-owned subsidiary, completed during the second quarter of 1996 which reduced 1996 operating expenses by $20 million. Reductions in corporate staffing and professional fees reduced operating expenses by an additional $10 million.

Corporate operating expenses for the year ended December 31, 1995 increased $31 million (23 percent) over 1994. The increase was related to the following: (1) CyberMark expenses in 1995 which totaled $22 million versus $6 million in 1994; (2) costs associated with the student loan business, including advertising and promotion costs related to the corporate image campaign and subsidiary operating costs of $11 million; (3) $3 million related to the 1995 Annual Meeting and a proxy contest concerning the election of directors; and (4) severance costs of $2 million associated with the reduction in corporate officers and staff.

Servicing costs include all operations and systems costs incurred to service Sallie Mae's portfolio of managed student loans, including fees paid to third party servicers. The 1992 legislated expansion of student eligibility and increases in loan limits resulted in higher average student loan balances which generally command a higher price in the secondary market and contribute to lower servicing costs as a percent of the average balance of managed student loans. When expressed as a percentage of the managed student loan portfolio, servicing costs averaged 57 basis points, 62 basis points and 66 basis points for the years ended December 31, 1996, 1995 and 1994, respectively. These decreases were due principally to increased average

student loan balances and to servicing efficiencies realized through the consolidation of certain servicing operations and recent technology investments.

Loan acquisition costs are principally costs incurred under the ExportSS(R) ("ExportSS") loan origination and administration service, the costs of converting newly acquired portfolios onto Sallie Mae's servicing platform or those of third party servicers and costs of loan consolidation activities. The ExportSS service provides back-office support to clients by performing loan origination and servicing prior to the sale of portfolios to Sallie Mae. Student loans added to the ExportSS pipeline, which represents loan volume serviced by and committed for sale to Sallie Mae, totaled $4.2 billion during 1996, compared to $4.7 billion in the prior year. The decrease occurred as a result of the substantial growth in direct lending by the federal government. The outstanding portfolio of loans serviced for ExportSS lenders totaled $4.0 billion at December 31, 1996, down 11 percent from $4.5 billion at December 31, 1995. This trend is expected to continue commensurate with the growth in direct lending.

FEDERAL AND STATE TAXES

Sallie Mae maintains a portfolio of tax-advantaged assets principally to support education-related financing activities. That portfolio was primarily responsible for the decrease in the effective federal income tax rate from the statutory rate of 35 percent to 30 percent, 27 percent and 29 percent in 1996, 1995 and 1994, respectively. Sallie Mae is exempt from all state, local, and District of Columbia income, franchise, sales and use, personal property and other taxes, except for real property taxes. However, this tax exemption is effective at the GSE level and does not apply to its operating subsidiaries. Under its Privatization Act, the Company's GSE and non-GSE activities would be separated, with non-GSE activities being subject to taxation at the state and local level. State taxes are expected to be immaterial in 1997 as the majority of the Company's business activities will relate to the GSE. As increasing business activities occur outside of the GSE, the effects of state and local taxes are expected to increase accordingly.

LIQUIDITY AND CAPITAL RESOURCES

In 1996, loan purchases totaled $9.9 billion, up 5 percent over $9.4 billion in 1995. The 1996 loan purchases include $1.5 billion of student loan participation purchases from the Chase Joint Venture. Approximately two-thirds of the non-joint venture purchase volume in 1996 was derived from Sallie Mae's base of commitment clients, particularly those who used the ExportSS loan origination service. Sallie Mae secures financing to fund the purchase of insured student loans along with its other operations by issuing debt securities in the domestic and overseas capital markets, through public offerings and private placements of U.S. dollar and foreign currency denominated debt of varying maturities and interest rate characteristics. Sallie Mae's debt securities are currently rated at the highest credit rating level by Moody's Investor Services and Standard & Poor's. Historically, the rating agencies' ratings of Sallie Mae have been largely a factor of its status as a GSE. Management believes that, since the Privatization Act does not modify the attributes of debt issued by the GSE, it will retain its current credit ratings after the Reorganization.

The Sallie Mae Charter, as most recently amended by the Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act"), effectively requires that Sallie Mae maintain a minimum statutory capital adequacy ratio (the ratio of stockholders' equity to total assets plus 50 percent of the credit equivalent amount of certain off-balance sheet items) of at least 2 percent until January 1, 2000 and 2.25 percent thereafter or be subject to certain "safety and soundness" regulations designed to restore such statutory ratio. At December 31, 1996, Sallie Mae's statutory capital adequacy ratio was 2.11 percent. Additionally, the Privatization Act now requires management, prior to the payment of dividends by Sallie Mae, to certify to the Secretary of the Treasury, that after giving effect to the payment of dividends, the statutory capital ratio test would have been met at the time the dividend was declared.

The Privatization Act imposes certain restrictions on intercompany relations between the GSE and its affiliates during the wind-down period. In particular, the GSE must not extend credit to, nor guarantee any debt obligations of the Holding Company or the Holding Company's non-GSE subsidiaries. While the GSE may not finance the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Holding Company, which in turn may contribute such amounts to its non-GSE subsidiaries. As discussed under "Liquidity and Capital Resources," management

intends to on a quarterly basis, declare and pay dividends to the Holding Company to the extent the GSE has capital in excess of the minimum required under the safety and soundness provisions of its charter.

Management believes that the initial financing requirements of the Holding Company will be relatively modest and can be accommodated through a number of alternative sources, including public and private debt placement, bank borrowings and dividends from subsidiaries, principally the GSE. Management intends to declare such dividends and to pay such amounts to the Holding Company on a quarterly basis. Based on preliminary discussions with commercial banking sources, the Company believes it will be able to secure financing at a reasonable cost through the Holding Company for asset transfers during the first year after the Reorganization. Although the foregoing asset transfers will likely result in some incremental financing costs and state taxes, such expenses are not expected to have any material impact on the Company's financial results in 1997. Over the long term, securitization is expected to provide the principal funding source for the anticipated student loan purchase activities of the Holding Company when such activities commence. However, when student loan purchase activities commence in the Holding Company there will also be a need for on-balance sheet financing for such activities until the loans are securitized. Such financings will likely require the Holding Company to obtain a bond rating and such ratings will not be known until specific debt is issued. It is expected that these ratings will be below the GSE's current credit rating levels.

Sallie Mae uses interest rate and foreign currency swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce the exposure to interest rate and currency fluctuations that arise from its financing activities and to match the characteristics of its variable interest rate earning assets (See "Interest Rate Risk Management"). During 1996, Sallie Mae issued $8.3 billion of long-term notes to refund maturing and repurchased obligations. At December 31, 1996, Sallie Mae had $14.1 billion of outstanding long-term debt issues with stated maturities that could be accelerated through call provisions. Sallie Mae also funds its student loan assets through securitizations. Sallie Mae has issued adjustable rate cumulative preferred stock, common stock, common stock warrants and puts, and subordinated debentures convertible to common stock, to diversify its funding sources.

During 1996, Sallie Mae repurchased 4.6 million shares of its common stock, leaving 53.7 million shares outstanding at December 31, 1996. For the past few years the company has operated near the statutory minimum capital ratio of 2.00% of risk adjusted assets required under its GSE charter. Capital in excess of such amounts has been used to repurchase common shares. As of December 31, 1996, Sallie Mae had repurchased nearly all of the 20 million shares which, in May 1995, it announced it would repurchase over a two year period. The funds necessary to complete the repurchase in that relatively short timeframe came from the combination of current earnings, increased leverage and reduced asset balances. As of December 31, 1996, the Company had authority to repurchase up to an additional 5 million shares, pursuant to a May 1996 resolution of the Board. Management anticipates using current earnings to repurchase up to 7 percent of the outstanding shares in 1997.

Cash Flows

In 1996, operating activities provided net cash inflows of $574 million, an increase of $388 million from 1995. This increase was due mainly to the decrease in other liabilities of $549 million and to the increase in net income before the cumulative effect of the change in accounting method of $53 million. Investing activities provided $1.6 billion in cash in 1996, a decrease of $926 million from the cash provided in 1995. In 1996, Sallie Mae purchased $9.9 billion of student loans and student loan participations. Sallie Mae also securitized $6.0 billion of student loans and received $5.6 billion in student loan and warehousing advance repayments. Financing activities used $3.2 billion in cash in 1996 as Sallie Mae repaid a net $7.4 billion in long-term notes and saw an increase in net short-term borrowings of $4.7 billion. As student loans are securitized the need for long term financing of these assets on balance sheet will decrease.

Securitization

Sallie Mae's unsecured borrowings typically have terms to maturity which are of a shorter duration than the student loans. In addition, Sallie Mae is assessed a 30 basis point annual offset fee on student loans that it holds, which effectively raises the cost of funding such assets on balance sheet. Since 1995, Sallie Mae has diversified its funding sources independent of its GSE borrower status by securitizing a portion of its student

loan assets. A securitization involves the sale of student loans by Sallie Mae to a special purpose finance subsidiary and by the subsidiary to a trust. The trust funds the student loans to term through the public issuance of student loan asset-backed securities ("ABS securities"). As student loans are securitized, Sallie Mae's on-balance sheet funding needs are reduced. During 1996, Sallie Mae completed four transactions in which it sold a total of $6.0 billion of student loans to trusts which issued securities backed by the loans.

While ABS securities generally have a higher cost of funds than Sallie Mae's traditional on-balance sheet financing (due principally to term match-funding and the fact that ABS securities do not benefit from Sallie Mae's government-sponsored enterprise status), management believes that securitization is an efficient use of capital. See "Results of Operations -- Securitizations" for discussion of the offset fee litigation. These asset backed transactions allow the Holding Company to obtain financing at a lower cost than it would otherwise be able to achieve if it were to borrow on an unsecured basis. Sallie Mae's securitizations have been structured to achieve a "AAA" credit rating on over 96 percent of its financing (with an "A" credit rating on the remaining subordinated securities). These ratings are independent of Sallie Mae's current status as a GSE. The securitizations require less capital than would otherwise be required had the assets remained on balance sheet. The Company currently anticipates securitizing between at least $7 billion and $9 billion of loans in 1997 and management believes that securitization will grow in importance as a source of funding for the Company.

Interest Rate Risk Management

Sallie Mae's principal objective in financing its loan assets is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of borrowings to specific assets in order to lock in spreads. Sallie Mae funds its floating rate loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. To achieve a more precise match of interest rate characteristics between loan assets and their related liabilities, Sallie Mae has effectively converted some of its variable rate debt to a different variable rate index with interest rate swaps. At December 31, 1996, $18.3 billion of fixed rate debt and $4.6 billion of variable rate debt were matched with interest rate swaps and foreign currency agreements. Fixed rate debt at December 31, 1996 also funded fixed rate warehousing advances and academic facilities financings. Investments were funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

In both its match funding activities for its loan assets and its pool funding activities for its investments, Sallie Mae enters into various financial instrument contracts in the normal course of business to reduce interest rate risk and foreign currency exposure on certain of its borrowings. These financial instrument contracts include interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities, and financial futures contracts.

In the table below Sallie Mae's variable rate assets and liabilities are categorized by reset date of the underlying index. Fixed rate assets and liabilities are categorized based on their maturity dates. An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during

specific future time intervals. The following gap analysis reflects rate-sensitive positions at December 31, 1996 and is not necessarily reflective of positions that existed throughout the period.

	INTEREST RATE SENSITIVITY PERIOD					
	3 MONTHS OR LESS	3 MONTHS TO 6 MONTHS	6 MONTHS TO 1 YEAR	1 TO 2 YEARS	2 TO 5 YEARS	OVER 5 YEARS
ASSETS						
Student loans	$ 30,270	$ 3,484	$ -	$ -	$ -	$ -
Warehousing advances	2,771	-	-	1	1	17
Academic facilities financings	157	43	20	39	221	993
Cash and investments	5,641	14	27	21	174	1,829
Other assets	-	-	-	-	-	1,907
Total	38,839	3,541	47	61	396	4,746
LIABILITIES AND STOCKHOLDERS' EQUITY						
Short-term borrowings	15,542	2,269	4,346	-	-	-
Long-term notes	8,505	-	-	2,951	10,242	908
Interest rate swaps	14,522	2,410	(4,271)	(2,966)	(10,153)	458
Other liabilities	-	-	-	-	-	1,819
Stockholders' equity	-	-	-	-	-	1,048
Total	38,569	4,679	75	(15)	89	4,233
Period gap	$ 270	$ (1,138)	$ (28)	$ 76	$ 307	$ 513
Cumulative gap	$ 270	$ (868)	$ (896)	$ (820)	$ (513)	$ -
Ratio of cumulative gap to total assets	.6%	1.8%	1.9%	1.7%	1.1%	-%
Ratio of interest-sensitive assets to interest-sensitive liabilities	161.5%	156.1%	1.1%	2.1%	3.9%	312.7%

In low interest rate environments, floor revenues on student loans cause the margins on these loans to widen beyond the locked-in spreads (See "Results of Operations -- Student Loan Floor Revenues" discussion). Such loans continue to be classified in the three months or less category in the table above, reflecting the fact that as interest rates rise these assets will resume their weekly rate reset.

The weighted average remaining terms to maturity of Sallie Mae's earning assets and borrowings at December 31, 1996 were 5.5 years and 2.0 years, respectively. The following table reflects the average terms to maturity for Sallie Mae's earning assets and liabilities at December 31, 1996:

AVERAGE TERMS TO MATURITY
(IN YEARS)

EARNING ASSETS	
Student loans	6.0
Warehousing advances	1.0
Academic facilities financings	8.0
Cash and investments	5.5
Total earning assets	5.5
BORROWINGS	
Short-term borrowings	.5
Long-term borrowings	3.5
Total borrowings	2.0

In the above table, Treasury receipts and variable rate asset-backed securities, although generally liquid in nature, extend the weighted average remaining term to maturity of cash and investments to 5.5 years. As loans are securitized, the need for long-term on-balance sheet financing will decrease.

PREFERRED STOCK

Preferred stock dividends are cumulative and payable quarterly at 4.50 percentage points below the highest yield of certain long-term and short-term United States Treasury obligations. The dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. For the years ended December 31, 1996, 1995 and 1994, the preferred stock dividend rate was 5.00 percent and reduced net income attributable to common stock by $10.7 million, respectively. The Privatization Act requires that on the dissolution date of September 30, 2008, the GSE shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding preferred stock. Sallie Mae has the option of effecting an earlier dissolution if certain conditions are met.

OTHER RELATED EVENTS AND INFORMATION

Privatization

On September 30, 1996, the Student Loan Marketing Association Reorganization Act of 1996 ("the Privatization Act") was enacted. The Privatization Act authorized the creation of a state-chartered holding company (the "Holding Company") that would become the parent of the GSE pursuant to a reorganization which must be approved by a majority vote of the GSE's shareholders, such vote to take place on or before April 1, 1998.

If the Reorganization is approved by shareholders, the GSE will transfer certain assets, including stock in certain subsidiaries, to the Holding Company or one of its non-GSE subsidiaries. All GSE employees will be transferred to the Holding Company or one of its non-GSE subsidiaries. During the wind-down period, it is expected that non-GSE operations will be managed by the GSE's non-GSE affiliates. The Holding Company will remain a passive entity which supports the operations of the GSE and its other subsidiaries, and all business activities would be conducted through the GSE by such other subsidiaries.

During the wind-down period following the Reorganization and prior to the GSE's dissolution, the GSE will be restricted in the new business activities it may undertake. The GSE may continue to purchase student loans only through September 30, 2007. Warehousing advance, letter of credit and standby bond purchase activity by the GSE will be limited to takedowns on contractual financing and guarantee commitments in place. The Holding Company generally may begin to purchase student loans only after the GSE discontinues such activity. GSE debt obligations that are outstanding at the time of Reorganization will continue to be outstanding obligations of the GSE immediately after the Reorganization. The GSE will be able to continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions, although the maturity date of such issuances generally may not extend beyond September 30, 2008, the GSE's final dissolution date, if it has not been repurchased prior to that date. At December 31, 1996, the GSE had $372 million in outstanding debt with maturities after September 30, 2008. Such debt will be transferred into a defeasance trust on the final dissolution date. The Privatization Act requires that on the dissolution date, the GSE shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding shares of Sallie Mae preferred stock. Sallie Mae has the option of effecting an earlier dissolution if certain conditions are met. The preferred stock is carried at its liquidation value of $50 per share for a total of $214 million and pays a variable dividend that has been at its minimum rate of 5 percent per annum for the last several years. See "FINANCIAL STATEMENTS -- Footnote 13."

As a government-sponsored enterprise, Sallie Mae is exempt from certain state and local taxes. Earnings of non-GSE units would not be exempt from such taxes. As the proportion of the Company's earnings generated by the non-GSE units increases over time, the expense associated with such taxes will increase. When fully phased in, management estimates that the Company's effective tax rate will be increased by approximately five percentage points. In addition, state and local sales and property taxes ultimately are expected to increase operating expenses by approximately two to three percent. Management believes the gradual imposition of such taxes represents the single most significant cost of privatization.

The Privatization Act requires that within 60 days after the merger, the Company must pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. In addition, the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

If a reorganization pursuant to the Privatization Act does not occur on or prior to March 31, 1998, the Privatization Act requires that Sallie Mae submit an alternative wind-down plan to Congress and the Treasury Department by 2007. This plan would call for the dissolution of Sallie Mae by 2013. During this alternative wind-down period, Sallie Mae could not engage in new business activities beyond its GSE charter, but could transfer assets, except for the "Sallie Mae" name, at any time its statutory capital requirements were satisfied. As with the Reorganization, any remaining obligations, and assets sufficient to pay such obligations, would be transferred to a fully collateralized trust at the time of dissolution. All other assets would be distributed to Sallie Mae shareholders. Under this alternative, Sallie Mae generally would have to cease its business activities after 2009 and could not issue debt obligations that mature after 2013. The Secretary of the Treasury, who would monitor the wind-down, could require Sallie Mae to amend its plan of dissolution if deemed necessary to ensure full payment of its obligations.

Direct Loan Program and 1993 FFELP Changes

Sallie Mae's student loan business continued to be impacted by legislative changes to the student loan program as well as increased competition. OBRA changed the FFELP in a number of ways that lower the profitability of FFELP loans for all participants and established the Federal Direct Student Loan Program ("FDSLP") under which the federal government can lend directly to students. FFELP changes include risk-sharing on defaulted loans and yield reductions, and a 30 basis point annual "offset fee" unique to Sallie Mae on student loans purchased and held on or after August 10, 1993. (See "-- Other Related Events.")

Despite extensive consideration in 1995 and 1996, the 104th Congress did not enact any significant changes to the federal student loan programs. No changes have been made that would effect the yield on student loans. Sallie Mae cannot predict whether future budget proposals or other changes will be made to the direct student loan program.

The FDSLP is funded directly by the federal government and administered by the Department of Education. OBRA establishes goals for the phase-in of direct lending expressed as a percentage of the combined dollar amount of loans originated under the direct loan program and the FFELP with the following targets:

ACADEMIC YEARS	DIRECT LOANS AS A PERCENT OF TOTAL
1994-1995	5%
1995-1996	40
1996-1998	50
1998-1999	60

As of December 31, 1996, approximately 1,600 colleges and universities were participating in the FDSLP for the 1996-97 academic year. Based on Department of Education reports, management estimates that direct loan volume did not achieve its target market share of 40 percent of total student loan originations. Management estimates that Direct Loans accounted for approximately 31 percent of total student loan volume in the 1995-96 academic year, up from approximately 7 percent in the 1994-95 academic year. The FDLSP has a legislated market share goal of 50% for the 1996-1997 academic year.

In recent years as the FDSLP has grown, the volume of loans originated by banks and other participants under the FFELP has been adversely impacted. Historically, Sallie Mae has purchased the majority of its student loans as they near the repayment phase which commences after a borrower leaves school. On average there is a two to three year lag between the date a loan is originated and the date it enters repayment. This lag has delayed the adverse affect of FDSLP originations on Sallie Mae's purchases of student loans. As the volume of FDSLP loans reaching the repayment phase increases, Sallie Mae's percentage share of the overall student loan market will decline. In 1994, the Department of Education began to offer existing FFELP

borrowers the opportunity to refinance FFELP loans into FDSLP loans. As of December 31, 1996, approximately $346 million of FFELP loans owned by Sallie Mae have been accepted for refinancing into FDSLP loans. Approximately $320 million have been refinanced into FDSLP loans with the remainder awaiting disbursement by the federal government.

OBRA provides that the special allowance for student loans made on or after July 1, 1998 will be based on the U.S. Treasury security with comparable maturity plus 1.0 percent for Stafford, Unsubsidized Stafford, and PLUS loans. (See Appendix C) The Secretary of Education has not adopted regulations specifying the U.S. Treasury security on which these interest rates will be based or how often the special allowance rate will reset. Borrower rates are reset annually. Sallie Mae management believes that the comparable maturity security will be the 10-year Treasury Note. Depending on the specifics of the regulations, these changes could adversely impact the FFELP market and Sallie Mae's business, because of the uncertain availability and costs of funding to support this new type of instrument. Representatives of the student loan industry are currently engaged in discussions with congressional staff concerning possible legislative modification of this OBRA provision.

OBRA also requires Sallie Mae to act as a lender of last resort to make FFELP loans when other private lenders are not available. Such loans receive a 100 percent guarantee and are not subject to the 30 basis point offset fee on loans held by Sallie Mae. If the Secretary of Education determines that Sallie Mae is not adequately implementing this provision, the offset fee paid by Sallie Mae could be increased from 30 basis points to 100 basis points.

Legislated expansion of student eligibility as well as increases in student and parent loan limits have increased the volume of national loan originations. FFELP originations rose nearly 30 percent year-to-year to about $23 billion for the 1994 federal fiscal year ended September 30, 1994. During the 1995 federal fiscal year, FFELP originations declined to $21 billion due to FDSLP originations totaling $5 billion. Management expects FFELP originations to have declined a similar amount in the 1996 federal fiscal year and to be flat in 1997. In the meantime, however, the competition for FFELP loans has intensified at both the originating and secondary market levels due mainly to the reduced volume and to securitization of student loans, which has developed into a significant funding alternative for FFELP lenders.

Recently Issued Accounting Pronouncements

In June 1996, Statement of Financial Accounting Standards ("FAS") No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued. This statement will govern the accounting for securitization transactions entered into after December 31, 1996. Also, under this statement in-substance defeasance transactions entered into after December 31, 1996 no longer receive off-balance sheet treatment. Sallie Mae management believes the application of this Statement will have no material impact on Sallie Mae's results of operations.

Other Related Events

In 1995, the Congress declined to provide funding for HEAL loans to new borrowers. Funds were provided in 1995 and 1996 for borrowers who have previously received HEAL loans. It is not known at this time whether Congress will be willing to reverse this decision and provide funds for new borrowers. As of July 1, 1996, the Department of Education has exercised recently granted authority to raise the limits on Unsubsidized Stafford Loans to amounts equal to the maximum available under the HEAL program. Loans of this size are available only to borrowers attending programs that otherwise would have been eligible for HEAL funding and at schools that were active participants in the HEAL program in 1995.

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold Sallie Mae responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. The complaint against the Company is one of numerous cases that have been coordinated for discovery purposes. Other defendants include Merrill Lynch, Morgan Stanley, KPMG Peat Marwick, Standard & Poor's and Fannie Mae. The complaint includes a claim of fraud under

Section 10(b) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. In addition, the complaint includes counts under the California Corporations Code, as well as a count for common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, Management believes the impact of the lawsuit will not be material to the Company.

In September 1996, Sallie Mae obtained a declaratory judgment against the Secretary of Education in the U.S. District Court for the District of Columbia. The Court found that the Secretary acted erroneously in refusing to allow Sallie Mae to claim adjustments to SAP on certain FFELP loans which were required to be converted from a fixed rate to a variable rate. The Secretary has filed a notice of appeal of the District Court's decision.

In August 1996, Huntington National Bank, Battelle Memorial Institute and Sallie Mae entered into an agreement to form a joint venture company, CyberMark LLC, to produce and market stored value cards and systems. Huntington and Battelle provided funding for the new company with Sallie Mae contributing the smart card system it developed over the past three years through its CyberMark subsidiary. Sallie Mae also contributed the CyberMark name to the joint venture company.

In September 1996, Sallie Mae successfully restructured its arrangement with The Chase Manhattan Bank, Sallie Mae's largest lending client, in light of Chase's merger with Chemical Banking Corporation. Chase and Sallie Mae established two joint venture companies in which they hold equal interests, Education First Finance LLC and Education First Marketing LLC. Education First Finance LLC acquired Chase's existing $2.6 billion student loan portfolio on October 1, 1996 and will acquire all future loans originated by Chase. Education First Marketing LLC will provide marketing services for Chase student loan products. Chase, which is now the largest originator in the FFELP, will originate insured student loans under the new arrangement. Sallie Mae will provide all processing and servicing support. Although the parties intend that the new arrangement be a long-term relationship, they have allowed for mutual rights to acquire each other's interest in the joint venture after the first six years.

On February 6, 1997, President Clinton submitted his Fiscal Year 1998 budget proposal to Congress. In an effort to achieve a balanced federal budget by 2002, the President has proposed a number of budget savings affecting the FFELP. Included in these savings are proposals to reduce the yield on student loans during the in-school, grace and deferment periods, to decrease loan insurance from 98 percent of claim amount to 95 percent, to require lenders rather than the government to compensate guarantors for their assistance in default prevention, and to extend the Sallie Mae offset fee to loans sold by Sallie Mae as part of securitized transactions. In addition, the President has proposed a significant restructuring of guaranty agency finances and operations. If enacted, these proposals could have a material negative impact on Sallie Mae earnings which has not been quantified at this time. Sallie Mae is unable to predict whether, when or in what form the President's proposals will be enacted into law.

DESCRIPTION OF HOLDING COMPANY CAPITAL STOCK

The statements set forth under this heading with respect to certain provisions of the Delaware General Corporation Law (the "DGCL"), the Certificate of Incorporation of the Holding Company, as in effect as of the Effective Time (the "Holding Company Charter"), and the by-laws of the Holding Company (the "Holding Company By-Laws") are brief summaries thereof and do not purport to be complete and are qualified in their entirety by reference to the relevant provisions of the DGCL, the Holding Company Charter and the Holding Company By-Laws, as appropriate.

GENERAL

The Holding Company Charter authorizes capital stock consisting of 250,000,000 shares of Holding Company Common Stock, par value $.20 per share, and 20,000,000 shares of preferred stock ("Holding Company Preferred Stock"). In connection with the Reorganization, each outstanding share of Sallie Mae Common Stock will be converted into one share of Holding Company Common Stock, and the outstanding shares of the common stock of MergerCo, a newly-created, wholly-owned subsidiary of the Holding Company will be converted into all of the issued and outstanding shares of Sallie Mae Common Stock, all of which will then be owned by the Holding Company. Accordingly, the number of shares of Holding Company Common Stock issued and outstanding immediately following the Reorganization will be equal to the number of shares of Sallie Mae Common Stock issued and outstanding immediately prior to the Reorganization. No shares of Holding Company Preferred Stock will be issued or outstanding prior to or immediately following the Reorganization.

The Reorganization will become effective at the Effective Time, which management expects to be on or about May 16, 1997. As a result of the Reorganization, Sallie Mae will become a subsidiary of the Holding Company and all of the Holding Company Common Stock outstanding immediately after the Reorganization will be owned by the holders of Sallie Mae Common Stock outstanding immediately prior to the Reorganization. Shares of Holding Company Common Stock held by Sallie Mae and the Sallie Mae Common Stock held in treasury will be canceled and retired. Shares of the outstanding class of preferred stock of Sallie Mae will not be affected by the Reorganization, and will remain outstanding, with the same voting powers, designations, preferences, rights, qualifications, limitations and restrictions as prior to the Reorganization.

COMMON STOCK

The holders of Holding Company Common Stock are entitled to one vote per share on all matters submitted to a vote of stockholders and do not have cumulative voting rights. As a result, the holders of a majority of the shares voting for the election of directors can elect all the members of the Holding Company Board.

Holders of Holding Company Common Stock: (i) have equal and ratable rights to dividends from funds legally available therefor when, as and if declared by the Holding Company Board, subject to any rights of the holders of Holding Company Preferred Stock; (ii) subject to any rights of the holders of Holding Company Preferred Stock, are entitled to share ratably in any distribution to holders of Holding Company Common Stock upon liquidation, after payment in full of all creditors; and (iii) do not have preemptive rights. Holding Company Common Stock is not redeemable or convertible. The outstanding shares of Holding Company Common Stock are, and the shares to be issued in the Reorganization will be, fully paid and non-assessable. The registrar and transfer agent for Holding Company Common Stock is Chase Mellon Shareholder Services.

PREFERRED STOCK

The Holding Company Board, without further approval of the stockholders, may from time to time authorize the issuances of one or more series of Holding Company Preferred Stock, with such designations of titles; dividend rates; any redemption provisions; special or relative rights in the event of liquidation, dissolution, distribution or winding up; any sinking fund provisions; any conversion provisions; any voting rights thereof; and any other preferences, privileges, powers, rights, qualifications, limitations and restrictions, as shall be set forth as and when established by the Holding Company Board. The shares of any series of Holding

Company Preferred Stock will be, when issued, fully paid and nonassessable and holders thereof will have no preemptive rights in connection therewith.

The Holding Company Board, without stockholder approval, may issue Holding Company Preferred Stock with voting rights and other rights that could adversely affect the voting power of holders of Holding Company Common Stock and such stock could be used to prevent a hostile takeover of the Holding Company. The Holding Company has no present plans to issue any shares of Holding Company Preferred Stock.

WARRANTS

Pursuant to the Privatization Act, the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and exercisable at any time prior to September 30, 2008, at $72.43 per share. This provision of the Privatization Act was part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

COMPARISON OF STOCKHOLDER RIGHTS

The statements set forth under this heading with respect to certain provisions of the Privatization Act, the Sallie Mae Charter and the Sallie Mae By-Laws, the DGCL, the Holding Company Charter, and the Holding Company By-Laws are brief summaries thereof and do not purport to be complete and are qualified in their entirety by reference to the relevant provisions of the Privatization Act, the Sallie Mae Charter and the Sallie Mae By-Laws, the DGCL, the Holding Company Charter, and the Holding Company By-Laws, as appropriate.

GENERAL

As a result of the Reorganization, holders of Sallie Mae Common Stock, whose rights are presently governed by the Sallie Mae Charter and federal common law and by the Sallie Mae By-Laws (which were adopted by the Sallie Mae Board) will become stockholders of Holding Company, a Delaware corporation. Accordingly, their rights will be governed by the DGCL and the Holding Company Charter and By-Laws. The following is a summary of certain material similarities and differences between the present rights of holders of Sallie Mae Common Stock and the rights of holders of Holding Company Common Stock after the Reorganization.

BOARD OF DIRECTORS

NUMBER AND ELIGIBILITY. The Sallie Mae Charter provides for a Board of Directors consisting of 21 members, seven of whom are Presidential appointees and 14 of whom are elected by holders of Sallie Mae Common Stock. The President of the United States (the "President") also has authority to designate the Chairman of the Board. Shareholder-elected directors must be affiliated with certain financial or educational institutions.

The Holding Company Charter provides that the Holding Company Board shall consist of between 9 and 19 members all of whom are to be elected by holders of Holding Company Common Stock. The initial number of directors has been established at 16 and may be set, from time to time, by resolution of the Holding Company Board of Directors. The President will not have authority to appoint the members of the Holding Company Board of Directors or to designate the Chairman of the Board. Under the Privatization Act, Sallie Mae directors appointed by the President may not serve on the Holding Company Board. There are no affiliation requirements for Holding Company directors.

The Holding Company By-Laws also require that independent directors constitute a majority of the Holding Company Board and the Executive Committee and all members of the Nominations Committee. Under the Holding Company By-Laws, a director will not generally be considered "independent" if he or she: (a) has been employed by the Holding Company or one of its affiliates in an executive capacity; (b) is an employee or owner of a firm that is one of the Holding Company's or its affiliate's paid advisors or consultants; (c) is employed by a significant customer or supplier; (d) has a personal services contract with the Holding Company or one of its affiliates; (e) is employed by a foundation or university that receives significant grants or endowments from the Holding Company or one of its affiliates; (f) is a relative of an executive of the Holding Company or one of its affiliates; or (g) is part of an interlocking directorate in which an executive officer of the Holding Company serves on the board of another corporation that employs the director.

TERM OF OFFICE. Under the Sallie Mae Charter, directors appointed by the President serve at the pleasure of the President and until their successors have been appointed and qualified. Elected members of the Sallie Mae Board of Directors are elected for a term ending on the date of the next annual meeting and serve until their successors have been elected and have qualified.

Prior to the Effective Time, Sallie Mae, as sole stockholder of the Holding Company, expects to cause the initial Holding Company Board to be composed of those individuals identified under "MANAGEMENT -- Holding Company Board of Directors." After the Effective Time, the Company stockholders will elect all of the members of the Holding Company Board at each annual meeting beginning with the 1998 Annual Meeting of the Company, which meeting is expected to take place in April of 1998.

CUMULATIVE VOTING. The Sallie Mae Charter provides for cumulative voting in the election of directors. Under cumulative voting, each share of stock entitled to vote in an election of directors has such number of votes as is equal to the number of directors to be elected. A shareholder may then cast all of his or her votes for a single candidate or may allocate them among as many candidates as the shareholder may choose.

The Holding Company Charter does not provide for cumulative voting rights. Thus, holders of shares representing a majority of the votes entitled to be cast in an election of directors for Holding Company will be able to elect all directors then being elected.

REMOVAL. Pursuant to Sallie Mae's By-Laws, Sallie Mae directors may be removed only for cause by vote of two-thirds of the directors remaining in office, provided that at least a majority of the shareholder-elected directors consent to such removal.

The Holding Company Charter provides that directors may be removed only by the affirmative vote of the holders of a majority of the Holding Company's then outstanding capital stock entitled to vote at an election of directors.

VACANCIES. The Sallie Mae Charter provides that any appointive seat on the Sallie Mae Board that becomes vacant shall be filled by appointment of the President, and any elective seat on the Board that becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

The DGCL and the Holding Company By-Laws provide that vacancies, including those created by an increase in the size of the Holding Company Board, may be filled by vote of the majority of the directors then in office or by the stockholders at any annual meeting or at a special meeting called for such purpose.

MEETINGS AND FUNCTIONS OF THE BOARD. The Sallie Mae Charter provides that the Sallie Mae Board shall meet at the call of its Chairman, but at least semiannually. The Sallie Mae Board determines the general policies that govern the operations of Sallie Mae. The Chairman of the Board, with the approval of the Sallie Mae Board, selects, appoints, and compensates the officers of Sallie Mae as provided for in the Sallie Mae By-Laws.

The Holding Company By-Laws provide that the Holding Company Board shall have regular meetings as may be determined from time to time by the Holding Company Board. Special Meetings of the Holding Company Board shall be called by the Secretary upon the direction of the Chairman or the President, if the President is a member of the Holding Company Board, or upon the written request of a majority of the entire Holding Company Board of Directors. The Holding Company By-Laws require the Holding Company Board to meet at least six times during each calendar year. Similar to Sallie Mae, the Holding Company Board shall determine the general policies that shall govern the operations of the Holding Company.

CAPITALIZATION

Under the Sallie Mae Charter, the maximum number of shares of voting common stock that Sallie Mae may issue and have outstanding at any one time shall be fixed by the Sallie Mae Board from time to time, and Sallie Mae is authorized to issue nonvoting preferred stock having such par value as may be fixed by the Sallie Mae Board from time to time. Sallie Mae currently is authorized to issue up to 250,000,000 shares of the Sallie Mae Common Stock, and up to 5,000,000 shares of the preferred stock.

Under the DGCL, the amount of capital stock must be set forth in the certificate of incorporation, and may not be altered without the consent of the stockholders. The Holding Company is authorized to issue, without further action by shareholders, up to 250,000,000 shares of Holding Company Common Stock, and up to 20,000,000 shares of Holding Company Preferred Stock.

PURPOSE

Under the Sallie Mae Charter, Sallie Mae's corporate purposes generally are to be a private corporation financed by private capital and serving as a secondary market and warehousing facility for student loans, including insured loans, to provide liquidity for student loan investments in order to facilitate secured

transactions involving student loans, to assure nationwide the establishment of adequate loan insurance programs for students, and to provide for an additional program of loan insurance to be covered by agreements with the Secretary of Education.

The Holding Company's purpose is to engage in any lawful activity, as is typical of ordinary state-chartered for-profit corporations.

DIVIDENDS

Under the Sallie Mae Charter, subject to rights of holders of Sallie Mae preferred stock, dividends may be declared on shares of Sallie Mae Common Stock by the Sallie Mae Board to the extent that net income is earned and realized and the specified statutory capital ratio is satisfied.

Under the DGCL, dividends are generally payable out of surplus or, if there is no surplus, out of net profits for the fiscal year in which the dividend is paid and the prior year.

EXEMPTION FROM CERTAIN LAWS

Under the Sallie Mae Charter, Sallie Mae is exempt from all state and local taxes, other than taxes on real property. Sallie Mae also is exempt from certain state and federal securities laws and from state registration requirements to do business in a particular jurisdiction. After the Reorganization, Sallie Mae would continue to have such exemptions. Sallie Mae currently undertakes to provide to its shareholders substantially all information that would otherwise be required to be provided under federal securities laws.

The Holding Company and its other subsidiaries would not receive the benefit of any such exemptions. Consequently, all operations conducted by the Holding Company and its subsidiaries other than Sallie Mae would be subject to state and local tax liabilities. In addition, in connection with the proposed Reorganization, shares of Holding Company Common Stock have been registered under the Securities Act of 1933, as amended. Following the Reorganization, the Holding Company will issue and file all periodic reports required under federal and state securities laws, including the Securities Exchange Act of 1934, as amended, and subject to rules governing proxy solicitations.

LIMITATIONS ON DIRECTOR LIABILITY

Under the Sallie Mae By-Laws, directors, officers, and members of the Directors' Advisory Council of Sallie Mae shall not be personally liable to Sallie Mae or to shareholders for monetary damages for breach of fiduciary duty acting in their respective official capacities, provided, however, such limitation of liability shall not apply to (a) any breach of the party's duty of loyalty to Sallie Mae or its shareholders, (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (c) any transaction from which the party derived an improper personal benefit.

The Holding Company Charter and Holding Company By-Laws contain certain provisions limiting the liability of its directors to the extent permitted under Delaware law. Under Delaware law, a corporation may include in its certificate of incorporation, a provision eliminating or limiting the liability of a director to the company or its stockholders for monetary damages for breach of fiduciary duty as a director, provided that such provision may not eliminate or limit the liability of a director: (i) for any breach of the director's duty of loyalty to the corporation or its stockholders; (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law; (iii) for certain acts concerning unlawful payment of dividends or stock purchases or redemptions under Section 174 of the DGCL; or (iv) for any transaction from which a director derived an improper personal benefit.

INDEMNIFICATION

Sallie Mae's By-Laws generally provide that directors, officers and employees of Sallie Mae shall be indemnified to the extent permitted by the DGCL.

The Holding Company By-Laws contain provisions that provide for indemnity of the Holding Company's officers and directors to the fullest extent permitted under Delaware law. Under Delaware law, a corporation is permitted to indemnify its officers, directors and certain others against any liability incurred in any civil, criminal, administrative or investigative proceeding if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the company, and, with respect to any criminal proceeding, had no reasonable cause to believe their conduct was unlawful. In addition, under Delaware law, to the extent that a director, officer, employee or agent of a company has been successful on the merits or otherwise in defense of any proceeding referred to above or in defense of any claim, issue or matter therein, he must be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SPECIAL MEETINGS OF STOCKHOLDERS

The Sallie Mae By-Laws provide that a special meeting of stockholders may be called by either the Chairman or a majority of the directors and shall be called by the Chairman upon the written request of holders of at least one-third of the outstanding Sallie Mae Common Stock.

The Holding Company By-Laws provide that a special meeting of stockholders shall be called by the Secretary upon the direction of either the Chairman or the President of the Holding Company, if the President of the Holding Company is a member of the Holding Company Board, or upon the written request of either a majority of the Holding Company Board or the holders of one-third of the then outstanding capital stock entitled to vote at an election of directors.

AMENDMENT OF GOVERNING DOCUMENTS

CHARTER. The Sallie Mae Charter is contained in a federal statute and may be amended only by act of Congress. Sallie Mae stockholders have no right to amend or otherwise direct the provisions of the Sallie Mae Charter.

An amendment to the Holding Company Charter must be authorized by the Holding Company Board and generally requires the approval of holders of the majority of all outstanding shares entitled to vote thereon at a meeting of shareholders. Certain specified amendments affecting the rights of holders of a class of securities, however, must be approved by vote of the majority of all outstanding shares of such class entitled to vote thereon, even though they ordinarily would not have voting rights. Certain limited amendments to the Holding Company Charter require only the approval of the Holding Company Board.

BY-LAWS. The Sallie Mae By-Laws may be amended, consistent with the Sallie Mae Charter, by the majority vote of the Sallie Mae Board. Sallie Mae shareholders do not have authority to amend the Sallie Mae By-Laws.

Under the DGCL, subject to the stockholders' right to amend the bylaws, directors can amend the bylaws only if such right is expressly conferred upon the directors in the company's certificate of incorporation. The Holding Company Charter expressly provides its directors with such authority.

UNITED STATES AND DELAWARE LAW

-- ANTI-TAKEOVER LAWS

UNITED STATES. The authority of the President of the United States to appoint one-third of the Sallie Mae Board (particularly given the cumulative voting provisions contained in the Sallie Mae Charter) and to designate the Chairman of the Sallie Mae Board, as well as the authority of the federal government to amend the Sallie Mae Charter, could have a deterrent effect on a potential acquiror. In addition, because certain amendments to the Federal Deposit Insurance Act and the Federal Credit Union Act prohibit depository institutions from being affiliates of government-sponsored enterprises, such institutions are prohibited from being affiliates of Sallie Mae.

DELAWARE. Section 203 of the DGCL generally prohibits a publicly held Delaware company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the

date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the business combination, the transaction is approved by the board of directors of the company, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the outstanding voting stock or (iii) on or after such date the business combination is approved by the board and by the affirmative vote of at least 66 2/3% of the outstanding voting stock which is not owned by the "interested stockholder." A "business transaction" includes mergers, assets sales and other transactions resulting in a financial benefit to the stockholder. An "interested stockholder" is a person who, together with affiliates and associates, owns (or within three years, did own) 15% or more of the company's voting stock.

In addition, the provision in the Holding Company Charter for the issuance of preferred stock with such designations, rights and preferences as the Holding Company Board may authorize may be characterized as anti-takeover in nature. Such a provision provides the Holding Company Board with greater flexibility for future financings but may also be viewed as a means to restrict takeover bids.

-- MERGERS

UNITED STATES. There is no general federal merger statute. Moreover, the Sallie Mae Charter and Sallie Mae's status as a government-sponsored enterprise present various obstacles to merger activity in the absence of congressional action. The Privatization Act provides that the Reorganization must be approved by the affirmative vote of holders of a majority of the outstanding shares of Sallie Mae Common Stock.

DELAWARE. Approval of mergers and consolidations and of sales, leases or exchanges of all or substantially all of the property or assets of a company, requires the approval of the holders of a majority of the outstanding shares entitled to vote, except that no vote of stockholders of the company surviving a merger is necessary if: (i) the merger does not amend the certificate of incorporation of the company, (ii) each outstanding share immediately prior to the merger is to be an identical share after the merger, and (iii) either no common stock of the company and no securities or obligations convertible into common stock are to be issued in the merger; or the common stock to be issued in the merger plus that initially issuable on conversion of other securities issued in the merger does not exceed 20% of the common stock of the company immediately before the merger. In addition, no vote is required under the DGCL to approve the merger of a parent corporation and one or more of its subsidiaries when the parent corporation owns at least 90% of the outstanding shares of each class of stock of all such subsidiaries.

-- DISSENTERS' RIGHTS

UNITED STATES. Neither the Sallie Mae Charter nor the Privatization Act provides for any dissenters' rights.

DELAWARE. Stockholders are entitled to demand appraisal of their shares in the case of mergers or consolidations, except where (i) they are stockholders of the surviving company and the merger did not require their approval under the DGCL or (ii) the company shares are either listed on a national securities exchange or Nasdaq or held of record by more than 2,000 stockholders. Appraisal rights are available in either (i) or (ii) above, however, if the stockholders are required by the terms of the merger or consolidation to accept any consideration other than (a) stock of the company surviving or resulting from the merger or consolidation, (b) shares of stock of another company which are either listed on a national securities exchange or held of record by more than 2,000 stockholders, (c) cash in lieu of fractional shares or (d) any combination of the foregoing. Appraisal rights are not available in the case of a sale, lease, exchange or other disposition by a company of all or substantially all of its property and assets, nor in the case of a merger of a parent corporation and one or more of its subsidiaries when the parent corporation owns at least 90% of the outstanding shares of each class of stock of all such subsidiaries.

MANAGEMENT

HOLDING COMPANY BOARD OF DIRECTORS

Prior to the Effective Time, Sallie Mae, as sole stockholder of the Holding Company, expects to appoint the following persons, each of whom has consented to serve as a member of the Holding Company Board, as directors of the Holding Company. Eight members of the Sallie Mae Board, all of whom voted against the Reorganization, will not serve on the Holding Company Board. Two current Sallie Mae directors, Messrs. Hunt and Lord, withdrew their consent to be appointed to the Holding Company Board.

NAME AND AGE AT DECEMBER 31, 1996	
WILLIAM ARCENEAUX*..... Age 55	President, Louisiana Association of Independent Colleges and Universities, Baton Rouge, LA (1987-present). Mr. Arceneaux also is Chairman of CSLA, Inc. and Foundation CODOFIL. He is director and former chairman of the Board of Friends of Louisiana Public Broadcasting.
DOLORES E. CROSS**..... Age 58	President, Chicago State University (1990-present), Chicago, Illinois. She is a Director of Northern Trust Company where she serves on the Business Risk and Strategic Planning Committees. Dr. Cross served as a member the Sallie Mae Board of Directors (1992-1995). Dr. Cross also serves as a Director of Campus Compact and of the Association of Black Women in Higher Education. Dr. Cross previously served as Secretary to the Board, American Council on Education. Dr. Cross is Chairman-elect of the American Association of Higher Education.
DAVID A. DABERKO*..... Age 51	Chairman and Chief Executive Officer of National City Corporation (July 1995-present). Mr. Daberko previously served as President and Chief Operating Officer (1993-July 1995) and as Deputy Chairman at National City Corporation (1987-1993), as well as Chairman, National City Bank, both located in Cleveland, OH. He also serves as a director of National City Bank, Cleveland; National City Bank, Columbus; National City Bank, Indiana. He is also on the Boards of Case-Western Reserve University, and the Ohio Foundation of Independent Colleges.
LAWRENCE A. HOUGH..... Age 52	President and Chief Executive Officer of Sallie Mae (July 1990-present). Mr. Hough is a trustee of The George Washington University and the Massachusetts Institute of Technology.
THOMAS H. JACOBSEN*..... Age 57	Chairman, President, and Chief Executive Officer of Mercantile Bancorporation Inc., St. Louis, MO (1989-present). Mr. Jacobsen presently serves as director of Trans World Airlines, Inc. and Union Electric Company.

NAME AND AGE AT DECEMBER 31, 1996	
BOBBIE GAUNT..... Age 50	General Marketing Manager, Ford Division, Ford Motor Company, Detroit, MI (1995-present). She previously served as General Sales Manager, Lincoln- Mercury Division, Ford Motor Co. (1993-95) and Director, Marketing Research and Strategies, North American Automotive Operations, Ford Motor Co. (1992).
ANN REESE..... Age 43	Executive Vice President and Chief Financial Officer, ITT Corporation (1996-present). Ms. Reese served in various positions of increasing responsibility at ITT Corporation (1987-1996).
LAWRENCE RICCIARDI..... Age 56	Senior Vice President and General Counsel, International Business Machines (1995-present). Previously, Mr. Ricciardi served in various positions of increasing responsibility at RJR Nabisco Holding Corp., including President, Co-Chairman and Chief Executive Officer and Executive Vice President & General Counsel. (1987-1995)
JAMES E. ROHR*..... Age 48	President and Director of PNC Bank Corp., and President and Chief Executive Officer, PNC Bank, N.A., Pittsburgh, PA (1992-present). Mr. Rohr served previously as Vice Chairman of PNC Bank Corp. (1989-1992). Mr. Rohr serves on the boards of Allegheny Corporation, Telephone/Equitable Resources, Inc. and Carnegie-Mellon University.
ROGER SANT..... Age 65	Chairman, The AES Corporation (1981-present). Mr. Sant is a member of the Board of Marriot International, Inc.
VINCENT SARNI..... Age 68	Chairman and CEO, PPG Industries (1989-1993). Mr. Sarni is a member of the Board of Directors of PPG Industries, Hershey Foods Corporation, LTV Corporation, and PNC Bank Corporation. He also serves as a Trustee of Carnegie-Mellon University.
KENNETH A. SHAW**..... Age 57	Chancellor and President, Syracuse University (1991-present), Syracuse, New York. Dr. Shaw is a Director of Unity Mutual Life Insurance Co., Syracuse, New York. Dr. Shaw also served as a member of the Sallie Mae Board of Directors (1993-1995).
WILLIAM EDWARD SIMMS..... Age 52	President, Risk Management Products and Services Group, Transamerica Life Companies (1995-Present). Previously, Mr. Simms served as President, Reinsurance of Transamerica Life Companies (1992-1995). Mr. Simms is a director of Transamerica Occidental Life Insurance Companies and serves on the board of directors of NationsBank, N.A. He is a Partner in the Carolina Panthers football club, and a member of the board of Trustees, National Urban League.

NAME AND AGE AT DECEMBER 31, 1996	
JOHN W. SPIEGEL*..... Age 55	Executive Vice President and Chief Financial Officer, SunTrust Banks, Inc. and Treasurer, SunTrust Banks of Georgia, Atlanta, GA (1985-present). He is also a member of the board of directors of Rock-Tenn Company and ContiFinancial Corporation, and Suburban Lodges of America.
PETER UEBERROTH..... Age 59	Managing Director and Principal, The Contrarian Group (1989-present). Co-chairman of GQHP (1992-1993). He presently serves as Co-chairman of the Board of Doubletree and Doubletree Partners. Mr. Ueberroth is a member of the board of directors of Ambassadors International, Inc., The Coca Cola Company and Transamerica Corporation.
DAVID J. VITALE*..... Age 50	Vice Chairman of First Chicago NBD Corporation and President of The First National Bank of Chicago, Chicago, IL (1995-present). In 1995, Mr. Vitale served as Senior Risk Management Officer. He previously served as Vice Chairman (1993-1995) of The First National Bank of Chicago and First Chicago Corporation, Chicago, IL and as Executive Vice President of First Chicago Corporation (1986-1993). Mr. Vitale is a director of First Chicago Investment Management Company, Chicago, IL and a Trustee of the Illinois Institute of Technology.

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* Currently a member of the Sallie Mae Board of Directors.

** Currently a member of the Sallie Mae Board of Directors Advisory Council and formerly a member of the Sallie Mae Board of Directors. Not reelected at the 1995 Annual Meeting of Sallie Mae shareholders.

SALLIE MAE BOARD OF DIRECTORS

STATUTORY REQUIREMENTS

The Sallie Mae Charter provides that the Sallie Mae Board will consist of 21 directors: 14 elected by the shareholders and seven appointed by the President of the United States. The Sallie Mae Charter provides that, for purposes of qualifying for election to the Board, seven directors must be affiliated with eligible institutions and seven directors must be affiliated with eligible lenders, as described in the Sallie Mae Charter. A nominee may be considered to be affiliated with an eligible institution or eligible lender if he or she has been, within five years of election to the Sallie Mae Board, an employee, officer, director, or similar official of: (1) any such institution or lender; (2) an association whose members consist primarily of such institutions or lenders; or (3) a state agency, authority, instrumentality, commission, or similar institution, the primary purpose of which relates to educational matters or banking matters. The Sallie Mae Charter also provides that the 14 elected directors serve for a term ending on the date of the next annual meeting and until their successors have been elected and have duly qualified. The Sallie Mae Charter further provides that the seven appointed members serve at the pleasure of the President of the United States and until their successors have been appointed and have duly qualified. The Sallie Mae Charter also provides that the President may designate a Chairman from among the 21 members of the Sallie Mae Board, and on November 12, 1993, President Clinton designated Mr. William Arceneaux as Chairman of the Sallie Mae Board.

SHAREHOLDER-ELECTED DIRECTORS:

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
WILLIAM ARCENEAUX(3)(4)(5)..... Director since 5/17/79 Age 55	See "-- Holding Company Board of Directors"
JAMES E. BRANDON, ESQ.(1)..... Director since 7/5/95 Age 70	Attorney and Certified Public Accountant, Amarillo, TX. Mr. Brandon is President and director of National Cattle Co., Inc., Automated Electronics Corp., Park-Princess, Inc., Kirby Royalties, Inc., El Paso Venezuela Company, Oldham Ranches, Inc., Grain Properties, Inc., and investments in real estate. Mr. Brandon is a trustee of Eureka College in Illinois. Mr. Brandon previously served as a director of Sallie Mae from 1982 to 1991.
DAVID A. DABERKO(3)(4)..... Director since 5/20/87 Age 51	See "-- Holding Company Board of Directors"
CHARLES L. DALEY(2)..... Director since 7/5/95 Age 64	Director, Executive Vice President and Secretary of TEB Associates, Inc., Voorhees, NJ, a real estate finance company (1992-Present). Previously, Mr. Daley was Executive Vice President and Chief Operating Officer of First Peoples Financial Corporation (1987-1992) and Executive Vice President and Chief Operating Officer of First Peoples Bank of New Jersey (1984-1992.)
RONALD F. HUNT, ESQ.(2)(4)..... Director since 7/5/95 Age 53	Attorney in New Bern, NC (1990-present). Since 1987 he has served as Corporate Secretary of the College Construction Loan Insurance Association and as a director and Corporate Secretary of Connie Lee Insurance Company and of Connie Lee Management Services Corporation.
THOMAS H. JACOBSEN(3)..... Director since 1/20/87 Age 57	See "-- Holding Company Board of Directors"
BENJAMIN J. LAMBERT, III(3)..... Director since 7/5/95 Age 57	Virginia State Senator and optometrist, Richmond, VA (1962-Present). Mr. Lambert is currently a director of Consolidated Bank & Trust Company, Virginia Power and Dominion Resources. Mr. Lambert is also Secretary of the Board of Trustees of Virginia Union University.
ALBERT L. LORD(2)(4)..... Director since 7/5/95 Age 51	President, LCL, Ltd., Washington D.C. (1994-present). Previously, Mr. Lord served as Executive Vice President and Chief Operating Officer of Sallie Mae (1990-1994). Mr. Lord is a director of Princeton Bank, Princeton, MN (1995-present) and of First Alliance Corporation, Irvine, CA.
A. ALEXANDER PORTER, JR.(1)..... Director since 7/5/95 Age 57	President, Porter, Felleman, Inc., New York, NY (1983-Present). Mr. Porter is a trustee of Davidson College in North Carolina.

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
JAMES E. ROHR(3)..... Director since 5/27/93 Age 58	See "-- Holding Company Board of Directors"
STEVEN L. SHAPIRO(3)..... Director since 7/5/95 Age 56	Chairman of Alloy, Silverstein, Shapiro, Adams, Mulford & Co., Certified Public Accountants, Cherry Hill, NJ (1960-Present). Mr. Shapiro is Commissioner of the New Jersey Casino Reinvestment Development Authority and Trustee of the West Jersey Hospital Foundation. Mr. Shapiro is also a member of the Executive Advisory Council of Rutgers University and serves on the board of Carnegie Bancorp, Princeton, NJ.
JOHN W. SPIEGEL(3)..... Director since 5/27/93 Age 55	See "-- Holding Company Board of Directors"
DAVID J. VITALE(2)(4)..... Director since 5/19/77 Age 50	See "-- Holding Company Board of Directors"
RANDOLPH H. WATERFIELD, JR.(1)..... Director since 7/5/95 Age 65	Certified Public Accountant and Accounting Consultant, Barnegat Light, NJ (1990-Present). Mr. Waterfield currently serves as a trustee of Drexel University.

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(1) Affiliated with eligible institutions.

(2) Affiliated with eligible lenders.

(3) Affiliated with eligible institutions and eligible lenders.

(4) Member of the Executive Committee.

(5) Designated Chairman of the Board, November 12, 1993 by the President of the United States, pursuant to Section 439(c)(1)(B) of the Sallie Mae Charter.

PRESIDENTIAL APPOINTEES:

THE FOLLOWING DIRECTORS, APPOINTED BY THE PRESIDENT OF THE UNITED STATES PURSUANT TO SECTION 439(c)(1)(A) OF THE SALLIE MAE CHARTER, SERVE AT THE PLEASURE OF THE PRESIDENT OF THE UNITED STATES AND ARE NOT ELECTED BY SHAREHOLDERS. UNDER THE PRIVATIZATION ACT, DIRECTORS OF SALLIE MAE APPOINTED BY THE PRESIDENT OF THE UNITED STATES ARE NOT ELIGIBLE TO SERVE ON THE HOLDING COMPANY BOARD.

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
MITCHELL W. BERGER, ESQ.(1)..... Director since 3/25/94 Age 40	President and Founder of the Fort Lauderdale, FL law of Berger & Davis, P.A. (1985-Present). Mr. Berger currently serves on the Board of Governors of the Nova University School of Business and is a Commissioner on The Florida Environmental Regulation Commission (1991-Present). In 1994, Mr. Berger served as Co-Chair of the Community Relations Committee for the Summit of the Americas in Miami, FL. Mr. Berger was recently appointed by the Governor of Florida to serve on the Board of the South Florida Water Management District.
KRIS E. DURMER, ESQ. ..... Director since 3/25/94 Age 47	Attorney, Kris E. Durmer Law Office, Nashua, NH (1994-Present). Prior to his current position, Mr. Durmer was director of the law firm Currier, Zall, Durmer, Shepard & Barry, P.A. (1988-1993).
DIANE S. GILLELAND..... Director since 3/25/94 Age 50	Senior Fellow, American Council on Education (as of January 1, 1997) and Director, Arkansas Department of Higher Education, Little Rock, AR (1990-Present). She currently serves on the boards of several organizations including the Board of the Arkansas School of Mathematics and Science.
REGINA T. MONTOYA, ESQ.(1)..... Director since 3/25/94 Age 43	President of WorkRules Company, a consulting firm and Visiting Professor at the University of Texas at Dallas since September 1995. Ms. Montoya was elected national president of Girls Incorporated in April 1996. Ms. Montoya has also been a political analyst for KDFW-TV since August 1995. Previously, Ms. Montoya served as President of Jayhawk, Inc. and Vice President for Special Projects and Special Advisor to the Chairman of the Board of Westcott Communications, Inc. Dallas, TX (1994-1995). In 1993, Ms. Montoya served as Assistant to President Clinton and Director of the Office of Intergovernmental Affairs. Ms. Montoya previously worked with the Texas law firm of Godwin & Carlton from September 1990 to January 1993. Ms. Montoya has also served as a member of the Board of Directors of Jayhawk Acceptance Corporation since February 1994, and as a member of the Board of Directors of Trammell Crow Company since December 1993. Ms. Montoya also serves on the Board of Trustees of Wellesley College and is Vice President and member of the Board of Directors of the Harvard Alumni Association.

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
JAMES E. MOORE..... Director since 3/25/94 Age 50	President and Chief Executive Officer, ContiFinancial Corporation (1995-Present), Chairman of ContiMortgage Corporation (1988-Present) and Chairman of Triad Financial Corporation (1996-Present). He is also a director of the National Home Equity Mortgage Association.
IRENE NATIVIDAD..... Director since 3/25/94 Age 48	Principal, Natividad & Associates, Washington, D.C. and Executive Director of the Philippine American Foundation (1990-Present). Ms. Natividad currently serves as the Chair of the National Commission on Working Women. Previously, she held the position of President of the National Women's Political Caucus (1985-1989). A Panelist on PBS' "To the Contrary", a national news-analysis program, Ms. Natividad serves on numerous Boards including the National Museum for Women in the Arts and the Center for Women Policy Studies.
RONALD J. THAYER..... Director since 3/25/94 Age 57	Department Executive, Wayne County, Office of Jobs and Economic Development, Detroit, MI (1994- Present). Mr. Thayer served as the Senior Vice President for Fund Development at WTVS-TV, a public television station in Detroit, MI (1990-1992). Mr. Thayer is also a Principal of The Fund Raising Specialists, a Member of the Board of Trustees of Siena Heights College and a member of the President's Cabinet, Executive Board of the University of Detroit, Mercy.

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(1) Member of the Executive Committee.

MEETINGS OF THE BOARD

The Holding Company anticipates that the Holding Company Board will hold meetings and maintain committees substantially similar to those currently maintained by Sallie Mae.

The Sallie Mae Board of Directors conducts regular meetings on a bi-monthly basis and special meetings as may be required from time to time. Six meetings were held during 1996. In addition, the Executive Committee of the Board, which is empowered, with certain exceptions, to take all such actions of the Sallie Mae Board as may be necessary between the Sallie Mae Board's regular meetings meets from time to time as required. The members of the Sallie Mae Board who served during 1996 attended at least 75% of the total number of meetings of the Sallie Mae Board and committees of which they were members in 1996.

The Sallie Mae Board uses a number of committees to assist it in the performance of its duties. Meetings of the committees of the Sallie Mae Board are generally held on the day prior to the regular meetings of the Sallie Mae Board and on such other dates as may be necessary between regular meetings. The present standing committees are the Audit Committee, the Compensation and Personnel Committee, the Executive Committee, the External Concerns Committee, the Finance Committee, the Nominations and Board Affairs Committee, the Operations Committee, and the Strategic Planning Committee. The purposes of the Audit, Compensation and Personnel, and Nominations and Board Affairs Committees, the identity of their current members, and the number of meetings held during 1996 are set forth below.

AUDIT COMMITTEE. The Audit Committee is empowered to: (1) make recommendations to the Board on the selection of independent auditors; (2) review with independent auditors the scope of their examination and

the proposed fee; (3) review with independent auditors the results of the examination; (4) review with management the nature and extent of all non-audit-related services provided to Sallie Mae by the independent auditor; (5) review the management, scope, and results of the internal audit program; and (6) review the Employee Standards of Conduct and the Board of Directors Code of Conduct and employee and director compliance with each.

The Sallie Mae Audit Committee held five meetings during 1996. The current membership of the Sallie Mae Audit Committee is as follows: James E. Moore, Chairman; Randolph H. Waterfield, Jr., Vice Chairman; James E. Brandon; David A. Daberko; Diane S. Gilleland; and James E. Rohr. The membership of the Holding Company Audit Committee is anticipated to be as follows: .

COMPENSATION AND PERSONNEL COMMITTEE. The Compensation and Personnel Committee is empowered to (1) consider and make recommendations to the Board with respect to compensation and other benefits for the Board and employees of Sallie Mae; (2) review Sallie Mae's management resources, manpower planning, development, selection process, and the performance of its key executives; (3) review position evaluations and salary rates for officers; (4) review Sallie Mae's policies relating to development and continuity of able management; and (5) recommend to the Board a process of succession for Sallie Mae's senior officers.

The Sallie Mae Compensation and Personnel Committee held six meetings during 1996. The current membership of the Sallie Mae Compensation and Personnel Committee is as follows: David A. Daberko, Chairman; Irene Natividad, Vice Chairman; Charles L. Daley; Steven L. Shapiro; Ronald J. Thayer; and David J. Vitale. The membership of the Holding Company Compensation and Personnel Committee is anticipated to be as follows: .

NOMINATIONS AND BOARD AFFAIRS COMMITTEE. The Nominations and Board Affairs Committee is empowered to: (1) identify and recommend nominees for election to the Board; (2) identify and review the qualifications of eligible candidates for consideration as advisory members and Board members; and (3) review the effectiveness and composition of the Board.

The Sallie Mae Nominations and Board Affairs Committee held one meeting during 1996. The current membership of the Sallie Mae Nominations and Board Affairs Committee is as follows: Thomas H. Jacobsen, Chairman; Benjamin J. Lambert, Vice Chairman; Kris E. Durmer, James E. Brandon; John W. Spiegel; and Ronald J. Thayer. The membership of the Holding Company Nominations and Board Affairs Committee is anticipated to be as follows: .

TRANSACTIONS WITH AFFILIATED INSTITUTIONS

Certain directors of the Company are also directors and/or executive officers of other companies with which the Company, from time to time, engages in business transactions. Management believes that the terms and conditions of such transactions are no less favorable to the Company than the terms and conditions of transactions generally entered into by the Company. The Company does not believe that it is a party to any transactions in which a director of the Company has a direct or indirect material interest.

DIRECTOR COMPENSATION

It is anticipated that the Holding Company will compensate its directors in a manner that is substantially similar to the manner in which Sallie Mae compensates its directors, and that following the Reorganization, the Holding Company will become the sponsor of each of the director benefit plans. During 1996, each director of Sallie Mae, with the exception of the Chairman of the Board, earned an annual retainer in the amount of $20,000. Each Chairman of a standing committee with the exception of the Chairman of the Board, received an additional annual retainer of $2,000. In addition, a fee of $1,500 accrued to each director for attending each regular bi-monthly or special meeting of the Sallie Mae Board and a fee of $1,500 accrued to each director for attending each regularly scheduled committee meeting of the Sallie Mae Board (with only a single fee paid for multiple committee meetings on the same day). The Chairman of the Board, in recognition of the additional time that he is required to devote to the affairs of Sallie Mae, was compensated on the basis of an annual retainer in the amount of $50,000 and a per diem in the amount of $1,750 for each day spent on the affairs of Sallie Mae. The Chairman of the Board may authorize additional reimbursement for directors who perform additional services or devote unusual amounts of time to Sallie Mae's activities, which are not covered under the normal compensation schedules.

Directors may elect to defer cash compensation under the Sallie Mae Board of Directors' Deferred Compensation Plan and invest deferred compensation in a cash account on which interest is accrued and/or in a Sallie Mae Common Stock account, on which dividends and other capital adjustments are made. At least 50% of each director's annual retainer is credited to the Board of Directors' Deferred Compensation Plan -- Stock Account. See "Board and Management Ownership" for stock ownership information.

Directors are provided with $50,000 of group term life insurance and are covered by a travel insurance plan while traveling on Sallie Mae business.

Consistent with Sallie Mae's philosophy that management and the Sallie Mae Board's compensation should be aligned with the interests of the shareholders, effective December 31, 1995, the Sallie Mae Board of Directors' Pension Plan, a "non-qualified" plan, providing a benefit computed on the highest consecutive three-year average of compensation, was eliminated. Benefits accrued to directors serving on the Board at December 31, 1995 were frozen. Further, the Board has recommended that a substantial portion of compensation be stock-based.

Directors may participate in the Sallie Mae Employees' Stock Purchase Plan on the same terms and conditions as employees. Directors do not receive a salary from Sallie Mae nor do they participate in any of the other plans discussed in the Executive Compensation section.

Under the terms of the shareholder-approved Sallie Mae Board of Directors' Restricted Stock Plan, each director may annually receive up to a maximum of 500 shares of restricted Common Stock. Shares granted under the Directors' Restricted Stock Plan may not be transferred by a director until the later of six months from the date of grant or the date the director separates from service as a Board member. During 1996, each director was granted 100 shares of restricted Sallie Mae Common Stock. The aggregate number of shares issued to directors during 1996 was 2,100 shares.

Pursuant to the Board of Directors Stock Option Plan, approved at the 1996 Annual Meeting of Shareholders of Sallie Mae, each director was awarded options to acquire 3,000 shares of Sallie Mae Common Stock at $73.00 per share. Beginning in 1997, each director will annually receive grants of 1,000 stock options pursuant to the Board of Directors' Stock Option Plan. At December 31, 1996, 63,000 options were outstanding and exercisable and had a value of $1,267,875.

The total compensation accrued to directors in 1996 (including the value of restricted stock grants and compensation related to participation in the Sallie Mae Employees Stock Purchase Plan) aggregated $1,215,767.

EXECUTIVE OFFICERS OF THE COMPANY

NAMES AND TITLES

The executive officers of Sallie Mae at December 31, 1996, their titles, and their years of employment with Sallie Mae are below. Their previous experience, including principal occupations for the past five years, follows. It is anticipated that the individuals set forth below will serve, in similar capacities, as the executive officers of the Holding Company.

NAME & TITLE	AGE AT 12/31/96	YEAR COMMENCED/ REJOINED EMPLOYMENT
Lawrence A. Hough..... President and Chief Executive Officer	52	1973/1979
Robert D. Friedhoff..... President, Sallie Mae Servicing Corporation Executive Vice President, Systems and Servicing, Sallie Mae	42	1979
Timothy G. Greene..... Executive Vice President and General Counsel	57	1973/1990
Lydia M. Marshall..... Executive Vice President, Marketing	47	1985
Denise B. McGlone..... Executive Vice President and Chief Financial Officer	45	1977/1994

PREVIOUS EXPERIENCE

Lawrence A. Hough, President and Chief Executive Officer, was first employed by Sallie Mae from 1973 to 1977 and rejoined Sallie Mae in 1979. He was appointed to his present position in July 1990.

Robert D. Friedhoff, President, Sallie Mae Servicing Corporation (a wholly-owned subsidiary of Sallie Mae) and Executive Vice President, Systems and Servicing, Sallie Mae, was employed by Sallie Mae in February 1979. Prior to his current appointment in December 1995, he served as Executive Vice President, Servicing from 1993-1995. He previously served as Senior Vice President, Servicing (1991-1993).

Timothy G. Greene, Executive Vice President and General Counsel, was first employed by Sallie Mae from 1973 to 1979 and rejoined Sallie Mae in July 1990, at which time he was appointed to his present position. A $500,000 loan made by Sallie Mae to Mr. Greene in order to assist him in relocating to Washington, D.C. to accept employment with Sallie Mae was repaid by Mr. Greene on June 30, 1996.

Lydia M. Marshall, Executive Vice President, Marketing, was employed by Sallie Mae in July 1985. Prior to her current appointment in November 1993, she served as Senior Vice President, Marketing from 1991 to 1993.

Denise B. McGlone, Executive Vice President and Chief Financial Officer, was first employed by Sallie Mae from 1977 to 1983 and rejoined Sallie Mae on January 31, 1994, at which time she was appointed to her present position. From December 1991 through December 1993, Ms. McGlone held the position of Executive Vice President and Global Head of Derivatives of DKB Financial Products, Inc. in New York.

EXECUTIVE COMPENSATION

This section includes: (1) a report made by the Compensation and Personnel Committee of Sallie Mae regarding executive compensation policy; (2) a summary description in tabular form of executive compensation; (3) a summary of 1997 stock option grants; (4) a valuation of option exercises and remaining option holdings; (5) a summary of awards under the Student Loan Marketing Association Incentive Performance Plan (the "Incentive Performance Plan" or the "IPP"); (6) a description of benefit plans; and (7) a comparison of stock performance to market indices. Sallie Mae does not have any termination or change in control agreements with its executive officers.

REPORT OF THE COMPENSATION AND PERSONNEL COMMITTEE

This report is issued by the Compensation and Personnel Committee to set forth the Sallie Mae Board's philosophy and practice in the area of executive compensation. Written comments by shareholders on the report are encouraged and should be directed to the Chairman, Compensation and Personnel Committee.

POLICY. The purpose of Sallie Mae's executive compensation program is to link compensation to the achievement of Sallie Mae's education finance program and financial goals. These goals are to: increase the availability of education related credit in the United States, improve the delivery of that credit, and increase total shareholder return. Although the Holding Company Board has not yet adopted a policy for its compensation programs, it is anticipated that the Holding Company Board will adopt a policy substantially similar to that currently in effect for Sallie Mae's Compensation and Personnel Committee.

Sallie Mae's experience demonstrates that its goals are best achieved through the coordinated efforts of its entire senior management team. To create an environment in which such coordinated efforts will occur, each component of the executive compensation program applies to all executive officers, including the President and Chief Executive Officer. In 1994, however, Mr. Hough suggested that the Compensation and Personnel Committee consider awarding him a portion of his annual bonus in restricted stock in order to further link the value of his compensation package to the creation of shareholder value. The Committee decided to act on Mr. Hough's suggestion and, therefore, the bonus component of Mr. Hough's compensation (discussed below) is different from that of the other executive officers.

The compensation program is designed to: (1) create a performance-oriented environment by making a significant portion of annual compensation dependent on the achievement of both annual and long-term goals; (2) align management and shareholder interests by providing a portion of annual compensation in the form of market-priced stock options which also provide the opportunity for management to acquire shares of Sallie Mae's Common Stock; and (3) attract and retain key executives. The program is reviewed at least annually to determine that it meets the objectives set forth above.

In November 1994, to further support Sallie Mae's belief that management ownership of Sallie Mae's Common Stock helps align management and shareholder interests, Sallie Mae established minimum guidelines for stock ownership for all officers of Sallie Mae. The guidelines provide that each officer should own a specified number of shares depending on the officer's level of seniority. Each officer is expected to increase his or her share ownership annually until the guideline is achieved.

The stock ownership guideline for the President and Chief Executive Officer is 30,000 shares. For each Executive Vice President the guideline is 10,000 shares. For each Vice President earning more than $140,000 in salary, the guideline is 4,000 shares. For each Vice President earning $140,000 or less in salary, the guideline is 2,000 shares. For each Assistant Vice President, the guideline is 1,000 shares. See the "Board and Management Ownership" section for stock ownership information.

Only shares owned directly or through Sallie Mae's Employees' Thrift and Savings Plan, Supplemental Employees' Thrift and Savings Plan, and Deferred Compensation Plan for Key Employees are considered in determining if an officer meets the guidelines. Officers of Sallie Mae have five years within which to meet the ownership guidelines.

COMPENSATION RELATED TO ACHIEVEMENT OF ANNUAL AND LONG-TERM GOALS. The following describes each element of the executive compensation program and its relationship to the goals described above. Also described is the relationship of each element to the President and Chief Executive Officer's compensation for 1996.

BASE SALARY. Each executive officer's base salary takes into account the officer's responsibility level, the officer's accomplishments in meeting that responsibility, the leadership demonstrated by the officer, and the officer's length of service with Sallie Mae. In determining the compensation, including the salary for each executive officer, Sallie Mae also reviews the compensation paid by comparable financial institutions to officers with similar responsibilities. The companies in this group are publicly held financial services companies with strong financial performance characteristics as determined by shareholder return over five years and by earnings fundamentals. The group includes banks, insurance companies, and other government-sponsored enterprises. It is not Sallie Mae's policy to match salaries on a dollar-for-dollar basis; however, Sallie Mae does take comparable salaries into consideration when deciding what compensation levels are necessary to attract and retain qualified executives. Based on the Board of Director's evaluation of these considerations, Mr. Hough's salary increased 2.86% from 1995 to 1996.

ANNUAL BONUS. The annual bonus represents "at risk" compensation and the Committee has determined that opportunities for increases in annual cash compensation should be primarily reflected by the annual bonus. Each executive officer's 1996 annual bonus is determined on the basis of the Board of Directors' evaluation of the officer's performance in achieving certain goals set forth in an annual plan and in meeting anticipated and unanticipated challenges which arise during the year. The Board of Directors reviews each officer's overall performance in the context of all of the goals and of each year's challenges and, therefore, does not believe it appropriate to assign each element of the annual plan a specific weight. In the case of the President and Chief Executive Officer, the 1996 bonus was based on his planning and implementation of successful business strategies. In evaluating his performance, the following factors were considered: financial results, board relations, congressional relations and team building. These factors include increased earnings per common share, increased return on shareholder equity, asset growth, improvements in student loan servicing quality, efforts to achieve rechartering of Sallie Mae from a government-sponsored enterprise to state chartered corporation on terms favorable to shareholders, and leadership in improving the availability and quality of delivery of education credit, including efforts related to student loan legislation. Ultimate supervisory responsibility for employees who created a document which is the subject of a complaint filed with the Federal Election Commission, was also considered in arriving at Mr. Hough's bonus, as well as that of another executive officer. Based on Mr. Hough's performance for 1996, he received a bonus of $440,000 of which $220,036 was paid in cash and $219,964 was paid in the form of 2,263 restricted shares of Sallie Mae Common Stock. Pursuant to the Stock Compensation Plan the restricted shares of Sallie Mae Common Stock were valued at 90% of the closing price of the Sallie Mae Common Stock on the NYSE on the date of grant. The restricted shares of Sallie Mae Common Stock pay dividends and provides voting rights to the same extent as unrestricted Sallie Mae Common Stock. From one year from the date of grant, such restricted shares of Sallie Mae Common Stock may be forfeited, under certain circumstances.

INCENTIVE PERFORMANCE PLAN. The Incentive Performance Plan is designed to reward the achievement of long-term corporate goals and to create an incentive for each executive officer and certain other senior officers of Sallie Mae to remain employed by Sallie Mae. Under the Incentive Performance Plan, the Compensation and Personnel Committee may establish each year corporate performance targets to be achieved over a three-year period. At the end of each three-year period, the level of achievement of each target is determined and, based on the weight given to each target and the participation level of each officer in the Incentive Performance Plan an award is made ranging from 0% to 100% of the officer's then-current salary. Payments under each plan are made in three equal annual installments and are dependent upon the continued employment of the executive officer, unless the officer retires from Sallie Mae, in which case accrued payments are made.

In January of 1996, the Board of Directors made awards for the completed 1993 Plan, which contained the following weighted performance measurements: (1) 33.33% for educational credit enhancements; (2) 33.33% for total shareholder return; and (3) 33.33% for return on equity, return on assets and earnings per

share. Mr. Hough received an award of $267,750 under the 1993 Plan, payable in three annual installments beginning in January of 1996. The amount of the award was 22% less than the prior year, primarily as a reflection of the decrease in the price of Sallie Mae Common Stock during 1994.

In 1996, the same performance measurements were set for the 1996 Plan as noted above for the 1993 Plan.

STOCK OPTION PLAN. The Board of Directors strongly believes that in addition to compensating executives for the successful financial performance of Sallie Mae through annual bonuses and three-year incentive plans, a portion of executive compensation should be linked to Sallie Mae Common Stock value by granting stock options to executives. The value of the options granted is at risk and directly tied to the increase in share price from the date of grant. The terms of the options, granted at market price and not exercisable for a period from 12 to 36 months and expiring in ten years, are designed to retain key employees and to provide incentives for management to increase share price. The number of options granted each year is based on the same factors as discussed under "Annual Bonus" above. Previous grants of stock options are reviewed but are not an element in determining option awards. Based on the Board of Director's evaluation of these performance measurements, in 1996 Mr. Hough received 30,000 stock options, exercisable at a price of $73.00 each, the then current market price. In January of 1997, the Board of Directors awarded Mr. Hough 27,000 stock options, exercisable at a price of $108 each.

In 1994, 1995, and 1996, Mr. Hough's cash and stock compensation consisted of 43%, 40%, and 41% respectively, in base salary; 25%, 32%, and 34% respectively, in annual bonus based on performance for each such year; and 32%, 28%, and 25% respectively, in payments under the Incentive Performance Plan.

Compensation and Personnel Committee

David A. Daberko, Chairman
Irene Natividad, Vice Chairman
Charles L. Daley, Member
Steven L. Shapiro, Member
Ronald J. Thayer, Member
David J. Vitale, Member

The individuals listed above constitute the current membership of the Sallie Mae Compensation and Personnel Committee. Messrs. Daley and Shapiro dissented from this Report of the Compensation and Personnel Committee. On March 4, 1997, a written statement was delivered to the Company on behalf of Messrs. Daley and Shapiro setting forth the reasons of Messrs. Daley and Shapiro for so dissenting. The statement of Messrs. Daley and Shapiro has been included in this Proxy Statement/Prospectus at their request and is set forth in Appendix E.

The comparable financial institutions referred to in the Report of the Compensation and Personnel Committee are a group of 20 high-performing financial service corporations, and include Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which are also included in Standard & Poor's Financial-Miscellaneous Index referred to in "EXECUTIVE COMPENSATION -- Performance Graph."

COMPENSATION TABLES

Set forth below is historical information relating to the compensation of executive officers of Sallie Mae. It is anticipated that the Holding Company will compensate its executive officers in a manner that is substantially similar to the manner in which Sallie Mae compensates its executive officers.

SUMMARY COMPENSATION TABLE

					LONG-TERM COMPENSATION			
		ANNUAL COMPENSATION			AWARDS		PAYOUTS	
	YEAR	SALARY(1)	BONUS(2)	OTHER	RESTRICTED STOCK(3)	SECURITIES UNDERLYING OPTIONS(4)	LTIP PAYOUT(5)	ALL OTHER COMPENSATION(6)
Lawrence A. Hough.....	1996	$540,000	$220,036	-	$219,964	30,000	$ 329,656	$ 54,578
President and CEO	1995	525,000	210,052	-	209,948	50,000	372,078	31,465
	1994	510,000	145,025	-	144,975	30,000	381,100	30,565
Timothy G. Greene.....	1996	304,000	184,000	-	46,000	14,000	186,029	40,392
EVP and General Counsel	1995	295,000	192,000	-	-	18,500	197,557	17,684
	1994	288,000	155,000	-	-	12,000	133,237	17,280
Denise B. McGlone.....	1996	295,000	0	-	240,000	14,000	-	17,677
EVP and CFO	1995	285,000	260,000	-	-	15,000	-	17,077
	1994	253,846	250,000	-	-	12,000	-	15,231
Robert D. Friedhoff.....	1996	275,000	235,000	-	-	14,000	105,733	16,465
EVP, Systems and Servicing	1995	260,000	210,000	-	-	18,500	96,236	15,565
	1994	245,000	165,000	-	-	12,000	82,683	14,700
Lydia M. Marshall.....	1996	275,000	245,000	-	-	14,000	98,984	16,454
EVP, Marketing	1995	255,000	220,000	-	-	18,500	86,457	15,254
	1994	235,000	165,000	-	-	12,000	73,058	14,100

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(1) "Salary" is the base salary earned in the current year including all salary deferred to future years.

(2) "Bonus" is the amount earned for the year. The Bonus is determined and payable in the following year.

Of Mr. Hough's 1996 Bonus of $440,000, 50% was paid in cash ($220,036) and 50% was granted in the form of 2,263 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of $244,404 on the date of grant.

Pursuant to the Stock Compensation Plan, per his election, 80% of Mr. Greene's 1996 Bonus of $230,000 was paid in cash ($184,024) and 20% was granted in the form of 473 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of $51,084 on the date of grant.

Pursuant to the Stock Compensation Plan, per her election, 100% of Ms. McGlone's 1996 Bonus of $240,000 was granted in the form of 2,469 restricted shares of Sallie Mae Common Stock (determined at 90% of value on date of grant) with a cash value of $266,652 on the date of grant.

(3) Grantees of restricted shares of Sallie Mae Common Stock are eligible to receive dividends. Mr. Hough's 1994 and 1995 grants will both become unrestricted as of January 27 and 26, 1997, respectively. All other grants will become unrestricted on January 23, 1998. On the last day of the fiscal year, the aggregate number of restricted shares of Sallie Mae Common Stock granted equaled 6,742 shares with a value at December 31, 1996 of $627,849.

(4) "Securities Underlying Options" includes stock options granted at market prices in January of each year. The exercise price of the options are as follows: January 1994: $49.00; January 1995: $37.00 and January 1996: $73.00; except for Ms. McGlone's 1994 grant, the date of which grant was November 17, 1993 priced at $44.50.

(5) Each year's Long-Term Incentive Plan ("LTIP") Payout is comprised of the following payments under the Incentive Performance Plan:

1996 -- 1/3 of the total award earned in each of the IPP years 1993, 1992, and 1991, paid in January 1996;
1995 -- 1/3 of the total award earned in each of the IPP years 1992, 1991, and 1990, paid in January 1995;
1994 -- 1/3 of the total award earned in each of the IPP years 1991, 1990, and 1989, paid in January 1994;

Ms. McGlone is not eligible to receive awards earned under IPP until the 1994 IPP payout which commences in 1997.

(6) "All Other Compensation" consists of the Employees' Thrift and Savings Plan's and the Supplemental Employees' Thrift and Savings Plan's employer matching contributions of up to 6% of base salary and for Messrs. Hough and Greene, $22,213 and $22,173 resulting from purchases of discounted stock under the Employees' Stock Purchase Plan.

1996 OPTION GRANTS TABLE

NAME	POSITION	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	PERCENT OF TOTAL GRANTS TO EMPLOYEES IN 1996(1)	EXERCISE PRICE	EXPIRATION DATE	VALUE AT GRANT DATE(2)
Lawrence A. Hough.....	President and CEO	30,000	9.3%	$73.00	1/25/2006	$774,000
Timothy G. Greene.....	EVP and General Counsel	14,000	4.3	73.00	1/25/2006	361,200
Denise B. McGlone.....	EVP and CFO	14,000	4.3	73.00	1/25/2006	361,200
Robert D. Friedhoff.....	EVP, Systems & Servicing	14,000	4.3	73.00	1/25/2006	361,200
Lydia M. Marshall.....	EVP, Marketing	14,000	4.3	73.00	1/25/2006	361,200

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(1) The total number of stock options granted to employees in 1996 was 324,045.

(2) Value is determined on the basis of the Extended Binomial Options Pricing Model, a variation of the Black-Scholes pricing model. The following assumptions have been used in valuing the stock options as of the grant date -- January 25, 1996: volatility -- 29.42%; risk-free rate of return -- 5.93%; dividend growth rate -- 8.0%; vesting period -- one year from grant and time of exercise -- expiration date.

1996 OPTION EXERCISES AND YEAR-END VALUE TABLE

NAME	POSITION	SHARES ACQUIRED	VALUE REALIZED ON EXERCISE	NUMBER OF SECURITIES UNDERLYING OPTIONS AT YEAR END EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT DECEMBER 31, 1996 EXERCISABLE/ UNEXERCISABLE
Lawrence A. Hough.....	President and CEO	10,000	$ 604,500	148,250/30,000	$6,485,468/$603,750
Timothy G. Greene.....	EVP and General Counsel	1,080	52,920	44,920/14,000	1,825,072/ 281,750
Denise B. McGlone.....	EVP and CFO	8,500	309,812	18,500/14,000	948,312/ 281,750
Robert D. Friedhoff.....	EVP, Systems & Servicing	0	0	51,000/14,000	2,176,937/ 281,750
Lydia M. Marshall.....	EVP, Marketing	18,500	832,500	24,800/14,000	927,650/ 281,750

LONG-TERM INCENTIVE PLAN TABLE
INCENTIVE PERFORMANCE PLAN (IPP)

NAME	POSITION	AWARDS FOR 1993 IPP(1)	PERFORMANCE OR OTHER PERIOD UNTIL MATURITY OR PAYOUT(2)
Lawrence A. Hough.....	President and CEO	Three installments of $89,250.	Payable beginning January 1996.
Timothy G. Greene.....	EVP and General Counsel	Three installments of $50,150	Payable beginning January 1996.
Denise B. McGlone(3).....	EVP and CFO	N/A	N/A
Robert D. Friedhoff.....	EVP, Systems & Servicing	Three installments of $38,061.	Payable beginning January 1996.
Lydia M. Marshall.....	EVP, Marketing	Three installments of $37,329.	Payable beginning January 1996.

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(1) The 1993 IPP commenced January 1, 1993 and ended December 31, 1995. Awards for that IPP were determined by the Board of Directors in January 1996.

(2) The January 1996 payment for the 1993 IPP is included in the Summary Compensation Table under "LTIP Payout".

(3) Denise McGlone rejoined the Corporation in February 1994. Ms. McGlone is not eligible to receive awards until the 1994 IPP payout which commences in 1997.

DESCRIPTION OF BENEFIT PLANS

Set forth below are current benefit plans of Sallie Mae. It is anticipated that following the Reorganization, the Holding Company will become the sponsor of each of these benefit plans and maintain such plans in a manner substantially similar to the manner in which Sallie Mae currently maintains such plans.

PENSION PLANS

PENSION PLAN TABLE
ANNUAL NORMAL RETIREMENT BENEFIT(1)

FINAL AVERAGE COMPENSATION	YEARS OF SERVICE AT NORMAL RETIREMENT DATE			
	15	20	25	30
$400,000	$ 129,671	$ 172,895	$ 216,119	259,343
450,000	146,171	194,895	243,619	292,343
500,000	162,671	216,895	271,119	325,343
550,000	179,171	238,895	298,619	358,343
600,000	195,671	260,895	326,119	391,343
650,000	212,171	282,895	353,619	424,343
700,000	228,671	304,895	381,119	457,343
750,000	245,171	326,895	408,619	490,343
800,000	261,671	348,895	436,119	523,343
850,000	278,171	370,895	463,619	556,343
900,000	294,671	392,895	491,119	589,343

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(1) Payable for life to employees retiring in 1996 at age 62.

The credited years of service for the individuals named in the Summary Compensation Table are: Mr. Hough: 21 years, 10 months; Mr. Greene: 12 years, 5 months; Ms. McGlone: 9 years, 3 months; Mr. Friedhoff: 17 years, 11 months; and Ms. Marshall: 11 years, 6 months.

The Student Loan Marketing Association Employees' Pension Plan (the "Pension Plan") provides monthly benefits upon retirement to employees who complete five years of service. Benefits are calculated according to a formula which is based on an employee's highest consecutive five-year average base salary, length of credited service, and are integrated with social security benefits. The maximum number of years for which a participant receives credit for service under the Pension Plan is 30 years, and normal retirement age is 62. The Pension Plan also provides early retirement benefits at age 55, as well as joint and survivor benefits. The Pension Plan is funded solely by corporate contributions. Annual contributions to the Pension Plan trust are determined on an actuarial basis.

The Student Loan Marketing Association Supplemental Pension Plan (the "Supplemental Pension Plan") assures that designated participants receive the full amount of benefits to which they would have been entitled under the Pension Plan but for limits on compensation and benefit levels imposed by the Internal Revenue Code. The portions of compensation that are considered covered compensation for the Supplemental Pension Plan for each named executive officer are the salary and annual bonus amounts, up to 35% of the prior year's salary, disclosed in the Summary Compensation Table.

Benefit amounts under both the Pension Plan and the Supplemental Pension Plan are computed on an actuarial basis without individual allocation. The table above shows estimated annual benefits payable under the Pension Plan and the Supplemental Pension Plan to an employee for life upon retirement at age 62 in specified years-of-service and remuneration classes, using assumptions about compensation increases, under a straight life annuity option. The benefit amounts shown in the table are not subject to any deduction for social security or other offset amount.

THRIFT AND SAVINGS PLANS. The Student Loan Marketing Association Employees' Thrift and Savings Plan (the "Thrift and Savings Plan") is available to all employees of Sallie Mae after the completion of one year of service. Employees participate in the Thrift and Savings Plan by contributing up to six percent of their salaries. Sallie Mae provides a matching contribution equal to 100% of each participant's contribution.

Participants are always fully vested in their own contributions to the Thrift and Savings Plan. Participants vest in Sallie Mae's matching contribution at the rate of 25% for each year of participation after their first year of service and, therefore, are fully vested in the matching contributions after five years of service. Participants may make withdrawals from the Thrift and Savings Plan, subject to penalties in most instances, and borrow under certain limited conditions.

The Student Loan Marketing Association Supplemental Employees' Thrift and Savings Plan (the "Supplemental Thrift and Savings Plan") assures that designated participants receive the full amount of benefits to which they would have been entitled under the Thrift and Savings Plan but for limits on compensation and contribution levels imposed by the Internal Revenue Code.

Salary deferrals made under the Thrift and Savings and the Supplemental Thrift and Savings Plans by any of the five most highly-compensated executive officers are reported under the "Salary" column of the Summary Compensation Table. Sallie Mae contributions made under the Thrift and Savings and Supplemental Thrift and Savings Plans on behalf of the five most highly compensated executive officers are reported under the "All Other Compensation" column of the Summary Compensation Table.

STOCK PURCHASE PLAN. The Employees' Stock Purchase Plan provides that all full-time and certain part-time employees and members of the Board of Directors may purchase shares of Sallie Mae Common Stock at the end of a two-year period. The purchase price is equal to the fair market value of the Sallie Mae Common Stock at the beginning of the two-year period, less 15%. Purchases are made with funds that accumulate in a taxable, interest-bearing account funded by payments from participating employees. Contributions to an employee's account may be made only through after-tax payroll deductions and are limited to 10% of compensation, but no more than $10,000. The Board authorized 1,250,000 shares of Sallie Mae Common Stock to be issued pursuant to the Employees' Stock Purchase Plan.

The Employees' Stock Purchase Plan is not a "qualified" stock purchase plan. Accordingly, upon the purchase of stock, employees have taxable income to the extent that the fair market value of the stock on the date of purchase exceeds the purchase price. Income for any of the five most highly compensated executive officers resulting from purchases of stock under the Employees' Stock Purchase Plan is reported under the "All Other Compensation" column of the Summary Compensation Table.

DEFERRED COMPENSATION PLAN FOR KEY EMPLOYEES. The Deferred Compensation Plan for Key Employees provides that participants may elect to defer earnings and invest the compensation in an interest-bearing cash account and/or a Sallie Mae Common Stock account. Effective January 1, 1996, the Deferred Compensation Plan was closed to new participants and closed to additional deferrals after December 29, 1995. None of the five most highly compensated executive officers participated in the Plan in 1996.

STOCK OPTION PLAN. The Stock Option Plan, effective from March 1993 to March 1998, provides key employees an opportunity to acquire an equity interest in Sallie Mae. The Stock Option Plan is administered by the Compensation and Personnel Committee, none of whose members are eligible for benefits under the Stock Option Plan.

The Stock Option Plan provides for the issuance of "non-qualified" or "qualified" stock options at market value on the day of the grant with terms of ten years from the date of the grant. Options must be held for a period of between 12 and 36 months, as determined at the time the option is granted, before the option may be exercised. The Stock Option Plan authorizes the granting of options with respect to no more than 5,091,450 shares of Sallie Mae Common Stock, subject to adjustments for stock splits. All options granted in 1996 were "nonqualified" options.

The Stock Option Plan includes a "reload" option feature that was approved at the 1996 Annual Meeting of Shareholders of Sallie Mae and that is designed to encourage officers of Sallie Mae to exercise options and to retain ownership of the Sallie Mae Common Stock issued pursuant to such exercises.

STOCK COMPENSATION PLAN. At the 1996 Annual Meeting of Shareholders, the Board of Directors adopted the Sallie Mae Stock Compensation Plan (the "Stock Plan"). The purpose of the Stock Plan is to continue to promote and encourage Sallie Mae Common Stock ownership by key employees in order to link

the interests of the key employees of Sallie Mae with the interests of the shareholders of Sallie Mae and to provide the Board of Directors a method to compensate key employees with Sallie Mae Common Stock in lieu of a portion of their cash compensation.

Awards will be granted, in lieu of all or part of an officer's annual bonus, at the discretion of the Compensation and Personnel Committee, to officers of Sallie Mae eligible to receive an annual bonus. Awards will be made, at the discretion of the Compensation and Personnel Committee, in the form of Sallie Mae Common Stock, restricted stock, or stock units. In its discretion, the Committee may provide an officer with the opportunity to elect to receive an annual bonus in cash or in restricted stock at a 10 percent discount.

PERFORMANCE GRAPH

STUDENT LOAN MARKETING ASSOCIATION
FIVE-YEAR CUMULATIVE TOTAL RETURN

MEASUREMENT PERIOD (FISCAL YEAR COVERED)	SLMA	S&P FINANCIAL-MISC.*	S&P 500
1991	100	100	100
1992	94.51	117.56	107.61
1993	63.29	140.35	118.39
1994	47.69	135.14	119.99
1995	99.93	216.44	164.92
1996	143.94	282.03	202.69

COMPANY/INDEX	BASE YEAR	1992	1993	1994	1995	1996
Sallie Mae	100.0	94.5	63.3	47.7	99.9	143.9
S&P Financial-Misc.(1)(2)	100.0	117.6	140.4	135.1	216.4	282.0
S&P 500 Comp-Ltd(2)	100.0	107.6	118.4	120.0	164.9	202.7

(1) Companies included in Standard & Poor's Financial-Miscellaneous Index: American Express, American General Finance, Dean Witter, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Green Tree Financial, MBIA Inc, MBNA Corporation, and Transamerica Corporation.

(2) Source: Bloomberg Comparative Return Table

OWNERSHIP OF SALLIE MAE STOCK

BOARD AND MANAGEMENT OWNERSHIP OF THE COMPANY

The following table provides information regarding shares of Sallie Mae Common Stock owned by persons who have consented to serve as Holding Company directors, the Company's management and Sallie Mae directors at December 31, 1996, unless otherwise indicated. None of such persons nor such persons as a group were the beneficial owner of more than 1% of the outstanding shares of Sallie Mae Common Stock at December 31, 1996. If the Reorganization is approved, all shares of Sallie Mae Common Stock beneficially owned by such persons shall be converted into shares of Holding Company Common Stock.

HOLDING COMPANY

	OWNED(1)	CREDITED TO BENEFIT PLAN ACCOUNT(2)	TOTAL SHARES OWNED AND CREDITED TO BENEFIT PLAN ACCOUNT(3)	MAY BE ACQUIRED WITHIN 60 DAYS(4)
HOLDING COMPANY DIRECTORS				
William Arceneaux	1,705	2,408	4,113	3,000
Dolores E. Cross	150	0	150	0
David A. Daberko	805	3,593	4,398	3,000
Lawrence A. Hough	137,736	6,178	143,914	178,250
Thomas H. Jacobsen	1,625	670	2,295	3,000
Bobbie Gaunt	0	0	0	0
Ann Reese	0	0	0	0
Lawrence Ricciardi	0	0	0	0
James E. Rohr	891	362	1,253	3,000
Roger Sant	0	0	0	0
Vincent Sarni	0	0	0	0
Kenneth A. Shaw	125	831	956	0
William Edward Simms	0	0	0	0
John W. Spiegel	592	268	860	3,000
Peter Ueberroth	0	0	0	0
David J. Vitale	625	12,124	12,749	3,000
HOLDING COMPANY NAMED EXECUTIVE OFFICERS (OTHER THAN HOLDING COMPANY DIRECTORS)				
Robert D. Friedhoff	8,288	206	8,494	65,000
Timothy G. Greene	6,340	2,663	9,003	58,920
Lydia M. Marshall	10,823	1,476	12,299	38,800
Denise B. McGlone	6,502	1,592	8,094	32,500
HOLDING COMPANY DIRECTORS AND NAMED EXECUTIVE OFFICERS AS A GROUP	176,207	32,371	208,578	391,470

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(1) Consists of shares held, directly or indirectly, by the individual or a related party, including restricted shares, and, in the case of officers, shares credited directly to the individual's account under the Employees' Thrift and Savings Plan. Pursuant to the Employees' Thrift and Savings Plan, a participant has the power to direct the voting of stock held on his behalf in the Employees' Thrift and Savings Plan Trust.

(2) Consists of shares credited under the Directors' Deferred Compensation Plan, the Supplemental Employees' Thrift and Savings Plan, and the Deferred Compensation Plan for Key Employees.

(3) Consists of total of columns 1 and 2.

(4) Consists of shares which may be acquired through the Stock Option Plan and the Board of Directors' Stock Option Plan.

	OWNED(1)	CREDITED TO BENEFIT PLAN ACCOUNT(2)	TOTAL SHARES OWNED AND CREDITED TO BENEFIT PLAN ACCOUNT(3)	MAY BE ACQUIRED WITHIN 60 DAYS(4)
SALLIE MAE DIRECTORS				
William Arceneaux	1,705	2,408	4,113	3,000
Mitchell W. Berger	617	296	913	3,000
James E. Brandon	1,475	683	2,158	3,000
David A. Daberko	805	3,593	4,398	3,000
Charles L. Daley	1,200	190	1,390	3,000
Kris E. Durmer	618	278	896	3,000
Diane S. Gilleland	618	639	1,257	3,000
Ronald F. Hunt, Esq.	2,731	879	3,610	3,000
Thomas H. Jacobsen	1,625	670	2,295	3,000
Benjamin J. Lambert	200	361	561	3,000
Albert L. Lord	35,300	379	35,679	3,000
Regina T. Montoya	618	278	896	3,000
James E. Moore	1,114	887	2,001	3,000
Irene Natividad	618	268	886	3,000
A. Alexander Porter, Jr.	21,200	190	21,390	3,000
James E. Rohr	891	362	1,253	3,000
Steven L. Shapiro	1,200	493	1,693	3,000
John W. Spiegel	592	268	860	3,000
Ronald J. Thayer	300	268	568	3,000
David J. Vitale	625	12,124	12,749	3,000
Randolph H. Waterfield, Jr.	400	485	885	3,000
SALLIE MAE NAMED EXECUTIVE OFFICERS				
Robert D. Friedhoff	8,288	206	8,494	65,000
Timothy G. Greene	6,340	2,663	9,003	58,920
Lawrence A. Hough	137,736	6,178	143,914	178,250
Lydia M. Marshall	10,823	1,476	12,299	38,800
Denise B. McGlone	6,502	1,592	8,094	32,500
SALLIE MAE DIRECTORS AND NAMED EXECUTIVE OFFICERS AS A GROUP	244,141	38,114	282,255	436,470

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(1) Consists of shares held, directly or indirectly, by the individual or a related party, including restricted shares, and, in the case of officers, shares credited directly to the individual's account under the Employees' Thrift and Savings Plan. Pursuant to the Employees' Thrift and Savings Plan, a participant has the power to direct the voting of stock held on his behalf in the Employees' Thrift and Savings Plan Trust.

(2) Consists of shares credited under the Directors' Deferred Compensation Plan, the Supplemental Employees' Thrift and Savings Plan, and the Deferred Compensation Plan for Key Employees.

(3) Consists of total of columns 1 and 2.

(4) Consists of shares which may be acquired through the Stock Option Plan and the Board of Directors' Stock Option Plan.

PRINCIPAL HOLDERS

Sallie Mae believes the following institutions were beneficial owners of 5% or more of the outstanding shares of Sallie Mae Common Stock at December 31, 1996 based upon information from such institutions and Sallie Mae's records.

PRINCIPAL HOLDERS	SHARES	OWNERSHIP PERCENT AT DECEMBER 31, 1996 (UNLESS OTHERWISE NOTED)
FMR Corporation	6,250,900	11.6%
The Capital Group Companies, Inc.(1)	4,679,800	8.7%
Chancellor Capital	5,070,625	9.4%
Scudder Stevens & Clark	3,235,725	6.0%
Boston Partners	3,118,750	5.8%
AIM Management Group	2,928,500	5.5%

(1) Certain operating subsidiaries of the Capital Group Companies, Inc. exercised investment discretion over various institutional accounts which held, as of December 31, 1996, 4,679,800 shares of the issue (8.7% of the outstanding shares of the class). Capital Guardian Trust Company, a bank, and one of such operating companies, exercised investment discretion over 1,299,800 of said shares. Capital Research and Management Company, a registered investment adviser had investment discretion with respect to 3,380,000 shares of the above shares.

LEGAL MATTERS

The legality of the Holding Company Common Stock to be issued pursuant to the Reorganization and certain other matters in connection with the Reorganization will be passed upon by Timothy G. Greene, General Counsel of Sallie Mae and of the Holding Company. Skadden, Arps, Slate, Meagher & Flom L.L.P., Washington, D.C., will render an opinion to Sallie Mae and the Holding Company as to certain federal income tax consequences of the Reorganization.

EXPERTS

The balance sheet of the Holding Company at February 3, 1997 and the consolidated financial statements of Sallie Mae as of December 31, 1996 and 1995, and for each of the three years in the period ended December 31, 1996 appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon appearing elsewhere herein, and are included in reliance upon such reports given upon the firm as experts in accounting and auditing.

Representatives of Ernst & Young LLP are expected to attend the Special Meeting, will have the opportunity to make a statement if they desire to do so, and can be expected to respond to appropriate questions from shareholders present at the Special Meeting.

SALLIE MAE ANNUAL MEETING SHAREHOLDER PROPOSALS

If the Reorganization is not consummated, an annual meeting of Sallie Mae will be held as soon as practicable after the Special Meeting. To be included in the proxy material for the 1997 Annual Meeting of Shareholders of Sallie Mae, any shareholder proposal must be received by Sallie Mae no later than May 30, 1997. The submission of a shareholder proposal does not guarantee that it will be included in such proxy material.

By Order of the Board of Directors

Ann Marie Plubell
Vice President, Associate General
Counsel and
Secretary

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
SLM Holding Corporation

We have audited the accompanying balance sheet of SLM Holding Corporation as of February 3, 1997. This balance sheet is the responsibility of the management of SLM Holding Corporation. Our responsibility is to express an opinion on this balance sheet based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit of the balance sheet provides a reasonable basis for our opinion.

In our opinion, the balance sheet referred to above presents fairly, in all material respects, the financial position of SLM Holding Corporation at February 3, 1997 in conformity with generally accepted accounting principles.

Washington D.C.
February 3, 1997

Ernst & Young LLP

SLM HOLDING CORPORATION
BALANCE SHEET

	FEBRUARY 3, 1997
ASSETS	
Cash	$ 1,000
LIABILITIES	$ -
STOCKHOLDER'S EQUITY	
Preferred stock, no par value, 20,000,000 shares authorized, none issued and outstanding	-
Common stock, par value $.20 per share, 250,000,000 shares authorized, 1,000 shares issued and outstanding	200
Additional paid-in capital	800
Total stockholder's equity	1,000
Total liabilities and stockholder's equity	$ 1,000

See accompanying notes to balance sheet.

SLM HOLDING CORPORATION

NOTES TO BALANCE SHEET

1. ORGANIZATION AND PRIVATIZATION

SLM Holding Corporation (the "Company") was incorporated on February 3, 1997 under Delaware law. The Company is a wholly-owned subsidiary of the Student Loan Marketing Association ("Sallie Mae" or "GSE"), a corporation chartered under federal law. The Company was incorporated to effect the reorganization of the business of Sallie Mae and the eventual dissolution of Sallie Mae as described below.

Privatization

Sallie Mae is a stockholder-owned corporation which was created in 1972 as a federally chartered government-sponsored enterprise under the Higher Education Act of 1965 (the "Act"). The Act defines Sallie Mae's charter and limits its corporate authority to education finance related activities, while imposing certain obligations on Sallie Mae, including acting as a lender of last resort to eligible borrowers under the Federal Family Education Loan Program (the "FFELP").

On September 30, 1996, the Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") was enacted. The Privatization Act authorized the creation of a state-chartered holding company (the "Holding Company") that can pursue new business opportunities beyond the limited scope of the GSE's restrictive federal charter. The Holding Company would become the parent of the GSE pursuant to a reorganization ("the Reorganization") which must be approved by a majority vote of the GSE's shareholders, such vote to take place on or before April 1, 1998.

A special meeting of shareholders has been called to consider and vote upon the approval of the proposed Reorganization pursuant to a Proxy Statement/Prospectus filed with the Securities and Exchange Commission ("SEC"). If the Reorganization is approved by the shareholders, the GSE, which will become a wholly-owned subsidiary of the Holding Company, will be gradually liquidated and its federal charter rescinded on or before September 30, 2008. Pursuant to the Reorganization, each outstanding share of Sallie Mae Common Stock will be converted into one share of Holding Company Common Stock. In addition, Sallie Mae will transfer certain assets, including stock in certain subsidiaries to the Holding Company or one of its non-GSE subsidiaries. As required by the Privatization Act, all GSE employees will be transferred to one of the Holding Company's subsidiaries. During the wind-down period, it is expected that all Sallie Mae operations will be managed pursuant to an arms-length service agreement with a Sallie Mae affiliate. In addition, the Holding Company will remain a passive entity which supports the operations of the GSE and its other subsidiaries, and all business activities would be conducted through the GSE and by such other subsidiaries.

The Privatization Act imposes certain restrictions on intercompany relations between Sallie Mae and its affiliates during the wind-down period. In particular, Sallie Mae must not extend credit to, nor guarantee any debt obligations of the Holding Company, or the Holding Company's non-GSE subsidiaries. Furthermore, the Privatization Act mandates that transactions between Sallie Mae and the Holding Company, including any loan servicing arrangements, shall be on terms no less favorable to Sallie Mae than Sallie Mae could obtain from an unrelated third party. While Sallie Mae may not finance the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Holding Company, which in turn may use such amounts to support its non-GSE subsidiaries. The Sallie Mae Charter requires that Sallie Mae maintain a minimum capital ratio of at least 2.0 percent until 2000, and at least 2.25 percent thereafter. The Privatization Act further directs that under no circumstances shall the assets of Sallie Mae be available or used to pay claims or debts of or incurred by the Holding Company.

SLM HOLDING CORPORATION

NOTES TO BALANCE SHEET -- (CONTINUED)

1. ORGANIZATION AND PRIVATIZATION -- (CONTINUED)

During the wind-down period following the Reorganization and prior to the GSE's dissolution, the GSE will be restricted in the new business activities it may undertake. Sallie Mae may continue to purchase student loans only through September 30, 2007. Warehousing advances, letters of credit and standby bond purchase activity by the GSE will be limited to takedowns on contractual financing and guarantee commitments in place as of the Reorganization's effective date. The Holding Company generally may begin to purchase student loans only after the GSE discontinues such activity. Sallie Mae's GSE debt obligations that are outstanding at the time of Reorganization will continue to be outstanding obligations of the GSE immediately after the Reorganization. Sallie Mae will be able to continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions, although the maturity date of such issuances generally may not extend beyond September 30, 2008, Sallie Mae's final dissolution date. At December 31, 1996, Sallie Mae had $372 million in outstanding debt with maturities after September 30, 2008. Such debt will be transferred into a defeasance trust on the final dissolution date.

The Privatization Act requires that within 60 days after the merger, the Company must pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. In addition, the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

Beginning in fiscal 1997, and until the GSE is dissolved, Sallie Mae also must reimburse the U.S. Treasury Department up to $800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act.

The transfer of subsidiaries and assets of the GSE to the Holding Company and the related exchange of common stock between the GSE and the Holding Company will be accounted for at historical cost similar to a pooling of interests. Operations performed outside the GSE after the Reorganization will be subject to state and local taxes.

If the Reorganization is not approved by shareholders certain charter sunset provisions of the Privatization Act become applicable and will result in the dissolution of the GSE by July 1, 2013.

2. RISKS AND UNCERTAINTIES

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Student Loan Marketing Association

We have audited the accompanying consolidated balance sheets of the Student Loan Marketing Association at December 31, 1996 and 1995, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Student Loan Marketing Association at December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, in 1995 the Student Loan Marketing Association changed its method of accounting for student loan income and in 1994 for certain investments in debt and equity securities.

Washington, D.C.
January 13, 1997

Ernst & Young LLP

STUDENT LOAN MARKETING ASSOCIATION

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	DECEMBER 31,	
	1996	1995
ASSETS		
Insured student loans purchased	$32,307,930	$34,336,211
Student loan participations	1,445,596	-
Insured student loans	33,753,526	34,336,211
Warehousing advances	2,789,485	3,865,093
Academic facilities financings		
Bonds -- available-for-sale	934,481	710,112
Loans	538,850	602,122
Total academic facilities financings	1,473,331	1,312,234
Investments		
Available-for-sale	6,833,695	6,988,199
Held-to-maturity	601,887	625,856
Total investments	7,435,582	7,614,055
Cash and cash equivalents	270,887	1,252,920
Other assets, principally accrued interest receivable	1,907,079	1,621,222
Total assets	$47,629,890	$50,001,735
LIABILITIES		
Short-term borrowings	$22,156,548	$17,447,000
Long-term notes	22,606,226	30,082,615
Other liabilities	1,819,286	1,390,915
Total liabilities	46,582,060	48,920,530
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $50.00 per share, 5,000,000 shares authorized and issued, 4,277,650 outstanding	213,883	213,883
Common stock, par value $.20 per share, 250,000,000 shares authorized: 65,695,571 and 124,121,770 shares issued, respectively	13,139	24,824
Additional paid-in capital	-	537,818
Unrealized gains on investments (net of tax of $188,050 and $199,686, respectively)	349,235	370,846
Retained earnings	1,008,737	2,728,383
Stockholders' equity before treasury stock	1,584,994	3,875,754
Common stock held in treasury at cost: 12,004,976 and 66,415,524 shares, respectively	537,164	2,794,549
Total stockholders' equity	1,047,830	1,081,205
Total liabilities and stockholders' equity	$47,629,890	$50,001,735

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

CONSOLIDATED STATEMENTS OF INCOME
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Interest income:			
Insured student loans purchased	$2,586,035	$2,708,079	$2,162,149
Student loan participations	20,625	-	-
Insured student loans	2,606,660	2,708,079	2,162,149
Warehousing advances	193,654	407,866	334,012
Academic facilities financings			
Taxable	52,163	54,862	52,079
Tax-exempt	48,262	52,859	49,576
Total academic facilities financings	100,425	107,721	101,655
Investments	542,469	697,724	499,443
Total interest income	3,443,208	3,921,390	3,097,259
Interest expense			
Short-term debt	1,132,159	905,933	737,798
Long-term debt	1,444,613	2,114,716	1,404,697
Total interest expense	2,576,772	3,020,649	2,142,495
NET INTEREST INCOME	866,436	900,741	954,764
Other income:			
Gain on sale of student loans	48,981	-	-
Servicing and securitization revenue	57,736	1,423	-
Gains/(losses) on sales of available for sale securities	11,898	24,032	(100)
Other	28,301	24,958	13,903
Total other income	146,916	50,413	13,803
Operating expenses			
Salaries and benefits	206,347	211,787	196,022
Other	199,305	226,914	193,920
Total operating expenses	405,652	438,701	389,942
Income before federal income taxes, premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	607,700	512,453	578,625
Federal income taxes:			
Current	207,437	141,803	178,812
Deferred	(23,939)	(540)	(12,284)
Total federal income taxes	183,498	141,263	166,528
Income before premiums on debt extinguished and cumulative effect of the change in method accounting for student loan income	424,202	371,190	412,097
Premiums on debt extinguished, net of tax	(4,792)	(4,911)	(9,329)
Income before cumulative effect of the change in method of accounting for student loan income	419,410	366,279	402,768
Cumulative effect of the change in method of accounting for student loan income, net of tax	-	130,148	-
NET INCOME	419,410	496,427	402,768
Preferred stock dividends	10,694	10,694	10,694
Net income attributable to common stock	$ 408,716	$ 485,733	$ 392,074
Earnings per common share before premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	$ 7.41	$ 5.34	$ 5.03
Earnings per common share before cumulative effect of the change in method of accounting for student loan income	$ 7.32	$ 5.27	$ 4.91
EARNINGS PER COMMON SHARE	$ 7.32	$ 7.20	$ 4.91
PRO FORMA AMOUNTS ASSUMING THE CHANGE IN METHOD OF ACCOUNTING FOR STUDENT LOAN INCOME IS APPLIED RETROACTIVELY TO 1994			
Net income	$ 419,410	$ 366,279	$ 420,203
Earnings per common share	$ 7.32	$ 5.27	$ 5.13

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
PREFERRED STOCK:			
Balance, beginning and end of year	$ 213,883	$ 213,883	$ 213,883
COMMON STOCK:			
Balance, beginning of year	24,824	24,769	24,766
Issuance of common shares	115	55	3
Retirement of common shares	(11,800)	-	-
Balance, end of year	13,139	24,824	24,769
ADDITIONAL PAID-IN CAPITAL:			
Balance, beginning of year	537,818	524,511	523,935
Proceeds in excess of par value from issuance of common stock	22,920	11,673	514
Tax benefit related to employee stock option and purchase plans	7,393	1,634	62
Retirement of common shares	(568,131)	-	-
Balance, end of year	-	537,818	524,511
UNREALIZED GAINS ON INVESTMENTS, NET OF TAX:			
Balance, beginning of year	370,846	299,558	-
Unrealized gains as of January 1, 1994	-	-	304,851
Change in unrealized gains	(21,611)	71,288	(5,293)
Balance, end of year	349,235	370,846	299,558
RETAINED EARNINGS:			
Balance, beginning of year	2,728,383	2,342,900	2,063,772
Cumulative effect of the change in method of accounting for student loan income, net of tax	-	130,148	-
Income before cumulative effect of the change in method of accounting for student loan income, net of tax	419,410	366,279	402,768
Retirement of common shares	(2,037,368)	-	-
Cash dividends:			
Common stock ($1.64, $1.51 and $1.42 per share, respectively)	(90,994)	(100,250)	(112,946)
Preferred stock	(10,694)	(10,694)	(10,694)
Balance, end of year	1,008,737	2,728,383	2,342,900
COMMON STOCK HELD IN TREASURY AT COST:			
Balance, beginning of year	2,794,549	1,934,377	1,546,272
Repurchase of 4,589,452; 16,094,701 and 10,542,791 common shares, respectively	359,914	860,172	388,105
Retirement of 59,000,000 common shares	(2,617,299)	-	-
Balance, end of year	537,164	2,794,549	1,934,377
TOTAL STOCKHOLDERS' EQUITY	$ 1,047,830	$1,081,205	$1,471,244

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
OPERATING ACTIVITIES			
Net income	$ 419,410	$ 496,427	$ 402,768
Adjustments to reconcile net income to net cash provided by operating activities:			
(Increase) in accrued interest receivable	(11,286)	(179,505)	(184,021)
Increase (decrease) in accrued interest payable	(109,214)	112,133	114,310
(Increase) in other assets	(274,572)	(128,799)	(86,959)
Increase in other liabilities	549,221	85,883	194,243
Cumulative effect of change in accounting method	-	(200,227)	-
Other	-	-	26,822
Total adjustments	154,149	(310,515)	64,395
Net cash provided by operating activities	573,559	185,912	467,163
INVESTING ACTIVITIES			
Insured student loans purchased	(8,370,836)	(9,379,663)	(7,955,655)
Reduction of insured student loans purchased:			
Installment payments	3,094,937	3,452,985	3,220,233
Claims and resales	1,277,400	1,161,163	1,142,350
Proceeds from securitization of student loans	6,026,780	1,000,000	-
Participations purchased	(1,498,868)	-	-
Participation repayments	53,272	-	-
Warehousing advances made	(1,391,590)	(2,250,077)	(3,377,494)
Warehousing advance repayments	2,467,198	5,416,890	3,379,484
Academic facilities financings made	(465,596)	(122,813)	(292,966)
Academic facilities financings reductions	302,557	379,283	103,314
Investments purchased	(15,966,490)	(43,716,393)	(87,312,581)
Proceeds from sale or maturity of investments	16,113,659	46,627,289	86,495,100
Net cash provided by (used in) investing activities	1,642,423	2,568,664	(4,598,215)
FINANCING ACTIVITIES			
Short-term borrowings issued	267,164,206	163,805,115	118,724,135
Short-term borrowings repaid	(262,491,657)	(166,764,320)	(113,946,559)
Long-term notes issued	8,304,988	12,350,217	16,317,375
Long-term notes repaid	(15,744,378)	(12,196,436)	(15,303,842)
Common stock issued	30,428	13,362	579
Common stock repurchased	(359,914)	(860,172)	(388,105)
Dividends paid	(101,688)	(110,944)	(123,640)
Net cash provided by (used in) financing activities	(3,198,015)	(3,763,178)	5,279,943
Net increase (decrease) in cash and cash equivalents	(982,033)	(1,008,602)	1,148,891
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,252,920	2,261,522	1,112,631
Cash and cash equivalents at end of year	$ 270,887	$ 1,252,920	$ 2,261,522

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

1. ORGANIZATION AND PRIVATIZATION

The Student Loan Marketing Association ("Sallie Mae" or the "GSE") is a stockholder-owned corporation chartered by Congress to provide liquidity for originators of student loans made under federally sponsored student loan programs and otherwise to support the credit needs of students and educational institutions. The GSE charter is subject to legislative change from time to time. Sallie Mae is predominantly engaged in the purchase of student loans insured under federally sponsored programs. Sallie Mae also makes secured loans (warehousing advances) to providers of education credit, and provides financing to educational institutions for their physical plant and equipment (academic facilities financings).

Privatization

On September 30, 1996, the Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") was enacted. The Privatization Act authorized the creation of a state-chartered holding company (the "Holding Company") that can pursue new business opportunities beyond the limited scope of the GSE's restrictive federal charter. The Holding Company would become the parent of the GSE pursuant to a reorganization ("the Reorganization") which must be approved by a majority vote of the GSE's shareholders, such vote to take place on or before April 1, 1998.

A special meeting of shareholders has been called to consider and vote upon the approval of the proposed Reorganization pursuant to a Proxy Statement/Prospectus filed with the Securities and Exchange Commission ("SEC"). If the Reorganization is approved by the shareholders, the GSE, which will become a wholly owned subsidiary of the Holding Company, will be gradually liquidated and its federal charter rescinded on or before September 30, 2008. Pursuant to the Reorganization, each outstanding share of Sallie Mae Common Stock will be converted into one share of Holding Company Common Stock. In addition, Sallie Mae will transfer certain assets, including stock in certain subsidiaries, to the Holding Company's or one of its non-GSE subsidiaries. As required by the Privatization Act all GSE employees will be transferred to the Holding Company or one of its subsidiaries. During the wind-down period, it is expected that all Sallie Mae operations will be managed pursuant to an arms-length service agreement with a Sallie Mae affiliate. In addition, the Holding Company will remain a passive entity which supports the operations of the GSE and its other subsidiaries, and all business activities would be conducted through the GSE and by such other subsidiaries.

The Privatization Act imposes certain restrictions on intercompany relations between Sallie Mae and its affiliates during the wind-down period. In particular, Sallie Mae must not extend credit to, nor guarantee any debt obligations, of the Holding Company or the Holding Company's non-GSE subsidiaries. Furthermore, the Privatization Act mandates that transactions between Sallie Mae and the Holding Company, including any loan servicing arrangements, shall be on terms no less favorable to Sallie Mae than Sallie Mae could obtain from an unrelated third party. While Sallie Mae may not finance the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to the Holding Company, which in turn may use such amounts to support its non-GSE subsidiaries. The Sallie Mae charter requires that Sallie Mae maintain a minimum capital ratio of at least 2.0 percent until 2000 and 2.25 percent thereafter. The Privatization Act further directs that under no circumstances shall the assets of Sallie Mae be available or used to pay claims or debts of, or incurred by, the Holding Company.

During the wind-down period following the Reorganization and prior to the GSE's dissolution, the GSE will be restricted in the new business activities it may undertake. Sallie Mae may continue to purchase student loans only through September 30, 2007. Warehousing advances, letters of credit and standby bond purchase activity by the GSE will be limited to takedowns on contractual financing and guarantee commitments in place as of the Reorganization's effective date. The Holding Company generally may begin to purchase student loans only after the GSE discontinues such activity. Sallie Mae's GSE debt obligations that are outstanding at the time of Reorganization will continue to be outstanding obligations of the GSE immediately

1. ORGANIZATION AND PRIVATIZATION -- (CONTINUED)
after the Reorganization. Sallie Mae will be able to continue to issue debt in the government agency market to finance student loans and other permissible asset acquisitions, although the maturity date of such issuances generally may not extend beyond September 30, 2008, Sallie Mae's final dissolution date. At December 31, 1996, Sallie Mae had $372 million in carrying value of outstanding debt with maturities after September 30, 2008. Such debt will be transferred into a defeasance trust on the final dissolution date.

The Privatization Act requires that within 60 days after the merger, the Company must pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. In addition, the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. These provisions of the Privatization Act were part of the terms negotiated with the Administration and Congress as consideration for the GSE's privatization.

Beginning in fiscal 1997, and until the GSE is dissolved, Sallie Mae also must reimburse the U.S. Treasury Department up to $800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act.

The transfer of subsidiaries and assets of the GSE to the Holding Company and the related exchange of common stock between the GSE and the Holding Company will be accounted for at historical cost similar to a pooling of interests. Operations performed outside the GSE after the Reorganization will be subject to state and local taxes.

If the Privatization is not approved by shareholders certain charter sunset provisions of the Privatization Act become applicable and will result in the dissolution of the GSE by July 1, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES

Loans

Loans, consisting of insured student loans purchased (student loans), student loan participations, warehousing advances, and academic facilities financings are carried at their unpaid principal balances which, for student loans, are adjusted for unamortized premiums and unearned purchase discounts.

Student Loan Income

Student loan servicing costs are generally incurred in a fixed amount per borrower and thus increase in proportion to principal balances outstanding as loans are repaid. Prior to 1995, to achieve a level yield to maturity, interest income was deferred during the early years of the loans, then recognized during the later years to offset the aforementioned proportional servicing cost increases. Changes in the estimates of future loan servicing costs were reflected in student loan income over the estimated remaining terms of the loans. In 1995, Sallie Mae discontinued its accounting method of deferring income on student loans. Effective January 1, 1995, Sallie Mae commenced recognizing student loan income as earned. Sallie Mae believes this method of accounting is preferable based on industry practices used for recognition of interest income and servicing costs. Interest income earned on student loan participations is recognized in accordance with the terms of the joint venture agreement with The Chase Manhattan Bank which effectively reflects the underlying interest income earned on the student loans less servicing costs and the general and administrative expenses of the joint venture.

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Change in Method of Accounting for Student Loan Income

In the fourth quarter of 1995, pursuant to Sallie Mae changing its method of accounting for student loan income effective January 1, 1995, the previously reported three quarters of 1995 were restated to reflect the change. The effect of the change in 1995 was to increase income before premiums on debt repurchased by $21 million net of tax ($.30 per common share). The cumulative effect of the change as of January 1, 1995 of $130 million, net of tax, was reported in the Consolidated Statements of Income.

Securitizations

The Company securitizes student loans by selling selected portfolios of such loans to trusts. Such securitizations are recorded as sales in accordance with FAS No. 77, "Reporting by Transferors for Transfers of Receivables with Recourse". A receivable is recorded at the time of sale equal to the present value of the expected net cash flows from the trust. A gain is recorded on a present value basis which takes into account principal, interest and special allowance receipts on the student loans less principal and interest payments on the notes and certificates financing the student loans, a normal servicing fee, borrower benefit programs, losses from defaulted student loans (which includes risk-sharing, claim interest penalties and reject costs), transaction costs, offset fees and the current carrying value of the loans including any premiums paid.

In addition to the initial gain on sale, Sallie Mae is entitled to the residual earnings from the trust. After the loans are sold to trusts, Sallie Mae continues to service them for a fee. These revenues are reflected as servicing and securitization revenues in the Consolidated Statements of Income.

Student Loan Loss Reserves

Sallie Mae has established reserves for potential losses on its student loan portfolio that can result from defective servicing, risk-sharing on claim payments and on privately insured loans. The reserve is based on periodic evaluations of its loan portfolios considering past experience, changes to federally funded programs, current economic conditions and other relevant factors. The reserve is maintained at a level that management believes is adequate to absorb estimated potential credit losses. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant changes.

Cash and Cash Equivalents

Cash and cash equivalents excludes term federal funds and bank deposits with terms to maturity exceeding three months.

Investments

Investments are held to provide liquidity, to hedge certain financing activities and to serve as a source of short-term income. Investments are segregated into three categories as required under Statement of Financial Accounting Standards ("FAS") No. 115. Securities that are actively traded are accounted for at fair market value with unrealized gains and losses included in investment income. Securities that are intended to be held to maturity are accounted for at amortized cost. Securities that fall outside of the two previous categories are considered as available-for-sale. Such securities are carried at market value, with the after-tax unrealized gain or loss, along with after-tax unrealized gain or loss on instruments which hedge such securities, carried as a separate component of equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts.

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Interest Expense

Interest expense is based upon contractual interest rates adjusted for net payments under derivative financial instruments with off-balance sheet risks, which include interest rate and foreign currency exchange agreements and the amortization of debt issuance costs and deferred gains and losses on hedge transactions entered into to reduce interest rate risk.

Interest Rate Swaps

Sallie Mae utilizes interest rate swap agreements ("swaps") principally for hedging purposes to alter the interest rate characteristics of its debt in order to manage interest rates. This enables Sallie Mae to match the interest rate characteristics of borrowings to specific assets in order to lock-in spreads. Sallie Mae does not hold or issue interest rate swap agreements for trading purposes.

Amounts paid or received under swaps that are used to alter the interest rate characteristics of its interest-sensitive liabilities are accrued and recognized as an adjustment of the interest expense on the related borrowing. The related net receivable or payable from counterparties is included in other assets or other liabilities. Gains and losses associated with the termination of swaps for designated positions are deferred and amortized over the remaining life of the designated instrument as an adjustment to interest expense.

Sallie Mae's credit exposure on swaps is limited to the value of the swaps that have become favorable to the Company in the event of nonperformance by the counterparties. Sallie Mae manages the credit risk associated with these instruments by performing credit reviews of counterparties and monitoring market conditions to establish counterparty, sovereign and instrument-type credit lines and, when appropriate, requiring collateral.

Foreign Currency Derivatives

Sallie Mae enters into various foreign currency swaps, forward currency exchange agreements and options on forward currency exchange agreements to hedge its foreign currency linked debt agreements. These contracts mature concurrently with the maturities of the debt and are subject to the same credit standards as interest rate swaps. Foreign currency derivatives and the related foreign currency borrowings are translated at the market rates of exchange as of the balance sheet date. Gains and losses on foreign currency transactions that are designated hedges are deferred and included in the basis of the designated instrument.

Federal Income Taxes

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Earnings per Common Share

Earnings per common share are computed using the weighted average of common and common equivalent shares outstanding for the period. Common equivalent shares include shares issuable upon exercise of incentive stock options.

Consolidation

The consolidated financial statements include the accounts of Sallie Mae and its subsidiaries, after eliminating significant intercompany accounts and transactions.

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Reclassification

Certain prior year amounts in the Consolidated Statements of Income for the years ended December 31, 1995 and 1994 have been reclassified to conform with the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, reported amounts of revenues and expenses and other disclosures. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In June 1996, FAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" was issued. This statement will govern the accounting for securitization transactions entered into after December 31, 1996. In-substance defeasance transactions entered into after December 31, 1996 will no longer receive off-balance sheet treatment. Sallie Mae management believes the application of this Statement will have no material impact on Sallie Mae's results of operations.

3. STUDENT LOANS

Sallie Mae purchases student loans from originating lenders, typically just before the student leaves school and is required to begin repayment of the loan. Sallie Mae's portfolio consists principally of loans originated under two federally sponsored programs -- the Federal Family Education Loan Program ("FFELP") and the Health Education Assistance Loan Program ("HEAL"). Sallie Mae also purchases privately insured loans from time to time, principally those insured by a wholly-owned subsidiary.

There are four principal categories of FFELP loans: Stafford loans, PLUS loans, SLS loans and consolidation loans. Generally, these loans have repayment periods of between five and ten years, with the exception of consolidation loans, and obligate the borrower to pay interest at a stated fixed rate or an annually reset variable rate that has a cap. However, the yield to holders is subsidized on the borrowers' behalf by the federal government to provide a market rate of return. The formula through which the subsidy is determined is referred to as the special allowance formula. Special allowance is paid whenever the average of all of the 91-day Treasury bill auctions in a calendar quarter, plus a spread of between 2.50 and 3.50 percentage points depending on the loan status and when it was originated, exceeds the rate of interest which the borrower is obligated to pay.

In low interest rate environments the rate which the borrower is obligated to pay may exceed the rate determined by the special allowance formula. In those instances the rate paid by the borrower becomes a floor on an otherwise variable rate asset. In 1996, Sallie Mae entered into contracts with third parties under which it agreed to pay the future floor revenues received on student loans with a principal balance of $13.5 billion in exchange for upfront payments of $128 million. The upfront payments, which are recorded in other liabilities are being amortized over the average remaining life of these contracts, which is approximately 2 years. For the year ended December 31, 1996, the amortization of the upfront payments increased student loan income by $23 million. For the year ended December 31, 1996, payments under the contracts totaled $12 million.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted on August 10, 1993, made significant changes to the student loan delivery system and created a program of direct lending to students by the federal government. The direct lending program replaced approximately 7 percent of the FFELP originations in the 1994-1995 academic year and under OBRA this is scheduled to increase up to 60 percent in

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

3. STUDENT LOANS -- (CONTINUED)
the 1998-1999 academic year. Management believes these changes to the student loan delivery system along with direct lending, which reduce the pool of loans originated by the bank-based FFELP, will have an increasing material adverse effect on Sallie Mae's long-term earning prospects as a higher percentage of loans subject to OBRA will be available to Sallie Mae and the full effects of direct lending originations are factored in. OBRA also required Sallie Mae to pay an annual 30 basis point "offset fee" on FFELP student loans purchased and held on or after August 10, 1993.

The estimated average remaining term of purchased student loans in Sallie Mae's portfolio was approximately 6.0 years at December 31, 1996. The following table reflects the distribution of Sallie Mae's loan portfolio by program.

	DECEMBER 31,	
	1996	1995
FFELP -- Stafford	$17,292,273	$20,210,325
FFELP -- PLUS/SLS	3,580,803	4,514,976
FFELP -- Consolidation loans	7,658,035	5,960,091
HEAL	2,758,860	2,764,244
Privately insured	1,017,959	886,575
Student loans purchased	32,307,930	34,336,211
Participations	1,445,596	-
Total student loans	$33,753,526	$34,336,211

As of December 31, 1996, 84 percent of Sallie Mae's on-balance sheet student loan portfolio was in repayment.

Holders of FFELP loans are insured against the borrower's default, death, disability, or bankruptcy. Insurance on FFELP loans is provided by certain state or non-profit guarantee agencies, which are reinsured by the federal government. FFELP loans originated after October 1, 1993, of which Sallie Mae owned $13.6 billion at December 31, 1996, are insured for 98 percent of their unpaid balance resulting in 2 percent risk-sharing for holders of these loans. HEAL loans are directly insured by the federal government. Both FFELP and HEAL loans are subject to regulatory requirements relating to servicing. In the event of default on a student loan or the borrower's death, disability, or bankruptcy, Sallie Mae files a claim with the insurer or guarantor of the loan, who, provided the loan has been properly originated and serviced, and in the case of HEAL, litigated, pays Sallie Mae the unpaid principal balance and accrued interest on the loan less risk-sharing, where applicable.

Claims not immediately honored by the guarantor because of servicing or origination defects are returned for remedial servicing, during which period income is not recognized. On certain paid claims, guarantors assess a penalty for minor servicing defects. Costs associated with claims on defaulted student loans, which include such penalties and reduced interest income on student loans by $12.8 million, $15.8 million, and $16.8 million for the years ended December 31, 1996, 1995 and 1994, respectively.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

3. STUDENT LOANS -- (CONTINUED)

The following table summarizes the reserves that Sallie Mae has recorded for estimated losses due to risk-sharing, unpaid guarantee claims and defaults on privately insured loans.

	1996	1995	1994
BALANCE AT BEGINNING OF YEAR	$60,337	$64,928	$66,814
Additions			
Provisions for loan losses	29,749	800	202
Recoveries	7,235	6,096	5,998
Deductions			
Losses on loans	(13,258)	(11,487)	(8,086)
BALANCE AT END OF THE YEAR	$84,063	$60,337	$64,928

4. WAREHOUSING ADVANCES

Warehousing advances are secured loans made, generally, to finance student loans and other education-related loans at certain financial and educational institutions and public sector agencies. Such advances are collateralized by student loans, obligations of the United States government or instrumentalities thereof, or by other collateral, such as residential first mortgages and mortgage-backed securities. As of December 31, 1996, approximately 97 percent were collateralized by student loans, 1 percent by U.S. government securities, and 2 percent by other collateral. A summary of warehousing advances by industry concentration follows:

	DECEMBER 31,	
	1996	1995
Commercial banks	$1,547,193	$2,612,125
Public sector agencies	1,126,095	985,182
Educational institutions	116,197	167,786
Thrift institutions	-	100,000
	$2,789,485	$3,865,093

Warehousing advances have specific maturities and generally bear rates of interest which vary with the 91-day Treasury bill rate, or the London Interbank Offered Rate ("LIBOR"), or which are fixed for the term of the advance. A summary of warehousing advance interest rate characteristics follows:

	DECEMBER 31,	
	1996	1995
Variable rate:		
Treasury bill	$1,723,588	$2,138,929
LIBOR	1,046,086	1,623,028
Fixed rate	19,811	103,136
	$2,789,485	$3,865,093

The average remaining term to maturity of warehousing advances was 1.0 year as of December 31, 1996, with maturities as follows: 1997 -- $1,221,148; 1998 -- $1,232,186; 1999 -- $175,391; 2000 -- $127,863; 2001 -- $0; after 2001 -- $32,897.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

5. ACADEMIC FACILITIES FINANCINGS

Academic facilities financings are comprised of bonds issued by and loans to educational institutions to finance their physical plant and equipment.

At December 31, 1994, academic facilities bonds were classified as held-to-maturity securities and carried at amortized cost. In December 1995, as a result of the one-time reclassification permitted in connection with the issuance of a special report issued by the FASB staff, "A Guide to Implementation of Statement 115 on Accounting for Certain Investments in Debt and Equity Securities" ("FASB No. 115 Q&A"), academic facilities bonds were transferred from held-to-maturity to available-for-sale securities. The academic facilities bonds transferred had a fair market value of approximately $710 million with an amortized cost of $690 million.

The following tables summarize the academic facilities bonds at December 31, 1996 and 1995.

	DECEMBER 31, 1996			
BONDS -- AVAILABLE-FOR-SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
Fixed	$ 831,711	$ 19,794	$ (978)	$850,527
Variable	84,401	10	(457)	83,954
Total academic facilities bonds	$ 916,112	$ 19,804	$ (1,435)	$934,481

	DECEMBER 31, 1995			
BONDS -- AVAILABLE-FOR-SALE	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
Fixed	$ 591,407	$ 23,628	$ (1,692)	$613,343
Variable	98,394	48	(1,673)	96,769
Total academic facilities bonds	$ 689,801	$ 23,676	$ (3,365)	$710,112

The following table summarizes academic facilities loans at December 31, 1996 and 1995.

	DECEMBER 31,	
LOANS	1996	1995
Fixed rate	$474,659	$489,913
Variable rate	64,191	112,209
Total academic facilities loans	$538,850	$602,122

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

5. ACADEMIC FACILITIES FINANCINGS -- (CONTINUED)

The average remaining term to maturity of academic facilities financings was 8.0 years as of December 31, 1996. The stated maturities and maturities if accelerated to the put or call date for academic facilities bonds and loans are shown in the following table:

	BONDS		
YEAR OF MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE	LOANS STATED MATURITY
1997	$ 44,078	$ 97,657	$ 8,325
1998	77,409	127,774	14,065
1999	43,638	57,366	45,115
2000	78,588	98,515	17,368
2001	87,197	107,464	22,673
2002-2006	486,168	410,945	104,872
after 2006	117,403	34,760	326,432
	$934,481	$ 934,481	$538,850

6. INVESTMENTS

At December 31, 1996 and 1995, all investments with the exception of other investments are classified as available-for-sale securities under FAS No. 115 and carried at fair market values which approximate amortized costs, except for U.S. Treasury securities which have an amortized cost of $809 million. The fair market value of U.S. Treasury securities is adjusted for unrealized gains and losses on interest rate swaps, which are held to reduce interest rate risk related to these securities ($19.5 million of unrealized gains at December 31, 1996 and $56.6 million of unrealized losses at December 31, 1995). During 1995, as a result of the one-time reclassification permitted in connection with the issuance of the FASB No. 115 Q&A, asset-backed securities, variable corporate bonds, federal funds and bank deposits, student loan revenue bonds and commercial paper were transferred from held-to-maturity securities to available-for-sale securities at fair

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

6. INVESTMENTS -- (CONTINUED)

market values which approximated amortized cost. A summary of investments at December 31, 1996 and 1995 follows:

	DECEMBER 31, 1996			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
AVAILABLE-FOR-SALE				
U.S. Treasury and other U.S. government agencies obligations				
U.S. Treasury securities	$ 809,164	$ 508,758	$ (41)	$1,317,881
State and political subdivisions of the United States				
Student loan revenue bonds	201,248	5,563	(431)	206,380
Asset-backed and other securities				
Asset-backed securities	4,645,046	4,746	(167)	4,649,625
Variable corporate bonds	634,925	489	-	635,414
Commercial paper	24,395	-	-	24,395
Total available-for-sale investment securities	$6,314,778	$ 519,556	$ (639)	$6,833,695
HELD-TO-MATURITY				
Other	$ 601,887	$ 125	$ (267)	$ 601,745

	DECEMBER 31, 1995			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	MARKET VALUE
AVAILABLE-FOR-SALE				
U.S. Treasury and other U.S. government agencies obligations				
U.S. Treasury securities	$ 728,584	$ 596,577	$ (56,661)	$1,268,500
State and political subdivisions of the United States				
Student loan revenue bonds	271,514	9,152	(4)	280,662
Asset-backed and other securities				
Asset-backed securities	4,305,127	1,180	(334)	4,305,973
Variable corporate bonds	611,344	312	(2)	611,654
Commercial paper	121,410	-	-	121,410
Federal funds and bank deposits	400,000	-	-	400,000
Total available-for-sale investment securities	$6,437,979	$ 607,221	$ (57,001)	$6,988,199
HELD-TO-MATURITY				
Other	$ 625,856	$ 928	$ (97)	$ 626,687

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

6. INVESTMENTS -- (CONTINUED)

Sallie Mae sold available-for-sale securities with a carrying value of $4.6 billion and $6.6 billion for the years ended December 31, 1996 and 1995, respectively. There were no sales of available-for-sale securities in 1994.

As of December 31, 1996, stated maturities and maturities if accelerated to the put or call date for investments are shown in the following table.

	HELD-TO-MATURITY	AVAILABLE-FOR-SALE	
YEAR OF MATURITY	STATED MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE
1997	$106,823	$ 216,807	$ 275,955
1998	12,493	278,153	278,528
1999	9,229	532,975	488,182
2000	102,879	142,401	150,981
2001	4,721	1,059,148	1,073,776
2002-2006	46,058	2,534,058	2,514,787
After 2006	319,684	2,070,153	2,051,486
	$601,887	$6,833,695	$ 6,833,695

7. SHORT-TERM BORROWINGS

Short-term borrowings have an original or remaining term to maturity of one year or less. The following tables summarize outstanding short-term notes at December 31, 1996, 1995 and 1994, the weighted average interest rates at the end of each period, and the related average balances, weighted average interest rates and weighted average effective interest rates, which include the effects of related off-balance sheet financial instruments (see Note 10) during the periods.

	AT DECEMBER 31, 1996		YEAR ENDED DECEMBER 31, 1996		
	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	AVERAGE BALANCE	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
Six month floating rate notes	$ 2,699,477	5.23%	$ 2,485,322	5.32%	5.42%
Other floating rate notes	1,827,643	5.28	1,960,926	5.47	5.39
Discount notes	2,377,976	6.43	3,072,019	5.31	5.36
Fixed rate notes	3,964,777	6.01	1,211,197	6.07	5.53
Securities sold -- not yet purchased and repurchase agreements	-	-	165,792	4.93	4.93
Short-term portion of long-term notes	11,286,675	5.55	11,956,008	5.75	5.45
Total short-term notes	$22,156,548	5.67%	$20,851,264	5.62%	5.43%
Maximum outstanding at any month end	$25,051,644				

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

7. SHORT-TERM BORROWINGS -- (CONTINUED)

	AT DECEMBER 31, 1995		YEAR ENDED DECEMBER 31, 1995		
	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	AVERAGE BALANCE	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
Six month floating rate notes.....	$ 2,699,595	5.64%	$ 3,608,930	5.78%	5.86%
Other floating rate notes.....	1,942,360	5.82	1,221,480	5.60	5.78
Discount notes.....	1,074,257	5.58	1,427,363	5.81	5.86
Fixed rate notes.....	350,000	6.97	903,670	7.99	5.82
Securities sold -- not yet purchased and repurchase agreements.....	131,112	6.38	311,797	6.10	6.10
Short-term portion of long-term notes....	11,249,676	5.79	7,937,658	5.83	5.90
Total short-term notes.....	$17,447,000	5.79%	$15,410,898	5.93%	5.88%
Maximum outstanding at any month end.....	$18,046,974				

	AT DECEMBER 31, 1994		YEAR ENDED DECEMBER 31, 1994		
	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	AVERAGE BALANCE	WEIGHTED AVERAGE INTEREST RATE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
Six month floating rate notes.....	$ 3,849,125	5.39%	$ 3,410,090	4.40%	4.52%
Other floating rate notes.....	811,550	5.75	596,894	3.96	4.43
Discount notes.....	2,696,122	5.89	3,244,158	4.28	4.45
Fixed rate notes.....	1,397,717	9.04	836,816	9.27	4.95
Securities sold -- not yet purchased and repurchase agreements.....	402,015	6.29	245,169	5.36	5.36
Short-term portion of long-term notes....	6,859,065	5.90	8,243,360	5.75	4.35
Total short-term notes.....	$16,015,594	6.05%	$16,576,487	5.29%	4.45%
Maximum outstanding at any month end.....	$19,030,670				

At December 31, 1996, the short-term portion of long-term notes included issues totaling $80 million repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates. The short-term portion of long-term notes also included issues totaling $771 million which require the payment of interest and principal in foreign currencies. To eliminate its exposure to the effect of currency fluctuations on these contractual obligations, Sallie Mae has entered into various foreign currency agreements with independent parties (see Note 10).

To match the interest rate characteristics on short-term notes with the rate characteristics of its assets, Sallie Mae enters into interest rate swaps with independent parties. Under these agreements, Sallie Mae makes periodic payments, indexed to the related asset rates, in exchange for periodic payments which generally match Sallie Mae's interest obligations on fixed or variable rate notes (see Note 10).

8. LONG-TERM NOTES

The following tables summarize outstanding long-term notes at December 31, 1996 and 1995, the weighted average interest rates and related notional amount of derivatives at the end of the periods, and the

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

8. LONG-TERM NOTES --CONTINUED

related average balances and weighted average effective interest rates, which include the effects of related off-balance sheet financial instruments (see Note 10), during the periods.

	AT DECEMBER 31, 1996			YEAR ENDED DECEMBER 31, 1996	
	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	NOTIONAL AMOUNT OF DERIVATIVES	AVERAGE BALANCE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
Floating rate notes:					
U.S. dollar denominated:					
Interest bearing, due 1998-2003	$ 8,844,825	5.27%	$ 2,022,044	$12,740,190	5.46%
Fixed rate notes:					
U.S. dollar denominated:					
Interest bearing, due 1998-2018	12,928,983	6.35	21,676,042	11,971,640	5.59
Zero coupon, due 1998-2022	326,875	8.25	358,071	304,990	7.68
Dual currency, due 1998	248,443	7.63	272,000	245,569	6.65
Foreign currency:					
Interest bearing, due 1998-2000	257,100	5.34	495,785	577,592	5.31
Zero coupon, due 1997	-	-	-	183,647	5.42
Total fixed rate notes	13,761,401	6.40	22,801,898	13,283,438	5.64
Total long-term notes	$22,606,226	5.96%	$ 24,823,942	$26,023,628	5.55%

	AT DECEMBER 31, 1995			YEAR ENDED DECEMBER 31, 1995	
	ENDING BALANCE	WEIGHTED AVERAGE INTEREST RATE	NOTIONAL AMOUNT OF DERIVATIVES	AVERAGE BALANCE	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE
Floating rate notes:					
U.S. dollar denominated:					
Interest bearing, due 1998-2003	$16,995,853	5.58%	$ 5,053,732	$21,998,541	5.95%
Fixed rate notes:					
U.S. dollar denominated:					
Interest bearing, due 1998-2018	11,430,127	6.70	17,050,772	12,035,074	5.99
Zero coupon, due 1998-2022	400,023	8.27	435,001	283,282	7.99
Dual currency, due 1998	242,775	7.63	206,000	240,182	7.02
Foreign currency:					
Interest bearing, due 1998-2000	767,100	4.01	1,486,130	627,900	5.78
Zero coupon, due 1997	246,737	5.79	253,626	188,399	5.85
Total fixed rate notes	13,086,762	6.59	19,431,529	13,374,837	6.02
Total long-term notes	$30,082,615	6.02%	$ 24,485,261	$35,373,378	5.98%

8. LONG-TERM NOTES --CONTINUED

At December 31, 1996, Sallie Mae had outstanding long-term debt issues with call features totaling $14.1 billion. The stated maturities and maturities if accelerated to the call date for long-term notes are shown in the following table:

YEAR OF MATURITY	STATED MATURITY	MATURITY TO CALL DATE
1997	$ -	$12,794,908
1998	7,466,131	5,510,293
1999	7,676,221	2,185,610
2000	4,077,772	1,483,972
2001	2,465,758	79,200
2002-2022	920,344	552,243
	$22,606,226	$22,606,226

For the years ended December 31, 1996, 1995 and 1994, Sallie Mae repurchased certain long-term notes prior to their scheduled maturity to lower future years' interest expense. The following table summarizes these transactions (dollars in millions):

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Maturity value	$90	$62	$138
Carrying value	$ 8	$ 8	$ 21
Premiums	$ 7	$ 8	$ 14

8. LONG-TERM NOTES --CONTINUED

Sallie Mae issues debt with interest and/or principal payment characteristics tied to foreign currency indices to attempt to minimize its cost of funds. At December 31, 1996 and 1995, Sallie Mae had outstanding long-term foreign currency notes totaling $257 million which require the payment of principal and interest in foreign currencies, and dual currency notes totalling $248 million which require the payment of interest in foreign currencies. To eliminate the corporation's exposure to the effect of currency fluctuations on these contractual obligations, Sallie Mae has entered into various foreign currency agreements with independent parties (see Note 10).

To match the interest rate characteristics on its long-term borrowings with the interest rate characteristics of its assets, Sallie Mae enters into interest rate swaps with independent parties. Under these agreements, Sallie Mae makes periodic payments, indexed to the related asset rates, in exchange for periodic payments which generally match Sallie Mae's interest obligations on fixed or variable rate borrowings (see Note 10).

9. STUDENT LOAN SECURITIZATION

For the year ended December 31, 1996 and in October 1995, SLM Funding Corporation, a wholly-owned special purpose finance subsidiary, purchased from Sallie Mae and sold $6 billion and $1 billion, respectively, of student loans to trusts which issued floating rate student loan asset-backed securities in underwritten public offerings. At December 31, 1996, securitized student loans outstanding totaled $6.3 billion.

The gain recorded on a sale of the student loans is based upon the present value of expected residual cash flows from the trust, net of the carrying value of the portfolio of student loans. A receivable from the trust, which represents the present value of cash expected to be received by Sallie Mae over the life of the student loans in the trust, is recorded at the time of sale and included in other assets. In addition to the gain on sale, Sallie Mae is entitled to residual earnings from the trust and servicing fees for continuing to service the loans in the trust. These earnings are recorded as servicing and securitization revenue in the Consolidated Statements of Income.

In November 1995, the U.S. District Court for the District of Columbia ruled, contrary to the Secretary of Education's ruling, that student loans owned by the trusts are not subject to the 30 basis point annual offset fee. The Department of Education appealed this decision and in January 1997, the U.S. Court of Appeals for the District of Columbia issued a decision affirming the District Court's ruling. However, the Court of Appeals remanded the case to the District Court with instructions to remand to the Department of Education. It is therefore uncertain what the final outcome of this litigation will be. If the final outcome following the remand is that the offset fee is not applicable to loans securitized by Sallie Mae, the gains resulting from prior securitizations would be increased. As of December 31, 1996, the gains resulting from such securitizations would have been increased by approximately $55 million pre-tax. Offset fees relating to securitizations have not been paid pending final resolution of the case. Management considers this increase in gains as a contingent asset which will be recognized upon a favorable final ruling in this matter. Gains on future securitizations will vary depending on the characteristics of the loan portfolios securitized as well as the outcome of the offset fee ruling.

10. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments Held or Issued for Purposes Other than Trading

Sallie Mae enters into various financial instruments with off-balance sheet risk in the normal course of business primarily to reduce interest rate risk and foreign currency exposure on certain borrowings. These financial instruments include interest rate swaps, interest rate cap and collar agreements, foreign currency

10. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities and financial futures contracts.

Sallie Mae enters into three general types of interest rate swaps under which it pays the following: 1) a floating rate in exchange for a fixed rate (standard swaps); 2) a fixed rate in exchange for a floating rate (reverse swaps); and 3) a floating rate in exchange for another floating rate, based upon different market indices (basis/reverse basis swaps). At December 31, 1996, Sallie Mae had outstanding $18.2 billion, $1.1 billion, and $17.8 billion of notional principal amount of standard swaps, reverse swaps, and basis/reverse basis swaps, respectively. Of Sallie Mae's $37.1 billion of interest rate swaps outstanding at December 31, 1996, $36 billion was related to debt and $1.1 billion was related to assets.

The following tables summarize the ending balances of the borrowings that have been matched with interest rate swaps and foreign currency agreements at December 31, 1996 and 1995 (dollars in billions).

	AT DECEMBER 31, 1996					
		SWAPS				
	OUTSTANDING DEBT	STANDARD	REVERSE	BASIS/ REVERSE BASIS	FOREIGN CURRENCY AGREEMENTS	TOTAL
SHORT-TERM NOTES						
Six month floating rate notes.....	$ .3	$ -	$ -	$ .3	$ -	$ .3
Other floating rate notes.....	.3	-	-	.6	-	.6
Discount notes.....	-	-	-	-	-	-
Fixed rate notes.....	3.4	3.4	-	2.2	-	5.6
Securities sold -- not yet purchased and repurchase agreements.....	-	-	-	-	-	-
Short-term portion of long-term notes.....	4.5	1.8	-	3.2	.9	5.9
Total short-term notes.....	8.5	5.2	-	6.3	.9	12.4
LONG-TERM NOTES						
Floating rate notes:						
U.S. dollar denominated interest bearing.....	1.4	.3	-	1.8	-	2.1
Fixed rate notes:						
U.S. dollar denominated:						
Interest bearing.....	12.3	12.3	-	9.3	-	21.6
Zero coupon.....	.2	.2	-	.1	-	.3
Dual currency.....	.2	.2	-	.1	-	.3
Foreign currency:						
Interest bearing.....	.3	-	-	.2	.3	.5
Zero coupon.....	-	-	-	-	-	-
Total long-term notes.....	14.4	13.0	-	11.5	.3	24.8
Total notes.....	$22.9	$ 18.2	$ -	$17.8	$1.2	$37.2

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

10. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

	YEAR ENDED DECEMBER 31, 1995					
		SWAPS				
	OUTSTANDING DEBT	STANDARD	REVERSE	BASIS/ REVERSE BASIS	FOREIGN CURRENCY AGREEMENTS	TOTAL
SHORT-TERM NOTES						
Six month floating rate notes.....	$ -	$ -	$ -	$ -	$ -	$ -
Other floating rate notes.....	1.5	-	-	2.8	-	2.8
Discount notes.....	-	-	-	-	-	-
Fixed rate notes.....	.3	.3	-	-	-	.3
Securities sold -- not yet purchased and repurchase agreements.....	-	-	-	-	-	-
Short-term portion of long-term notes.....	5.7	1.4	.3	6.7	.3	8.7
Total short-term notes.....	7.5	1.7	.3	9.5	.3	11.8
LONG-TERM NOTES						
Floating rate notes:						
U.S. dollar denominated interest bearing.....	3.9	.9	-	4.1	-	5.0
Fixed rate notes:						
U.S. dollar denominated:						
Interest bearing.....	10.8	10.8	-	6.1	.2	17.1
Zero coupon.....	.3	.3	-	.2	-	.5
Dual currency.....	.2	.2	-	-	-	.2
Foreign currency:						
Interest bearing.....	.8	-	-	.7	.8	1.5
Zero coupon.....	.2	-	-	-	.2	.2
Total long-term notes.....	16.2	12.2	-	11.1	1.2	24.5
Total notes.....	$23.7	$ 13.9	$.3	$20.6	$1.5	$36.3

10. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

The following table summarizes the activity for Sallie Mae's interest rate swaps, foreign currency agreements and futures contracts held or issued for purposes other than trading for the years ended December 31, 1994, 1995 and 1996 (dollars in millions).

	NOTIONAL PRINCIPAL		
	INTEREST RATE SWAPS	FOREIGN CURRENCY AGREEMENTS	FUTURES CONTRACT AMOUNTS
Balance, December 31, 1993	$ 23,253	$1,500	$ 1,805
Issuances/Opens	15,402	510	4,437
Maturities/Expirations	(9,518)	(575)	(3,088)
Terminations/Closes	(99)	(37)	(2,598)
Balance, December 31, 1994	29,038	1,398	556
Issuances/Opens	19,549	466	2,370
Maturities/Expirations	(10,634)	(380)	(535)
Terminations/Closes	(1,773)	-	(2,211)
Balance, December 31, 1995	36,180	1,484	180
Issuances/Opens	14,571	14	2,631
Maturities/Expirations	(13,369)	(310)	(708)
Terminations/Closes	(300)	-	(1,925)
Balance, December 31, 1996	$ 37,082	$1,188	$ 178

Interest Rate Swaps

Net payments related to the debt-related swaps are recorded in interest expense. For the years ended December 31, 1996, 1995 and 1994, Sallie Mae received net payments on all debt-related swaps reducing interest expense by $165 million, $94 million and $262 million, respectively.

As of December 31, 1996, stated maturities of interest rate swaps and maturities if accelerated to the put or call date, are shown in the following table (dollars in millions). The maturities of interest rate swaps generally coincide with the maturities of the associated assets or borrowings.

YEAR OF MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE
1997	$ 7,599	$15,161
1998	7,102	7,001
1999	10,541	7,925
2000	7,225	4,560
2001	3,235	1,350
2002-2008	1,380	1,085
	$ 37,082	$37,082

Foreign Currency Agreements

At December 31, 1996 and 1995, Sallie Mae had borrowings repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates of $80 million and $235 million, respectively,

10. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

and borrowings with principal repayable in foreign currencies of $1.0 billion and $1.0 billion, respectively. Such debt issuances were hedged by forward currency exchange agreements, foreign currency swaps, and options on currency exchange agreements. Such agreements typically mature concurrently with the maturities of the debt. At December 31, 1996, Sallie Mae also had outstanding $80 million, $1.0 billion and $80 million of notional principal in foreign currency exchange agreements, foreign currency swaps and foreign currency options, respectively. The following table summarizes the outstanding amount of these borrowings and their currency translation values at December 31, 1996 and 1995, using spot rates at the respective dates (dollars in millions).

	DECEMBER 31,	
	1996	1995
Carrying value of outstanding foreign currency debt.....	$1,108	$1,249
Currency translation value of outstanding foreign currency debt.....	1,002	1,149

Futures Contracts

Sallie Mae enters into financial futures contracts to hedge the risk of future interest rate changes. The contracts are typically anticipatory hedges of debt to be issued to fund Sallie Mae's assets, mainly the portfolio of student loans in the PLUS program. These student loans pay interest that are indexed to the one-year Treasury bill, reset annually on the final auction prior to June 1. The gains and losses on these hedging transactions are deferred and included in other assets and will be recognized as an adjustment of interest expense. At December 31, 1996, the futures contracts sold by the Company hedged approximately $178 million of anticipated funding. Approximately $7 million of realized losses have been deferred at December 31, 1996 related to futures contracts.

Derivative Financial Instruments Held or Issued for Trading Purposes

From time to time Sallie Mae maintains a small number of active trading positions in derivative financial instruments which are designed to generate additional income based on market conditions. Trading results for these positions were immaterial to Sallie Mae's financial statements for years ended December 31, 1996, 1995 and 1994. During December 1995, Sallie Mae entered into a derivative contract of $1.5 billion notional amount whose value is determined by both the market value and the yield of certain AAA rated variable rate asset-backed securities. The contract, which had an original maturity date of January 1997, was extended to January 1998. The mark-to-market gain on this contract was $4 million at December 31, 1996 and immaterial at December 31, 1995.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS

FAS No. 107, "Disclosures About Fair Value of Financial Instruments," requires estimation of the fair values of financial instruments. The following is a summary of the assumptions and methods used to estimate those values.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS -- (CONTINUED)

Student Loans

Fair value was determined by analyzing amounts which Sallie Mae has paid recently to acquire similar loans in the secondary market.

Warehousing Advances and Academic Facilities Financings

The fair values of both warehousing advances and academic facilities financings were determined through standard bond pricing formulas using current interest rates and credit spreads.

Cash and Investments

For investments with remaining maturities of three months or less, carrying value approximated fair value. Investments in U.S. Treasury securities were valued at market quotations. All other investments were valued through standard bond pricing formulas using current interest rates and credit spreads.

Short-term Borrowings and Long-term Notes

For borrowings with remaining maturities of three months or less, carrying value approximated fair value. Where available the fair value of financial liabilities was determined from market quotations. If market quotations were unavailable standard bond pricing formulas were applied using current interest rates and credit spreads.

Off-balance Sheet Financial Instruments

The fair values of off-balance sheet financial instruments, including interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward exchange agreements and financial futures contracts, were estimated at the amount that would be required to terminate such agreements, taking into account current interest rates and credit spreads.

11. FAIR VALUES OF FINANCIAL INSTRUMENTS -- (CONTINUED)

The following table summarizes the fair values of Sallie Mae's financial assets and liabilities, including off-balance sheet financial instruments (dollars in millions):

	DECEMBER 31,					
	1996			1995		
	FAIR VALUE	CARRYING VALUE	DIFFERENCE	FAIR VALUE	CARRYING VALUE	DIFFERENCE
EARNING ASSETS						
Student loans	$34,005	$33,754	$251	$ 34,551	$34,336	$215
Warehousing advances	2,793	2,790	3	3,878	3,865	13
Academic facilities financings	1,473	1,473	-	1,347	1,313	34
Cash and investments	7,706	7,706	-	8,868	8,867	1
Total earning assets	45,977	45,723	254	48,644	48,381	263
INTEREST BEARING LIABILITIES						
Short-term borrowings	22,096	22,157	61	17,423	17,447	24
Long-term notes	22,519	22,606	87	30,252	30,083	(169)
Total interest bearing liabilities	44,615	44,763	148	47,675	47,530	(145)
OFF-BALANCE SHEET FINANCIAL INSTRUMENTS						
Interest rate swaps	(21)	-	(21)	245	-	245
Forward exchange agreements and foreign currency swaps	(161)	-	(161)	(184)	-	(184)
Warehousing advance commitments	-	-	-	-	-	-
Academic facilities financing commitments	-	-	-	-	-	-
Letters of credit	-	-	-	-	-	-
Excess of fair value over carrying value			$220			$179

At December 31, 1996 and 1995, substantially all interest rate swaps and foreign exchange agreements and foreign currency swaps were hedging liabilities.

12. COMMITMENTS AND CONTINGENCIES

Sallie Mae has committed to purchase student loans during specified periods and to lend funds under the warehousing advance commitment, academic facilities financing commitment and letters of credit programs. Letters of credit support the issuance of state student loan revenue bonds. They represent unconditional guarantees of Sallie Mae to repay holders of the bonds in the event of a default. In the event that letters of credit are drawn upon, such loans are collateralized by the student loans underlying the bonds.

Commitments outstanding are summarized below:

	DECEMBER 31,	
	1996	1995
Student loan purchase commitments	$15,845,821	$14,244,234
Warehousing advance commitments	2,367,288	698,019
Academic facilities financing commitments	9,930	6,330
Letters of credit	3,743,892	3,063,390
	$21,966,931	$18,011,973

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

12. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

The following schedule summarizes expirations of commitments outstanding at December 31, 1996:

	STUDENT LOAN PURCHASES	WAREHOUSING ADVANCES	ACADEMIC FACILITIES FINANCINGS	LETTERS OF CREDIT
1997	$ 3,299,173	$ 348,072	$ 1,230	$ 367,829
1998	1,793,359	172,647	-	1,122,724
1999	4,367,745	103,609	8,700	861,630
2000	272,743	34,859	-	826,690
2001	-	-	-	207,620
2002-2017	6,112,801	1,708,101	-	357,399
Total	$ 15,845,821	$2,367,288	$ 9,930	$3,743,892

Litigation

On June 11, 1996, Orange County, California filed a complaint against the Company in the U.S. Bankruptcy Court for the Central District of California. The case is currently pending in the U.S. District Court for the Central District of California. The complaint alleges that the Company made fraudulent representations and omitted material facts in offering circulars on various bond offerings purchased by Orange County, which contributed to Orange County's market losses and subsequent bankruptcy. The complaint seeks to hold Sallie Mae responsible for losses resulting from Orange County's bankruptcy, but does not specify the amount of damages claimed. In addition, the complaint includes counts under the California Corporations Code, as well as a count for common law fraud. The Company believes that the complaint is without merit and intends to defend the case vigorously. At this time, Management believes the impact of the lawsuit will not be material to the Company.

13. PREFERRED STOCK

Sallie Mae's 4.3 million outstanding shares of non-voting adjustable rate cumulative preferred stock, par value $50.00 per share, pay cumulative quarterly dividends at a per annum rate of 4.5 percentage points below the highest yield of certain United States Treasury obligations. However, the dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. The dividend rate was 5 percent for the years ended December 31, 1996, 1995 and 1994. The stock is redeemable, at the option of Sallie Mae, in whole or in part, at $50.00 per share plus accrued dividends.

In May 1986, the Board of Directors authorized management, under certain circumstances, to repurchase up to $50 million of Sallie Mae's adjustable rate cumulative preferred stock at market prices. As of December 31, 1996, Sallie Mae had repurchased 722,350 shares at an average price of $45.23 per share, totalling $32.7 million.

14. COMMON STOCK

The Board of Directors has reserved 11 million common shares for issuance under various compensation and benefit plans with 6 million shares remaining at December 31, 1996.

Sallie Mae has engaged in repurchases of its common stock since 1986. In December 1996, Sallie Mae retired 59 million shares of common stock held as treasury stock at an average price of $44.36. As a result, treasury stock decreased by $2.6 billion with a corresponding decrease of $12 million to common stock, par; $568 million to additional paid-in capital; and $2.0 billion to retained earnings. As of December 31, 1996, Sallie Mae held as treasury stock 12 million common shares purchased at an average price of $44.75.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

14. COMMON STOCK -- (CONTINUED)

Earnings per common share are computed based on net income less dividends on preferred stock divided by the weighted average common and common equivalent shares outstanding for the period. Average common and common equivalent shares outstanding for the years ended December 31, 1996, 1995 and 1994 totaled 55,811,279; 67,450,889; and 79,776,993, respectively.

15. STOCK OPTION PLANS

Sallie Mae maintains a stock option plan for key employees which permits grants of stock options for the purchase of common stock with exercise prices equal to the market value on the date of the grant. Stock options are exercisable one year after date of grant and have ten year terms. Sallie Mae's 1993-1998 Employee Stock Option Plan authorized the grant of options for up to 5.1 million shares of common stock. The following table summarizes employee stock options plan activity.

	YEARS ENDED DECEMBER 31,					
	1996		1995		1994	
	OPTIONS	AVERAGE PRICE	OPTIONS	AVERAGE PRICE	OPTIONS	AVERAGE PRICE
Outstanding at beginning of year	1,094,975	$ 48.80	931,255	$ 54.49	698,550	$ 58.80
Granted	325,545	73.08	517,800	37.15	367,150	48.03
Exercised	(485,363)	41.88	(223,180)	42.76	(13,445)	31.56
Canceled	(3,300)	73.00	(130,900)	53.52	(121,000)	62.33
Outstanding at end of year	931,857	$ 60.80	1,094,975	$ 48.80	931,255	$ 54.49
Exercisable at end of year	609,612	$ 54.30	641,075	$ 57.09	587,855	$ 58.34
Weighted-average fair value of options granted during the year		$ 25.87		$ 10.18		

The following table summarizes the number, weighted-average of exercise prices (which ranged from $29 to $95) and weighted-average remaining contractual life of the employee stock options outstanding at December 31, 1996.

EXERCISE PRICES	OPTIONS	AVERAGE PRICE	AVERAGE REMAINING CONTRACTUAL LIFE
Under $40	178,938	$ 36.63	7.5 yrs.
$40-$70	188,634	47.65	6.0
Above $70	564,285	72.86	7.5
Total	931,857	$ 60.80	7.0 yrs.

Also in May 1996, shareholders approved the Board of Directors Stock Option Plan, which authorized the grant of options to acquire up to 200,000 shares of common stock. Options under this plan are exercisable on the date of grant and have ten year terms. Concurrent with the adoption of the plan, 63,000 options, which had a fair value of $25.84 per option, were granted at $73.00 per share. As of December 31, 1996, all of the Board of Directors options remained outstanding and had a remaining contractual life of 9.0 years.

Sallie Mae accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," which results in no compensation expense for stock options granted under the plans.

The following table summarizes pro forma disclosures for the years ended December 31, 1996 and 1995, as if Sallie Mae had accounted for employee and Board of Directors stock options granted subsequent to December 31, 1994 under the fair market value method as set forth in FAS No. 123, "Accounting for Stock-

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

15. STOCK OPTION PLANS -- (CONTINUED)

Based Compensation". The fair value for these options was estimated at the date of grant using the Extended Binomial Options Pricing Model, a variation of the Black-Sholes option pricing model, with the following weighted average assumptions for 1996 and 1995, respectively: risk-free interest rate of 5.9 percent and 7.9 percent, volatility factor of the expected market price of Sallie Mae common stock of 29.4 percent and 28.7 percent; dividend growth rate of 8.0 percent; vesting period of one year from date of grant; and time of exercise-expiration date.

	1996	1995
Net income	$419,410	$496,427
Pro forma net income	$413,121	$493,648
Earnings per common share	$ 7.32	$ 7.20
Pro forma earnings per common share	$ 7.21	$ 7.16

16. BENEFIT PLANS

Pension Plans

Sallie Mae has a qualified noncontributory defined benefit pension plan covering substantially all employees who meet certain service requirements. The plan's benefits are based on years of service and the employee's compensation. Effective April 1, 1995, Sallie Mae modified the Plan to compute Plan benefits on 5-year highest average base salary, a maximum service accrual period of 30 years, and normal retirement age of 62. Prior to these modifications, Plan benefits were computed based on 3-year highest average base salary, a maximum service accrual period of 26.67 years, and a normal retirement age of 60. The plan is funded annually based on the maximum amount that can be deducted for federal income tax purposes. The assets of the plan are primarily invested in equities and fixed income securities.

The following table sets forth the plan's actuarially determined funded status and amounts recognized in Sallie Mae's consolidated financial statements.

	1996	1995
Accumulated Benefits:		
Actuarial present value of accumulated benefit obligations:		
Vested	$ 39,949	$ 34,232
Nonvested	5,099	6,840
Total	$ 45,048	$ 41,072
Pension Asset (Liability):		
Actuarial present value of projected benefit obligation for service rendered to date	$(75,106)	$(72,361)
Plan assets at fair value	75,587	54,222
Plan assets (less than) greater than projected benefit obligation	481	(18,139)
Unrecognized prior service cost	(4,023)	(4,444)
Unrecognized transition obligation	1,286	1,500
Unrecognized (gain) loss	(7,149)	12,613
Accrued pension cost	$ (9,405)	$ (8,470)

In determining the projected benefit obligation, the weighted-average assumed discount rate used was 7.5 percent in 1996, 7.0 percent in 1995 and 8.0 percent in 1994, while the assumed average rate of compensation increase was 6.0 percent in 1996 and in 1995 and 7.0 percent in 1994. The expected long-term

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

16. BENEFIT PLANS -- (CONTINUED)

rate of return on plan assets used in determining net periodic pension cost was 8.0 percent in 1996, 1995 and 1994.

Net periodic pension cost included the following components:

	1996	1995	1994
Service cost -- benefits earned during the period.....	$ 8,369	$ 8,867	$ 6,737
Interest cost on project benefit obligations.....	5,055	3,659	3,345
Actual return on plan assets.....	(13,009)	(11,736)	(1,228)
Net amortization and deferral.....	8,429	8,327	(220)
Net periodic pension cost.....	$ 8,844	$ 9,117	$ 8,634

Sallie Mae maintains a non-qualified pension plan for certain key employees as designated by the Board of Directors and a nonqualified pension plan for its Board of Directors. Total pension expense for these plans in 1996, 1995 and 1994 was $11.9 million, $11.2 million and $11.7 million, respectively.

Thrift and Savings Plans

Sallie Mae's Thrift and Savings Plan ("the Plan") is a defined contribution plan that is intended to qualify under section 401(k) of the Internal Revenue Code. The Plan covers substantially all employees who have been employed by Sallie Mae for one or more years and have completed at least a thousand hours of service. Participating employees may contribute up to 6 percent of base salary and these contributions are matched 100 percent by Sallie Mae.

Sallie Mae also maintains a non-qualified Thrift and Savings Plan to assure that designated participants receive the full amount of benefits to which they would have been entitled under the Thrift and Savings Plan but for limits on compensation and contribution levels imposed by the Internal Revenue Code.

Total expenses related to the Thrift and Savings Plan was $5.0 million, $4.9 million and $4.8 million in 1996, 1995 and 1994, respectively.

17. FEDERAL INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

17. FEDERAL INCOME TAXES -- (CONTINUED)

Significant components of the company's deferred tax liabilities and assets as of December 31, 1996 and 1995 under the liability method are as follows:

	DECEMBER 31,	
	1996	1995
Deferred tax liabilities:		
Leases	$351,093	$344,438
Unrealized investment gains	188,050	199,686
Other	32,669	19,574
	571,812	563,698
Deferred tax assets:		
ExportSS operating costs	68,874	54,953
Student loan reserves	47,004	31,566
In-substance defeasance transactions	30,788	31,014
Asset valuation allowances	24,842	25,512
Securitization transactions	13,076	-
Other	31,211	25,522
	215,795	168,567
Net deferred tax liabilities	$356,017	$395,131

Sallie Mae is exempt from all state, local and District of Columbia taxes except for real property taxes. Deferred tax assets on in-substance defeasance transactions resulted from premiums on the debt extinguished. These premiums are capitalized and amortized over the life of the defeasance trust for tax purposes.

Reconciliations of the statutory United States federal income tax rates to Sallie Mae's effective tax rate follow:

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
Statutory rate	35.0%	35.0%	35.0%
Tax exempt interest and dividends received deduction	(3.8)	(6.4)	(5.9)
Other, net	(1.3)	(1.2)	(.5)
Effective tax rate	29.9%	27.4%	28.6%

Federal income taxes paid for the years ended December 31, 1996, 1995 and 1994 were $202 million, $122 million and $188 million, respectively.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	1996			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net interest income	$232,679	$219,561	$208,988	$205,208
Other income	21,754	27,899	35,211	62,052
Operating expenses	98,773	100,145	100,075	106,659
Federal income taxes	47,968	44,340	42,877	48,313
Income before premiums on debt extinguished	107,692	102,975	101,247	112,288
Premiums on debt extinguished, net of tax	(4,792)	-	-	-
Net income	$102,900	$102,975	$101,247	$112,288
Earnings per common share before premiums on debt extinguished	$ 1.82	$ 1.79	$ 1.79	$ 2.01
Earnings per common share	$ 1.74	$ 1.79	$ 1.79	$ 2.01

	1995			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net interest income	$221,147	$222,694	$227,952	$228,948
Other operating income	321	7,883	8,971	33,238
Operating expenses	101,768	111,368	118,325	107,240
Federal income taxes	30,906	31,187	32,031	47,139
Income before premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	88,794	88,022	86,567	107,807
Premiums on debt extinguished, net of tax	-	-	-	(4,911)
Income before cumulative effect of the change in method of accounting for student loan income	88,794	88,022	86,567	102,896
Cumulative effect of the change in method of accounting for student loan income, net of tax	130,148	-	-	-
Net income	$218,942	$ 88,022	$ 86,567	$102,896
Earnings per common share before premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	$ 1.17	$ 1.20	$ 1.28	$ 1.76
Earnings per common share before cumulative effect of the change in method of accounting for student loan income	$ 1.17	$ 1.20	$ 1.28	$ 1.67
Earnings per common share	$ 2.95	$ 1.20	$ 1.28	$ 1.67

19. COLLEGE CONSTRUCTION LOAN INSURANCE ASSOCIATION

In 1987, Sallie Mae assisted in creating the College Construction Loan Insurance Association ("Connie Lee"), a private, for-profit, stockholder-owned corporation, authorized by Congress to insure and reinsure educational facilities obligations. The carrying value of Sallie Mae's investment in Connie Lee is approximately $44 million, and as of December 31, 1996, through its ownership of preferred and common stock and through agreements with other shareholders, Sallie Mae effectively controlled 36 percent of Connie Lee's outstanding voting stock. There are provisions to privatize Connie Lee under Pub. L. No. 104-208. These provisions require that Connie Lee purchase its stock owned by the U.S. government by February 28, 1997 at a purchase price determined by an independent appraisal. After purchasing the government's shares, Connie Lee will convert to a private, shareholder-controlled corporation.

APPENDIX A

AGREEMENT AND PLAN OF REORGANIZATION

THIS AGREEMENT AND PLAN OF REORGANIZATION (the "Agreement") is dated as of , 1997 among the STUDENT LOAN MARKETING ASSOCIATION, a federally-chartered corporation ("Sallie Mae"), SLM Holding Corporation, a Delaware corporation and a wholly-owned subsidiary of Sallie Mae ("Holding Company") and SALLIE MAE MERGER COMPANY, a Delaware corporation and a wholly-owned subsidiary of Holding Company ('MergerCo").

WHEREAS, Sallie Mae has an authorized capitalization consisting of:

(i) 250,000,000 shares of Common Stock, par value $.20 per share ("Sallie Mae Common Stock"), of which 53,690,595 shares were issued and outstanding at December 31, 1996; and

(ii) 5,000,000 shares of Preferred Stock, par value $50 per share ("Sallie Mae Preferred Stock") of which 4,277,650 shares were issued and outstanding at December 31, 1996.

WHEREAS, MergerCo has an authorized capitalization consisting of 1,000 shares of Common Stock, par value $.01 per share ("MergerCo Common Stock"), all of which are issued and outstanding and owned beneficially and of record by Holding Company; and

WHEREAS, Holding Company has an authorized capitalization consisting of 250,000,000 shares of Common Stock, par value $.20 per share ("Holding Company Common Stock"), of which 1,000 shares are issued and outstanding and owned beneficially and of record by Sallie Mae; and

WHEREAS, The Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") authorizes Sallie Mae to reorganize through the formation of a state-chartered holding company that would own all issued and outstanding Sallie Mae Common Stock; and

WHEREAS, the Boards of Directors of Sallie Mae, MergerCo and Holding Company, deem it advisable to cause (i) the merger of MergerCo with and into Sallie Mae with Sallie Mae as the surviving corporation (the "Merger"), (ii) the conversion of each outstanding share of Sallie Mae Common Stock into one share of Holding Company Common Stock and (iii) the conversion of the outstanding shares of MergerCo into all of the issued and outstanding shares of Sallie Mae Common Stock, all of which will then be owned by the Holding Company, and, as a result of the Merger, Sallie Mae will become a subsidiary of the Holding Company (collectively, the "Reorganization"), in accordance with the Privatization Act and the Delaware General Corporation Law, as amended (the "DGCL"), and this Agreement and have, by resolutions duly adopted, approved this Agreement and directed that it be executed by the undersigned officers and that it be submitted to a vote of the respective shareholders of Sallie Mae and MergerCo; and

WHEREAS, Holding Company, as sole stockholder of MergerCo, has approved the Agreement.

NOW THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties to this Agreement agree that MergerCo shall merge with and into Sallie Mae and Sallie Mae shall be the corporation surviving the Reorganization. The terms and conditions of the Reorganization, the mode of carrying it into effect and the manner and basis of converting shares in the Reorganization shall be as follows:

ARTICLE I
THE REORGANIZATION

At the Effective Time (as herein defined), in accordance with the provisions of this Agreement, the Privatization Act and the DGCL, MergerCo shall be merged with and into Sallie Mae, whereupon the separate corporate existence of MergerCo shall cease and Sallie Mae shall continue as the surviving corporation (the "Surviving Corporation").

Subject to and in accordance with the provisions of this Agreement, the parties hereto shall consummate the Reorganization by filing a certificate of merger with the Secretary of State of the State of Delaware and making all other filings or recordings required by the DGCL in connection with the Reorganization. The Reorganization shall become effective at such time as the certificate of merger is duly filed with the Secretary of State of the State of Delaware (the "Effective Time"). The Reorganization shall have the effects set forth in the Privatization Act and DGCL. Without limiting the generality of the foregoing, and subject thereto and to any other applicable laws, at the Effective Time all the properties, rights, privileges, powers and franchises of Sallie Mae and MergerCo shall vest in the Surviving Corporation, and all debts, liabilities, restrictions, disabilities and duties of Sallie Mae and MergersCo shall become the debts, liabilities, restrictions, disabilities and duties of the Surviving Corporation.

ARTICLE II
TERMS OF CONVERSION OF SHARES

At the Effective Time:

(a) Each share of Sallie Mae Common Stock issued and outstanding immediately prior to the Effective Time shall thereupon, and without any action on the part of the holder thereof, be converted into one validly issued, fully paid and nonassessable share of Holding Company Common Stock.

(b) Each share of Sallie Mae Common Stock held in treasury immediately prior to the Effective Time shall thereupon be cancelled and retired and all rights in respect thereof shall cease.

(c) The shares of Sallie Mae Preferred Stock issued and outstanding immediately prior to the Effective Time shall not be converted or otherwise affected by the Reorganization, and each such share shall continue to be issued and outstanding and to be one fully paid and nonassessable share of the Sallie Mae Preferred Stock of the Surviving Corporation.

(d) Each share of MergerCo Common Stock issued and outstanding immediately prior to the Effective Time shall be converted into one validly issued, fully paid and nonassessable share of the Surviving Corporation.

(e) Each share of Holding Company Common Stock issued and outstanding immediately prior to the Effective Time shall be cancelled.

ARTICLE III
CHARTER AND BYLAWS

(a) From and after the Effective Time, and until thereafter amended as provided by law, the provisions of the Higher Education Act of 1965, as amended (the "Sallie Mae Charter"), as in effect immediately prior to the Effective Time, shall be and continue to be the governing statute of the Surviving Corporation.

(b) From and after the Effective Time, the By-Laws of Sallie Mae as in effect immediately prior to the Effective Time shall be and continue to be the By-Laws of the Surviving Corporation until amended.

ARTICLE IV
STOCK CERTIFICATES

Following the Effective Time, each holder of an outstanding certificate or certificates theretofore representing shares of Sallie Mae Common Stock may, but shall not be required to, surrender the same to Holding Company for cancellation, exchange or transfer, and each such holder or transferee thereof will be entitled to receive a certificate or certificates representing the same number of shares of Holding Company Common Stock as the number of shares of Sallie Mae Common Stock previously represented by the stock certificate or certificates so surrendered. Until so surrendered or presented for cancellation, exchange or transfer, each outstanding certificate which, prior to the Effective Time, represented shares of Sallie Mae Common Stock shall be deemed and treated for all corporate purposes to represent the ownership of the same

number of shares of Holding Company Common Stock as though such surrender for cancellation, exchange or transfer thereof had taken place. If any certificate representing shares of Holding Company Common Stock is to be issued in a name other than that of the registered holder of the certificate formerly representing shares of Sallie Mae Common Stock presented for transfer, it shall be a condition of issuance that (a) the certificate so surrendered shall be properly endorsed or accompanied by a stock power and shall otherwise be in proper form for transfer and (b) the person requesting such issuance shall pay to Holding Company's transfer agent any transfer or other taxes required by reason of issuance of certificates representing Holding Company Common Stock in a name other than that of the registered holder of the certificate presented, or establish to the satisfaction of Holding Company or its registered agent that such taxes have been paid or are not applicable. The stock transfer books for Sallie Mae Common Stock shall be deemed to be closed at the Effective Time, and no transfer of shares of Sallie Mae Common Stock outstanding immediately prior to the Effective Time shall thereafter be made on such books. Following the Effective Time, the holders of certificates representing Sallie Mae Common Stock outstanding immediately before the Effective Time shall cease to have any rights with respect to stock of the Surviving Corporation and their sole rights shall be with respect to the Holding Company Common Stock into which their shares of Sallie Mae Common Stock shall have been converted in the Reorganization.

ARTICLE V
CONDITIONS OF THE REORGANIZATION

Consummation of the Reorganization is subject to the satisfaction of each of the following conditions:

(a) The Reorganization shall have received such approval of the shareholders of Sallie Mae as is required by the Privatization Act.

(b) Sallie Mae shall have received an opinion of Skadden, Arps, Slate, Meagher & Flom LLP in form and substance reasonably satisfactory to Sallie Mae, dated as of the Effective Time, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for U.S. federal income tax purposes as a nonrecognition transfer of shares of Sallie Mae Common Stock by those holders thereof to the Holding Company for shares of Holding Company Common Stock.

(c) The shares of Holding Company Common Stock to be issued and to be reserved for issuance as a result of the Merger shall have been approved for listing, upon official notice of issuance, by the New York Stock Exchange.

(d) A registration statement on Form S-4 relating to the shares of Holding Company Common Stock to be issued or reserved for issuance as a result of the Merger, shall be declared effective under the Securities Act of 1933, as amended, and shall not be the subject of any "stop order."

ARTICLE VI
AMENDMENT AND WAIVER

The parties hereto, by mutual consent of their respective Boards of Directors, may amend, modify or supplement this Agreement, or waive any condition set forth herein, in such manner as may be agreed upon by them in writing, at any time before or after approval of this Agreement by the shareholders of Sallie Mae, to the extent permitted by the DGCL.

ARTICLE VII
MISCELLANEOUS

(a) This Agreement may be executed in two or more counterparts, each of which when so executed shall be deemed to be an original, and such counterparts shall together constitute but one and the same instrument.

(b) The validity, execution and interpretation of this Agreement shall be governed by, and construed in accordance with, the internal laws of the State of Delaware, except as otherwise provided in the Privatization Act.

(c) The parties hereto shall take all such action as may be necessary or appropriate in order to effectuate the Reorganization. In case at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Agreement, the officers and directors of each of the parties hereto shall take all such further action.

IN WITNESS WHEREOF, Sallie Mae, MergerCo and Holding Company, have executed this Agreement and Plan of Reorganization by their respective duly authorized officers as of the date first written above.

STUDENT LOAN MARKETING ASSOCIATION

By:

Name:

Title:

SALLIE MAE MERGER COMPANY

By:

Name:

Title:

SLM HOLDING CORPORATION

By:

Name:

Title:

APPENDIX B

Set forth below is the text of certain pertinent provisions of Title VI of U.S. Public Law 104-208, also known as the "Student Loan Marketing Association Reorganization Act of 1996" (the "Privatization Act"). The Privatization Act has three principal provisions relating to Sallie Mae: (1) Section 602(a) adds to Part B of Title IV of the Higher Education Act of 1965 (the "Higher Education Act") a new Section 440 that provides for the reorganization of the Student Loan Marketing Association ("Sallie Mae") into a subsidiary of a new holding company; (2) Section 602(b) amends Section 439(r) of the Higher Education Act to require certain enhanced regulatory oversight of Sallie Mae to ensure its financial safety and soundness; and (3) Section 602(c) adds to Section 439 of the Higher Education Act a new subsection (s) that requires Sallie Mae to eventually dissolve in the event Sallie Mae does not reorganize in accordance with the provisions of the new Section 440 (added by Section 602(a)).

TITLE VI -- REORGANIZATION AND PRIVATIZATION OF SALLIE MAE

SEC.601. SHORT TITLE.

This title may be cited as the "Student Loan Marketing Association Reorganization Act of 1996".

SEC.602. REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION THROUGH THE FORMATION OF A HOLDING COMPANY.

Sec. 602(a) AMENDMENT. -- Part B of title IV of the Higher Education Act of 1965 (20 U.S.C. 1071 et seq.) is amended by inserting after section 439 (20 U.S.C. 1087-2) the following new section:

"SEC.440. REORGANIZATION OF THE STUDENT LOAN MARKETING ASSOCIATION THROUGH THE FORMATION OF A HOLDING COMPANY.

"(a) ACTIONS BY THE ASSOCIATION'S BOARD OF DIRECTORS. -- The Board of Directors of the Association shall take or cause to be taken all such action as the Board of Directors deems necessary or appropriate to effect, upon the shareholder approval described in subsection (b), a restructuring of the common stock ownership of the Association, as set forth in a plan of reorganization adopted by the Board of Directors (the terms of which shall be consistent with this section) so that all of the outstanding common shares of the Association shall be directly owned by a Holding Company. Such actions may include, in the Board of Director's discretion, a merger of a wholly-owned subsidiary of the Holding Company with and into the Association, which would have the effect provided in the plan of reorganization and the law of the jurisdiction in which such subsidiary is incorporated. As part of the restructuring, the Board of Directors may cause --

"(1) the common shares of the Association to be converted, on the reorganization effective date, to common shares of the Holding Company on a one for one basis, consistent with applicable State or District of Columbia law; and

"(2) Holding Company common shares to be registered with the Securities and Exchange Commission.

"(b) SHAREHOLDER APPROVAL. -- The plan of reorganization adopted by the Board of Directors pursuant to subsection (a) shall be submitted to common shareholders of the Association for their approval. The reorganization shall occur on the reorganization effective date, provided that the plan of reorganization has been approved by the affirmative votes, cast in person or by proxy, of the holders of a majority of the issued and outstanding shares of the Association common stock.

"(c) TRANSITION. -- In the event the shareholders of the Association approve the plan of reorganization under subsection (b), the following provisions shall apply beginning on the reorganization effective date:

"(1) IN GENERAL. -- Except as specifically provided in this section, until the dissolution date the Association shall continue to have all of the rights, privileges and obligations set forth in, and shall be subject to all of the limitations and restrictions of, section 439, and the Association shall continue to carry out the purposes of such section. The Holding Company and any subsidiary of the Holding Company (other than the Association) shall not be entitled to any of the rights, privileges, and obligations, and shall not be subject to the limitations and restrictions, applicable to the Association under section 439, except as specifically provided in this section. The Holding Company and any subsidiary of the Holding Company (other than the Association or a subsidiary of the Association) shall not purchase loans insured under this Act until such time as the Association ceases acquiring such loans, except that the Holding Company may purchase such loans if the Association is merely continuing to acquire loans as a lender of last resort pursuant to section 439(q) or under an agreement with the Secretary described in paragraph (6).

"(2) TRANSFER OF CERTAIN PROPERTY. --

"(A) IN GENERAL. -- Except as provided in this section, on the reorganization effective date or as soon as practicable thereafter, the Association shall use the Association's best efforts to transfer to the Holding Company or any subsidiary of the Holding Company (or both), as directed by the Holding Company, all real and personal property of the Association (both tangible and intangible) other than the remaining property. Subject to the preceding sentence, such transferred property shall include all right, title and interest in --

"(i) direct or indirect subsidiaries of the Association (excluding special purpose funding companies in existence on the date of enactment of this section and any interest in any government-sponsored enterprise);

"(ii) contracts, leases, and other agreements of the Association;

"(iii) licenses and other intellectual property of the Association; and

"(iv) any other property of the Association.

"(B) CONSTRUCTION. -- Nothing in this paragraph shall be construed to prohibit the Association from transferring remaining property from time to time to the Holding Company or any subsidiary of the Holding Company, subject to the provisions of paragraph (4).

"(3) TRANSFER OF PERSONNEL. -- On the reorganization effective date, employees of the Association shall become employees of the Holding Company (or any subsidiary of the Holding Company), and the Holding Company (or any subsidiary of the Holding Company) shall provide all necessary and appropriate management and operational support (including loan servicing) to the Association, as requested by the Association. The Association, however, may obtain such management and operational support from persons or entities not associated with the Holding Company.

"(4) DIVIDENDS. -- The Association may pay dividends in the form of cash or noncash distributions so long as at the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of such declaration by the Board of Directors of the Association, the Association's capital would be in compliance with the capital standards and requirements set forth in section 439(r). If, at any time after the reorganization effective date, the Association fails to comply with such capital standards, the Holding Company shall transfer with due diligence to the Association additional capital in such amounts as are necessary to ensure that the Association again complies with the capital standards.

"(5) CERTIFICATION PRIOR TO DIVIDEND. -- Prior to the payment of any dividend under paragraph (4), the Association shall certify to the Secretary of the Treasury that the payment

of the dividend will be made in compliance with paragraph (4) and shall provide copies of all calculations needed to make such certification.

"(6) RESTRICTIONS ON NEW BUSINESS ACTIVITY OR ACQUISITION OF ASSETS BY ASSOCIATION. --

"(A) IN GENERAL. -- After the reorganization effective date, the Association shall not engage in any new business activities or acquire any additional program assets described in section 439(d) other than in connection with --

"(i) student loan purchases through September 30, 2007;

"(ii) contractual commitments for future warehousing advances, or pursuant to letters of credit or standby bond purchase agreements, which are outstanding as of the reorganization effective date;

"(iii) the Association serving as a lender-of-last-resort pursuant to section 439(q); and

"(iv) the Association's purchase of loans insured under this part, if the Secretary, with approval of the Secretary of the Treasury, enters into an agreement with the Association for the continuation or resumption of the Association's secondary market purchase program because the Secretary determines there is inadequate liquidity for loans made under this part.

"(B) AGREEMENT. -- The Secretary is authorized to enter into an agreement described in clause (iv) of subparagraph (A) with the Association covering such secondary market activities. Any agreement entered into under such clause shall cover a period of 12 months, but may be renewed if the Secretary determines that liquidity remains inadequate. The fee provided under section 439(h)(7) shall not apply to loans acquired under any such agreement with the Secretary.

"(7) ISSUANCE OF DEBT OBLIGATIONS DURING THE TRANSITION PERIOD; ATTRIBUTES OF DEBT OBLIGATIONS. -- After the reorganization effective date, the Association shall not issue debt obligations which mature later than September 30, 2008, except in connection with serving as a lender-of-last-resort pursuant to section 439(q) or with purchasing loans under an agreement with the Secretary as described in paragraph (6). Nothing in this section shall modify the attributes accorded the debt obligations of the Association by section 439, regardless of whether such debt obligations are incurred prior to, or at any time following, the reorganization effective date or are transferred to a trust in accordance with subsection (d).

"(8) MONITORING OF SAFETY AND SOUNDNESS. --

"(A) OBLIGATION TO OBTAIN, MAINTAIN, AND REPORT INFORMATION. -- The Association shall obtain such information and make and keep such records as the Secretary of the Treasury may from time to time prescribe concerning --

"(i) the financial risk to the Association resulting from the activities of any associated person, to the extent such activities are reasonably likely to have a material impact on the financial condition of the Association, including the Association's capital ratio, the Association's liquidity, or the Association's ability to conduct and finance the Association's operations; and

"(ii) the Association's policies, procedures, and systems for monitoring and controlling any such financial risk.

"(B) SUMMARY REPORTS. -- The Secretary of the Treasury may require summary reports of the information described in subparagraph (A) to be filed no more frequently than quarterly. If, as a result of adverse market conditions or based on reports provided pursuant to

this subparagraph or other available information, the Secretary of the Treasury has concerns regarding the financial or operational condition of the Association, the Secretary of the Treasury may, notwithstanding the preceding sentence and subparagraph (A), require the Association to make reports concerning the activities of any associated person whose business activities are reasonably likely to have a material impact on the financial or operational condition of the Association.

"(C) SEPARATE OPERATION OF CORPORATIONS. --

"(i) IN GENERAL. -- The funds and assets of the Association shall at all times be maintained separately from the funds and assets of the Holding Company or any subsidiary of the Holding Company and may be used by the Association solely to carry out the Association's purposes and to fulfill the Association's obligations.

"(ii) BOOKS AND RECORDS. -- The Association shall maintain books and records that clearly reflect the assets and liabilities of the Association, separate from the assets and liabilities of the Holding Company or any subsidiary of the Holding Company.

"(iii) CORPORATE OFFICE. -- The Association shall maintain a corporate office that is physically separate from any office of the Holding Company or any subsidiary of the Holding Company.

"(iv) DIRECTOR. -- No director of the Association who is appointed by the President pursuant to section 439(c)(1)(A) may serve as a director of the Holding Company.

"(v) ONE OFFICER REQUIREMENT. -- At least one officer of the Association shall be an officer solely of the Association.

"(vi) TRANSACTIONS. -- Transactions between the Association and the Holding Company or any subsidiary of the Holding Company, including any loan servicing arrangements, shall be on terms no less favorable to the Association than the Association could obtain from an unrelated third party offering comparable services.

"(vii) CREDIT PROHIBITION. -- The Association shall not extend credit to the Holding Company or any subsidiary of the Holding Company nor guarantee or provide any credit enhancement to any debt obligations of the Holding Company or any subsidiary of the Holding Company.

"(viii) AMOUNTS COLLECTED. -- Any amounts collected on behalf of the Association by the Holding Company or any subsidiary of the Holding Company with respect to the assets of the Association, pursuant to a servicing contract or other arrangement between the Association and the Holding Company or any subsidiary of the Holding Company, shall be collected solely for the benefit of the Association and shall be immediately deposited by the Holding Company or such subsidiary to an account under the sole control of the Association.

"(D) ENCUMBRANCE OF ASSETS. -- Notwithstanding any federal or State law, rule, or regulation, or legal or equitable principle, doctrine, or theory to the contrary, under no circumstances shall the assets of the Association be available or used to pay claims or debts of or incurred by the Holding Company. Nothing in this subparagraph shall be construed to limit the right of the Association to pay dividends not otherwise prohibited under this subparagraph or to limit any liability of the Holding Company explicitly provided for in this section.

"(E) HOLDING COMPANY ACTIVITIES. -- After the reorganization effective date and prior to the dissolution date, all business activities of the Holding Company shall be conducted through subsidiaries of the Holding Company.

"(F) CONFIDENTIALITY. -- Any information provided by the Association pursuant to this section shall be subject to the same confidentiality obligations contained in section 439(r)(12).

"(G) DEFINITION. -- For purposes of this paragraph, the term 'associated person' means any person, other than a natural person, who is directly or indirectly controlling, controlled by, or under common control with, the Association.

"(9) ISSUANCE OF STOCK WARRANTS. --

"(A) IN GENERAL. -- On the reorganization effective date, the Holding Company shall issue to the District of Columbia Financial Responsibility and Management Assistance Authority a number of stock warrants that is equal to one percent of the outstanding shares of the Association, determined as of the last day of the fiscal quarter preceding the date of enactment of this section, with each stock warrant entitling the holder of the stock warrant to purchase from the Holding Company one share of the registered common stock of the Holding Company or the Holding Company's successors or assigns, at any time on or before September 30, 2008. The exercise price for such warrants shall be an amount equal to the average closing price of the common stock of the Association for the 20 business days prior to the date of enactment of this section on the exchange or market which is then the primary exchange or market for the common stock of the Association. The number of shares of Holding Company common stock subject to each stock warrant and the exercise price of each stock warrant shall be adjusted as necessary to reflect --

"(i) the conversion of Association common stock into Holding Company common stock as part of the plan of reorganization approved by the Association's shareholders; and

"(ii) any issuance or sale of stock (including issuance or sale of treasury stock), stock split, recapitalization, reorganization, or other corporate event, if agreed to by the Secretary of the Treasury and the Association.

"(B) AUTHORITY TO SELL OR EXERCISE STOCK WARRANTS; DEPOSIT OF PROCEEDS. -- The District of Columbia Financial Responsibility and Management Assistance Authority is authorized to sell or exercise the stock warrants described in subparagraph (A). The District of Columbia Financial Responsibility and Management Assistance Authority shall deposit into the account established under section 3(e) of the Student Loan Marketing Association Reorganization Act of 1996 amounts collected from the sale and proceeds resulting from the exercise of the stock warrants pursuant to this subparagraph.

"(10) RESTRICTIONS ON TRANSFER OF ASSOCIATION SHARES AND BANKRUPTCY OF ASSOCIATION. -- After the reorganization effective date, the Holding Company shall not sell, pledge, or otherwise transfer the outstanding shares of the Association, or agree to or cause the liquidation of the Association or cause the Association to file a petition for bankruptcy under title 11, United States Code, without prior approval of the Secretary of the Treasury and the Secretary of Education.

"(d) TERMINATION OF THE ASSOCIATION. -- In the event the shareholders of the Association approve a plan of reorganization under subsection (b), the Association shall dissolve, and the Association's separate existence shall terminate on September 30, 2008, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days after receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last resort pursuant to section 439(q) or continues to be needed to purchase loans under an

agreement with the Secretary described in subsection (c)(6). On the dissolution date, the Association shall take the following actions:

"(1) ESTABLISHMENT OF A TRUST. -- The Association shall, under the terms of an irrevocable trust agreement that is in form and substance satisfactory to the Secretary of the Treasury, the Association and the appointed trustee, irrevocably transfer all remaining obligations of the Association to the trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the remaining obligations, money or direct noncallable obligations of the United States or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the remaining obligations in accordance with their terms. To the extent the Association cannot provide money or qualifying obligations in the amount required, the Holding Company shall be required to transfer money or qualifying obligations to the trust in the amount necessary to prevent any deficiency.

"(2) USE OF TRUST ASSETS. -- All money, obligations, or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the remaining obligations assumed by the trust.

"(3) OBLIGATIONS NOT TRANSFERRED TO THE TRUST. -- The Association shall make proper provision for all other obligations of the Association not transferred to the trust, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association outstanding. Any obligations of the Association which cannot be fully satisfied shall become liabilities of the Holding Company as of the date of dissolution.

"(4) TRANSFER OF REMAINING ASSETS. -- After compliance with paragraphs (1) and (3), any remaining assets of the trust shall be transferred to the Holding Company or any subsidiary of the Holding Company, as directed by the Holding Company.

"(e) OPERATION OF THE HOLDING COMPANY. -- In the event the shareholders of the Association approve the plan of reorganization under subsection (b), the following provisions shall apply beginning on the reorganization effective date:

"(1) HOLDING COMPANY BOARD OF DIRECTORS. -- The number of members and composition of the Board of Directors of the Holding Company shall be determined as set forth in the Holding Company's charter or like instrument (as amended from time to time) or bylaws (as amended from time to time) and as permitted under the laws of the jurisdiction of the Holding Company's incorporation.

"(2) HOLDING COMPANY NAME. -- The names of the Holding Company and any subsidiary of the Holding Company (other than the Association) --

"(A) may not contain the name 'Student Loan Marketing Association'; and

"(B) may contain, to the extent permitted by applicable State or District of Columbia law, 'Sallie Mae' or variations thereof, or such other names as the Board of Directors of the Association or the Holding Company deems appropriate.

"(3) USE OF SALLIE MAE NAME. -- Subject to paragraph (2), the Association may assign to the Holding Company, or any subsidiary of the Holding Company, the 'Sallie Mae' name as a trademark or service mark, except that neither the Holding Company nor any subsidiary of the Holding Company (other than the Association or any subsidiary of the Association) may use the 'Sallie Mae' name on, or to identify the issuer of, any debt obligation or other security offered or sold by the Holding Company or any subsidiary of the Holding Company (other than a debt obligation or other security issued to and held by the Holding Company or any subsidiary of the Holding

Company). The Association shall remit to the account established under section 3(e) of the Student Loan Marketing Association Reorganization Act of 1996, $5,000,000 within 60 days of the reorganization effective date as compensation for the right to assign the 'Sallie Mae' name as a trademark or service mark.

"(4) DISCLOSURE REQUIRED. -- Until 3 years after the dissolution date, the Holding Company, and any subsidiary of the Holding Company (other than the Association), shall prominently display --

"(A) in any document offering the Holding Company's securities, a statement that the obligations of the Holding Company and any subsidiary of the Holding Company are not guaranteed by the full faith and credit of the United States; and

"(B) in any advertisement or promotional materials which use the 'Sallie Mae' name or mark, a statement that neither the Holding Company nor any subsidiary of the Holding Company is a government-sponsored enterprise or instrumentality of the United States.

"(f) STRICT CONSTRUCTION. -- Except as specifically set forth in this section, nothing in this section shall be construed to limit the authority of the Association as a federally chartered corporation, or of the Holding Company as a State or District of Columbia chartered corporation.

"(g) RIGHT TO ENFORCE. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this section, or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with this section.

"(h) DEADLINE FOR REORGANIZATION EFFECTIVE DATE. -- This section shall be of no further force and effect in the event that the reorganization effective date does not occur on or before 18 months after the date of enactment of this section.

"(i) DEFINITIONS. -- For purposes of this section:

"(1) ASSOCIATION. -- The term 'Association' means the Student Loan Marketing Association.

"(2) DISSOLUTION DATE. -- The term 'dissolution date' means September 30, 2008, or such earlier date as the Secretary of Education permits the transfer of remaining obligations in accordance with subsection (d).

"(3) HOLDING COMPANY. -- The term 'Holding Company' means the new business corporation established pursuant to this section by the Association under the laws of any State of the United States or the District of Columbia for the purposes of the reorganization and restructuring described in subsection (a).

"(4) REMAINING OBLIGATIONS. -- The term 'remaining obligations' means the debt obligations of the Association outstanding as of the dissolution date.

"(5) REMAINING PROPERTY. -- The term 'remaining property' means the following assets and liabilities of the Association which are outstanding as of the reorganization effective date:

"(A) Debt obligations issued by the Association.

"(B) Contracts relating to interest rate, currency, or commodity positions or protections.

"(C) Investment securities owned by the Association.

"(D) Any instruments, assets, or agreements described in section 439(d) (including, without limitation, all student loans and agreements relating to the purchase and sale of student loans, forward purchase and lending commitments, warehousing advances, academic facilities

obligations, letters of credit, standby bond purchase agreements, liquidity agreements, and student loan revenue bonds or other loans).

"(E) Except as specifically prohibited by this section or section 439, any other nonmaterial assets or liabilities of the Association which the Association's Board of Directors determines to be necessary or appropriate to the Association's operations.

"(6) REORGANIZATION. -- The term 'reorganization' means the restructuring event or events (including any merger event) giving effect to the Holding Company structure described in subsection (a).

"(7) REORGANIZATION EFFECTIVE DATE. -- The term 'reorganization effective date' means the effective date of the reorganization as determined by the Board of Directors of the Association, which shall not be earlier than the date that shareholder approval is obtained pursuant to subsection (b) and shall not be later than the date that is 18 months after the date of enactment of this section.

"(8) SUBSIDIARY. -- The term 'subsidiary' means one or more direct or indirect subsidiaries."

Sec. 602(b) TECHNICAL AMENDMENTS. --

(1) ELIGIBLE LENDER. --

(A) AMENDMENTS TO THE HIGHER EDUCATION ACT. --

(i) DEFINITION OF ELIGIBLE LENDER. -- Section 435(d)(1)(F) of the Higher Education Act of 1965 (20 U.S.C. 1085(d)(1)(F)) is amended by inserting after "Student Loan Marketing Association" the following: "or the Holding Company of the Student Loan Marketing Association, including any subsidiary of the Holding Company, created pursuant to section 440,".

(ii) DEFINITION OF ELIGIBLE LENDER AND FEDERAL CONSOLIDATION LOANS. -- Sections 435(d)(1)(G) and 428C(a)(1)(A) of such Act (20 U.S.C. 1085(d)(1)(G) and 1078-3(a)(1)(A)) are each amended by inserting after "Student Loan Marketing Association" the following: "or the Holding Company of the Student Loan Marketing Association, including any subsidiary of the Holding Company, created pursuant to section 440".

(B) EFFECTIVE DATE. -- The amendments made by this paragraph shall take effect on the reorganization effective date as defined in section 440(h) of the Higher Education Act of 1965 (as added by subsection (a)).

(2) ENFORCEMENT OF SAFETY AND SOUNDNESS REQUIREMENTS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C. 1087-2(r)) is amended --

(A) in the first sentence of paragraph (12), by inserting "or the Association's associated persons" after "by the Association";

(B) by redesignating paragraph (13) as paragraph (15); and

(C) by inserting after paragraph (12) the following new paragraph:

"(13) ENFORCEMENT OF SAFETY AND SOUNDNESS REQUIREMENTS. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this section, or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with this section.".

(3) FINANCIAL SAFETY AND SOUNDNESS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C.1087-2(r)) is further amended --

(A) in paragraph (1) --

(i) by striking "and" at the end of subparagraph (A);

(ii) by striking the period at the end of subparagraph (B) and inserting "; and" and

(iii) by adding at the end the following new subparagraph:

"(C)(i) financial statements of the Association within 45 days of the end of each fiscal quarter; and

"(ii) reports setting forth the calculation of the capital ratio of the Association, within 45 days of the end of each fiscal quarter.";

(B) in paragraph (2) --

(i) by striking clauses (i) and (ii) of subparagraph (A) and inserting the following:

"(i) appoint auditors or examiners to conduct audits of the Association from time to time to determine the condition of the Association for the purpose of assessing the Association's financial safety and soundness and to determine whether the requirements of this section and section 440 are being met; and

"(ii) obtain the services of such experts as the Secretary of the Treasury determines necessary and appropriate, as authorized by section 3109 of title 5, United States Code, to assist in determining the condition of the Association for the purpose of assessing the Association's financial safety and soundness, and to determine whether the requirements of this section and section 440 are being met."; and

(ii) by adding at the end of the following new subparagraph:"

(D) ANNUAL ASSESSMENT. --

"(i) IN GENERAL. -- For each fiscal year beginning on or after October 1, 1996, the Secretary of the Treasury may establish and collect from the Association an assessment (or assessments) in amounts sufficient to provide for reasonable costs and expenses of carrying out the duties of the Secretary of the Treasury under this section and section 440 during such fiscal year. In no event may the total amount so assessed exceed, for any fiscal year, $800,000 adjusted for each fiscal year ending after September 30, 1997, by the ratio of the Consumer Price Index for All Urban Consumers (issued by the Bureau of Labor Statistics) for the final month of the fiscal year preceding the fiscal year for which the assessment is made to the Consumer Price Index for All Urban Consumers for September 1997.

"(ii) DEPOSIT. -- Amounts collected from assessments under this subparagraph shall be deposited in an account within the Treasury of the United States as designated by the Secretary of the Treasury for that purpose. The Secretary of the Treasury is authorized and directed to pay out of any funds available in such account the reasonable costs and expenses of carrying out the duties of the Secretary of the Treasury under this section and section 440. None of the funds deposited into such account shall be available for any purpose other than making payments for such costs and expenses."; and

(C) by inserting after paragraph (13) (as added by paragraph (2)(C)) the following new paragraph:"

(14) ACTIONS BY SECRETARY. --

"(A) IN GENERAL. -- For any fiscal quarter ended after January 1, 2000, the Association shall have a capital ratio of at least 2.25 percent. The Secretary of the Treasury may, whenever such capital ratio is not met, take any one or more of the actions described in paragraph (7), except that --

"(i) the capital ratio to be restored pursuant to paragraph (7)(D) shall be 2.25 percent; and

"(ii) if the relevant capital ratio is in excess of or equal to 2 percent for such quarter, the Secretary of the Treasury shall defer taking any of the actions set forth in paragraph (7) until the next succeeding quarter and may then proceed with any such action only if the capital ratio of the Association remains below 2.25 percent.

"(B) APPLICABILITY. -- The provisions of paragraphs (4), (5), (6), (8), (9), (10), and (11) shall be of no further application to the Association for any period after January 1, 2000."

(4) INFORMATION REQUIRED; DIVIDENDS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C. 1087-2(r)) is further amended --

(A) by adding at the end of paragraph (2) (amended in paragraph (3)(B)(ii)) the following new subparagraph:

"(E) OBLIGATION TO OBTAIN, MAINTAIN, AND REPORT INFORMATION. --

"(i) IN GENERAL. -- The Association shall obtain such information and make and keep such records as the Secretary of the Treasury may from time to time prescribe concerning --

"(I) the financial risk to the Association resulting from the activities of any associated person, to the extent such activities are reasonably likely to have a material impact on the financial condition of the Association, including the Association's capital ratio, the Association's liquidity, or the Association's ability to conduct and finance the Association's operations; and

"(II) the Association's policies, procedures, and systems for monitoring and controlling any such financial risk.

"(ii) SUMMARY REPORTS. -- The Secretary of the Treasury may require summary reports of such information to be filed no more frequently than quarterly. If, as a result of adverse market conditions or based on reports provided pursuant to this subparagraph or other available information, the Secretary of the Treasury has concerns regarding the financial or operational condition of the Association, the Secretary of the Treasury may, notwithstanding the preceding sentence and clause (i), require the Association to make reports concerning the activities of any associated person, whose business activities are reasonably likely to have a material impact on the financial or operational condition of the Association.

"(iii) DEFINITION. -- For purposes of this subparagraph, the term 'associated person' means any person, other than a natural person, directly or indirectly controlling, controlled by, or under common control with the Association."; and

(B) by adding at the end the following new paragraphs:

(16) DIVIDENDS. -- The Association may pay dividends in the form of cash or noncash distributions so long as at the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of such declaration by the Board of Directors of the Association, the Association's capital would be in compliance with the capital standards set forth in this section.

"(17) CERTIFICATION PRIOR TO PAYMENT OF DIVIDEND. -- Prior to the payment of any dividend under paragraph (16), the Association shall certify to the Secretary of the Treasury that the payment of the dividend will be made in paragraph (16) and shall provide copies of all calculations needed to make such certification."

"Sec. 602(c) SUNSET OF THE ASSOCIATION'S CHARTER IF NO REORGANIZATION PLAN OCCURS. -- Section 439 of the Higher Education Act of 1965 (20 U.S.C. 1087-2) is amended by adding at the end the following new subsection:

"(s) CHARTER SUNSET. --

"(1) APPLICATION OF PROVISIONS. -- This subsection applies beginning 18 months and one day after the date of enactment of this subsection if no reorganization of the Association occurs in accordance with the provisions of section 440.

"(2) SUNSET PLAN. --

"(A) PLAN SUBMISSION BY THE ASSOCIATION. -- Not later than July 1, 2007, the Association shall submit to the Secretary of the Treasury and to the Chairman and Ranking Member of the Committee on Labor and Human Resources of the Senate and the Chairman and Ranking Member of the Committee on Economic and Educational Opportunities of the House of Representatives, a detailed plan for the orderly winding up, by July 1, 2013, of business activities conducted pursuant to the charter set forth in this section. Such plan shall --

"(i) ensure that the Association will have adequate assets to transfer to a trust, as provided in this subsection, to ensure full payment of remaining obligations of the Association in accordance with the terms of such obligations;

"(ii) provide that all assets not used to pay liabilities shall be distributed to shareholders as provided in this subsection; and

"(iii) provide that the operations of the Association shall remain separate and distinct from that of any entity to which the assets of the Association are transferred;

"(B) AMENDMENT OF THE PLAN BY THE ASSOCIATION. -- The Association shall from time to time amend such plan to reflect changed circumstances, and submit such amendments to the Secretary of the Treasury and to the Chairman and Ranking Minority Member of the Committee on Labor and Human Resources of the Senate and Chairman and Ranking Minority Member of the Committee on Economic and Educational Opportunities of the House of Representatives. In no case may any amendment extend the date for full implementation of the plan beyond the dissolution date provided in paragraph (3).

"(C) PLAN MONITORING. -- The Secretary of the Treasury shall monitor the Association's compliance with the plan and shall continue to review the plan (including any amendments thereto).

"(D) AMENDMENT OF THE PLAN BY THE SECRETARY OF THE TREASURY. -- The Secretary of the Treasury may require the Association to amend the plan (including any amendments to the plan), if the Secretary of the Treasury deems such amendments are necessary to ensure full payment of all obligations of the Association.

"(E) IMPLEMENTATION BY THE ASSOCIATION. -- The Association shall promptly implement the plan (including any amendments to the plan, whether such amendments are made by the Association or are required to be made by the Secretary of the Treasury).

"(3) DISSOLUTION OF THE ASSOCIATION. -- The Association shall dissolve and the Association's separate existence shall terminate on July 1, 2013, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days of receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last resort pursuant to subsection (q) or continues to be needed to purchase loans under an agreement with the Secretary described in paragraph (4)(A). On the dissolution date, the Association shall take the following actions:

"(A) ESTABLISHMENT OF A TRUST. -- The Association shall, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Secretary of the Treasury, the Association, and the appointed trustee, irrevocably transfer all remaining obligations of the Association to a trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the remaining obligations, money or direct noncallable obligations of the United States or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the remaining obligations in accordance with their terms.

"(B) USE OF TRUST ASSETS. -- All money, obligations, or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the remaining obligations assumed by the trust. Upon the fulfillment of the trustee's duties under the trust, any remaining assets of the trust shall be transferred to the persons who, at the time of the dissolution, were the shareholders of the Association, or to the legal successors or assigns of such persons.

"(C) OBLIGATIONS NOT TRANSFERRED TO THE TRUST. -- The Association shall make proper provision for all other obligations of the Association, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association outstanding.

"(D) TRANSFER OF REMAINING ASSETS. -- After compliance with subparagraphs (A) and (C), the Association shall transfer to the shareholders of the Association any remaining assets of the Association.

(4) RESTRICTIONS RELATING TO WINDING UP. --

"(A) RESTRICTIONS ON NEW BUSINESS ACTIVITY OR ACQUISITION OF ASSETS BY THE ASSOCIATION. --

"(i) IN GENERAL. -- Beginning on July 1, 2009, the Association shall not engage in any new business activities or acquire any additional program assets (including acquiring assets pursuant to contractual commitments) described in subsection (d) other than in connection with the Association --

"(I) serving as a lender of last resort pursuant to subsection (q); and

"(II) purchasing loans insured under this part, if the Secretary, with the approval of the Secretary of the Treasury, enters into an agreement with the Association for the continuation or resumption of the Association's secondary market

purchase program because the Secretary determines there is inadequate liquidity for loans made under this part.

"(ii) AGREEMENT. -- The Secretary is authorized to enter into an agreement described in subclause (II) of clause (i) with the Association covering such secondary market activities. Any agreement entered into under such subclause shall cover a period of 12 months, but may be renewed if the Secretary determines that liquidity remains inadequate. The fee provided under subsection (h)(7) shall not apply to loans acquired under any such agreement with the Secretary."

"(B) ISSUANCE OF DEBT OBLIGATIONS DURING THE WIND UP PERIOD; ATTRIBUTES OF DEBT OBLIGATIONS. -- The Association shall not issue debt obligations which mature later than July 1, 2013, except in connection with serving as a lender of last resort pursuant to subsection (q) or with purchasing loans under an agreement with the Secretary as described in subparagraph (A). Nothing in this subsection shall modify the attributes accorded the debt obligations of the Association by this section, regardless of whether such debt obligations are transferred to a trust in accordance with paragraph (3).

"(C) USE OF ASSOCIATION NAME. -- The Association may not transfer or permit the use of the name 'Student Loan Marketing Association', 'Sallie Mae', or any variation thereof, to or by any entity other than a subsidiary of the Association."

Sec. 602(d) REPEALS. --

(1) IN GENERAL. -- Sections 439 of the Higher Education Act of 1965 (20 U.S.C.1087-2) and 440 of such Act (as added by subsection (a) of this section) are repealed.

(2) EFFECTIVE DATE. -- The repeals made by paragraph (1) shall be effective one year after --

(A) the date on which all of the obligations of the trust established under section 440(d)(1) of the Higher Education Act of 1965 (as added by subsection (a)) have been extinguished, if a reorganization occurs in accordance with section 440 of such Act; or

(B) the date on which all of the obligations of the trust established under subsection 439(s)(3)(A) of such Act (as added by subsection (c)) have been extinguished, if a reorganization does not occur in accordance with section 440 of such Act.

Sec. 602(e) ASSOCIATION NAMES. -- Upon dissolution in accordance with section 439(s) of the Higher Education Act of 1965 (20 U.S.C. 1087-2), the names "Student Loan Marketing Association", "Sallie Mae", and any variations thereof may not be used by any entity engaged in any business similar to the business conducted pursuant to section 439 of such Act (as such section was in effect on the date of enactment of this Act) without the approval of the Secretary of the Treasury.

Sec. 602(f) RIGHT TO ENFORCE. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of subsection (e), or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with subsection (e).

APPENDIX C

THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

GENERAL

The Federal Family Education Loan Program ("FFELP") (formerly the Guaranteed Student Loan Program ("GSLP")) under Title IV of the Higher Education Act (the "Act") provides for loans to be made to students or parents of dependent students enrolled in eligible institutions to finance a portion of the costs of attending school. If a borrower defaults on a student loan, becomes totally or permanently disabled, dies, files for bankruptcy or attends a school that closes prior to the student earning a degree, or if the applicable education institution falsely certifies the borrower's eligibility for a Student Loan (collectively "insurance triggers"), the holder of the loan (which must be an eligible lender) may file a claim with the applicable Guarantee Agency. Provided that the loan has been properly originated and serviced, the Guarantee Agency pays the holder all or a portion of the unpaid principal balance on the loan as well as accrued interest. Origination and servicing requirements, as well as procedures to cure deficiencies, are established by the U.S. Department of Education (the "Department") and the various Guarantee Agencies.

Under the FFELP, payment of principal and interest with respect to the student loans is guaranteed against default, death, bankruptcy or disability of the applicable borrower by the applicable Guarantee Agency. As described herein, the guarantee agencies are entitled, subject to certain conditions, to be reimbursed for all or a portion of Guarantee Payments they make by the Department pursuant to a program of federal reinsurance under the Act. See "Guarantee Agencies".

Guarantee Agencies enter into reinsurance agreements with the Secretary of Education pursuant to which the Secretary agrees to reimburse the Guarantee Agency for all or a portion of the amount expended by the Guarantee Agency in discharge of its guarantee obligation with respect to default claims provided the loans have been properly originated and serviced. Except for claims resulting from death, disability or bankruptcy of a borrower, in which case the Secretary pays the full amount of the claim, the amount of reinsurance depends on the default experience of the Guarantee Agency. See " -- Federal Insurance and Reinsurance of Guarantee Agencies".

In the event of a shortfall between the amounts of claims paid to holders of defaulted loans and reinsurance payments from the federal government, Guarantee Agencies pay the claims from their reserves. These reserves come from four principal sources: insurance premiums they charge on student loans (currently up to 1 percent of loan principal), administrative cost allowances from the Department (payment of which is currently discretionary on the part of the Department)(1), debt collection activities (generally, the Guarantee Agency may retain 27 percent of its collections on defaulted student loans), and investment income from reserve funds. Claims which a Guarantee Agency is financially unable to pay will be paid by the Secretary or transferred to a financially sound Guarantee Agency, if the Secretary makes the necessary determination that the guarantor is financially unable to pay.

Several types of guaranteed student loans are currently authorized under the Act: (i) loans to students who pass certain financial need tests ("Subsidized Stafford Loans"); (ii) loans to students who do not pass the Stafford need tests or who need additional loans to supplement their Subsidized Stafford Loans ("Unsubsidized Stafford Loans"); (iii) loans to parents of students ("PLUS Loans") who are dependents and whose need exceed the financing available from Subsidized Stafford Loans and/or Unsubsidized Stafford Loans; and (iv) loans to consolidate the borrower's obligations under various federally authorized student loan programs into a single loan ("Consolidation Loans"). Prior to July 1, 1994 the Act also permitted loans to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent

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(1) The Fiscal Year 1996 Omnibus Appropriations Act provided that for the 1995 and 1996 federal fiscal years, the Secretary must pay an administrative cost allowance to guaranty agencies equal to .085 percent of each agency's loan originations.

undergraduate students who needed additional loans to supplement their Subsidized Stafford Loans ("Supplemental Loans to Students" or "SLS Loans").

The FFELP is subject to statutory and regulatory revision from time to time. The most recent significant revisions are contained in the Higher Education Amendments of 1992 ("the 1992 Amendments"), the Omnibus Budget Reconciliation Act of 1993 ("the 1993 Act") and the "Higher Education Technical Amendments of 1993" (the "Technical Amendments"). As part of the 1992 Amendments the name of the Guaranteed Student Loan Program was changed to the FFELP. The 1993 Act contains significant changes to the FFELP and creates a direct loan program funded directly by the U.S. Department of Treasury (each loan under such program, a "Federal Direct Student Loan").

Following enactment of the 1992 Amendments, Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans and Consolidation Loans are officially referred to as "Federal Stafford Loans," "Federal Unsubsidized Stafford Loans," "Federal PLUS Loans" and "Federal Consolidation Loans," respectively.

The description and summaries of the Act, the FFELP, the Guarantee Agreements and the other statutes and regulations referred to in this Proxy Statement/Prospectus do not purport to be comprehensive, and are qualified in their entirety by reference to each such statute or regulation. The Act is codified at 20 U.S.C. (LOGO) 1071 et seq., and the regulations promulgated thereunder can be found at 34 C.F.R. Part 682. There can be no assurance that future amendments or modifications will not materially change any of the terms or provisions of the programs described in this Proxy Statement/Prospectus or of the statutes and regulations implementing these programs.

LEGISLATIVE AND ADMINISTRATIVE MATTERS

The Act was amended by enactment of the 1992 Amendments, the general provisions of which became effective on July 23, 1992 and which extend the principal provisions of the FFELP to September 30, 1998 (or in the case of borrowers who have received loans prior to that date, September 30, 2002, except that authority to make Consolidation Loans expires on September 30, 1998). The Technical Amendments became effective on December 20, 1993.

The 1993 Act, effective on August 10, 1993, implements a number of changes to the federal guaranteed student loan programs, including imposing on lenders or holders of guaranteed student loans certain fees, providing for 2 percent lender risk sharing, reducing interest rates and Special Allowance Payments for certain loans, effectively reducing the interest payable to holders of Consolidation Loans and affecting the Department's financial assistance to Guarantee Agencies, including by reducing the percentage of claims the Department will reimburse Guarantee Agencies and reducing more substantially the premiums and default collections that Guarantee Agencies are entitled to receive and/or retain. In addition, such legislation also contemplates replacement of at least 60 percent of the federal guaranteed student loan programs with direct lending by the Department by the 1998-99 academic year.

ELIGIBLE LENDERS, STUDENTS AND INSTITUTIONS

Lenders eligible to make and/or hold loans under the FFELP generally include banks, savings and loan associations, credit unions, pension funds, insurance companies and, under certain conditions, schools and guarantee agencies. Sallie Mae is an eligible lender for making Consolidation Loans and as a lender of last resort and for holding FFELP loans.

A FFELP loan may be made only to qualified borrowers. Generally a qualified borrower is an individual or parent of an individual who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) is carrying or will carry at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (c) has agreed to notify promptly the holder of the loan of any address change and (d) meets the applicable "need" requirements for the particular loan program. Each loan is to be evidenced by an unsecured promissory note signed by the qualified borrower.

Eligible institutions are post-secondary schools which meet the requirements set forth in the Act. They include institutions of higher education, proprietary institutions of higher education and post-secondary vocational institutions. With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution (i) offers more than 50 percent of its courses by correspondence; (ii) enrolls 50 percent or more of its students in correspondence courses; (iii) has a student enrollment in which more than 25 percent of the students are incarcerated; or (iv) has a student enrollment in which more than 50 percent of the students are admitted without a high school diploma or its equivalent on the basis of their ability to benefit from the education provided (as defined by statute and regulation). Further, schools are specifically excluded from participation if (i) the institution has filed for bankruptcy or (ii) the institution, the owner or its chief executive officer, has been convicted or pleaded nolo contendere or guilty to a crime involving the acquisition, use or expenditure of federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program. In order to participate in the program, the eligibility of a school must be approved by the Department under standards established by regulation.

FINANCIAL NEED ANALYSIS

Student loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses (as determined by the institution). Each borrower must undergo a need analysis, which requires the borrower to submit a need analysis form which is forwarded to the federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family is expected to contribute towards the student's cost of education (the "family contribution"). After receiving information on the family contribution, the institution then subtracts the family contribution from its cost of attendance to determine the student's eligibility for grants, Subsidized Stafford Loans and work assistance. The difference between (a) the sum of the (i) amount of grants, (ii) the amount earned through work assistance and (iii) the amount of Subsidized Stafford Loans for which the borrower is eligible and (b) the student's estimated cost of attendance (the "Unmet Need") may be borrowed through Unsubsidized Stafford Loans. Parents may finance the family contribution amount through their own resources or through PLUS Loans.

SPECIAL ALLOWANCE PAYMENTS

The Act provides for quarterly special allowance payments ("Special Allowance Payments") to be made by the Department to holders of student loans to the extent necessary to ensure that such holder receives at least a specified market interest rate of return on such loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan and the date the loan was originally made or insured. A Special Allowance Payment is made for each of the 3-month periods ending March 31, June 30, September 30, and December 31. The Special Allowance Payments equal the average unpaid principal balance (including interest permitted to be capitalized) of all eligible loans held by such holder during such period multiplied by the special allowance percentage. The special allowance percentage shall be computed by (i) determining the average of the bond equivalent rates of 91-day Treasury bills auctioned for such 3-month period, (ii) subtracting the applicable borrower interest rate on such loans from such average, (iii) adding the applicable Special Allowance Margin (defined below) to the resultant percentage, and (iv) dividing the resultant percentage by 4.

DATE OF DISBURSEMENT	SPECIAL ALLOWANCE MARGIN
Prior to 10/17/86	3.50%
10/17/86-9/30/92	3.25%
10/01/92-6/30/95	3.10%
7/1/95-6/30/98	2.50% (Subsidized and Unsubsidized Stafford Loans, in school, grace or deferment) 3.10% (Subsidized and Unsubsidized Stafford Loans, in repayment and all other loans)

Special Allowance Payments are available on variable rate PLUS Loans and SLS Loans as described below under "PLUS and SLS Loan Programs" only to cover any amount by which the variable rate, which is reset annually based on the 52-week Treasury Bill, would exceed the applicable maximum rate.

As part of the amendments made to the Act by the Omnibus Budget Reconciliation Act of 1993, the method for calculating borrower interest and special allowance payment is scheduled to be altered for loans made on or after July 1, 1998. As of that date, the borrower interest rate on Stafford Loans and Unsubsidized Stafford Loans will be established annually at the "bond equivalent rate of the securities with the comparable maturity", as determined by the Secretary of Education, plus 1.0 percent. This rate will apply for loans both during the in-school and repayment periods. For PLUS loans, the rate will be the same, except that 2.10 percent will be added to the rate basis. Special allowance payments on these loans will be paid at the "bond equivalent rate of the securities with comparable maturities" plus 1.0 percent and reset at intervals established by the Secretary of Education. The Secretary of Education has yet to issue formal guidance on the rate basis or on the method or timing of special allowance payments for these loans.

ORIGINATION FEES

The eligible lender charges borrowers an origination fee, which in turn is passed on to the federal government, on Subsidized and Unsubsidized Stafford Loans and PLUS Loans equal to 3 percent of the principal balance of each loan. The amount of the origination fee may be deducted from each disbursement pursuant to a loan on a pro rata basis. No origination fee is paid on Consolidation Loans.

Lenders must refund all origination fees attributable to a disbursement that was returned to the lender by the school or repaid or not delivered within 120 days of the disbursement. Such origination fees must be refunded by crediting the borrower's loan balance with the applicable lender.

STAFFORD LOANS

The Act provides for (i) federal insurance or reinsurance of Subsidized Stafford Loans made by eligible lenders to qualified students, (ii) federal interest subsidy payments on certain eligible Subsidized Stafford Loans to be paid by the Department to holders of the loans in lieu of the borrower making interest payments ("Interest Subsidy Payments"), and (iii) Special Allowance Payments representing an additional subsidy paid by the Department to the holders of eligible Subsidized Stafford Loans (collectively referred to herein as "Federal Assistance").

Subsidized Stafford Loans are loans under the FFELP that may be made, based on need, only to post-secondary students accepted or enrolled in good standing at an eligible institution who are carrying at least one-half the normal full-time course load at that institution. The Act limits the amount a student can borrow in any academic year and the amount he or she can have outstanding in the aggregate. The following chart sets forth the historic loan limits.

MAXIMUM LOAN AMOUNTS
FEDERAL STAFFORD LOAN PROGRAM

BORROWER'S ACADEMIC LEVEL	ALL STUDENTS(1)			INDEPENDENT STUDENTS(3)	
			BASE AMOUNT		
	SUBSIDIZED PRE-1/1/87	SUBSIDIZED ON OR AFTER 1/1/87	SUBSIDIZED AND UNSUBSIDIZED ON OR AFTER 7/7/93(2)	ADDITIONAL UNSUBSIDIZED ONLY ON OR AFTER 7/1/94	TOTAL AMOUNT
Undergraduate (per year)					
1st year	$ 2,500	$ 2,625	$ 2,625	$ 4,000	$ 6,625
2nd year	$ 2,500	$ 2,625	$ 3,500	$ 4,000	$ 7,500
3rd year & above	$ 2,500	$ 4,000	$ 5,500	$ 5,000	$ 10,500
Graduate (per year)	$ 5,000	$ 7,500	$ 8,500	$ 10,000	$ 18,500
Aggregate Limit					
Undergraduate	$ 12,500	$17,250	$23,000	$ 23,000	$ 46,000
Graduate (including undergraduate)	$ 25,000	$54,750	$65,500	$ 73,000	$138,500

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(1) The loan limits are inclusive of both Federal Stafford Loans and Federal Direct Student Loans.

(2) These amounts represent the combined maximum loan amount per year for Subsidized and Unsubsidized Stafford Loans. Accordingly, the maximum amount that a student may borrow under an Unsubsidized Loan is the difference between the combined maximum loan amount and the amount the student received in the form of a Subsidized Loan.

(3) Independent undergraduate students, graduate students or professional students may borrow these additional amounts. In addition, dependent undergraduate students may also receive these additional loan amounts if the parents of such students are unable to provide the family contribution amount and it is unlikely that the student's parents will qualify for a Federal PLUS Loan.

(4) Some graduate health profession students otherwise eligible to borrow under HEAL may be entitled to increase unsubsidized loan limits not to exceed HEAL statutory limits for each course of study per academic year.

The interest rate paid by borrowers on a Subsidized Stafford Loan is dependent on the date of the loan except for loans made prior to October 1, 1992, whose interest rate depends on any outstanding borrowings of that borrower as of such date. The rate for variable rate Subsidized Stafford Loans applicable for any 12-month period beginning on July 1 and ending on June 30, is determined on the preceding June 1 and is equal to the lesser of (a) the applicable Maximum Rate or, (b) the sum of (i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the applicable Interest Rate Margin.

SUBSIDIZED STAFFORD LOANS

DATE OF DISBURSEMENT	BORROWER RATE	MAXIMUM RATE	INTEREST RATE MARGIN
09/13/83-06/30/88.....	8%	8.00%	
07/01/88-09/30/92.....	8% for 48 months; thereafter, 91-Day Treasury + Interest Rate Margin	8.00% for 48 months, then 10%	3.25%
10/01/92-06/30/94.....	91-Day Treasury + Interest Rate Margin	9.00%	3.10%
07/01/94-06/30/95.....	91-Day Treasury + Interest Rate Margin	8.25%	3.10%
07/01/95-06/30/98.....	91-Day Treasury + Interest Rate Margin	8.25%	2.50% (in school, grace, or deferment) 3.10% (in repayment)
After 07/01/98.....	The bond equivalent rate of the securities with a comparable maturity as established by the Secretary + Interest Rate Margin	8.25%	1.0%

The Technical Amendments provide that, for fixed rate loans made on or after July 23, 1992 and for certain loans made to new borrowers on or after July 1, 1988, the lender must convert the loan to a variable rate loan capped at the interest rate existing prior to the conversion. This conversion must have been completed by January 1, 1995.

Holders of Subsidized Stafford Loans are eligible to receive Special Allowance Payments. The Department is responsible for paying interest on Subsidized Stafford Loans while the borrower is a qualified student, during a grace period or during certain deferment periods. The Department makes quarterly Interest Subsidy Payments to the owner of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any deferment periods. The Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments (and Special Allowance Payments) in accordance with its provisions. Receipt of Interest Subsidy Payments and Special Allowance Payments is conditioned on compliance with the requirements of the Act and continued eligibility of such loan for federal reinsurance.

Interest Subsidy Payments and Special Allowance Payments are generally received within 45 days to 60 days after the end of any given calendar quarter (provided that the applicable claim form is properly filed with the Department), although there can be no assurance that such payments will in fact be received from the Department within that period.

Repayment of principal on a Subsidized or Unsubsidized Stafford Loan typically does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable grace period, as described below. Any borrower may voluntarily prepay without premium or penalty any loan and in connection therewith may waive any grace period or deferment period. In general, each loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Act currently requires minimum annual payments of $600 including principal and interest, unless the borrower and the lender agree to lesser payments. As of July 1, 1995, lenders are required to offer borrowers a choice among standard, graduated and income-sensitive repayment schedules. These repayment options must be offered to all new borrowers who enter repayment on or after July 1, 1995. If a borrower fails to elect a

particular repayment schedule or fails to submit the documentation necessary for the option the borrower chooses, the standard repayment schedule is used.

Repayment of principal on a Subsidized Stafford Loan must generally commence following a period of (a) not less than 9 months or more than 12 months (with respect to loans for which the applicable interest rate is 7 percent per annum) and (b) not more than 6 months (with respect to loans for which the applicable interest rate is 9 percent per annum or 8 percent per annum and for loans to first time borrowers on or after July 1, 1988) after the borrower ceases to pursue at least a half-time course of study (a "Grace Period"). However, during certain other periods (each a "Deferment Period") and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution on a full-time (or in certain cases half time) basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily or totally disabled, or periods during which the borrower may defer principal payments because of temporary financial hardship. For new borrowers to whom loans are first disbursed on or after July 1, 1993, payment of principal may be deferred only while the borrower is at least a half-time student or is in an approved graduate fellowship program or is enrolled in a rehabilitation program, or when the borrower is seeking but unable to find full-time employment, or when for any reason the lender determines that payment of principal will cause the borrower economic hardship; in the case of unemployment or economic hardship the deferment is subject to a maximum deferment period of three years. The 1992 Amendments also require forbearance of loans in certain circumstances and permit forbearance of loans in certain other circumstances (each such period, a "Forbearance Period").

The Unsubsidized Stafford Loan program created under the 1992 Amendments is designed for students who do not qualify for Subsidized Stafford Loans and for independent graduate and professional students whose Unmet Need exceeds what they can borrow under the Subsidized Stafford Loan Program. The basic requirements for Unsubsidized Stafford Loans are essentially the same as those for the Subsidized Stafford Loans, including with respect to provisions governing the interest rate, the annual loan limits and the Special Allowance Payments. The terms of the Unsubsidized Stafford Loans, however, differ in some respects. The federal government does not make Interest Subsidy Payments on Unsubsidized Stafford Loans. The borrower must either pay interest on a periodic basis beginning 60 days after the time the loan is disbursed or capitalize the interest that accrues until repayment begins. Effective July 1, 1994, the maximum insurance premium was set at 1 percent. Subject to the same loan limits established for Subsidized Stafford Loans, the student may borrow up to the amount of such student's Unmet Need. Lenders are authorized to make Unsubsidized Stafford Loans applicable for periods of enrollment beginning on or after October 1, 1992.

PLUS AND SLS LOAN PROGRAMS

The Act also provides for the PLUS Program. The Act authorizes PLUS Loans to be made to parents of eligible dependent students. The 1993 Act eliminated the SLS Program after July 1, 1994.

The PLUS program permits parents of dependent students to borrow an amount equal to each student's Unmet Need. Under the former SLS program, independent graduate or professional school students and certain dependent undergraduate students were permitted to borrow subject to the same loan limitations.

The first payment of principal and interest is due within 60 days of full disbursement of the loan except for borrowers eligible for deferment who may defer principal and interest payments while eligible for deferment; deferred interest is then capitalized periodically or at the end of the deferment period under specific arrangements with the borrower. The maximum repayment term is 10 years. PLUS and SLS loans carry no in-school interest subsidy.

The interest rate determination for a PLUS or SLS loan is dependent on when the loan was originally made or disbursed. Some PLUS or SLS loans carry a variable rate. The rate varies annually for each 12-month period beginning on July 1 and ending on June 30. The variable rate is determined on the preceding June 1 and is equal to the lesser of (a) the applicable Maximum Rate or (b) the sum of (i) the bond

equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the applicable Interest Rate Margin as set forth below.

PLUS/SLS LOANS

DATE OF DISBURSEMENT	BORROWER RATE	MAXIMUM RATE	INTEREST RATE MARGIN
Prior to 10/01/81	9%	9%	
10/01/81-10/31/82	14%	14%	
11/01/82-06/30/87	12%	12%	
07/01/87-09/30/92	52-Week Treasury + Interest Rate Margin	12%	3.25%
10/01/92-06/30/94	52-Week Treasury + Interest Rate Margin	PLUS 10% SLS 11%	3.10%
After 06/30/94 (SLS repealed 07/01/94)	52-Week Treasury + Interest Rate Margin	9%	3.10%

A holder of a PLUS or SLS loan is eligible to receive Special Allowance Payments during any such 12-month period if (a) the sum of (i) the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the Interest Rate Margin, exceeds (b) the Maximum Rate.

THE CONSOLIDATION LOAN PROGRAM

The Act authorizes a program under which certain borrowers may consolidate their various student loans into Consolidation Loans which will be insured and reinsured to the same extent as other loans made under the FFELP. Under this program, a lender may make a Consolidation Loan only if (a) such lender holds one of the borrower's outstanding student loans that is selected for consolidation, or (b) the borrower has unsuccessfully sought a Consolidation Loan from the holders of the Student Loans selected for consolidation.

Consolidation Loans are made in an amount sufficient to pay outstanding principal and accrued unpaid interest and late charges on all FFELP loans, as well as loans made pursuant to various other federal student loan programs, which were selected by the borrower for consolidation. The unpaid principal balance of a Consolidation Loan made prior to July 1, 1994 bears interest at a rate not less than 9 percent. The interest rate on a Consolidation Loan made on or after July 1, 1994 is equal to the weighted average of the interest rates on the loans selected for consolidation, rounded upward to the nearest whole percent. The holder of a Consolidation Loan made on or after October 1, 1993 must pay the Secretary a monthly rebate fee calculated on an annual basis equal to 1.05 percent of the principal plus accrued unpaid interest on any such loan.

The repayment term under a Consolidation Loan varies depending upon the aggregate amount of the loans being consolidated. In no case may the repayment term exceed 30 years. A Consolidation Loan is evidenced by an unsecured promissory note and entitles the borrower to prepay the loan, in whole or in part, without penalty.

GUARANTEE AGENCIES

The Act authorizes Guarantee Agencies to support education financing and credit needs of students at post-secondary schools. Under various programs throughout the United States, Guarantee Agencies insure student loans. The Guarantee Agencies are reinsured by the federal government for 80 percent to 100 percent of claims paid, depending on their claims experience for loans disbursed prior to October 1, 1993 and for 78 percent to 98 percent of claims paid for loans disbursed on or after October 1, 1993.

Guarantee Agencies collect a one-time insurance fee of up to 1 percent of the principal amount of each loan, other than Consolidation Loans, that the agency guarantees.

The Guarantee Agencies generally guarantee loans for students attending institutions in their particular state or region or for residents of their particular state or region attending schools in another state. Certain Guarantee Agencies have been designated as the Guarantee Agency for more than one state. Some Guarantee Agencies contract with other entities to administer their guarantee agency programs.

FEDERAL INSURANCE AND REINSURANCE OF GUARANTEE AGENCIES

A student loan is considered to be in default for purposes of the Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 180 days in the case of a loan repayable in monthly installments or for 240 days in the case of a loan repayable in less frequent installments.

If the loan is guaranteed by a Guarantee Agency, the eligible lender is reimbursed by the Guarantee Agency for 100 percent (98 percent for loans disbursed on or after October 1, 1993) of the unpaid principal balance of the loan plus accrued interest on any loan defaulted so long as the eligible lender has properly originated and serviced such loan. Under certain circumstances a loan deemed ineligible for reimbursement may be restored to eligibility.

Under the Act, the Department enters into a reinsurance agreement with each Guarantee Agency, which provides for federal reinsurance of amounts paid to eligible lenders by the Guarantee Agency. Pursuant to such agreements, the Department agrees to reimburse a Guarantee Agency for 100 percent of the amounts expended in connection with a claim resulting from the death, bankruptcy, or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986 and who are unable to complete the programs in which they are enrolled due to school closure, or borrowers whose borrowing eligibility was falsely certified by the eligible institution; such claims are not included in calculating a Guaranty Agency's claims experience for federal reinsurance purposes, as set forth below. The Department is also required to repay the unpaid balance of any loan if collection is stayed under the Bankruptcy Code, and is authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Department.

With respect to FFELP loans in default, the Department is required to pay the applicable Guarantee Agency a certain percentage ("Reinsurance Rate") of the amount such agency paid pursuant to default claims filed by the lender on a reinsured loan. The amount of such Reinsurance Rate is subject to specified reductions when the total reinsurance claims paid by the Department to a Guarantee Agency during a fiscal year equals or exceeds 5 percent of the aggregate original principal amount of FFELP loans guaranteed by such agency that are in repayment on the last day of the prior fiscal year. Accordingly, the amount of the reinsurance payment received by the Guarantee Agency may vary. The Reinsurance Rates are set forth in the following table.

GUARANTEE AGENCY'S CLAIMS EXPERIENCE	APPLICABLE REINSURANCE RATE
0% up to 5%	98% (100% for loans disbursed before Oct. 1, 1993)
5% up to 9%	88% (90% for loans disbursed before Oct. 1, 1993)
9% and over	78% (80% for loans disbursed before Oct. 1, 1993)

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The claims experience is not cumulative. Rather, the claims experience for any given Guarantee Agency is determined solely on the basis of claims for any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

The 1992 Amendments addressed industry concerns regarding the Department's commitment to providing support in the event of Guarantee Agency failures. Pursuant to the 1992 Amendments, Guarantee Agencies are required to maintain specified reserve fund levels. Such levels are defined as 0.5 percent of the total attributable amount of all outstanding loans guaranteed by the agency for the fiscal year of the agency that begins in 1993, 0.7 percent for the agency's fiscal year beginning in 1994, 0.9 percent for the agency's fiscal year beginning in 1995, and 1.1 percent for the agency's fiscal year beginning on or after January 1, 1996.

If (i) the Guarantee Agency fails to achieve the minimum reserve level in any two consecutive years, (ii) the Guarantee Agency's federal reimbursements are reduced to 80 percent (or 78 percent after October 1, 1993) or (iii) the Department determines the Guarantee Agency's administrative or financial condition jeopardizes its continued ability to perform its responsibilities, the Department must require the Guarantee Agency to submit and implement a management plan to address the deficiencies. The Department may terminate the Guarantee Agency's agreements with the Department if the Guarantee Agency fails to submit the required plan, or fails to improve its administrative or financial condition substantially, or if the Department determines the Guarantee Agency is in danger of financial collapse. In such event, the Department is authorized to undertake specified actions to assure the continued payment of claims, including making advances to guarantee agencies to cover immediate cash needs, transferring of guarantees to another Guarantee Agency, or transfer of guarantees to the Department itself.

The Act provides that, subject to compliance with the Act, the full faith and credit of the United States is pledged to the payment of federal reinsurance claims. It further provides that Guarantee Agencies are deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, the 1992 Amendments provide that if the Department determines that a Guarantee Agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Department until such time as the obligations are transferred to a new Guarantee Agency capable of meeting such obligations or until a successor Guarantee Agency assumes such obligations. There can be no assurance that the Department would under any given circumstances assume such obligation to assure satisfaction of a guarantee obligation by exercising its right to terminate a reimbursement agreement with a Guarantee Agency or by making a determination that such Guarantee Agency is unable to meet its guarantee obligations.

Lastly, the 1993 Act provides the Secretary of Education with broad authority to manage the finances and affairs of Guarantee Agencies. In general, the Act provides that agency reserve funds are federal property and may be taken by the Secretary if he determines such action is in the best interests of the loan program. Also, the Secretary has broad authority to terminate a Guarantee Agency's reinsurance agreement with the Department.

Within each fiscal year, the applicable Reinsurance Rate steps down incrementally with respect to claims made only after the claims experience thresholds are reached.

APPENDIX D

STATEMENT OF DISSENTING DIRECTORS

The following statement has been included at the written request of the directors listed below and represents solely their views.

STATEMENT OF MESSRS. BRANDON, DALEY, HUNT, LAMBERT, LORD, PORTER, SHAPIRO AND WATERFIELD FOR INCLUSION IN THE FORM S-4

Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield (the "Majority of Elected Directors") voted against the Reorganization and the other items that were submitted to a single vote by the Board of Directors. The determination of the Majority of Elected Directors to vote against the Reorganization was based on their belief that (i) management has not presented a concrete business plan for the Holding Company, and (ii) the Reorganization unnecessarily impairs stockholders' control over the corporation in both the near- and long-term. In reaching this determination, the Majority of Elected Directors considered the following material factors:

1. The belief that management has not presented a credible business plan, or otherwise demonstrated the ability, to leverage Sallie Mae's strengths in order to increase profit margins after privatization, as exhibited by management's concessions when renegotiating the Company's business relationship with The Chase Manhattan Bank.

2. The failure of management to present specific new substantive business ventures for the Holding Company following privatization.

3. The fact that the Reorganization alters the composition of the board of directors without allowing a stockholder vote on the Holding Company board. A proposal presented by Mr. Brandon to have a separate vote of stockholders on the election of the initial board of directors of the Holding Company was not included on the agenda for the Special Meeting of Stockholders.

4. The fact that the Nominations Committee of the Sallie Mae Board of Directors (with Messrs. Brandon and Lambert dissenting) voted against a proposal that the initial Holding Company board of directors consist of the current fourteen stockholder-elected directors of Sallie Mae until stockholders are provided the opportunity to vote on their successors. In addition, the Majority of Elected Directors were effectively prevented from evaluating the merit of seven individuals who were first proposed to the Nominations Committee as potential directors of the Holding Company on the day before the Board of Directors voted on the Reorganization.

5. The determination that the Reorganization will insulate the Holding Company board of directors from accountability to stockholders by providing for a classified board under which only one-third of the directors will be subject to election in any one year, whereas currently two-thirds of Sallie Mae's directors are subject to annual election, and by failing to provide for a stockholder vote on the Holding Company board of directors in 1997.

6. The determination that the Certificate of Incorporation and Bylaws of the Holding Company contain provisions that can entrench and insulate management and omit other provisions that would protect stockholders' rights, such as a provision proposed by Mr. Brandon that would restrict the Holding Company's ability to adopt a stockholders rights plan ("poison pill") without a stockholder vote.

7. The determination that there is sufficient time for an alternative plan of reorganization containing provisions enhancing management and board accountability to stockholders to be presented to stockholders for a vote well in advance of the time that the "sunset" provisions of the Privatization Act are triggered.

In voting against the Reorganization on the bases set forth above, the Majority of Elected Directors have not determined that privatization is undesirable, but instead believe that privatization on the terms contained in the terms of the Reorganization advocated by management is not in the best interests of Sallie Mae's stockholders.

APPENDIX E

DISSENT TO THE REPORT OF THE COMPENSATION AND PERSONNEL COMMITTEE

The following statement has been included at the written request of the directors listed below and represents solely their views.

Messrs. Daley and Shapiro voted against the executive officer bonus and stock option awards that were approved by the Compensation and Personnel Committee (the "Committee"). This statement summarizes the reasons they dissent from the Report on Executive Compensation submitted by the Committee.

GENERAL POLICY. At Sallie Mae, a majority of executive officers' compensation is based on the Committee's subjective evaluations. While peer company compensation data is compiled and distributed to Committee members, for 1996 neither base salaries nor overall compensation levels were targeted to those of peer companies, and the Committee did not assign a specified weight to any particular factor considered in setting annual bonuses and annual stock option grants. For the reasons discussed below, Messrs. Daley and Shapiro believe that the Committee's subjective evaluations of performance resulted in 1996 compensation being excessive relative to the Company's performance.

ANNUAL BONUS. Messrs. Daley and Shapiro believe that a true "at risk" bonus system should result in bonuses that vary based on performance. They believe that 1996 bonuses do not sufficiently reflect such a link. In reaching this conclusion, Messrs. Daley and Shapiro noted that Sallie Mae's performance in 1996 had both positive and negative aspects. They believe that management cannot claim credit for some of the factors that resulted in positive performance, such as the influence that the Company's stock repurchase program, a generally improved political environment and a strong stock market had on the Company's stock price increase. In contrast, they believe that performance in areas where management had more direct control and responsibility was not satisfactory. In reaching this conclusion, Messrs. Daley and Shapiro noted that in three significant areas management failed to exceed or even achieve stated objectives. Student loan purchase volume was below planned levels without a significant increase in yield. Importantly, both the amount of student loans originated from the ExportSS product and the number of ExportSS lending clients declined. Additionally, operating expenses exceeded management's plan and, after accounting for the elimination of expenses as a result of the Company's disposition of its CyberMark venture, continued at levels that Messrs. Daley and Shapiro believe to be above what reasonably should be expected.

STOCK OPTIONS. Sallie Mae grants stock options in January of each year, after evaluating performance for the previous year. Thus, the number of options reported in the Summary Compensation Table and the Option Grants Table as having been granted in 1996 relates to 1995 performance. Options granted in January 1997 after the Committee's evaluation of 1996 performance are not reflected in those tables.

Messrs. Daley and Shapiro believe that the Company's option grant activity is not guided by a formal methodology. Messrs. Daley and Shapiro believe that three factors should be considered in determining the size of option grants: (1) corporate performance, (2) the size and value of previous years' option grants, and (3) the extent to which optionees have retained shares issued upon the exercise of previously granted options. Based on these considerations, Messrs. Daley and Shapiro believe that the Committee's January 1997 option grants to executive officers were too large. In reaching this conclusion, they considered the performance issues discussed above under "Annual Bonus" and the fact that the approximately 40% increase in the Company's stock price between January 1996 and January 1997 resulted in a January 1997 option having a significantly higher value than the January 1996 option grant.

CEO COMPENSATION. Messrs. Daley and Shapiro voted in favor of an increase in Mr. Hough's salary because of the modest size of the increase. However, the chairman of the Committee has stated that he believes Mr. Hough's salary is relatively low and that the Committee will address this in the coming year. Messrs. Daley and Shapiro do not believe that the CEO's salary is relatively low.

For 1996, the Committee established a $500,000 bonus for Mr. Hough, which it then reduced to $440,000 to reflect the recommendation of the Board's Audit Committee. Specifically, following an internal inquiry into the source of a document which is the subject of a complaint filed with the Federal Election Commission involving the Company, the Audit Committee suggested that the Compensation Committee take into

consideration the Audit Committee's findings relative to Mr. Hough's supervisory responsibility when considering Mr. Hough's 1996 compensation. The 1996 bonus established by the Committee for Mr. Hough, even after the purported reduction described above, resulted in a 1996 annual bonus (cash and restricted stock) equal to approximately 81% of Mr. Hough's 1996 base salary, compared to a 1995 bonus equal to approximately 80% of Mr. Hough's 1995 base salary.

Messrs. Daley and Shapiro do not believe that the Committee's actions resulted in an appropriate reduction in Mr. Hough's compensation given the Audit Committee's findings, and do not believe that the Company's operating results justify a bonus of the magnitude granted to Mr. Hough. They also do not believe that the other factors considered by the Committee -- board relations, congressional relations and team building -- offset the Company's operating performance so as to justify Mr. Hough's bonus. As to board relations, they believe that Mr. Hough failed to respond to requests and concerns raised by eight directors (including themselves) who were nominated by The Committee to Restore Value at Sallie Mae and first elected to the board by stockholders in 1995. As to Congressional relations, Messrs. Daley and Shapiro believe that the incident leading to the filing of a complaint with the Federal Election Commission referred to above damaged the Company's relationship with the Clinton Administration and with some in Congress. In particular, they believe that following that incident, the relationship of presidentially appointed directors were a more important factor than Mr. Hough's congressional relations in obtaining passage of privatization legislation. Messrs. Daley and Shapiro believe that "team building" is too subjective a criteria to be afforded much weight in awarding bonuses.

Finally, in determining to vote against the bonus awarded to Mr. Hough, Messrs. Daley and Shapiro noted that the chairman of the Committee requested Committee members to consider Mr. Hough's establishment and execution of a longer term strategy in evaluating his performance. Messrs. Daley and Shapiro view privatization as a means to implementing a business strategy, and do not view Congressional passage of privatization legislation as a strategy in itself. They believe that Mr. Hough has not presented to the Board any significant strategy for taking advantage of privatization to enhance the value of stockholders' investment in the Company. Accordingly, they do not believe that Mr. Hough has performed strongly under this criteria.

In consideration of all of the foregoing, Messrs. Daley and Shapiro believe that a lower annual bonus award would have been more appropriate for the Company's CEO.

Messrs. Daley and Shapiro believe that the 27,000 share option grant awarded to Mr. Hough in January 1997 -- following a 30,000 share option grant for Mr. Hough in January 1996 -- is excessive. Their determination is based on the same factors discussed above regarding Mr. Hough's annual bonus, as well as their view as to valuation factors that they believe should be considered in granting options, as discussed above in this dissent under "Stock Options."

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article IX of the Registrant's By-Laws provides for indemnification of the officers and directors of SLM Holding Corporation to the fullest extent permitted by applicable law. Section 145 of the Delaware General Corporation Law provides, in relevant part, that a corporation organized under the laws of Delaware shall have the power, and in certain cases the obligation, to indemnify any person who was or is a party or is threatened to be made a party to any suit or proceeding because such person is or was a director, officer, employee or agent of the corporation or is or was serving, at the request of the corporation, as a director, officer, employee or agent of another corporation, against all costs actually and reasonably incurred by him in connection with such suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal proceeding, he had no reason to believe his conduct was unlawful. Similar indemnity is permitted to be provided to such persons in connection with an action or suit by or in right of the corporation, provided such person acted in good faith and in a manner he believed to be in or not opposed to the best interests of the corporation, and provided further (unless a court of competent jurisdiction otherwise determines) that such person shall not have been adjudged liable to the corporation.

The directors and officers of the Registrant and its subsidiaries will be covered by a policy of insurance under which they will be insured, within limits and subject to certain limitations, against certain expenses in connection with the defense of actions, suits or proceedings, and certain liabilities that might be imposed as a result of such actions, suits or proceedings in which they are parties by reason of being or having been directors or officers.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following exhibits are filed as part of this Registration Statement.

EXHIBIT NO.	DESCRIPTION OF DOCUMENT
*2	-- Agreement and Plan of Reorganization dated as of , 1997, by and among the Student Loan Marketing Association ("Sallie Mae"), SLM Holding Corporation ("Registrant"), and Sallie Mae Merger Company ("MergerCo") (Appendix A to the Proxy Statement/Prospectus contained in this Registration Statement)
*3.1	-- Form of Amended and Restated Certificate of Incorporation of Registrant
**3.2	-- By-Laws of Registrant
*4	-- Reference is made to Article Fourth of the Form of Amended and Restated Certificate of Incorporation of Registrant (Exhibit 3.1 herein)
***5	-- Opinion of Timothy G. Greene, Executive Vice President and General Counsel, as to the legality of the securities being registered
***8	-- Opinion of Skadden, Arps, Slate, Meagher & Flom LLP as to certain tax matters
**10.1	-- Board of Directors' Restricted Stock Plan
**10.2	-- Board of Directors' Stock Option Plan
**10.3	-- Deferred Compensation Plan for Directors
*10.4	-- Incentive Performance Plan
*10.5	-- Stock Compensation Plan
*10.6	-- 1993-1998 Stock Option Plan
*10.7	-- Supplemental Pension Plan
*10.8	-- Supplemental Employees' Thrift & Savings Plan
**21	-- Subsidiaries of the Registrant
23.1	-- Consent of Ernst & Young LLP
***23.2	-- Consents of Persons Who Have Agreed to Serve as Directors of the Holding Company Board
*27	-- Financial Data Schedule
**99.1	-- Charter of Sallie Mae
**99.2	-- By-Laws of Sallie Mae

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* Filed herewith.

** Previously filed.

*** To be filed by an amendment to this Registration Statement.

(b) Financial statement schedules required by Regulation S-X and Item 14(e), Item 17(a) or Item 17(b)(9) of S-4 -- None

ITEM 22. UNDERTAKINGS.

The undersigned Registrant hereby undertakes as follows:

(1) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) That every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933, as amended, and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(4) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement, as amended to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Washington, District of Columbia, on March 25, 1997.

SLM Holding Corporation

By: /s/ LAWRENCE A. HOUGH

Lawrence A. Hough
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement, as amended has been signed by the following persons in the capacities and on the dates indicated.

/s/ LAWRENCE A. HOUGH
- ---
Lawrence A. Hough
President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ DENISE B. MCGLONE
- ---
Denise B. McGlone
Chief Financial Officer
(Principal Financial Officer)

/s/ MARK G. OVEREND
- ---
Mark G. Overend
Controller
(Principal Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO.			PAGE IN SEQUENTIAL NUMBERING SYSTEM
*2	--	Agreement and Plan of Reorganization dated as of , 1997, by and among the Student Loan Marketing Association ("Sallie Mae"), SLM Holding Corporation ("Registrant"), and Sallie Mae Merger Company ("MergerCo") (Appendix A to the Proxy Statement/Prospectus contained in this Registration Statement).....	
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*27	--	Financial Data Schedule.....	
**99.1	--	Charter of Sallie Mae.....	
**99.2	--	By-Laws of Sallie Mae.....	

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* Filed herewith.

** Previously filed.

*** To be filed by an amendment to this Registration Statement.

PROXY

TIME SENSITIVE

STUDENT LOAN MARKETING ASSOCIATION
SOLICITED ON BEHALF OF THE MAJORITY OF THE BOARD OF DIRECTORS OF THE
STUDENT LOAN MARKETING ASSOCIATION FOR THE
SPECIAL MEETING OF SHAREHOLDERS TO BE HELD MAY 15, 1997

The undersigned hereby constitutes and appoints David J. Vitale and Regina T. Montoya, and each or any of them, as true and lawful agents and proxies with full power of substitution in each to represent and to vote all the shares of Sallie Mae Common Stock held of record by the undersigned at the close of business on March 17, 1997 at the Special Meeting of Shareholders of the Student Loan Marketing Association to be held on Thursday, May 15, 1997, at .m., Eastern Standard Time, at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102, and at any adjournments thereof and to vote upon any other business as may properly come before said Special Meeting or any adjournment thereof, hereby revoking any proxy heretofore given.

You are encouraged to specify your choice by marking the appropriate box on the reverse side of this card. If you sign and return this card but do not mark any boxes, your shares of Sallie Mae Common Stock will be voted for the proposal to approve and adopt the Reorganization Agreement as more fully described in the accompanying Proxy Statement/Prospectus dated , 1997. The persons listed above cannot vote your shares of Sallie Mae Common Stock unless you sign and return this card.

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE.)

SEE REVERSE SIDE

THE MAJORITY OF THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR:

/x/ Please mark your votes as this

	FOR	AGAINST	ABSTAIN
The proposal to approve and adopt the Agreement and Plan of Reorganization. The Agreement and Plan of Reorganization provides for the Reorganization of the Student Loan Marketing Association into a subsidiary of a new holding company and the conversion of each outstanding share of Sallie Mae Common Stock into one share of Holding Company Common Stock. The Holding Company will be governed by the provisions of the Holding Company Charter and By-Laws described in, and managed by a Board of Directors composed of the individuals identified in, the accompanying Proxy Statement/Prospectus.	/ /	/ /	/ /

PLEASE MARK BOX BELOW IF SHAREHOLDER WILL BE ATTENDING THE SPECIAL MEETING / /

NOTE: Receipt is hereby acknowledged of the Notice of Special Meeting and the accompanying Proxy Statement/Prospectus. This Proxy revokes all proxies previously given by the undersigned with respect to all shares of Sallie Mae Common Stock as to which the undersigned has voting power. This Proxy when properly executed by the undersigned, will be voted in the manner directed. If the votes are not directed otherwise, this Proxy will be voted for approval and adoption of the Agreement and Plan of Reorganization. A majority (or if only one, then that one) of the proxies or substitutes acting at the Special Meeting, or at any adjournment, thereof may exercise the powers conferred by this Proxy.

Signature _____ Signature _____ Date _____

NOTE: Please sign exactly as name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such.

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION
OF
SLM HOLDING CORPORATION

FIRST: The name of the Corporation is SLM Holding Corporation (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is Two Hundred Seventy Million (270,000,000) shares of capital stock, consisting of (i) Two Hundred Fifty Million (250,000,000) shares of common stock, par value $.20 per share (the "Common Stock"), and (ii) Twenty Million (20,000,000) shares of preferred stock (the "Preferred Stock").

a. Common Stock. The powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock are as follows:

(1) Voting. Except as otherwise expressly required by law or provided in this Certificate of Incorporation, and subject to any voting rights provided to holders of Preferred Stock at any time outstanding, at each annual or special meeting of stockholders, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast one vote in person or by proxy for each share of the Common Stock standing in such holder's name on the stock transfer records of the Corporation.

(2) Dividends. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Certificate of Incorporation, as it may be amended from time to time, holders of shares of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation when, as and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation, Dissolution, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them.

(4) No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

b. Preferred Stock. The Board of Directors is hereby expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or

of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.

c. Power to Sell and Purchase Shares. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock herein or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. Subject to the requirements of applicable law, the Corporation shall have the power to purchase any shares of any class of stock herein or hereafter authorized from such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

FIFTH: The name and mailing address of the Sole Incorporator is as follows:

NAME	ADDRESS
Timothy G. Greene	1050 Thomas Jefferson St., N.W. Washington, D.C. 20007

SIXTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(2) (a) The number of directors of the Corporation shall initially be 16, and thereafter shall be such number as from time to time is fixed by resolution of the Board of Directors, provided that the number of directors shall not be less than nine nor more than 19.

(b) A director shall hold office until the next annual meeting of stockholders of the Corporation and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(c) Subject to the terms of any one or more classes or series of Preferred Stock, any vacancy on the Board of Directors may be filled by stockholders of the Corporation at any annual meeting or at a special meeting called for that purpose or by a majority of the Board of Directors then in office, even if less than a quorum, or by a sole remaining director. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time only by the affirmative vote of the holders of at least a majority of the voting power of the Corporation's then outstanding capital stock entitled to vote at an election of directors. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto.

(3) No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article SIXTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

(4) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

SEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

EIGHTH: No action by shareholders shall be valid unless taken at a duly constituted meeting pursuant to the terms of the By-Laws of the Corporation and no action may be taken by stockholders by written consent without a meeting.

NINTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation's By-Laws. The affirmative vote of at least a majority of the entire Board of Directors shall be required to adopt, amend, alter or repeal the Corporation's By-Laws.

EXHIBIT 10.4

STUDENT LOAN MARKETING ASSOCIATION
INCENTIVE PERFORMANCE PLAN

I. PURPOSE

The purpose of the Incentive Performance Plan (the "Plan") is to assist the Student Loan Marketing Association (the "Corporation" or "Sallie Mae") in attracting, motivating and retaining executives who are responsible for the attainment of the Corporation's future growth and success by rewarding them for achieving long-term financial results.

II. DEFINITIONS

Unless the context otherwise requires, the following definitions are applicable throughout the Plan:

1. "Board" means the Board of Directors of the Student Loan Marketing Association.

2. "Committee" means the Compensation and Personnel Committee of the Board.

3. "Common Stock" means the common stock of the Corporation.

4. "Fiscal Year" means the twelve-month period used as the annual accounting period by the Corporation.

5. "Subsidiary" means any wholly- or majority-owned subsidiary of the Corporation.

6. "Participant" means any full-time officer of the Corporation at the level of Senior Vice President or above or any Chief Executive Officer of a Subsidiary to whom an award may be made under this Plan.

7. "Administrative Guidelines" means those provisions adopted by the Committee, as they shall be amended from time to time, which shall govern the Plan's operation.

8. "Actual Award" means the dollar amount, determined according to Section IV of this Plan, which becomes payable upon the completion of a Program, as defined below.

9. "Program Formula" means the business criteria that have been established by the Committee as the objectives for corporate performance and the maximum percentage of salary that a Participant may be awarded for the achievement of each Program Target, as defined below, established for each business criterion. The applicable business criteria are attached hereto and made a part of this Plan as Exhibit A.

10. "Program" means the three consecutive Fiscal Years designated by the Committee under which Actual Awards may be earned by Participants to the extent that predetermined Program Targets are achieved under the Program Formula during the corresponding Program, as defined below.

11. "Program Target" means appropriate measures of performance and levels of attainment established for each business criterion under the Program Formula and used to determine the Participants' Actual Awards.

III. PROGRAM ESTABLISHMENT

Prior to the beginning of each Program, the Compensation and Personnel Committee, subject to approval by the Board, shall establish Program Targets to be achieved under the Program Formula applicable to the

Corporation or a Subsidiary. The Program Targets shall include a schedule relating accomplishment of Program Targets to the Actual Awards that may be earned by Participants.

The Committee shall designate the Participants within each Program. The Committee may add new Participants to a Program after its commencement and Actual Awards for such new Participants shall be determined upon a pro rata basis, based on the number of months of service under a Program.

IV. DETERMINATION OF ACTUAL AWARD

At the completion of a Program, or at such other time as specified in the Administrative Guidelines, the Committee shall calculate each Participant's Actual Award for the Program by multiplying the annual salary of the Participant as of the last day of the Program by the percentage representing the degree of attainment of the Program Targets. An Actual Award for any Participant shall not exceed 100 percent of the Corporation's Chief Executive Officer's salary at the end of the Program. For purposes of calculating an Actual Award, annual increases of such salary in excess of 10 percent shall not be taken into account.

If a Participant becomes disabled during a Program under the terms of the applicable long-term disability plan in effect at that time, retires during a Program, at an early, normal or postponed retirement date, or is granted a leave of absence during a Program, a Participant shall receive a pro rata Actual Award determined according to the Plan, multiplied by a fraction, the numerator of which shall be the total months of the Participant's active employment during the Program and the denominator of which shall be the total months of the Program's duration. The Actual Award for such Participants shall be determined after the Program runs its full course and shall be paid in full immediately.

If a Participant dies during a Program, the Actual Award for any Participant who has died during any Program shall be determined by the Committee's assessment of the degree to which the Program Targets are likely to be achieved by the end of the Program. The Actual Award so determined shall be multiplied by a fraction, the numerator of which shall be the total months of the Participant's active employment during the Program and the denominator of which shall be the total months of the Program's duration. In the case of death, the annual salary of the Participant as of the date of his or her death shall be used in determining the amount of the Actual Award.

Participants who otherwise terminate their employment, or whose employment is otherwise terminated, shall be ineligible to receive any Actual Awards for Programs that conclude after the Participant's termination date.

For purposes of determining Actual Awards for Participants who are employees of both the Corporation and a Subsidiary, the above rules shall apply upon the disability, retirement, leave of absence or termination of employment from both the Corporation and the Subsidiary.

V. DISTRIBUTION OF ACTUAL AWARDS

Payments of Actual Awards shall be made according to the following schedule:

1. one-third as soon as practicable after the completion of a Program;

2. one-third at the beginning of the Fiscal Year following the Fiscal Year in which the payment under (a) above was made; and

3. one-third at the beginning of the Fiscal Year following the Fiscal Year in which the payment under (b) above was made.

If a Participant, subsequent to an Actual Award but prior to the payment of such award in full:

1. dies;

2. becomes disabled under the terms of the applicable long-term disability plan in effect at that time; or

3. retires at an early, normal or postponed retirement date under the applicable retirement procedures in effect at that time,

then the remaining amount of the Actual Award then unpaid shall be paid immediately to the Participant or his or her estate.

If a Participant is granted a leave of absence prior to payment in full of his or her Actual Award, the next scheduled payment of the Actual Award shall be delayed from its regular payment date by an amount of time equal to the leave of absence, and the next payment, if any, shall be made one calendar year thereafter, and so forth until paid in full.

Participants who otherwise terminate their employment or whose employment is terminated prior to the payment of their Actual Awards in full shall be entitled to an immediate pro rata payment of the next scheduled payment of their Actual Award, but shall be entitled to no further payments. The final payment for such a terminated employee shall be determined by multiplying a fraction, the numerator of which shall be the number of months which have elapsed during the Fiscal Year in which termination occurs and the denominator of which shall be 12, by the dollar amount of the next scheduled payment.

For purposes of payments of Actual Awards to Participants who are employees of both the Corporation and a Subsidiary, the above rules shall apply upon the disability, retirement, leave of absence or termination of employment from both the Corporation and the Subsidiary.

Before each payment of the Actual Award, a Participant shall elect, on a form supplied by the Committee, to receive such payment in any combination of the following two forms of payment:

1. Cash, or

2. Whole shares of Common Stock and cash for fractional shares. The conversion of the portion of the payment of the Actual Award that will be paid in shares of Common Stock shall be based on the current market value of a share of Common Stock. The current market value shall be the closing price of the Common Stock on the day immediately preceding the date of the payment of the Actual Award.

VI. ADJUSTMENT OF PERFORMANCE TARGETS

The Board may, during a Program and consistent with applicable tax law governing the deduction of compensation paid under the Plan, make such adjustments as it may deem appropriate to reflect any significant changes that may have occurred during such Program in accounting practices, tax laws or other laws or regulations that alter or affect the computation of the measures of financial performance used for the calculation of Actual Awards.

VII. OTHER CONDITIONS

No person shall have any claim or right to participate in a Program or to receive Actual Awards under this Plan. Neither a Participant in a Program nor his heirs or legal representatives shall have any right or interest in an Actual Award until an award thereof shall have been determined in accordance with Section IV hereof.

It is a condition of this Plan, and all rights of each Participant shall be subject thereto, that no right or interest of any Participant shall be assignable or transferable, in whole or in part, either directly or by operation of law or otherwise, including, but not by way of limitation, execution, lien, garnishment, attachment, pledge, bankruptcy or in any other manner; except that any such right shall be transferable to the Participant's heirs or estate in the event of the Participant's death. No such right or interest of any Participant shall be liable for, or subject to, any obligation or liability of such Participant. In the event of a Participant's death, any Actual Awards not yet paid shall be made in cash or Common Stock.

Neither this Plan, nor any action taken hereunder, shall be construed as giving to any employee the right to be retained in the employ of the Corporation or a Subsidiary.

The Corporation shall deduct from awards distributed any Federal, state or local taxes required by law to be withheld from such awards.

VIII. STOCK SUBJECT TO THE PLAN

Shares that may be issued under the Plan shall be the Common Stock, $0.20 par value, of the Corporation. The aggregate number of shares of Common Stock that may be granted is 200,000. Such shares may be previously issued shares reacquired by the Corporation or authorized but unissued shares.

IX. ADJUSTMENT UPON CHANGES IN CAPITALIZATION

If there is a change in the number or kind of outstanding shares of the Corporation's Common Stock by reason of legislative action, a stock dividend, stock split, recapitalization, merger, consolidation, combination or other similar event, appropriate adjustments shall be made by the Compensation and Personnel Committee to the number and kind of shares that may be granted under the Plan.

X. AMENDMENT

The Board shall have the right to amend, suspend or terminate this Plan at any time; provided, however, that no such action shall change any Program Target that the Board has fixed for any Program (except for changes pursuant to Section VI), nor deprive any Participant of his or her contractual right to any Actual Award that has been awarded to him or her as to any Program, provided that all requirements necessary to the actual payment of such award have been fulfilled. Plan amendments shall be subject to shareholder approval as required by applicable law.

XI. ADMINISTRATION

The Plan shall be administered by the Committee, which shall have sole power to:

1. Determine whether to establish a Program and, if such a Program is established, to determine the Participants therein.

2. Calculate and approve the amount of Actual Awards.

3. Construe and interpret the Plan, and make and amend such Administrative Guidelines as the Committee may deem desirable.

Actions, determinations and decisions of the Committee with respect to the Plan, the designation of Participants therein, the determination of Actual Awards thereunder, and the administration thereof, shall be final, conclusive and binding upon all parties concerned, including the Corporation, its shareholders and any employee of the Corporation.

XII. EFFECTIVE DATE

The Plan became effective as of January 1, 1983 and was restated effective January 1, 1986. The effective date of this Plan as restated here in its entirety is May 26, 1994.

IN WITNESS THEREOF, Student Loan Marketing Association has caused this instrument to be duly executed in its name and on its behalf this _____ day of _____, 1994

STUDENT LOAN MARKETING ASSOCIATION

Timothy G. Greene,
Executive Vice President and
General Counsel

EXHIBIT A
TO
STUDENT LOAN MARKETING ASSOCIATION
INCENTIVE PERFORMANCE PLAN

BUSINESS CRITERIA FOR SALLIE MAE

For the Corporation, the business criteria for establishing a Program Formula may include one or more of the following: total shareholder return, return on assets, return on equity, earnings per share, and education mission enhancements.

BUSINESS CRITERIA FOR CYBERMARK, INC., A WHOLLY-OWNED SUBSIDIARY OF SALLIE MAE

For Cybermark, Inc., the business criteria for establishing a Program Formula may include one or more of the following: return on capital, increases in revenues, and number of product placements, including pilot projects.

EXHIBIT 10.5

STUDENT LOAN MARKETING ASSOCIATION
STOCK COMPENSATION PLAN

Section 1. Purpose

The purpose of this Plan is to provide equity-based compensation to officers of the Company who are eligible for compensation payments under the Profit Incentive Plan.

Section 2. Definitions

(a) Award refers to Unrestricted Stock, Restricted Stock, or Stock Units granted pursuant to the terms and conditions of the Plan.

(b) Board of Directors refers to the board of directors of the Student Loan Marketing Association, except that after a reorganization to privatize the Student Loan Marketing Association described in section 8(b) of the Plan, it shall mean the board of directors of a state-chartered holding company that is the single shareholder of the Student Loan Marketing Association.

(c) Company refers to the Student Loan Marketing Association, except that after a reorganization to privatize the Student Loan Marketing Association described in section 8(b) of the Plan, it shall mean the state-chartered holding company that is the single shareholder of the Student Loan Marketing Association and any other entity that is designated by the Board of Directors and, with respect to the state-chartered holding company, is a corporation that is a member of the controlled group (within the meaning of section 1563(a) of the Internal Revenue Code).

(d) Committee refers to the Compensation and Personnel Committee of the Board of Directors which administers the Plan and the members of which are "disinterested persons" within the meaning of Rule 16b-3 promulgated under the Securities and Exchange Act of 1934.

(e) Grantee refers to an officer of the Company to whom an Award is made under the Plan.

(f) Profit Incentive Plan refers to the Student Loan Marketing Association Profit Incentive Plan, including any successor plan.

(g) Plan refers to the Student Loan Marketing Association Stock Compensation Plan set forth in this document, as amended from time to time, and any rules or regulations established by the Committee in the course of administering the Plan.

(h) Restricted Stock refers to an Award under section 5 of the Plan transferring shares of Stock to the grantee that remain forfeitable until the Grantee completes a specified period of employment with the Company or until the occurrence or nonoccurrence of such other event specified in the Award.

(i) Stock refers to the Common Stock of the Student Loan Marketing Association, except that after a reorganization to privatize the Student Loan Marketing Association described in section 8(b) of the Plan, it shall mean the Common Stock of the state-chartered holding company that is the single shareholder of the Student Loan Marketing Association.

(j) Stock Units refers to an Award under section 7 of the Plan in which the Grantee is credited with one or more units each of which are equivalent to a share of Stock and, as specified in the Award, are payable at a specified time either in cash or by the transfer of equivalent shares of Stock.

(k) Unrestricted Stock refers to an Award under section 6 of the Plan transferring shares of Stock to the grantee that are nonforfeitable.

Section 3. Shares of Stock Subject to Awards

The total number of shares of Stock available under the Plan for Awards shall consist of 150,000 shares, subject to the adjustments specified in section 8 of the Plan. Stock transferred pursuant to an Award shall reduce the total number of shares of Stock available under the Plan. The total number of shares available under the Plan shall be increased by the number of shares of Stock that are forfeited and by the equivalent number of shares of any Stock Units that are paid in cash.

Section 4. Granting of Awards and Administration of Plan

(a) The Committee shall determine and designate from time to time the officers of the Company who are to be granted Awards and the number of shares of Stock to be transferred pursuant to an Award, subject to the limitation of section 3. Awards shall be made only to the extent that an officer is eligible to receive compensation under the Profit Incentive Plan and in lieu of all or part of cash compensation payable under such plan, as specified by the Committee.

(b) In its discretion, the Committee may provide an officer with an opportunity to elect to receive compensation under the Performance Incentive Plan in the form of a Restricted Stock Award in lieu of a cash payment. If an officer makes such an election, the number of shares of stock transferred pursuant to the Restricted Stock Award shall be determined as if the fair market value of the stock were only ninety percent of the fair market value as of the date of transfer. Elections shall be made available to an officer only in the calendar year prior to the year in which the officer's compensation under the Profit Incentive Plan is ascertainable and payable.

(c) The Committee shall evidence each Award by a writing provided to the Grantee that specifies whether the Award is Restricted Stock, Unrestricted Stock, or Stock Units, the number of shares subject to the Award, and other terms and conditions of the Award.

(d) The Committee shall have the authority to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating to the Plan; to determine the terms and provisions of Awards; to waive any terms or conditions applicable to an Award, including conditions of forfeiture; and to make any other determination necessary or advisable for the administration of the Plan. The Committee shall have sole discretion to resolve any controversy or claim arising under the Plan or an Award.

Section 5. Restricted Stock

(a) An Award of Restricted Stock shall cause a transfer of Stock to the Grantee as of the date of the Award, but the Stock transferred shall be subject to such forfeiture provisions that are specified under the terms of the Award.

(b) The Grantee of an Award of Restricted Stock shall have the rights and privileges of a stockholder with respect to Stock specified in the Award, subject to the limitations otherwise set forth in the Plan, including the right to vote such shares and the right to be paid currently any cash or stock dividends with respect to the Stock.

(c) Upon the transfer of Stock to a Grantee under a Restricted Stock Award, the Grantee shall be entered on the books and records of the Company as the holder of such shares, but a stock certificate or other indicia of ownership shall not be delivered to the Grantee until such time that the Stock is no longer

forfeitable. Upon the lapse of any condition of forfeiture, the certificate or other indicia of ownership shall be delivered to the Grantee as soon as practicable.

(d) Notwithstanding any other provision of the Plan, the Stock transferred under any Award of Restricted Stock shall not be subject to forfeiture if, prior to the satisfaction of all forfeiture conditions, (1) the Grantee dies; (2) the Grantee becomes eligible for payments under another plan, program or arrangement sponsored by the Company on account of the Grantee's permanent disability; (3) the Grantee is involuntarily terminated (but not including involuntary terminations for malfeasance in the course of the Grantee's duties of employment or the Grantee's commission of a criminal act); or (4) the Grantee retires from employment on or after reaching what is then defined as the normal retirement age under the Student Loan Marketing Association Employees' Pension Plan or a successor tax-qualified retirement plan.

Section 6. Unrestricted Stock

An Award of Unrestricted Stock shall cause a transfer of Stock to the Grantee as of the date of the Award. Stock transferred pursuant to an Award of Unrestricted Stock shall not be subject to any condition of forfeiture. As soon as practicable after an Award is made, the Grantee shall receive a stock certificate or other indicia of ownership.

Section 7. Stock Units

(a) An Award of Stock Units shall give the Grantee the right to a future transfer of Stock or payment of equivalent cash, as specified under the terms of the Award. The number of Stock Units shall be increased on account of any dividends paid on Stock during the period after an Award is made and prior to the payment of cash or transfer of Stock under the Award.

(b) In the discretion of the Committee, an Award of Stock Units may be subject to any conditions of forfeiture that may be applied to Awards of Restricted Stock, but such conditions shall be waived if, prior to their satisfaction, an event occurs described in Section 5(d) of the Plan.

(c) An Award of Stock Units shall not give the Grantee any beneficial ownership in Stock prior to a transfer of Stock to the Grantee under the terms of the Award. An Award of Stock Units shall constitute unfunded deferred compensation. No separate fund shall be established or other segregation of assets made to assure payment of any Awards of Stock Units. Prior to payment or transfer of Stock, a Grantee of an Award of Stock Units shall have no rights greater than an unsecured general creditor of the Company.

(d) A Grantee of an Award of Stock Units shall have the right to elect to receive payments of cash or transfers of Stock (whichever is applicable) in annual installments of up to ten years in lieu of a single payment or transfer, provided that such election is filed with the Committee at least 12 months prior to the date that the Grantee is eligible for any payment or transfer of Stock under the Award.

Section 8. Changes in Capitalization Including Privatization

(a) The Committee may make adjustments to the number and class of shares of stock available under the Plan and outstanding Awards to prevent dilution or enlargement of rights, including adjustments appropriate to reflect stock dividends, split-ups, recapitalization, mergers, consolidations, combinations or exchanges of shares, separations, reorganizations, liquidations, and the like.

(b) The Committee's authority under section 8(a) of the Plan shall include any adjustments made necessary or appropriate to the Plan and outstanding Awards on account of a reorganization to convert the Student Loan Marketing Association from a federally-chartered government sponsored enterprise to a wholly-owned subsidiary of a state-chartered holding company, including substituting shares of Common Stock in the Student Loan Marketing Association made available under the Plan with shares of a state-chartered holding company.

Section 9. Amendment or Termination of Plan

The Board of Directors, or the Committee with the approval of the Board of Directors, may at any time alter, amend, suspend, discontinue, or terminate this Plan; provided, however, that such action shall not adversely affect the rights of Grantees to Awards previously granted under the Plan and that no amendment shall be made without the approval of the stockholders of the Company that increases the maximum number of shares that may be transferred pursuant to Awards under the Plan or that materially increases the benefit accruing to Grantees.

Section 10. General Provisions

(a) At any time that an Award of Restricted Stock is subject to a condition of forfeiture, or at any time prior to the transfer of Stock or payment of equivalent cash under an Award of Stock Units, such Awards shall not be subject to anticipation, sale, assignment, pledge, encumbrance, or charge, except by will or operation of law.

(b) The granting of an Award under the Plan shall not give the Grantee any right to future employment with the Company and shall have no effect on the terms of any Grantee's employment with the Company.

(c) Notwithstanding any other provisions of the Plan, prior to or concurrent with the payment of any cash to a Grantee or the delivery of any certificate or indicia of ownership in Stock, the Committee may, in its discretion, require that the Grantee pay or cause to be paid any amount necessary to satisfy applicable federal, state, or local taxes. In addition, prior to the delivery of any certificate or indicia of ownership in Stock, the Committee, in its discretion, may require (1) the listing or approval for listing of such shares on any securities exchange that is the principal market for such shares; (2) the registration or other qualification of such shares under any state, federal or local law; or (3) the consent of any state, federal or local agency.

(d) The Committee may issue or transfer Stock (or pay cash, if applicable) under any Award to any entity of the Company that is the employer of a Grantee on the condition or understanding that such entity shall transfer shares (or pay cash, if applicable) to the Grantee in accordance with the terms of the Award.

Section 11. Governing Law

The terms of the Plan and Awards granted hereunder shall be governed by the laws of the District of Columbia.

Section 12. Effective Date

The terms of the Plan shall be effective on January 1, 1996, as approved by the shareholders of the Student Loan Marketing Association at the May 16, 1996 meeting of shareholders.

IN WITNESS WHEREOF, Student Loan Marketing Association has caused this instrument to be duly executed in its name and on its behalf on this 16th day of May, 1996.

STUDENT LOAN MARKETING ASSOCIATION

Timothy G. Greene, Executive
Vice President and General Counsel

EXHIBIT 10.6

STUDENT LOAN MARKETING ASSOCIATION
1993-1998 STOCK OPTION PLAN

I. PURPOSE

The purposes of the Student Loan Marketing Association 1993-1998 Stock Option Plan (the "Plan") are to: (1) closely associate the interests of the management of the Student Loan Marketing Association and its subsidiaries and affiliates (collectively referred to as the "Corporation") with the shareholders by reinforcing the relationship between participants' rewards and shareholder gains; (2) provide management with an equity ownership in the Corporation commensurate with corporate performance, as reflected in increased shareholder value; (3) maintain competitive compensation levels; and (4) provide an incentive to management for continuous employment with the Corporation.

II. ADMINISTRATION

(a) The Plan shall be administered by the Compensation and Personnel Committee ("Committee") of the Board of Directors of the Corporation ("Board"). In addition to its duties with respect to the Plan stated elsewhere in the Plan, the Committee shall have full authority, consistent with the Plan, to interpret the Plan, to promulgate such rules and regulations with respect to the Plan as it deems desirable, to delegate its responsibilities hereunder to appropriate persons and to make all other determinations necessary or desirable for the administration of the Plan. All decisions, determinations and interpretations of the Committee shall be binding upon all persons.

(b) Stock options granted pursuant to the Plan ("Options") shall be either incentive stock options ("ISOs") intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), or nonqualified stock options ("NSOs") not intended to qualify under Code Section 422. References in this Plan to Options shall include both ISOs and NSOs.

(c) The Committee shall administer the Plan in a manner necessary to establish and maintain the Options intended to constitute ISOs as ISOs, and the Options intended to constitute NSOs as NSOs. However, the Corporation makes no representation that the Options designated as ISOs and the Options designated as NSOs will qualify at the time of grant as ISOs and NSOs, respectively, or will continue to qualify as ISOs and NSOs, respectively. Nor does the Corporation make any representation concerning the tax consequences to an employee upon receipt or exercise of any Option hereunder or the subsequent sale of Common Stock acquired thereunder.

(d) The Committee shall administer and maintain the Plan in the manner necessary for Options granted to any "covered employee" to qualify as performance-based compensation arrangements within the meaning of Code section 162(m), and the Regulations thereunder, including the limitation that the Committee be comprised of "outside" directors.

III. SHARES SUBJECT TO THE PLAN

Shares that may be issued under the Plan shall be the Common Stock, $0.20 par value, of the Corporation ("Common Stock"). The aggregate number of shares of Common Stock which may be delivered on exercise of the Options is 5,091,450. Such shares may be previously issued shares reacquired by the Corporation or authorized but unissued shares. If any Option expires, terminates or is canceled for any reason, without having been exercised in full, the shares covered by the unexercised portion of such Option shall again be available for Options, within the limit specified above. Notwithstanding the above, during any calendar year beginning on or after January 1, 1997, no participant shall be granted Options for more than 150,000 shares, including Reload Options granted pursuant to Article VIII, and including any Options that expire, terminate, or are canceled.

IV. PARTICIPANTS

The Committee shall determine the class of key employees of the Corporation and its subsidiary corporations, which shall be eligible for participation in the Plan and shall from time to time in its discretion select from among them those to whom Options shall be granted ("Participants"). Also, the Committee may grant options to key individuals who have accepted offers of employment with the Corporation.

V. GRANTS OF OPTIONS

(a) The Committee shall in its discretion determine the time or times when Options shall be granted and the number of shares of Common Stock to be subject to each Option, except that no Option may be granted after March 18, 1998.

(b) The Committee may in its discretion grant either ISOs, NSOs or a combination of both.

(c) At any given time, a share of Common Stock may be subject to only one of the two types of Options that may be issued under the Plan.

(d) With respect to ISOs granted under the Plan, the aggregate fair market value (determined as of the date the Option is granted) of the Common Stock with respect to which ISOs are exercisable for the first time by the Participant during any calendar year under all stock option plans of the Corporation and its Subsidiaries shall not exceed $100,000. Notwithstanding the provisions for acceleration of the date an Option is first exercisable in Article VII and Article IX, in no event shall the date that an ISO is first exercisable be accelerated under this Plan if the acceleration would cause an ISO of a Participant to exceed the limit set forth in this paragraph.

(e) No Option intended to constitute an ISO shall be granted to an employee who, at the time the Option is granted, owns (within the meaning of Section 422(b)(6) of the Code) Common Stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Corporation or any of its subsidiaries.

(f) Each Option shall be evidenced by a written instrument which shall (1) state the terms and conditions of the Option in accordance with the Plan; and (2) contain such additional provisions as may be required under applicable laws, regulations, and rules or otherwise appropriate.

VI. OPTION PRICE

The purchase price of a share of Common Stock subject to an Option shall be, subject to adjustment pursuant to Article XVI, an amount equal to the fair market value of the Common Stock on the day the Option is granted. The fair market value shall be the closing price at which the Common Stock traded on the day the Option is granted.

VII. OPTION PERIOD; EXERCISE RIGHTS

(a) Each Option shall be for a term as the Committee shall determine, but not more than 10 years from the date it is granted, and shall be subject to earlier termination as provided in Article IX.

(b) Options granted may not be exercised in whole or in part during the designated holding period for such Option, except as may be authorized by the Committee in its sole discretion. The designated holding period for an Option shall be a period of months, not less than twelve and not more than thirty-six, beginning with the date on which the Option is granted; such number of months shall be determined by the Committee at the time that such Option is granted.

VIII. RELOAD OPTIONS

(a) Authorization and Grant of Reload Options. Concurrently with or subsequent to the award of Options to any Participant in the Plan, the Committee may authorize reload options to purchase for cash or shares a number of shares of Common Stock ("Reload Options"). To the extent authorized by the Committee, the number of Reload Options shall equal:

(i) the number of shares of Common Stock used to exercise the underlying Stock Options (either shares previously owned or shares acquired pursuant to the exercise of the underlying option and sold in order to exercise e.g., such as in a so-called "cashless exercise"); and

(ii) the number of shares of Common Stock used to satisfy any tax withholding incident to the exercise of the underlying Stock Options.

The date of grant of the Reload Option shall be the date the underlying Option is exercised.

(b) Reload Option. Each Stock Option Agreement shall state whether the Committee has authorized Reload Options with respect to the underlying Stock Options. Upon the exercise of an underlying Stock Option, the Reload Option will be evidenced by a written instrument in accordance with paragraph (f) of Article V.

(c) Reload Option Price. The option price per share of Common Stock deliverable upon the exercise of a Reload Option shall be the fair market value of a share of Common Stock on the date the Reload Option is granted.

(d) Term and Exercise of Reload Options. Each Reload Option is fully exercisable twelve months from the date of grant. The term of each Reload Option shall be equal to the remaining option term of the underlying Stock Option.

(e) Holding Period Requirement and One Reload Limit. In addition to any other terms and conditions the Committee deems appropriate, the Reload Option shall be subject to the following terms: (i) the exercisability of a Reload Option grant is conditioned upon the Participant holding the stock acquired by the exercise of the underlying Option for a period of twelve months from the date the Reload Option was granted; if the Participant fails to comply with this holding requirement, the Reload Option grant will be cancelled, and (ii) Reload Options will not be granted upon the exercise of a Reload Option.

(f) Termination of Employment. No Reload Options shall be granted to optionees when Stock Options are exercised pursuant to the terms of this Plan following termination of the optionee's employment.

(g) Reload Options shall not reduce the aggregate number of shares authorized under this Plan.

(h) The effective date of this Article VIII is January 25, 1996. Reload Options shall not be granted for any Stock Options granted prior to January 25, 1996.

IX. EXERCISE RIGHTS UPON TERMINATION OF EMPLOYMENT

(a) If a Participant terminates service on account of becoming disabled, the Participant may exercise the Option in whole or in part within one year after the date of disability, but in no event later than the date on which it would have expired if the Participant had not become disabled.

For this purpose, a Participant shall be deemed to be disabled if he or she is determined to be disabled for purposes of meeting any insurance requirements under policies provided by the Corporation.

(b) If a Participant dies during a period in which he or she is entitled to exercise an Option (including the periods referred to in paragraphs (a) and (d) of this Article) the Option may be exercised at any time within its remaining term as shall be prescribed in the option instrument, but in no event later than the date on which it would have expired if the Participant had lived, or one year after the optionee's death, whichever date is earlier, by the Participant's executor or administrator or by any person or persons who shall have acquired the Option directly from the Participant by bequest or inheritance. The Option may be exercised in whole or in part.

(c) If a Participant's employment with the Corporation or a subsidiary shall be terminated for cause, he or she shall forfeit any and all outstanding option rights and such rights shall be deemed to have lapsed for purposes hereof as of the date of the Participant's termination of service.

(d) If a Participant ceases to be employed by the Corporation or a subsidiary for any reason other than disability, death or termination for cause during a period in which he or she is entitled to exercise an Option, the Participant's Option shall terminate three months after the date of such cessation of employment, but in no event later than the date on which it would have expired if such cessation of employment had not occurred. During such period the Option may be exercised only to the extent that the Participant was entitled to do so at the date of cessation of employment unless the Committee, in its sole discretion, permits exercise of the Option to a greater extent. The employment of a Participant shall not be deemed to have ceased upon his or her absence from the Corporation or a subsidiary on a leave of absence granted in accordance with the usual procedures of the Corporation or such subsidiary.

(e) No acceleration of the exercise date of an ISO shall occur pursuant to this Article if such earlier exercise would cause an ISO to violate paragraph (d) of Article V.

X. METHOD OF EXERCISE

(a) Each exercise of an Option shall be by written notice to the Secretary of the Corporation, stating the number of shares to be purchased. An Option may be exercised in whole or in part; provided, however, that an Option may not be exercised as to less than 25 shares at any one time, except with respect to the remaining shares then purchasable under the Option, if less than 25 shares. Fractional shares of Common Stock will not be issued. The Committee may prescribe rules limiting the frequency of exercise of Options.

(b) The purchase price of Common Stock being purchased shall be paid in full at the time the Option is exercised. Such payment may be made, at the election of the person exercising the Option:

(i) in cash;

(ii) by delivery of Common Stock then owned by such person, having a fair market value, as determined under Article VI hereof, equal to such purchase price; or

(iii) partly in cash and partly in Common Stock having a fair market value as determined under Article VI.

(c) A Participant or other person entitled to exercise an Option shall not be entitled to any rights as a shareholder of the Corporation with respect to any shares covered by such Option until such shares shall have been registered on the transfer books of the Corporation in the name of such person.

XI. WITHHOLDING TAXES

Whenever the Corporation proposes or is required to issue or transfer shares of Common Stock under the Plan, the Corporation shall have the right to require the grantee to remit to the Corporation an amount sufficient to satisfy any Federal, state and/or local withholding tax requirements prior to the delivery of any certificate or certificates for such shares. Alternatively, the Corporation may issue or transfer such shares of Common Stock net of the number of shares sufficient to satisfy the withholding tax requirements. For withholding tax purposes, the shares of Common Stock shall be valued on the date the withholding obligation is incurred.

XII. NONTRANSFERABILITY OF OPTIONS

Each Option shall be nonassignable and nontransferable by the Participant other than by will or the laws of descent and distribution. Each Option shall be exercisable during the Participant's lifetime only by the Participant.

XIII. REPURCHASE OF SHARES BY CORPORATION

The Corporation is under no obligation to repurchase Common Stock acquired pursuant to the exercise of an Option hereunder.

XIV. USE OF PROCEEDS

The proceeds received by the Corporation from the sale by it of shares of Common Stock to persons exercising Options pursuant to the Plan will be used for the general purposes of the Corporation.

XV. LAWS AND REGULATIONS

The Plan, the grant and exercise of Options, and the obligation of the Corporation to sell and deliver shares of Common Stock upon exercise of Options shall be subject to all applicable laws, regulations, and rules.

XVI. ADJUSTMENT UPON CHANGES IN CAPITALIZATION

If there is a change in the number or kind of outstanding shares of the Corporation's Common Stock by reason of legislative action, a stock dividend, stock split, recapitalization, merger, consolidation, combination or other similar event, appropriate adjustments shall be made by the Committee to the number and kind of shares subject to the Plan, the number and kind of shares under Options then outstanding, the maximum number of shares available for Options, the Option price and other relevant provisions, to the extent that the Committee, in its sole discretion, determines that such change makes such adjustments necessary or equitable.

XVII. NO EMPLOYMENT RIGHTS

Nothing in the Plan shall confer upon any employee of the Corporation or of a subsidiary any right to continued employment, or interfere with the right of the Corporation or a subsidiary to terminate his or her employment at any time, for any reason.

XVIII. TERMINATION; AMENDMENTS

(a) The Board may at any time terminate the Plan.

(b) The Board may at any time or times amend the Plan, or amend any outstanding Option or Options, for the purpose of satisfying the requirements of any changes in applicable laws or regulations or for any other purpose which at the time may be permitted by law. In the event that applicable rules or regulations are promulgated by the Internal Revenue Service which permit the acceleration of the date an Option is first exercisable without violating the $100,000 limit described in paragraph (d) of Article V, the Committee is authorized to act for the Board in amending the Plan to permit acceleration in conformity with such rules or regulations.

(c) Except as provided in Article XVI, no such amendment shall, without the approval of the shareholders of the Corporation:

(i) increase the maximum number of shares of Common Stock for which Options may be granted under the Plan;

(ii) reduce the price at which Options may be granted below the price provided for in Article VI;

(iii) reduce the Option price of outstanding Options;

(iv) extend the period during which Options may be granted;

(v) extend the period during which an outstanding Option may be exercised;

(vi) materially increase in any other way the benefits accruing to Participants; or

(vii) change the class of persons eligible to be Participants.

(d) Nothing contained in this Plan shall be construed to prevent the Corporation or any subsidiary from taking any corporate action which is deemed by the Corporation or any such subsidiary to be appropriate or in its best interest, whether or not such action would have an adverse effect on the Plan or any award made under the Plan. No employee, beneficiary, or other person shall have any claim against the Corporation or any subsidiary as a result of any such action.

XIX. INDEMNIFICATION OF COMMITTEE AND BOARD

The Corporation may, consistent with applicable law, indemnify members of the Committee against any liability, loss or other financial consequence suffered by them with respect to any act or omission of the Committee or its members relating to the Plan to the same extent and subject to the same conditions as specified in the indemnity provisions contained in the By-Laws and Regulations of the Student Loan Marketing Association.

XX. EFFECTIVE DATE

The original effective date of this Plan is March 18, 1983. The Plan has been amended from time to time, and, prior to this restatement, the plan was last restated in its entirety on March 18, 1993. The Plan is restated herein as of January 25, 1996, as approved by the shareholders of the Student Loan Marketing Association at the May 16, 1996 Annual Meeting of Shareholders.

IN WITNESS WHEREOF, Student Loan Marketing Association has caused this instrument to be duly executed in its name and on its behalf on this 16th day of May, 1996.

STUDENT LOAN MARKETING ASSOCIATION

Timothy G. Greene, Executive
Vice President and General Counsel

EXHIBIT 10.7

Student Loan Marketing Association

Supplemental Pension Plan

1. Purpose and Effective Date

1.1 Purpose. The purpose of the Student Loan Marketing Association Supplemental Pension Plan is to provide supplementary pension benefits based on certain bonuses and deferred compensation earned by those employees who are or who become eligible for benefits from the Student Loan Marketing Association Employees' Pension Plan, in addition to providing benefits to those employees whose benefits under the Student Loan Marketing Association Employees' Pension Plan are reduced as a result of the limitations imposed by sections 401(a)(17) and 415 of the Internal Revenue Code. The Supplemental Pension Plan is intended to qualify as a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of Title I of the Employee Retirement Income Security Act of 1974, as amended. It is intended that the Supplemental Pension Plan remain at all times an unfunded and unsecured obligation of the Corporation.

1.2 Effective Date. The Effective Date of the Plan is January 1, 1983. Pursuant to action of the Board of Directors on September 22, 1989, and November 17, 1989, the Plan was amended and restated effective November 17, 1989. Pursuant to action of the Board of Directors on September 18, 1992, the Plan is amended and restated effective September 18, 1992.

2. Definitions

2.1 "Board of Directors" or "Board" means the Board of Directors of the Student Loan Marketing Association.

2.2 "Code" means the Internal Revenue Code of 1986, as amended, and including any regulations, rulings or procedures issued thereunder.

2.3 "Pension Plan Committee" or "Committee" means the Pension Plan Committee as defined in the Pension Plan.

2.4 "Corporation" means the Student Loan Marketing Association (or any other person, firm, or corporation which may succeed to the business of the Student Loan Marketing Association by merger, consolidation or otherwise, and which, by appropriate action, shall adopt the Plan) or any wholly- or majority-owned subsidiary of the Student Loan Marketing Association (or such successor), which adopts the Plan and becomes a party to it with the approval of the Board.

2.5 "Participant" means any employee of the Corporation who is covered under the Plan as provided in Section 3 and whose membership has not ceased as provided in Section 3.2.

2.6 "Pension Plan" means the Student Loan Marketing Association Employees' Pension Plan as amended from time to time.

2.7 "Supplemental Plan" or "Plan" means the Student Loan Marketing Association Supplemental Pension Plan.

2.8 "Salary Compensation" has the same meaning as "Compensation" in the Pension Plan, except that any base salary that is deferred under a non-qualified deferred compensation plan is included in Salary Compensation for the calendar year that the salary is earned.

2.9 "Average Salary Compensation" has the same meaning as "Average Compensation" in the Pension Plan except that the definition of Salary Compensation is substituted for Compensation.

2.10 "Bonus Compensation" means bonuses paid during the calendar year under the Student Loan Marketing Association Profit Incentive Plan, up to 35 percent of Salary Compensation for the prior calendar year; provided however, that if a Participant has not been eligible for at least three bonuses from the Profit Incentive Plan, bonuses paid shall include those paid under the Student Loan Marketing Association Employee Bonus Plan and the Student Loan Marketing Association Non-Officer Bonus Program. Such bonuses that are deferred under a non-qualified deferred compensation plan shall be taken into account in the year that they would have been paid, but for their deferral.

2.11 "Average Bonus Compensation" has the same meaning as "Average Compensation" in the Pension Plan, except that Bonus Compensation is substituted for Compensation and bonuses paid in the Plan Year in which a Participant ceases participation in the Plan are taken into account.

2.12 "Total Average Compensation" means the sum of Average Salary Compensation and Average Bonus Compensation.

Wherever used in this instrument, a masculine pronoun shall be deemed to include the masculine and feminine gender, a singular word shall be deemed to include the singular and plural, and a plural word shall be deemed to include the singular and plural in all cases where the context requires.

3. Eligibility

3.1 Eligibility. Those employees of the Corporation who are participants in the Pension Plan and who are designated by the President and Chief Executive Officer as Participants in the Supplemental Pension Plan shall become Participants in the Plan.

3.2 Termination of Participation. Each Participant shall remain a Participant until he ceases to be both an employee of the Student Loan Marketing Association and a Participant (as defined in the Pension Plan) in the Pension Plan.

4. Amount and Payment of Benefits

4.1 Amount of Benefit. The monthly benefit payable to a terminated or retired Participant (or his spouse or beneficiary) from the Plan shall be determined as of the date he ceases to be a Participant in the Plan and shall be the difference between (a) the monthly benefit which would have been paid from the Pension Plan if the limitations of sections 401(a)(17) and 415 of the Code were not imposed on the Pension Plan and if the definition of Total Average Compensation was substituted for the definition of Average Compensation in the Pension Plan and (b) the benefit that would be payable from the Pension Plan commencing on the same date and in the same form as the benefit from the Supplemental Plan. For those Participants who were also Participants in the Pension Plan as of December 31, 1988, the Pension Plan formula shall be the formula in effect on December 31, 1988, for purposes of calculating the benefit in (a) above or the formula in effect at the time of the Participant's termination, whichever produces the greater benefit.

For those Participants who were also participants in the Pension Plan as of December 31, 1991, the early retirement factors shall be the Pension Plan's early retirement factor in effect on December 30, 1991, for purposes of calculating the benefit in (a) above or the Pension Plan's early retirement factors in effect at the time of the Participant's termination, which ever produces the greater benefit.

For purposes of making the calculations hereunder, the benefit shall be adjusted and/or reduced as appropriate to reflect early retirement, payment options, suspension of benefits upon re-employment, no re-instatement of Credited Service (as defined in the Pension Plan) upon re-employment after the receipt of a lump sum payment, etc., and the dollar limitation on lump sum payments in Section 6.04 of the Pension Plan shall not apply.

Unless he elects otherwise, in the manner prescribed by the Committee, a Participant's beneficiary, if any, shall be deemed to be the same person(s) and/or trust(s) as designated by the Participant under the Pension Plan.

4.2 Form of Benefit. At the election of the Participant, the benefit calculated under Section 4.1 shall be paid in either (1) a lump sum, or (2) any of the annuity options that are available under the Pension Plan. The lump sum will be calculated according to Section 6.04 of the Pension Plan.

If a Participant fails to make an election, his benefit shall be paid in the same manner that his benefit under the Pension Plan is paid.

The Surviving Spouse Benefit, as defined in Article 8 of the Pension Plan, shall be paid in the same form as it is paid under the Pension Plan.

4.3 Time of Payment of Benefit. At the election of the Participant, the benefit shall begin (1) as soon as administratively possible after separation from service, however if a Participant separates from service prior to attaining age 50, the benefit shall not be paid until the first day of the calendar month coincident with or next following the Participant's 50th birthday or (2) at the same time that the benefit begins under the Pension Plan.

If a Participant fails to make an election, his benefits shall begin at the same time that benefits begin under the Pension Plan.

The Surviving Spouse Benefit, as defined in Article 8 of the Pension Plan, shall be paid at the same time as it is paid under the Pension Plan.

4.4 Timing of Elections. A Participant may change the first election made under Sections 4.2 or 4.3 at any time; provided however, that a subsequent election will not be effective unless it is received by the Corporation at least 12 months prior to the date that a Participant separates from service. Notwithstanding the foregoing, in the case of a Participant who was a Participant on September 18, 1992 (the date as of which the Plan was restated) and who separates from service within 12 months of the date the Participant was first notified of the right to

make an election under this Section, an election which is made within 30 days of the date the Participant was first notified of the right to make an election under this Section shall become effective without regard to the 12-month requirement of the preceding sentence. An election that is in effect (as provided herein) on the date that the Participant separates from service shall be irrevocable, except to the extent that the form of benefit payment is made, without regard to the Participant's election, in a lump sum.

4.5 Payment of Benefit. The Corporation shall deduct from the benefit paid under the Plan any federal, state or local taxes required by law to be withheld from such benefit.

4.6 Effect on Other Plans. Unless expressly provided, no amounts payable hereunder shall be deemed to be compensation for purposes of computing benefits payable under any other plan of compensation or benefit by the Corporation.

5. Tax Determinations

Notwithstanding any other provision, in the event of a determination, as defined in section 1313(a) of the Internal Revenue Code, that any Participant is subject to federal income taxation on amounts deferred under this Plan, the amounts that are includable in the Participant's federal gross income shall be distributed to such Participant upon the receipt by the Corporation of notice of such determination.

6. Committee

The Supplemental Pension Plan shall be administered by the Committee, which shall have full power, discretion and authority to interpret, construe and administer the Supplemental Pension Plan and any part thereof, and the Committee's interpretation and construction hereof, and actions thereunder, shall be binding on all persons for all purposes. The Committee may employ legal counsel, consultants, actuaries and agents as it may deem desirable in the administration of the Supplemental Pension Plan and may rely on the opinion of such counsel or the computations of such consultants. The Committee shall provide for the keeping of detailed, written minutes of its actions.

7. Interests Not Transferable

The interest of any Participant, the Participant's spouse or the Participant's beneficiary or beneficiaries under the Supplemental Pension Plan is not subject to the claims of creditors and may not be voluntarily or involuntarily sold, transferred, assigned, alienated or encumbered.

8. Amendment and Termination

The Supplemental Pension Plan may at any time be amended, suspended or terminated, in whole or in part, by the Corporation. No such action shall adversely affect the contractual promise of the Corporation to pay to the Participant the amount accrued under the Supplemental Pension Plan as of the date of such action, as determined by the Committee.

9. Limitation of Responsibility

Neither the establishment of the Supplemental Pension Plan, any modifications thereof, nor the payment of any amounts under the Supplemental Pension Plan shall be construed as giving to any employee or other person any legal or equitable right against the Corporation, the Board of Directors of the Corporation, the Committee, or any officer or employee thereof, except as herein provided.

Nothing in the Supplemental Pension Plan shall confer upon any employee of the Corporation any right to continued employment, or interfere with the right of the Corporation to terminate his or her employment at any time, for any reason.

10. Indemnity

The Corporation may, consistent with applicable law, indemnify members of the Committee from any liability, loss or other financial consequence with respect to any act or omission relating to the Supplemental Pension Plan to the same extent and subject to the same conditions as specified in the indemnity provisions contained in the By-Laws and Regulations of the Student Loan Marketing Association.

11. Claims for Benefits Under this Plan

In general, distributions under the Supplemental Plan are automatic and no claim for benefits need be filed. However, a Participant may submit a claim for benefits under this Plan in writing to the Committee. If such claim for benefits is wholly or partially denied, the Committee shall, within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the Participant of the denial of the claim. Such notice of denial: (1) shall be in writing, (2) shall be written in a manner calculated to be understood by the Participant, and (3) shall contain (a) the specific reason or reasons for denial of the claim; (b) a specific reference to the pertinent Supplemental Plan provisions upon which the denial is based; (c) a description of any additional material or information necessary for the Participant to perfect the claim; and (d) an explanation of the Supplemental Plan's claims review procedure. This 90 day period may be extended if circumstances require additional time, but in no event shall the extension period be more than 90 days. The Participant shall be notified of the extension before the end of the initial 90 day period.

Within 60 days of the Participant's receipt of the written notice of denial of the claim, or such later time as shall be deemed reasonable under the circumstances, or if the claim has not been granted within a reasonable period of time, the Participant may file a written request with the Committee asking that it conduct a full and fair review of the denial of the Participant's claim for benefits. Such review may include the holding of a hearing if deemed necessary by the reviewing party. In connection with the Participant's appeal of the denial of his benefit, the Participant may review pertinent documents and may submit issues and comments in writing.

The Committee shall deliver to the Participant a written decision on the claim promptly, but not later than 60 days after the receipt of the Participant's request for review, except that if there are special circumstances (such as the need to hold a hearing) which require an extension of time for processing, the 60 day period shall be extended to 120 days. Such decision shall: (1) be written in a manner calculated to be understood by the Participant, (2) include specific reasons for the decision, and (3) contain specific references to the pertinent Plan provisions upon which the decision is based.

12. Miscellaneous

12.1 Creditor Status of Participants. In the event that any Participant or other person acquires a right to receive payments from the Corporation under the Supplemental Pension Plan such right shall be no greater than the right of any unsecured general creditor of the Corporation.

12.2 Facility of Payment. If it shall be found that (a) a person entitled to receive any payment under the Plan is physically or mentally incompetent to receive such payment and to give a valid release therefore, and (b) another person or an institution is then maintaining or has custody of such person, and no guardian, committee, or other representative of the estate of such person has been duly appointed by a court of competent jurisdiction, the payment may be made to such other person or institution referred to in (b) above, and the release of such other person or institution shall be a valid and complete discharge for the payment.

12.3 Notice of Address. Each person entitled to benefits under the Plan must file with the Committee, in writing, his post office address and each change of post office address. Any communication, statement, or notice addressed to such person at such address shall be deemed sufficient for all purposes of the Plan, and there shall be no obligation on the part of the Corporation or the Committee to search for or to ascertain the location of such person.

12.4 Data. Each person entitled to benefits under the Plan must furnish to the Committee such documents, evidence, or other information as the Committee considers necessary or desirable for the purposes of administering the Plan or to protect the Plan. The Committee shall be entitled to rely on representations made by Participants, spouses and beneficiaries with respect to age, marital status and other personal facts, unless it knows said representations are false.

IN WITNESS WHEREOF, Student Loan Marketing Association has caused this instrument to be duly executed in its name and on its behalf on the ____ day of _____, 1993.

STUDENT LOAN MARKETING ASSOCIATION

By:

Timothy G. Greene, Executive Vice President and General Counsel

EXHIBIT 10.8

SUPPLEMENTAL SLMA EMPLOYEES' THRIFT & SAVINGS PLAN

1. PURPOSE

The Student Loan Marketing Association's Supplemental SLMA Employees' Thrift & Savings Plan (the "Supplemental Thrift & Savings Plan" or "Supplemental Plan") provides supplementary benefits to certain designated Employees who are or who become eligible for benefits under the SLMA Employees' Thrift & Savings Plan (the "Thrift & Savings Plan"). The Supplemental Thrift & Savings Plan is intended to qualify as a plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of Title I of the Employee Retirement Income Security Act of 1974, as amended. It is intended that the Supplemental Thrift & Savings Plan remain at all times an unfunded plan.

2. DEFINITIONS

Except as otherwise indicated in this Section, or as may be clearly required by the context, capitalized terms that are used in this Supplemental Plan shall have the same meaning as assigned to them in the Thrift & Savings Plan.

2.1 "Code" means the Internal Revenue Code of 1986, as amended, and includes any regulations, rulings or procedures issued thereunder.

2.2 "Committee" means the Thrift & Savings Plan Committee as defined in the Thrift & Savings Plan.

2.3 "Corporation" means the Student Loan Marketing Association, or any other person, firm or corporation which may succeed to the business of the Student Loan Marketing Association by merger, consolidation or otherwise, and which, by appropriate action, shall adopt the Supplemental Thrift & Savings Plan, or any wholly-owned subsidiary of the Student Loan Marketing Association (or such successor), which adopts the Supplemental Thrift & Savings Plan and becomes a party to it with the approval of the Board of Directors.

2.4 "Employee" means any Employee of the Corporation who is eligible to participate in the Thrift & Savings Plan and is covered under the Supplemental Thrift & Savings Plan.

2.5 "Thrift & Savings Plan" means the SLMA Employees' Thrift & Savings Plan as amended from time to time.

3. EFFECTIVE DATE

The effective date of the Supplemental Thrift & Savings Plan is January 1, 1983. By action of the Board of Directors on May 22, 1987, the Plan was amended and restated, effective as of January 1, 1987. By action of Board of Directors on July 21, 1989, the Plan was amended and restated in its entirety effective January 1, 1989.

4. COVERAGE

Those individuals who are participants in the Thrift & Savings Plan and whose contributions, or contributions on their behalf, to such Plan may be limited as a result of the limitations imposed by sections 402, 401(k)(3), and 415(c)(1) of the Internal Revenue Code and further, who are designated by the President and Chief Executive Officer, shall be covered

Employees, eligible to participate in the Supplemental Plan. Covered Employees will be so advised and an account established in their names on the books of the Corporation (Employee Supplemental Thrift & Savings Plan Account).

5. COMPUTATION AND PAYMENT OF SUPPLEMENTARY PLAN BENEFITS

5.1 As described below, the covered Employee's Supplemental Thrift & Savings Plan Account shall consist of the Deferred Salary Subaccount and the Imputed Annual Additions Subaccount. Imputed Earnings shall be allocated to each Subaccount as provided in Section 5.4.

5.2 Deferred Salary is that percentage of Compensation which a covered Employee elects to defer under the Supplemental Thrift & Savings Plan. Such an election is applicable only with respect to as yet unearned amounts of Compensation and, once made, is irrevocable with respect to amounts deferred. Subject to such other rules as the Committee may prescribe, an Employee's election to defer a percentage of his Compensation under the Supplemental Plan shall be made, changed, or suspended, on a prospective basis, at such time and in such manner as elections are made with regard to Employer Basic Contributions under the Thrift & Savings Plan. In no event shall the percentage of Compensation deferred as Deferred Salary under the Supplemental Plan, for any calendar year, exceed 6 percent of the Employee's Compensation for that year, less the percentage of Compensation deferred for that year under the Thrift & Savings Plan as Employer Basic Contributions.

Amounts of Deferred Salary shall be credited to an Employee's Supplemental Thrift & Savings Plan Deferred Salary Subaccount at the same time that such amounts would have been

credited to the Employer Basic Contribution Account had they been treated as Employer Basic Contributions under the Thrift & Savings Plan. Notwithstanding the foregoing, effective January 1, 1989, a covered Employee shall be permitted to defer amounts of Deferred Salary under this Section 5.2 for a calendar year only if: (a) the Employee has deferred the maximum amount of Employer Basic Contributions under Section 402 of the Code to the Thrift & Savings Plan, or (b) the Employee has deferred the maximum amount of Employer Basic Contributions under Section 401(k)(3) to the Thrift & Savings Plan, as determined by the plan administrator of the Thrift & Savings Plan, or c) contributions on behalf of the Employee to the Thrift & Savings Plan have reached the maximum amount under Section 415(c)(1), whichever limit is applicable. These restrictions in specific, and the terms of the Plan in general, shall be interpreted by the Committee in such a way as to ensure that the Supplemental Plan does not violate the prohibitions of Section 401(k)(4)(A) of the Code.

5.3 Imputed Annual Additions shall consist of the following amounts:

(a) For each dollar of Deferred Salary credited to the Employee's Supplemental Thrift & Savings Plan Deferred Salary Subaccount under this Supplemental Plan, there shall be credited to the Employee's Supplemental Thrift & Savings Plan Imputed Annual Additions Subaccount an Imputed Annual Addition equal in amount to the Employer Matching Contribution that would have been made under the Thrift & Savings Plan had the Deferred Salary amounts been contributed to the Thrift & Savings Plan as Employer Basic Contributions, and had dollar limit of Code Section 402(g), the nondiscrimination limitations of Code

Section 401(k) and (m), the limit of Code Section 415(c)(1), or any other similar restriction not applied to the Thrift & Savings Plan.

(b) Once an Employee has, during a calendar year, deferred at least the maximum amount prescribed for such year pursuant to Section 402(g) of the Code as Employer Basic Contributions to the Thrift & Savings Plan, or, effective January 1, the 1988, as Employer Basic Contributions to the Thrift & Savings Plan, Deferred Salary to the Supplemental Plan, or some combination of both, the Employee shall not be required to make any further deferrals under the Supplemental Plan in order to be credited with Imputed Annual Additions for that year. Notwithstanding the foregoing, effective January 1, 1989, the foregoing condition shall be satisfied only if an Employee has, during a calendar year, deferred the maximum amount allowed for such year as Employer Basic Contributions to the Thrift & Savings Plan pursuant to Section 401(k)(3), Section 402(g), or Section 415(c)(1) of the Code. In the event the preceding condition is satisfied, if the amount of the Employee's Deferred Salary falls short of the maximum permitted under Section 5.2, an Imputed Annual Addition shall be credited to the Employee's Supplemental Thrift & Savings Plan Imputed Annual Additions Subaccount for that year equal to the additional amount that would have been credited under paragraph (a) if the Employee had elected to defer the amount of Deferred Salary equal to the shortfall. Solely for purposes of determining the amount of Imputed Annual Additions under the prior sentence, the rate at which

such Deferred Salary shortfall is deemed to be credited in that calendar year shall be determined by reference to the deferral percentage that was last in effect for that Employee under the Supplemental Plan during that year, or if no Salary Deferrals were made in such year, the deferral percentage last in effect for the Employee under the Thrift & Savings Plan. In no event shall an Employee be credited under both this paragraph (b) and paragraph (a) for Imputed Annual Additions with respect to the same amount of Deferred Salary.

The Employee's Supplemental Thrift & Savings Plan Imputed Annual Additions Subaccount shall be credited with Imputed Annual Additions at the same times that such amounts would have been credited under the Thrift & Savings Plan if they had been Employer Matching Contributions, and the Deferred Salary giving rise to such amounts had been Employer Basic Contributions under the Thrift & Savings Plan.

5.4 In general, the amount of Imputed Earnings shall reflect the investment performance of the Thrift & Savings Plan, as if Salary Deferrals and Imputed Annual Additions were invested in the investment funds under the Thrift & Savings Plan. Imputed Earnings on an Employee's Supplemental Thrift & Savings Account shall be credited or charged (if negative) as follows:

(a) As a general rule, an Employee's Supplemental Thrift & Savings Plan Account shall be deemed credited in the same proportions and to the same funds as his Thrift & Savings Plan Employee Account, and, specifically, his Imputed Earnings shall be calculated based on the investment performance of the Employee's Thrift & Savings Plan Employee Account. Notwithstanding the

foregoing, however, at the same times as allowed under the Thrift & Savings Plan, and subject to the same rules, the Employee may request that his Supplemental Thrift & Savings Account be deemed to be credited for these purposes to the investment funds then offered under the Thrift & Savings Plan in accordance with the Employee's specific direction. In such event, the Employee's directions for the "investment" of his Supplemental Thrift & Savings Account shall be subject to restrictions similar to those on investment and reinvestment that apply under the Thrift & Savings Plan. The Corporation may refuse to follow an Employee's "investment" direction on a prospective basis or refuse to continue to calculate the amount of Imputed Earnings based on the investment performance of the Employee's Thrift & Savings Plan Employee Account; in either case, subsequent Imputed Earnings shall be based on the rate of return afforded by 90-day Treasury bills. In no event shall amounts credited to the Employee's Supplemental Thrift & Savings Account be subject to loans.

(b) Imputed Earnings shall be credited and charged to the Employee's Supplemental Thrift & Savings Plan Subaccounts at the same time and at the same rate as credits or charges are made to Employee Accounts under the Thrift & Savings Plan. As of each Valuation Date, Imputed Earnings shall be allocated proportionately to the Employee's Deferred Salary Subaccount and the Employee's Imputed Annual Additions Subaccount, based on the values credited to such Subaccounts as of the last preceding Valuation Date.

5.5 An Employee shall at all times be fully vested in the amount credited to his Deferred Salary Subaccount. An Employee shall be vested in that portion of the amount credited to his Imputed Annual Additions Subaccount that corresponds to his vesting percentage under the Thrift & Savings Plan. Distribution of such vested amounts shall be made in accordance with the following rules:

(a) benefits from the Supplemental Thrift & Savings Plan shall be paid in a lump sum, based on the value of the vested portion of the Employee's Supplemental Thrift & Savings Plan Account as determined in accordance with Sections 5.2, 5.3, and 5.4 above. Payment shall be in the form of cash, or a combination of cash and non-voting common stock of the Student Loan Marketing Association, as requested by the Employee, subject to such rules as the Committee may prescribe. Payment shall be made as soon as practicable following the quarterly Stock Valuation Date or December 31 coinciding with or next following the Employee's termination of service for retirement or otherwise, disability, or death. The amount of the distribution shall be the value of the nonforfeitable portion of the amount credited to the Employee's Supplemental Thrift & Savings Plan Account as of the applicable date above and conversion of such value into non-voting common stock of the Student Loan Marketing Association shall be based on the stock value as of such applicable date.

(b) In the event of a substantial, unforeseen hardship, an Employee, or if applicable, a beneficiary who succeeds to the Employee's interest in the Plan

following the Employee's death, may submit to the Committee a request for an early distribution. Such request shall be in writing and shall advise the Committee of the circumstances of the hardship. The Committee, in its sole discretion, may agree to accelerate the distribution of all or part of the Employee's vested portion of his Supplemental Thrift & Savings Plan Account. Should the Committee agree, such an early distribution shall be made as soon as practicable after the Valuation Date immediately following the date on which the Committee agreed to the early distribution. For these purposes, the value of the vested portion of the Employee's Supplemental Thrift & Savings Plan Account shall be determined as of the Valuation Date specified above. Any part of the Employee's Supplemental Thrift & Savings Plan Account that is vested and that is not distributed under this early distribution provision shall be distributed in accordance with the general distribution rule in this Plan. In addition, a distribution of Deferred Salary under this provision shall not deprive the Employee (or his beneficiary, if applicable) of any credit that otherwise would have been provided under Section 5.3 with respect to such Deferred Salary.

For purposes of this paragraph (b), a substantial unforeseen hardship is a severe financial hardship resulting from extraordinary and unforeseeable circumstances arising as a result of one or more recent events beyond the control of the Employee or beneficiary, if applicable. To the extent such hardship is or may be relieved: (1) through reimbursement or compensation by insurance or

otherwise, (2) by liquidation of assets, to the extent the liquidation of such assets would not in itself cause severe financial hardship, and (3) by cessation of deferrals under the Plan, early distribution may not be made. Distributions of amounts because of an unforeseen hardship may only be permitted to the extent reasonably necessary to satisfy the hardship. Examples of what are not considered to be unforeseeable hardships include the need to send an Employee's child to college or the desire to purchase a home.

(c) Payment shall be made to the Employee, or in the event of his death, his beneficiary. In no event may the Employee or, if applicable, the beneficiary, elect to defer receipt of payment under this Supplemental Thrift & Savings Plan once such payment is due. Additionally, except as provided in paragraph (b) above, no amounts credited to said Account shall be subject to withdrawal while the Employee continues as an officer or Employee of the Corporation. Amounts payable hereunder shall be reduced by all amounts required to be withheld under appropriate State or Federal law.

5.6 The Employee shall not be credited with any Deferred Salary or Imputed Annual Additions under the Supplemental Thrift & Savings Plan during periods when a contribution could not be made under the Thrift & Savings Plan because the Employee was suspended from participation in the Thrift & Savings Plan or to the extent that, pursuant to applicable rules and regulations of the Internal Revenue Service, such amounts may not be credited under the Supplemental Plan because of a hardship distribution under the Thrift & Savings Plan.

Additionally, the Employee shall not be credited with any Imputed Annual Additions under the Supplemental Plan during periods when the Corporation did not make contributions to the Employee's Employer Matching Account under the Thrift & Savings Plan by operation of the provisions of the Thrift & Savings Plan, or for periods when the Employee could have contributed to the Thrift & Savings Plan but decided not to.

5.7 For purposes of this Supplemental Thrift & Savings Plan, the Employee's beneficiary shall be deemed to be the same person(s) as designated by the Employee under the Thrift & Savings Plan unless the Employee elects otherwise by designating a different person or persons on such form and in such manner as the Committee may specify.

5.8 Unless expressly provided, no amounts payable hereunder shall be deemed to be compensation for purposes of computing benefits payable under any other plan of compensation or benefit by the Corporation.

6. SOURCE OF PAYMENT

All benefits under the Supplemental Thrift & Savings Plan shall be paid from the general treasury of the Corporation, and no special or separate fund shall be established or other segregation of assets made to assure such payments. Nothing contained in the Supplemental Thrift & Savings Plan shall create a trust of any kind. In the event that any Employee or other person acquires a right to receive payments from the Corporation under the Supplemental Thrift & Savings Plan, such right shall be no greater than the right of any unsecured general creditor of the Corporation.

7. TAX PAYMENTS

With respect to the amount of Supplemental Plan benefits credited to an Employee as of May 22, 1987, the Corporation agrees to pay the Employee an amount equal to the difference between the Federal income taxes due on such amount when distributed under this Supplemental Thrift & Savings Plan and the Federal income taxes which would have been due if such amount had been paid from the tax-qualified Thrift & Savings Plan. For purposes of computing the payment due under this Section, it shall be assumed that any distribution of the May 22, 1987, amount is made on top of all other income received by the Employee during the taxable year of distribution. The Corporation also agrees to pay any additional Federal income taxes which may be due as the result of the agreement to pay the tax hereunder, so that the taxpayer will be in the same position in which he/she would have been had the distribution been made from a tax-qualified plan. This Section shall not apply with respect to Supplemental Plan benefits credited after May 22, 1987, (i.e., any credits to the Employee's Supplemental Thrift & Savings Plan Account, including any credits attributable to Imputed Earnings, after May 22, 1987).

8. COMMITTEE

The Supplemental Thrift & Savings Plan shall be administered by the Committee, which shall have full power, discretion and authority to interpret, construe and administer the Supplemental Thrift & Savings Plan and any part thereof, and the Committee's interpretation and construction hereof, and actions thereunder, shall be binding on all persons for all purposes. The Committee may employ legal counsel, consultants, actuaries and agents as it may deem desirable in the administration of the Supplemental Thrift & Savings Plan and may rely on the opinion of

such counsel or the computations of such consultants. The Committee shall provide for the keeping of detailed, written minutes of its actions.

9. INTERESTS NOT TRANSFERABLE

The interest of any Employee, the Employee's spouse or the Employee's beneficiary or beneficiaries under the Supplemental Thrift & Savings Plan is not subject to the claims of creditors and may not be voluntarily or involuntarily sold, transferred, assigned, alienated or encumbered.

10. AMENDMENT AND TERMINATION

The Supplemental Thrift & Savings Plan may at any time be amended, suspended or terminated, in whole or in part, by the Corporation. No such action shall adversely affect the contractual promise of the Corporation to pay to the Employee the amount accrued under the Supplemental Thrift & Savings Plan as of the date of such action, as determined by the Committee. Notwithstanding the foregoing, the Supplemental Plan may at any time be amended in such a way as is necessary to ensure that the requirements of Section 401(k)(4)(A) of the Code are satisfied so that the qualified status of the Thrift & Savings Plan is preserved.

11. LIMITATION OF RESPONSIBILITY

Neither the establishment of the Supplemental Thrift & Savings Plan, any modifications thereof, nor the payment of any amounts under the Supplemental Thrift & Savings Plan shall be construed as giving to any Employee or other person any legal or equitable right against the Corporation, the Board of Directors of the Corporation, the Committee, or any officer or

Employee thereof, except as herein provided.

Nothing in the Supplemental Thrift & Savings Plan shall confer upon any employee of the Corporation any right to continued employment, or interfere with the right of the Corporation to terminate his or her employment at any time, for any reason.

12. INDEMNITY

The Corporation may, consistent with applicable law, indemnify members of the Committee from any liability, loss or other financial consequence with respect to any act or omission relating to the Supplemental Thrift & Savings Plan to the same extent and subject to the same conditions as specified in the indemnity provisions contained in the By-Laws and Regulations of the Student Loan Marketing Association.

13. CLAIMS FOR BENEFITS UNDER THIS PLAN

In general, distributions under the Supplemental Plan are automatic and no claim for benefits need be filed. However, an Employee may submit a claim for benefits under this Plan in writing to the Committee. If such claim for benefits is wholly or partially denied, the Committee shall, within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the Employee of the denial of the claim. Such notice of denial: (1) shall be in writing, (2) shall be written in a manner calculated to be understood by the Employee, and (3) shall contain (a) the specific reason or reasons for denial of the claim; (b) a specific reference to the pertinent Supplemental Plan provisions upon whic//h the denial is based; (c) a description of any additional material or information necessary for the Employee to perfect the claim; and (d) an

explanation of the Supplemental Plan's claims review procedure. This 90-day period may be extended if circumstances require additional time, but in no event shall the extension period be more than 90 days. The Employee shall be notified of the extension before the end of the initial 90-day period.

Within 60 days of the Employee's receipt of the written notice of denial of the claim, or such later time as shall be deemed reasonable under the circumstances, or if the claim has not been granted within a reasonable period of time, the Employee may file a written request with the Committee asking that it conduct a full and fair review of the denial of the Employee's claim for benefits. Such review may include the holding of a hearing if deemed necessary by the reviewing party. In connection with the Employee's appeal of the denial of his benefit, the Employee may review pertinent documents and may submit issues and comments in writing.

The Committee shall deliver to the Employee a written decision on the claim promptly, but not later than 60 days after the receipt of the Employee's request for review, except that if there are special circumstances (such as the need to hold a hearing) which require an extension of time for processing, the 60-day period shall be extended to 120 days. Such decision shall: (1) be written in a manner calculated to be understood by the Employee, (2) include specific reasons for the decision, and (3) contain specific references to the pertinent Plan provisions upon which the decision is based.

14. MISCELLANEOUS

14.1 Facility of Payment. If it shall be found that (a) a person entitled to receive any

payment under the Plan is physically or mentally incompetent to receive such payment and to give a valid release therefore, and (b) another person or an institution is then maintaining or has custody of such person, and no guardian, committee, or other representative of the estate of such person has been duly appointed by a court of competent jurisdiction, the payment may be made to such other person or institution referred to in (b) above, and the release of such other person or institution shall be a valid and complete discharge for the payment.

14.2 Notice of Address. Each person entitled to benefits under the Plan must file with the Committee, in writing, his post office address and each change of post office address. Any communication, statement, or notice addressed to such person at such address shall be deemed sufficient for all purposes of the Plan, and there shall be no obligation on the part of the Corporation or the Committee to search for or to ascertain the location of such person.

14.3 Data. Each person entitled to benefits under the Plan must furnish to the Committee such documents, evidence, or other information as the Committee considers necessary or desirable for the purposes of administering the Plan or to protect the Plan. The Committee shall be entitled to rely on representations made by Employees, spouses and beneficiaries with respect to age, marital status and other personal facts, unless it knows said representations are false.

14.4 Tax Determinations. Notwithstanding any other provision to the contrary herein, in the event of a determination, as defined in section 1313(a) of the Internal Revenue Code, that any Employee is subject to Federal income taxation on amounts deferred under this Plan, the amounts that are includable in the Employee's federal gross income shall be distributed to such Employee upon the receipt by the Corporation of notice of such determination.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in Amendment No. 2 to the Registration Statement (Form S-4 No. 333-21217) and related Prospectus of SLM Holding Corporation for the registration of 54,600,000 shares of its common stock and to the use of our report dated February 3, 1997, with respect to the balance sheet as of February 3, 1997 of SLM Holding Corporation and our report dated January 13, 1997 with respect to the consolidated financial statements of the Student Loan Marketing Association for the year ended December 31, 1996 included in the Prospectus and Registration Statement filed with the Securities and Exchange Commission.

Washington, D.C.
March 25, 1997

/s/ Ernst & Young LLP

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YEAR	
	DEC-31-1996
	JAN-01-1996
	DEC-31-1996
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	607,700
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	7.32
	1.90
	63,000
	63,000
	0
	63,000
	60,337
	13,258
	7,235
	84,063
	84,063
	0
	0