
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2005 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from to to .

Commission File Number: 001-13251

SLM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2013874

(I.R.S. Employer
Identification No.)

12061 Bluemont Way, Reston, Virginia

(Address of principal executive offices)

20190

(Zip Code)

(703) 810-3000

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

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

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

Class	Outstanding at October 31, 2005
Common Stock, \$.20 par value	417,313,366 shares

GLOSSARY

Listed below are definitions of key terms that are used throughout this document.

Consolidation Loans—Under both the FFELP and FDLF, borrowers with eligible student loans may consolidate them into one note with one lender and convert the variable interest rates on the loans being consolidated into a fixed rate for the life of the loan. The new note is considered a Consolidation Loan. Typically a borrower can consolidate their student loans only once unless the borrower has another eligible loan to consolidate with the existing Consolidation Loan. FFELP Consolidation Loan borrowers can reconsolidate their FFELP Consolidation Loan into a FDLF Consolidation Loan. The borrower rate on a Consolidation Loan is fixed for the term of the loan and is set by the weighted-average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a percent, not to exceed 8.25 percent. In low interest rate environments, Consolidation Loans provide an attractive refinancing opportunity to certain borrowers because they allow borrowers to consolidate variable rate loans into a long-term fixed rate loan. Holders of Consolidation Loans are eligible to earn interest under the Special Allowance Payment ("SAP") formula (see definition below).

Consolidation Loan Rebate Fee—All holders of Consolidation Loans are required to pay to the U.S. Department of Education ("ED") an annual 105 basis point Consolidation Loan Rebate Fee on all outstanding principal and accrued interest balances of Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

Constant Prepayment Rate ("CPR")—A variable in life of loan estimates that measures the rate at which loans in the portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance.

Direct Loans—Student loans originated directly by ED under the William D. Ford Federal Direct Student Loan Program ("FDLP").

ED—The U.S. Department of Education.

Embedded Fixed Rate/Variable Rate Floor Income—Embedded Floor Income is Floor Income (see definition below) that is earned on off-balance sheet student loans that are in securitization trusts sponsored by us. At the time of the securitization, the option value of Embedded Fixed Rate Floor Income is included in the initial valuation of the Residual Interest (see definition below) and the gain or loss on sale of the student loans. Embedded Floor Income is also included in the quarterly fair value adjustments of the Residual Interest.

Exceptional Performer ("EP") Designation—The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP (see definition below) loans. Upon receiving the EP designation, the EP servicer receives 100 percent reimbursement on default claims on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the two percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the two percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance.

FDLP—The William D. Ford Federal Direct Student Loan Program.

FFELP—The Federal Family Education Loan Program, formerly the Guaranteed Student Loan Program.

FFELP Stafford and Other Student Loans—Education loans to students or parents of students that are guaranteed or reinsured under the FFELP. The loans are primarily Stafford loans and also PLUS and HEAL loans.

Fixed Rate Floor Income—We refer to Floor Income (see definition below) associated with student loans whose borrower rate is fixed to term (primarily Consolidation Loans) as Fixed Rate Floor Income.

Floor Income—Our portfolio of FFELP student loans earns interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date.

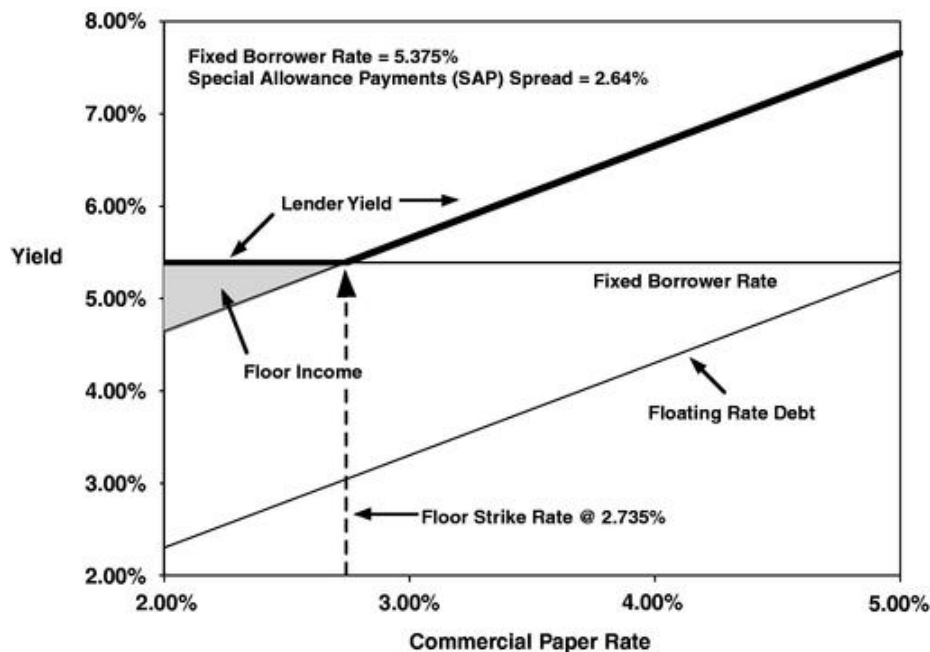
The following example shows the mechanics of Floor Income for a typical fixed rate Consolidation Loan originated after July 1, 2004 (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate:	5.375%
SAP Spread over Commercial Paper Rate:	(2.640)%
	<hr/>
Floor Strike Rate ⁽¹⁾	2.735%
	<hr/>

(1) The interest rate at which the underlying index (Treasury bill or commercial paper) plus the fixed SAP spread equals the fixed borrower rate. Floor Income is earned anytime the interest rate of the underlying index declines below this rate.

Based on this example, if the quarterly average commercial paper rate is over 2.735 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 2.735 percent, the SAP formula will produce a rate below the fixed borrower rate of 5.375 percent and the loan holder earns at the borrower rate of 5.375 percent. The difference between the fixed borrower rate and the lender's expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

Graphic Depiction of Floor Income:



Floor Income Contracts—We enter into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that we expect to earn on a notional amount of underlying student loans being hedged, we will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, we agree to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contract. The contracts generally do not extend over the life of the underlying student loans. This contract effectively locks in the amount of Floor Income we will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and each quarter we must record the change in fair value of these contracts through income.

GSE—The Student Loan Marketing Association was a federally chartered government-sponsored enterprise and wholly owned subsidiary of SLM Corporation that was dissolved under the terms of the Privatization Act (see definition below) on December 29, 2004.

HEA—The Higher Education Act of 1965, as amended.

Managed Basis—We generally analyze the performance of our student loan portfolio on a Managed Basis, under which we view both on-balance sheet student loans and off-balance sheet student loans owned by the securitization trusts as a single portfolio, and the related on-balance sheet financings are combined with off-balance sheet debt. When the term Managed is capitalized in this document, it is referring to Managed Basis.

Offset Fee—We were required to pay to ED an annual 30 basis point Offset Fee on the outstanding balance of Stafford and PLUS student loans purchased and held by the GSE after August 10, 1993. The fee did not apply to student loans sold to securitized trusts or to loans held outside of the GSE. This fee no longer applies, as the GSE was dissolved under the terms of the Privatization Act on December 29, 2004.

Preferred Channel Originations—Preferred Channel Originations are comprised of: 1) student loans that are originated by lenders with forward purchase commitment agreements with Sallie Mae and are committed for sale to Sallie Mae, such that we either own them from inception or acquire them soon after origination, and 2) loans that are originated by internally marketed Sallie Mae brands.

Preferred Lender List—To streamline the student loan process, most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

Private Education Loans (formerly referred to as "Private Credit Student Loans")—Education loans to students or parents of students that are not guaranteed or reinsured under the FFELP or any other federal student loan program. Private Education Loans include loans for traditional higher education, undergraduate and graduate degrees, and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Traditional higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. Repayment for alternative education or career training loans begins immediately.

Privatization Act—The Student Loan Marketing Association Reorganization Act of 1996.

Residual Interest—When we securitize student loans, we retain the right to receive cash flows from the student loans sold to trusts we sponsor in excess of amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The Residual Interest (which may also include reserve and other cash accounts), is the present value of these future expected cash flows, which includes the present value of Embedded Fixed Rate Floor Income described above. We value the Residual Interest at the time of sale of the student loans to the trust and at the end of each subsequent quarter.

Retained Interest—The Retained Interest includes the Residual Interest (defined above) and servicing rights (as the Company retains the servicing responsibilities).

Risk Sharing—When a FFELP loan defaults, the federal government guarantees 98 percent of the principal balance plus accrued interest and the holder of the loan generally must absorb the two percent not guaranteed as a Risk Sharing loss on the loan. FFELP student loans acquired after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower's death, disability or bankruptcy. FFELP loans serviced by a servicer that has EP designation from ED are not subject to Risk Sharing.

Special Allowance Payment ("SAP")—FFELP student loans generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan's repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread.

Title IV Programs and Title IV Loans—Student loan programs created under Title IV of the HEA, including the FFELP and the FDLP, and student loans originated under those programs, respectively.

Wind-Down—The dissolution of the GSE under the terms of the Privatization Act (see definition above).

Variable Rate Floor Income—For FFELP Stafford student loans whose borrower interest rate resets annually on July 1, we may earn Floor Income or Embedded Floor Income (see definitions above) based on a calculation of the difference between the borrower rate and the then current interest rate. We refer to this as Variable Rate Floor Income because Floor Income is earned only through the next reset date.

SLM CORPORATION
FORM 10-Q
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September 30, 2005

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2005	December 31, 2004
	(Unaudited)	
Assets		
FFELP Stafford and Other Student Loans	\$ 22,353,605	\$ 18,965,634
Consolidation Loans (net of allowance for losses of \$5,627 and \$7,778, respectively)	51,193,725	41,595,805
Private Education Loans (net of allowance for losses of \$193,332 and \$171,886, respectively)	8,078,650	5,419,611
Other loans (net of allowance for losses of \$13,563 and \$11,148, respectively)	1,094,464	1,047,745
Investments		
Available-for-sale	1,971,297	3,274,123
Other	242,417	304,700
Total investments	2,213,714	3,578,823
Cash and cash equivalents	1,559,300	3,395,487
Restricted cash and investments	2,706,925	2,211,643
Retained Interest in off-balance sheet securitized loans	2,330,390	2,316,388
Goodwill and acquired intangible assets, net	1,063,916	1,066,142
Other assets	3,725,670	4,496,248
Total assets	\$ 96,320,359	\$ 84,093,526
Liabilities		
Short-term borrowings	\$ 4,652,334	\$ 2,207,095
Long-term borrowings	84,499,739	75,914,573
Other liabilities	3,330,763	2,797,921
Total liabilities	92,482,836	80,919,589
Commitments and contingencies		
Minority interest in subsidiaries	13,725	71,633
Stockholders' equity		
Preferred stock, par value \$.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of \$50 per share; Series B: 4,000 and 0 shares issued, respectively at stated value of \$100 per share	565,000	165,000
Common stock, par value \$.20 per share, 1,125,000 shares authorized: 488,525 and 483,266 shares issued, respectively	97,705	96,654
Additional paid-in capital	2,107,961	1,905,460
Accumulated other comprehensive income (net of tax of \$219,567 and \$237,285, respectively)	407,768	440,672
Retained earnings	3,195,034	2,521,740
Stockholders' equity before treasury stock	6,373,468	5,129,526
Common stock held in treasury at cost: 69,927 and 59,634 shares, respectively	2,549,670	2,027,222
Total stockholders' equity	3,823,798	3,102,304
Total liabilities and stockholders' equity	\$ 96,320,359	\$ 84,093,526

See accompanying notes to consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	\$ 270,444	\$ 188,624	\$ 699,687	\$ 550,122
Consolidation Loans	676,820	332,982	1,739,670	932,617
Private Education Loans	173,467	83,303	429,892	236,505
Other loans	21,614	18,212	61,813	54,714
Cash and investments	70,541	61,774	186,835	157,765
Total interest income	1,212,886	684,895	3,117,897	1,931,723
Interest expense:				
Short-term debt	47,409	35,085	125,627	179,142
Long-term debt	780,713	336,867	1,930,958	785,316
Total interest expense	828,122	371,952	2,056,585	964,458
Net interest income	384,764	312,943	1,061,312	967,265
Less: provisions for losses	12,217	10,930	137,688	79,092
Net interest income after provisions for losses	372,547	302,013	923,624	888,173
Other income:				
Gains on student loan securitizations	—	63,590	311,895	375,384
Servicing and securitization revenue	(16,194)	158,639	276,698	419,334
Losses on investments, net	(43,030)	(32,887)	(56,976)	(37,244)
Gains (losses) on derivative and hedging activities, net	316,469	73,000	176,278	342,404
Guarantor servicing fees	35,696	33,192	93,922	91,412
Debt management fees	92,727	73,631	261,068	223,672
Collections revenue	41,772	5,164	118,536	5,164
Other	74,174	91,134	206,187	222,561
Total other income	501,614	465,463	1,387,608	1,642,687
Operating expenses:				
Salaries and benefits	162,897	113,386	461,165	353,138
Loss on GSE debt extinguishment and defeasance	—	102,990	—	102,990
Other	129,064	97,386	380,500	272,562
Total operating expenses	291,961	313,762	841,665	728,690
Income before income taxes and minority interest in net earnings of subsidiaries	582,200	453,714	1,469,567	1,802,170
Income taxes	149,821	97,136	512,860	539,201
Income before minority interest in net earnings of subsidiaries	432,379	356,578	956,707	1,262,969
Minority interest in net earnings of subsidiaries	1,029	—	5,458	—
Net income	431,350	356,578	951,249	1,262,969
Preferred stock dividends	7,288	2,875	14,071	8,625
Net income attributable to common stock	\$ 424,062	\$ 353,703	\$ 937,178	\$ 1,254,344
Basic earnings per common share	\$ 1.02	\$.81	\$ 2.24	\$ 2.85
Average common shares outstanding	417,235	435,764	419,205	439,430
Diluted earnings per common share	\$.95	\$.76	\$ 2.10	\$ 2.65
Average common and common equivalent shares outstanding	458,798	474,455	461,222	478,323
Dividends per common share	\$.22	\$.19	\$.63	\$.55

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at June 30, 2004	3,300,000	478,722,527	(39,760,083)	438,962,444	\$ 165,000	\$ 95,745	\$ 1,747,284	\$ 355,955	\$ 1,683,563	\$ (1,126,881)	\$ 2,920,666
Comprehensive income:											
Net income									356,578		356,578
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								97,774			97,774
Change in unrealized gains (losses) on derivatives, net of tax								33,215			33,215
Comprehensive income											487,567
Dividends:											
Common stock (\$.19 per share)									(83,547)		(83,547)
Preferred stock, series A (\$.87 per share)									(2,875)		(2,875)
Issuance of common shares		1,746,074	4,950	1,751,024		349	51,908			205	52,462
Tax benefit related to employee stock option and purchase plans							5,937				5,937
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(4,740,000)	(4,740,000)						(193,195)	(193,195)
Exercise cost, net settlement			(6,661,561)	(6,661,561)						(289,512)	(289,512)
Gain on settlement			—	—						6,225	6,225
Benefit plans			(98,360)	(98,360)						(3,751)	(3,751)
Balance at September 30, 2004	3,300,000	480,468,601	(51,255,054)	429,213,547	\$ 165,000	\$ 96,094	\$ 1,805,129	\$ 486,944	\$ 1,953,719	\$ (1,606,909)	\$ 2,899,977
Balance at June 30, 2005	7,300,000	486,706,143	(66,531,905)	420,174,238	\$ 565,000	\$ 97,341	\$ 2,035,676	\$ 473,121	\$ 2,862,730	\$ (2,382,130)	\$ 3,651,738
Comprehensive income:											
Net income									431,350		431,350
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(68,680)			(68,680)
Change in unrealized gains (losses) on derivatives, net of tax								3,327			3,327
Comprehensive income											365,997
Dividends:											
Common stock (\$.22 per share)									(91,758)		(91,758)
Preferred stock, series A (\$.87 per share)									(2,886)		(2,886)
Preferred stock, series B (\$1.12 per share)									(4,244)		(4,244)
Issuance of common shares		1,818,734	8,409	1,827,143		364	58,205			487	59,056
Preferred stock issuance costs and related amortization							68		(158)		(90)
Tax benefit related to employee stock option and purchase plans							14,012				14,012
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(2,936,023)	(2,936,023)						(148,181)	(148,181)
Gain on settlement			—	—						2,554	2,554
Benefit plans			(467,626)	(467,626)						(22,400)	(22,400)
Balance at September 30, 2005	7,300,000	488,524,877	(69,927,145)	418,597,732	\$ 565,000	\$ 97,705	\$ 2,107,961	\$ 407,768	\$ 3,195,034	\$ (2,549,670)	\$ 3,823,798

See accompanying notes to consolidated financial statements.

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at December 31, 2003	3,300,000	472,642,996	(24,964,753)	447,678,243	\$ 165,000	\$ 94,529	\$ 1,553,240	\$ 425,621	\$ 941,284	\$ (549,628)	\$ 2,630,046
Comprehensive income:											
Net income									1,262,969		1,262,969
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								25,781			25,781
Change in unrealized gains (losses) on derivatives, net of tax								35,900			35,900
Minority pension liability adjustment								(358)			(358)
Comprehensive income											1,324,292
Dividends:											
Common stock (\$.55 per share)									(241,909)		(241,909)
Preferred stock, series A (\$2.61 per share)									(8,625)		(8,625)
Issuance of common shares		7,825,605	58,078	7,883,683		1,565	215,399			2,252	219,216
Tax benefit related to employee stock option and purchase plans							36,490				36,490
Repurchase of common shares:											
Open market repurchases			(563,500)	(563,500)						(21,554)	(21,554)
Equity forwards:											
Exercise cost, cash			(18,150,460)	(18,150,460)						(643,317)	(643,317)
Exercise cost, net settlement			(6,661,561)	(6,661,561)						(289,512)	(289,512)
Gain on settlement										(66,425)	(66,425)
Benefit plans			(972,858)	(972,858)						(38,725)	(38,725)
Balance at September 30, 2004	3,300,000	480,468,601	(51,255,054)	429,213,547	\$ 165,000	\$ 96,094	\$ 1,805,129	\$ 486,944	\$ 1,953,719	\$ (1,606,909)	\$ 2,899,977
Balance at December 31, 2004	3,300,000	483,266,408	(59,634,019)	423,632,389	\$ 165,000	\$ 96,654	\$ 1,905,460	\$ 440,672	\$ 2,521,740	\$ (2,027,222)	\$ 3,102,304
Comprehensive income:											
Net income									951,249		951,249
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(37,936)			(37,936)
Change in unrealized gains (losses) on derivatives, net of tax								5,032			5,032
Comprehensive income											918,345
Dividends:											
Common stock (\$.63 per share)									(263,884)		(263,884)
Preferred stock, series A (\$2.61 per share)									(8,636)		(8,636)
Preferred stock, series B (\$1.12 per share)									(5,239)		(5,239)
Issuance of common shares		5,258,469	73,406	5,331,875		1,051	169,065			3,762	173,878
Issuance of preferred shares	4,000,000				400,000						400,000
Preferred stock issuance costs and related amortization							(2,894)		(196)		(3,090)
Tax benefit related to employee stock option and purchase plans							36,330				36,330
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(9,405,676)	(9,405,676)						(468,267)	(468,267)
Gain on settlement										(11,276)	(11,276)
Benefit plans			(960,856)	(960,856)						(46,667)	(46,667)
Balance at September 30, 2005	7,300,000	488,524,877	(69,927,145)	418,597,732	\$ 565,000	\$ 97,705	\$ 2,107,961	\$ 407,768	\$ 3,195,034	\$ (2,549,670)	\$ 3,823,798

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Nine months ended September 30,	
	2005	2004
	(Unaudited)	(Unaudited)
Operating activities		
Net income	\$ 951,249	\$ 1,262,969
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(311,895)	(375,384)
Losses on investments, net	56,976	37,244
Loss on GSE debt extinguishment and defeasance	—	102,990
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(420,878)	(558,387)
Unrealized (gains)/losses on derivative and hedging activities — equity forwards	(64,519)	(335,271)
Provisions for losses	137,688	79,092
Minority interest, net	(6,714)	—
Mortgage loans originated	(1,335,468)	(1,072,098)
Proceeds from sales of mortgage loans	1,239,425	904,412
Increase in restricted cash	(279,814)	(669,030)
Increase in accrued interest receivable	(469,714)	(347,405)
Increase in accrued interest payable	82,764	69,093
Decrease in Retained Interest in off-balance sheet securitized loans, net	194,231	67,905
Decrease in other assets, goodwill and acquired intangible assets, net	153,860	216,268
Increase (decrease) in other liabilities	594,256	(252,873)
Total adjustments	(429,802)	(2,133,444)
Net cash provided by (used in) operating activities	521,447	(870,475)
Investing activities		
Student loans acquired	(23,108,450)	(17,605,626)
Loans purchased from securitized trusts (primarily through loan consolidations)	(7,459,199)	(3,968,953)
Reduction of student loans:		
Installment payments	4,909,516	3,844,999
Claims and resales	768,328	571,774
Proceeds from securitization of student loans treated as sales	9,045,932	12,475,726
Proceeds from sales of student loans	166,471	470,711
Other loans made	(346,473)	(391,058)
Other loans repaid	393,838	534,946
Purchases of available-for-sale securities	(50,629,556)	(192,762,310)
Proceeds from sales of available-for-sale securities	983,469	—
Proceeds from maturities of available-for-sale securities	50,764,290	193,993,403
Purchases of held-to-maturity and other securities	(713,852)	(216,814)
Proceeds from sales and maturities of held-to-maturity securities and other securities	685,132	233,683
Return of investment from Retained Interest	161,183	372,833
Purchase of subsidiaries, net of cash acquired	(178,844)	(148,436)
Net cash used in investing activities	(14,558,215)	(2,595,122)
Financing activities		
Short-term borrowings issued	56,745,936	290,798,033
Short-term borrowings repaid	(56,834,645)	(296,886,713)
Long-term borrowings issued	8,286,865	12,051,790
Long-term borrowings repaid	(4,957,066)	(13,746,106)
Borrowings collateralized by loans in trust issued	9,808,399	17,648,875
Borrowings collateralized by loans in trust — activity	(627,003)	(1,382,643)
GSE debt extinguishment	—	(1,852,665)
Common stock issued	173,878	219,216
Common stock repurchased	(514,934)	(703,596)
Common stock dividends paid	(263,884)	(241,909)
Preferred stock issued	396,910	—
Preferred stock dividends accrued and paid	(13,875)	(8,625)
Net cash provided by financing activities	12,200,581	5,895,657
Net (decrease) increase in cash and cash equivalents	(1,836,187)	2,430,060
Cash and cash equivalents at beginning of period	3,395,487	1,847,585
Cash and cash equivalents at end of period	\$ 1,559,300	\$ 4,277,645
Cash disbursements made for:		
Interest	\$ 1,701,632	\$ 787,628
Income taxes	\$ 234,962	\$ 546,843

See accompanying notes to consolidated financial statements.

SLM CORPORTION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at September 30, 2005 and for the three and nine months ended
September 30, 2005 and 2004 is unaudited)

(Dollars and shares in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results for the year ending December 31, 2005. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's 2004 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2004 to be consistent with classifications adopted for 2005.

Recently Issued Accounting Pronouncements

Accounting Changes and Error Corrections

In May 2005, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 154, "Accounting Changes and Error Corrections," which is a replacement of Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements." This statement changes the requirements for the accounting for and reporting of a change in accounting principle. This statement applies to all voluntary changes in accounting principle and applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. This statement requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period rather than being reported in an income statement. This statement is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company will adopt SFAS No. 154 on January 1, 2006. The Company expects that the adoption of SFAS No. 154 will not have a material impact on the Company's financial statements.

Share-Based Payment

On December 16, 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. The new standard will be effective for public entities (excluding small business issuers) for the fiscal year beginning after June 15, 2005. SFAS No. 123(R) allows for two transition alternatives for public companies: (a) modified-prospective transition or (b) modified-retrospective transition. Management is still evaluating both methods, but has tentatively decided to apply the modified-retrospective transition alternative for all periods presented and will recognize compensation cost in the amounts previously reported in the pro forma footnote disclosure under the provisions of SFAS No. 123. Had the Company adopted SFAS No. 123(R) for the first nine months of 2005, its diluted earnings per share would have been \$.06 lower, and going forward, the adoption of SFAS No. 123(R) should have a similar effect on diluted earnings per share. The Company plans to adopt SFAS No. 123(R) on January 1, 2006.

Effect of Contingently Convertible Debt on Diluted Earnings per Share

In December 2004, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," which addresses the timing of the inclusion of the dilutive effect of contingently convertible debt instruments ("Co-Cos") in diluted earnings per share ("diluted EPS"). Co-Cos are generally convertible into the common shares of the issuer after the common stock share price exceeds a predetermined threshold for a specified time period, generally referred to as the market price trigger. EITF No. 04-8 requires the shares underlying the Co-Cos be included in diluted EPS computations regardless of whether the market price trigger or the conversion price has been met, using the "if-converted" accounting method. EITF No. 04-8 was effective for reporting periods ending after December 15, 2004 with retroactive restatement to all required reporting periods. As a result, the diluted EPS amounts have been retroactively restated for all prior periods presented to give effect to the application of EITF No. 04-8 as it relates to the Company's \$2 billion Co-Cos issued in May 2003. The effect of the adoption of EITF No. 04-8 was to decrease diluted EPS, by \$.04 and \$.04 per share for the three months ended September 30, 2005 and 2004, respectively, and by \$.08 and \$.15 per share for the nine months ended September 30, 2005 and 2004, respectively. See Note 5, "Common Stock," for a more detailed calculation of the negative impact of the Co-Cos on diluted EPS.

Stock-Based Compensation

The Company has elected to continue to follow the intrinsic value method of accounting as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," to account for employee stock options (see "Recently Issued Accounting Pronouncements—Share Based Payment" above). Under APB No. 25, the Company does not recognize compensation expense on fixed award plans unless the exercise price of its employee stock options is less than the market price of the

underlying stock on the date of grant. The Company grants all of its options at the fair market value of the underlying stock on the date of grant. Consequently, the Company has not recorded such expense in the periods presented.

The fair values for the options granted in the three and nine months ended September 30, 2005 and 2004 were estimated at the date of grant using a Black-Scholes option pricing model, with the following weighted average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Risk free interest rate	3.98%	2.97%	3.63%	2.58%
Expected volatility	22.13%	17.92%	21.66%	16.18%
Expected dividend rate	1.72%	1.71%	1.52%	1.68%
Expected life of the option	3 years	3 years	3 years	3 years

The following table summarizes pro forma disclosures for the three and nine months ended September 30, 2005 and 2004, as if the Company 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 SFAS No. 123. The option value is amortized over an assumed vesting period of between one and three years depending on option type or to the actual date of vesting, whichever comes first.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net income attributable to common stock	\$ 424,062	\$ 353,703	\$ 937,178	\$ 1,254,344
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9,081)	(9,381)	(29,670)	(32,460)
Pro forma net income attributable to common stock	\$ 414,981	\$ 344,322	\$ 907,508	\$ 1,221,884
Basic earnings per common share	\$ 1.02	\$.81	\$ 2.24	\$ 2.85
Pro forma basic earnings per common share	\$.99	\$.79	\$ 2.16	\$ 2.78
Diluted earnings per common share	\$.95	\$.76	\$ 2.10	\$ 2.65
Pro forma diluted earnings per common share	\$.93	\$.74	\$ 2.04	\$ 2.59

2. Allowance for Student Loan Losses

The provisions for student loan losses represent the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the student loan portfolios. The evaluation of the provisions for student loan losses is inherently subjective as it requires material estimates that may

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

Third Quarter of 2005 Change in Recovery Methodology

The Company continues to gain experience in analyzing its Private Education Loan portfolios and as a result, it has developed additional data to better estimate the amount of recoveries on defaulted loans. During the third quarter of 2005, the Company changed its methodology for estimating the amount of charged-off student loans that will ultimately be recovered, which resulted in a \$49 million reduction in the Company's allowance in the third quarter of 2005 to recognize the effect of this change.

Second Quarter of 2005 Change in Accounting Estimate

In the second quarter of 2005, the Company changed its estimate of the allowance for loan losses and the estimate of uncollectible accrued interest for its loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge-off.

This is a widely used reserving methodology in the consumer finance industry. Previously, the Company calculated the allowance for Private Education Loan losses by estimating the probable losses in the portfolio based primarily on loan characteristics and where pools of loans were in their life with less emphasis on current delinquency status of the loan. Also, in the Company's prior methodology for calculating the allowance, some loss rates were based on proxies and extrapolations of FFELP loan loss data.

The Company also used a migration analysis to revise its estimates surrounding its non-accrual policy for interest income. Under the new methodology, the Company estimates the amount of uncollectible accrued interest on Private Education Loans and writes it off against current period interest income. Under its prior methodology, Private Education Loans continued to accrue interest, including in periods of forbearance, until they were charged off, at which time, the loans were placed on non-accrual status and all accrued interest was reversed against income in the month of charge-off.

This change in reserving methodology has been accounted for as a change in estimate in accordance with the FASB's APB Opinion No. 20, "Accounting Changes." The cumulative effect of this change to the second quarter of 2005 was to increase the value of the allowance by \$40 million and to reduce student loan interest income for the estimate of uncollectible accrued interest receivable by \$14 million. On the income statement, adjustments to the allowance are recorded through the provision for losses whereas adjustments to accrued interest are recorded in interest income.

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Balance at beginning of period	\$ 233,518	\$ 197,159	\$ 179,664	\$ 211,709
Additions:				
Provisions for student loan losses	8,908	39,921	127,425	103,995
Recoveries	5,157	3,729	14,670	9,891
Deductions:				
Reductions for student loan sales and securitizations	—	(4,056)	(5,886)	(35,887)
Charge-offs	(48,624)	(33,661)	(116,914)	(86,265)
Reduction in federal Risk Sharing allowance/provision for EP designation	—	(31,595)	—	(31,595)
Other	—	541	—	190
Balance at end of period	\$ 198,959	\$ 172,038	\$ 198,959	\$ 172,038

In addition to the provisions for student loan losses, provisions for losses on other Company loans totaled \$3 million for both the three months ended September 30, 2005 and 2004, respectively, and \$10 million and \$7 million for the nine months ended September 30, 2005 and 2004, respectively.

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three and nine months ended September 30, 2005 and 2004.

(Dollars in millions)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Allowance at beginning of period	\$ 228	\$ 155	\$ 172	\$ 166
Provision for Private Education Loan losses	56	40	135	100
Change in estimate	—	—	40	—
Change in recovery methodology	(49)	—	(49)	—
Total provision	7	40	126	100
Charge-offs	(47)	(32)	(113)	(81)
Recoveries	5	4	14	10
Net charge-offs	(42)	(28)	(99)	(71)
Balance before securitization of Private Education Loans	193	167	199	195
Reduction for securitization of Private Education Loans	—	—	(6)	(28)
Allowance at end of period	\$ 193	\$ 167	\$ 193	\$ 167
Net charge-offs as a percentage of average total loans (annualized)	5.35%	4.71%	4.37%	3.86%
Allowance as a percentage of the ending total loan balance	2.34%	3.38%	2.34%	3.38%
Allowance as a percentage of ending loans in repayment	6.00%	6.93%	6.00%	6.93%
Allowance coverage of net charge-offs (annualized)	1.15	1.51	1.46	1.74
Average total loans	\$ 7,193	\$ 4,401	\$ 6,615	\$ 4,640
Ending total loans	\$ 8,272	\$ 4,939	\$ 8,272	\$ 4,939
Average loans in repayment	\$ 3,150	\$ 2,352	\$ 3,031	\$ 2,480
Ending loans in repayment	\$ 3,220	\$ 2,408	\$ 3,220	\$ 2,408

Delinquencies

The table below presents the Company's Private Education Loan delinquency trends as of September 30, 2005 and 2004. Delinquencies have the potential to adversely impact earnings through increased servicing and collection costs in the event the delinquent accounts charge off.

(Dollars in millions)	September 30,			
	2005		2004	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 5,042		\$ 2,522	
Loans in forbearance ⁽²⁾	311		179	
Loans in repayment and percentage of each status:				
Loans current	2,873	89.2%	2,122	88.1%
Loans delinquent 31-60 days ⁽³⁾	145	4.5	97	4.0
Loans delinquent 61-90 days	75	2.3	65	2.7
Loans delinquent greater than 90 days	127	4.0	124	5.2
Total Private Education Loans in repayment	3,220	100.0%	2,408	100.0%
Total Private Education Loans, gross	8,573		5,109	
Private Education Loan unamortized discount	(301)		(170)	
Total Private Education Loans	8,272		4,939	
Private Education Loan allowance for losses	(193)		(167)	
Private Education Loans, net	\$ 8,079		\$ 4,772	
Percentage of Private Education Loans in repayment	37.6%		47.1%	
Delinquencies as a percentage of Private Education Loans in repayment	10.8%		11.9%	

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

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

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

3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

		As of September 30, 2005		
(Dollars in millions)	Average Amortization Period	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	\$ 234	\$ (68)	\$ 166
Tax exempt bond funding ⁽¹⁾	10 years	67	(21)	46
Software and technology	7 years	80	(47)	33
Non-compete agreements	2 years	9	(8)	1
Total		390	(144)	246
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	72	—	72
Total acquired intangible assets		\$ 462	\$ (144)	\$ 318
		As of December 31, 2004		
(Dollars in millions)	Average Amortization Period	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	\$ 239	\$ (48)	\$ 191
Tax exempt bond funding ⁽¹⁾	10 years	64	(6)	58
Software and technology	7 years	80	(39)	41
Non-compete agreements	2 years	9	(7)	2
Total		392	(100)	292
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	71	—	71
Total acquired intangible assets		\$ 463	\$ (100)	\$ 363

(1) In connection with the Company's 2004 acquisition of Southwest Student Services Corporation, the Company acquired certain tax exempt bonds that enable the Company to earn a 9.5 percent Special Allowance Payment ("SAP") rate on student loans funded by those bonds in indentured trusts. If a student loan is removed from the trust such that it is no longer funded by the bonds, it ceases earning the 9.5 percent SAP. A different student loan can be substituted in the trust and begin earning the 9.5 percent SAP. This feature remains as long as the bonds are outstanding.

The Company recorded amortization of \$16 million and \$8 million for the three months ended September 30, 2005 and 2004, respectively, and \$44 million and \$22 million for the nine months ended September 30, 2005 and 2004, respectively.

A summary of changes in the Company's goodwill by reportable segment (see Note 9, "Segment Reporting") is as follows:

(Dollars in millions)	December 31, 2004	Acquisitions/ Adjustments	September 30, 2005
Lending	\$ 440	\$ (35)	\$ 405
Debt Management Operations	206	78	284
Corporate and Other	57	—	57
Total	\$ 703	\$ 43	\$ 746

In the third quarter of 2005, the Company closed on the second step in a two step purchase of the secondary market and related businesses of Education Assistance Foundation ("EAF") and its affiliate, Student Loan Finance Association ("SLFA") and its subsidiaries, which were initially acquired on December 13, 2004. The initial purchase price for the second closing transaction was approximately \$61 million, which resulted in an excess purchase price over the fair value of net assets acquired, or goodwill, of approximately \$6 million.

On August 31, 2005, the Company acquired 100 percent of GRP Financial Services ("GRP"), a debt management company that acquires and manages portfolios of sub-performing and non-performing mortgage loans, substantially all of which are secured by one-to-four family residential real estate, for an initial purchase price of approximately \$137 million including cash consideration and certain acquisition costs.

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, "Business Combinations." The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company's acquisitions is reviewed for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," addressed further in Note 2, "Significant Accounting Policies," within the Company's 2004 Annual Report on Form 10-K.

4. Student Loan Securitization

Securitization Activity

The Company securitizes its student loan assets and for transactions qualifying as sales retains a Residual Interest and servicing rights (as the Company retains the servicing responsibilities), all of which are referred to as the Company's Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The investors of the securitization trusts have no recourse to the Company's other assets should there be a failure of the student loans to pay when due.

The following table summarizes the Company's securitization activity for the three and nine months ended September 30, 2005 and 2004. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

Three months ended September 30,								
2005					2004			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford and Other Student Loans	—	\$ —	\$ —	—%	2	\$ 4,500	\$ 64	1.4%
Consolidation Loans	—	—	—	—	—	—	—	—
Private Education Loans	—	—	—	—	—	—	—	—
Total securitizations—sales	—	—	\$ —	—%	2	4,500	\$ 64	1.4%
Asset-backed commercial paper Consolidation Loans ⁽¹⁾	—	—	—	—	—	—	—	—
	3	7,276	—	—	1	2,210	—	—
Total securitizations—financings	3	7,276			1	2,210		
Total securitizations	3	\$ 7,276			3	\$ 6,710		
Nine months ended September 30,								
2005					2004			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford and Other Student Loans	2	\$ 3,530	\$ 50	1.4%	4	\$ 10,002	\$ 134	1.3%
Consolidation Loans	2	4,011	31	.8	—	—	—	—
Private Education Loans	1	1,505	231	15.3	2	2,535	241	9.5
Total securitizations—sales	5	9,046	\$ 312	3.4%	6	12,537	\$ 375	3.0%
Asset-backed commercial paper Consolidation Loans ⁽¹⁾	—	—	—	—	1	4,186	—	—
	4	9,502	—	—	5	13,224	—	—
Total securitizations—financings	4	9,502			6	17,410		
Total securitizations	9	\$ 18,548			12	\$ 29,947		

(1) In certain Consolidation Loan securitization structures, the Company holds certain rights that can affect the remarketing of certain bonds such that these securitizations did not qualify as qualifying special purpose entities ("QSPEs"). Accordingly, they are accounted for on-balance sheet as variable interest entities ("VIEs").

The increase in the gain as a percentage of the amount securitized for the 2005 Private Education Loan securitization versus the prior year's transaction is primarily impacted by higher earnings spreads on the mix of loans securitized, improved funding spreads, and a decrease in the Constant Prepayment Rate ("CPR") assumption used in the calculation of the gain on sale.

The table below presents the key assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and nine months ended September 30, 2005 and 2004.

Three months ended September 30,					
2005			2004		
FFELP Stafford ⁽¹⁾	Consolidation ⁽¹⁾	Private Education ⁽¹⁾	FFELP Stafford	Consolidation ⁽¹⁾	Private Education ⁽¹⁾
Prepayment speed	—	—	—	**	—
Weighted-average life	—	—	4.1 yrs.	—	—
Expected credit losses (% of principal securitized)	—	—	.06%	—	—
Residual cash flows discounted at (weighted average)	—	—	12%	—	—
Nine months ended September 30,					
2005			2004		
FFELP Stafford	Consolidation	Private Education	FFELP Stafford	Consolidation ⁽¹⁾	Private Education
Prepayment speed	*	6%	3%	**	6%
Weighted-average life	4.0 yrs.	7.9 yrs.	9.0 yrs.	4.2 yrs.	7.2 yrs.
Expected credit losses (% of principal securitized)	—	—%	4.38%	.12%	4.72%
Residual cash flows discounted at (weighted average)	12%	10.1%	12.4%	12%	12%

(1) No securitizations in the period, or such securitizations did not qualify for sale treatment.

* 20 percent for 2005, 15 percent for 2006 and 6 percent thereafter.

** As a result of updated assumptions, securitizations through August 2004 used a CPR of 20 percent for 2004, 15 percent for 2005 and 6 percent thereafter. Securitizations in September 2004 used a CPR of 20 percent for 2004 through 2005, 15 percent for 2006 and 6 percent thereafter.

Retained Interest

The following table summarizes the fair value of the Company's Retained Interests along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales.

	As of September 30, 2005		As of December 31, 2004	
	Retained Interest Fair Value	Underlying Securitized Loan Balance	Retained Interest Fair Value	Underlying Securitized Loan Balance
(Dollars in millions)				
FFELP Stafford and Other Student Loans	\$ 782	\$ 20,435	\$ 1,037	\$ 27,444
Consolidation Loans ⁽¹⁾	597	10,677	585	7,393
Private Education Loans	951	7,529	694	6,309
Total⁽²⁾	\$ 2,330	\$ 38,641	\$ 2,316	\$ 41,146

(1) Includes \$265 million and \$399 million related to the fair value of the Embedded Floor Income as of September 30, 2005 and December 31, 2004, respectively. The decrease in the fair value of the Embedded Floor Income is due to rising interest rates during the period.

(2) Unrealized gains (pre-tax) included in accumulated other comprehensive income related to the Retained Interests totaled \$429 million and \$445 million as of September 30, 2005 and December 31, 2004, respectively.

The Company recorded \$195 million and \$61 million of impairment related to the Retained Interests for the nine months ended September 30, 2005 and 2004, respectively. These impairment charges were primarily the result of continued record levels of consolidation activity as well as the Company increasing its expected future CPR assumptions used to value the Residual Interest. FFELP Stafford loans prepaid faster than projected due to the record amount of Consolidation Loan applications received in the second quarter of 2005 that were processed through the Company's securitizations in the third quarter of 2005. This surge in Consolidation Loan activity in 2005 was due to FFELP Stafford borrowers locking in lower interest rates by consolidating their loans prior to the July 1 interest rate reset for FFELP Stafford loans. The level and timing of Consolidation Loan activity is highly volatile, and in response the Company continues to revise its estimate of the effects of Consolidation Loan activity on the Company's Retained Interests. The Company updated its FFELP Stafford CPR assumptions in the third quarter of 2005 as follows:

Year	As of September 30, 2005	As of December 31, 2004
2005	30%	20%
2006	20%	15%
2007	15%	6%
Thereafter	10%	6%

In 2004, the Company's Retained Interests were also impaired by the effect of higher market interest rates on the Embedded Floor Income. The impairments are recorded as a reduction in securitization revenue. The level and timing of Consolidation Loan activity remains highly volatile which may result in an additional impairment recorded in future periods if Consolidation Loan activity remains higher than projected.

In addition to student loans in off-balance sheet trusts, the Company had \$38.9 billion and \$31.5 billion of securitized student loans outstanding (face amount) as of September 30, 2005 and December 31, 2004, respectively, in on-balance sheet securitization trusts.

5. Common Stock

The following table summarizes the Company's common share repurchases, issuances and equity forward activity for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
(Shares in millions)				
Common shares repurchased:				
Open market	—	—	—	.5
Equity forwards	2.9	11.4	9.4	24.8
Benefit plans ⁽¹⁾	.5	.1	1.0	1.0
Total shares repurchased	3.4	11.5	10.4	26.3
Average purchase price per share	\$ 50.12	\$ 38.91	\$ 49.67	\$ 36.21
Common shares issued	1.8	1.8	5.3	7.9
Equity forward contracts:				
Outstanding at beginning of period	51.7	47.2	42.8	43.5
New contracts	1.4	12.3	16.8	29.4
Exercises	(2.9)	(11.4)	(9.4)	(24.8)
Outstanding at end of period	50.2	48.1	50.2	48.1
Authority remaining at end of period to repurchase or enter into equity forwards⁽²⁾	19.0	8.4	19.0	8.4

(1) Includes shares withheld from stock option exercises and vesting of performance stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

(2) In October 2004, the Board authorized an additional 30 million shares for repurchase.

As of September 30, 2005, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

Year of maturity	Outstanding contracts (Shares in millions)	Range of purchase prices	Average purchase price
2007	9.5	\$50.47	\$ 50.47
2008	7.9	50.47	50.47
2009	16.0	50.47	50.47
2010	16.8	47.09 – 51.22	48.76
	50.2		\$ 49.90

The closing price of the Company's common stock on September 30, 2005 was \$53.64.

Earnings per Share

Basic earnings per common share ("basic EPS") is calculated using the weighted average number of shares of common stock outstanding during each period. Diluted earnings per common share ("diluted EPS") reflect the potential dilutive effect of (i) additional common shares that are issuable upon exercise of outstanding stock options, deferred compensation, restricted stock units, and the outstanding commitment to issue shares under the Employee Stock Purchase Plan ("ESPP"), determined by the treasury stock method, (ii) the assumed conversion of convertible debentures, determined by the "if-converted" method, and (iii) equity forwards, determined by the reverse treasury stock method. Equity forwards are dilutive to EPS when the Company's average stock price is lower than the equity forward's strike price.

At September 30, 2005, the Company had \$2 billion contingently convertible debentures ("Co-Cos") outstanding that are convertible, under certain conditions, into shares of SLM common stock at an initial conversion price of \$65.98. The investors generally can only convert the debentures if the Company's common stock has appreciated for a prescribed period to 130 percent of the conversion price, which would amount to \$85.77, or the Company calls the debentures. Per EITF No. 04-8, diluted EPS for all periods presented includes the potential dilutive effect of the Company's outstanding Co-Cos for the three and nine months ended September 30, 2005 and 2004. (See Note 1, "Significant Accounting Policies—Recently Issued Accounting Pronouncements.")

A reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows for the three and nine months ended September 30, 2005 and 2004:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Numerator:				
Net income attributable to common stock	\$ 424,062	\$ 353,703	\$ 937,178	\$ 1,254,344
Adjusted for debt expense of Co-Cos, net of taxes	11,971	5,622	30,887	14,280
Net income attributable to common stock, adjusted	\$ 436,033	\$ 359,325	\$ 968,065	\$ 1,268,624
Denominator:				
Weighted-average shares used to compute basic EPS	417,235	435,764	419,205	439,430
Effect of dilutive securities:				
Dilutive effect of stock options, deferred compensation, restricted stock units, ESPP, and equity forwards	11,251	8,379	11,705	8,581
Dilutive effect of Co-Cos	30,312	30,312	30,312	30,312
Dilutive potential common shares	41,563	38,691	42,017	38,893
Weighted-average shares used to compute diluted EPS	458,798	474,455	461,222	478,323
Net earnings per share:				
Basic EPS	\$ 1.02	\$.81	\$ 2.24	\$ 2.85
Dilutive effect of stock options, deferred compensation, restricted stock units, ESPP, and equity forwards	(.03)	(.01)	(.06)	(.05)
Dilutive effect of Co-Cos	(.04)	(.04)	(.08)	(.15)
Diluted EPS	\$.95	\$.76	\$ 2.10	\$ 2.65

(1) For the three months ended September 30, 2005 and 2004, securities of approximately 50 million shares and 4 million shares, respectively, and for the nine months ended September 30, 2005 and 2004, securities of approximately 19 million shares and 4 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

6. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at September 30, 2005 and December 31, 2004 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2005 and 2004. At September 30, 2005 and December 31, 2004, \$572 million and \$524 million (fair value),

respectively, of available-for-sale investment securities and \$135 million and \$222 million, respectively, of cash were pledged as collateral against these derivative instruments.

<i>Fair Values</i> (Dollars in millions)	Cash Flow		Fair Value		Trading		Total	
	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004	September 30, 2005	December 31, 2004
Interest rate swaps	\$ —	\$ 25	\$ (263)	\$ (176)	\$ (40)	\$ (84)	\$ (303)	\$ (235)
Floor/Cap contracts	—	—	—	—	(472)	(625)	(472)	(625)
Futures	—	—	—	—	(1)	(2)	(1)	(2)
Equity forwards	—	—	—	—	232	139	232	139
Cross currency interest rate swaps	—	—	313	1,839	—	—	313	1,839
Total	\$ —	\$ 25	\$ 50	\$ 1,663	\$ (281)	\$ (572)	\$ (231)	\$ 1,116

Notional Values
(Dollars in billions)

Interest rate swaps	\$ 2.2	\$ 5.8	\$ 14.5	\$ 13.4	\$ 128.9	\$ 85.9	\$ 145.6	\$ 105.1
Floor/Cap contracts	—	—	—	—	43.2	41.7	43.2	41.7
Futures	.2	1.0	—	—	.6	6.5	.8	7.5
Cross currency interest rate swaps	—	—	16.2	13.7	—	—	16.2	13.7
Other ⁽¹⁾	—	—	—	—	2.0	2.0	2.0	2.0
Total	\$ 2.4	\$ 6.8	\$ 30.7	\$ 27.1	\$ 174.7	\$ 136.1	\$ 207.8	\$ 170.0

Contracts
(Shares in millions)

Equity forwards	—	—	—	—	50.2	42.8	50.2	42.8
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(1) "Other" consists of an embedded derivative bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. The embedded derivative has had a de minimis fair value since inception.

Three months ended September 30,

(Dollars in millions)	Cash Flow		Fair Value		Trading		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	Changes to accumulated other comprehensive income, net of tax							
Hedge ineffectiveness reclassified to earnings	\$ —	\$ 5	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5
Change in fair value to cash flow hedges	(2)	17	—	—	—	—	(2)	17
Amortization of effective hedges and transition adjustment ⁽¹⁾	5	11	—	—	—	—	5	11
Change in accumulated other comprehensive income, net	\$ 3	\$ 33	\$ —	\$ —	\$ —	\$ —	\$ 3	\$ 33
Earnings Summary								
Amortization of closed futures contracts' gains/losses in interest expense ⁽²⁾	\$ (9)	\$ (15)	\$ —	\$ —	\$ —	\$ —	\$ (9)	\$ (15)
Recognition of futures losses related to tendered debt	—	(8)	—	—	—	—	—	(8)
Gains (losses) on derivative and hedging activities— Realized ⁽³⁾	—	—	—	—	(93)	(154)	(93)	(154)
Gains (losses) on derivative and hedging activities— Unrealized	—	—	8 ⁽⁴⁾	(1) ⁽⁴⁾	401	228	409	227
Total earnings impact	\$ (9)	\$ (23)	\$ 8	\$ (1)	\$ 308	\$ 74	\$ 307	\$ 50

Nine months ended September 30,

(Dollars in millions)	Cash Flow		Fair Value		Trading		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	Changes to accumulated other comprehensive income, net of tax							
Hedge ineffectiveness reclassified to earnings	\$ —	\$ 8	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 8
Change in fair value to cash flow hedges	(15)	10	—	—	—	—	(15)	10
Amortization of effective hedges and transition adjustment ⁽¹⁾	20	18	—	—	—	—	20	18
Change in accumulated other comprehensive income, net	\$ 5	\$ 36	\$ —	\$ —	\$ —	\$ —	\$ 5	\$ 36
Earnings Summary								
Amortization of closed futures contracts' gains/losses in interest expense ⁽²⁾	\$ (32)	\$ (26)	\$ —	\$ —	\$ —	\$ —	\$ (32)	\$ (26)
Recognition of futures losses related to tendered debt	—	(8)	—	—	—	—	—	(8)
Losses on derivative and hedging activities— Realized ⁽³⁾	—	(4)	—	—	(309)	(547)	(309)	(551)
Gains (losses) on derivative and hedging activities— Unrealized	—	—	(4) ⁽⁴⁾	(4) ⁽⁴⁾	489	897	485	893
Total earnings impact	\$ (32)	\$ (38)	\$ (4)	\$ (4)	\$ 180	\$ 350	\$ 144	\$ 308

(1) The Company expects to amortize \$16 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of September 30, 2005.

(2) For futures contracts that qualify as SFAS No. 133 hedges where the hedged transaction occurs.

(3) Includes net settlement income/expense related to trading derivatives and realized gains and losses related to derivative dispositions.

(4) The change in the fair value of cash flow and fair value hedges represents amounts related to ineffectiveness.

7. Pension Plans

Effective July 1, 2004, the Company's qualified and supplemental pension plans (the "Pension Plans") were frozen with respect to new entrants and participants with less than five years of service. Accordingly, at July 1, 2004, the Company recorded a net curtailment gain of \$4.5 million. No further benefits will accrue with respect to such participants under the Pension Plans, other than interest accruals on cash balance accounts. These participants were fully vested as of June 30, 2004.

For those participants continuing to accrue benefits under the Pension Plans, benefits are credited using a cash balance formula. Under the formula, each participant has an account, for record keeping purposes only, to which credits are allocated each payroll period based on a percentage of the participant's compensation for the current pay period. The applicable percentage is determined by the participant's number of years of service with the Company. If an individual participated in the Company's prior pension plan as of September 30, 1999 and met certain age and service criteria, the participant ("grandfathered participant") will receive the greater of the benefits calculated under the prior plan, which uses a final average pay plan method, or the current plan under the cash balance formula.

Components of Net Periodic Pension Cost

Net periodic pension cost included the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Service cost—benefits earned during the period	\$ 2,474	\$ 2,287	\$ 7,420	\$ 8,574
Interest cost on project benefit obligations	2,805	2,797	8,417	8,426
Expected return on plan assets	(4,109)	(3,994)	(12,326)	(11,679)
Net amortization and deferral	(30)	(309)	(89)	(1,067)
Net periodic pension cost	1,140	781	3,422	4,254
Curtailment gain	—	(4,506)	—	(4,506)
Total net periodic pension cost (benefit)	\$ 1,140	\$ (3,725)	\$ 3,422	\$ (252)

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2004 that it did not expect to contribute to its qualified pension plan (the "Qualified Plan") in 2005. As of September 30, 2005, the Company had made no contributions to its Qualified Plan.

8. Contingencies

The Company was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The plaintiffs sought to represent a nationwide class action on behalf of all borrowers who allegedly paid

"undisclosed improper and excessive" late fees over the past three years. The plaintiffs sought damages of one thousand five hundred dollars per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that the Company charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 27, 2003, the Superior Court granted the Company's motion to dismiss the complaint in its entirety. On March 4, 2004, the District of Columbia Court of Appeals affirmed the Superior Court's decision granting the Company's motion to dismiss the complaint, but granted plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. On September 15, 2004, the plaintiffs filed an amended class action complaint. On December 27, 2004, the Superior Court granted the Company's motion to dismiss the plaintiffs' amended complaint. Plaintiffs have appealed the Superior Court's December 27, 2004 dismissal order to the District of Columbia Court of Appeals. All appellate briefing has been completed. The Company believes that it will prevail on the merits of this case if it becomes necessary to further litigate this matter.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of the Company's reports to credit bureaus. In addition, the collections subsidiaries in the Company's debt management operation group are named in individual plaintiff or class action lawsuits in which the plaintiffs allege that the Company has violated the Fair Debt Collection Practices Act or state law in the process of collecting their account. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations.

9. Segment Reporting

The Company has two primary operating segments as defined in SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information"—the Lending and Debt Management Operations ("DMO") segments. The Lending and DMO operating segments meet the quantitative thresholds for reportable segments identified in SFAS No. 131. Accordingly, the results of operations of the Company's Lending and DMO segments are presented below. The Company has smaller operating segments including the Guarantor Servicing and Student Loan Servicing operating segments as well as certain other products and services provided to colleges and universities which do not meet the quantitative thresholds identified in SFAS No. 131. Therefore, the results of operations for these operating segments and the revenues and expenses associated with these other products and services are combined with corporate overhead and other corporate activities within the Corporate and Other reporting segment.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. As discussed further below, management measures the profitability of the Company's operating segments based on "core earnings." Accordingly, information regarding the Company's reportable segments is provided based on "core earnings." The Company's "core earnings"

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

The Company's principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than ten percent of its total revenue during the three months and nine months ended September 30, 2005 and 2004. United Student Aid Funds, Inc. ("USA Funds") is the Company's largest customer in both the DMO and Corporate and Other segments. During the three months ending September 30, 2005 and 2004, it accounted for 42 percent and 45 percent, respectively, of the aggregate revenues generated by the Company's DMO and Corporate and Other segments. During the nine months ending September 30, 2005 and 2004, USA Funds accounted for 38 percent and 47 percent, respectively, of the aggregate revenues generated by the Company's DMO and Corporate and Other segments. No other customers accounted for more than ten percent of total revenues in those segments for the years mentioned.

Lending

In the Company's Lending business segment, the Company originates and acquires both federally guaranteed student loans, which are administered by ED, and Private Education Loans, which are not federally guaranteed. Private Education Loans are primarily used by borrowers to supplement FFELP loans to meet the rising cost of education. The Company manages student loans for over 8 million borrowers totaling \$120.6 billion at September 30, 2005, of which \$105.2 billion or 87 percent are federally insured. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. During the three and nine months ended September 30, 2005, the Company originated \$602 million and \$1.5 billion, respectively, in mortgage and consumer loans and its mortgage and consumer loan portfolio totaled \$603 million at September 30, 2005, of which \$259 million pertained to mortgages in the held for sale portfolio.

DMO

The Company provides a wide range of accounts receivable and collections services through six operating units that comprise its DMO operating segment. These services include defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, student loan default aversion services, and accounts receivable management and investment in purchased portfolios of receivables that have been charged off by their original creditors. The

Company's DMO operating segment primarily serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay for performance basis to ten FFELP guarantors and for campus based programs.

In addition to collecting on its own purchased receivables, the DMO operating segment purchases charged-off debt. The DMO operating segment provides receivable management and collection services for large federal agencies, credit card clients and other holders of consumer debt.

Corporate and Other

The Company's Corporate and Other business segment includes the aggregate activity of its smaller operating segments including its Guarantor Servicing and Loan Servicing business segments, other products and services as well as corporate overhead.

Financial Highlights

The tables below include the condensed operating results for each of the Company's reportable segments. Management, including the "chief operating decision maker," evaluates the Company on certain non-GAAP performance measures that the Company refers to as "core earnings" for each business segment. While "core earnings" are not a substitute for reported results under GAAP, the Company relies on "core earnings" in operating each business segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

"Core earnings" are the primary financial performance measures used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect "core earnings" operating measures reviewed and utilized by management to manage the business. Reconciliation of the segment totals to the Company's consolidated operating results in accordance with GAAP are also included in the tables below.

Segment Results and Reconciliations to GAAP

Three months ended September 30, 2005

(Dollars in millions)	Lending	DMO	Corporate and Other	Segment Totals	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	\$ 586	\$ —	\$ —	\$ 586	\$ (316)	\$ 270
Consolidation Loans	833	—	—	833	(156)	677
Private Education Loans	312	—	—	312	(138)	174
Other loans	22	—	—	22	—	22
Cash and investments	113	—	—	113	(43)	70
Total interest income	1,866	—	—	1,866	(653)	1,213
Total interest expense	1,306	—	—	1,306	(477)	829
Net interest income	560	—	—	560	(176)	384
Less: provisions for losses	—	—	—	—	12	12
Net interest income after provisions for losses	560	—	—	560	(188)	372
Fee income	—	93	36	129	—	129
Collections revenue	—	42	—	42	—	42
Other income	—	—	36	36	295	331
Operating expenses	117	72	82	271	21	292
Income tax expense (benefit) ⁽¹⁾	164	23	(4)	183	(33)	150
Minority interest in net earnings of subsidiaries	—	1	—	1	—	1
Net income (loss)	\$ 279	\$ 39	\$ (6)	\$ 312	\$ 119	\$ 431

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

	Lending	DMO	Corporate and Other	Segment Totals	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	\$ 458	\$ —	\$ —	\$ 458	\$ (269)	\$ 189
Consolidation Loans	368	—	—	368	(35)	333
Private Education Loans	165	—	—	165	(82)	83
Other loans	18	—	—	18	—	18
Cash and investments	73	—	—	73	(11)	62
Total interest income	1,082	—	—	1,082	(397)	685
Total interest expense	616	—	—	616	(244)	372
Net interest income	\$ 466	\$ —	\$ —	\$ 466	\$ (153)	\$ 313
Less: provisions for losses	(7)	—	—	(7)	18	11
Net interest income after provisions for losses	473	—	—	473	(171)	302
Fee income	—	74	33	107	—	107
Collections revenue	—	5	—	5	—	5
Other income	17	—	46	63	291	354
Loss on GSE debt extinguishment and defeasance	103	—	—	103	—	103
Operating expenses	98	35	70	203	8	211
Income tax expense (benefit) ⁽¹⁾	104	16	3	123	(26)	97
Net income	\$ 185	\$ 28	\$ 6	\$ 219	\$ 138	\$ 357

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

	Lending	DMO	Corporate and Other	Segment Totals	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	\$ 1,678	\$ —	\$ —	\$ 1,678	\$ (978)	\$ 700
Consolidation Loans	2,080	—	—	2,080	(341)	1,739
Private Education Loans	787	—	—	787	(357)	430
Other loans	62	—	—	62	—	62
Cash and investments	271	—	—	271	(84)	187
Total interest income	4,878	—	—	4,878	(1,760)	3,118
Total interest expense	3,309	—	—	3,309	(1,252)	2,057
Net interest income	1,569	—	—	1,569	(508)	1,061
Less: provisions for loan losses	69	—	—	69	69	138
Net interest income after provisions for losses	1,500	—	—	1,500	(577)	923
Fee income	—	261	94	355	—	355
Collections revenue	—	119	—	119	—	119
Other income	72	—	97	169	745	914
Operating expenses	357	201	233	791	51	842
Income tax expense (benefit) ⁽¹⁾	449	67	(16)	500	13	513
Minority interest in net earnings of subsidiaries	2	3	—	5	—	5
Net income (loss)	\$ 764	\$ 109	\$ (26)	\$ 847	\$ 104	\$ 951

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

	Lending	DMO	Corporate and Other	Segment Totals	Adjustments	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	\$ 1,239	\$ —	\$ —	\$ 1,239	\$ (689)	\$ 550
Consolidation Loans	984	—	—	984	(51)	933
Private Education Loans	426	—	—	426	(190)	236
Other loans	55	—	—	55	—	55
Cash and investments	176	—	—	176	(18)	158
Total interest income	2,880	—	—	2,880	(948)	1,932
Total interest expense	1,536	—	—	1,536	(571)	965
Net interest income	1,344	—	—	1,344	(377)	967
Less: provisions for loan losses	78	—	—	78	1	79
Net interest income after provisions for losses	1,266	—	—	1,266	(378)	888
Fee income	—	224	91	315	—	315
Collections revenue	—	5	—	5	—	5
Other income	94	—	100	194	1,129	1,323
Loss on GSE debt extinguishment and defeasance	103	—	—	103	—	103
Operating expenses	298	99	207	604	22	626
Income tax expense (benefit) ⁽¹⁾	345	47	(6)	386	153	539
Net income (loss)	\$ 614	\$ 83	\$ (10)	\$ 687	\$ 576	\$ 1,263

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

The adjustments required to reconcile from the Company's segment totals to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income related to the Company's student loans, and certain other items that management does not consider in evaluating the Company's operating results. The following table reflects aggregate adjustments associated with these areas for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Segment reporting adjustments to GAAP:				
Net impact of securitization accounting ⁽¹⁾	\$ (253)	\$ (74)	\$ (178)	\$ (19)
Net impact of derivative accounting ⁽²⁾	409	230	488	891
Net impact of Floor Income ⁽³⁾	(54)	(36)	(148)	(122)
Amortization of acquired intangibles ⁽⁴⁾	(16)	(8)	(45)	(21)
Net tax effect ⁽⁵⁾	33	26	(13)	(153)
Total segment reporting adjustments to GAAP	\$ 119	\$ 138	\$ 104	\$ 576

- (1) Securitization: Under GAAP, certain securitization transactions in the Company's Lending segment are accounted for as sales of assets. Under the "core earnings" for the Lending segment, the Company presents all securitization transactions on a Managed Basis as long-term non-recourse financings. The upfront "gains" on sale from securitization transactions as well as ongoing "servicing and securitization revenue" presented in accordance with GAAP are excluded from the "core earnings" and replaced by the interest income, provision for loan losses, and interest expense as they are earned or incurred on the securitization loans. The Company also excludes transactions with its off-balance sheet trusts which would be considered intercompany on a Managed Basis.
- (2) Derivative accounting: "Core earnings" exclude periodic unrealized gains and losses arising primarily in the Company's Lending business segment, and to a lesser degree in the Company's Corporate and Other business segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. Under "core earnings," the Company recognizes the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life. The Company also excludes the gain or loss on equity forward contracts that are required to be accounted for in accordance with SFAS No. 133 as derivatives and are marked-to-market through earnings.
- (3) Floor Income: The timing and amount (if any) of Floor Income earned in the Company's Lending segment is uncertain and in excess of expected spreads and, therefore, the Company excludes such income from its "core earnings" measures when it is not economically hedged. The Company employs derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in "Derivative Accounting," these derivatives do not qualify as effective accounting hedges and therefore under GAAP are marked-to-market through the "gains (losses) on derivative and hedging activities, net" line on the income statement with no offsetting gain or loss recorded for the economically hedged items. For "core earnings" under the Lending segment, the Company reverses the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received (net of Eurodollar futures contracts' realized gains or losses) in income.
- (4) Other items: The Company excludes amortization of acquired intangibles.
- (5) Such tax effect is based upon the Company's "core earnings" effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three and nine months ended September 30, 2005 and 2004
(Dollars in millions, except per share amounts, unless otherwise stated)**

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the statements contained in this quarterly report discuss future expectations and business strategies or include other "forward-looking" information. Those statements are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking information is based on various factors and was derived using numerous assumptions. We undertake no obligation to publicly update or revise any forward-looking statements.

OVERVIEW

We are the largest source of funding, delivery and servicing support for education loans in the United States. Our primary business is to originate, acquire and hold both federally guaranteed student loans and Private Education Loans, which are not federally guaranteed. The primary source of our earnings is from net interest income earned on those student loans as well as gains on the sales of them in securitization transactions. We also earn fees for pre-default and post-default receivables management services on student loans, such that we are engaged in every phase of the student loan life cycle—from originating and servicing student loans to default prevention and ultimately the collection on defaulted student loans. We also provide a wide range of other financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders, students and their families, and guarantee agencies. SLM Corporation, more commonly known as Sallie Mae, is a holding company that operates through a number of subsidiaries and references in this report to the "Company" refer to SLM Corporation and its subsidiaries.

We have used both internal growth and strategic acquisitions to attain our leadership position in the education finance marketplace. Our sales force, which delivers our products on campuses across the country, is the largest in the student loan industry. The core of our marketing strategy is to promote our on-campus brands, which generate student loan originations through our Preferred Channel. Loans generated through our Preferred Channel are more profitable than loans acquired through other acquisition channels because we own them earlier in the student loan's life and generally incur lower costs to acquire such loans. We have built brand leadership among the Sallie Mae name, the brands of our subsidiaries and those of our lender partners. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry, providing an unmatched array of servicing capability to financial aid offices.

In recent years we have diversified our business through the acquisition of several companies that provide default management and loan collections services, all of which are combined in our Debt Management Operations ("DMO") business segment. Initially these acquisitions were concentrated in the student loan industry, but through our acquisitions of Arrow Financial Services ("AFS") in September 2004 and GRP Financial Services ("GRP") in August 2005, we expanded our capabilities to include a full range of accounts receivable management services to a number of different industries. The DMO business segment has been expanding rapidly such that revenue grew 71 percent and 66 percent in the three and the nine months ended September 30, 2005, respectively, compared to the same periods in 2004, and we now employ over 3,000 people in this segment.

In December 2004, we completed the Wind-Down of the GSE through the defeasance of all remaining GSE debt obligations and dissolution of the GSE's federal charter. The liquidity provided to the Company by the GSE has been replaced primarily by securitizations. In addition to securitizations, we have also increased and diversified our investor base over the last three years to enable us to access a number of additional sources of liquidity including an asset-backed commercial paper program, unsecured revolving credit facilities, and other unsecured corporate debt and equity security issuances.

We manage our business through two primary operating segments: the Lending operating segment and the DMO operating segment. Accordingly, the results of operations of the Company's Lending and DMO segments are presented separately below under "BUSINESS SEGMENTS." These operating segments are considered reportable segments under the Financial Accounting Standards Board's ("FASB") Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosures about Segments of an Enterprise and Related Information," based on quantitative thresholds applied to the Company's financial statements.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2005	2004	\$	%	2005	2004	\$	%
Net interest income	\$ 384	\$ 313	\$ 71	23%	\$ 1,061	\$ 967	\$ 94	10%
Less: provisions for losses	12	11	1	9	138	79	59	75
Net interest income after provisions for losses	372	302	70	23	923	888	35	4
Gains on student loan securitizations	—	64	(64)	(100)	312	375	(63)	(17)
Servicing and securitization revenue	(16)	159	(175)	(110)	277	419	(142)	(34)
Losses on securities, net	(43)	(33)	(10)	(30)	(57)	(37)	(20)	(54)
Gains (losses) on derivative and hedging activities, net	316	73	243	333	176	342	(166)	(49)
Guarantor servicing fees	36	33	3	9	94	92	2	2
Debt management fees	93	74	19	26	261	224	37	17
Collections revenue	42	5	37	740	119	5	114	2280
Other income	74	91	(17)	(19)	206	223	(17)	(8)
Operating expenses	292	211	81	38	842	626	216	35
Loss on GSE debt extinguishment	—	103	(103)	(100)	—	103	(103)	(100)
Income taxes	150	97	53	55	513	539	(26)	(5)
Minority interest in net earnings of subsidiaries	1	—	1	100	5	—	5	100
Net income	431	357	74	21	951	1,263	(312)	(25)
Preferred stock dividends	7	3	4	133	14	9	5	56
Net income attributable to common stock	\$ 424	\$ 354	\$ 70	20%	\$ 937	\$ 1,254	\$ (317)	(25)%
Basic earnings per common share	\$ 1.02	\$.81	\$.21	26%	\$ 2.24	\$ 2.85	\$ (.61)	(21)%
Diluted earnings per common share	\$.95	\$.76	\$.19	25%	\$ 2.10	\$ 2.65	\$ (.55)	(21)%
Dividends per common share	\$.22	\$.19	\$.03	16%	\$.63	\$.55	\$.08	15%

Condensed Balance Sheets

	September 30, 2005	December 31, 2004	Increase (decrease)	
			\$	%
Assets				
FFELP Stafford and Other Student Loans	\$ 22,354	\$ 18,965	\$ 3,389	18%
Consolidation Loans, net	51,193	41,596	9,597	23
Private Education Loans, net	8,079	5,420	2,659	49
Other loans, net	1,094	1,048	46	4
Cash and investments	3,773	6,974	(3,201)	(46)
Restricted cash and investments	2,707	2,212	495	22
Retained Interest in off-balance sheet securitized loans	2,330	2,316	14	1
Goodwill and acquired intangible assets, net	1,064	1,066	(2)	—
Other assets	3,726	4,497	(771)	(17)
Total assets	\$ 96,320	\$ 84,094	\$ 12,226	15%
Liabilities and Stockholders' Equity				
Short-term borrowings	\$ 4,652	\$ 2,207	\$ 2,445	111%
Long-term borrowings	84,500	75,915	8,585	11
Other liabilities	3,331	2,798	533	19
Total liabilities	92,483	80,920	11,563	14
Minority interest in subsidiaries	14	72	(58)	(81)
Stockholders' equity before treasury stock	6,373	5,129	1,244	24
Common stock held in treasury at cost	2,550	2,027	523	26
Total stockholders' equity	3,823	3,102	721	23
Total liabilities and stockholders' equity	\$ 96,320	\$ 84,094	\$ 12,226	15%

RESULTS OF OPERATIONS

CONSOLIDATED EARNINGS SUMMARY

Three Months Ended September 30, 2005 Compared to Three Months Ended September 30, 2004

For the three months ended September 30, 2005, net income of \$431 million (\$.95 diluted earnings per share) was a 21 percent increase over net income of \$357 million for the three months ended September 30, 2004. On a pre-tax basis, third quarter of 2005 income of \$582 million was a 28 percent increase over \$454 million earned in the third quarter of 2004. The smaller percentage increase in year-over-year, after-tax net income versus pre-tax net income is due to the increase in the effective tax rate from 21 percent in the third quarter of 2004 to 26 percent in the third quarter of 2005. Fluctuations in the effective tax rate are driven by the permanent impact of the exclusion of the unrealized gains and losses on equity forward contracts for tax purposes. In the third quarter of 2005 an unrealized gain of \$163 million on our outstanding equity forward contracts was excluded from taxable income versus an unrealized gain of \$198 million in the third quarter of 2004.

The increase in pre-tax income in the third quarter of 2005 versus the third quarter of 2004 is due to a number of factors, the largest of which is a \$243 million increase in the gain on derivative and hedging activities. Quarter-to-quarter income statement fluctuations in derivative and hedging activities are primarily driven by the effect of changes in interest rates on open derivative positions that do not qualify for hedge accounting treatment. The year-over-year increase in the gain on derivatives was primarily caused by higher forward interest rates reducing the mark-to-market value of our outstanding Floor Income Contracts at September 30, 2005, resulting in an unrealized gain of \$257 million versus an unrealized loss of \$58 million in the same period of 2004. Our Floor Income Contracts are liabilities so decreases in the value results in unrealized gains.

Third quarter income also benefited from the higher average balance of student loans on-balance sheet that increased net interest income by \$148 million, partially offset by lower earning spreads on our student loans. The quarter also benefited from a change in methodology for estimating the amount of charged-off student loans that will ultimately be recovered, which resulted in a \$49 million reduction in our provisions for loan losses.

In the third quarter of 2005, we incurred impairment losses on our Retained Interest in off-balance sheet securitized loans of \$171 million versus \$12 million in the year-ago quarter. The third quarter Retained Interest impairments were primarily the result of FFELP Stafford loans prepaying faster than projected due to the record amount of Consolidation Loan applications that were processed in the third quarter of 2005. There were no off-balance sheet securitization transactions in the third quarter of 2005 and therefore, there were no securitization gains versus gains of \$64 million in the third quarter of 2004.

Net income for the three months ended September 30, 2004 was negatively impacted by a \$103 million pre-tax loss related to the repurchase and defeasance of \$3.0 billion of GSE debt in connection with the GSE Wind-Down in fiscal year 2004, of which \$1.7 billion was repurchased in the third quarter of 2004.

The year-over-year increase in fee income and collections revenue of \$56 million is primarily due to collections revenue from AFS, acquired in September 2004. Positive impacts to pre-tax income were offset by the year-over-year increase in operating expenses of \$81 million, primarily attributable to the expenses associated with three subsidiaries acquired in September 2004 and the fourth quarter of 2004: AFS, Southwest Student Services Corporation ("Southwest") and Student Loan Finance Association ("SLFA").

During the third quarter of 2005, we acquired \$8.4 billion in student loans, including \$2.3 billion in Private Education Loans. In the third quarter of 2004, we acquired \$6.1 billion in student loans, of

which \$1.2 billion were Private Education Loans. In the third quarter of 2005, we originated \$7.2 billion of student loans through our Preferred Channel, an increase of 23 percent over the \$5.9 billion originated in the third quarter of 2004.

Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004

For the nine months ended September 30, 2005, our net income of \$951 million (\$2.10 diluted earnings per share) decreased 25 percent from net income of \$1.3 billion (\$2.65 diluted earnings per share) in 2004. Pre-tax income for the nine months ended September 30, 2005 decreased by 18 percent to \$1.5 billion from \$1.8 billion in the first nine months of 2004. The larger percentage decrease in year-over-year, after-tax net income versus pre-tax net income from 2004 to 2005 is primarily due to the increase in the effective tax rate from 30 percent in the first nine months of 2004 to 35 percent in the first nine months of 2005, caused by the exclusion of unrealized gains and losses on equity forward contracts from pre-tax income for tax purposes, as discussed above. In the first nine months of 2005, when calculating tax expense, we excluded unrealized gains on our outstanding equity forward contracts of \$65 million versus unrealized gains of \$335 million in the first nine months of 2004.

The decrease in pre-tax income is primarily due to lower gains on derivative and hedging activities of \$166 million, caused primarily by market value changes in open derivative positions that do not receive hedge accounting treatment. In the first nine months of 2004, we recorded a gain on derivative and hedging activities of \$342 million versus a gain on derivative and hedging activities of \$176 million for the same period in 2005.

Results for the first nine months of 2005 were negatively affected by impairment losses on our Retained Interest in off-balance sheet securitized loans of \$195 million versus \$61 million for the first nine months of 2004. This was primarily due to the third quarter of 2005 impairment of \$171 million discussed above.

The year-over-year increase in fee income and collections revenue of \$153 million is primarily due to collections revenue from AFS, acquired in the third quarter of 2004. Positive impacts to pre-tax income were offset by the year-over-year increase in operating expenses of \$216 million, primarily attributable to the expenses associated with three subsidiaries acquired in the second half of 2004: AFS, Southwest and SLFA.

Net income for the nine months ended September 30, 2004 was also negatively impacted by a \$103 million pre-tax loss related to the repurchase and defeasance of \$3.0 billion of GSE debt in connection with the GSE Wind-Down in fiscal year 2004, of which \$1.7 billion was repurchased in the third quarter of 2004.

Our Managed student loan portfolio grew by \$22.3 billion, from \$98.3 billion at September 30, 2004 to \$120.6 billion at September 30, 2005. This growth was fueled by the acquisition of \$23.7 billion of student loans in the first nine months of 2005, a 31 percent increase over the \$18.1 billion acquired in the first nine months of 2004. In the first nine months of 2005, we originated \$16.8 billion of student loans through our Preferred Channel, an increase of 20 percent over the \$14.0 billion originated in the first nine months of 2004.

NET INTEREST INCOME

Net interest income, including interest income and interest expense, is derived primarily from our portfolio of student loans that remain on-balance sheet and to a lesser extent from other loans, cash and investments. The "Taxable Equivalent Net Interest Income" analysis below is designed to facilitate a comparison of non-taxable asset yields to taxable yields on a similar basis. Additional information regarding the return on our student loan portfolio is set forth under "Student Loans—Student Loan

Spread Analysis." Information regarding the provisions for losses is included in Note 3 to the consolidated financial statements, "Allowance for Student Loan Losses."

Taxable Equivalent Net Interest Income

The amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal federal corporate tax rate of 35 percent.

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2005	2004	\$	%	2005	2004	\$	%
Interest income								
Student loans	\$ 1,121	\$ 605	\$ 516	85%	\$ 2,869	\$ 1,719	\$ 1,150	67%
Other loans	22	18	4	22	62	55	7	13
Investments	70	62	8	13	187	158	29	18
Taxable equivalent adjustment	1	1	—	—	3	5	(2)	(40)
Total taxable equivalent interest income	1,214	686	528	77	3,121	1,937	1,184	61
Interest expense	829	372	457	123	2,057	964	1,093	113
Taxable equivalent net interest income	\$ 385	\$ 314	\$ 71	23%	\$ 1,064	\$ 973	\$ 91	9%

Average Balance Sheets

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the three and nine months ended September 30, 2005 and 2004. This table reflects the net interest margin for the entire Company on a consolidated basis.

	Three months ended September 30,			
	2005		2004	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	\$ 21,574	4.97%	\$ 18,079	4.15%
Consolidation Loans	48,774	5.51	32,042	4.13
Private Education Loans	7,193	9.57	4,401	7.53
Other loans	1,036	8.40	943	7.98
Cash and investments	6,621	4.26	12,238	2.02
Total interest earning assets	85,198	5.65%	67,703	4.03%
Non-interest earning assets	6,898		6,409	
Total assets	\$ 92,096		\$ 74,112	
Average Liabilities and Stockholders' Equity				
Short-term borrowings	\$ 4,765	3.95%	\$ 5,813	2.40%
Long-term borrowings	80,125	3.87	62,428	2.15
Total interest bearing liabilities	84,890	3.87%	68,241	2.17%
Non-interest bearing liabilities	3,596		3,080	
Stockholders' equity	3,610		2,791	
Total liabilities and stockholders' equity	\$ 92,096		\$ 74,112	
Net interest margin		1.80%		1.84%

Nine months ended September 30,

	2005		2004	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	\$ 20,268	4.62%	\$ 19,876	3.70%
Consolidation Loans	45,081	5.16	29,557	4.21
Private Education Loans	6,615	8.69	4,640	6.81
Other loans	1,061	7.96	996	7.69
Cash and investments	6,523	3.86	11,333	1.89
Total interest earning assets	79,548	5.25%	66,402	3.90%
Non-interest earning assets	6,639		6,479	
Total assets	\$ 86,187		\$ 72,881	
Average Liabilities and Stockholders' Equity				
Short-term borrowings	\$ 4,515	3.72%	\$ 12,935	1.85%
Long-term borrowings	75,044	3.44	53,992	1.94
Total interest bearing liabilities	79,559	3.46%	66,927	1.92%
Non-interest bearing liabilities	3,378		3,235	
Stockholders' equity	3,250		2,719	
Total liabilities and stockholders' equity	\$ 86,187		\$ 72,881	
Net interest margin		1.79%		1.96%

Rate/Volume Analysis

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

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in	
		Rate	Volume
Three months ended September 30, 2005 vs. three months ended September 30, 2004			
Taxable equivalent interest income	\$ 528	\$ 289	\$ 239
Interest expense	457	366	91
Taxable equivalent net interest income	\$ 71	\$ (77)	\$ 148
	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in	
		Rate	Volume
Nine months ended September 30, 2005 vs. nine months ended September 30, 2004			
Taxable equivalent interest income	\$ 1,184	\$ 649	\$ 535
Interest expense	1,093	904	189
Taxable equivalent net interest income	\$ 91	\$ (255)	\$ 346

The decrease in the net interest margin versus the year-ago quarter is primarily due to fluctuations in the student loan spread as discussed under "Student Loans—Student Loan Spread Analysis." In addition to student loan spread related items, the net interest margin in the year-ago quarter was negatively impacted by the higher average balances of lower yielding short-term investments which were being built up during 2004 as additional liquidity in anticipation of the GSE Wind-Down.

Student Loans

For both federally insured and Private Education Loans, we account for premiums paid, discounts received and certain origination costs incurred on the origination and acquisition of student loans in accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." The unamortized portion of the premiums and discounts is included in the carrying value of the student loans on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield of the student loan after giving effect to the amortization of purchase premiums and the accretion of student loan discounts, as well as interest rate reductions and rebates expected to be earned through borrower benefit programs.

Student Loan Spread Analysis

The following table analyzes the reported earnings from student loans both on-balance sheet and those off-balance sheet in securitization trusts. For student loans off-balance sheet, we will continue to earn securitization and servicing fee revenues over the life of the securitized loan portfolios. The off-balance sheet information is discussed in more detail in "LIQUIDITY AND CAPITAL RESOURCES—Securitization Activities—Servicing and Securitization Revenue" where we analyze the on-going servicing revenue and Residual Interest earned on the securitized portfolios of student loans. For an analysis of our student loan spread for the entire portfolio of Managed student loans on a similar basis to the on-balance sheet analysis, see "LENDING BUSINESS SEGMENT—Student Loan Spread Analysis—Managed Basis."

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
On-Balance Sheet				
Student loan yield, before Floor Income	6.39%	4.58%	5.94%	4.34%
Floor Income	.20	.67	.30	.80
Consolidation Loan Rebate Fees	(.65)	(.60)	(.65)	(.56)
Offset Fees	—	(.01)	—	(.04)
Borrower benefits	(.04)	(.12)	(.11)	(.16)
Premium and discount amortization	(.16)	(.11)	(.15)	(.13)
Student loan net yield	5.74	4.41	5.33	4.25
Student loan cost of funds	(3.85)	(2.15)	(3.43)	(1.84)
Student loan spread	1.89%	2.26%	1.90%	2.41%
Off-Balance Sheet				
Servicing and securitization revenue, before Floor Income	(.23)%	1.31%	.82%	1.16%
Floor Income, net of Floor Income previously recognized in gain on sale calculation	.07	.18	.06	.25
Servicing and securitization revenue	(.16)%	1.49%	.88%	1.41%
Average Balances				
On-balance sheet student loans	\$ 77,541	\$ 54,522	\$ 71,964	\$ 54,073
Off-balance sheet student loans	40,742	42,230	42,137	39,787
Managed student loans	\$ 118,283	\$ 96,752	\$ 114,101	\$ 93,860

Discussion of Student Loan Spread—Effects of Floor Income and Derivative Accounting

The primary driver of fluctuations in our on-balance sheet student loan spread is the level of gross Floor Income (Floor Income earned before payments on Floor Income Contracts) earned in the period. For the three months ended September 30, 2005 and September 30, 2004, we earned gross Floor Income of \$40 million (20 basis points), and \$92 million (67 basis points), respectively. The reduction in gross Floor Income is primarily due to the increase in short-term interest rates. We believe that we have economically hedged most of the Floor Income through the sale of Floor Income Contracts, under which we receive an upfront fee and agree to pay the counterparty the Floor Income earned on a notional amount of student loans. These contracts do not qualify for hedge accounting treatment and as a result the payments on the Floor Income Contracts are included on the income statement with "gains (losses) on derivative and hedging activities, net" rather than in student loan interest income. Payments on Floor Income Contracts associated with on-balance sheet student loans for the three months ended September 30, 2005 and September 30, 2004 totaled \$38 million (19 basis points) and \$86 million (63 basis points), respectively.

In addition to Floor Income Contracts, we also extensively use basis swaps to manage our basis risk associated with interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges and are likewise required to be accounted for in the "gains (losses) on derivative and hedging activities, net" line on the income statement. As a result, they are not considered in the calculation of the cost of funds in the above table.

Discussion of Student Loan Spread—Effects of Significant Events in the Quarter

In the third quarter of 2005, we revised our method for estimating the qualification for borrower benefits and updated our estimates to account for programmatic changes as well as the effect of continued high levels of consolidations. These updates resulted in a reduction of \$16 million or 8 basis points in our borrower benefits reserve in the third quarter.

Discussion of Student Loan Spread—Other Fluctuations

The student loan spread, exclusive of items discussed above, increased in the third quarter 2005 when compared to the year-ago quarter. The increase was due primarily to the increase in the higher yielding Private Education Loans as a percentage of the on-balance sheet portfolio outweighing the negative effect of the increase in lower yielding Consolidation Loans as a percentage of the on-balance sheet portfolio.

For the nine months ended September 30, 2005 versus the year-ago period, the student loan spread was relatively unchanged after considering the effects of Floor Income and significant events discussed above.

On-Balance Sheet Floor Income

For on-balance sheet student loans, gross Floor Income is included in student loan income. The following table summarizes the components of Floor Income from on-balance sheet student loans, net of payments under Floor Income Contracts, for the three and nine months ended September 30, 2005 and 2004.

	Three months ended					
	September 30, 2005			September 30, 2004		
	Fixed borrower Rate	Variable borrower rate	Total	Fixed borrower Rate	Variable borrower rate	Total
Floor Income:						
Gross Floor Income	\$ 40	\$ —	\$ 40	\$ 92	\$ —	\$ 92
Payments on Floor Income Contracts	(38)	—	(38)	(86)	—	(86)
Net Floor Income	\$ 2	\$ —	\$ 2	\$ 6	\$ —	\$ 6
Net Floor Income in basis points	1	—	1	4	—	4
	Nine months ended					
	September 30, 2005			September 30, 2004		
	Fixed borrower Rate	Variable borrower rate	Total	Fixed borrower Rate	Variable borrower rate	Total
Floor Income:						
Gross Floor Income	\$ 162	\$ —	\$ 162	\$ 323	\$ 2	\$ 325
Payments on Floor Income Contracts	(150)	—	(150)	(296)	—	(296)
Net Floor Income	\$ 12	\$ —	\$ 12	\$ 27	\$ 2	\$ 29
Net Floor Income in basis points	2	—	2	7	—	7

The decrease in Floor Income for the periods presented for 2005 versus the periods presented for 2004 is due to an increase in short-term interest rates.

As discussed in more detail under "LIQUIDITY AND CAPITAL RESOURCES—Securitization Activities," when we securitize a portfolio of student loans, we estimate the future Fixed Rate Embedded Floor Income earned on off-balance sheet student loans using a discounted cash flow option pricing model and recognize the fair value of such cash flows in the initial gain on sale and subsequent valuations of the Residual Interest. Variable Rate Embedded Floor Income is recognized as earned in servicing and securitization revenue.

Student Loan Floor Income Contracts

The following table analyzes the ability of the FFELP student loans in our Managed student loan portfolio to earn Floor Income after September 30, 2005 and 2004.

(Dollars in billions)	September 30, 2005			September 30, 2004		
	Fixed borrower Rate	Variable borrower rate	Total	Fixed borrower Rate	Variable borrower rate	Total
Student loans eligible to earn Floor Income:						
On-balance sheet student loans	\$ 49.6	\$ 17.9	\$ 67.5	\$ 32.7	\$ 12.0	\$ 44.7
Off-balance sheet student loans	10.6	18.7	29.3	7.5	26.8	34.3
Managed student loans eligible to earn Floor Income	60.2	36.6	96.8	40.2	38.8	79.0
Less: Economically hedged Floor Income contracts	(26.0)	—	(26.0)	(16.4)	—	(16.4)
Net Managed student loans eligible to earn Floor Income	\$ 34.2	\$ 36.6	\$ 70.8	\$ 23.8	\$ 38.8	\$ 62.6
Net Managed student loans earning Floor Income	\$.9	\$ —	\$.9	\$ 12.7	\$.5	\$ 13.2

The following table presents a projection of the average Managed balance of Consolidation Loans whose Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period October 1, 2005 to March 31, 2010. These loans are both on and off-balance sheet and the related hedges do not qualify under SFAS No. 133 accounting as effective hedges.

(Dollars in billions)	2005	2006	2007	2008	2009	2010
Managed Basis:						
Average balance of economically hedged Consolidation Loans	\$ 26	\$ 25	\$ 16	\$ 15	\$ 10	\$ 2

FEDERAL AND STATE TAXES

The Company is subject to federal and state income taxes. Our effective tax rate for the three and nine months ended September 30, 2005 was 26 percent and 35 percent, respectively, versus 21 percent and 30 percent, respectively, for the three and nine months ended September 30, 2004. The effective tax rate reflects the permanent impact of the exclusion of the gains or losses on equity forward contracts recognized under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity."

BUSINESS SEGMENTS

We manage our business through two primary operating segments: the Lending operating segment and the DMO operating segment. Accordingly, the results of operations of the Company's Lending and DMO segments are presented below. These operating segments are considered reportable segments under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," based on quantitative thresholds applied to the Company's financial statements. In addition, we provide other complementary products and services, including guarantor and student loan servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other operating segment for financial reporting purposes.

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision maker, evaluates the performance of the Company's operating segments based on their profitability. As discussed further below, management measures the profitability of the

Company's operating segments based on "core earnings." Accordingly, information regarding the Company's reportable segments is provided based on "core earnings." Our "core earnings" are not defined terms within generally accepted accounting principles in the United States of America ("GAAP") and may not be comparable to similarly titled measures reported by other companies. "Core earnings" reflect only current period adjustments to GAAP as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company's operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

"Core earnings" are the primary financial performance measures used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. While "core earnings" are not a substitute for reported results under GAAP, the Company relies on "core earnings" in operating its business because "core earnings" permit management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect "core earnings" reviewed and utilized by management to manage the business for each of the Company's reportable segments.

	Three months ended September 30, 2005		
	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	\$ 586	\$ —	\$ —
Consolidation Loans	833	—	—
Private Education Loans	312	—	—
Other loans	22	—	—
Cash and investments	113	—	—
Total interest income	1,866	—	—
Total interest expense	1,306	—	—
Net interest income	560	—	—
Less: provisions for losses	—	—	—
Net interest income after provisions for losses	560	—	—
Fee income	—	93	36
Collections revenue	—	42	—
Other income	—	—	36
Operating expenses	117	72	82
Income tax expense (benefit) ⁽¹⁾	164	23	(4)
Minority interest in net earnings of subsidiaries	—	1	—
Net income (loss)	\$ 279	\$ 39	\$ (6)

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

Three months ended September 30, 2004

	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	\$ 458	\$ —	\$ —
Consolidation Loans	368	—	—
Private Education Loans	165	—	—
Other loans	18	—	—
Cash and investments	73	—	—
Total interest income	1,082	—	—
Total interest expense	616	—	—
Net interest income	466	—	—
Less: provisions for losses	(7)	—	—
Net interest income after provisions for losses	473	—	—
Fee income	—	74	33
Collections revenue	—	5	—
Other income	17	—	46
Loss on GSE debt extinguishment and defeasance	103	—	—
Operating expenses	98	35	70
Income tax expense ⁽¹⁾	104	16	3
Net income	\$ 185	\$ 28	\$ 6

Nine months ended September 30, 2005

	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	\$ 1,678	\$ —	\$ —
Consolidation Loans	2,080	—	—
Private Education Loans	787	—	—
Other loans	62	—	—
Cash and investments	271	—	—
Total interest income	4,878	—	—
Total interest expense	3,309	—	—
Net interest income	1,569	—	—
Less: provisions for loan losses	69	—	—
Net interest income after provisions for losses	1,500	—	—
Fee income	—	261	94
Collections revenue	—	119	—
Other income	72	—	97
Operating expenses	357	201	233
Income tax expense (benefit) ⁽¹⁾	449	67	(16)
Minority interest in net earnings of subsidiaries	2	3	—
Net income (loss)	\$ 764	\$ 109	\$ (26)

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

	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	\$ 1,239	\$ —	\$ —
Consolidation Loans	984	—	—
Private Education Loans	426	—	—
Other loans	55	—	—
Cash and investments	176	—	—
Total interest income	2,880	—	—
Total interest expense	1,536	—	—
Net interest income	1,344	—	—
Less: provisions for loan losses	78	—	—
Net interest income after provisions for losses	1,266	—	—
Fee income	—	224	91
Collections revenue	—	5	—
Other income	94	—	100
Loss on GSE debt extinguishment and defeasance	103	—	—
Operating expenses	298	99	207
Income tax expense (benefit) ⁽¹⁾	345	47	(6)
Net income (loss)	\$ 614	\$ 83	\$ (10)

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

Alternative Performance Measures

In accordance with the Rules and Regulations of the Securities and Exchange Commission ("SEC"), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company's GAAP-based financial information, management evaluates the Company's business segments under certain non-GAAP performance measures that we refer to as "core earnings" for each business segment and we refer to this information in our presentations with credit rating agencies and lenders. While "core earnings" are not a substitute for reported results under GAAP, we rely on "core earnings" in operating each business segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our "core earnings" are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a "core earnings" basis by reportable segment, as these are the measures used regularly by our chief operating decision maker. Our "core earnings" are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company's core business activities. Our "core earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core earnings" reflect only current period adjustments to GAAP as described below. Accordingly, the Company's "core earnings" presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and "core earnings" follows.

Limitations on "Core Earnings"

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

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

Pre-tax differences between "Core Earnings" and GAAP by Business Segment

	Three months ended September 30,					
	2005			2004		
	Lending	DMO	Corporate and Other	Lending	DMO	Corporate and Other
"Core earnings" adjustments to GAAP:						
Net impact of securitization accounting	\$ (253)	\$ —	\$ —	\$ (74)	\$ —	\$ —
Net impact of derivative accounting	246	—	163	32	—	198
Net impact of Floor Income	(54)	—	—	(36)	—	—
Amortization of acquired intangibles	(12)	(3)	(1)	(5)	(2)	(1)
Total "core earnings" adjustments to GAAP	\$ (73)	\$ (3)	\$ 162	\$ (83)	\$ (2)	\$ 197
	Nine months ended September 30,					
	2005			2004		
	Lending	DMO	Corporate and Other	Lending	DMO	Corporate and Other
"Core earnings" adjustments to GAAP:						
Net impact of securitization accounting	\$ (178)	\$ —	\$ —	\$ (19)	\$ —	\$ —
Net impact of derivative accounting	423	—	65	556	—	335
Net impact of Floor Income	(148)	—	—	(122)	—	—
Amortization of acquired intangibles	(33)	(4)	(8)	(13)	(5)	(3)
Total "core earnings" adjustments to GAAP	\$ 64	\$ (4)	\$ 57	\$ 402	\$ (5)	\$ 332

Pre-tax differences between "Core Earnings" and GAAP

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

The following table summarizes the securitization adjustments in our Lending business segment for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
"Core earnings" securitization adjustments:				
Net interest income on securitized loans, after provisions for losses	\$ (225)	\$ (292)	\$ (740)	\$ (803)
Gains on student loan securitizations	—	64	312	375
Servicing and securitization revenue	(16)	159	277	419
Intercompany transactions with off-balance sheet trusts	(12)	(5)	(27)	(10)
Total "core earnings" securitization adjustments	\$ (253)	\$ (74)	\$ (178)	\$ (19)

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

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

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

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

Generally, a decrease in current interest rates and the respective forward interest rate curves results in an unrealized loss related to our written Floor Income Contracts which is offset by an increase in the value of the economically hedged student loans. This increase is not recognized in income. We will experience unrealized gains/losses related to our basis swaps, if the two underlying indices (and related forward curve) do not move in parallel.

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

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the three and nine months ended September 30, 2005 and 2004 when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
"Core earnings" derivative adjustments:				
Gains (losses) on derivative and hedging activities, net included in other income ⁽¹⁾	\$ 316	\$ 73	\$ 176	\$ 342
Less: Realized losses on derivative and hedging activities, net ⁽¹⁾	93	154	309	551
Unrealized gains (losses) on derivative and hedging activities, net ⁽¹⁾	409	227	485	893
Other pre-SFAS No. 133 accounting adjustments	—	3	3	(2)
Total net impact of SFAS No. 133 derivative accounting	\$ 409	\$ 230	\$ 488	\$ 891

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized gains (losses) on derivative and hedging activities") that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and where they are reclassified to on a "core earnings" basis for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Reclassification of realized losses on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$ (57)	\$ (131)	\$ (222)	\$ (451)
Net settlement expense on interest rate swaps reclassified to net interest income	(36)	(27)	(82)	(49)
Net realized losses on closed Eurodollar futures contracts and terminated derivative contracts reclassified to other income	—	4	(5)	(51)
Total reclassifications of realized losses on derivative and hedging activities	(93)	(154)	(309)	(551)
Add: Unrealized gains (losses) on derivative and hedging activities, net ⁽¹⁾	409	227	485	893
Gains (losses) on derivative and hedging activities, net	\$ 316	\$ 73	\$ 176	\$ 342

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

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Floor Income Contracts	\$ 257	\$ (58)	\$ 379	\$ 502
Equity forward contracts	163	198	65	335
Basis swaps	(19)	102	48	44
Other	8	(15)	(7)	12
Total unrealized gains (losses) on derivative and hedging activities, net	\$ 409	\$ 227	\$ 485	\$ 893

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

The following table summarizes the Floor Income adjustments in our Lending business segment for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
"Core earnings" Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	\$ 2	\$ 18	\$ 19	\$ 69
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(56)	(54)	(167)	(141)
Net losses related to closed Eurodollar futures contracts economically hedging Floor Income	—	—	—	(50)
Total "core earnings" Floor Income adjustments	\$ (54)	\$ (36)	\$ (148)	\$ (122)

- 4) **Other Items:** We exclude amortization of acquired intangibles. The 2005 increase in the amortization of acquired intangibles is driven by the acquisition of definite life intangible assets in connection with our acquisitions of AFS, Southwest, and SLFA.

LENDING BUSINESS SEGMENT

In our Lending business segment, we originate and acquire federally guaranteed student loans, which are administered by the U.S. Department of Education ("ED"), and Private Education Loans, which are not federally guaranteed. The majority of our Private Education Loans is made in conjunction with a FFELP Stafford loan and as a result is marketed through the same marketing channels as FFELP Stafford Loans. While FFELP student loans and Private Education Loans have different overall risk profiles due to the federal guarantee of the FFELP student loans, they share many of the same characteristics such as similar repayment terms, the same marketing channel and sales force, and are originated and serviced on the same servicing platform. In addition, Private Education Loans made to students attending Title IV schools to cover the cost of attendance are not dischargeable in bankruptcy unless the borrower can meet the very difficult burden of proving undue hardship. Finally, where possible, the borrower receives a single bill for both the federally guaranteed and privately underwritten loans.

The following table summarizes the "core earnings" results of operations for our Lending business segment.

	Three months ended September 30,		% Increase (Decrease)	Nine months ended September 30,		% Increase (Decrease)
	2005	2004	2005 vs. 2004	2005	2004	2005 vs. 2004
Managed Basis interest income:						
Managed FFELP and Other Student Loans	\$ 586	\$ 458	28%	\$ 1,678	\$ 1,239	35%
Managed Consolidation loans	833	368	126	2,080	984	111
Managed Private Education Loans	312	165	89	787	426	85
Other loans	22	18	22	62	55	13
Cash and investments	113	73	55	271	176	54
Total Managed interest income	1,866	1,082	72	4,878	2,880	69
Total Managed interest expense	1,306	616	112	3,309	1,536	115
Net Managed interest income	560	466	20	1,569	1,344	17
Less: provisions for losses	—	(7)	(100)	69	78	(12)
Net interest income after provisions for losses	560	473	18	1,500	1,266	18
Other income	—	17	(100)	72	94	(23)
Loss on GSE debt extinguishment and defeasance	—	103	(100)	—	103	(100)
Operating expenses	117	98	19	357	298	20
Income before income taxes and minority interest in net earnings of subsidiaries	443	289	53	1,215	959	27
Income taxes	164	104	58	449	345	30
Income before minority interest in net earnings of subsidiaries	279	185	51	766	614	25
Minority interest in net earnings of subsidiaries	—	—	—	2	—	100
Net income	\$ 279	\$ 185	51%	\$ 764	\$ 614	24%

Summary of our Managed Student Loan Portfolio

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

Ending Balances (net of allowance for loan losses):

September 30, 2005					
	FFELP Stafford and Other ⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 22,354	\$ 51,193	\$ 73,547	\$ 8,079	\$ 81,626
Off-balance sheet	20,728	10,968	31,696	7,312	39,008
Total Managed	\$ 43,082	\$ 62,161	\$ 105,243	\$ 15,391	\$ 120,634
% of on-balance sheet Federal	30%	70%	100%		
% of Managed Federal	41%	59%	100%		
% of Total	36%	52%	87%	13%	100%
December 31, 2004					
	FFELP Stafford and Other ⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 18,965	\$ 41,596	\$ 60,561	\$ 5,420	\$ 65,981
Off-balance sheet	27,825	7,570	35,395	6,062	41,457
Total Managed	\$ 46,790	\$ 49,166	\$ 95,956	\$ 11,482	\$ 107,438
% of on-balance sheet Federal	31%	69%	100%		
% of Managed Federal	49%	51%	100%		
% of Total	44%	45%	89%	11%	100%

(1) Other includes PLUS, SLS and HEAL loans.

Average Balances:

Three months ended September 30, 2005

	FFELP Stafford and Other⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 21,574	\$ 48,774	\$ 70,348	\$ 7,193	\$ 77,541
Off-balance sheet	22,250	11,094	33,344	7,398	40,742
Total Managed	\$ 43,824	\$ 59,868	\$ 103,692	\$ 14,591	\$ 118,283
% of on-balance sheet Federal	31%	69%	100%		
% of Managed Federal	42%	58%	100%		
% of Total	37%	51%	88%	12%	100%

Three months ended September 30, 2004

	FFELP Stafford and Other⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 18,079	\$ 32,042	\$ 50,121	\$ 4,401	\$ 54,522
Off-balance sheet	28,417	7,575	35,992	6,238	42,230
Total Managed	\$ 46,496	\$ 39,617	\$ 86,113	\$ 10,639	\$ 96,752
% of on-balance sheet Federal	36%	64%	100%		
% of Managed Federal	54%	46%	100%		
% of Total	48%	41%	89%	11%	100%

Nine months ended September 30, 2005

	FFELP Stafford and Other⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 20,268	\$ 45,081	\$ 65,349	\$ 6,615	\$ 71,964
Off-balance sheet	25,783	9,481	35,264	6,873	42,137
Total Managed	\$ 46,051	\$ 54,562	\$ 100,613	\$ 13,488	\$ 114,101
% of on-balance sheet Federal	31%	69%	100%		
% of Managed Federal	46%	54%	100%		
% of Total	40%	48%	88%	12%	100%

Nine months ended September 30, 2004

	FFELP Stafford and Other⁽¹⁾	Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	\$ 19,876	\$ 29,557	\$ 49,433	\$ 4,640	\$ 54,073
Off-balance sheet	26,786	7,741	34,527	5,260	39,787
Total Managed	\$ 46,662	\$ 37,298	\$ 83,960	\$ 9,900	\$ 93,860
% of on-balance sheet Federal	40%	60%	100%		
% of Managed Federal	55%	45%	100%		
% of Total	49%	40%	89%	11%	100%

(1) Other includes PLUS, SLS and HEAL loans.

Student Loan Spread Analysis—Managed Basis

The following table analyzes the earnings from our portfolio of Managed student loans on a "core earnings" basis (see "Pre-tax differences between 'Core Earnings' and GAAP"). This analysis includes both on-balance sheet and off-balance sheet loans in securitization trusts and derivatives economically hedging these line items and excludes unhedged Floor Income while including the amortization of upfront payments on Floor Income Contracts.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Managed Basis student loan yield	6.55%	4.67%	6.04%	4.39%
Consolidation Loan Rebate Fees	(.52)	(.42)	(.49)	(.41)
Offset Fees	—	—	—	(.02)
Borrower benefits	(.04)	(.02)	(.06)	(.07)
Premium and discount amortization	(.18)	(.15)	(.17)	(.12)
Managed Basis student loan net yield	5.81	4.08	5.32	3.77
Managed Basis student loan cost of funds	(4.00)	(2.16)	(3.54)	(1.85)
Managed Basis student loan spread	1.81%	1.92%	1.78%	1.92%
Average Balances				
On-balance sheet student loans	\$ 77,541	\$ 54,522	\$ 71,964	\$ 54,073
Off-balance sheet student loans	40,742	42,230	42,137	39,787
Managed student loans	\$ 118,283	\$ 96,752	\$ 114,101	\$ 93,860

Discussion of Managed Basis Student Loan Spread—Effects of Significant Events in the Quarter

In the third quarter of 2005, we updated our estimates for the qualification for borrower benefits to account for programmatic changes as well as the effect of continued high levels of Consolidations. These updates resulted in a reduction of \$21 million or 7 basis points in our borrower benefits reserve in the third quarter.

The increase to premium and discount amortization in the third quarter was impacted by the surge in Consolidation Loan activity in the second quarter as we wrote-off the balance of unamortized premiums associated with loans that consolidate with third parties as a current period expense in accordance with SFAS No. 91 (as discussed under "Net Interest Income—Student Loans").

Discussion of Managed Basis Student Loan Spread—Other Fluctuations

The decrease in the Managed student loan spread versus the year-ago quarter is primarily due to the increase in the average balance of Consolidation Loans as a percentage of the Managed portfolio. Consolidation Loans have lower spreads than other FFELP loans due primarily to the 105 basis point Consolidation Loan Rebate Fee. These negative effects are partially offset by the higher SAP spread earned on Consolidation Loans and lower student loan premium amortization due to their extended term. When compared to the year-ago quarter, the third quarter of 2005 spread was also negatively impacted by higher premium amortization, primarily caused by the purchase price allocation for student loans acquired in acquisitions, and by lower amortization of the upfront fee received on Floor Income Contracts.

The third quarter 2005 Managed student loan spread benefited from the increase in the average balance of Managed Private Education Loans as a percentage of the average Managed student loan portfolio from 11 percent in the third quarter 2004 to 12 percent in the third quarter 2005. Private Education Loans are subject to credit risk and therefore earn higher spreads, which averaged

4.75 percent in the third quarter of 2005 for the Managed Private Education Loan portfolio versus a spread of 1.31 percent in the third quarter of 2005 for the Managed guaranteed student loan portfolio, excluding the impact from the update to our estimates for the qualification for borrower benefits.

Private Education Loans

All Private Education Loans are initially acquired on-balance sheet. When we securitize Private Education Loans, we reduce the on-balance sheet allowance for amounts previously provided for in the allowance and then provide for these loans in the Managed presentation only as they are no longer owned by the Company.

When Private Education Loans in securitized trusts become 180 days delinquent, we typically exercise our contingent call option to repurchase these loans at par value out of the trust and record a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. If these loans reach the 212th day of delinquency, a charge-off for the remaining balance of the loan is triggered. On a Managed Basis, the losses recorded under GAAP at the time of repurchase of delinquent Private Education Loans are considered charge-offs when the delinquent Private Education Loans reach the 212-day charge-off date. These charge-offs are shown in the off-balance sheet section in the table below.

The off-balance sheet allowance as a percentage of ending loans in repayment is lower than the on-balance sheet percentage because of the different mix of loans on-balance sheet and off-balance sheet. Certain loan types with higher expected default rates, such as career training and other programs with lower FICO scores, have not yet been securitized.

Allowance for Private Education Loan Losses

Third Quarter of 2005 Change in Recovery Methodology

We continue to gain experience in analyzing our Private Education Loan portfolios and as a result, we have developed additional data to better estimate the amount of recoveries on defaulted loans. During the third quarter of 2005, we changed our methodology for estimating the amount of charged-off student loans that will ultimately be recovered, which resulted in a \$49 million decrease in the value of the allowance through the provision for loan losses. On a Managed Basis, we decreased the allowance for loan losses by \$65 million to recognize the effect of this change.

Second Quarter of 2005 Change in Accounting Estimate

In the second quarter of 2005, we changed our estimate of the allowance for loan losses and the estimate of uncollectible accrued interest for our Managed loan portfolio using a migration analysis of delinquent and current accounts. A migration analysis is a technique used to estimate the likelihood that a loan receivable may progress through the various delinquency stages and ultimately charge-off.

This is a widely used reserving methodology in the consumer finance industry. Previously, we calculated the allowance for Private Education Loan losses by estimating the probable losses in the portfolio based primarily on loan characteristics and where pools of loans were in their life with less emphasis on current delinquency status of the loan. Also, in our prior methodology for calculating the allowance, some loss rates were based on proxies and extrapolations of FFELP loan loss data.

We also used a migration analysis to revise our estimates surrounding our non-accrual policy for interest income. Under the new methodology, we estimate the amount of uncollectible accrued interest on Private Education Loans and write it off against current period interest income. Under our prior methodology, Private Education Loans continued to accrue interest, including in periods of forbearance, until they were charged off, at which time, the loans were placed on non-accrual status and all accrued interest was reversed against income in the month of charge-off.

This change in reserving methodology has been accounted for as a change in estimate in accordance with the FASB's Accounting Principles Board ("APB") Opinion No. 20, "Accounting Changes." The cumulative effect of this change to the second quarter of 2005 was to increase the value of the allowance by \$40 million and to reduce student loan interest income for the estimate of uncollectible accrued interest receivable by \$14 million. On the income statement, adjustments to the allowance are recorded through the provision for loan losses whereas adjustments to accrued interest are recorded in interest income. On a Managed Basis, we decreased the allowance for loan losses by \$20 million and reduced student loan interest income by \$16 million for uncollectible accrued interest.

The difference in the impact of the change in estimate on the allowance for loan losses between our on-balance sheet and our Managed results is due to the difference in the mix of Private Education Loans on-and off- balance sheet. Certain loan types with higher expected default rates, such as career training and other loan programs with lower FICO scores, have not yet been securitized and as such the on-balance sheet portfolio contains loans with higher delinquency rates. Because the required allowance under the new methodology is more directly tied to the current status of the portfolio, the on-balance sheet portfolio reserve requirements increased while the off-balance sheet portfolio reserve requirements decreased with the net effect being a decrease in the Managed Basis allowance.

Activity in the Allowance for Private Education Loan Losses

The provision for student loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of Private Education Loans.

The following table summarizes changes in the allowance for Private Education Loan losses for the three and nine months ended September 30, 2005 and 2004.

Activity in Allowance for Private Education Loan Losses						
	On-Balance Sheet		Off-Balance Sheet		Managed Basis	
	Three months ended		Three months ended		Three months ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Allowance at beginning of period	\$ 228	\$ 155	\$ 91	\$ 133	\$ 319	\$ 288
Provision for Private Education Loan losses	56	40	4	12	60	52
Change in recovery methodology	(49)	—	(16)	—	(65)	—
Total provision	7	40	(12)	12	(5)	52
Charge-offs	(47)	(32)	—	(1)	(47)	(33)
Recoveries	5	4	—	—	5	4
Net charge-offs	(42)	(28)	—	(1)	(42)	(29)
Balance before securitization of Private Education Loans	193	167	79	144	272	311
Reduction for securitization of Private Education Loans	—	—	—	—	—	—
Allowance at end of period	\$ 193	\$ 167	\$ 79	\$ 144	\$ 272	\$ 311
Net charge-offs as a percentage of average loans in repayment (annualized)	5.35%	4.71%	—%	.11%	2.42%	2.29%
Allowance as a percentage of the ending total loan balance	2.34%	3.38%	1.07%	2.32%	1.74%	2.79%
Allowance as a percentage of ending loans in repayment	6.00%	6.93%	2.13%	5.52%	3.93%	6.20%
Average coverage of net charge-offs (annualized)	1.15	1.51	—	49.88	1.62	2.73
Average total loans	\$ 7,193	\$ 4,401	\$ 7,398	\$ 6,238	\$ 14,591	\$ 10,639
Ending total loans	\$ 8,272	\$ 4,939	\$ 7,391	\$ 6,220	\$ 15,663	\$ 11,159
Average loans in repayment	\$ 3,150	\$ 2,352	\$ 3,814	\$ 2,621	\$ 6,964	\$ 4,973
Ending loans in repayment	\$ 3,220	\$ 2,408	\$ 3,705	\$ 2,610	\$ 6,925	\$ 5,018

Activity in Allowance for Private Education Loan Losses

	On-Balance Sheet		Off-Balance Sheet		Managed Basis	
	Nine months ended		Nine months ended		Nine months ended	
	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004	September 30, 2005	September 30, 2004
Allowance at beginning of period	\$ 172	\$ 166	\$ 143	\$ 93	\$ 315	\$ 259
Provision for Private Education Loan losses	135	100	9	27	144	127
Change in estimate	40	—	(60)	—	(20)	—
Change in recovery methodology	(49)	—	(16)	—	(65)	—
Total provision	126	100	(67)	27	59	127
Charge-offs	(113)	(81)	(3)	(4)	(116)	(85)
Recoveries	14	10	—	—	14	10
Net charge-offs	(99)	(71)	(3)	(4)	(102)	(75)
Balance before securitization of Private Education Loans	199	195	73	116	272	311
Reduction for securitization of Private Education Loans	(6)	(28)	6	28	—	—
Allowance at end of period	\$ 193	\$ 167	\$ 79	\$ 144	\$ 272	\$ 311
Net charge-offs as a percentage of average loans in repayment (annualized)	4.37%	3.86%	.09%	.19%	2.07%	2.12%
Allowance as a percentage of the ending total loan balance	2.34%	3.38%	1.07%	2.32%	1.74%	2.79%
Allowance as a percentage of ending loans in repayment	6.00%	6.93%	2.13%	5.52%	3.93%	6.20%
Average coverage of net charge-offs (annualized)	1.46	1.74	24.00	33.53	2.01	3.11
Average total loans	\$ 6,615	\$ 4,640	\$ 6,873	\$ 5,260	\$ 13,488	\$ 9,900
Ending total loans	\$ 8,272	\$ 4,939	\$ 7,391	\$ 6,220	\$ 15,663	\$ 11,159
Average loans in repayment	\$ 3,031	\$ 2,480	\$ 3,529	\$ 2,239	\$ 6,560	\$ 4,719
Ending loans in repayment	\$ 3,220	\$ 2,408	\$ 3,705	\$ 2,610	\$ 6,925	\$ 5,018

The increase in charge-offs over the year-ago quarter is primarily due to the 38 percent growth in the portfolio in repayment on a Managed Basis.

The year-over-year allowance on a Managed Basis increased by \$46 million, exclusive of the changes in estimate and methodology, due to the growth in the repayment portfolio. Also, under the new allowance methodology adopted in the second quarter of 2005, we provide for losses over a shorter period of time versus the prior methodology. Consequently, the year-over-year growth rate in the provision is less than the growth rate in the portfolio.

The reduction in the allowance for loan losses as a percentage of loans in repayment is due to the second quarter change in estimate and to the third quarter improvement in our estimate of recoveries of previously defaulted loans discussed above. The decrease is also due to the shorter time period for which we calculate our allowance under the migration analysis adopted in the second quarter.

Delinquencies

The table below presents our Private Education Loan delinquency trends as of September 30, 2005 and 2004. Delinquencies have the potential to adversely impact earnings through increased servicing and collection costs in the event the delinquent accounts charge off.

	On-Balance Sheet Private Education Loan Delinquencies			
	September 30, 2005		September 30, 2004	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 5,042		\$ 2,522	
Loans in forbearance ⁽²⁾	311		179	
Loans in repayment and percentage of each status:				
Loans current	2,873	89.2%	2,122	88.1%
Loans delinquent 31-60 days ⁽³⁾	145	4.5	97	4.0
Loans delinquent 61-90 days	75	2.3	65	2.7
Loans delinquent greater than 90 days	127	4.0	124	5.2
Total Private Education Loans in repayment	3,220	100.0%	2,408	100.0%
Total Private Education Loans, gross	8,573		5,109	
Private Education Loan unamortized discount	(301)		(170)	
Total Private Education Loans	8,272		4,939	
Private Education Loan allowance for losses	(193)		(167)	
Private Education Loans, net	\$ 8,079		\$ 4,772	
Percentage of Private Education Loans in repayment	37.6%		47.1%	
Delinquencies as a percentage of Private Education Loans in repayment	10.8%		11.9%	

	Off-Balance Sheet Private Education Loan Delinquencies			
	September 30, 2005		September 30, 2004	
	Balance	%	Balance	%
Loans in-school/grace/deferment ⁽¹⁾	\$ 3,272		\$ 3,251	
Loans in forbearance ⁽²⁾	552		455	
Loans in repayment and percentage of each status:				
Loans current	3,514	94.9%	2,456	94.1%
Loans delinquent 31-60 days ⁽³⁾	94	2.5	67	2.6
Loans delinquent 61-90 days	38	1.0	42	1.6
Loans delinquent greater than 90 days	59	1.6	45	1.7
Total Private Education Loans in repayment	3,705	100.0%	2,610	100.0%
Total Private Education Loans, gross	7,529		6,316	
Private Education Loan unamortized discount	(138)		(96)	
Total Private Education Loans	7,391		6,220	
Private Education Loan allowance for losses	(79)		(144)	
Private Education Loans, net	\$ 7,312		\$ 6,076	
Percentage of Private Education Loans in repayment	49.2%		41.3%	
Delinquencies as a percentage of Private Education Loans in repayment	5.1%		5.9%	

**Managed Private Education
Loan Delinquencies**

	September 30, 2005		September 30, 2004	
	Balance	%	Balance	%
	Loans in-school/grace/deferment ⁽¹⁾	\$ 8,314		\$ 5,773
Loans in forbearance ⁽²⁾	863		634	
Loans in repayment and percentage of each status:				
Loans current	6,387	92.2%	4,578	91.2%
Loans delinquent 31-60 days ⁽³⁾	239	3.5	164	3.3
Loans delinquent 61-90 days	113	1.6	107	2.1
Loans delinquent greater than 90 days	186	2.7	169	3.4
	6,925	100.0%	5,018	100.0%
Total Private Education Loans, gross	16,102		11,425	
Private Education Loan unamortized discount	(439)		(266)	
	15,663		11,159	
Private Education Loan allowance for losses	(272)		(311)	
	\$ 15,391		\$ 10,848	
Percentage of Private Education Loans in repayment	43.0%		43.9%	
Delinquencies as a percentage of Private Education Loans in repayment	7.8%		8.8%	

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

Forbearance—Managed Basis Private Education Loans

Private Education Loans are made to parent and student borrowers by our lender partners in accordance with our underwriting policies. These loans generally supplement federally guaranteed student loans, which are subject to federal lending caps. Private Education Loans are not guaranteed or insured against any loss of principal or interest. Traditional student borrowers use the proceeds of these loans to obtain higher education, which increases the likelihood of obtaining employment at higher income levels than would be available without the additional education. As a result, the borrowers' repayment capability generally improves between the time the loan is made and the time the borrower becomes established in the post-education work force. We generally allow the loan repayment period on traditional Private Education Loans, except those generated by our SLM Financial subsidiary, to begin six to nine months after the student leaves school. This provides the borrower time to obtain a job to service his or her debt. For borrowers that need more time or experience other hardships, we permit additional delays in payment or partial payments (both referred to as forbearances) when we believe additional time will improve the borrower's ability to repay the loan. Our policy does not grant any reduction in the repayment obligation (principal or interest) but does allow the borrower to stop or reduce monthly payments for an agreed period of time. In addition, Private Education Loans made to students attending Title IV schools to cover the cost of attendance are not dischargeable in bankruptcy unless the borrower can meet the very difficult burden of proving undue hardship.

Forbearance is used most heavily immediately after the loan enters repayment. As indicated in the tables below showing the composition and status of the Managed Private Education Loan portfolio by number of months aged from the first date of repayment, the percentage of loans in forbearance decreases the longer the loans have been in repayment. At September 30, 2005, loans in forbearance as a percentage of loans in repayment and forbearance are 13.8 percent for loans that have been in repayment 1 to 24 months. The percentage drops to 5.8 percent for loans that have been in repayment more than 48 months. Approximately 73 percent of the Company's loans in forbearance have been in repayment less than 24 months. These borrowers are essentially extending their grace period as they transition to the workforce. Forbearance continues to be a positive collection tool for the Private Education Loans as we believe it can provide the borrower with sufficient time to obtain employment and income to support his or her obligation. We consider the potential impact of forbearance in the determination of the loan loss reserves. The increase in forbearance was partially due to approximately \$100 million in forbearance granted to borrowers affected by Hurricane Katrina.

The tables below show the composition and status of the Managed Private Education Loan portfolio by number of months aged from the first date of repayment.

	Months since entering repayment				Total
	1 to 24 months	25 to 48 months	More than 48 months	After September 30, 2005 ⁽¹⁾	
September 30, 2005					
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$ 8,314	\$ 8,314
Loans in forbearance	630	150	83	—	863
Loans in repayment—current	3,635	1,485	1,267	—	6,387
Loans in repayment—delinquent 31-60 days	131	62	46	—	239
Loans in repayment—delinquent 61-90 days	72	26	15	—	113
Loans in repayment—delinquent greater than 90 days	100	58	28	—	186
Total	\$ 4,568	\$ 1,781	\$ 1,439	\$ 8,314	16,102
Unamortized discount					(439)
Allowance for loan losses					(272)
Total Managed Private Education Loans, net					\$ 15,391
Loans in forbearance as a percentage of loans in repayment and forbearance	13.8%	8.4%	5.8%	—%	11.1%

	Months since entering repayment				
	1 to 24 months	25 to 48 months	More than 48 months	After September 30, 2004 ⁽¹⁾	Total
September 30, 2004					
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$ 5,773	\$ 5,773
Loans in forbearance	472	107	55	—	634
Loans in repayment—current	2,400	1,177	1,001	—	4,578
Loans in repayment—delinquent 31-60 days	84	44	36	—	164
Loans in repayment—delinquent 61-90 days	57	30	20	—	107
Loans in repayment—delinquent greater than 90 days	70	59	40	—	169
Total	\$ 3,083	\$ 1,417	\$ 1,152	\$ 5,773	11,425
Unamortized discount					(266)
Allowance for loan losses					(311)
Total Managed Private Education Loans, net					\$ 10,848
Loans in forbearance as a percentage of loans in repayment and forbearance	15.3%	7.6%	4.8%	—%	11.2%

(1) Includes all loans in-school/grace/deferment.

Additionally, as indicated in the table below which categorizes the balance of Managed Private Education Loans in forbearance by the cumulative number of months the borrower has used forbearance as of the dates indicated, 7 percent of borrowers currently in forbearance have deferred their loan repayment more than 24 months.

	September 30, 2005		September 30, 2004	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total
Cumulative number of months borrower has used forbearance				
1 to 12 months	\$ 646	75%	\$ 429	68%
13 to 24 months	154	18	154	24
25 to 36 months	40	4	32	5
More than 36 months	23	3	19	3
Total	\$ 863	100%	\$ 634	100%

On a Managed Basis, loans in forbearance status decreased slightly from 11.2 percent of loans in repayment and forbearance status at September 30, 2004 to 11.1 percent of loans in repayment and forbearance status at September 30, 2005. The decrease in the percentage of loans in forbearance status from the prior year is primarily due to a more specific evaluations of the borrower's need and ability to benefit from a forbearance that were instituted in the fourth quarter of 2004. Included in the "1 to 12 month" forbearance balance as of September 30, 2005 in the above table is approximately \$100 million in forbearance granted to borrowers affected by Hurricane Katrina.

Other Income, Net

The following table summarizes the components of other income, net, for our Lending business segment for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Late fees	\$ 23	\$ 22	\$ 67	\$ 72
Gains on sales of mortgages and other loan fees	6	5	14	15
Losses on investments, net	(35)	(27)	(32)	(24)
Other	6	17	23	31
Total other income, net	\$ —	\$ 17	\$ 72	\$ 94

The increase in losses on investments is primarily due to the \$39 million leveraged lease impairment reserve recorded in the third quarter of 2005, which primarily reflects the impairment of an aircraft leased to Northwest Airlines, which declared bankruptcy in September 2005. In the year-ago quarter we recorded a \$27 million leveraged lease impairment reserve in recognition of the deteriorating financial condition of Delta Airlines. Delta also declared bankruptcy in September 2005.

At September 30, 2005, our remaining investments in leveraged and direct financing leases, net of impairments, totaled \$122 million and are the general obligations of American Airlines and Federal Express Corporation. Based on an analysis of the potential losses on certain leveraged leases plus the increase in incremental tax obligations related to the forgiveness of debt obligations and/or the taxable gain on the sale of the aircraft, our remaining after-tax accounting exposure from our investment in American Airlines is \$56 million at September 30, 2005.

Student Loan Acquisitions

In the nine months ended September 30, 2005, 72 percent of our Managed student loan acquisitions were originated through our Preferred Channel. The following tables summarize the components of our student loan acquisition activity for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30, 2005		
	FFELP	Private	Total
Preferred Channel	\$ 3,455	\$ 2,238	\$ 5,693
Other commitment clients	148	—	148
Spot purchases	669	—	669
Consolidations from third parties	1,306	—	1,306
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	3,207	—	3,207
Acquisition of Idaho Transfer Corporation	43	—	43
Capitalized interest, premiums and discounts	340	(20)	320
Total on-balance sheet student loan acquisitions	9,168	2,218	11,386
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(3,207)	—	(3,207)
Capitalized interest and other—off-balance sheet securitized trusts	131	42	173
Total Managed student loan acquisitions	\$ 6,092	\$ 2,260	\$ 8,352

	Three months ended September 30, 2004		
	FFELP	Private	Total
Preferred Channel	\$ 3,137	\$ 1,138	\$ 4,275
Other commitment clients	87	45	132
Spot purchases	325	—	325
Consolidations from third parties	978	—	978
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	2,484	—	2,484
Capitalized interest, premiums and discounts	265	14	279
Total on-balance sheet student loan acquisitions	7,276	1,197	8,473
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(2,484)	—	(2,484)
Capitalized interest and other—off-balance sheet securitized trusts	112	28	140
Total Managed student loan acquisitions	\$ 4,904	\$ 1,225	\$ 6,129
	Nine months ended September 30, 2005		
	FFELP	Private	Total
Preferred Channel	\$ 12,229	\$ 4,801	\$ 17,030
Other commitment clients	395	—	395
Spot purchases	1,568	—	1,568
Consolidations from third parties	3,145	—	3,145
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	7,455	—	7,455
Acquisition of Idaho Transfer Corporation	43	—	43
Capitalized interest, premiums and discounts	1,011	(36)	975
Total on-balance sheet student loan acquisitions	25,846	4,765	30,611
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(7,455)	—	(7,455)
Capitalized interest and other—off-balance sheet securitized trusts	386	145	531
Total Managed student loan acquisitions	\$ 18,777	\$ 4,910	\$ 23,687
	Nine months ended September 30, 2004		
	FFELP	Private	Total
Preferred Channel	\$ 10,624	\$ 3,173	\$ 13,797
Other commitment clients	266	45	311
Spot purchases	1,080	1	1,081
Consolidations from third parties	1,627	—	1,627
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	3,970	—	3,970
Capitalized interest, premiums and discounts	795	(5)	790
Total on-balance sheet student loan acquisitions	18,362	3,214	21,576
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(3,970)	—	(3,970)
Capitalized interest and other—off-balance sheet securitized trusts	396	95	491
Total Managed student loan acquisitions	\$ 14,788	\$ 3,309	\$ 18,097

For the three months ended September 30, 2005, net new student loan acquisitions resulting from consolidation activity was effectively neutral to the portfolio. For the nine months ended September 30, 2005, consolidation activity resulted in \$514 million of net new student loan acquisitions. For the three and nine months ended September 30, 2004, consolidation activity resulted in \$382 million and \$128 million, respectively, of net new student loan acquisitions.

As shown on the above table, off-balance sheet FFELP Stafford loans that consolidate with us become an on-balance sheet interest earning asset. This activity results in impairments of our Retained Interests in securitizations, but this is offset by an increase in on-balance sheet interest earning assets, for which we do not record an offsetting gain.

The following table includes on-balance sheet asset information for our Lending business segment.

	September 30, 2005	December 31, 2004
FFELP Stafford and Other Student Loans	\$ 22,354	\$ 18,958
Consolidation Loans, net	51,194	41,603
Private Education Loans, net	8,079	5,420
Other loans, net	1,094	1,048
Investments ⁽¹⁾	6,014	8,914
Retained Interest in off-balance sheet securitized loans	2,330	2,315
Other ⁽²⁾	3,919	4,792
Total assets	\$ 94,984	\$ 83,050

(1) Investments include cash and cash equivalents, investments, restricted cash and investments, leveraged leases, and municipal bonds.

(2) Other assets include accrued interest receivable, goodwill and acquired intangible assets and other non-interest earning assets.

Consolidation Loan Activity

The following tables present the effect of Consolidation Loan activity on our Managed FFELP portfolio.

	Three months ended					
	September 30, 2005			September 30, 2004		
	FFELP Stafford and Other ⁽¹⁾	Consolidation Loans	Total FFELP	FFELP Stafford and Other ⁽¹⁾	Consolidation Loans	Total FFELP
Beginning Managed balance	\$ 47,126	\$ 55,875	\$ 103,001	\$ 48,223	\$ 36,792	\$ 85,015
Acquisitions	3,993	793	4,786	3,664	262	3,926
Incremental Consolidations from third parties	—	1,306	1,306	—	978	978
Internal Consolidations ⁽²⁾	(5,250)	5,250	—	(3,410)	3,410	—
Consolidations to third parties	(979)	(320)	(1,299)	(497)	(96)	(593)
Repayments/claims/resales/other	(1,808)	(743)	(2,551)	(1,367)	(468)	(1,835)
Ending Managed balance	\$ 43,082	\$ 62,161	\$ 105,243	\$ 46,613	\$ 40,878	\$ 87,491

(1) Other includes PLUS, SLS and HEAL loans.

(2) Included in Internal Consolidations for the three months ended September 30, 2005 and 2004 were \$3.2 billion and \$2.5 billion respectively, of FFELP student loans in securitization trusts that were consolidated back on balance sheet.

	September 30, 2005			September 30, 2004		
	FFELP Stafford and Other ⁽³⁾	Consolidation Loans	Total FFELP	FFELP Stafford and Other ⁽¹⁾	Consolidation Loans	Total FFELP
Beginning Managed balance	\$ 46,791	\$ 49,165	\$ 95,956	\$ 45,554	\$ 34,930	\$ 80,484
Acquisitions	14,188	1,444	15,632	12,454	707	13,161
Incremental Consolidations from third parties	—	3,145	3,145	—	1,627	1,627
Internal Consolidations ⁽⁴⁾	(11,090)	11,090	—	(5,219)	5,219	—
Consolidations to third parties	(1,952)	(660)	(2,612)	(1,263)	(227)	(1,490)
Repayments/claims/resales/other	(4,855)	(2,023)	(6,878)	(4,913)	(1,378)	(6,291)
Ending Managed balance	\$ 43,082	\$ 62,161	\$ 105,243	\$ 46,613	\$ 40,878	\$ 87,491

(3) Other includes PLUS, SLS and HEAL loans.

(4) Included in Internal Consolidations for the nine months ended September 30, 2005 and 2004 were \$7.2 billion and \$3.8 billion, respectively, of FFELP student loans in securitization trusts that were consolidated back on balance sheet.

Preferred Channel Originations

We originated \$7.2 billion and \$16.8 billion in student loan volume through our Preferred Channel in the three and nine months ended September 30, 2005, respectively, versus \$5.9 billion and \$14.0 billion in the three and nine months ended September 30, 2004, respectively.

In the third quarter of 2005, we grew our Preferred Channel Originations by 80 percent versus the year-ago quarter. For the nine months ended September 30, 2005, our internally marketed brands constitute 41 percent of our Preferred Channel Originations, up from 32 percent in the year-ago period. The pipeline of loans that we currently service and are committed to purchase was \$6.2 billion and \$6.4 billion at September 30, 2005 and 2004, respectively. The following tables further break down our Preferred Channel Originations by type of loan and source.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Preferred Channel Originations—Type of Loan				
Stafford	\$ 3,966	\$ 3,655	\$ 9,879	\$ 8,914
PLUS	863	794	2,046	1,794
Total FFELP	4,829	4,449	11,925	10,708
Private	2,399	1,412	4,839	3,310
Total	\$ 7,228	\$ 5,861	\$ 16,764	\$ 14,018
Preferred Channel Originations—Source				
Internally marketed brands	\$ 3,430	\$ 1,883	\$ 6,869	\$ 4,453
Lender partners	3,798	3,978	9,895	9,565
Total	\$ 7,228	\$ 5,861	\$ 16,764	\$ 14,018

The following table summarizes the activity in our Managed portfolio of student loans for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Beginning balance	\$ 116,500	\$ 94,901	\$ 107,438	\$ 88,789
Acquisitions, including capitalized interest	8,352	6,129	23,687	18,097
Repayments, claims and other	(2,715)	(2,063)	(7,574)	(6,486)
Charge-offs to reserves and securitization trusts	(49)	(31)	(119)	(91)
Loans sales	(149)	(1)	(167)	(471)
Loans consolidated from SLM Corporation	(1,305)	(596)	(2,631)	(1,499)
Ending balance	\$ 120,634	\$ 98,339	\$ 120,634	\$ 98,339

DEBT MANAGEMENT OPERATIONS ("DMO") BUSINESS SEGMENT

The following table includes the "core earnings" results of operations for our DMO business segment.

	Three months ended September 30,		% Increase (Decrease) 2005 vs. 2004	Nine months ended September 30,		% Increase (Decrease) 2005 vs. 2004
	2005	2004		2005	2004	
Fee income	\$ 93	\$ 74	26%	\$ 261	\$ 224	17%
Collections revenue	42	5	740	119	5	2,280
Total fee and other income	135	79	71	380	229	66
Operating expenses	72	35	106	201	99	103
Income before income taxes and minority interest in net earnings of subsidiaries	63	44	43	179	130	38
Income tax expense	23	16	44	67	47	43
Income before minority interest in net earnings of subsidiaries	40	28	43	112	83	35
Minority interest in net earnings of subsidiaries	1	—	100	3	—	100
Net income	\$ 39	\$ 28	39%	\$ 109	\$ 83	31%

DMO Revenue by Product

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Purchase paper	\$ 42	\$ 5 ⁽²⁾	\$ 119	\$ 5 ⁽²⁾
Contingency:				
Contingency—Student loans	66	68	195	194
Contingency—Other	9	4	28	10
Total contingency	75	72	223	204
Other	18	2	38	20
Total	\$ 135	\$ 79	\$ 380	\$ 229
USA Funds ⁽¹⁾ business	\$ 47	\$ 45	\$ 136	\$ 147
% of total DMO	35%	58%	36%	64%

(1) United Student Aid Funds, Inc. ("USA Funds")

(2) Includes revenue attributed to AFS for the period from September 16 to September 30.

Fee Income and Collections Revenue

On August 31, 2005, we acquired 100 percent of GRP Financial Services ("GRP"), a debt management company that acquires and manages portfolios of sub-performing and non-performing mortgage loans, substantially all of which are secured by one-to-four family residential real estate.

DMO revenue for the three months ended September 30, 2005 increased by \$56 million or 71 percent over the year-ago period, of which \$39 million was generated by the purchase paper business of AFS, acquired in September 2004. DMO revenue increased by \$151 million or 66 percent for the nine months ended September 30, 2005 over the year-ago period, of which \$111 million was generated by the purchase paper business of AFS. Contingency fee income increased by \$3 million, or 4 percent, to \$75 million for the third quarter of 2005 versus the year-ago period. The growth in contingency fee revenues was primarily driven by the contingency business of AFS.

Purchase Paper—Non-Mortgage

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004 ⁽¹⁾	2005	2004 ⁽¹⁾
Face value of purchases	\$ 330	\$ 77	\$ 1,746	\$ 77
Purchase price	25	4	90	4
% of face value purchased	7.5%	5.1%	5.2%	5.1%
Gross Cash Collections ("GCC")	\$ 61	\$ 8	\$ 179	\$ 8
Purchase paper revenue	39	5	116	5
% of GCC	65%	63%	65%	63%
Carrying value of purchases	\$ 81	\$ 55	\$ 81	\$ 55

(1) Includes revenue for AFS for the period from September 16 to September 30.

The amount of face value purchased in any quarter is a function of a combination of factors including the average age of the portfolio, the type of receivable, and competition in the marketplace. As a result, the percentage of principal purchased will vary from quarter to quarter.

Purchase Paper—Mortgage/Properties

	Three months ended September 30,		Nine months ended September 30,	
	2005 ⁽¹⁾	2004	2005 ⁽¹⁾	2004
Face value of purchases	\$ 34	\$ —	\$ 34	\$ —
Purchase paper revenue	3	—	3	—
Collateral value of purchases	42	—	42	—
Purchase price	32	—	32	—
% of collateral value	76%	—%	76%	—%
Carrying value of purchases	\$ 238	\$ —	\$ 238	\$ —

(1) Includes results for GRP since the acquisition, which closed on August 31, 2005.

The purchase price for sub-performing and non-performing mortgage loans is generally determined as a percentage of the collateral.

Contingency Inventory

The following table presents the outstanding inventory of defaulted loans that are currently being serviced through our DMO business.

	September 30, 2005	December 31, 2004
Contingency:		
Contingency—Student loans	\$ 6,985	\$ 6,869
Contingency—Other	2,106	1,756
Total	\$ 9,091	\$ 8,625

Operating Expenses

Operating expenses for our DMO business segment increased by \$37 million, or 106 percent, to \$72 million for the three months ended September 30, 2005 versus the year-ago quarter, primarily due to the inclusion of AFS's expenses for a full quarter and GRP's expenses since the acquisition which closed August 31, 2005. AFS was acquired in mid-September 2004.

At September 30, 2005 and December 31, 2004, the DMO business segment had total assets of \$786 million and \$519 million, respectively.

CORPORATE AND OTHER BUSINESS SEGMENT

At September 30, 2005 and December 31, 2004, the Corporate and Other business segment had total assets of \$550 million and \$524 million, respectively.

The following table includes "core earnings" results of operations for our Corporate and Other business segment.

	Three months ended September 30,		% Increase (Decrease)	Nine months ended September 30,		% Increase (Decrease)
	2005	2004	2005 vs. 2004	2005	2004	2005 vs. 2004
Fee income	\$ 36	\$ 33	9%	\$ 94	\$ 91	3%
Collections revenue	36	46	(22)	97	100	(3)
Total fee and other income	72	79	(9)	191	191	—
Operating expenses	82	70	17	233	207	13
Income (loss) before income taxes	(10)	9	(211)	(42)	(16)	(163)
Income tax expense (benefit)	(4)	3	(233)	(16)	(6)	(167)
Net income (loss)	\$ (6)	\$ 6	(200)%	\$ (26)	\$ (10)	(160)%

Fee and Other Income

The following table summarizes the components of fee and other income for our Corporate and Other business segment for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Guarantor servicing fees	\$ 36	\$ 33	\$ 94	\$ 91
Loan servicing fees	11	14	36	38
Other income	25	32	61	62
Total fee and other income	\$ 72	\$ 79	\$ 191	\$ 191

USA Funds, the nation's largest guarantee agency, accounted for 79 percent and 81 percent, respectively, of guarantor servicing fees for the three months ended September 30, 2005 and 2004, and 82 percent and 85 percent, respectively, of guarantor servicing fees for the nine months ended September 30, 2005 and 2004. Overall, USA Funds accounted for 38 percent of consolidated fee and other income for the nine months ended September 30, 2005.

Operating Expenses

Operating expenses for our Corporate and Other business segment include costs incurred to service loans for unrelated third parties and to perform guarantor servicing on behalf of guarantee agencies, and general and administrative expenses associated with these businesses. Operating expenses also include unallocated corporate overhead expenses which include centralized headquarters functions such as executive management, accounting and finance, human resources and marketing. Our corporate overhead also includes a portion of information technology expenses related to these functions. The increase in operating expenses over the prior quarter (which includes a \$14 million net settlement in the CLC lawsuit) and the year-ago quarter can primarily be attributed to expenses associated with three new subsidiaries acquired in September 2004 and the fourth quarter of 2004.

LIQUIDITY AND CAPITAL RESOURCES

As fee based businesses, our DMO and Corporate and Other business segments are not capital intensive businesses and as such require less debt and equity capital to meet their business plans. Therefore, the following liquidity and capital resource discussion is concentrated on our Lending business segment.

We depend on the debt capital markets to support our business plan. We have developed deep and diverse funding sources to ensure continued access to funding now that the GSE has been dissolved. Our main source of funding is student loan securitizations where we securitized \$18.5 billion in student loans in nine transactions in the nine months ended September 30, 2005, versus \$29.9 billion in twelve transactions in the year-ago period. The 2005 securitization volume is more indicative of future funding needs from securitization, as the first nine months of 2004 reflects additional funding to refinance outstanding GSE debt obligations in addition to ongoing financing needs of the business. Securitizations now comprise 67 percent of our financing, versus 69 percent at September 30, 2004. Our securitizations backed by FFELP loans are unique securities in the asset-backed class as they are backed by student loans with an explicit guarantee on 100 percent of principal and interest. This guarantee is subject to servicing compliance.

Our other sources of liquidity include our \$5 billion asset-backed commercial paper program (which had \$5.0 billion and \$3.6 billion outstanding at September 30, 2005 and December 31, 2004, respectively) and our \$5 billion of unsecured revolving credit facilities (on which we have never drawn), as well as unsecured corporate debt and equity security issuances.

The following tables present the ending balances of our Managed borrowings at September 30, 2005 and 2004 and average balances and average interest rates of our Managed borrowings for the three and nine months ended September 30, 2005 and 2004. The average interest rates include derivatives that are economically hedging the underlying debt, but do not qualify for hedge accounting treatment under SFAS No. 133. (See "BUSINESS SEGMENTS—Pre-tax differences Between 'Core Earnings' and GAAP—Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities.")

	As of September 30,					
	2005			2004		
	Ending Balance			Ending Balance		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis
GSE borrowings (unsecured)	\$ —	\$ —	\$ —	\$ 1,491	\$ 568	\$ 2,059
SLM Corp borrowings (unsecured)	4,227	35,965	40,192	2,662	28,506	31,168
Indentured trusts (on-balance sheet)	425	3,455	3,880	248	803	1,051
Securitizations (on-balance sheet)	—	44,951	44,951	—	30,764	30,764
Securitizations (off-balance sheet)	—	43,372	43,372	—	47,265	47,265
Total	\$ 4,652	\$ 127,743	\$ 132,395	\$ 4,401	\$ 107,906	\$ 112,307

	Three months ended September 30,				Nine months ended September 30,			
	2005		2004		2005		2004	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
GSE borrowings (unsecured)	\$ —	—%	\$ 4,513	2.91%	\$ —	—%	\$ 12,824	2.16%
SLM Corp borrowings (unsecured)	39,302	4.13	30,663	2.46	36,746	3.72	27,056	2.06
Indentured trusts (on-balance sheet)	4,250	3.47	1,030	2.52	5,186	3.17	1,081	2.48
Securitizations (on-balance sheet)	41,338	3.90	32,036	1.81	37,627	3.43	25,966	1.58
Securitizations (off-balance sheet)	45,278	3.97	45,164	2.13	45,372	3.52	41,731	1.86
Total	\$ 130,168	3.98%	\$ 113,406	2.16%	\$ 124,931	3.54%	\$ 108,658	1.89%

Unsecured On-Balance Sheet Financing Activities

The following table presents the senior unsecured credit ratings on our debt from major rating agencies.

	S&P	Moody's	Fitch
Short-term unsecured debt	A-1	P-1	F1+
Long-term unsecured debt	A	A2	A+

The table below presents our unsecured on-balance sheet term funding by funding source for the three and nine months ended September 30, 2005 and 2004.

	Debt issued for the three months ended September 30,		Debt issued for the nine months ended September 30,		Outstanding at September 30,	
	2005	2004	2005	2004	2005	2004
Convertible debentures	\$ —	\$ —	\$ —	\$ —	\$ 1,991	\$ 1,987
Retail notes	81	412	661	1,270	3,491	2,346
Foreign currency denominated ⁽¹⁾	1,151	188	2,150	4,011	6,933	4,611
Extendible notes	499	—	999	249	5,246	1,998
Global notes (Institutional)	3,281	1,148	4,465	5,885	20,726	16,719
Medium-term notes (Institutional)	—	—	—	—	1,803	3,233
Total	\$ 5,012	\$ 1,748	\$ 8,275	\$ 11,415	\$ 40,190	\$ 30,894

(1) All foreign currency denominated notes are swapped back to U.S. dollars.

In addition to the term issuances reflected in the table above, the Company also uses its commercial paper program for short-term liquidity purposes. The average balance of commercial paper outstanding during the three months ended September 30, 2005 and 2004 was \$503 million and \$272 million, respectively, and for the nine months ended September 30, 2005 and 2004 was \$440 million and \$106 million, respectively. The maximum daily amount outstanding for the three and nine months ended September 30, 2005 and 2004 was \$2.8 billion and \$274 million, respectively.

Contingently Convertible Debentures

At September 30, 2005, we have approximately \$2 billion Contingently Convertible Debentures ("Co-Cos") outstanding. The Co-Cos are convertible, under certain conditions, into shares of SLM common stock at an initial conversion price of \$65.98. The investors generally can only convert the debentures if the Company's common stock has appreciated for a prescribed period to 130 percent of the conversion price, which would amount to \$85.77, or if we call the debentures.

In December 2004, the Company adopted Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," which requires the shares underlying the Co-Cos to be included in diluted earnings per share ("diluted EPS") computations regardless of whether the market price trigger or the conversion price has been met, using the "if-converted" accounting method, while the after-tax interest expense of the Co-Cos is added back to earnings. Diluted EPS amounts disclosed prior to December 2004 have been retroactively restated to give effect to the application of EITF No. 04-8 as it relates to the Company's \$2 billion in Co-Cos issued in May 2003.

The following table provides the historical effect of our Co-Cos on our common stock equivalents ("CSEs") and after-tax interest expense in connection with the retroactive implementation of EITF No. 04-8 for the 2005 and 2004 quarters:

(in thousands)	Three months ended September 30, 2005	Year ended December 31, 2004	Three months ended			
			December 31, 2004	September 30, 2004	June 30, 2004	March 31, 2004
CSE impact of Co-Cos (shares)	30,312	30,312	30,312	30,312	30,312	30,312
Co-Cos after-tax interest expense	\$ 11,971	\$ 21,405	\$ 7,125	\$ 5,622	\$ 4,364	\$ 4,294

The table below outlines the effect of the Co-Cos on the numerators and denominators for the diluted EPS calculations for the three and nine months ended September 30, 2005 and 2004. The net effect of the Co-Cos on diluted EPS will vary with the period to period changes in net income of the Company.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Numerator:				
Net income attributable to common stock	\$ 424,062	\$ 353,703	\$ 937,178	\$ 1,254,344
Adjusted for debt expense of Co-Cos, net of taxes	11,971	5,622	30,887	14,280
Net income attributable to common stock, adjusted	\$ 436,033	\$ 359,325	\$ 968,065	\$ 1,268,624
Denominator:				
Weighted-average shares used to compute basic EPS	417,235	435,764	419,205	439,430
Effect of dilutive securities:				
Dilutive effect of stock options, deferred compensation, restricted stock units, ESPP, and equity forwards	11,251	8,379	11,705	8,581
Dilutive effect of Co-Cos	30,312	30,312	30,312	30,312
Dilutive potential common shares	41,563	38,691	42,017	38,893
Weighted-average shares used to compute diluted EPS	458,798	474,455	461,222	478,323
Net earnings per share:				
Basic EPS	\$ 1.02	\$.81	\$ 2.24	\$ 2.85
Dilutive effect of stock options, deferred compensation, restricted stock units, ESPP, and equity forwards	(.03)	(.01)	(.06)	(.05)
Dilutive effect of Co-Cos	(.04)	(.04)	(.08)	(.15)
Diluted EPS	\$.95	\$.76	\$ 2.10	\$ 2.65

(1) For the three months ended September 30, 2005 and 2004, securities of approximately 50 million shares and 4 million shares, respectively, and for the nine months ended September 30, 2005 and 2004, securities of approximately 19 million shares and 4 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because their inclusion would be antidilutive.

Securitization Activities

Securitization Program

The following table summarizes our securitization activity for the three and nine months ended September 30, 2005 and 2004. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three months ended September 30,							
	2005				2004			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford and Other Student Loans	—	\$ —	\$ —	—%	2	\$ 4,500	\$ 64	1.4%
Consolidation Loans	—	—	—	—	—	—	—	—
Private Education Loans	—	—	—	—	—	—	—	—
Total securitizations—sales	—	\$ —	\$ —	—%	2	\$ 4,500	\$ 64	1.4%
Asset-backed commercial paper	—	—	—	—	—	—	—	—
Consolidation Loans	3	7,276	—	—	1	2,210	—	—
Total securitizations—financings	3	7,276	—	—	1	2,210	—	—
Total securitizations	3	\$ 7,276	\$ —	—%	3	\$ 6,710	\$ 64	1.4%

	Nine months ended September 30,							
	2005				2004			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford and Other Student Loans	2	\$ 3,530	\$ 50	1.4%	4	\$ 10,002	\$ 134	1.3%
Consolidation Loans	2	4,011	31	.8	—	—	—	—
Private Education Loans	1	1,505	231	15.3	2	2,535	241	9.5
Total securitizations—sales	5	9,046	\$ 312	3.4%	6	12,537	\$ 375	3.0%
Asset-backed commercial paper	—	—	—	—	1	4,186	—	—
Consolidation Loans	4	9,502	—	—	5	13,224	—	—
Total securitizations—financings	4	9,502	—	—	6	17,410	—	—
Total securitizations	9	\$ 18,548	\$ 312	3.4%	12	\$ 29,947	\$ 375	3.0%

The increase in the gain as a percentage of the amount securitized for the 2005 Private Education Loan securitization versus the prior year's transactions is primarily impacted by higher earnings spreads on the mix of loans securitized, improved funding spreads, and a decrease in the Constant Prepayment Rate ("CPR") assumption used in the calculation of the 2005 gains on sale.

Liquidity Risk

With the dissolution of the GSE, our long-term funding, credit spread and liquidity exposure to the corporate and asset-backed capital markets has increased significantly. A major disruption in the fixed income capital markets that limits our ability to raise funds or significantly increases the cost of those funds could have a material impact on our ability to acquire student loans, or on our results of operations. Going forward, securitizations will continue to be the primary source of long-term financing. Our securitizations are structured such that we do not provide any material level of financial, credit or liquidity support to any of the trusts. Our exposure is limited to the recovery of the Retained Interest asset on the balance sheet for off-balance sheet securitizations. While all of our Retained Interests are subject to some prepayment risk, Retained Interests from our FFELP Stafford securitizations have significant prepayment risk primarily arising from borrowers opting to consolidate their Stafford loans. When consolidation activity is higher than projected, the increase in prepayment could materially impair the value of our Retained Interest.

Retained Interest in Off-Balance Sheet Securitized Loans

The following table summarizes the fair value of our Retained Interests along with the underlying student loans that relate to those securitizations that were treated as sales.

	As of September 30, 2005		As of December 31, 2004	
	Retained Interest Fair Value	Underlying Securitized Loan Balance	Retained Interest Fair Value	Underlying Securitized Loan Balance
FFELP Stafford and Other Student Loans	\$ 782	\$ 20,435	\$ 1,037	\$ 27,444
Consolidation Loans ⁽¹⁾	597	10,677	585	7,393
Private Education Loans	951	7,529	694	6,309
Total ⁽²⁾	\$ 2,330	\$ 38,641	\$ 2,316	\$ 41,146

(1) Includes \$265 million and \$399 million related to the fair value of the Embedded Floor Income as of September 30, 2005 and December 31, 2004, respectively. The decrease in the fair value of Embedded Floor Income is due to rising interest rates during the period.

(2) Unrealized gains (pre-tax) included in accumulated other comprehensive income related to the Retained Interests totaled \$429 million and \$445 million as of September 30, 2005 and December 31, 2004, respectively.

Servicing and Securitization Revenue

Servicing and securitization revenue, the ongoing revenue from securitized loan pools accounted for off-balance sheet as QSPEs, includes the interest earned on the Residual Interest asset and the revenue we receive for servicing the loans in the securitization trusts. Interest income recognized on the Residual Interest is based on our anticipated yield determined by estimating future cash flows each quarter.

The following table summarizes the components of servicing and securitization revenue for the three and nine months ended September 30, 2005 and 2004.

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Servicing revenue	\$ 79	\$ 86	\$ 250	\$ 239
Securitization revenue, before Embedded Floor Income and impairment	68	66	203	168
Servicing and securitization revenue, before Embedded Floor Income and impairment	147	152	453	407
Embedded Floor Income	19	56	69	200
Less: Floor Income previously recognized in gain calculation	(11)	(37)	(50)	(127)
Net Embedded Floor Income	8	19	19	73
Servicing and securitization revenue, before impairment	155	171	472	480
Retained Interest impairment	(171)	(12)	(195)	(61)
Total servicing and securitization revenue	\$ (16)	\$ 159	\$ 277	\$ 419
Average off-balance sheet student loans	\$ 40,742	\$ 42,230	\$ 42,137	\$ 39,787
Average balance of Retained Interest	\$ 2,530	\$ 2,397	\$ 2,476	\$ 2,435
Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans (annualized)	(.16)%	1.49%	.88%	1.41%

Servicing and securitization revenue is primarily driven by the average balance of off-balance sheet student loans and the amount of and the difference in the timing of Embedded Floor Income recognition on off-balance sheet student loans. Servicing and securitization revenue can also be negatively impacted by impairments of the value of our Retained Interest, caused primarily by the effect of higher than expected Consolidation Loan activity on FFELP Stafford student loan securitizations and the effect of market interest rates on the Embedded Floor Income included in the Retained Interest. When FFELP Stafford loans in a securitization trust consolidate, they are a prepayment to the trust resulting in a shorter average life. We use a CPR assumption to estimate the effect of trust prepayments from loan consolidation and other factors on the life of the trust. When consolidation activity is higher than forecasted, the Residual Interest asset can be impaired and the yield used to recognize subsequent income from the trust is negatively impacted. The majority of the consolidations bring the loans back on-balance sheet so we retain the value of the asset on-balance sheet versus in the trust.

For the three months ended September 30, 2005 and 2004, we recorded impairments to the Retained Interests of \$171 million and \$12 million, respectively. For the nine months ended September 30, 2005 and 2004, we recorded impairments to the Retained Interests of \$195 million and \$61 million, respectively. These impairment charges were primarily the result of continued record levels of consolidation activity and an increase in future CPR assumptions used to value the Residual Interest, which reflects our view that there will be continued strong demand for Consolidation Loans. In the third quarter of 2005, FFELP Stafford loans prepaid faster than projected due to the record amount of Consolidation Loan applications received in the second quarter of 2005 that were processed through our securitizations in the third quarter of 2005. This surge in Consolidation Loan activity was due to FFELP Stafford borrowers locking in lower interest rates by consolidating their loans prior to the July 1 interest rate reset for FFELP Stafford loans. The level and timing of Consolidation Loan activity is highly volatile, and in response we will continue to review and, if necessary, revise our

estimates of the effects of Consolidation Loan activity on our Retained Interests. We updated our FFELP Stafford CPR assumptions in the third quarter of 2005 as follows:

Year	As of September 30, 2005	As of December 31, 2004
2005	30%	20%
2006	20%	15%
2007	15%	6%
Thereafter	10%	6%

In 2004, our Retained Interests were also impaired by the effect of higher market interest rates on the Embedded Floor Income. The impairments are recorded as a reduction in securitization revenue. The level and timing of Consolidation Loan activity remains highly volatile which may result in an additional impairment recorded in future periods if Consolidation Loan activity remains higher than projected.

Interest Rate Risk Management

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of September 30, 2005. The difference between the asset and the funding is the funding gap, which represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective SFAS No. 133 hedges (those derivatives which are reflected in net interest margin, as opposed to in the gains (losses) on derivative and hedging activities).

GAAP Basis

Index	Frequency of Variable Resets	Assets	Funding ⁽¹⁾	Funding Gap
(Dollars in billions)				
3 month commercial paper	daily	\$ 59.4	\$ —	\$ 59.4
3 month Treasury bill	weekly	9.7	.3	9.4
Prime	annual	1.0	—	1.0
Prime	quarterly	1.4	—	1.4
Prime	monthly	5.7	—	5.7
PLUS Index	annual	2.8	—	2.8
3-month LIBOR	daily	—	—	—
3-month LIBOR	quarterly	1.6	72.9	(71.3)
1-month LIBOR	monthly	—	2.5	(2.5)
CMT/CPI index	monthly/quarterly	—	1.9	(1.9)
Non discreet reset ⁽²⁾	monthly	—	8.2	(8.2)
Non discreet reset ⁽³⁾	daily/weekly	4.2	—	4.2
Fixed Rate ⁽⁴⁾		10.5	10.5	—
Total		\$ 96.3	\$ 96.3	\$ —

(1) Includes all derivatives that qualify as hedges under SFAS No. 133.

(2) Consists of asset-backed commercial paper and auction rate securities, which are discount note type instruments that generally roll over monthly.

(3) Includes restricted and non-restricted cash equivalents and other overnight type instruments including commercial paper program.

(4) Includes receivables/payables, other assets (including retained interest), other liabilities and stockholders' equity (excluding Series B Preferred Stock).

The funding gaps in the above table are primarily interest rate mismatches in short term indices between our assets and liabilities. We address this issue primarily through the use of basis swaps that convert quarterly 3-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps generally do not qualify as effective hedges under SFAS No. 133 and as a result are not included in our interest margin and are therefore excluded from the GAAP presentation.

Managed Basis

In addition to the GAAP basis, management analyzes interest rate risk on a Managed Basis, which consists of both on-balance sheet and off-balance sheet assets and liabilities and includes all derivatives that are economically hedging our debt whether they qualify as effective hedges under SFAS No. 133 or not. Accordingly, we are also presenting the asset and liability funding gap on a Managed basis in the table that follows the GAAP presentation.

Index	Frequency of Variable Resets	Assets	Funding ⁽⁵⁾	Funding Gap
(Dollars in billions)				
3 month commercial paper	daily	\$ 79.3	\$ 16.4	\$ 62.9
3 month Treasury bill	weekly	20.1	19.4	.7
Prime	annual	1.0	—	1.0
Prime	quarterly	7.3	5.5	1.8
Prime	monthly	6.4	1.2	5.2
PLUS Index	annual	4.5	4.6	(.1)
3-month LIBOR	daily	—	65.8	(65.8)
3-month LIBOR	quarterly	1.5	5.2	(3.7)
1-month LIBOR	monthly	.1	2.5	(2.4)
Non discreet reset ⁽⁶⁾	monthly	—	8.5	(8.5)
Non discreet reset ⁽⁷⁾	daily/weekly	9.0	—	9.0
Fixed Rate ⁽⁸⁾		9.3	9.4	(.1)
Total		\$ 138.5	\$ 138.5	\$ —

(5) Includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(6) Consists of asset-backed commercial paper and auction rate securities, which are discount note type instruments that generally roll over monthly.

(7) Includes restricted and non-restricted cash equivalents and other overnight type instruments.

(8) Includes receivables/payables, other assets, other liabilities and stockholders' equity (excluding Series B Preferred Stock).

To the extent possible we generally fund our assets with debt (in combination with derivatives) that has the same underlying index (index type and index reset frequency). When it is more economical, we also fund our assets with debt that has a different index and/or reset frequency than the asset, but only in instances where we believe there is a high degree of correlation between the interest rate movement of the two indices. For example, we use daily reset 3-month LIBOR to fund a large portion of our daily reset 3-month commercial paper indexed assets. In addition, we use quarterly reset 3-month LIBOR to fund a portion of our quarterly reset Prime rate indexed Private Education Loans. We also use our monthly non discreet reset funding (see note 6 in the above table) to primarily fund Treasury bill and commercial paper indexed student loans. In using different index types and different index reset frequencies to fund our assets, we are exposed to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices that may reset at different frequencies will not move in the same direction or at the same magnitude. We believe that this risk is low as all of these

indices are short-term with rate movements that are highly correlated over a long period of time. We use interest rate swaps and other derivatives to achieve our risk management objectives.

When compared with the GAAP presentation the Managed Basis presentation includes all of our off-balance sheet assets and funding, and also includes basis swaps that primarily convert quarterly 3-month LIBOR to other indices that are more correlated to our asset indices.

Interest Rate Gap Analysis

In the table below, the Company'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 September 30, 2005 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	\$ 78,105	\$ 108	\$ 3,336	\$ 10	\$ 64	\$ 3
Other loans	205	43	84	14	13	735
Cash and investments, including restricted	4,374	125	180	160	1,130	511
Other assets	1,865	110	221	281	564	4,079
Total assets	84,549	386	3,821	465	1,771	5,328
Liabilities and Stockholders' Equity						
Short-term borrowings	4,132	—	520	—	—	—
Long-term borrowings	60,453	25	—	1,488	10,469	12,064
Other liabilities	486	—	—	—	—	2,845
Minority interest in subsidiaries	—	—	—	—	—	14
Stockholders' equity	—	—	—	—	—	3,824
Total liabilities and stockholders' equity	65,071	25	520	1,488	10,469	18,747
Period gap before adjustments	19,478	361	3,301	(1,023)	(8,698)	(13,419)
Adjustments for Derivatives and Other Financial Instruments						
Interest rate swaps	(17,588)	2,050	(5,195)	99	8,675	11,959
Impact of securitized student loans	(1,954)	—	1,954	—	—	—
Total derivatives and other financial instruments	(19,542)	2,050	(3,241)	99	8,675	11,959
Period gap	\$ (64)	\$ 2,411	\$ 60	\$ (924)	\$ (23)	\$ (1,460)
Cumulative gap	\$ (64)	\$ 2,347	\$ 2,407	\$ 1,483	\$ 1,460	\$ —
Ratio of interest-sensitive assets to interest-sensitive liabilities	128.0%	1,104.0%	692.3%	12.4%	11.5%	10.3%
Ratio of cumulative gap to total assets	(.1)%	2.4%	2.5%	1.5%	1.5%	—%

Weighted Average Life

The following table reflects the weighted average life for our Managed earning assets and liabilities at September 30, 2005.

(Averages in years)	On-Balance Sheet	Off-Balance Sheet	Managed
Earning assets			
Student loans	9.3	4.7	8.9
Other loans	7.6	—	7.6
Cash and investments	1.5	.1	.8
Total earning assets	8.7	4.1	8.2
Borrowings			
Short-term borrowings	.5	—	.5
Long-term borrowings	7.1	4.7	6.3
Total borrowings	6.7	4.7	6.1

The longer average life for student loans on-balance sheet versus off-balance sheet is due to the higher percentage of Consolidation Loans on-balance sheet plus the higher percentage of loans in-school.

Long-term debt issuances likely to be called have been categorized according to their call dates rather than their maturity dates. Long-term debt issuances which are puttable by the investor are categorized according to their put dates rather than their maturity dates.

COMMON STOCK

The following table summarizes our common share repurchases, issuances and equity forward activity for the three and nine months ended September 30, 2005 and 2004.

(Shares in millions)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Common shares repurchased:				
Open market	—	—	—	.5
Equity forwards	2.9	11.4	9.4	24.8
Benefit plans ⁽¹⁾	.5	.1	1.0	1.0
Total shares repurchased	3.4	11.5	10.4	26.3
Average purchase price per share	\$ 50.12	\$ 38.91	\$ 49.67	\$ 36.21
Common shares issued	1.8	1.8	5.3	7.9
Equity forward contracts:				
Outstanding at beginning of period	51.7	47.2	42.8	43.5
New contracts	1.4	12.3	16.8	29.4
Exercises	(2.9)	(11.4)	(9.4)	(24.8)
Outstanding at end of period	50.2	48.1	50.2	48.1
Authority remaining at end of period to repurchase or enter into equity forwards ⁽²⁾	19.0	8.4	19.0	8.4

(1) Includes shares withheld from stock option exercises and vesting of performance stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

(2) In October 2004, the Board authorized an additional 30 million shares for repurchase.

As of September 30, 2005, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

Year of maturity	Outstanding contracts	Range of purchase prices	Average purchase price
	(Shares in millions)		
2007	9.5	\$50.47	\$ 50.47
2008	7.9	50.47	50.47
2009	16.0	50.47	50.47
2010	16.8	47.09 – 51.22	48.76
	50.2		\$ 49.90

The closing price of the Company's common stock on September 30, 2005 was \$53.64.

Higher Education Act Reauthorization

The relevant committees of the House and Senate have each passed bills to reauthorize the Higher Education Act ("HEA"). We anticipate that each of these bills will eventually be moved to the floor of each body for approval, with a House/Senate conference then negotiating the terms of the final law. Depending on whether the current budget reconciliation process stands, final passage of HEA reauthorization could take place as part of budget reconciliation, or as a stand-alone bill.

The House Education and the Workforce Committee originally reported its HEA reauthorization bill, H.R. 609, in July. We provided a summary of that bill's major provisions in our Quarterly Report on Form 10-Q for the second quarter of 2005. The July mark-up took place in the context of a reconciliation budget instruction to the Committee of \$12.6 billion in savings for all areas in its jurisdiction, which was part of an overall entitlement savings goal of \$35 billion. However, as part of an effort to achieve additional spending cuts, the House Education and Workforce Committee met on October 26, 2005, and reported legislation to achieve total savings of \$20 billion, of which \$14.5 billion comes from the student loan programs. In addition to the savings from H.R. 609, the House budget legislation includes the following provisions:

- *Increase in lender origination fee from 0.5 percent to 1 percent.*
- *Charge a borrower origination fee of 1 percent on all Consolidation Loans.* This provision replaced the 0.5 percent fee on fixed rate Consolidation Loans in H.R. 609.
- *Reduce retention on "regular" collections from 23 percent to 20 percent.* This would apply primarily to cash collections versus the rehabilitations and consolidations which have already been addressed in earlier versions of the bill.
- *Eliminate mandatory spending for direct loan administrative costs.* This provision would shift existing spending from the "mandatory" to the "discretionary" budget category.

The House budget legislation, known as "reconciliation," is likely to be considered by the full House during the week of November 7th.

On November 3, 2005, the Senate passed its version of the omnibus budget reconciliation bill, which included HEA reauthorization. The Senate HEA provisions share some provisions with the House bill, but also differed in a number of important ways. The major provisions of the Senate bill affecting Sallie Mae are as follows:

- *Key provisions similar to House bill:* the Senate bill's provisions on loan limit increases, lender rebate of floor income, Guaranty agency compensation for collections, fix to PLUS/SAP gap, and repeal of the single holder are all similar to the House bill's approach.
- *Borrower Interest Rates and Consolidation:* Borrower interest rates would shift from the current variable rate structure to fixed rates. New Stafford loans would be fixed at 6.8 percent, PLUS at 8.5 percent; consolidation is fixed at the average of the underlying rates. The basic lender SAP rate would remain unchanged. This contrasts with the House bill, which would maintain a variable rate structure on Stafford and PLUS loans.
- *Origination Fees:* Mandates a one percent FFELP Guaranty Fee, similar to House bill. Reduces the three percent FFELP lender Origination Fee to two percent in 2007 and completely eliminates the origination fees in 2011. Gives the Direct Loan Program authority to discount its Origination Fees. Increases lender origination fee on Consolidation Loans to one percent.

- *Risk Sharing and Exceptional Performer.* Changes government insurance on new loans to 97 percent from current 98 percent; ends the Exceptional Performer program, which has provided Sallie Mae and other qualifying servicers 100 percent insurance.
- *9.5% SAP:* makes permanent the existing ban on "transferring" and "refunding" practices that have been used to grow and extend the life of 9.5 percent SAP portfolios. Does not end "recycling" as the House bill does.
- *Need-based grant aid:* Creates two major new needs-based grant programs (\$8.0 billion expense over 5 years).
- *PLUS expansion:* Expands PLUS (at fixed 8.5 percent rate) to graduate and professional students.
- *School-As-Lender:* Allows no new schools to participate (if not participating August 31, 2005); places new restrictions on existing participants, including holding loans to grace.

(Dollars in millions)	Fair Value	Interest Rates:			
		Change from increase of 100 basis points		Change from increase of 300 basis points	
		\$	%	\$	%
Effect on Fair Values					
Assets					
Student loans	\$ 84,665	\$ (260)	—%	\$ (472)	(1)%
Other earning assets	7,614	(62)	(1)	(179)	(2)
Other assets	7,120	(422)	(6)	(600)	(8)
Total assets	\$ 99,399	\$ (744)	(1)%	\$ (1,251)	(1)%
Liabilities					
Interest bearing liabilities	\$ 89,384	\$ (1,451)	(2)%	\$ (3,635)	(4)%
Other liabilities	3,331	816	25	2,558	77
Total liabilities	\$ 92,715	\$ (635)	(1)%	\$ (1,077)	(1)%

At December 31, 2004

(Dollars in millions)	Fair Value	Interest Rates:			
		Change from increase of 100 basis points		Change from increase of 300 basis points	
		\$	%	\$	%
Effect on Fair Values					
Assets					
Student loans	\$ 67,431	\$ (315)	—%	\$ (636)	(1)%
Other earning assets	10,285	(120)	(1)	(333)	(3)
Other assets	7,878	(652)	(8)	(1,154)	(15)
Total assets	\$ 85,594	\$ (1,087)	(1)%	\$ (2,123)	(2)%
Liabilities					
Interest bearing liabilities	\$ 78,295	\$ (1,202)	(2)%	\$ (3,356)	(4)%
Other liabilities	2,798	276	10	1,503	54
Total liabilities	\$ 81,093	\$ (926)	(1)%	\$ (1,853)	(2)%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, as discussed under "NET INTEREST INCOME—Student Loans—On-Balance Sheet Floor Income," in the current low interest rate environment, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating.

During the three and nine months ended September 30, 2005 and 2004, certain FFELP student loans were earning Floor Income and we locked in a portion of that Floor Income through the use of futures and Floor Income Contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the above table, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our off-balance sheet hedged Consolidation Loan securitizations and

the related Embedded Floor Income recognized as part of the gain on sale, which results in no change in the Embedded Floor Income as a result of the increase in rates but does result in a decrease in payments on the written Floor contracts (ii) our unhedged on-balance sheet loans not currently having significant Floor Income due to the recent increase in interest rates, which results in these loans being more variable rate in nature and (iii) a portion of our fixed rate assets being funded with variable debt. The first two items together will generally cause income to increase when interest rates increase from a low interest rate environment, whereas, the third item will offset this increase. In the 300 basis point scenario for the three months ended September 30, 2005 the first two items had little impact allowing the third item to cause a net decrease in income.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our President and Chief Executive Officer and Executive Vice President, Finance, Accounting and Risk Management, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of September 30, 2005. Based on this evaluation, our President and Chief Executive Officer and Executive Vice President, Finance, Accounting and Risk Management, concluded that, as of September 30, 2005, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our President and Chief Executive Officer and Executive Vice President, Finance, Accounting and Risk Management, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) occurred during the fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The plaintiffs sought to represent a nationwide class action on behalf of all borrowers who allegedly paid "undisclosed improper and excessive" late fees over the past three years. The plaintiffs sought damages of one thousand five hundred dollars per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that the Company charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 27, 2003, the Superior Court granted the Company's motion to dismiss the complaint in its entirety. On March 4, 2004, the District of Columbia Court of Appeals affirmed the Superior Court's decision granting our motion to dismiss the complaint, but granted plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. On September 15, 2004, the plaintiffs filed an amended class action complaint. On December 27, 2004, the Superior Court granted the Company's motion to dismiss the plaintiffs' amended complaint. Plaintiffs have appealed the Superior Court's December 27, 2004 dismissal order to the District of Columbia Court of Appeals. All appellate briefing has been completed. The Company believes that it will prevail on the merits of this case if it becomes necessary to further litigate this matter.

We are also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of our reports to credit bureaus. In addition, the collections subsidiaries in our debt management operation group are named in individual plaintiff or class action lawsuits in which the plaintiffs allege that we have violated the Fair Debt Collection Practices Act or state law in the process of collecting their account. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes the Company's common share repurchases during the third quarter of 2005 pursuant to the stock repurchase program first authorized in September 1997 by the Board of Directors. Since the inception of the program, which has no expiration date, the Board of Directors has authorized the purchase of up to 307.5 million shares as of September 30, 2005.

(Common shares in millions)	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs ⁽²⁾
Period:				
July 1 – July 31, 2005	3.0	\$ 50.48	3.0	20.5
August 1 – August 31, 2005	.3	46.86	.3	19.0
September 1 – September 30, 2005	.1	49.94	.1	19.0
Total third quarter	3.4	\$ 50.12	3.4	

(1) The total number of shares purchased includes: i) shares purchased under the stock repurchase program discussed above, and ii) shares purchased in connection with the exercise of stock options and vesting of performance stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs (which combined totaled .5 million shares for the third quarter of 2005).

(2) Reduced by outstanding equity forward contracts.

Item 3. Defaults Upon Senior Securities

Nothing to report.

Item 4. Submission of Matters to a Vote of Security Holders

Nothing to report.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

The following exhibits are furnished or filed, as applicable:

- 10.23 Employment Agreement between Registrant and Thomas J. Fitzpatrick, President and Chief Executive Officer, effective as of June 1, 2005
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

QuickLinks

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[SLM CORPORATION CONSOLIDATED BALANCE SHEETS \(Dollars and shares in thousands, except per share amounts\)](#)

[SLM CORPORATION CONSOLIDATED STATEMENTS OF INCOME \(Dollars and shares in thousands, except per share amounts\)](#)

[SLM CORPORATION CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY \(Dollars in thousands, except share and per share amounts\) \(Unaudited\)](#)

[SLM CORPORATION CONSOLIDATED STATEMENTS OF CASH FLOWS \(Dollars in thousands\)](#)

[SLM CORPORATION NOTES TO CONSOLIDATED FINANCIAL STATEMENTS \(Information at September 30, 2005 and for the three and nine months ended September 30, 2005 and 2004 is unaudited\) \(Dollars and shares in thousands, except per share amounts, unless otherwise noted\)](#)

[MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Three and nine months ended September 30, 2005 and 2004 \(Dollars in millions, except per share amounts, unless otherwise stated\)](#)

[PART II. OTHER INFORMATION](#)

[SIGNATURES](#)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into by and between Thomas J. Fitzpatrick, a resident of the Commonwealth of Virginia ("Executive"), and SLM Corporation, a corporation organized and existing under the laws of the State of Delaware ("Company").

WHEREAS, Mr. Albert L. Lord has expressed his wishes to retire as Chief Executive Officer of the Company; and

WHEREAS, the Board of Directors of the Company ("Board of Directors") has observed the performance of Executive in increasing responsibilities over the past seven years, as Executive Vice President for private credit lending, as President and Chief Marketing Officer and most recently as President and Chief Operating Officer; and

WHEREAS, Executive has exceeded the performance expectations set for him in each of his roles and has exhibited the leadership and competence necessary for the President and Chief Executive Officer position; and

WHEREAS, the Board of Directors wishes to retain Executive and obtain his commitment to serve as President and Chief Executive Officer of the Company on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. 2002 Employment Agreement. This Agreement supersedes the employment agreement entered into by and between Executive and the Company dated January 1, 2002, (the "2002 Employment Agreement"), with the following exception: the provisions of the 2002 Employment Agreement with respect to stock-based compensation, (i.e. Sections 6, 7, and 8), survive and remain in force with respect to stock-based compensation awarded pursuant to the 2002 Employment Agreement, except that: (i) the events upon which vesting and exercisability of such stock-based compensation is forfeited or accelerated (death, Disability, termination of employment by the Company Without Cause or for Cause, termination of employment by Executive for Good Reason, and Change in Control) shall be as defined in this Agreement; and (ii) the provision with respect to the Distribution of Vested Stock Units (section 7.3) shall be superseded by Section 8.3 of this Agreement.

2. Employment and Term. Executive hereby agrees to be employed beginning June 1, 2005 as President and Chief Executive Officer of the Company and the Company hereby agrees to retain Executive as President and Chief Executive Officer. Executive's employment under this Agreement may be maintained through Sallie Mae, Inc. ("Sallie Mae") or another wholly owned subsidiary of the Company used to employ Company executives, and in such case any reference in this Agreement to employment or termination of employment with the Company shall be deemed to include employment or termination of employment with Sallie Mae or such other subsidiary. The term of Executive's employment as President and Chief Executive Officer under this Agreement (the "Term") shall be the period commencing on June 1, 2005 and ending on May 31, 2008. The Term may be extended for two additional one-year terms provided that both parties to the Agreement elect to do so under the Confirmation of Extension process set forth in Section 29.

3. Duties. During the Term, Executive shall have the titles of President and Chief Executive Officer of the Company and President and Chief Executive Officer of Sallie Mae. Executive agrees to assume such duties and responsibilities as may be reasonably assigned to Executive from time to time

by the Board of Directors, including as President and Chief Executive Officer of other Company subsidiaries.

4. Other Business Activities. Executive shall serve the Company faithfully and to the best of his ability with due loyalty and care and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his position as President and Chief Executive Officer. In furtherance of the foregoing, and not by way of limitation, for so long as he remains President and Chief Executive Officer of the Company, Executive shall not directly or indirectly engage in any other business activities or pursuits, except for (a) those arising from positions held as of March 17, 2005 as a director or otherwise with charitable or business organizations, as identified by Executive to the Board of Directors, and (b) with prior notice to the Chairman of the Board of Directors (or, in the case Executive then serves as Chairman, to the Nominations and Governance Committee of the Board of Directors), activities in connection with (i) service as a volunteer, officer or director or in a similar capacity of any charitable or civic organization, (ii) managing personal investments, and (iii) serving as a director, executor, trustee or in another similar fiduciary capacity for a non-commercial entity; provided, however, that any such activities do not materially interfere with Executive's performance of his responsibilities and obligations pursuant to this Agreement. Executive may engage in any other business activity or pursuit, directly or indirectly, including serving as a director for any commercial entity, with approval of the Board of Directors.

5. Base Salary. The Company shall pay Executive a salary at the annual rate of \$750,000 (the "Base Salary"). The Base Salary shall be inclusive of all applicable income, Social Security and other taxes and charges which are required by law or requested to be withheld by Executive and which shall be withheld and paid in accordance with the Company's normal payroll practice for its similarly situated executives as in effect from time to time. The Compensation and Personnel Committee of the Board of Directors (the "Compensation Committee") in its discretion may review Executive's salary for purposes of determining whether to pay a salary in excess of Base Salary during the Term, but shall have no obligation to increase Executive's Base Salary based upon any such review.

6. Annual Incentive Compensation. Executive shall participate in the Company's annual incentive compensation program(s) for executive officers as provided in the SLM Corporation Incentive Plan as such may be amended from time to time (the "Incentive Plan"), subject to the limitations and conditions set forth therein or in any successor plan. For the 2005 bonus plan, Executive shall be eligible for a bonus equal to up to three and one-half (3.5) times his salary at the rate paid for 2005 prior to June 1, 2005, pro-rated for the portion of the year he serves as President and Chief Operating Officer, and for a bonus equal to up to four (4) times his Base Salary, pro-rated for the portion of the year he serves as President and Chief Executive Officer.

7. Stock Options. Executive shall be granted stock options under which he may purchase up to a total of two million, three hundred thousand (2,300,000) shares of Company common stock (the "Stock Options") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of stock options provided generally to Company executive officers. The Stock Options shall not qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

7.1. Grants of Stock Options. The parties acknowledge that the Stock Options include options to purchase one million (1,000,000) shares that were granted on March 17, 2005 (the "March 2005 Stock Options"). The remainder of the Stock Options (that is, options to purchase one million, three hundred thousand (1,300,000) shares) shall be granted as follows: options to purchase one million (1,000,000) shares shall be granted in January 2006 (the "January 2006 Stock Options") and options to purchase three hundred thousand (300,000) shares shall be granted in January 2007 (the "January 2007 Stock Options"), provided only that Executive remains employed pursuant to this Agreement through each respective date of grant. The Stock Options shall have an exercise

price equal to the fair market value of the Company's common stock as of their respective dates of grant (which was \$49.88 as to the March 2005 Stock Options). For purposes of this Agreement and the Stock Options, the "fair market value" of the Company's common stock shall be the closing sales price of the stock on that day. For purposes of this Agreement, the term "Continuously Employed" means that Executive remains continuously employed by the Company pursuant to this Agreement from June 1, 2005 through May 31, 2008 as President and Chief Executive Officer and, to the extent applicable, through the date of Executive's termination of employment during or upon conclusion of the First-Year Extension or the Second-Year Extension.

7.2. The March 2005 Stock Options. The March 2005 Stock Options shall be subject to the following provisions:

(a) If and to the extent that the Price Performance Goals (as defined in Section 9) applicable to the March 2005 Stock Options are satisfied and provided, in each case, that Executive remains Continuously Employed through such respective vesting date:

- (i) The first one-third of the March 2005 Stock Options shall become vested and exercisable on the later of the date the Price Performance Goals (as defined in Section 9) are satisfied with respect to such Stock Options and May 31, 2008; and
- (ii) The remaining two-thirds of the March 2005 Stock Options shall become vested on the later of the date the Price Performance Goals are satisfied with respect to such Stock Options and May 31, 2008 and shall become exercisable on the later of the date the Price Performance Goals are satisfied with respect to such Stock Options and May 31, 2009.

(b) If and to the extent that the Price Performance Goals (as defined in Section 9) applicable to the March 2005 Stock Options are not satisfied while Executive remains Continuously Employed, the March 2005 Stock Options shall become fully vested (but not exercisable) on May 31, 2010 provided that Executive remains Continuously Employed through such vesting date, and thereafter shall become exercisable on March 17, 2013.

7.3 The January 2006 Stock Options and January 2007 Stock Options. The January 2006 Stock Options and January 2007 Stock Options shall be subject to the following provisions.

(a) If and to the extent that the Price Performance Goals (as defined in Section 9) applicable to the January 2006 Stock Options are satisfied and provided, in each case, that Executive remains Continuously Employed through such respective vesting date:

- (i) The first one-third of the January 2006 Stock Options shall become vested and exercisable on the later of the date the Price Performance Goals (as defined in Section 9) are satisfied with respect to such Stock Options and May 31, 2008; and
- (ii) The remaining two-thirds of the January 2006 Stock Options shall become vested on the later of the date the Price Performance Goals are satisfied with respect to such Stock Options and May 31, 2008 and shall become exercisable on the later of the date the Price Performance Goals are satisfied with respect to such Stock Options and May 31, 2009.

(b) If and to the extent that the Price Performance Goal (as defined in Section 9) applicable to the January 2007 Stock Options is satisfied and provided that Executive remains Continuously Employed through the vesting date, all of the January 2007 Stock Options shall become vested on the later of the date the Price Performance Goal is satisfied with respect to such Stock Options and May 31, 2008 and shall become exercisable on May 31, 2009.

(c) If and to the extent that the Price Performance Goals (as defined in Section 9) applicable to the January 2006 Stock Options and the January 2007 Stock Options have not been satisfied by

May 31, 2010, the January 2006 Stock Options and the January 2007 Stock Options shall be forfeited.

(d) The Company retains the discretion to grant the January 2006 Stock Options and the January 2007 Stock Options with a provision that such Stock Options will become exercisable on the later of satisfaction of the applicable Price Performance Goals and a date certain (which date may be after the Term of this Agreement) if such vesting provision is determined by the Compensation and Personnel Committee of the Board to be necessary in order for the Company to obtain fixed accounting with respect to such stock options prior to the Company's implementation of Statement of Financial Accounting Standards No 123 (revised 2004) (Statement No. 123R).

7.4. Additional Terms Applicable to the Stock Options. In addition to the provisions set forth in Sections 7.2 and 7.3 above, the Stock Options shall be subject to the following provisions:

(a) The Stock Options shall earlier become fully vested and exercisable (to the extent not already vested and/or exercisable pursuant to Section 7.2 or Section 7.3) upon Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 13.

(b) Unless otherwise vested pursuant to Section 7.2, 7.3 and/or 7.4(a), the Stock Options shall be forfeited and shall immediately expire and terminate if and to the extent the Stock Options have not vested on or before the date Executive terminates his employment Without Good Reason.

(c) Notwithstanding any other provision allowing for the exercisability of the Stock Options, any of the Chairman of the Board of Directors (or, in the case Executive then serves as Chairman, the Lead Independent Director), the chief accounting officer, the chief financial officer and the general counsel of the Company (any such person, an "Authorized Officer") each may provide written notice that at any time (including after a notice of exercise has been delivered) and from time to time that Executive's right to exercise any Stock Options may be suspended pending a determination by the Compensation and Personnel Committee as to whether Executive has committed an act of Misconduct (as defined in Section 13.4(a)). Notwithstanding anything to the contrary in this Agreement or the Stock Options and regardless of whether the Stock Options have theretofore become vested or exercisable, if the Board of Directors determines that Executive has committed an act of Misconduct Executive shall forfeit and not be entitled to exercise any Stock Options granted to Executive pursuant to this Agreement and Executive shall repay to the Company any gross profits realized from the exercise of Stock Options within one year prior to the date of Misconduct.

(d) To the extent that the Stock Options have not been forfeited or exercised, the Stock Options shall expire on the earlier of (i) the tenth anniversary of the date of their grant, the first anniversary of Executive's termination of employment on account of death or Disability (as defined in Section 13.1) or (iii) the date Executive's employment is terminated for Cause (as defined in Section 13.4).

(e) Executive shall not be entitled to receive replacement options upon exercising any of the Stock Options granted pursuant to this Section 7.

8. Restricted Stock Units. Executive shall be granted restricted stock units representing the right to acquire up to a total of two hundred thousand (200,000) shares of Company common stock (the "Stock Units") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of restricted stock units provided generally to Company executive officers. The Stock Units represent an unfunded and unsecured

obligation of the Company and shall not be transferable and shall not be pledged, assigned or otherwise alienated.

8.1. Grants of Stock Units. Stock units representing ninety thousand (90,000) shares) (the "2005 Stock Units") shall be granted on June 1, 2005. Stock Units representing one hundred thousand (100,000) shares (the "2006 Stock Units") shall be granted in January 2006 and the remainder of the Stock Units (the "2007 Stock Units") shall be granted in January 2007, in each case provided only that Executive remains employed pursuant to this Agreement through such respective date of grant.

8.2. Vesting. Subject to acceleration of vesting provisions provided for below, the Stock Units shall be forfeited and shall immediately expire and terminate if they have not vested on or before the date Executive's employment terminates. Subject to the preceding sentence, the 2005 Stock Units and 2007 Stock Units shall become vested (but shall not be converted to common stock and shall not be distributed to Executive except as provided in Section 8.3), upon the earlier of (a) May 31, 2008, or (b) Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 13 and the 2006 Stock Units shall become vested (but shall not be converted to common stock and shall not be distributed to Executive except as provided in Section 8.3), upon the earlier of (a) May 31, 2009, or (b) Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 13; provided, in each case, that Executive remains Continuously Employed through such respective vesting date.

8.3. Distribution of Vested Stock Units. To the extent that they have not theretofore been forfeited, Stock Units that have vested pursuant to Section 8.2 and Stock Units granted pursuant to Section 7 of the 2002 Employment Agreement shall be converted to shares of Common Stock and shall be delivered to Executive upon the later of: (i) January 1 of the first year following the year in which Executive ceases to serve as a "covered employee" (as such term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code")); and (ii) the earlier of (x) Executive's death or Disability, (y) 6 months after Executive's "separation from service" with the Company (as such term is defined in Section 409A of the Code) and (z) a Change in Control.

9. Stock Price Performance and Other Terms of Stock-Based Compensation.

9.1. Price Performance Goals. The term "Price Performance Goals" in reference to the Stock Options shall mean:

(a) with respect to one-third of the shares of common stock subject to the March 2005 Stock Options (that is, options for 333,333 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the exercise price of the March 2005 Stock Options (i.e., that is equal to or greater than \$62.35 per share); with respect to an additional one-third of the shares subject to the March 2005 Stock Options (that is, options for 333,333 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the exercise price of the March 2005 Stock Options (i.e., that is equal to or greater than \$66.34 per share); with respect to an additional one-third of the shares subject to the March 2005 Stock Options (that is, options for 333,334 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the exercise price of the March 2005 Stock Options (i.e., that is equal to or greater than \$74.82 per share); and

(b) with respect to one-third of the shares of common stock subject to the January 2006 Stock Options (that is, options for 333,333 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the exercise price of the January 2006 Stock Options; with respect to an additional one-third of the shares subject to the January 2006 Stock Options (that is, options for 333,333 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the exercise price of the January 2006 Stock Options; with respect to an additional one-third of the shares subject to the January 2006 Stock Options (that is, options for 333,334 shares), the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the exercise price of the January 2006 Stock Options; and

(c) with respect to the January 2007 Stock Options, the Company's stock price obtaining a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the exercise price of the January 2007 Stock Options.

9.2. Anti-Dilution Adjustments. The number and type of shares or other property subject to the Stock Options and the Stock Units, the exercise price of the Stock Options and the stock prices set forth as the Price Performance Goals shall be appropriately and proportionately adjusted by the Compensation Committee if the class of securities which are subject to the Stock Options and the Stock Units are (i) exchanged for or converted into cash, property or a different number or kind of shares or securities as a result of a reorganization, merger, consolidation, recapitalization, restructuring or reclassification, or (ii) if the number of securities of the class of securities then subject to the Stock Options and the Stock Units are increased or decreased or if cash, property or shares or securities are distributed in respect of such subject securities as a result of a dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like.

9.3. Tax Withholding. Executive shall pay in cash or make other arrangements satisfactory to the Compensation Committee for the satisfaction of any withholding tax obligations that arise by reason of exercise of the Stock Options or conversion of the Stock Units. The Company shall not be required to issue shares of common stock or to recognize the disposition of such shares until such obligations are satisfied.

9.4. Dividends shall accrue on the Stock Units at the same time and in the same amount as dividends are declared on the Company's common stock and such an accrual shall be credited to the benefit of Executive in the form of additional Stock Units and shall be distributed in the form of shares of the Company's common stock at the same time as shares of common stock is issued in satisfaction of the Stock Units to which they relate.

10. Other Benefits.

(a) Pension Plans. Executive shall be entitled to participate in all tax-qualified and non-tax-qualified pension plans maintained or contributed to by the Company or for the benefit of its executives, including without limitation, the Sallie Mae Cash Account Retirement Plan and the Sallie Mae Supplemental Cash Account Retirement Plan (collectively, the "Company Pension Plans"), in accordance with the terms of such Company Pension Plans as they may be amended from time to time in the discretion of the Company; provided however, that on or following Executive's termination of employment for any reason other than termination by Company for Cause as defined in Section 13.4, Executive shall be entitled to the supplemental retirement benefit equal to the amount, if any, by which (i) the Target Benefit Amount (as such term is defined below), exceeds (ii) the actuarial equivalent life annuity benefit, if any, that would be payable following such termination event under the Company Pension Plans, determined in accordance with the actuarial assumptions then used on such termination event under the Company Pension

Plans to calculate the equivalent life annuity and assuming that Executive commenced benefit distributions under the Company Pension Plans at the same date. For purposes of this Agreement, the "Target Benefit Amount" equals a single life annuity of \$300,000 payable to Executive commencing at age 60 following continuous service with the Company from the date of this Agreement through age 60, except that if Executive's employment terminates Without Cause or For Good Reason (as defined in Section 13.2) the Target Benefit Amount shall be as provided in Section 13.2(c) or, if such termination occurs during the Term of this Agreement but within 24 months following a Change in Control, as provided in Section 13.3(c), or if Executive's employment otherwise terminates before or after age 60, the Target Benefit Amount shall be adjusted as provided for in the schedule attached hereto as Schedule A. The Target Benefit Amount is payable at the same time and in the same manner as Executive elects under the Sallie Mae Supplemental Cash Account Retirement Plan.

(b) Medical Insurance. During the Term of this Agreement and for as long as Executive remains employed under this Agreement during the Term, Executive shall be entitled to participate in any medical and dental insurance plans generally available to the senior management of the Company, as such plans may be in effect from time to time. After termination of Executive's employment with the Company, other than on account of termination by Company for Cause or by Executive Without Good Reason (as such terms are defined in Section 13.4) but including termination of employment upon expiration of the Term, Executive and his eligible dependents or survivors shall be entitled to continue to participate in such plans on the terms generally applied to actively employed senior management of the Company, including any employee cost-sharing provisions, for the greater of the number of months remaining in the Term (including any extensions of the Term which the parties have confirmed pursuant to Section 29) at the time of Executive's termination of employment and one year. To the extent the terms and conditions of the aforesaid plans do not permit participation by Executive, his dependents, or his survivors, the Company shall arrange to provide Executive, his dependents, or his survivors with the after-tax economic equivalent of such continued coverage; provided that no payments pursuant to this sentence shall be paid until the earlier of (i) Executive's death or Disability and (ii) 6 months after Executive's "separation from service" with the Company (as such term is defined in Section 409A of the Code). After the termination of his employment with the Company, Executive shall cease to be covered under the foregoing medical and/or dental insurance plans if he obtains coverage under other medical and/or dental insurance plans; provided, however, that if the coverage under the new medical and/or dental insurance plans is less than under the foregoing plans, the Company shall provide Executive with a cash payment in an amount necessary for Executive to obtain coverage comparable to that provided under the foregoing plans or may at its option continue to provide for coverage under the Company's plans.

(c) Other Benefit Plans. During the Term, Executive shall be entitled to receive or participate in such further savings, deferred compensation, health or welfare benefit plans offered to the Company's senior management generally, in accordance with the terms of such plans as they may be amended from time to time in the discretion of the Company.

(d) Perquisites; Expenses. The Company agrees to reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive in performing his duties during the Term of this Agreement, in accordance with the Company's reimbursement policies generally applicable to management personnel. Subject to the Compensation and Personnel Committee's discretion to adjust perquisites, the Company agrees to provide Executive with such perquisites as are generally made available to management personnel from time to time consisting of (i) the right to participate at the Board member level in the Company's matching contribution program for one year after termination of Executive's employment hereunder, unless Executive's employment is terminated by Company for Cause or by Executive Without Good Reason, and (ii) during the

Term of this Agreement, use of a personal vehicle selected by the Company and access to the Company's corporate jet, subject to the Company's policy on payment for personal use of the corporate jet.

11. Nondisclosure of Confidential Information.

(a) Executive and the Company acknowledge that Executive will, in the course of his employment, come into possession of confidential, proprietary business and technical information, and trade secrets of the Company and its Affiliates, as defined in Section 12(b) (the "Proprietary Information"). Proprietary Information includes, but is not limited to, the following:

- Business procedures. All information concerning or relating to the way the Company and its Affiliates conduct their business, which is not generally known to the public or within the industry or trade in which the Company or its Affiliates compete (such as the Company contracts, internal business procedures, controls, plans, licensing techniques and practices, supplier, subcontractor and prime contractor names and contacts and other vendor information, computer system passwords and other computer security controls, financial information, distributor information, and employee data) and the physical embodiments of such information (such as check lists, samples, service and operational manuals, contracts, proposals, printouts, correspondence, forms, listings, ledgers, financial statements, financial reports, financial and operational analyses, financial and operational studies, management reports of every kind, databases, employment or personnel records, and any other written or machine-readable expression of such information as are filed in any tangible media).
- Marketing Plans and Customer Lists. All information not generally known to the public or within the industry or trade in which the Company or its Affiliates compete pertaining to the Company's and its Affiliates' marketing plans and strategies; forecasts and projections; marketing practices, procedures and policies; goals and objectives; quoting practices, procedures and policies; and customer data including the customer list, contracts, representatives, requirements and needs, specifications, data provided by or about prospective customers, and the physical embodiments of such information.
- Business Ventures: All information not generally known to the public or within the industry or trade in which the Company or its Affiliates operate concerning new product development, negotiations for new business ventures, future business plans, and similar information and the physical embodiments of such information.
- Software. All information relating to the Company's and its Affiliates' software or hardware in operation or various stages of research and development, which are not generally known to the public or within the industry or trade in which the Company or its Affiliates compete and the physical embodiments of such information.
- Litigation. Information which is not a public record and is not generally known to the public or within the industry or trade in which the Company or its Affiliates compete regarding litigation and potential litigation matters and the physical embodiments of such information.
- Policy Information. Information not of a public nature regarding the policies and positions that have been or will be advocated by the Company and its Affiliates with government officials, the views of government officials toward such policies and positions, and the status of any communications that the Company or its Affiliates may have with any government officials.
- Information Not Generally Known. Any information which (a) is not generally known to the public or within the industry or trade in which the Company or its Affiliates compete, (b) gives the Company or its Affiliates a significant advantage over its or their competitors,

or (c) has significant economic value or potentially significant economic value to the Company or its Affiliates, including the physical embodiments of such information.

(b) Executive acknowledges that the Proprietary Information is a valuable and unique asset of the Company and its Affiliates. Executive agrees that he will not, at any time during his employment or after the termination of his employment with the Company, without the prior written consent of the Company or its Affiliates, as applicable, either directly or indirectly divulge any Proprietary Information for his own benefit or for any purpose other than the exclusive benefit of the Company and/or its Affiliates.

12. Agreement Not to Compete.

(a) Executive agrees that he shall not compete with the Company or its Affiliates for the Restricted Period, which is defined as the longer of two years after the termination of Executive's employment with the Company for any reason, or six months after he no longer holds any unexercised Stock Options (whether or not then vested or exercisable).

(b) For the purposes of this Section 12, "compete" shall mean directly or indirectly through one or more intermediaries (i) working or serving as a director, officer, employee, consultant, agent, representative, or in any other capacity, with or without compensation, on behalf of one or more entities engaged in the Company's Business (as defined below) in the United States, Canada, or any other country where the Company (including any Affiliate) either engages in the Company's Business at the time of Executive's termination or where the Company, at the time of Executive's termination, has developed a business plan or taken affirmative steps to engage in the Company's Business; (ii) soliciting any current employees, customers, or business partners of the Company, soliciting any former employees of the Company who were employed by the Company within 12 months of Executive's date of termination of employment, inducing any customer or business partner of the Company to breach a contract with the Company or any principal for whom the Company acts as agent to terminate such agency relationship; and/or (iii) making statements about the Company or its management reasonably determined by the Board of Directors to be disparaging. For purposes of this provision, the term "the Company's Business" shall mean any business activity or line of business similar to the type of business conducted by the Company, Sallie Mae, and/or their Affiliates at the time of Executive's termination of employment or which the Company, Sallie Mae and/or their Affiliates at the time of Executive's termination of employment or within one year prior thereto have planned to enter into or conduct. Executive expressly agrees that the markets served by the Company, Sallie Mae and their Affiliates extend nationally, to Canada, and any other country where the Company is engaged in business at the time of Executive's termination of employment and are not dependent on the geographic location of the executive personnel or the businesses by which they are employed and that the restrictions set forth in this Section 12 are reasonable and are no greater than are required for the protection of the Company, Sallie Mae, and its Affiliates. For purposes of this Agreement, the term "Affiliate" shall be deemed to refer to the Company, and any entity (whether or not existing on the date hereof) controlling, controlled by or under common control with the Company.

(c) In the event the Board of Directors reasonably determines that Executive has violated any provision of this Section 12, Executive shall (i) forfeit the Stock Options granted under this Agreement, regardless of whether then vested, unvested, exercisable or unexercisable, and (ii) without limitation of the Company's other rights and remedies as specified in Section 26, repay to the Company any gross profits realized from the exercise of the Stock Options since the earlier of one year prior to the date of such violation and the termination of Executive's employment with the Company (whichever date occurred the longest period of time before the date of any such option exercise).

13. Termination. Executive's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 13. Upon termination, Executive shall be entitled only to such compensation and benefits as described in this Section 13.

13.1. Disability and Death.

(a) Disability. If Executive is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under the Company's disability plan available generally to all employees (any such situation, "Disability"), the Company may terminate Executive's employment hereunder. The determination of whether the Executive has a Disability under this Agreement shall be made by the Compensation Committee, which shall consider the information presented by Executive's personal physician and by any other advisors, including any other physician, which the Compensation Committee determines appropriate. The determination of the Compensation Committee shall be final and binding, unless it is determined to have been arbitrary and capricious. If the employment of Executive terminates during the Term due to the Disability of Executive, the Company shall provide to Executive (i) whatever benefits are available to him under any disability benefit plan(s) applicable to him at the time of such termination to the extent Executive satisfies the requirements of such plan(s), and (ii) the payments set forth in Section 13.1(c).

(b) Death. If Executive dies during the Term, the Company shall pay to Executive's executors, legal representatives or administrators the payments set forth in Section 13.1(c). Except as specifically set forth in this Section 13.1 or under applicable laws, the Company shall have no liability or obligation hereunder to Executive's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Executive's death, except that Executive's executors, legal representatives or administrators will be entitled to receive any death benefit payable to them as beneficiaries under any insurance policy or other benefits plans in which Executive participates as an employee of the Company and to exercise any rights afforded them under any benefit plan then in effect.

(c) Payment Upon Disability or Death. Upon termination of the employment of Executive due to death or Disability during the Term, the Company shall pay an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation (as defined in Section 13.2(d) below) pro-rated for the year through the date of termination. In addition, upon such termination of employment, the Stock Options shall fully vest and become exercisable in accordance with Section 7.2(d) and 7.3(c)(ii) and shall expire on the first anniversary of such termination of employment, the Stock Units shall fully vest and thereafter shall be distributed as provided in Section 8.2(b) and 8.3, and Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 10(b) and to the supplemental retirement benefit described in Section 10(a).

13.2. Termination By Company Without Cause; Termination By Executive For Good Reason.

(a) Termination By Company Without Cause. The Company may terminate Executive's employment hereunder at any time for any reason other than Cause upon written notice to Executive ("Termination Without Cause"). "Termination Without Cause" shall not include failure to extend the Term under Section 29 of this Agreement.

(b) Termination By Executive For Good Reason. Executive may terminate his employment hereunder at any time For Good Reason ("Termination For Good Reason"). For purposes of this Agreement, Good Reason shall mean (i) a material reduction in the position or responsibilities of Executive, provided that (a) a Change in Control (including the fact that the Company's stock is not publicly held or is held or controlled by a single stockholder as a result of a Change in Control) or (b) Executive's election under Section 29 to continue his employment in a reduced executive role shall not of itself be deemed a material reduction in the position or responsibilities of Executive; (ii) a reduction in Executive's Base Salary or a material reduction in Executive's compensation arrangements or benefits, except as provided for in Section 29 (provided that variability in the value of stock-based compensation or in the compensation provided under the Incentive Plan shall not be deemed to cause a material reduction in compensation); (iii) a substantial failure of the Company to perform any material provision of this Agreement; or (iv) a relocation of the Company's executive offices to a distance of more than seventy-five (75) miles from its location as of the date of this Agreement without the consent of Executive, unless such relocation results in the Company's executive offices being closer to Executive's then primary residence or does not substantially increase the average commuting time of Executive. "Termination by Executive For Good Reason" shall not include failure to extend the Term under Section 29 of this Agreement.

(c) In the event of a Termination Without Cause or a Termination For Good Reason, the Company shall pay to Executive within (i) forty-five (45) days after termination an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation pro-rated for the year through the date of termination, and (ii) as soon as reasonably practicable following the date that is six (6) months after executive's separation from service (as defined pursuant to Code Section 409A), the Multiplier times the Compensation Amount (as such terms are defined in Section 13.2(d) below). In addition, upon Executive's Termination Without Cause or Termination For Good Reason, (i) the Stock Options shall fully vest and become fully exercisable upon the date of such termination of employment in accordance with Section 7.4(a); and (ii) the Stock Units shall fully vest and thereafter shall be distributed as provided in Section 8.3. Further, upon and following Executive's Termination Without Cause or Termination For Good Reason, Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 10(b) and to the supplemental retirement benefit described in Section 10(a) provided that for purposes of calculating the supplemental retirement benefit the Target Benefit Amount shall be adjusted through the date of Executive's termination as set forth in Schedule A but shall be no less than the Target Benefit Amount that otherwise would have accrued upon May 31, 2008 (\$271,417, expressed as a single life annuity).

(d) The Multiplier is defined as the number obtained by dividing by twelve the number of full months remaining in the Term (including any extensions of the Term which the parties have confirmed pursuant to Section 29) at the time of Executive's termination of employment but in no event shall the Multiplier be less than one. The Average Annual Incentive Compensation shall be a cash payment equal to the value of the average annual incentive compensation earned by Executive in each of the three full calendar years prior to the date of termination. For purposes of determining the average annual incentive compensation earned by Executive in any past year, any non-cash compensation awarded to Executive shall be included as annual incentive compensation only if specifically designated as such by the Compensation Committee, and such non-cash compensation shall be valued by such method as the Compensation Committee in its discretion shall determine, which may be the manner in which such compensation is valued for proxy reporting purposes. The Compensation Amount is defined as the sum of (i) the annual Base Salary of Executive as in effect immediately prior to Executive's termination of employment, and (ii) the Average Annual Incentive Compensation.

13.3. Change in Control.

(a) For purposes of this Agreement, "Change in Control" shall mean an occurrence of one or more of the following events:

- (i) an acquisition (other than directly from the Company) of any voting securities of the Company (the "Voting Securities") by any "person" or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) other than an employee benefit plan of the Company, immediately after which such person or group has "Beneficial Ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of more than fifty percent (50%) of the combined voting power of the Company's then outstanding Voting Securities; or
- (ii) within any 12-month period, the individuals who were directors of the Company as of the date the Board of Directors approved this Agreement (the "Incumbent Directors") ceasing for any reason other than death, disability or retirement to constitute at least a majority of the Board of Directors, provided that any director who was not a director as of the date the Board of Directors approved this Agreement shall be deemed to be an Incumbent Director if such director was appointed or nominated for election to the Board of Directors by, or on the recommendation or approval of, at least a majority of directors who then qualified as Incumbent Directors, provided further that any director appointed or nominated to the Board of Directors to avoid or settle a threatened or actual proxy contest shall in no event be deemed to be an Incumbent Director; or
- (iii) satisfaction of all conditions to a merger, consolidation, or reorganization involving the Company that results in the stockholders of the Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, less than fifty percent (50%) of the combined voting power of the corporation which survives such transaction as the ultimate parent entity, unless either (A) such merger, consolidation or reorganization is not thereafter consummated, or (B) Executive remains Chief Executive Officer, co-Chief Executive Officer, or Chairman of the corporation which survives such transaction as the ultimate, parent entity and prior to the satisfaction of all such conditions, the Board of Directors determines that such transaction shall not constitute a Change in Control; or
- (iv) a sale of all or substantially all of the assets of the Company.

(b) Upon a Change in Control, all of the Stock Options granted under this Agreement shall immediately fully vest and become exercisable and all of the Stock Units granted under this Agreement shall immediately fully vest and thereafter shall be distributed as provided in Section 8.3.

(c) In the event a Termination Without Cause (as defined in Section 13.2(a)) or a Termination For Good Reason (as defined in Section 13.2(b)) occurs during the Term of this Agreement but within 24 months following a Change in Control, Executive shall be entitled to receive as soon as reasonably practicable following the date that is six (6) months after such separation from service (as defined pursuant to Code Section 409A) an amount equal to the number obtained by dividing by twelve the number of full months remaining in the Term (including any extensions of the Term which the parties have confirmed pursuant to Section 29) at the time of Executive's termination of employment times the Compensation Amount, as such term is defined in Section 13.2(d). In addition, upon and following Executive's Termination Without Cause or Termination For Good Reason, Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 10(b) and to the supplemental retirement benefit described in Section 10(a), provided that for purposes

of calculating the supplemental retirement benefit the Target Benefit Amount shall be no less than the Target Benefit Amount that otherwise would have accrued at age 60 (\$300,000, expressed as a single life annuity).

(d) If, as a result of payments provided for under or pursuant to this Agreement together with all other payments in the nature of compensation provided to or for the benefit of Executive under any other agreement in connection with a Change in Control, Executive becomes subject to taxes of any state, local or federal taxing authority that would not have been imposed on such payments but for the occurrence of a Change in Control, including any excise tax under Section 4999 of the Code and any successor or comparable provision, then, in addition to any other benefits provided under or pursuant to this Agreement or otherwise, the Company (including any successor to the Company) shall pay to Executive at the time any such payments are made under or pursuant to this or the other agreements, an amount equal to the amount of any such taxes imposed or to be imposed on Executive (the amount of any such payment, the "Parachute Tax Reimbursement"). In addition, the Company (including any successor to the Company) shall "gross up" such Parachute Tax Reimbursement by paying to Executive at the same time an additional amount equal to the aggregate amount of any additional taxes (whether income taxes, excise taxes, special taxes, employment taxes or otherwise) that are or will be payable by Executive as a result of the Parachute Tax Reimbursement being paid or payable to Executive and/or as a result of the additional amounts paid or payable to Executive pursuant to this sentence, such that after payment of such additional taxes Executive shall have been paid on a net after-tax basis an amount equal to the Parachute Tax Reimbursement. The amount of any Parachute Tax Reimbursement and of any such gross-up amounts shall be determined by a registered public accounting firm selected by the Compensation and Personnel Committee (in conjunction with the Audit Committee) of the Board of Directors, whose determination, absent manifest error, shall be treated as conclusive and binding absent a binding determination by a governmental taxing authority that a greater or lesser amount of taxes is payable by Executive.

13.4. Termination For Cause; Termination By Executive Without Good Reason.

(a) Termination for Cause. The Company may terminate the employment of Executive for Cause at any time during the Term. For purposes of this Agreement, Cause shall mean a determination by the Board of Directors that there has been a willful and continuing failure of Executive to perform substantially his obligations under this Agreement (other than as a result of Executive's death or Disability) and, if in the judgment of the Board of Directors such willful and continuing failure may be cured by Executive, that such failure has not been cured by Executive within ten (10) business days after written notice of such was given to Executive by the Board of Directors, or that Executive has committed an act of Misconduct (as defined below). For purposes of this Agreement, "Misconduct" shall mean: (i) embezzlement, fraud, commission of a felony, breach of fiduciary duty or deliberate disregard of material the Company rules; (ii) personal dishonesty of Executive materially injurious to the Company; (iii) an unauthorized disclosure of any Proprietary Information; or (iv) competing with the Company while employed by the Company or during the Restricted Period, in contravention of Section 11.

(b) Termination By Executive Without Good Reason. Executive may terminate his employment hereunder at any time without Good Reason (as defined in Section 13.2(b)) ("Termination Without Good Reason").

(c) In the event the Company terminates Executive's employment with Company for Cause or by Executive Without Good Reason, Executive shall receive all accrued but unpaid Base Salary, and benefits as of the effective date of termination. If the Company terminates Executive's employment for Cause, Executive shall forfeit the supplemental retirement benefit described in Section 10(a). If Executive terminates his employment Without Good Reason, Executive shall be

entitled to receive the supplemental retirement benefit described in Section 10(a) accrued as of the date of termination. In the event Executive's employment with the Company is terminated by Company for Cause, Executive shall forfeit and not be entitled to exercise any Stock Option granted to Executive pursuant to this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement. In the event Executive's employment with the Company is terminated by Executive during the Term of this Agreement Without Good Reason, Executive shall forfeit all unvested Stock Options granted under this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement.

14. Other Agreements. Executive represents and warrants to the Company that:

(a) There are no restrictions, agreements or understandings whatsoever to which Executive is a party or by which he is bound that would prevent or make unlawful Executive's execution of this Agreement or Executive's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Executive's employment hereunder, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(b) Executive shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer by whom Executive may be employed during the Term (which employment is not hereby authorized) or during the Restricted Period as defined in the Agreement Not to Compete by and between Executive and the Company set forth in Section 11 hereof.

15. Survival of Provisions. The provisions of this Agreement, including without limitation those set forth in Sections 10, 11, 12, 14, 15, 16, 19, 26, 27 and 28 hereof, shall survive the termination of Executive's employment hereunder and the payment of all amounts payable and delivery of all post-termination compensation and benefits pursuant to this Agreement incident to any such termination of employment.

16. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the Company and its successors or permitted assigns and Executive and his executors, administrators or heirs. The Company shall require any successor or successors expressly to assume the obligations of the Company under this Agreement. For purposes of this Agreement, the term "successor" shall include the ultimate parent corporation of any corporation involved in a merger, consolidation, or reorganization with or including the Company that results in the stockholders of the Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, securities of another corporation, regardless of whether any such merger, consolidation or reorganization is deemed to constitute a Change in Control for purposes of this Agreement. Executive may not assign any obligations or responsibilities under this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of Company. At any time prior to a Change in Control, Company may provide, without the prior written consent of Executive, that Executive shall be employed pursuant to this Agreement by any of its Affiliates instead of or in addition to Sallie Mae or Company, and in such case all references herein to the "Company" shall be deemed to include any such entity, provided that (i) such action shall not relieve Company of its obligation to make or cause an Affiliate to make or provide for any payment to or on behalf of Executive pursuant to this Agreement, and (ii) Executive's duties and responsibilities shall not be significantly diminished as a result thereof. The Board of Directors may assign any or all of its responsibilities hereunder to any committee of the Board of Directors, in which case references to Board of Directors shall be deemed to refer to such committee.

17. Executive Benefits. This Agreement shall not be construed to be in lieu of or to the exclusion of any other rights, benefits and privileges to which Executive may be entitled as an executive of Company under any retirement, pension, profit-sharing, insurance, hospitalization or other plans or benefits which may now be in effect or which may hereafter be adopted.

18. Board of Directors Service. Subject to re-election by a vote of stockholders, Executive shall continue to serve on the Board of Directors through the Term and shall offer to tender his resignation from the Board of Directors upon expiration of the Term, or upon any earlier termination of his employment, which resignation may or may not be accepted.

19. Notices. All notices required to be given to any of the parties of this Agreement shall be in writing and shall be deemed to have been sufficiently given, subject to the further provisions of this Section 18, for all purposes when presented personally to such party, or sent by facsimile transmission, any national overnight delivery service, or certified or registered mail, to such party at its address set forth below:

(a) If to Executive:

Thomas J. Fitzpatrick
1453 Park Garden Lane
Reston, VA 20194

(b) If to Company:

SLM Corporation
Sallie Mae, Inc.
12061 Bluemont Way
Reston, VA 20190
Attention: General Counsel
Fax No. (703) 984-7695

Such notice shall be deemed to be received when delivered if delivered personally, upon electronic or other confirmation of receipt if delivered by facsimile transmission, the next business day after the date sent if sent by a national overnight delivery service, or three (3) business days after the date mailed if mailed by certified or registered mail. Any notice of any change in such address shall also be given in the manner set forth above. Whenever the giving of notice is required, the giving of such notice may be waived in writing by the party entitled to receive such notice.

20. Entire Agreement; Amendments. This Agreement and any other documents, instruments or other writings delivered or to be delivered in connection with this Agreement as specified herein constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede all prior and contemporaneous agreements, understandings, and negotiations, whether written or oral, with respect to the terms of Executive's employment by Company. This Agreement may be amended or modified only by a written instrument signed by all parties hereto.

21. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

22. Governing Law. This Agreement shall be governed and construed as to its validity, interpretation and effect by the laws of the Commonwealth of Virginia.

23. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or such provisions, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

24. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

25. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

26. Specific Enforcement; Extension of Period. Executive acknowledges that the restrictions contained in Sections 11 and 12 hereof are reasonable and necessary to protect the legitimate interests of Company and its Affiliates, that Company would not have entered into this Agreement in the absence of such restrictions, and the Company through this Agreement has provided adequate consideration for the restrictions contained in Sections 11 and 12. Executive also acknowledges that any breach by him of Sections 11 or 12 hereof will cause continuing and irreparable injury to Company for which monetary damages would not be an adequate remedy. Executive shall not, in any action or proceeding by Company to enforce Sections 11 or 12 of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Executive, Company shall have the right to enforce the provisions of Sections 11 and 12 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies at law or in equity otherwise available to Company. In the event that the provisions of Sections 11 or 12 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

27. Section 409A. Executive and the Company agree to cooperate to make such amendments to the terms of this Agreement as may be necessary to avoid the imposition of penalties and additional taxes under Section 409A of the Code; provided however, that the parties agree that any such amendment shall neither materially increase the cost to, or liability of the Company under the Agreement. The Company covenants to administer the compensation provided for under this Agreement according to the terms of the Agreement and any other agreement(s) entered into pursuant hereto (including option grant and restricted stock unit grant agreements) (as this Agreement or any such agreement may be amended) and, subject to the foregoing, so as to avoid the imposition upon Executive of any additional tax under Code Section 409A(a)(1)(b) with respect to such compensation.

28. Arbitration. Any dispute or claim, other than those referred to in Section 26, arising out of or relating to this Agreement or otherwise relating to the employment relationship between Executive and Company (including but not limited to any claims under Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act; the Age Discrimination in Employment Act; the Family and Medical Leave Act; and the Employee Income Retirement Security Act) shall be submitted to Arbitration, in Fairfax County, Virginia, and except as otherwise provided in this Agreement shall be conducted in accordance with the rules of, but not under the auspices of, the American Arbitration Association. The arbitration shall be conducted before an arbitration tribunal comprised of three individuals, one selected by Company, one selected by Executive, and the third selected by the first two. The parties and the arbitrators selected by them shall use their best efforts to reach agreement on the identity of the tribunal within ten (10) business days of either party to this Agreement submitting to the other party a written demand for arbitration. The proceedings before the tribunal shall take place within twenty (20) business days of the selection thereof. Executive and Company agree that such arbitration will be confidential and no details, descriptions, settlements or other facts concerning such arbitration shall be disclosed or released to any third party without the specific written consent of the other party, unless required by law or court order or in connection with enforcement of any decision in such arbitration. Any damages awarded in such arbitration shall be limited to the contract measure of damages, and shall not include punitive damages. The parties shall equally divide the costs of the arbitrators, and each party shall bear his or its attorneys' fees and other costs, except that the arbitrators may specifically direct one party to bear the entire cost of the arbitration, including all attorneys' fees, if the arbitrators determine that such party acted in bad faith. Nothing in this

Agreement shall limit the Company's rights to reimbursement of amounts pursuant to Section 304 of the Sarbanes-Oxley Act of 2002.

29. Confirmation of Extension. If both parties to this Agreement give written notice to the General Counsel of the Company no later than 5:00 p.m. eastern standard time on December 1, 2007 of their desire to extend the Term of the Agreement, then the Term shall extend for a one-year period until May 31, 2009, (the "First-Year Extension"). During the "First-Year Extension," Executive may elect to continue his employment in a reduced executive role and the Board of Directors shall accept such an election. If Executive continues employment in the role of Chief Executive Officer, all compensation and benefit arrangements provided for in this Agreement shall remain in force during the First-Year Extension; no additional stock-based compensation shall be provided. If Executive continues employment in a reduced executive role, both parties agree to negotiate compensation and benefit arrangements commensurate with that reduced role.

If both parties to this Agreement give written notice to the General Counsel of the Company no later than 5:00 p.m. eastern standard time on December 1, 2008 of their desire to extend the Term of the Agreement, then the Term shall extend for a one-year period until May 31, 2010, (the "Second-Year Extension"). During the "Second-Year Extension," Executive may (and if he so elected during the First-Year Extension, Executive must) elect to continue his employment in a reduced executive role and the Board of Directors shall accept such an election. Both parties agree to negotiate compensation and benefit arrangements commensurate with the Executive's role during the Second-Year Extension.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

SLM Corporation

By: /s/ ROBERT S. LAVET

/s/ THOMAS J. FITZPATRICK

Title: Senior Vice President & General Counsel

Schedule A

Target Benefit Amount

Date	Age	Life Annuity
01/01/2005	56	\$134,000
03/31/2005	56	\$142,750
12/31/2005	57	\$169,000
12/31/2006	58	\$208,000
12/31/2007	59	\$251,000
12/31/2008	60	\$300,000
12/31/2009	61	\$356,000
12/31/2010	62	\$422,000

Mr. Fitzpatrick's Target Benefit Amount will accrue during a year on a straight-line basis, upon the last day worked in each month. As an example, Mr. Fitzpatrick's March 31, 2005 accrued benefit is \$142,750 ($\$35,000 \times 3/12 + \$134,000$).

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[EMPLOYMENT AGREEMENT](#)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Thomas J. Fitzpatrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SLM Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ THOMAS J. FITZPATRICK

Thomas J. Fitzpatrick
President and Chief Executive Officer and Director
November 8, 2005

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[Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, C.E. Andrews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SLM Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ C.E. ANDREWS

C.E. Andrews
Executive Vice President, Finance, Accounting and Risk Management
November 8, 2005

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[Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SLM Corporation (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Fitzpatrick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ THOMAS J. FITZPATRICK

Thomas J. Fitzpatrick
President and Chief Executive Officer and Director
November 8, 2005

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of SLM Corporation (the "Company") on Form 10-Q for the period ended September 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, C.E. Andrews, Executive Vice President, Finance, Accounting and Risk Management of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ C.E. ANDREWS

C.E. Andrews
Executive Vice President, Finance, Accounting and Risk Management
November 8, 2005

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[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)