**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2009 or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission file numbers 001-13251**

# SLM Corporation

*(Exact Name of Registrant as Specified in Its Charter)*

| **Delaware** | **52-2013874** |
|---|---|
| *(State of Other Jurisdiction of Incorporation or Organization)* | *(I.R.S. Employer Identification No.)* |
| **12061 Bluemont Way, Reston, Virginia** | **20190** |
| *(Address of Principal Executive Offices)* | *(Zip Code)* |

**(703) 810-3000**
*(Registrant's Telephone Number, Including Area Code)*

**Securities registered pursuant to Section 12(b) of the Act**
**Common Stock, par value $.20 per share.**
**Name of Exchange on which Listed:**
**New York Stock Exchange**
**6.97% Cumulative Redeemable Preferred Stock, Series A, par value $.20 per share**
**Floating Rate Non-Cumulative Preferred Stock, Series B, par value $.20 per share**
**Name of Exchange on which Listed:**
**New York Stock Exchange**
**Medium Term Notes, Series A, CPI-Linked Notes due 2017**
**Medium Term Notes, Series A, CPI-Linked Notes due 2018**
**6% Senior Notes due December 15, 2043**
**Name of Exchange on which Listed:**
**New York Stock Exchange**
**Securities registered pursuant to Section 12(g) of the Act:**
**None.**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ☑

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer ☑ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009 was $4.8 billion (based on closing sale price of $10.27 per share as reported for the New York Stock Exchange — Composite Transactions).

As of January 31, 2010, there were 484,912,370 shares of voting common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement relating to the registrant's Annual Meeting of Shareholders scheduled to be held May 13, 2010 are incorporated by reference into Part III of this Report.

**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

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

Definitions for capitalized terms used in this document can be found in the "Glossary" at the end of this document.

## PART I.

### Item 1. Business

### INTRODUCTION TO SLM CORPORATION

SLM Corporation, more commonly known as Sallie Mae, is the nation's leading saving, planning and paying for education company. SLM Corporation is a holding company that operates through a number of subsidiaries. References in this Annual Report to the "Company" refer to SLM Corporation and its subsidiaries. The Company was formed in 1972 as the Student Loan Marketing Association, a federally chartered government sponsored enterprise ("GSE"), with the goal of furthering access to higher education by providing liquidity to the student loan marketplace. On December 29, 2004, we completed the privatization process that began in 1997 and resulted in the wind-down of the GSE.

Our primary business is to originate, service and collect loans made to students and/or their parents to finance the cost of their education. We provide funding, delivery and servicing support for education loans in the United States through our participation in the Federal Family Education Loan Program ("FFELP"), as a servicer of loans for the Department of Education ("ED"), and through our non-federally guaranteed Private Education Loan programs.

We have used internal growth and strategic acquisitions to attain our leadership position in the education finance market. The core of our marketing strategy is to generate student loan originations by promoting our brands on campus through the financial aid office and through direct marketing to students and their parents. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry.

In addition to the net interest income generated by our lending activities, we earn fee income from a number of services including student loan and guarantee servicing, loan default aversion and defaulted loan collections, and for providing processing capabilities and information technology to educational institutions as well as 529 college savings plan program management, transfer and servicing agent services, and administrative services through Upromise Investments, Inc. ("UII") and Upromise Investment Advisors, LLC ("UIA"). We also operate a consumer savings network through Upromise, Inc. ("Upromise"). References in this Annual Report to "Upromise" refer to Upromise and its subsidiaries, UII and UIA.

At December 31, 2009, we had approximately eight thousand employees.

### Recent Developments and Expected Future Trends

On February 26, 2009, the Obama Administration (the "Administration") issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program ("DSLP"). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act ("SAFRA"), which was consistent with the Administration's 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration's 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the "Community Proposal" because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

The Administration's 2010 fiscal year budget also called for the hiring of additional loan servicers to help ease the transition to a full DSLP and to handle the significant increase in future volume. On June 17, 2009, we announced that we were selected by ED as one of four private sector servicers awarded a servicing contract (the "ED Servicing Contract") to service loans we sell to ED plus a portion of loans others sell to ED, existing DSLP loans and loans originated in the future. We began servicing loans under this contract in the third quarter of 2009.

Under both SAFRA and the Community Proposal, the Company would no longer originate, fund or hold new FFELP loans to earn a net interest margin. However, the Company would continue to earn net interest income from our portfolio of existing FFELP loans as the portfolio runs off over a period of time. The Company would become a fee for service provider in the federal loan business. We will continue to originate, fund and hold Private Education Loans.

In addition, the legislation would eliminate the need for the Guarantors and the services we provide to the sector. The Company earns a fee when it processes a loan guarantee for a Guarantor client for the life of the loan for servicing the Guarantor's portfolio of loans. If either SAFRA or the Community Proposal become laws, we would no longer earn the origination fee paid by Guarantors. The portfolio that generates the maintenance fee would go into run-off and we would continue to earn the maintenance fee and perform the associated default aversion and prevention work for the remaining life of the loans. In 2009, we earned guarantor servicing fees of $136 million, which was approximately evenly split between origination and maintenance fees.

Our student loan contingent collection business would also be impacted by the pending legislation. We currently have 12 Guarantors and ED as clients. We earn revenue from Guarantors for collecting defaulted loans as well as for managing their portfolios of defaulted loans. Revenue from Guarantor clients is approximately 66 percent of our contingent collection revenue. We anticipate that revenue from Guarantors will be relatively stable through 2012 and then begin to steadily decline if either SAFRA or the Community Proposal are adopted.

The Company, through its subsidiary Pioneer Credit, has been collecting defaulted student loans on behalf of ED since 1997. The contract is merit based and accounts are awarded on collection performance. Pioneer Credit has consistently ranked number one or two among the ED collectors. In anticipation of a surge in volume as more loans switch to DSLP, ED recently added five new collection companies bringing the total to 22. This led to a decline in account placements with Pioneer Credit, which we believe is temporary. The Company expects that as the DSLP grows the decline in revenue we would experience from our Guarantor clients would be partially offset by increased revenue under the ED contract in future years.

If SAFRA becomes law, a significant restructuring which would result in significant job losses throughout the Company and we will be required to adapt to our new business environment.

The Company is exploring available liquidity to fund FFELP loans for our student customers if legislation is not passed and The Ensuring Continued Access to Student Loans Act of 2008 ("ECASLA") is not extended in time for the academic year ("AY") 2010 — 2011. We believe that adequate liquidity will be available to fund the anticipated number of loans.

**Student Lending Market**

Students and their families use multiple sources of funding to pay for their college education, including savings, current income, grants, scholarships, and federally guaranteed and private education loans. Over the last five years, these sources of funding for higher education have been relatively stable with a general trend towards an increased use of student loans. In the last academic year, 39 percent of students used federally guaranteed student loans or private education loans to finance their education. Due to an increase in federal loan limits that took effect in 2007 and 2008, the Company has seen a substantial increase in borrowing from federal loan programs in recent years.

***Federally Guaranteed Student Lending Programs***

There are currently two loan delivery programs that provide federal government guaranteed student loans: the FFELP and the DSLP. FFELP loans are provided by the private sector. DSLP loans are provided to borrowers directly by ED on terms similar to student loans provided under the FFELP. We participate in and are the largest lender under the FFELP. The Company is participating in ED's Participation and Put program, which were established under the authority provided in ECASLA. This program is scheduled to terminate on June 30, 2010. Under this program, ED provides funding to lenders for up to one year at a cost of commercial paper ("CP") plus 50 basis points. The lender has the option to sell the loans to ED within 90 days of the end of the AY for a fee of $75 per loan plus the principal amount of and accrued interest on the loan plus the one percent origination fee for which we are reimbursed. We are also a contractor to service loans sold to ED and DSLP loans.

For the federal fiscal year ("FFY") ended September 30, 2009 ("FFY 2009"), ED estimated that the market share of FFELP loans was 69 percent, down from 76 percent in FFY 2008. (See "LENDING BUSINESS SEGMENT — Competition.") Total FFELP and DSLP volume for FFY 2009 grew by 28 percent, with the FFELP portion growing 17 percent and the DSLP portion growing 63 percent.

The Higher Education Act (the "HEA") regulates every aspect of the federally guaranteed student loan program, including communications with borrowers, loan originations and default aversion requirements. Failure to service a student loan properly could jeopardize the guarantee on federal student loans. This guarantee generally covers 98 and 97 percent of the student loan's principal and accrued interest for loans disbursed before and after July 1, 2006, respectively. In the case of death, disability or bankruptcy of the borrower, the guarantee covers 100 percent of the loan's principal and accrued interest. The guarantee on our existing loan portfolio would not be impacted by pending legislation.

FFELP loans are guaranteed by state agencies or non-profit companies designated as Guarantors, with ED providing reinsurance to the Guarantor. Guarantors are responsible for performing certain functions necessary to ensure the program's soundness and accountability. These functions include reviewing loan application data to detect and prevent fraud and abuse and to assist lenders in preventing default by providing counseling to borrowers. Generally, the Guarantor is responsible for ensuring that loans are serviced in compliance with the requirements of the HEA. When a borrower defaults on a FFELP loan, we submit a claim to the Guarantor who provides reimbursements of principal and accrued interest subject to the Risk Sharing (See APPENDIX A, "FEDERAL FAMILY EDUCATION LOAN PROGRAM," to this document for a description of the role of Guarantors.)

***Private Education Loan Products***

In addition to federal loan programs, which have statutory limits on annual and total borrowing, we offer Private Education Loan programs to bridge the gap between the cost of education and a student's resources. Historically, the majority of our Private Education Loans were made in conjunction with a FFELP Stafford Loan and are marketed to schools through the same marketing channels and by the same sales force as FFELP loans. However, we also originate Private Education Loans at DSLP schools. We expect no interruption in our presence in the school channel if SAFRA were to pass. As a result of the credit market dislocation discussed above, a large number of lenders have exited the Private Education Loan business and only a few of the country's largest banks continue to offer the product.

***Drivers of Growth in the Student Loan Industry***

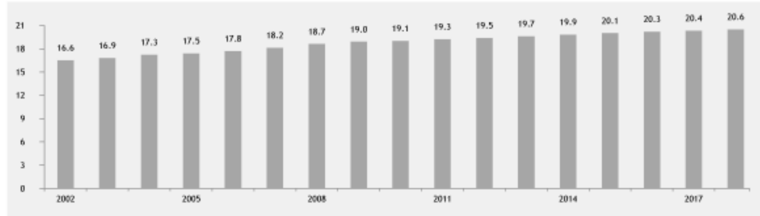
Growth in our Managed student loan portfolio and our servicing and collection businesses is driven by the growth in the overall market for student loans, as well as by our own market share gains. Rising enrollment and college costs and increases in borrowing limits have resulted in the size of the federally insured student loan market more than tripling over the last 10 years. Federally insured student loan originations grew from $30 billion in FFY 1999 to $96 billion in FFY 2009.

According to the College Board, tuition and fees at four-year public institutions and four-year private institutions have increased 88 percent and 66 percent, respectively, in constant, inflation-adjusted dollars, since AY 1999-2000. Under the FFELP, there are limits to the amount students can borrow each academic year. The first loan limit increases since 1992 were implemented July 1, 2007. In response to the credit crisis, Congress significantly increased loan limits again in 2008. As a result, students rely more on federal loans to fund their tuition needs. Both federal and private loans as a percentage of total student aid were 49 percent of total student aid in AY 1998-1999 and 53 percent in AY 2008-2009. Private Education Loans accounted for 12 percent of total student loans — both federally guaranteed and Private Education Loans — in AY 2008-2009, compared to 8 percent in AY 1998-1999.

The National Center for Education Statistics predicts that the college-age population will increase approximately 10 percent from 2009 to 2018. Demand for education credit is expected to increase due to this population demographic, first-time college enrollments of older students and continuing interest in adult education.

The following charts show the historical and projected enrollment and average tuition and fee growth for four-year public and private colleges and universities.

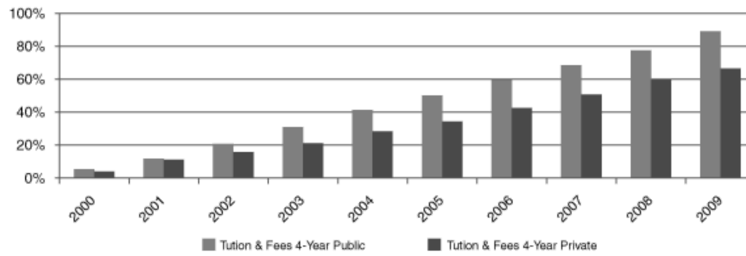
**Historical and Projected Enrollment**
**(in millions)**




Source: National Center for Education Statistics

Note: Total enrollment in all degree-granting institutions; middle alternative projections for 2006 onward.

**Cost of Attendance(1)**
**Cumulative % Increase from AY 1998-1999**




Source: The College Board

(1) Cost of attendance is in current dollars and includes tuition, fees and on-campus room and board.

**BUSINESS SEGMENTS**

We provide credit products and related services to the higher education and consumer credit communities and others through two primary business segments: our Lending business segment and our Asset Performance Group ("APG") business segment. In addition, within our Corporate and Other business segment, we provide a number of products and services that are managed within smaller operating segments, the most prominent being our Guarantor Servicing and Loan Servicing businesses. As discussed above, some of our businesses are expected to go into run-off as a result of pending legislation. Each of these segments is summarized below. The accounting treatment for the segments is explained in "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

**LENDING BUSINESS SEGMENT**

In the Lending business segment, we originate and acquire both federally guaranteed student loans, and Private Education Loans, which are not federally guaranteed. We manage the largest portfolio of FFELP and Private Education Loans in the student loan industry, and have 10 million student and parent customers through our ownership and management of $176.4 billion in Managed student loans as of December 31, 2009, of which $141.4 billion or 80 percent are federally insured. We serve over 6,000 clients, including educational and financial institutions and non-profit state agencies. We are the largest servicer and collector of student loans, servicing $194.2 billion in assets, including $26.3 billion for third parties, of which $19.2 billion is serviced for ED as of December 31, 2009.

**Sallie Mae's Lending Business**

Our primary marketing point-of-contact is the school's financial aid office. We deliver flexible and cost-effective products to the school and its students. The focus of our sales force is to market Sallie Mae's suite of education finance products to colleges. These include FFELP and Private Education Loans and through our Web-based loan origination and servicing platform OpenNet®. As a result of the changes taking place in the student loan marketplace, we are broadening our marketing activities to include Direct to Consumer initiatives and referral lending relationships. We also intend to drive loan volume through our Planning, Paying and Saving for college activities.

In 2009, we originated $24.9 billion in student loans. FFELP originations for the year ended December 31, 2009 totaled $21.7 billion, an increase of 21 percent from the year ended December 31, 2008. The increase in FFELP loan origination growth was due to higher loan limits and an increase in market share. Given the legislative uncertainty around FFELP and the ongoing transition of certain schools to Direct Lending, FFELP originations could be substantially lower in the AY 2010–2011. Private Education Loan originations totaled $3.2 billion, a decrease of 50 percent from the prior year. The decline in Private Education Loan originations was due to a tightening of our underwriting requirements, an increase in federal student loan limits and the Company's withdrawal from certain markets.

***Private Education Loans***

We bear the full credit risk for Private Education Loans, which are underwritten and priced according to credit risk based upon customized credit scoring criteria. Due to their higher risk profile, generally Private Education Loans have higher interest rates than FFELP loans. Despite a decline in the growth rate of Private Education Loan originations, the portfolio grew 5 percent from the prior year. All new Private Education Loans are being funded at Sallie Mae Bank through our deposit taking activities.

In 2008 and 2009, the credit environment created significant challenges for funding Private Education Loans. At the same time, we became more restrictive in our underwriting criteria. In addition, as discussed above, federal lending limits increased significantly in 2007 and 2008. As a result of these factors, originations declined in 2008 and 2009. We expect originations to grow once again in 2010 and subsequent years as the credit markets continue to recover and the impact of the 2007 and 2008 federal loan limit increases is offset by tuition increases and market share gains.

Over the course of 2009, we made improvements in the structure, pricing, underwriting, servicing, collecting and funding of Private Education Loans. These changes were made to increase the profitability and decrease the risk of the product. For example, the average FICO score for loans disbursed in 2009 was up 19 points to 745 and the percentage of co-signed loans increased to 84 percent from 66 percent in the prior year.

These improvements in portfolio quality are being driven primarily by our more selective underwriting criteria. We have instituted higher FICO cut-offs and require cosigners for borrowers with higher credit scores than in the past. Our experience shows that adding a cosigner to a loan reduces the default rate by more than 50 percent. We are capturing more data on our borrowers and cosigners and using this data in the credit decision and pricing process. In 2009, we began using a new Custom Underwriting Scorecard, that we believe will further improve our underwriting. We have also introduced judgmental lending.

In 2009, we introduced the Smart Option Student Loan®, which is offered to undergraduate and graduate students through the financial aid offices of colleges and universities to supplement traditional federal loans. The Smart Option Student Loan® significantly reduces the customer's total cost and repayment term by requiring interest payments while the student is in school.

**Competition**

Historically, we have faced competition for both federally guaranteed and non-guaranteed student loans from a variety of financial institutions, including banks, thrifts and state-supported secondary markets. However, as a result of the CCRAA which was passed in 2007, the legislation currently pending and the dislocation in the capital markets, the student loan industry is undergoing a significant transition. A number of student lenders have ceased operations altogether or curtailed activity.

**ASSET PERFORMANCE GROUP BUSINESS SEGMENT**

In our APG business segment, we provide student loan default aversion services, defaulted student loan portfolio management services and contingency collections services for student loans and other asset classes. In 2008, we decided to wind down our accounts receivable management and collections services on consumer and mortgage receivable portfolios. We made this decision because we did not realize the expected synergies between this business and our traditional contingent student loan collection business. During 2009 we sold GRP, our mortgage purchased paper company, and wound down our unsecured receivables portfolio to $285 million.

In 2009, our APG business segment had revenues totaling $346 million and a net loss of $154 million due to impairments in our collections servicing portfolios. Our largest customer, USA Funds, accounted for 39 percent, excluding impairments, of our revenue in this segment in 2009.

Please read the section "Recent Developments and Expected Future Trends" to see how pending legislation could impact this business segment.

**Products and Services**

***Student Loan Default Aversion Services***

We provide default aversion services for five Guarantors, including the nation's largest, USA Funds. These services are designed to prevent a default once a borrower's loan has been placed in delinquency status.

***Defaulted Student Loan Portfolio Management Services***

Our APG business segment manages the defaulted student loan portfolios for six Guarantors under long-term contracts. APG's largest customer, USA Funds, represents approximately 17 percent of defaulted student loan portfolios we manage. Our portfolio management services include selecting collection agencies and determining account placements to those agencies, processing loan consolidations and loan rehabilitations, and managing federal and state offset programs.

***Contingency Collection Services***

Our APG business segment is also engaged in the collection of defaulted student loans on behalf of various clients, including schools, Guarantors, ED and other federal and state agencies. We earn fees that are contingent on the amounts collected. We provide collection services for approximately 16 percent of the total market for federal student loan collections. We have relationships with approximately 900 colleges and universities to provide collection services for delinquent student loans and other receivables from various campus-based programs. We also collect other debt for federal and state agencies, and retail clients.

**Competition**

The private sector collections industry is highly fragmented with a few large companies and a large number of small scale companies. The APG businesses that provide third-party collections services for ED, FFELP Guarantors and other federal holders of defaulted debt are highly competitive. In addition to competing with other collection enterprises, we also compete with credit grantors who each have unique mixes of internal collections, outsourced collections and debt sales. The scale, diversification and performance of our APG business segment have been, and the Company expects them to remain, a competitive advantage for the Company.

**CORPORATE AND OTHER BUSINESS SEGMENT**

The Company's Corporate and Other business segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing, and Upromise operating segments. Corporate and Other also includes several smaller products and services, including comprehensive financing and loan delivery solutions to college financial aid offices and students to streamline the financial aid process.

Please read the section above, "INTRODUCTION TO SLM CORPORATION — Recent Developments and Expected Future Trends" to see how we expect pending legislation to impact this business segment.

**Guarantor Servicing**

We earn fees for providing a full complement of administrative services to FFELP Guarantors. FFELP student loans are guaranteed by these agencies, with ED providing reinsurance to the Guarantor. The Guarantors are non-profit institutions or state agencies that, in addition to providing the primary guarantee on FFELP loans, are responsible for other activities, including:

- guarantee issuance — the initial approval of loan terms and guarantee eligibility;
- account maintenance — the maintaining, updating and reporting of records of guaranteed loans;
- default aversion services — these services are designed to prevent a default once a borrower's loan has been placed in delinquency status (we perform these activities within our APG business segment);
- guarantee fulfillment — the review and processing of guarantee claims;
- post-claim assistance — assisting borrowers in determining the best way to resolve a defaulted loan; and
- systems development and maintenance — the development of automated systems to maintain compliance and accountability with ED regulations.

Currently, we provide a variety of these services to 15 Guarantors and, in AY 2008-2009, we processed $24.0 billion in new FFELP loan guarantees, of which $19.3 billion was for USA Funds, the nation's largest Guarantor. We processed guarantees for approximately 35 percent of the FFELP loan market in AY 2008-2009.

Guarantor servicing fee revenue, which includes guarantee issuance and account maintenance fees, was $136 million for the year ended December 31, 2009, 86 percent of which we earned from services performed on behalf of USA Funds. Under some of our guarantee services agreements, including our agreement with

USA Funds, we receive certain scheduled fees for the services that we provide under such agreements. The payment for these services includes a contractually agreed-upon percentage of the account maintenance fees that the Guarantors receive from ED.

The Company's guarantee services agreement with USA Funds has a five-year term that will be automatically extended on October 1 of each year unless prior notice is given by either party.

Our primary non-profit competitors in Guarantor Servicing are state and non-profit guarantee agencies that provide third-party outsourcing to other Guarantors.

(See APPENDIX A, "FEDERAL FAMILY EDUCATION LOAN PROGRAM — Guarantor Funding" for details of the fees paid to Guarantors.)

**Upromise**

Upromise provides a number of programs that encourage consumers to save for college. Upromise has established a consumer savings network which is designed to promote college savings by consumers who are members of this program by allowing them to earn rewards from the purchase of goods and services from the companies that participate in the program ("Participating Companies"). Participating Companies generally pay Upromise transaction fees based on member purchase volume, either online or in stores depending on the contractual arrangement with the Participating Company. Typically, a percentage of the purchase price of the consumer members' eligible purchases with Participating Companies is set aside in an account maintained by Upromise on behalf of its members.

Upromise, through its wholly-owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. UII and UIA manage approximately $23 billion in 529 college-savings plans.

**REGULATION**

Like other participants in the FFELP, the Company is subject to the HEA and, from time to time, to review of its student loan operations by ED and guarantee agencies. As a servicer of federal student loans, the Company is subject to certain ED regulations regarding financial responsibility and administrative capability that govern all third-party servicers of insured student loans. In connection with our Guarantor Servicing operations, the Company must comply with, on behalf of its Guarantor Servicing customers, certain ED regulations that govern Guarantor activities as well as agreements for reimbursement between the Secretary of Education and the Company's Guarantor Servicing customers. As a third-party service provider to financial institutions, the Company is also subject to examination by the Federal Financial Institutions Examination Council ("FFIEC").

The Company's originating or servicing of federal and private student loans also subjects it to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our student loan business include:

- the Truth-In-Lending Act;
- the Fair Credit Reporting Act;
- the Equal Credit Opportunity Act;
- the Gramm Leach-Bliley Act; and
- the U.S. Bankruptcy Code.

APG's debt collection and receivables management activities are subject to federal and state consumer protection, privacy and related laws and regulations. Some of the more significant federal laws and regulations that are applicable to our APG business segment include:

- the Fair Debt Collection Practices Act;

- the Fair Credit Reporting Act;
- the Gramm-Leach-Bliley Act; and
- the U.S. Bankruptcy Code.

Our APG business segment is subject to state laws and regulations similar to the federal laws and regulations listed above. Finally, certain APG subsidiaries are subject to regulation under the HEA and under the various laws and regulations that govern government contractors.

Sallie Mae Bank is subject to Utah banking regulations as well as regulations issued by the Federal Deposit Insurance Corporation, and undergoes periodic regulatory examinations by the FDIC and the Utah Department of Financial Institutions.

UII and UIA, which administer 529 college-savings plans, are subject to regulation by the Municipal Securities Rulemaking Board, the Financial Industry Regulatory Authority (formerly the National Association of Securities Dealers, Inc.) and the Securities and Exchange Commission ("SEC") through the Investment Advisers Act of 1940.

**AVAILABLE INFORMATION**

The SEC maintains an Internet site (http://www. sec.gov) that contains periodic and other reports such as annual, quarterly and current reports on Forms 10-K, 10-Q and 8-K, respectively, as well as proxy and information statements regarding SLM Corporation and other companies that file electronically with the SEC. Copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and other periodic reports are available on our website as soon as reasonably practicable after we electronically file such reports with the SEC. Investors and other interested parties can also access these reports at www.salliemae.com/about/investors.

Our Code of Business Conduct, which applies to Board members and all employees, including our Chief Executive Officer and Chief Financial Officer, is also available, free of charge, on our website at www.salliemae.com/about/business_code. htm. We intend to disclose any amendments to or waivers from our Code of Business Conduct (to the extent applicable to our Chief Executive Officer or Chief Financial Officer) by posting such information on our website.

In 2009, the Company submitted the annual certification of its Chief Executive Officer regarding the Company's compliance with the NYSE's corporate governance listing standards, pursuant to Section 303A.12(a) of the NYSE Listed Company Manual.

In addition, we filed as exhibits to the Company's annual reports on Form 10-K for the years ended December 31, 2007 and 2008 and to this Annual Report on Form 10-K, the certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

**Item 1A. Risk Factors**

Our business activities involve a variety of risks. Below we describe the significant risk factors affecting our business. The risks described below are not the only risks facing us — other risks also could impact our business.

**Funding and Liquidity.**

***Our business is affected by funding constraints in the credit market and dependence on various government funding sources, and the interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. These factors may increase the price of or decrease our ability to obtain liquidity as well expose us to basis risk and repricing.***

The capital markets are experiencing a prolonged period of volatility. This volatility has had varying degrees of impact on most financial organizations. These conditions have impacted the Company's access to and cost of capital necessary to manage our business. Additional factors that could make financing difficult, more expensive or unavailable on any terms include, but are not limited to, financial results and losses of the Company, changes within our organization, events that have an adverse impact on our reputation, changes in the activities of our business partners, events that have an adverse impact on the financial services industry, counterparty availability, changes affecting our assets, corporate and regulatory actions, absolute and comparative interest rate changes, ratings agencies' actions, general economic conditions and the legal, regulatory, accounting and tax environments governing our funding transactions.

Our business is also affected by various government funding sources and funding constraints in the capital markets.

Funding for new FFELP loan originations is currently dependent to a large degree on financial programs established by the federal government. These programs are described in the "LIQUIDITY AND CAPITAL RESOURCES" section of this Form 10-K. These federal programs are not permanent and may not be extended past their expiration dates. There is no assurance that the capital markets will be able to totally support FFELP loan originations beyond the time these programs are presently scheduled to end. Upon termination of the government programs mentioned, if cost effective funding sources were not available, we could be compelled to reduce or suspend the origination of new FFELP loans.

FFELP loans originated under the government programs mentioned above must be re-financed or sold to the government by a date determined under the terms of the programs. It is our intention to sell these loans to the government under the terms of the programs.

During 2009, the Company funded private, non-federally guaranteed loan originations primarily through term brokered deposits raised by Sallie Mae Bank. Assets funded in this manner result in re-financing risk because the average term of the deposits is shorter than the expected term of some of the same assets. There is no assurance that this or other sources of funding, such as the term asset-backed securities market, will be available at a level and a cost that makes new Private Education Loan originations possible or profitable, nor is there any assurance that the loans can be re-financed at profitable margins.

At some time, the Company may decide that it is prudent or necessary to raise additional equity capital through the sale of common stock, preferred stock, or securities that convert into common stock. There are no restrictions on entering into the sale of any equity securities in either public or private transactions, except that any private transaction involving more than 20 percent of shares outstanding requires shareholder approval and any holder owning more than 10 percent of our fully diluted shares requires approval of the FDIC relating to a change of control of our Bank. Under current market conditions, the terms of an equity transaction may subject existing security holders to potential subordination or dilution and may involve a change in governance.

The interest rate characteristics of our earning assets do not always match the interest rate characteristics of our funding arrangements. This mismatch exposes us to risk in the form of basis risk and repricing risk. While most of such basis risks are hedged using interest rate swap contracts, such hedges are not always perfect matches and, therefore, may result in losses. While the asset and hedge indices are short-term with rate movements that are typically highly correlated, there can be no assurance that the historically high correlation will not be disrupted by capital market dislocations or other factors not within our control. For instance, as a result of the turmoil in the capital markets, the historically tight spread between CP and LIBOR began to widen dramatically in the fourth

quarter of 2008. It subsequently reverted to more normal levels beginning in the third quarter of 2009 and has been stable since then. In such circumstances, our earnings could be adversely affected, possibly to a material extent.

Our credit ratings are important to our liquidity. A reduction in our credit ratings could adversely affect our liquidity, increase our borrowing costs, limit our access to the markets or trigger obligations under certain provisions in collateralized arrangements. Under these provisions, counterparties may require us to segregate collateral or terminate certain contracts.

**Economic Conditions.**

***We may be adversely affected by deterioration in economic conditions.***

We may continue to be adversely affected by economic conditions. A continuation of the current downturn in the economy, or a further deterioration, could result in lessened demand for consumer credit and credit quality could continue to be impacted. Adverse economic conditions may result in declines in collateral values. Higher credit-related losses and weaker credit quality could impact our financial position and limit funding options, including capital markets activity, which could adversely impact the Company's liquidity position.

**Operations.**

***A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business, result in disclosure of confidential customer information, damage our reputation and cause losses.***

A failure of our operational systems or infrastructure, or those of our third-party vendors, could disrupt our business. Our business is dependent on our ability to process and monitor, on a daily basis, a large number of transactions. These transactions must be processed in compliance with legal and regulatory standards and our product specifications, which we change to reflect our business needs. As processing demands change and grow, developing and maintaining our operational systems and infrastructure becomes increasingly challenging.

Our loan originations and servicing, financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled as a result of events that are beyond our control, adversely affecting our ability to process these transactions. Any such failure could adversely affect our ability to service our clients, result in financial loss or liability to our clients, disrupt our business, result in regulatory action or cause reputational damage. Despite the plans and facilities we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses. This may include a disruption involving electrical, communications, internet, transportation or other services used by us or third parties with which we conduct business. Notwithstanding our efforts to maintain business continuity, a disruptive event impacting our processing locations could negatively affect our business.

Our operations rely on the secure processing, storage and transmission of personal, confidential and other information in our computer systems and networks. Although we take protective measures, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses, malicious attacks and other events that could have a security impact beyond our control. If one or more of such events occur, personal, confidential and other information processed and stored in, and transmitted through, our computer systems and networks, could be jeopardized or otherwise interruptions or malfunctions in our operations could result in significant losses or reputational damage. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

We routinely transmit and receive personal, confidential and proprietary information, some through third parties. We have put in place secure transmission capability, and work to ensure third parties follow similar procedures. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer or third party could result in legal liability, regulatory action and reputational harm.

**Political.**

***Changes in laws and regulations that affect the FFELP and consumer lending could affect the profitability of our business.***

Changes in laws and regulations that affect our businesses, including our FFELP and private credit education lending and debt collection businesses, could affect the profitability and viability of our Company. During September 2009, the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility Act ("SAFRA"), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. There are several proposals in the Senate, including SAFRA and related proposals, and an alternative proposal submitted by Senator Casey to the Congressional Budget Office for scoring, which maintains a structure similar to the Community Proposal but reduces the purchase fee from $75 to $55. The Administration's budget for the 2011 fiscal year, submitted to Congress on February 1, 2010, includes proposals consistent with SAFRA that could negatively impact the FFELP. The Obama Administration's (the "Administration") budget request and the current economic environment may make legislative changes more likely, making this risk to our business greater. The Administration has also proposed a financial responsibility tax for financial institutions which may also impact the Company.

**Competition.**

***We operate in a competitive environment, and our product offerings are primarily concentrated in loan and savings products for higher education.***

The education loan business is highly competitive. We compete in the FFELP business and the private credit lending business with banks and other consumer lending institutions, many with strong consumer brand name recognition. We compete based on our products, origination capability and customer service. To the extent our competitors compete aggressively or more effectively, including with private credit loan products that are more accepted than ours or lower private credit pricing, we could lose market share to them or subject our existing loans to refinancing risk.

We are a leading provider of saving- and paying-for-college products and programs. This concentration gives us a competitive advantage in the market place. This concentration also creates risks in our business, particularly in light of our concentration as a FFELP and private credit lender and servicer for the FFELP and DSLP. The market for federally-guaranteed student loans is shared among the Company and other private sector lenders who participate in the FFELP, and the federal government through the DSLP. The market for private credit loans is shared among many banks and financial institutions. If population demographics result in a decrease in college-age individuals, if demand for higher education decreases, if the cost of attendance of higher education decreases, if public support for higher education costs increases, or if the demand for higher education loans decreases or increases from one product to another, our FFELP and private credit lending business could be negatively affected.

In addition, if we introduce new education or other loan products, there is a risk that those new products will not be accepted in the marketplace. We might not have other profitable product offerings that offset loss of business in the education credit market.

**Credit and Counterparty.**

***Unexpected and sharp changes in the overall economic environment may negatively impact the performance of our credit portfolio.***

Unexpected changes in the overall economic environment may result in the credit performance of our loan portfolio being materially different from what we expect. Our earnings are critically dependent on the evolving creditworthiness of our student loan customers. We maintain a reserve for credit losses based on expected future charge-offs which consider many factors, including levels of past due loans and forbearances and expected economic conditions. However, management's determination of the appropriate reserve level may under- or over-estimate future losses. If the credit quality of our customer base materially decreases, if a market risk changes significantly, or if our reserves for credit losses are not adequate, our business, financial condition and results of operations could suffer.

In addition to the credit risk associated with our education loan customers, we are also subject to the creditworthiness of other third parties, including counterparties to our derivative transactions. For example, we

have exposure to the financial condition of various lending, investment and derivative counterparties. If any of our counterparties is unable to perform its obligations, we would, depending on the type of counterparty arrangement, experience a loss of liquidity or an economic loss. In addition, we might not be able to cost effectively replace the derivative position depending on the type of derivative and the current economic environment, and thus be exposed to a greater level of interest rate and/or foreign currency exchange rate risk which could lead to additional losses. The Company's counterparty exposure is more fully discussed herein in "LIQUIDITY AND CAPITAL RESOURCES — Counterparty Exposure."

**Regulatory and Compliance.**

***Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions and/or litigation.***

Our businesses are subject to numerous state and federal laws and regulations and our failure to comply with these laws and regulations may result in significant costs, including litigation costs, and/or business sanctions.

Our private credit lending and debt collection business are subject to regulation and oversight by various state and federal agencies, particularly in the area of consumer protection regulation. Some state attorneys general have been active in this area of consumer protection. We are subject, and may be subject in the future, to inquiries and audits from state and federal regulators as well as frequent litigation from private plaintiffs.

Sallie Mae Bank is subject to state and FDIC regulation, oversight and regular examination. At the time of this filing, Sallie Mae Bank was the subject of a cease and desist order for weaknesses in its compliance function. While the issues addressed in the order have largely been remediated, the order has not yet been lifted. Our failure to comply with various laws and regulations or with the terms of the cease and desist order or to have issues raised during an examination could result in litigation expenses, fines, business sanctions, limitations on our ability to fund our Private Education Loans, which are currently funded by term deposits issued by Sallie Mae Bank, or restrictions on the operations of Sallie Mae Bank.

Loans originated and serviced under the FFELP are subject to legislative and regulatory changes. A summary of the program, which indicates its complexity and frequent changes, may be found in APPENDIX A, "FEDERAL FAMILY EDUCATION LOAN PROGRAM" of this Form 10-K. We continually update our FFELP loan originations and servicing policies and procedures and our systems technologies, provide training to our staff and maintain quality control over processes through compliance reviews and internal and external audits. We are at risk, however, for misinterpretation of ED guidance and incorrect application of ED regulations and policies, which could result in fines, the loss of the federal guarantee on FFELP loans, or limits on our participation in the FFELP.

**Reliance on Estimates.**

***Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported assets, liabilities, income and expenses.***

Incorrect estimates and assumptions by management in connection with the preparation of our consolidated financial statements could adversely affect the reported amounts of assets and liabilities and the reported amounts of income and expenses. The preparation of our consolidated financial statements requires management to make certain critical accounting estimates and assumptions that could affect the reported amounts of assets and liabilities and the reported amounts of income and expense during the reporting periods. A description of our critical accounting estimates and assumptions may be found in "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — CRITICAL ACCOUNTING POLICIES AND ESTIMATES" in this Form 10-K. If we make incorrect assumptions or estimates, we may under- or overstate reported financial results, which could result in actual results being significantly different than current estimates which could adversely affect our business.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

The following table lists the principal facilities owned by the Company as of December 31, 2009:

| Location | Business Segment / Function | Approximate Square Feet |
|---|---|---|
| Fishers, IN | Lending/Loan Servicing and Data Center | 450,000 |
| Newark, DE | Lending/Credit and Collections Center | 160,000 |
| Wilkes-Barre, PA | Lending/Loan Servicing Center | 133,000 |
| Killeen, TX(1) | Lending/Loan Servicing Center | 133,000 |
| Lynn Haven, FL | Lending/Loan Servicing Center | 133,000 |
| Indianapolis, IN | APG/Collections Center | 100,000 |
| Big Flats, NY | APG/Collections Center | 60,000 |
| Arcade, NY(2) | APG/Collections Center | 46,000 |
| Perry, NY(2) | APG/Collections Center | 45,000 |
| Swansea, MA | Corporate and Other/AMS Headquarters | 36,000 |

(1) Excludes approximately 30,000 square feet Class B single story building located across the street from the Loan Servicing Center.

(2) In the first quarter of 2003, the Company entered into a ten year lease with the Wyoming County Industrial Development Authority with a right of reversion to the Company for the Arcade and Perry, New York facilities.

The following table lists the principal facilities leased by the Company as of December 31, 2009:

| Location | Business Segment / Function | Approximate Square Feet |
|---|---|---|
| Reston, VA | Corporate and Other/Headquarters | 240,000 |
| Niles, IL | APG/Collections Center | 84,000 |
| Newton, MA | Corporate and Other/Upromise | 78,000 |
| Cincinnati, OH | APG/Collections Center | 59,000 |
| Muncie, IN | APG/Collections Center | 54,000 |
| Mt. Laurel, NJ(1) | N/A | 42,000 |
| Moorestown, NJ | APG/Collections Center | 30,000 |
| Novi, MI(2) | N/A | 27,000 |
| White Plains, NY | APG/Collections Center | 26,000 |
| Gaithersburg, MD(3) | N/A | 24,000 |
| Whitewater, WI | APG/Collections Center | 16,000 |
| Las Vegas, NV | APG/Collections Center | 16,000 |
| Newark, DE | Lending/Loan Servicing Center | 15,000 |
| Seattle, WA | Corporate and Other/Guarantor Servicing | 13,000 |
| Perry, NY | APG/Collections Center | 12,000 |

(1) Space vacated in March 2009; the Company is actively searching for subtenants.

(2) Space vacated in September 2007; approximately 100 percent of space is currently being subleased.

(3) Space vacated in September 2006; the Company is actively searching for subtenants.

None of the facilities owned by the Company is encumbered by a mortgage. The Company believes that its headquarters, loan servicing centers, data center, back-up facility and data management and collections centers are generally adequate to meet its long-term student loan and business goals. The Company's principal office is currently in leased space at 12061 Bluemont Way, Reston, Virginia, 20190.

**Item 3. Legal Proceedings**

The Company is involved in a number of judicial and regulatory proceedings, including those described below, concerning matters arising in connection with the conduct of our business. We believe, based on

currently available information, that the results of such proceedings, if resolved in a manner adverse to the Company in the aggregate, will not have a material adverse effect on the financial condition of the Company.

***Investor Litigation***

On January 31, 2008, a putative class action lawsuit was filed against the Company and certain officers in the U.S. District Court for the Southern District of New York. This case and other actions arising out of the same circumstances and alleged acts have been consolidated and are now identified as In Re SLM Corporation Securities Litigation. The case purports to be brought on behalf of those who acquired common stock of the Company between January 18, 2007 and January 23, 2008 (the "Securities Class Period"). The complaint alleges that the Company and certain officers violated federal securities laws by issuing a series of materially false and misleading statements and that the statements had the effect of artificially inflating the market price for the Company's securities. The complaint alleges that defendants caused the Company's results for year-end 2006 and for the first quarter of 2007 to be materially misstated because the Company failed to adequately provide for loan losses, which overstated the Company's net income, and that the Company failed to adequately disclose allegedly known trends and uncertainties with respect to its non-traditional loan portfolio. On July 23, 2008, the court appointed Westchester Capital Management ("Westchester") Lead Plaintiff. On December 8, 2008, Lead Plaintiff filed a consolidated amended complaint. In addition to the prior allegations, the consolidated amended complaint alleges that the Company understated loan delinquencies and loan loss reserves by promoting loan forbearances. On December 19, 2008, and December 31, 2008, two rejected lead plaintiffs filed a challenge to Westchester as Lead Plaintiff. On April 1, 2009, the court named a new Lead Plaintiff, SLM Venture, and Westchester appealed to the Second Circuit Court of Appeals. On September 3, 2009, Lead Plaintiffs filed a Second Amended Consolidated Complaint on largely the same allegations as the Consolidated Amended Complaint, but dropped one of the three senior officers as a defendant. On October 1, 2009, the Second Circuit Court of Appeals denied Westchester's *Writ of Mandamus*, thereby deciding the Lead Plaintiff question in favor of SLM Venture. On December 11, 2009, Defendants filed a Motion to Dismiss the Second Amended Consolidated Complaint. This Motion is pending. Lead Plaintiff seeks unspecified compensatory damages, attorneys' fees, costs, and equitable and injunctive relief.

A similar case is pending against the Company, certain officers, retirement plan fiduciaries, and the Board of Directors, In Re SLM Corporation ERISA Litigation, also in the U.S. District Court for the Southern District of New York. The proposed class consists of participants in or beneficiaries of the Sallie Mae 401(K) Retirement Savings Plan ("401K Plan") between January 18, 2007 and "the present" whose accounts included investments in Sallie Mae stock ("401K Class Period"). The complaint alleges breaches of fiduciary duties and prohibited transactions in violation of the Employee Retirement Income Security Act arising out of alleged false and misleading public statements regarding the Company's business made during the 401K Class Period and investments in the Company's common stock by participants in the 401K Plan. On December 15, 2008, Plaintiffs filed a Consolidated Class Action Complaint and a Second Consolidated Amended Complaint on September 10, 2009. On November 10, 2009, Defendants filed a Motion to Dismiss the matter on all counts. This Motion is pending. The plaintiffs seek unspecified damages, attorneys' fees, costs, and equitable and injunctive relief.

***Lending and Collection Litigation and Investigations***

On April 6, 2007, the Company was served with a putative class action suit by several borrowers in U.S. District Court for the Central District of California (Anne Chae et al. v. SLM Corporation et al.). Plaintiffs challenged under California common and statutory law the Company's FFELP billing practices as they relate to the use of the simple daily interest method for calculating interest, the charging of late fees while charging simple daily interest, and setting the first payment date at 60 days after loan disbursement for Consolidation and PLUS Loans thereby alleging that the Company effectively capitalizes interest. The plaintiffs seek unspecified actual and punitive damages, restitution, disgorgement of late fees, pre-judgment and post-judgment interest, attorneys' fees, costs, and equitable and injunctive relief. On June 16, 2008, the Court granted summary judgment to the Company on all counts on the basis of federal preemption. The

decision was appealed to the Ninth Circuit Court of Appeals. On January 25, 2010, the Ninth Circuit Court of Appeals affirmed the summary judgment on all counts on the basis of federal preemption.

On September 17, 2007, the Company became a party to a qui tam whistleblower case, United States ex. Rel. Rhonda Salmeron v. Sallie Mae, in the U.S. District Court for the Northern District of Illinois. The relator alleged that various defendants submitted false claims and/or created records to support false claims in connection with collection activity on federally guaranteed student loans, and specifically that the Company was negligent in auditing the collection practices of one of the defendants. The relator sought money damages in excess of $12 million plus treble damages on behalf of the federal government. The District Court dismissed the case with prejudice in August 2008 and the relator appealed to the Seventh Circuit Court of Appeals in September 2008. On August 27, 2009, the Seventh Circuit Court of Appeals affirmed the dismissal.

On December 17, 2007, plaintiffs filed a complaint against the Company, Rodriguez v. SLM Corporation et al., in the U.S. District Court for the District of Connecticut alleging that the Company engaged in underwriting practices which, among other things, resulted in certain applicants for student loans being directed into substandard and expensive loans on the basis of race. The plaintiffs have not stated the relief they seek. The court denied SLM Corporation's Motion for Summary Judgment without prejudice on June 24, 2009. The Court granted Defendants partial Motion to Dismiss the Truth in Lending Act counts on November 10, 2009. Discovery is proceeding.

On April 20, 2009, the Company received a letter on behalf of a shareholder, SEIU Pension Plans Master Trust, demanding, among other things, that the Company's Board of Directors take action to recover Company funds it alleges were "unjustly paid to certain current and former employees and executive officers of the Company" from 2005 to the present, file civil lawsuits against former and current executives, revise the executive compensation structure, and offer shareholders an annual nonbinding "say on pay." Twenty-nine financial services companies received similar letters that same week. This letter was referred to the Board of Directors. After investigation and consideration, the Board determined that it was not in the best interest of the Company's shareholders for the Company to take any further action with respect to the allegations in the letter. Board counsel conveyed that decision to counsel for the SEIU Pension Plans Master Trust in a letter dated November 9, 2009.

On July 15, 2009, the U.S. District Court for the District of Columbia unsealed the *qui tam* False Claims Act complaint of relator Sheldon Batiste, a former employee of SLM Financial Corporation (U.S. ex rel. Batiste v. SLM Corporation, et al.). The First Amended Complaint alleges that the Company violated the False Claims Act by its "systemic failure to service loans and abide by forbearance regulations" and "its receipt of U.S. subsidies to which it was not entitled" through the federally guaranteed student loan program, FFELP. No amount in controversy is specified, but the relator seeks treble actual damages, as well as civil monetary penalties on each of its claims. The U.S. Department of Justice declined intervention. The Company filed its Motion to Dismiss on September 21, 2009. The Motion remains pending.

On August 3, 2009, the Company received the final audit report of ED's Office of the Inspector General ("OIG") related to the Company's billing practices for special allowance payments. Among other things, the OIG recommended that ED instruct the Company to return approximately $22 million in alleged special allowance overpayments. The Company continues to believe that its practices were consistent with longstanding ED guidance and all applicable rules and regulations and intends to continue disputing these findings. The Company provided its response to the Secretary on October 2, 2009. The OIG has audited other industry participants with regard to special allowance payments for loans funded by tax exempt obligations and in certain cases the Secretary of ED has disagreed with the OIG's recommendations.

On August 26, 2009, the U.S. District Court for the Eastern District of Virginia unsealed a *qui tam* False Claims Act complaint filed on September 21, 2007 by a former ED researcher, Dr. Jon Oberg, against eleven student loan companies, including two Sallie Mae companies, SLM Corporation and Southwest Student Services Corporation (Southwest) (U.S. ex rel. Oberg v. Nelnet et al.). The complaint seeks the return of approximately $1 billion in the aggregate from the eleven companies as a result of alleged improper "recycling" of 9.5 percent SAP loans. The U.S. Department of Justice declined to intervene. The allegations against SLM Corporation in the amended complaint appear to be that Southwest allegedly engaged in wrongful "recycling" of student loans. The Company purchased Southwest in 2004. According to the

amended complaint, Southwest allegedly overbilled the ED approximately $35 million in unlawful SAP claims. SLM is not alleged to have improperly billed the government, but is alleged to be the alter ego of Southwest. The court denied SLM Corporation's and Southwest's Motion to Dismiss on December 1, 2009 and SLM Corporation's Judgment on the Pleadings on January 20, 2010. Discovery is proceeding.

On February 2, 2010, a putative class action suit was filed by a borrower in U.S. District Court for the Western District of Washington (Mark A. Arthur et al. v. SLM Corporation). The suit complains that Sallie Mae allegedly contacted "tens of thousands" of consumers on their cellular telephones without their prior express consent in violation of the Telephone Consumer Protection Act, § 227 et seq. (TCPA). Each violation under the TCPA provides for $500 in statutory damages ($1,500 if a willful violation is shown). Plaintiffs seek statutory damages, damages for willful violations, attorneys' fees, costs, and injunctive relief.

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 APG segment are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that we have violated a federal or state law in the process of collecting their accounts. Management believes that these claims, lawsuits and other actions, individually or in the aggregate, will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we receive information and document requests from state attorneys general and other governmental agencies concerning certain of our business practices. Our practice has been and continues to be to cooperate with the state attorneys general and governmental agencies and to be responsive to any such requests.

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

We did not submit any matters to a vote of security holders during the three months ended December 31, 2009.

**PART II.**

**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

The Company's common stock is listed and traded on the New York Stock Exchange under the symbol SLM. The number of holders of record of the Company's common stock as of January 31, 2010 was 536. The following table sets forth the high and low sales prices for the Company's common stock for each full quarterly period within the two most recent fiscal years.

**Common Stock Prices**

| | | 1st Quarter | 2nd Quarter | 3rd Quarter | 4th Quarter |
|---|---|---|---|---|---|
| 2009 | High | $12.43 | $10.47 | $10.39 | $12.11 |
| | Low | 3.11 | 4.02 | 8.12 | 8.01 |
| 2008 | High | $23.00 | $25.05 | $19.81 | $12.03 |
| | Low | 14.70 | 15.45 | 9.37 | 4.19 |

The Company paid quarterly cash dividends of $.25 for the first quarter of 2007. There were no dividends paid in 2008 or 2009.

**Issuer Purchases of Equity Securities**

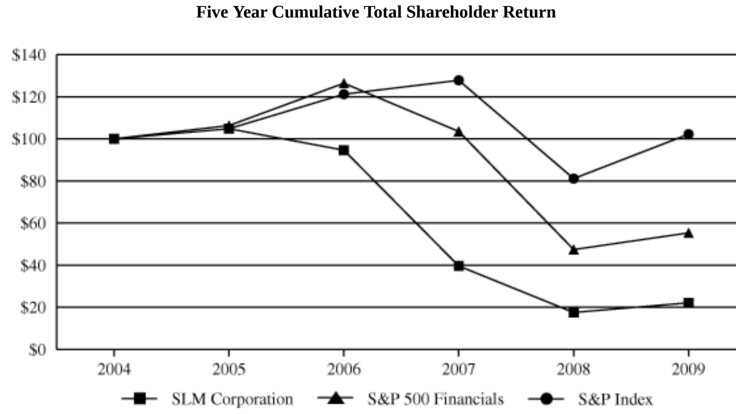
The following table summarizes the Company's common share repurchases during 2009. The only repurchases conducted by the Company during the period were in connection with the exercise of stock options and vesting of restricted stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs (which combined totaled approximately 200,000 shares for 2009 and not in connection with any authorized buy back program). See Note 11, "Stockholders' Equity," to the consolidated financial statements.

| (Common shares in millions) | Total Number of Shares Purchased | 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 |
|---|---|---|---|---|
| **Period:** | | | | |
| January 1 – March 31, 2009 | .1 | $ 10.31 | — | 38.8 |
| April 1 – June 30, 2009 | — | — | — | 38.8 |
| July 1 – September 30, 2009 | — | — | — | 38.8 |
| October 1 – October 31, 2009 | — | — | — | 38.8 |
| November 1 – November 30, 2009 | .1 | 11.27 | — | 38.8 |
| December 1 – December 31, 2009 | — | — | — | 38.8 |
| Total fourth quarter | .1 | 11.27 | — | 38.8 |
| Year ended December 31, 2009 | .2 | $ 10.79 | — | 38.8 |

**Stock Performance**

The following graph compares the yearly percentage change in the Company's cumulative total shareholder return on its common stock to that of Standard & Poor's 500 Stock Index and Standard & Poor's Financials Index. The graph assumes a base investment of $100 at December 31, 2003 and reinvestment of dividends through December 31, 2009.

**Five Year Cumulative Total Shareholder Return**




| Company/Index | 12/31/04 | 12/31/05 | 12/31/06 | 12/31/07 | 12/31/08 | 12/31/09 |
|---|---|---|---|---|---|---|
| SLM Corporation | $100.0 | $104.8 | $ 94.6 | $ 39.6 | $17.5 | $ 22.1 |
| S&P 500 Financials | 100.0 | 106.3 | 126.4 | 103.5 | 47.4 | 55.3 |
| S&P Index | 100.0 | 104.8 | 121.2 | 127.8 | 81.1 | 102.2 |

Source: Bloomberg Total Return Analysis

**Item 6. Selected Financial Data**

**Selected Financial Data 2005-2009**
**(Dollars in millions, except per share amounts)**

The following table sets forth selected financial and other operating information of the Company. The selected financial data in the table is derived from the consolidated financial statements of the Company. The data should be read in conjunction with the consolidated financial statements, related notes, and “MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS” included in this Form 10-K.

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Operating Data:** | | | | | |
| Net interest income | $ 1,723 | $ 1,365 | $ 1,588 | $ 1,454 | $ 1,451 |
| Net income (loss) attributable to SLM Corporation: | | | | | |
| Continuing operations, net of tax | $ 482 | $ (70) | $ (902) | $ 1,147 | $ 1,379 |
| Discontinued operations, net of tax | (158) | (143) | 6 | 10 | 3 |
| Net income (loss) attributable to SLM Corporation | $ 324 | $ (213) | $ (896) | $ 1,157 | $ 1,382 |
| Basic earnings (loss) per common share attributable to SLM Corporation common shareholders: | | | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) | $ 2.71 | $ 3.24 |
| Discontinued operations | (.33) | (.30) | .02 | .02 | .01 |
| Total | $ .38 | $ (.69) | $ (2.26) | $ 2.73 | $ 3.25 |
| Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders: | | | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) | $ 2.61 | $ 3.04 |
| Discontinued operations | (.33) | (.30) | .02 | .02 | .01 |
| Total | $ .38 | $ (.69) | $ (2.26) | $ 2.63 | $ 3.05 |
| Dividends per common share attributable to SLM Corporation common shareholders | $ — | $ — | $ .25 | $ .97 | $ .85 |
| Return on common stockholders’ equity | 5% | (9)% | (22)% | 32% | 45% |
| Net interest margin | 1.05 | .93 | 1.26 | 1.54 | 1.77 |
| Return on assets | .20 | (.14) | (.71) | 1.22 | 1.68 |
| Dividend payout ratio | — | — | (11) | 37 | 28 |
| Average equity/average assets | 2.96 | 3.45 | 3.51 | 3.98 | 3.82 |
| **Balance Sheet Data:** | | | | | |
| Student loans, net | $ 143,807 | $ 144,802 | $ 124,153 | $ 95,920 | $ 82,604 |
| Total assets | 169,985 | 168,768 | 155,565 | 116,136 | 99,339 |
| Total borrowings | 161,443 | 160,158 | 147,046 | 108,087 | 91,929 |
| Total SLM Corporation stockholders’ equity | 5,279 | 4,999 | 5,224 | 4,360 | 3,792 |
| Book value per common share | 8.05 | 7.03 | 7.84 | 9.24 | 7.81 |
| **Other Data:** | | | | | |
| Off-balance sheet securitized student loans, net | $ 32,638 | $ 35,591 | $ 39,423 | $ 46,172 | $ 39,925 |

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF**
**FINANCIAL CONDITION AND RESULTS OF OPERATIONS**
**Years ended December 31, 2007-2009**
**(Dollars in millions, except per share amounts, unless otherwise stated)**

## FORWARD-LOOKING AND CAUTIONARY STATEMENTS

Some of the statements contained in this Annual Report discuss future expectations and business strategies or include other "forward-looking" information. These 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.

## OVERVIEW

This section provides an overview of the Company's 2009 business results from a financial perspective. Certain financial impacts of funding and liquidity, loan losses, asset growth and net interest margin, fee income, the distressed debt purchased paper business, operating expenses, and capital adequacy are summarized below.

The income statement amounts discussed in this Overview section are on a "Core Earning" basis. Although "Core Earnings" is the basis used for the Company's segment disclosures required under GAAP (see Note 20, "Segment Reporting" to the consolidated financial statements), the consolidation of the individual segments' income statements is considered a non-GAAP financial measure and thus is not considered to be presented in accordance with GAAP. See "RESULTS OF OPERATIONS," below, for a discussion of income statement amounts on a GAAP basis. See "BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment*" for a discussion of "Core Earnings" and a reconciliation of "Core Earnings" income to GAAP income.

In the second quarter of 2009, the Department of Education ("ED") named Sallie Mae as one of four private sector servicers awarded a servicing contract (the "ED Servicing Contract") to service loans. The contract covers the servicing of all federally-owned student loans, including loans under the DSLP and the servicing of FFELP loans purchased by ED as part of the Loan Purchase Commitment Program ("Purchase Program") pursuant to The Ensuring Continued Access to Student Loans Act of 2008 ("ECASLA"). See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for a further discussion. Beginning in 2010, the contract will also cover the servicing of new Direct Loans. The contract has an initial term of five years with one, five-year renewal at the option of ED.

Through December 31, 2009, the Company has sold to ED approximately $18.5 billion face amount of loans as part of the Purchase Program. Borrowings of $18.5 billion related to the Loan Purchase Participation Program ("Participation Program") pursuant to ECASLA were paid down in connection with these loan sales. The Company recognized a $284 million gain in 2009 related to this loan sale. The Company is servicing approximately 2 million accounts under the ED Servicing Contract as of December 31, 2009. This amount serviced includes loans sold by the Company to ED as well as loans sold by other companies to ED.

As discussed in the Business section, legislative changes to the FFELP, the credit markets and the economic downturn impacted the Company's financial results for 2008 and 2009. The Company reported $597 million in "Core Earnings" net income in 2009, an increase from $526 million in 2008.

### *Funding and Liquidity*

In 2009, we extended the duration of our liabilities by executing term financings to replace short-term funding. In 2009, we completed a total of $5.9 billion of FFELP loan securitizations, $14.6 billion in funding

through the Straight A conduit and $7.5 billion in Private Education Loan securitizations ($6.0 billion through the Term Asset-Backed Securities Loan Facility ("TALF")). We also raised $4.5 billion in term deposits at Sallie Mae Bank which was used to originate Private Education Loans.

The Company began actively repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. The debt repurchased had maturity dates ranging from 2008 to 2016. This repurchase activity resulted in gains of $536 million and $64 million in 2009 and 2008, respectively. In January 2010, the Company repurchased $812 million of unsecured debt through a tender offer for a gain of $45 million.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as a part of preferred stock dividends for the period of approximately $53 million. From the transaction date through the mandatory conversion date of December 15, 2010, these transactions are cash flow positive.

In January 2010, we terminated our existing ABCP facility and replaced it with a multiyear facility that will allow us to fund federal loans at a much lower cost. The new facility provides funding of up to $10 billion in the first year, $5 billion in the second year and $2 billion in the third year. The upfront fees were $4 million and the interest rate is commercial paper issuance cost plus 0.50 percent, a sharp reduction from the fees and interest rate associated with the prior facility. In 2008 and 2009, we paid upfront fees of $390 million and $151 million, respectively, on our ABCP facilities.

In January 2010, we also became a member of the Federal Home Loan Bank of Des Moines (the "FHLB") through our HICA insurance subsidiary. Through this membership, the FHLB will provide advances backed by Federal Housing Finance Agency approved collateral, which include federally-guaranteed student loans. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing.

At December 31, 2009, 85 percent of our Managed student loans were funded for the life of the loans, up from 70 percent in the prior year. We also had $12.5 billion in primary liquidity at December 31, 2009 consisting of cash and investments and committed lines of credit.

***Loan Losses***

On a "Core Earnings" basis, the loan loss provision for the year was $1.6 billion, of which $1.4 billion was for Private Education Loans. Provision expense has remained elevated since the fourth quarter of 2008 primarily as a result of the continued uncertainty of the U.S. economy. The Private Education Loan portfolio had experienced a significant increase in delinquencies through the first quarter of 2009; however, delinquencies as a percentage of loans in repayment declined in the second, third and fourth quarters of 2009. The Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters as evidenced by the 33 percent decline in charge-offs that occurred between the third and fourth quarters of 2009.

***Asset Growth and Net Interest Margin***

In 2009, the Company originated $21.7 billion in FFELP loans, a 21 percent increase over 2008. We refocused our FFELP originations on our internal lending brands, which grew 40 percent over 2008. See "LENDING BUSINESS SEGMENT — Loan Originations" for a further discussion.

Private Education Loan originations for 2009 were $3.2 billion, a 50 percent decline from 2008. This decline is primarily a result of a continued tightening of our underwriting criteria, an increase in guaranteed student loan borrowing limits and the Company's withdrawal from certain markets. Beginning in 2008, the Company increased its underwriting standards, and as a result, average FICO scores and the percentage of

loans with cosigners have increased. The Company expects to maintain its high quality underwriting standards. The impact of this initiative and the overall economy may impact future Private Education Loan asset growth.

"Core Earnings" net interest income was $2.3 billion in 2009 compared to $2.4 billion in 2008. "Core Earnings" net interest income was negatively impacted in 2009 compared to 2008 primarily as a result of an 18 basis point widening of the CP/LIBOR spread and higher credit spreads on the Company's ABS debt issued in 2008 and 2009 due to the current credit environment. Partially offsetting these decreases to net interest income were lower cost of funds related to the ED Conduit Program, lower borrowing costs associated with our ABCP facility, higher asset spreads earned on Private Education Loans originated during 2009 compared to prior years, and a $12 billion increase in the average balance of Managed student loans.

***Fee Income***

"Core Earnings" fee income from our contingency business declined $44 million from $340 million in 2008 to $296 million in 2009. This decline was primarily a result of significantly less guarantor collections revenue associated with rehabilitating delinquent FFELP loans. Loans are considered rehabilitated after a certain number of on-time payments have been collected. The Company earns a rehabilitation fee only when the Guarantor sells the rehabilitated loan. The disruption in the credit markets has limited the sale of rehabilitated loans.

"Core Earnings" fee income from our Guarantor Servicing business was $136 million for the year, a $15 million increase from last year. This increase primarily relates to an increase in guarantor issuance fees earned as a result of a significant increase in FFELP loan guarantees (consistent with the significant increase in the Company's FFELP loan originations) over the prior year as well as an increase in account maintenance fees earned which are a function of the size of the FFELP portfolio.

A source of additional fee income for 2010 will be third-party servicing revenue. As previously discussed, the Company began servicing 2 million accounts in the fourth quarter of 2009 under the ED Servicing Contract. The Company earned $9 million of servicing revenue in the fourth quarter of 2009 related to this contract and expects this to grow significantly as this third-party serviced portfolio increases over time.

***Purchased Paper Business***

In 2008, we decided to exit the debt purchased paper business (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009. With the sale of GRP, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after-tax loss of $95 million. As of December 31, 2009, the portfolio of assets related to the Purchased Paper business was $285 million.

***Operating Expenses***

For 2009, operating expenses on a "Core Earnings" basis were $1.18 billion, compared to $1.23 billion in 2008. The $50 million decrease in operating expenses was primarily due to the Company's cost reduction efforts, offset by an increase in collection costs for delinquent and defaulted loans as well as higher expenses incurred to reconfigure the Company's servicing system to meet the requirements of the ED Servicing Contract awarded in 2009.

***Capital Adequacy***

At year-end, the Company's tangible capital ratio was 2.0 percent of Managed assets, compared to 1.8 percent at 2008 year-end. With 80 percent of our Managed loans carrying an explicit federal government guarantee and 85 percent of our Managed loans funded for the life of the loan, we currently believe that our

capital levels are appropriate. In the current economic environment, we cannot predict the availability nor cost of additional capital, should the Company determine that additional capital is necessary.

***Legislative & Regulatory Developments***

On February 26, 2009, the Administration issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program ("DSLP"). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act ("SAFRA"), which was consistent with the Administration's 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010 all new federal loans be made through the DSLP. The Administration's 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the "Community Proposal" because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. We believe that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

Although the ultimate outcome of this proposed legislation is still unknown, the following summarizes the impact on the Company's business if SAFRA is passed:

1. The Company would no longer originate FFELP loans and therefore would no longer earn revenue on new FFELP loan volume. The Company would make significant reductions in operating expense as the FFELP origination function would no longer be needed.
2. The Company earns collections revenue on delinquent and defaulted FFELP loans as well as guarantor account maintenance fees which are based on the size of the underlying FFELP portfolio. Because there would no longer be any new FFELP loan originations, this collections revenue and guarantor account maintenance fee revenue would decline over time as the underlying FFELP portfolio winds down. These revenues are recorded in contingency fee revenue and guarantor servicing fees.
3. The Company earns guarantor issuance fees on new FFELP guarantees. This revenue would no longer occur. This revenue is recorded in guarantor servicing fees.
4. The Company would service a percentage of the Direct Lending loans originated subsequent to the passage of SAFRA under the Company's current contract to service ED loans, increasing our servicing revenue.

If the Community Proposal is passed the following would be the impact on the Company's business:

1. The Company would originate FFELP loans and would subsequently sell those loans to ED for a fee. Because the loans would be sold, the Company would no longer earn net interest margin on new FFELP loan volume.
2. The impact to collections revenue, guarantor account maintenance fees and guarantor issuance fees is the same as if SAFRA passes.
3. The Company would service a percentage of the Direct Lending loans originated subsequent to the passage of the Community Proposal under the Company's current contract to service ED loans. The Community Proposal would create incentives for enhanced default prevention through servicing risk-sharing.

See the “LENDING BUSINESS SEGMENT,” “APG BUSINESS SEGMENT” and “CORPORATE AND OTHER BUSINESS SEGMENT” discussions for greater detail on the nature and extent of our income and operations related to these areas.

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

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Management’s Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”). Note 2 to the consolidated financial statements, “Significant Accounting Policies,” includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of income and expenses during the reporting periods. Actual results may differ from these estimates under varying assumptions or conditions. On a quarterly basis, management evaluates its estimates, particularly those that include the most difficult, subjective or complex judgments and are often about matters that are inherently uncertain. The most significant judgments, estimates and assumptions relate to the following critical accounting policies that are discussed in more detail below.

**Allowance for Loan Losses**

We maintain an allowance for loan losses at an amount sufficient to absorb losses incurred in our FFELP loan and Private Education Loan portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio. We analyze those portfolios to determine the effects that the various stages of delinquency and forbearance have on borrower default behavior and ultimate charge-off. We estimate the allowance for loan losses for our 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 and is a widely used reserving methodology in the consumer finance industry. We also use the migration analysis to estimate the amount of uncollectible accrued interest on Private Education Loans and reserve for that amount against current period interest income. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. Our default estimates are based on a loss confirmation period of generally two years (i.e., our allowance for loan loss covers the next two years of expected losses). The two-year estimate of the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect our estimate of the allowance for loan losses and the related provision for loan losses on our income statement. We believe that the Private Education Loan and FFELP allowance for loan losses are appropriate to cover probable losses incurred in the student loan portfolio.

When calculating the allowance for loan losses on Private Education Loans, we divide the portfolio into categories of similar risk characteristics based on loan program type, loan status (in-school, grace, forbearance, repayment and delinquency), underwriting criteria (FICO scores), and existence or absence of a cosigner. As noted above, we use historical experience of borrower default behavior and charge-offs to estimate the probable credit losses incurred in the loan portfolio at the reporting date. Also, we use historical borrower payment behavior to estimate the timing and amount of future recoveries on charged-off loans. We then apply the default and collection

rate projections to each category of loans. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered. One technique for making this determination is through projection modeling, which is used to determine if the allowance for loan losses is sufficient to absorb credit losses anticipated during the loss confirmation period. Projection modeling is a forward-looking projection of charge-offs. Assumptions that are utilized in the projection modeling include (but are not limited to) historical experience, recent changes in collection policies and procedures, collection performance, and macroeconomic indicators. Additionally, management considers changes in laws and regulations that could potentially impact the allowance for loan losses.

The current and future economic environment is taken into account by the Company when calculating the allowance for loan loss. The Company analyzes key economic statistics and the impact they will have on future charge-offs. Key economic statistics analyzed as part of the allowance for loan loss are unemployment rates (total and specific to college graduates), consumer confidence and other asset type delinquency rates (credit cards, mortgages). As a result of the economy, provision expense has remained elevated since the fourth quarter of 2008. If the economy weakens beyond our expectations, the expected losses resulting from our default and collection estimates embedded in the allowance could be higher than currently projected.

As part of concluding on the adequacy of the allowance for loan loss, the Company also reviews key allowance and loan metrics. The most relevant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

In 2009, the Company implemented a program which offers loan modifications to borrowers who qualify. Temporary interest rate concessions are granted to borrowers experiencing financial difficulties and who meet other criteria. The allowance on these loans is calculated based on the present value of the expected cash flows (including estimates of future defaults) discounted at the loan’s effective interest rate. This calculation contains estimates which are inherently subjective and are evaluated on a periodic basis.

Historically, our Private Education Loan programs do not require that borrowers begin repayment until six months after they have graduated or otherwise left school. Consequently, our loss estimates for these programs are generally low while the borrower is in school. At December 31, 2009, 31 percent of the principal balance in the higher education Managed Private Education Loan portfolio is related to borrowers who are in in-school or grace status and not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin payments on their loans. The allowance for losses will change accordingly.

Similar to the rules governing FFELP payment requirements, our collection policies allow for periods of nonpayment for borrowers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in our allowance for loan losses. The loss confirmation period is in alignment with our typical collection cycle and takes into account these periods of forbearance.

In general, Private Education Loan principal is charged-off against the allowance when the loan exceeds 212 days delinquency. The charge-off amount equals the estimated loss of the defaulted loan balance. Actual recoveries, as they are received, are applied against the remaining loan balance that was not charged off. If periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge off of such amount.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level set based on the date of loan disbursement. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement. The CCRAA reduces the Risk Sharing level for loans disbursed on or after October 1, 2012 to 95 percent reimbursement.

Similar to the allowance for Private Education Loan losses, the allowance for FFELP loan losses uses historical experience of borrower default behavior and a two-year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. We divide the portfolio into categories of

similar risk characteristics based on loan program type, school type and loan status. We then apply the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform our quantitative calculation. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses, in the same manner described above for Private Education Loans, and determines if qualitative adjustments need to be considered.

**Premium and Discount Amortization**

For both federally insured and Private Education Loans, we account for premiums paid, discounts received, and capitalized direct origination costs incurred on the origination of student loans in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 310, "Receivables." The unamortized portion of the premiums and the 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 over the estimated life of the student loan after giving effect to the amortization of purchase premiums and accretion of student loan discounts. In arriving at the expected yield, we make a number of estimates that when changed are reflected as a cumulative adjustment to interest income in the current period. The most critical estimates for premium and discount amortization are incorporated in the Constant Prepayment Rate ("CPR"), which measures the rate at which loans in the portfolio pay down principal compared to their stated terms. The CPR estimate is based on historical prepayments due to consolidation activity, defaults, and term extensions from the utilization of forbearance as well as management's qualitative expectation of future prepayments and term extensions.

As a result of the CCRAA and the current U.S. economic and credit environment, we, as well as many other industry competitors, have suspended our FFELP consolidation program. In lieu of consolidation, we may offer a term extension option for FFELP loans based on the borrower's total indebtedness. Based upon these market factors, we have updated our CPR assumptions that are affected by consolidation activity, and we have updated the estimates used in developing the cash flows and effective yield calculations as they relate to the amortization of student loan premium and discount amortization.

Consolidation activity affects estimates differently depending on whether the original loans being consolidated were on-balance sheet or off-balance sheet and whether the resulting consolidation is retained by us or consolidated with a third party. When we consolidate a loan that was in our portfolio, the term of that loan is generally extended and the term of the amortization of associated student loan premiums and discounts is likewise extended to match the new term of the loan. In that process, the unamortized premium balance must be adjusted to reflect the new expected term of the consolidated loan as if it had been in place from inception.

At the beginning of 2008, when we evaluated our estimates by taking into consideration the suspension of our FFELP consolidation program, there was an expectation of increased external consolidations to third parties but an overall decrease in total consolidation activity (when taking into account both internal consolidations and consolidations to third parties) due to a lack of financial incentive for lenders to continue offering a consolidation product. External consolidations did not significantly increase as expected; therefore, the consolidation assumptions implemented in the first quarter of 2008 were reduced during the third quarter of 2008, as we made the decision to lower the consolidation rate as additional information became available. This consolidation assumption was reduced again in the third quarter of 2009 as additional information became available. The total GAAP impact to interest income of CPR assumption changes in 2009 and 2008, related to FFELP loans, was $37.2 million and $20.1 million, respectively.

Additionally, in previous years, the increased activity in FFELP Consolidation Loans had led to demand for the consolidation of Private Education Loans. The private loan consolidation assumption was established in 2007 and was changed to explicitly consider private loan consolidation in the same manner as for FFELP. Because of limited historical data on private loan consolidation, the assumption primarily relies on near term plan data and timing assumptions. In the second quarter of 2008, due to funding limitations, we suspended making private consolidation loans, which impacted this assumption. The total GAAP impact to interest income of CPR assumption changes in 2009 and 2008, related to Private Education Loans, was ($2.4) million and $9.4 million, respectively.

Loan consolidation, default, term extension and other prepayment factors affecting our CPR estimates are impacted by changes in our business strategy, FFELP legislative changes, and changes to the current economic and credit environment. If our accounting estimates, especially CPRs, are different as a result of changes to our business environment or actual consolidation or default activity, the previously recognized interest income on our student loan portfolio based on the expected yield of the student loan would potentially result in a material adjustment in the current period.

**Fair Value Measurement**

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

- In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;
- In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders' equity;
- In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company's liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors, including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to model fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

In August 2009, the FASB issued a topic update to ASC 820, "Fair Value Measurements and Disclosures." The update provides clarification for the valuation of liabilities when a quoted price in an active market for the liability does not exist and clarifies that a quoted price for the liability when traded as an asset (when no adjustments are required) is a Level 1 fair value measurement. In addition, it also clarifies that an entity is not required to adjust the value of a liability for the existence of a restriction that prevents the transfer of the liability. This topic update was effective for the Company beginning October 1, 2009 and was not material to the Company.

On April 9, 2009, the FASB issued three ASC topic updates regarding fair value measurements and recognition of impairment. Under ASC 320, "Investments — Debt and Equity Securities," impairment must be recorded within the consolidated statements of income for debt securities if there exists a fair value loss and the entity intends to sell the security or it is more likely than not the entity will be required to sell the security

before recovery of the loss. Additionally, expected credit losses must be recorded through income regardless of the impairment determination above. Remaining fair value losses are recorded to other comprehensive income. ASC 825, “Financial Instruments,” requires interim disclosures of the fair value of financial instruments that were previously only required annually. Finally, the update to ASC 820 provides guidance for determining when a significant decrease in market activity has occurred and when a transaction is not orderly. It further reiterates that prices from inactive markets or disorderly transactions should carry less weight, if any, in the determination of fair value. These topic updates were effective for the Company beginning April 1, 2009. The adoption of these updates was not material to the Company.

Significant assumptions used in fair value measurements, including those related to credit and liquidity risk, are as follows:

1. **Investments** — Our investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. However, we have considered credit and liquidity risk involving specific instruments. These assumptions have further been validated by the successful maturity of these investments in the period immediately following the end of the reporting period. In the fourth quarter of 2008, we recorded an impairment of $8 million related to our investment in the Reserve Primary Fund based on an internal assessment of the collectability of our remaining investment. See “LIQUIDITY AND CAPITAL RESOURCES — Counterparty Exposure” for a further discussion.

2. **Derivatives** — When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, we fully collateralize the exposure, minimizing the adjustment necessary to the derivative valuations for our credit risk. Trusts that contain derivatives are not required to post collateral to counterparties as the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty’s exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $65 million as of December 31, 2009. We also take into account changes in liquidity when determining the fair value of derivative positions. We adjusted the fair value of certain less liquid positions downward by approximately $195 million to take into account a significant reduction in liquidity as of December 31, 2009, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives. In addition, certain cross-currency interest rate swaps hedging foreign currency denominated reset rate and amortizing notes in the Company’s on-balance sheet trusts contain extension features that coincide with the remarketing dates of the notes. The valuation of the extension feature requires significant judgment based on internally developed inputs. These swaps were transferred into Level 3 during the first quarter of 2009 due to a change in the assumption regarding successful remarketing and significant unobservable inputs used to model notional amortizations. The significant inputs used are prepayment and default rate assumptions used to project the cash flows of the trust. These swaps were carried at $1.6 billion as of December 31, 2009.

3. **Residual Interests** — We have never sold our Residual Interests. We do not consider our Residual Interests to be liquid, which we take into account when valuing our Residual Interests. We use non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interest. We also use the most current prepayment and default rate assumptions to project the cash flows used to value Residual Interests. These assumptions are internally developed and primarily based on analyzing the actual results of loan performance from past periods. See Note 8, “Student Loan Securitization,” to the consolidated financial statements for a discussion of all assumption changes made during the quarter

to properly determine the fair value of the Residual Interests, as well as a shock analysis to fair value related to all significant assumptions.

4. **Student Loans** — Our FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale. The fair value is disclosed in compliance with ASC 825. For both FFELP loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, and required return on equity. In addition, the Floor Income component of our FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management's qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions) or are obtained through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to validate the model. In most cases, these are either infrequent or not observable. For FFELP loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by ED.

For further information regarding the impact of Level 3 fair values to the results of operations, see Note 16, "Fair Value Measurements," to the consolidated financial statements.

**Securitization Accounting and Retained Interests**

We regularly engage in securitization transactions as part of our Lending segment financing strategy (see also "LIQUIDITY AND CAPITAL RESOURCES — Securitization Activities"). In a securitization, we sell student loans to a trust that issues bonds backed by the student loans as part of the transaction. When our securitizations meet the sale criteria of ASC 860, "Transfers and Servicing," we record a gain on the sale of the student loans, which is the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received including the Residual Interest component of the Retained Interest in the securitization transaction. 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. We have not structured any securitization transaction to meet the sale criteria since March 2007 and all securitizations settled since that date have been accounted for on-balance sheet as secured financings as a result.

Under ASC 825, we elected to carry all existing Residual Interests at fair value with subsequent changes in fair value recorded in servicing and securitization revenue. Since there are no quoted market prices for our Residual Interests, we estimate their fair value both initially and each subsequent quarter using the key assumptions listed below:

- The CPR (see "Premium and Discount Amortization" above for discussion of this assumption).
- The expected credit losses from the underlying securitized loan portfolio. Although loss estimates related to the allowance for loan loss are based on a loss confirmation period of generally two years, expected credit losses related to the Residual Interests use a life of loan default rate. The life of loan default rate is used to determine the percentage of the loan's original balance that will default. The life of loan default rate is then applied using a curve to determine the percentage of the overall default rate that should be recognized annually throughout the life of the loan (see also "Allowance for Loan Losses" above for the determination of default rates and the factors that may impact them).
- The discount rate used (see "Fair Value Measurement" discussed above).

We also receive income for servicing the loans in our securitization trusts. We assess the amounts received as compensation for these activities at inception and on an ongoing basis to determine if the amounts

received are adequate compensation as defined in ASC 860. To the extent such compensation is determined to be no more or less than adequate compensation, no servicing asset or obligation is recorded.

See discussion that follows on changes to accounting principles associated with transfers of financial assets and the Variable Interest Entity Consolidation Model that will be effective in 2010.

**Transfers of Financial Assets and the Variable Interest Entity ("VIE") Consolidation Model — Changes in Accounting Principles effective January 1, 2010**

In June 2009, the FASB issued topic updates to ASC 860, "Transfers and Servicing," and to ASC 810, "Consolidation."

The topic update to ASC 860, among other things, (1) eliminates the concept of a Qualifying Special Purpose Entity ("QSPE"), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur in fiscal years beginning after November 15, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company's secured borrowing facilities. All of the Company's secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810 significantly changes the consolidation model for Variable Interest Entities ("VIEs"). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining who should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. The topic update to ASC 810 is effective for the first annual reporting period beginning after November 15, 2009.

Under ASC 810, if an entity has a Variable Interest in a VIE and that entity is determined to be the Primary Beneficiary of the VIE then that entity will consolidate the VIE. The Primary Beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to the Company's securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result the Company is the Primary Beneficiary of its securitization trusts and will consolidate those trusts that are off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has on its balance sheet as of January 1, 2010. These new accounting rules apply to new transactions entered into from January 1, 2010 forward as well.

On January 1, 2010, upon adopting ASC 810, the Company removed the $1.8 billion of Residual Interests associated with these trusts from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of a $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $0.7 billion after-tax reduction of stockholders' equity (through retained earnings). After adoption of ASC 810, related to the securitization trusts that were consolidated on January 1, 2010, the Company's results of operations will no longer reflect servicing and securitization income related to these securitization trusts, but will instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties. This presentation will be identical to the Company's accounting treatment of prior on-balance securitization trusts. The Company has not had a securitization that was treated as a sale since 2007.

Management allocates capital on a Managed Basis. This change will not impact management's view of capital adequacy for the Company. The Company's unsecured revolving credit facilities contain two principal

financial covenants related to tangible net worth and net revenue. The tangible net worth covenant requires the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.5 billion as of December 31, 2009. Upon adoption of ASC 810 on January 1, 2010, consolidated tangible net worth as calculated for this covenant was $2.7 billion. Because the transition adjustment upon adoption of ASC 810 is recorded through retained earnings the net revenue covenant was not impacted by the adoption of ASC 810. The ongoing net revenue covenant will not be impacted by ASC 810's impact on our securitization trusts as the net revenue covenant treated all off balance sheet trusts as on balance sheet for purposes of calculating net revenue.

**Derivative Accounting**

We use interest rate swaps, cross-currency interest rate swaps, interest rate futures contracts, Floor Income Contracts and interest rate cap contracts as an integral part of our overall risk management strategy to manage interest rate and foreign currency risk arising from our fixed rate and floating rate financial instruments. We account for these instruments in accordance with ASC 815, "Derivatives and Hedging," which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. We determine the fair value for our derivative instruments primarily by using pricing models that consider current market conditions and the contractual terms of the derivative contracts. Market inputs into the model include interest rates, forward interest rate curves, volatility factors, forward foreign exchange rates, and the closing price of our stock (related to our equity forward contracts). Inputs are generally from active financial markets; however, as mentioned under "Fair Value Measurements" above, adjustments are made for inputs from illiquid markets and to adjust for credit risk. In some instances, counterparty valuations are used in determining the fair value of a derivative when deemed a more appropriate estimate of the fair value. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized and, as such, the use of different pricing models or assumptions could produce different financial results. As a matter of policy, we compare the fair values of our derivatives that we calculate to those provided by our counterparties on a monthly basis. Any significant differences are identified and resolved appropriately.

ASC 815 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria as specified by ASC 815 are met. We believe that all of our derivatives are effective economic hedges and are a critical element of our interest rate risk management strategy. However, under ASC 815, some of our derivatives, primarily Floor Income Contracts, certain Eurodollar futures contracts, basis swaps and equity forwards, do not qualify for "hedge treatment" under ASC 815. Therefore, changes in market value along with the periodic net settlements must be recorded through the "gains (losses) on derivative and hedging activities, net" line in the consolidated statement of income with no consideration for the corresponding change in fair value of the hedged item. The derivative market value adjustment is primarily caused by interest rate and foreign currency exchange rate volatility, changing credit spreads during the period, and changes in our stock price (related to equity forwards), as well as the volume and term of derivatives not receiving hedge accounting treatment. See also "BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment* — Derivative Accounting" for a detailed discussion of our accounting for derivatives.

**Goodwill and Intangible Assets**

***Goodwill***

The Company accounts for goodwill and acquired intangible assets in accordance with ASC 350, "Intangibles — Goodwill and Other," pursuant to which goodwill is not amortized. Goodwill is tested for impairment annually as of September 30 at the reporting unit level, which is the same as or one level below an operating segment as defined in ASC 280, "Segment Reporting." Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

In accordance with ASC 350, Step 1 of the goodwill impairment analysis consists of a comparison of the fair value of the reporting unit to its carrying value. The carrying value includes goodwill of $991 million at

December 31, 2009 and 2008. The Company retains an appraisal firm to perform annual Step 1 impairment testing. Accordingly, the Company engages the appraisal firm to determine the fair value of each of its four reporting units to which goodwill is allocated as of September 30. These four reporting units are Lending, APG, Guarantor Servicing and Upromise. The fair value of each reporting unit is determined by weighting different valuation approaches, as applicable, with the primary approach being the income approach.

The income approach measures the value of each reporting unit based on the present value of the reporting unit's future economic benefit determined based on discounted cash flows derived from the Company's projections for each reporting unit. These projections are generally five-year projections that reflect the future strategic operating and financial performance of each respective reporting unit, including assumptions related to applicable cost savings and planned dispositions or wind down activities. If a component of a reporting unit is winding down or is assumed to wind down, the projections extend through the anticipated wind down period. In conjunction with the Company's September 30, 2009 annual impairment assessment, cash flow projections for the Lending, APG, and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation is passed. If the Community Proposal is passed, it would result in additional cash flows for the Lending reporting unit but no material change in cash flows for the APG and Guarantor Servicing reporting units. (SAFRA legislation and Community Proposal are discussed in more detail in "OVERVIEW — *Legislative and Regulatory Developments*.)

Under the Company's guidance, the appraisal firm develops both an asset rate of return and an equity rate of return (or discount rate) for each reporting unit incorporating such factors as a risk free rate, a market rate of return, a measure of volatility (Beta) and a company specific and capital markets risk premium, as appropriate, to adjust for volatility and uncertainty in the economy and to capture specific risk related to the respective reporting units. The Company considers whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and values each reporting unit based on the more likely hypothetical scenario. The Company has concluded that a hypothetical equity sale scenario would be more likely for its Lending reporting unit, while a hypothetical asset sale would be more likely for the APG, Guarantor Servicing and Upromise reporting units.

Discount rates employed in conjunction with the income approach reflect market based estimates of capital costs and are adjusted for management's assessment of a market participant's view with respect to execution, concentration and other risks associated with the projected cash flows of individual reporting units. Accordingly, these discount rates are reflective of the long standing contractual relationships associated with these cash flows as well as the wind down nature of the cash flows for certain components of the Lending and APG reporting units and the Guarantor Servicing reporting unit as a whole. Management reviews and approves these discount rates, including the factors incorporated to develop the discount rates for each reporting unit. For the valuation of the Lending reporting unit, which assumes an equity sale, the discount rate is applied to the reporting unit's projected net cash flows and the residual or terminal value yielding the fair value of equity for the reporting unit. For valuations assuming an asset sale, the discount rates applicable to the individual reporting units are applied to the respective reporting units' projected asset cash flows and residual or terminal values, as applicable, yielding the fair value of the assets for the respective reporting units. The estimated proceeds from the hypothetical asset sale are then used to pay off any liabilities of the reporting unit with the remaining cash equaling the fair value of the reporting unit's equity.

The guideline company or market approach as well as the publicly traded stock approach are also considered for the Company's reporting units, as applicable. The market approach generally measures the value of a reporting unit as compared to recent sales or offerings of comparable companies. The secondary market approach indicates value based on multiples calculated using the market value of minority interests in publicly traded comparable companies or guideline companies. Whether analyzing comparable transactions or the market value of minority interests in publicly traded or guideline companies, consideration is given to the line of business and the operating performance of the comparable companies versus the reporting unit being tested. Given current market conditions, the lack of recent sales or offerings in the market and the low correlation between the operations of identified guideline companies to the Company's reporting units, less emphasis is placed on the market approach for the APG, Guarantor Servicing and Upromise reporting units.

The Company acknowledges that its stock price (as well as that of its peers) is a consideration in determining the value of its reporting units and the Company as a whole. However, management believes the income approach is a better measure of the value of its reporting units in the current environment. During the latter half of 2008 and during 2009, the Company experienced a trend of lower and very volatile market capitalization. During 2009, the Company's stock price fluctuated significantly from a low of $3.19 in March 2009 subsequent to the Administration's 2010 budget proposal, which included its plan to eliminate the FFELP and require all federally funded students loans to be originated through the DSLP, to a high of $12.00 in December 2009. At September 30 and December 31, 2009, the Company's stock price was $8.72 and $11.27, respectively. The Company believes the share price has been significantly reduced due to the continued downturn in the credit and economic environment as well as uncertainties surrounding the ongoing legislative process, as addressed previously in "OVERVIEW — *Legislative and Regulatory Developments*." Management believes these economic factors should not have a long-term impact. In addition, the Company will review and revise, potentially significantly, its business model based on the final form of legislation upon completion of the legislative process.

In the event that the carrying value of the reporting unit exceeds the fair value as determined in Step 1, Step 2 of the goodwill impairment analysis compares the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner consistent with determining goodwill in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

***Other Acquired Intangibles***

Other acquired intangible assets, which include but are not limited to tradenames, customer and other relationships, and non-compete agreements, are also accounted for in accordance with ASC 350. Acquired intangible assets with definite or finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of the asset (or asset group) exceeds the estimated undiscounted cash flows used to determine the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value. Indefinite-life acquired intangible assets are not amortized. They are tested for impairment annually as of September 30 or at interim periods if an event occurs or circumstances change that would indicate the carrying value of these assets may be impaired. The annual or interim impairment test of indefinite-lived acquired intangible assets is based primarily on a discounted cash flow analysis.

**SELECTED FINANCIAL DATA**

**Condensed Statements of Income**

| | Years Ended December 31, | | | Increase (Decrease) | | | |
|---|---|---|---|---|---|---|---|
| | | | | 2009 vs. 2008 | | 2008 vs. 2007 | |
| | 2009 | 2008 | 2007 | $ | % | $ | % |
| Net interest income | $ 1,723 | $ 1,365 | $ 1,588 | $ 358 | 26% | $ (223) | (14)% |
| Less: provisions for loan losses | 1,119 | 720 | 1,015 | 399 | 55 | (295) | (29) |
| Net interest income after provisions for loan losses | 604 | 645 | 573 | (41) | (6) | 72 | 13 |
| Gains on student loan securitizations | — | — | 367 | — | — | (367) | (100) |
| Servicing and securitization revenue | 295 | 262 | 437 | 33 | 13 | (175) | (40) |
| Gains (losses) on loans and securities, net | 284 | (186) | (95) | 470 | 253 | (91) | (96) |
| Gains (losses) on derivative and hedging activities, net | (604) | (445) | (1,361) | (159) | (36) | 916 | 67 |
| Contingency fee revenue | 296 | 340 | 336 | (44) | (13) | 4 | 1 |
| Collections revenue | 51 | 128 | 220 | (77) | (60) | (92) | (42) |
| Guarantor servicing fees | 136 | 121 | 156 | 15 | 12 | (35) | (22) |
| Other income | 928 | 392 | 385 | 536 | 137 | 7 | 2 |
| Restructuring expenses | 14 | 83 | 23 | (69) | (83) | 60 | 261 |
| Operating expenses | 1,255 | 1,316 | 1,487 | (61) | (5) | (171) | (11) |
| Income (loss) from continuing operations, before income tax expense (benefit) | 721 | (142) | (492) | 863 | (608) | 350 | 71 |
| Income tax expense (benefit) | 238 | (76) | 408 | 314 | (413) | (484) | (119) |
| Net income (loss) from continuing operations | 483 | (66) | (900) | 549 | 832 | 834 | 93 |
| (Loss) income from discontinued operations, net of tax | (158) | (143) | 6 | (15) | (10) | (149) | (2483) |
| Net income (loss) | 325 | (209) | (894) | 534 | 256 | 685 | 77 |
| Less: net income attributable to noncontrolling interest | 1 | 4 | 2 | (3) | (75) | 2 | 100 |
| **Net income (loss) attributable to SLM Corporation** | 324 | (213) | (896) | 537 | 252 | 683 | 76 |
| Preferred stock dividends | 146 | 111 | 37 | 35 | 32 | 74 | 200 |
| Net income (loss) attributable to common stock | $ 178 | $ (324) | $ (933) | $ 502 | 155% | $ 609 | 65% |
| Net income (loss) attributable to SLM Corporation: | | | | | | | |
| Continuing operations, net of tax | $ 482 | $ (70) | $ (902) | $ 552 | 789% | $ 832 | 92% |
| Discontinued operations, net of tax | (158) | (143) | 6 | (15) | (10) | (149) | (2483) |
| Net income (loss) attributable to SLM Corporation | $ 324 | $ (213) | $ (896) | $ 537 | 252% | $ 683 | 76% |
| Basic earnings (loss) per common share: | | | | | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) | $ 1.10 | 282% | $ 1.89 | 83% |
| Discontinued operations | $ (.33) | $ (.30) | $ .02 | $ (.03) | (10)% | $ (.32) | 1600% |
| Total | $ .38 | $ (.69) | $ (2.26) | $ 1.07 | 155% | $ 1.57 | 69% |
| Diluted earnings (loss) per common share: | | | | | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) | $ 1.10 | 282% | $ 1.89 | 83% |
| Discontinued operations | $ (.33) | $ (.30) | $ .02 | $ (.03) | (10)% | $ (.32) | 1600% |
| Total | $ .38 | $ (.69) | $ (2.26) | $ 1.07 | 155% | $ 1.57 | 69% |
| Dividends per common share | $ — | $ — | $ .25 | $ — | —% | $ (.25) | (100)% |

**Condensed Balance Sheets**

| | December 31, | | Increase (Decrease) 2009 vs. 2008 | |
|---|---|---|---|---|
| | 2009 | 2008 | $ | % |
| **Assets** | | | | |
| FFELP Stafford and Other Student Loans, net | $ 42,979 | $ 44,025 | $ (1,046) | (2)% |
| FFELP Stafford Loans Held-for-Sale | 9,696 | 8,451 | 1,245 | 15 |
| FFELP Consolidation Loans, net | 68,379 | 71,744 | (3,365) | (5) |
| Private Education Loans, net | 22,753 | 20,582 | 2,171 | 11 |
| Other loans, net | 420 | 729 | (309) | (42) |
| Cash and investments | 8,084 | 5,112 | 2,972 | 58 |
| Restricted cash and investments | 5,169 | 3,535 | 1,634 | 46 |
| Retained Interest in off-balance sheet securitized loans | 1,828 | 2,200 | (372) | (17) |
| Goodwill and acquired intangible assets, net | 1,177 | 1,249 | (72) | (6) |
| Other assets | 9,500 | 11,141 | (1,641) | (15) |
| Total assets | $ 169,985 | $ 168,768 | $ 1,217 | 1% |
| **Liabilities and Stockholders' Equity** | | | | |
| Short-term borrowings | $ 30,897 | $ 41,933 | $ (11,036) | (26)% |
| Long-term borrowings | 130,546 | 118,225 | 12,321 | 10 |
| Other liabilities | 3,263 | 3,604 | (341) | (9) |
| Total liabilities | 164,706 | 163,762 | 944 | 1 |
| SLM Corporation stockholders' equity before treasury stock | 7,140 | 6,855 | 285 | 4 |
| Common stock held in treasury | 1,861 | 1,856 | 5 | — |
| SLM Corporation stockholders' equity | 5,279 | 4,999 | 280 | 6 |
| Noncontrolling interest | — | 7 | (7) | (100) |
| Total equity | 5,279 | 5,006 | 273 | 5 |
| Total liabilities and equity | $ 169,985 | $ 168,768 | $ 1,217 | 1% |

**RESULTS OF OPERATIONS**

We present the results of operations first on a consolidated basis in accordance with GAAP. As discussed in "Item 1. Business," we have two primary business segments, Lending and APG, plus a Corporate and Other business segment. Since these business segments operate in distinct business environments, the discussion following the Consolidated Earnings Summary is primarily presented on a segment basis. See "BUSINESS SEGMENTS" for further discussion on the components of each segment. Securitization gains and the ongoing servicing and securitization income are included in "LIQUIDITY AND CAPITAL RESOURCES — Securitization Activities." The discussion of derivative market value gains and losses is under "BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment* — Derivative Accounting." The discussion of goodwill and acquired intangible amortization and impairment is discussed under "BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment* — Acquired Intangibles."

**CONSOLIDATED EARNINGS SUMMARY**

The main drivers of our net income are the growth in our Managed student loan portfolio and our financing cost, which drives net interest income, gains and losses on the sales of student loans, gains on debt repurchases, unrealized gains and losses on derivatives that do not receive hedge accounting treatment, growth in our fee-based business, and expense control.

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

For the year ended December 31, 2009, net income attributable to SLM Corporation was $324 million, or $.38 diluted earnings per common share attributable to SLM Corporation common shareholders, compared to a net loss of $213 million, or $.69 diluted loss per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008. For the year ended December 31, 2009, net income attributable to SLM Corporation from continuing operations was $482 million, or $.71 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of $70 million, or $.39 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for year ended December 31, 2008. For the year ended December 31, 2009, net loss attributable to SLM Corporation from discontinued operations was $158 million or $.33 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from discontinued operations of $143 million, or $.30 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2008.

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

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

Net interest income after provisions for loan losses decreased by $41 million in the year ended December 31, 2009 from the prior year. This decrease was due to a $399 million increase in provisions for loan losses offset by a $358 million increase in net interest income. The increase in net interest income was primarily due to an increase in the student loan spread, a decrease in the 2008 Asset Backed Financing Facilities fees and a $15 billion increase in the average balance of on-balance sheet student loans (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*"). The increase in provisions for loan losses related primarily to increases in charge-off expectations on Private Education Loans primarily as a result of the continued weakening of the U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "— *Allowance for Private Education Loan Losses*").

There were $284 million in net gains on sales of loans and securities in the year ended December 31, 2009, primarily related to the ED Purchase Program as previously discussed, compared to net losses of $186 million incurred in the prior year. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company's repurchase of delinquent Private Education Loans from the Company's off-balance sheet securitization trusts. When Private Education Loans in the Company's off-balance sheet securitization

trusts that settled before September 30, 2005 became 180 days delinquent, the Company previously exercised its contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. The Company does not hold this contingent call option for any trusts that settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option. The loss in 2008 also relates to the sale of approximately $1.0 billion FFELP loans to the ED under ECASLA, which resulted in a $53 million loss.

For the year ended December 31, 2009, contingency fee, collections and guarantor servicing fee revenue totaled $483 million, a $106 million decrease from $589 million in the prior year. This decrease was primarily due to a decline in revenue due to a significantly smaller non-mortgage purchased paper portfolio year-over-year as a result of winding down this collections business. Total impairment in the non-mortgage purchased paper portfolio was $79 million in 2009 compared to $111 million in 2008. The impairment is a result of the continued impact of the economy on the ability to collect on these assets (see “ASSET PERFORMANCE GROUP BUSINESS SEGMENT”).

In response to the College Cost Reduction and Access Act of 2007 (“CCRAA”) and challenges in the capital markets, the Company initiated a restructuring plan in the fourth quarter of 2007. The plan focused on conforming our lending activities to the economic environment, exiting certain customer relationships and product lines, winding down our debt purchased paper businesses, and significantly reducing our operating expenses. The restructuring plan is essentially completed and our objectives have been met. As part of the Company’s cost reduction efforts, restructuring expenses of $14 million and $83 million were recognized in continuing operations in the years ended December 31, 2009 and 2008, respectively. Restructuring expenses from the fourth quarter of 2007 through December 31, 2009 totaled $129 million, of which $120 million was recorded in continuing operations and $9 million was recorded in discontinued operations. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,900 positions, or approximately 25 percent of the workforce. We estimate approximately $5 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred during 2010. On September 17, 2009, the House passed SAFRA which, if signed into law, would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the Direct Loan program. The Senate has yet to take up the legislation. If this legislation is signed into law, the Company will undertake another significant restructuring to conform its infrastructure to the elimination of the FFELP and achieve additional expense reduction. See “OVERVIEW — *Legislative and Regulatory Developments*” for a further discussion of SAFRA.

Operating expenses were $1.26 billion in the year ended December 31, 2009 compared to $1.32 billion in the prior year. The $61 million decrease in operating expenses was primarily due to the Company’s cost reduction efforts discussed above as well as an $11 million reduction in amortization and impairment of acquired intangible assets. The amortization and impairment of acquired intangibles for continuing operations totaled $75 million and $86 million for the years ended December 31, 2009 and 2008, respectively.

Income tax expense from continuing operations was $238 million in the year ended December 31, 2009 compared to income tax (benefit) of $(76) million in the prior year, resulting in effective tax rates of 33 percent and 54 percent. The movement in the effective tax rate in 2009 compared with the prior year was primarily driven by the reduction of tax and interest on U.S. federal and state uncertain tax positions in both periods, as well as the permanent tax impact of deducting Proposed Merger-related transaction costs in the year ended December 31, 2008. Also contributing to the movement was the impact of significantly higher reported pre-tax income in 2009 and the resulting changes in the proportion of income subject to federal and state taxes. For additional information, see Note 19, “Income Taxes,” to the consolidated financial statements.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred

stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as a part of preferred stock dividends for the period of approximately $53 million.

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

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

For the year ended December 31, 2008, our net loss attributable to SLM Corporation was $213 million, or $.69 diluted loss per share attributable to SLM Corporation common shareholders, compared to a net loss of $896 million, or $2.26 diluted loss per share attributable to SLM Corporation common shareholders, for the year December 31, 2007. For the year ended December 31, 2008, net loss attributable to SLM Corporation from continuing operations was $70 million, or $.39 diluted earnings from continuing operations per common share attributable to SLM Corporation common shareholders, compared to a net loss from continuing operations of $902 million, or $2.28 diluted loss from continuing operations per common share attributable to SLM Corporation common shareholders, for year ended December 31, 2007. For the year ended December 31, 2008, net loss attributable to SLM Corporation from discontinued operations was $143 million, or $.30 diluted loss from discontinued operations per common share attributable to SLM Corporation common shareholders, compared to a net income from discontinued operations of $6 million, or $.02 diluted earnings from discontinued operations per common share attributable to SLM Corporation common shareholders, for the year ended December 31, 2007.

Pre-tax loss from continuing operations decreased by $350 million versus 2007 primarily due to a decrease in net losses on derivative and hedging activities from $1.4 billion for the year ended December 31, 2007 to $445 million for the year ended December 31, 2008, which was primarily a result of the mark-to-market on the equity forward contracts in the fourth quarter of 2007. This increase in income was partially offset by a $367 million decrease in gains on student loan securitizations and a $175 million decrease in servicing and securitization revenue.

There were no gains on student loan securitizations in the year ended December 31, 2008, compared to gains of $367 million in the year-ago period. We did not complete any off-balance sheet securitizations in the year ended December 31, 2008, versus one Private Education Loan securitization in 2007. In accordance with ASC 825, “Financial Instruments,” we elected the fair value option on all of the Residual Interests effective January 1, 2008. We made this election in order to simplify the accounting for Residual Interests by having all Residual Interests under one accounting model. Prior to this election, Residual Interests were accounted for either with changes in fair value recorded through other comprehensive income or with changes in fair value recorded through income. We reclassified the related accumulated other comprehensive income of $195 million into retained earnings and as a result equity was not impacted at transition on January 1, 2008. Changes in fair value of Residual Interests on and after January 1, 2008 are recorded through servicing and securitization income. We have not elected the fair value option for any other financial instruments at this time. Servicing and securitization revenue decreased by $175 million from $437 million in the year ended December 31, 2007 to $262 million in the year ended December 31, 2008. This decrease was primarily due to a $425 million unrealized mark-to-market loss recorded in 2008 compared to a $278 million unrealized mark-to-market loss in the prior year, which included both impairment and an unrealized mark-to-market gain recorded under ASC 815-15, “Embedded Derivatives”. The increase in the unrealized mark-to-market loss in 2008 versus 2007 was primarily due to increases in the discount rates used to value the Residual Interests. See “LIQUIDITY AND CAPITAL RESOURCES — Securitization Activities — *Residual Interest in Securitized Receivables*” for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses increased by $72 million in the year ended December 31, 2008 from the prior year. This increase was due to a $295 million decrease in provisions for loan losses, offset by a $223 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread (see "LENDING BUSINESS SEGMENT — Net Interest Income — *Net Interest Margin — On-Balance Sheet*") and an increase in the 2008 Asset-Backed Financing Facilities Fees, partially offset by a $25 billion increase in the average balance of on-balance sheet student loans. The decrease in provisions for loan losses relates to the higher provision amounts in the fourth quarter of 2007 for Private Education Loans, FFELP loans and mortgage loans, primarily due to a weakening U.S. economy. The significant provision in the fourth quarter of 2007 primarily related to the non-traditional portfolio which was particularly impacted by the weakening U.S. economy (see "LENDING BUSINESS SEGMENT — Private Education Loan Losses — *Private Education Loan Delinquencies and Forbearance*" and "*— Allowance for Private Education Loan Losses*").

For the year ended December 31, 2008, contingency fee, collections and guarantor servicing fee revenue totaled $589 million, a $123 million decrease from $712 million in the prior year. This decrease was primarily the result of $111 million of impairment related to our non-mortgage purchased paper subsidiary recorded in 2008 compared to $17 million in 2007. The increase in impairment is a result of the impact of the economy on the ability to collect on these assets (see "ASSET PERFORMANCE GROUP BUSINESS SEGMENT").

Losses on loans and securities, net, totaled $186 million for the year ended December 31, 2008, a $91 million increase from $95 million incurred in the year ended December 31, 2007. Prior to the fourth quarter of 2008, these losses were primarily the result of our repurchase of delinquent Private Education Loans from our off-balance sheet securitization trusts. When Private Education Loans in our off-balance sheet securitization trusts that settled before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of purchase. We do not hold the contingent call option for any trusts that settled after September 30, 2005. Beginning in October 2008, we decided to no longer exercise our contingent call option. The loss in the fourth quarter of 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under the ECASLA, which resulted in a $53 million loss. See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs" for a further discussion.

Restructuring expenses of $83 million and $23 million were recognized in the years ended December 31, 2008 and 2007, respectively, as previously discussed.

Operating expenses totaled $1.3 billion and $1.5 billion for the years ended December 31, 2008 and 2007, respectively. The year-over-year reduction is primarily due to our cost reduction efforts discussed above. Of these amounts, $86 million and $98 million, respectively, relate to amortization and impairment of goodwill and intangible assets for continuing operations.

Income tax (benefit) from continuing operations was $(76) million in the year ended December 31, 2008 compared to income tax expense of $408 million in the prior year resulting in effective tax rates of 54 percent and (83) percent. The movement in the effective tax rate in 2008 compared with the prior year was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on equity forward contracts which were marked to market through earnings under ASC 815 in 2007. Also contributing to the movement was the impact of significantly lower reported pre-tax loss in 2008 and the resulting changes in the proportion of income subject to federal and state taxes. For additional information, see Note 19, "Income Taxes," to the consolidated financial statements.

Net loss attributable to SLM Corporation from discontinued operations was $143 million for the year ended December 31, 2008, compared to net income of $6 million for the prior year. As discussed above, the Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009. In 2008, the Company incurred $161 million of after-tax asset impairments associated with this business line compared to the prior year, during which the Company incurred $2 million of after-tax asset impairments.

***Other Income***

The following table summarizes the components of "Other income" in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Gains on debt repurchases | $ 536 | $ 64 | $ — |
| Late fees and forbearance fees | 146 | 143 | 136 |
| Asset servicing and other transaction fees | 112 | 108 | 110 |
| Loan servicing fees | 53 | 26 | 26 |
| Foreign currency translation gains (losses) | 23 | (31) | (3) |
| Gains on sales of mortgages and other loan fees | — | 3 | 11 |
| Other | 59 | 79 | 105 |
| Total other income | $ 929 | $ 392 | $ 385 |

The change in other income over the year-ago periods presented is primarily the result of the gains on debt repurchases. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company has repurchased $5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016.

**BUSINESS SEGMENTS**

The results of operations of the Company's Lending and APG operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under ASC 280, "Segment Reporting," based on quantitative thresholds applied to the Company's financial statements. In addition, we provide other complementary products and services, including Guarantor Servicing and Loan Servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other reportable 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. 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, including the Company's chief operation decision makers, evaluates the performance of the Company's operating segments based on their profitability on a basis that, as allowed under ASC 280, differs from GAAP. We refer to management's basis of evaluating our segment results as "Core Earnings" presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. Accordingly, information regarding the Company's reportable segments is provided herein based on "Core Earnings," which are discussed in detail below.

Our "Core Earnings" are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core Earnings" net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting and as a result, our management reporting is not necessarily comparable with similar information for any other financial institution. 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 our operating segments. Accordingly, the tables presented below reflect "Core Earnings" which are reviewed and utilized by management to manage the business for each of the Company's reportable segments. A further discussion regarding "Core Earnings" is included under "Limitations of 'Core Earnings'" and *"Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment."*

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

| | Year Ended December 31, 2009 | | |
|---|---|---|---|
| | Lending | APG | Corporate and Other |
| Interest income: | | | |
| FFELP Stafford and Other Student Loans | $ 1,282 | $ — | $ — |
| FFELP Consolidation Loans | 1,645 | — | — |
| Private Education Loans | 2,254 | — | — |
| Other loans | 56 | — | — |
| Cash and investments | 9 | — | 20 |
| Total interest income | 5,246 | — | 20 |
| Total interest expense | 2,971 | 19 | 15 |
| Net interest income (loss) | 2,275 | (19) | 5 |
| Less: provisions for loan losses | 1,564 | — | — |
| Net interest income (loss) after provisions for loan losses | 711 | (19) | 5 |
| Contingency fee revenue | — | 296 | — |
| Collections revenue | — | 50 | — |
| Guarantor serving fees | — | — | 136 |
| Other income | 974 | — | 215 |
| Total other income | 974 | 346 | 351 |
| Restructuring expenses | 10 | 1 | 3 |
| Operating expenses | 581 | 315 | 284 |
| Total expenses | 591 | 316 | 287 |
| Income from continuing operations, before income tax expense | 1,094 | 11 | 69 |
| Income tax expense[1] | 388 | 7 | 24 |
| Net income from continuing operations | 706 | 4 | 45 |
| Loss from discontinued operations, net of tax | — | (157) | — |
| Net income (loss) | 706 | (153) | 45 |
| Less: net income attributable to noncontrolling interest | — | 1 | — |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ 706 | $ (154) | $ 45 |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 205 | $ — | $ — |

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

| | Lending | APG | Corporate and Other |
|---|---|---|---|
| "Core Earnings" net income (loss) attributable to SLM Corporation: | | | |
| Continuing operations, net of tax | $ 706 | $ 3 | $ 45 |
| Discontinued operations, net of tax | — | (157) | — |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ 706 | $ (154) | $ 45 |

| | Year Ended December 31, 2008 | | |
|---|---|---|---|
| | Lending | APG | Corporate and Other |
| Interest income: | | | |
| FFELP Stafford and Other Student Loans | $ 2,216 | $ — | $ — |
| FFELP Consolidation Loans | 3,748 | — | — |
| Private Education Loans | 2,752 | — | — |
| Other loans | 83 | — | — |
| Cash and investments | 304 | — | 25 |
| Total interest income | 9,103 | — | 25 |
| Total interest expense | 6,665 | 25 | 19 |
| Net interest income (loss) | 2,438 | (25) | 6 |
| Less: provisions for loan losses | 1,029 | — | — |
| Net interest income (loss) after provisions for loan losses | 1,409 | (25) | 6 |
| Contingency fee revenue | — | 340 | — |
| Collections revenue | — | 129 | — |
| Guarantor serving fees | — | — | 121 |
| Other income | 180 | — | 199 |
| Total other income | 180 | 469 | 320 |
| Restructuring expenses | 49 | 11 | 23 |
| Operating expenses | 583 | 389 | 256 |
| Total expenses | 632 | 400 | 279 |
| Income from continuing operations, before income tax expense | 957 | 44 | 47 |
| Income tax expense(1) | 338 | 23 | 17 |
| Net income from continuing operations | 619 | 21 | 30 |
| Loss from discontinued operations, net of tax | — | (140) | — |
| Net income (loss) | 619 | (119) | 30 |
| Less: net income attributable to noncontrolling interest | — | 4 | — |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ 619 | $ (123) | $ 30 |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 55 | $ — | $ — |

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

| | | | |
|---|---|---|---|
| "Core Earnings" net income (loss) attributable to SLM Corporation: | | | |
| Continuing operations, net of tax | $ 619 | $ 17 | $ 30 |
| Discontinued operations, net of tax | — | (140) | — |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ 619 | $ (123) | $ 30 |

| | Year Ended December 31, 2007 | | |
|---|---|---|---|
| | Lending | APG | Corporate and Other |
| Interest income: | | | |
| FFELP Stafford and Other Student Loans | $ 2,848 | $ — | $ — |
| FFELP Consolidation Loans | 5,522 | — | — |
| Private Education Loans | 2,835 | — | — |
| Other loans | 106 | — | — |
| Cash and investments | 868 | — | 21 |
| Total interest income | 12,179 | — | 21 |
| Total interest expense | 9,597 | 27 | 21 |
| Net interest income (loss) | 2,582 | (27) | — |
| Less: provisions for loan losses | 1,394 | — | 1 |
| Net interest income (loss) after provisions for loan losses | 1,188 | (27) | (1) |
| Contingency fee revenue | — | 336 | — |
| Collections revenue | — | 217 | — |
| Guarantor serving fees | — | — | 156 |
| Other income | 194 | — | 218 |
| Total other income | 194 | 553 | 374 |
| Restructuring expenses | 19 | 2 | 2 |
| Operating expenses | 690 | 361 | 339 |
| Total expenses | 709 | 363 | 341 |
| Income from continuing operations, before income tax expense | 673 | 163 | 32 |
| Income tax expense[1] | 249 | 60 | 12 |
| Net income from continuing operations | 424 | 103 | 20 |
| Income from discontinued operations, net of tax | — | 15 | — |
| Net income | 424 | 118 | 20 |
| Less: net income attributable to noncontrolling interest | — | 2 | — |
| "Core Earnings" net income attributable to SLM Corporation | $ 424 | $ 116 | $ 20 |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 8 | $ — | $ — |

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

| | Lending | APG | Corporate and Other |
|---|---|---|---|
| "Core Earnings" net income attributable to SLM Corporation: | | | |
| Continuing operations, net of tax | $ 424 | $ 101 | $ 20 |
| Discontinued operations, net of tax | — | 15 | — |
| "Core Earnings" net income attributable to SLM Corporation | $ 424 | $ 116 | $ 20 |

**Limitations of "Core Earnings"**

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

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

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

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

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | | |
| | Lending | APG | Corporate and Other | Lending | APG | Corporate and Other | Lending | APG | Corporate and Other |
| "Core Earnings" adjustments: | | | | | | | | | |
| Net impact of securitization accounting | $ (201) | $ — | $ — | $ (442) | $ — | $ — | $ 247 | $ — | $ — |
| Net impact of derivative accounting | (306) | — | — | (560) | — | — | 217 | — | (1,558) |
| Net impact of Floor Income | 129 | — | — | (102) | — | — | (169) | — | — |
| Net impact of acquired intangibles | (13) | (6) | (57) | (53) | (22) | (14) | (55) | (22) | (29) |
| Total "Core Earnings" adjustments to GAAP, pre-tax(1) | $ (391) | $ (6) | $ (57) | $ (1,157) | $ (22) | $ (14) | $ 240 | $ (22) | $ (1,587) |

(1) The net tax effect of total differences for combined segments is $181 million, $454 million and $(87) million for the years ended December 31, 2009, 2008 and 2007, respectively. Income taxes are based on a percentage of net income before tax for the individual reportable segments.

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

The following table summarizes "Core Earnings" securitization adjustments for the Lending operating segment for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **"Core Earnings" securitization adjustments:** | | | |
| Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions | $ (942) | $ (872) | $ (818) |
| Provisions for loan losses | 445 | 309 | 380 |
| Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions | (497) | (563) | (438) |
| Intercompany transactions with off-balance sheet trusts | 1 | (141) | (119) |
| Net interest income on securitized loans, after provisions for loan losses | (496) | (704) | (557) |
| Gains on student loan securitizations | — | — | 367 |
| Servicing and securitization revenue | 295 | 262 | 437 |
| Total "Core Earnings" securitization adjustments(1) | $ (201) | $ (442) | $ 247 |

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

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

2) **Derivative Accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our "Core Earnings" presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life.

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

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

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

The table below quantifies the adjustments for derivative accounting under ASC 815 on our net income for the years ended December 31, 2009, 2008 and 2007 when compared with the accounting principles employed in all years prior to the ASC 815 implementation.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **"Core Earnings" derivative adjustments:** | | | |
| Gains (losses) on derivative and hedging activities, net, included in other income[1] | $ (604) | $ (445) | $ (1,361) |
| Less: Realized (gains) losses on derivative and hedging activities, net[1] | 322 | (107) | 18 |
| Unrealized gains (losses) on derivative and hedging activities, net | (282) | (552) | (1,343) |
| Other pre-ASC 815 accounting adjustments | (24) | (8) | 2 |
| Total net impact of ASC 815 derivative accounting[2] | $ (306) | $ (560) | $ (1,341) |

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

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

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

ASC 815 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized gains (losses) on derivative and hedging activities") that do not qualify as hedges under ASC 815 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a "Core Earnings" basis for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Reclassification of realized gains (losses) on derivative and hedging activities:** | | | |
| Net settlement expense on Floor Income Contracts reclassified to net interest income | $ (717) | $ (488) | $ (67) |
| Net settlement income (expense) on interest rate swaps reclassified to net interest income | 412 | 563 | 47 |
| Foreign exchange derivatives gains/(losses) reclassified to other income | (15) | 11 | — |
| Net realized gains (losses) on terminated derivative contracts reclassified to other income | (2) | 21 | 2 |
| **Total reclassifications of realized (gains)losses on derivative and hedging activities** | (322) | 107 | (18) |
| Add: Unrealized gains (losses) on derivative and hedging activities, net[1] | (282) | (552) | (1,343) |
| Gains (losses) on derivative and hedging activities, net | $ (604) | $ (445) | $ (1,361) |

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Floor Income Contracts | $ 483 | $ (529) | $ (209) |
| Basis swaps | (413) | (239) | 360 |
| Foreign currency hedges | (255) | 328 | 73 |
| Equity forward contracts | — | — | (1,558) |
| Other | (97) | (112) | (9) |
| Total unrealized gains (losses) on derivative and hedging activities, net | $ (282) | $ (552) | $ (1,343) |

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

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

The following table summarizes the Floor Income adjustments in our Lending operating segment for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **"Core earnings" Floor Income adjustments:** | | | |
| Floor Income earned on Managed loans, net of payments on Floor Income Contracts | $ 286 | $ 69 | $ — |
| Amortization of net premiums on Floor Income Contracts and futures in net interest income | (157) | (171) | (169) |
| Total "Core Earnings" Floor Income adjustments(1) | $ 129 | $ (102) | $ (169) |

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

(2) The following table summarizes the amount of Economic Floor Income earned during the years ended December 31, 2009, 2008 and 2007 that is not included in "Core Earnings" net income:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in "Core Earnings" | $ 286 | $ 69 | $ — |
| Amortization of net premiums on Variable Rate Floor Income Contracts not included in "Core Earnings" | 40 | 20 | 13 |
| Amortization of net premiums on Fixed Rate Floor Income Contracts included in "Core Earnings" | 157 | 171 | 169 |
| Total Economic Floor Income earned | 483 | 260 | 182 |
| Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in "Core Earnings" | (157) | (171) | (169) |
| Total Economic Floor Income earned, not included in "Core Earnings" | $ 326 | $ 89 | $ 13 |

**4) Acquired Intangibles:** Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles. The following table summarizes the goodwill and acquired intangible adjustments for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **"Core Earnings" goodwill and acquired intangibles adjustments:** | | | |
| Goodwill and intangible impairment and the amortization of acquired intangibles from continuing operations | $ (75) | $ (86) | $ (98) |
| Goodwill and intangible impairment and the amortization of acquired intangibles from discontinued operations, net of tax | (1) | (3) | (8) |
| Total "Core Earnings" acquired intangibles adjustments | $ (76) | $ (89) | $ (106) |

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

Our "Core Earnings" exclude goodwill and intangible impairment and the amortization of acquired intangibles. These amounts totaled $76 million, $89 million and $106 million after tax effecting the amounts related to discontinued operations. The pre-tax amounts totaled $76 million, $91 million and $112 million, respectively, for the years ended December 31, 2009, 2008 and 2007. In 2009, $37 million of intangible assets primarily related to Guarantor Servicing were impaired as a result of the legislative uncertainty surrounding the role of Guarantors in the future. As discussed in "ASSET PERFORMANCE GROUP BUSINESS SEGMENT," the Company decided to wind down its purchased paper businesses. This decision resulted in $36 million of impairment of intangible assets for the year ended December 31, 2008, of which $28 million related to the impairment of two trade names and $8 million related to certain banking customer relationships. In 2007, we recognized impairments related principally to our mortgage origination and mortgage purchased paper businesses, including approximately $20 million of goodwill and $10 million of value attributable to certain banking relationships. In connection with our acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, we acquired certain tax exempt bonds that enabled us to earn a 9.5 percent SAP rate on student loans funded by those bonds in indentured trusts. In 2007, we also recognized intangible impairments of $9 million, due to changes in projected interest rates used to initially value the intangible asset and to a regulatory change that restricts the loans on which we are entitled to earn a 9.5 percent yield.

**LENDING BUSINESS SEGMENT**

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

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

For the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter of 2008, the Federal Reserve's Commercial Paper Funding Facility rates ("CPFF") would be used for those days in which no published CP rate was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would

have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF. ED decided that no such correction was required during 2009. This resulted in a CP/LIBOR spread of 52 basis points, 45 basis points, 13 basis points and 6 basis points in the first, second, third and fourth quarters of 2009, respectively, (29 basis points for the full year of 2009) compared to the CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 and the historic average spread through the third quarter of 2008 of approximately 10 basis points.

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

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

An overview of this segment and recent developments that have significantly impacted this segment are included in the "Item 1. Business" section of this document.

The following table summarizes the “Core Earnings” results of operations for our Lending business segment.

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 vs. 2008 | 2008 vs. 2007 |
| “Core Earnings” interest income: | | | | | |
| FFELP Stafford and Other Student Loans | $ 1,282 | $ 2,216 | $ 2,848 | (42)% | (22)% |
| FFELP Consolidation Loans | 1,645 | 3,748 | 5,522 | (56) | (32) |
| Private Education Loans | 2,254 | 2,752 | 2,835 | (18) | (3) |
| Other loans | 56 | 83 | 106 | (33) | (22) |
| Cash and investments | 9 | 304 | 868 | (97) | (65) |
| Total “Core Earnings” interest income | 5,246 | 9,103 | 12,179 | (42) | (25) |
| Total “Core Earnings” interest expense | 2,971 | 6,665 | 9,597 | (55) | (31) |
| Net “Core Earnings” interest income | 2,275 | 2,438 | 2,582 | (7) | (6) |
| Less: provisions for loan losses | 1,564 | 1,029 | 1,394 | (52) | (26) |
| Net “Core Earnings” interest income after provisions for loan losses | 711 | 1,409 | 1,188 | (50) | 19 |
| Other income | 974 | 180 | 194 | 441 | (7) |
| Restructuring expenses | 10 | 49 | 19 | (80) | 158 |
| Operating expenses | 581 | 583 | 690 | — | (15) |
| Total expenses | 591 | 632 | 709 | (6) | (10) |
| Income from continuing operations, before income tax expense | 1,094 | 957 | 673 | 14 | 41 |
| Income tax expense | 388 | 338 | 249 | 15 | 35 |
| Net income | 706 | 619 | 424 | 14 | 45 |
| Less: net income attributable to noncontrolling interest | — | — | — | — | — |
| “Core Earnings” net income attributable to SLM Corporation | $ 706 | $ 619 | $ 424 | 14% | 45% |
| Economic Floor Income (net of tax) not included in “Core Earnings” | $ 205 | $ 55 | $ 8 | 273% | 45% |

| | | | | | |
|---|---|---|---|---|---|
| “Core Earnings” net income attributable to SLM Corporation: | | | | | |
| Continuing operations, net of tax | $ 706 | $ 619 | $ 424 | 14% | 45% |
| Discontinued operations, net of tax | — | — | — | — | — |
| “Core Earnings” net income attributable to SLM Corporation | $ 706 | $ 619 | $ 424 | 14% | 45% |

**Net Interest Income**

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

***Average Balance Sheets — On-Balance Sheet***

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the years ended December 31, 2009, 2008 and 2007. This table reflects the net interest margin for the entire Company for our on-balance sheet assets. It is included in the Lending business segment discussion because the Lending business segment includes substantially all interest-earning assets and interest-bearing liabilities.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Balance | Rate | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | | | |
| FFELP Stafford and Other Student Loans | $ 58,492 | 2.07% | $ 44,291 | 4.50% | $ 31,294 | 6.59% |
| FFELP Consolidation Loans | 70,046 | 2.69 | 73,091 | 4.35 | 67,918 | 6.39 |
| Private Education Loans | 23,154 | 6.83 | 19,276 | 9.01 | 12,507 | 11.65 |
| Other loans | 561 | 9.98 | 955 | 8.66 | 1,246 | 8.49 |
| Cash and investments | 11,046 | .24 | 9,279 | 2.98 | 12,710 | 5.57 |
| Total interest-earning assets | 163,299 | 2.91% | 146,892 | 4.95% | 125,675 | 6.90% |
| Non-interest-earning assets | 8,693 | | 9,999 | | 9,715 | |
| Total assets | $ 171,992 | | $ 156,891 | | $ 135,390 | |
| **Average Liabilities and Stockholders' Equity** | | | | | | |
| Short-term borrowings | $ 44,485 | 1.84% | $ 36,059 | 4.73% | $ 16,385 | 5.74% |
| Long-term borrowings | 118,699 | 1.87 | 111,625 | 3.76 | 109,984 | 5.59 |
| Total interest-bearing liabilities | 163,184 | 1.86% | 147,684 | 4.00% | 126,369 | 5.61% |
| Non-interest-bearing liabilities | 3,719 | | 3,797 | | 4,272 | |
| Stockholders' equity | 5,089 | | 5,410 | | 4,749 | |
| Total liabilities and stockholders' equity | $ 171,992 | | $ 156,891 | | $ 135,390 | |
| Net interest margin | | 1.05% | | .93% | | 1.26% |

***Rate/Volume Analysis — On-Balance Sheet***

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

| | (Decrease) Increase | (Decrease) Increase Attributable to Change in | |
|---|---|---|---|
| | | Rate | Volume |
| **2009 vs. 2008** | | | |
| Interest income | $ (2,512) | $ (3,386) | $ 874 |
| Interest expense | (2,870) | (3,534) | 664 |
| Net interest income | $ 358 | $ 148 | $ 210 |
| **2008 vs. 2007** | | | |
| Interest income | $ (1,404) | $ (3,163) | $ 1,759 |
| Interest expense | (1,181) | (2,402) | 1,221 |
| Net interest income | $ (223) | $ (761) | $ 538 |

***Net Interest Margin — On-Balance Sheet***

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Student loan spread[1][2] | 1.42% | 1.28% | 1.44% |
| Other asset spread[1][3] | (1.96) | (.27) | (.16) |
| Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1] | 1.18 | 1.17 | 1.26 |
| Less: 2008 Asset-Backed Financing Facilities fees | (.13) | (.24) | — |
| Net interest margin | 1.05% | .93% | 1.26% |

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

(2) Composition of student loan spread:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Student loan yield, before Floor Income | 3.27% | 5.60% | 7.92% |
| Gross Floor Income | .49 | .28 | .05 |
| Consolidation Loan Rebate Fees | (.48) | (.55) | (.63) |
| Repayment Borrower Benefits | (.09) | (.11) | (.12) |
| Premium and discount amortization | (.11) | (.16) | (.18) |
| Student loan net yield | 3.08 | 5.06 | 7.04 |
| Student loan cost of funds | (1.66) | (3.78) | (5.60) |
| Student loan spread, before 2008 Asset-Backed Financing Facilities fees | 1.42% | 1.28% | 1.44% |

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

*Student Loan Spread — On-Balance Sheet*

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

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the year ended December 31, 2009, increased 14 basis points from the prior year. The student loan spread was positively impacted by lower cost of funds related to the ED Conduit Program (See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs"), higher asset spreads earned on Private Education Loans originated during 2009 compared to prior years, an increase in Gross Floor Income and a lower cost of funds due to the impact of ASC 815 (discussed below). Partially offsetting these improvements to the student loan spread was a 18 basis point widening of the CP/LIBOR spread, higher credit spreads on the Company's ABS debt issued in 2008 and 2009 due to the current credit environment and lower spreads earned on FFELP loans funded through the ED Participation Program.

The student loan spread for 2008, before 2008 Asset-Backed Financing Facilities fees, decreased 16 basis points from 2007. The decrease was primarily due to an increase in our cost of funds, which is the result of both an increase in the credit spread on the Company's debt issued in the previous year as a result of the credit environment as well as due to the impact of ASC 815 (discussed below). This was partially offset by an increase in Floor Income due to a decrease in interest rates in 2008 compared to 2007.

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

*Other Asset Spread — On-Balance Sheet*

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread decreased 169 basis points from 2008 to 2009, and decreased 11 basis points from 2007 to 2008. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under ASC 815 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the "Core Earnings" basis other asset spread discussed below.

*Net Interest Margin — On-Balance Sheet*

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for 2009 increased 1 basis point from 2008 and decreased 9 basis points from 2007 to 2008. These changes primarily relate to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between 2009 and 2008; however, the increase in the percentage between 2008 and 2007 increased the net interest margin by 7 basis points. This increase was more than offset for the reasons discussed above.

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

***"Core Earnings" Net Interest Margin***

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

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;
- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as ASC 815 hedges are recorded as part of the "gain (loss) on derivative and hedging activities, net" line in the consolidated statements of income and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our "Core Earnings" net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;
- Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and
- Includes the amortization of upfront payments on Fixed Rate Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| "Core Earnings" basis student loan spread(1): | | | |
| FFELP loan spread | .63% | .83% | .96% |
| Private Education Loan spread(2) | 4.54 | 5.09 | 5.12 |
| Total "Core Earnings" basis student loan spread(3) | 1.39 | 1.63 | 1.67 |
| "Core Earnings" basis other asset spread(1)(4) | (.93) | (.51) | (.11) |
| "Core Earnings" net interest margin, before 2008 Asset-Backed Financing Facilities fees(1) | 1.25 | 1.49 | 1.49 |
| Less: 2008 Asset-Backed Financing Facilities fees | (.11) | (.19) | — |
| "Core Earnings" net interest margin(5) | 1.14% | 1.30% | 1.49% |

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

(2) "Core Earnings" basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses: .66% (2009), 2.41% (2008), .41% (2007)

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| "Core Earnings" basis student loan yield | 3.43% | 5.77% | 8.12% |
| Consolidation Loan Rebate Fees | (.47) | (.52) | (.57) |
| Repayment Borrower Benefits | (.09) | (.11) | (.11) |
| Premium and discount amortization | (.09) | (.14) | (.17) |
| "Core Earnings" basis student loan net yield | 2.78 | 5.00 | 7.27 |
| "Core Earnings" basis student loan cost of funds | (1.39) | (3.37) | (5.60) |
| "Core Earnings" basis student loan spread, before 2008 Asset-Backed Financing Facilities fees | 1.39% | 1.63% | 1.67% |

(4) Comprised of investments, cash and other loans

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

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| FFELP loans | $ 150,059 | $ 141,647 | $ 127,940 |
| Private Education Loans | 36,046 | 32,597 | 26,190 |
| Total student loans | 186,105 | 174,244 | 154,130 |
| Other interest-earning assets | 12,897 | 12,403 | 17,455 |
| Total Managed interest-earning assets | $ 199,002 | $ 186,647 | $ 171,585 |

*"Core Earnings" Basis Student Loan Spread*

The "Core Earnings" basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for 2009 decreased 24 basis points from 2008. The "Core Earnings" basis student loan spread was negatively impacted primarily by a 18 basis point widening of the CP/LIBOR spread, higher credit spreads on the Company's ABS debt issued in 2008 and 2009 due to the current credit environment and lower spreads earned on FFELP loans funded through the ED Participation Program. Partially offsetting these decreases to the student loan spread are lower cost of funds related to the ED Conduit Program (See "LIQUIDITY AND CAPITAL RESOURCES — ED Funding Programs") and higher asset spreads earned on Private Education Loans originated during 2009 compared to prior years.

The “Core Earnings” basis student loan spread, before the 2008 Asset Backed Financing Facilities fees, decreased 4 basis points from 2007 for 2008, primarily due to an increase in the Company’s cost of funds, due to an increase in the credit spreads on the Company’s debt issued during the past year due to the current credit environment. The decrease to the student loan spread was partially offset by the growth in the Private Education Loan portfolio which earns a higher margin than FFELP.

The “Core Earnings” basis FFELP loan spread for 2009 declined from 2008 and 2007 primarily as a result of the increase in cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007, which have lower yields as a result of the CCRAA.

The “Core Earnings” basis Private Education Loan spread before provision for loan losses for 2009 decreased from 2008 primarily as a result of the increase in cost of funds previously discussed. The changes in the “Core Earnings” basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see “Private Education Loan Losses — *Allowance for Private Education Loan Losses*”).

*“Core Earnings” Basis Other Asset Spread*

The “Core Earnings” basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The “Core Earnings” basis other asset spread for 2009 decreased 42 basis points from 2008 and decreased 40 basis points from 2007 to 2008. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. Changes in this spread are also a result of the increase in our cost of funds, as previously discussed.

*“Core Earnings” Net Interest Margin*

The “Core Earnings” net interest margin for 2009, before the 2008 Asset-Backed Financing Facilities fees, decreased 24 basis points from 2008 and remained constant from 2007 to 2008. These changes primarily relate to the previously discussed changes in the “Core Earnings” basis student loan and other asset spreads. The Managed student loan portfolio, as a percentage of the overall interest-earning asset portfolio did not change substantially between 2009 and 2008; however, the increase in the percentage between 2008 and 2007 increased the net interest margin by 6 basis points. This increase was offset by the factors discussed above.

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

**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 Managed Student Loan Balances, net***

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other(1) | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| On-balance sheet: | | | | | |
| In-school | $ 15,250 | $ — | $ 15,250 | $ 6,058 | $ 21,308 |
| Grace and repayment | 36,543 | 67,235 | 103,778 | 18,198 | 121,976 |
| Total on-balance sheet, gross | 51,793 | 67,235 | 119,028 | 24,256 | 143,284 |
| On-balance sheet unamortized premium/(discount) | 986 | 1,201 | 2,187 | (559) | 1,628 |
| On-balance sheet receivable for partially charged-off loans | — | — | — | 499 | 499 |
| On-balance sheet allowance for losses | (104) | (57) | (161) | (1,443) | (1,604) |
| Total on-balance sheet, net | 52,675 | 68,379 | 121,054 | 22,753 | 143,807 |
| Off-balance sheet: | | | | | |
| In-school | 232 | — | 232 | 773 | 1,005 |
| Grace and repayment | 5,143 | 14,369 | 19,512 | 12,213 | 31,725 |
| Total off-balance sheet, gross | 5,375 | 14,369 | 19,744 | 12,986 | 32,730 |
| Off-balance sheet unamortized premium/(discount) | 139 | 438 | 577 | (349) | 228 |
| Off-balance sheet receivable for partially charged-off loans | — | — | — | 229 | 229 |
| Off-balance sheet allowance for losses | (15) | (10) | (25) | (524) | (549) |
| Total off-balance sheet, net | 5,499 | 14,797 | 20,296 | 12,342 | 32,638 |
| Total Managed | $ 58,174 | $ 83,176 | $ 141,350 | $ 35,095 | $ 176,445 |
| % of on-balance sheet FFELP | 44% | 56% | 100% | | |
| % of Managed FFELP | 41% | 59% | 100% | | |
| % of total | 33% | 47% | 80% | 20% | 100% |

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

| | December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other(1) | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| On-balance sheet: | | | | | |
| In-school | $ 18,961 | $ — | $ 18,961 | $ 7,972 | $ 26,933 |
| Grace and repayment | 32,455 | 70,511 | 102,966 | 14,231 | 117,197 |
| Total on-balance sheet, gross | 51,416 | 70,511 | 121,927 | 22,203 | 144,130 |
| On-balance sheet unamortized premium/(discount) | 1,151 | 1,280 | 2,431 | (535) | 1,896 |
| On-balance sheet receivable for partially charged-off loans | — | — | — | 222 | 222 |
| On-balance sheet allowance for losses | (91) | (47) | (138) | (1,308) | (1,446) |
| Total on-balance sheet, net | 52,476 | 71,744 | 124,220 | 20,582 | 144,802 |
| Off-balance sheet: | | | | | |
| In-school | 473 | — | 473 | 1,629 | 2,102 |
| Grace and repayment | 6,583 | 15,078 | 21,661 | 12,062 | 33,723 |
| Total off-balance sheet, gross | 7,056 | 15,078 | 22,134 | 13,691 | 35,825 |
| Off-balance sheet unamortized premium/(discount) | 105 | 462 | 567 | (361) | 206 |
| Off-balance sheet receivable for partially charged-off loans | — | — | — | 92 | 92 |
| Off-balance sheet allowance for losses | (18) | (9) | (27) | (505) | (532) |
| Total off-balance sheet, net | 7,143 | 15,531 | 22,674 | 12,917 | 35,591 |
| Total Managed | $ 59,619 | $ 87,275 | $ 146,894 | $ 33,499 | $ 180,393 |
| % of on-balance sheet FFELP | 42% | 58% | 100% | | |
| % of Managed FFELP | 41% | 59% | 100% | | |
| % of total | 33% | 48% | 81% | 19% | 100% |

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

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

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

| | Year Ended December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other(1) | FFELP Consolidation Loans | Total FFELP | Private Education Loans | Total |
| On-balance sheet | $ 58,492 | $ 70,046 | $ 128,538 | $ 23,154 | $ 151,692 |
| Off-balance sheet | 6,365 | 15,156 | 21,521 | 12,892 | 34,413 |
| Total Managed | $ 64,857 | $ 85,202 | $ 150,059 | $ 36,046 | $ 186,105 |
| % of on-balance sheet FFELP | 46% | 54% | 100% | | |
| % of Managed FFELP | 43% | 57% | 100% | | |
| % of total | 35% | 46% | 81% | 19% | 100% |

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

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

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

***Floor Income — Managed Basis***

The following table analyzes the ability of the FFELP loans in our Managed portfolio to earn Floor Income after December 31, 2009 and 2008, based on interest rates as of those dates.

| (Dollars in billions) | December 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 103.3 | $ 14.9 | $ 118.2 | $ 104.9 | $ 16.1 | $ 121.0 |
| Off-balance sheet student loans | 14.3 | 5.4 | 19.7 | 15.0 | 7.0 | 22.0 |
| Managed student loans eligible to earn Floor Income | 117.6 | 20.3 | 137.9 | 119.9 | 23.1 | 143.0 |
| Less: post-March 31, 2006 disbursed loans required to rebate Floor Income | (64.9) | (1.2) | (66.1) | (64.3) | (1.3) | (65.6) |
| Less: economically hedged Floor Income Contracts | (39.6) | — | (39.6) | (28.6) | — | (28.6) |
| Net Managed student loans eligible to earn Floor Income | $ 13.1 | $ 19.1 | $ 32.2 | $ 27.0 | $ 21.8 | $ 48.8 |
| Net Managed student loans earning Floor Income as of December 31, | $ 13.1 | $ 3.0 | $ 16.1 | $ 4.3 | $ 4.8 | $ 9.1 |

We have sold Floor Income contracts to hedge the potential Floor Income from specifically identified pools of FFELP Consolidation Loans that are eligible to earn Floor Income.

The following table presents a projection of the average Managed balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period January 1, 2010 to September 30, 2013. These loans are both on-and off-balance sheet and the related hedges do not qualify under ASC 815 accounting as effective hedges.

| (Dollars in billions) | Years Ended December 31, | | | |
|---|---|---|---|---|
| | 2010 | 2011 | 2012 | 2013 |
| Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged (Managed Basis) | $ 37 | $ 25 | $ 16 | $ 5 |

**Private Education Loan Losses**

***On-Balance Sheet versus Managed Basis Presentation***

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

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

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

***Private Education Loan Delinquencies and Forbearance***

The table below presents our Private Education Loan delinquency trends as of December 31, 2009, 2008 and 2007. Delinquencies have the potential to adversely impact earnings as they are an indication of the borrower's potential to possibly default and as a result require a higher loan loss reserve than loans in current status. Delinquent loans also require increased servicing and collection efforts, resulting in higher operating costs.

| | On-Balance Sheet Private Education Loan Delinquencies | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2009 | | December 31, 2008 | | December 31, 2007 | |
| | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 8,910 | | $ 10,159 | | $ 8,151 | |
| Loans in forbearance[2] | 967 | | 862 | | 974 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 12,421 | 86.4% | 9,748 | 87.2% | 6,236 | 88.5% |
| Loans delinquent 31-60 days[3] | 647 | 4.5 | 551 | 4.9 | 306 | 4.3 |
| Loans delinquent 61-90 days[3] | 340 | 2.4 | 296 | 2.6 | 176 | 2.5 |
| Loans delinquent greater than 90 days[3] | 971 | 6.7 | 587 | 5.3 | 329 | 4.7 |
| Total Private Education Loans in repayment | 14,379 | 100% | 11,182 | 100% | 7,047 | 100% |
| Total Private Education Loans, gross | 24,256 | | 22,203 | | 16,172 | |
| Private Education Loan unamortized discount | (559) | | (535) | | (468) | |
| Total Private Education Loans | 23,697 | | 21,668 | | 15,704 | |
| Private Education Loan receivable for partially charged-off loans | 499 | | 222 | | 118 | |
| Private Education Loan allowance for losses | (1,443) | | (1,308) | | (1,004) | |
| Private Education Loans, net | $ 22,753 | | $ 20,582 | | $ 14,818 | |
| Percentage of Private Education Loans in repayment | | 59.3% | | 50.4% | | 43.6% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 13.6% | | 12.8% | | 11.5% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 6.3% | | 7.2% | | 12.1% |

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

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

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

| | Off-Balance Sheet Private Education Loan Delinquencies | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2009 | | December 31, 2008 | | December 31, 2007 | |
| | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 2,546 | | $ 3,461 | | $ 4,963 | |
| Loans in forbearance[2] | 453 | | 700 | | 1,417 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 8,987 | 90.0% | 8,843 | 92.8% | 7,403 | 94.7% |
| Loans delinquent 31-60 days[3] | 332 | 3.3 | 315 | 3.3 | 202 | 2.6 |
| Loans delinquent 61-90 days[3] | 151 | 1.5 | 121 | 1.3 | 84 | 1.1 |
| Loans delinquent greater than 90 days[3] | 517 | 5.2 | 251 | 2.6 | 130 | 1.6 |
| Total Private Education Loans in repayment | 9,987 | 100% | 9,530 | 100% | 7,819 | 100% |
| Total Private Education Loans, gross | 12,986 | | 13,691 | | 14,199 | |
| Private Education Loan unamortized discount | (349) | | (361) | | (355) | |
| Total Private Education Loans | 12,637 | | 13,330 | | 13,844 | |
| Private Education Loan receivable for partially charged-off loans | 229 | | 92 | | 28 | |
| Private Education Loan allowance for losses | (524) | | (505) | | (362) | |
| Private Education Loans, net | $ 12,342 | | $ 12,917 | | $ 13,510 | |
| Percentage of Private Education Loans in repayment | | 76.9% | | 69.6% | | 55.1% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 10.0% | | 7.2% | | 5.3% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 4.3% | | 6.8% | | 15.3% |

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

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

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

| | Managed Basis Private Education Loan Delinquencies | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2009 | | December 31, 2008 | | December 31, 2007 | |
| | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 11,456 | | $ 13,620 | | $ 13,114 | |
| Loans in forbearance[2] | 1,420 | | 1,562 | | 2,391 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 21,408 | 87.9% | 18,591 | 89.8% | 13,639 | 91.7% |
| Loans delinquent 31-60 days[3] | 979 | 4.0 | 866 | 4.2 | 508 | 3.4 |
| Loans delinquent 61-90 days[3] | 491 | 2.0 | 417 | 2.0 | 260 | 1.8 |
| Loans delinquent greater than 90 days[3] | 1,488 | 6.1 | 838 | 4.0 | 459 | 3.1 |
| Total Private Education Loans in repayment | 24,366 | 100% | 20,712 | 100% | 14,866 | 100% |
| Total Private Education Loans, gross | 37,242 | | 35,894 | | 30,371 | |
| Private Education Loan unamortized discount | (908) | | (896) | | (823) | |
| Total Private Education Loans | 36,334 | | 34,998 | | 29,548 | |
| Private Education Loan receivable for partially charged-off loans | 728 | | 314 | | 146 | |
| Private Education Loan allowance for losses | (1,967) | | (1,813) | | (1,366) | |
| Private Education Loans, net | $ 35,095 | | $ 33,499 | | $ 28,328 | |
| Percentage of Private Education Loans in repayment | | 65.4% | | 57.7% | | 48.9% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 12.1% | | 10.2% | | 8.3% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 5.5% | | 7.0% | | 13.9% |

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

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

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

***Allowance for Private Education Loan Losses***

The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2009, 2008 and 2007.

| | Activity in Allowance for Private Education Loans | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | On-Balance Sheet Years Ended December 31, | | | Off-Balance Sheet Years Ended December 31, | | | Managed Basis Years Ended December 31, | | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Allowance at beginning of period | $ 1,308 | $ 1,004 | $ 372 | $ 505 | $ 362 | $ 86 | $ 1,813 | $ 1,366 | $ 458 |
| Provision for Private Education Loan losses | 967 | 586 | 884 | 432 | 288 | 349 | 1,399 | 874 | 1,233 |
| Charge-offs | (876) | (320) | (246) | (423) | (153) | (79) | (1,299) | (473) | (325) |
| Reclassification of interest reserve(1) | 44 | 38 | — | 10 | 8 | — | 54 | 46 | — |
| Balance before securitization of Private Education Loans | 1,443 | 1,308 | 1,010 | 524 | 505 | 356 | 1,967 | 1,813 | 1,366 |
| Reduction for securitization of Private Education Loans | — | — | (6) | — | — | 6 | — | — | — |
| Allowance at end of period | $ 1,443 | $ 1,308 | $ 1,004 | $ 524 | $ 505 | $ 362 | $ 1,967 | $ 1,813 | $ 1,366 |
| Charge-offs as a percentage of average loans in repayment | 7.2% | 3.8% | 4.1% | 4.4% | 1.9% | 1.1% | 6.0% | 2.9% | 2.5% |
| Charge-offs as a percentage of average loans in repayment and forbearance | 6.7% | 3.3% | 3.7% | 4.2% | 1.6% | .9% | 5.6% | 2.5% | 2.2% |
| Allowance as a percentage of the ending total loan balance(2) | 5.8% | 5.8% | 6.2% | 4.0% | 3.7% | 2.5% | 5.2% | 5.0% | 4.5% |
| Allowance as a percentage of ending loans in repayment | 10.0% | 11.7% | 14.2% | 5.2% | 5.3% | 4.6% | 8.1% | 8.8% | 9.2% |
| Average coverage of charge-offs | 1.6 | 4.1 | 4.1 | 1.2 | 3.3 | 4.6 | 1.5 | 3.8 | 4.2 |
| Ending total loans(2) | $ 24,755 | $ 22,426 | $ 16,290 | $ 13,215 | $ 13,782 | $ 14,227 | $ 37,970 | $ 36,208 | $ 30,517 |
| Average loans in repayment | $ 12,137 | $ 8,533 | $ 5,949 | $ 9,597 | $ 8,088 | $ 7,305 | $ 21,734 | $ 16,621 | $ 13,254 |
| Ending loans in repayment | $ 14,379 | $ 11,182 | $ 7,047 | $ 9,987 | $ 9,530 | $ 7,819 | $ 24,366 | $ 20,712 | $ 14,866 |

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the year ended December 31, 2007, this amount was $21 million and $27 million on an On-Balance Sheet Basis and a Managed Basis, respectively.

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

The following table provides the detail for our traditional and non-traditional Managed Private Education Loans at December 31, 2009, 2008 and 2007.

| | December 31, 2009 | | | December 31, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Traditional | Non-Traditional | Total | Traditional | Non-Traditional | Total | Traditional | Non-Traditional | Total |
| Ending total loans(1) | $33,223 | $4,747 | $37,970 | $31,101 | $5,107 | $36,208 | $25,848 | $4,669 | $30,517 |
| Ending loans in repayment | 21,453 | 2,913 | 24,366 | 17,715 | 2,997 | 20,712 | 12,711 | 2,155 | 14,866 |
| Private Education Loan allowance for losses | 1,056 | 911 | 1,967 | 859 | 954 | 1,813 | 495 | 871 | 1,366 |
| Charge-offs as a percentage of average loans in repayment | 3.6% | 21.4% | 6.0% | 1.4% | 11.1% | 2.9% | 1.2% | 9.5% | 2.5% |
| Allowance as a percentage of ending total loan balance(1) | 3.2% | 19.2% | 5.2% | 2.8% | 18.7% | 5.0% | 1.9% | 18.7% | 4.5% |
| Allowance as a percentage of ending loans in repayment | 4.9% | 31.3% | 8.1% | 4.8% | 31.8% | 8.8% | 3.9% | 40.4% | 9.2% |
| Average coverage of charge-offs | 1.6 | 1.5 | 1.5 | 4.2 | 3.5 | 3.8 | 3.6 | 4.6 | 4.2 |
| Delinquencies as a percentage of Private Education Loans in repayment | 9.5% | 31.4% | 12.1% | 7.1% | 28.9% | 10.2% | 5.2% | 26.3% | 8.3% |
| Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment | 4.6% | 17.5% | 6.1% | 2.6% | 12.7% | 4.0% | 1.7% | 11.1% | 3.1% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 5.3% | 7.1% | 5.5% | 6.7% | 9.0% | 7.0% | 12.8% | 19.4% | 13.9% |
| Percentage of Private Education Loans with a cosigner | 61% | 28% | 57% | 59% | 26% | 55% | 57% | 25% | 52% |
| Average FICO at origination | 725 | 623 | 713 | 723 | 622 | 710 | 723 | 620 | 708 |

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

Managed provision expense for Private Education Loans was $1.4 billion in 2009 compared to $874 million for 2008 and $1.2 billion in 2007. The increase in provision expense from 2008 to 2009 is a result of the weak U.S. economy and the continued uncertainty surrounding the U.S. economy. As a result of the economy, provision expense has remained elevated since the fourth quarter of 2008. The Private Education Loan portfolio experienced a significant increase in delinquencies through the first quarter of 2009 (as of March 31, 2009, delinquencies as a percentage of loans in repayment was 13.4 percent); however, delinquencies as a percentage of loans in repayment declined in the second, third and fourth quarters of 2009. The Company believes charge-offs peaked in the third quarter of 2009 and will decline in future quarters as evidenced by the 33 percent decline in charge-offs that occurred between the third and fourth quarters of 2009. The increase in charge-off levels through the third quarter of 2009 was generally anticipated and was previously reflected in our allowance for loan losses. As of December 31, 2009, the Managed Private Education Loan allowance coverage of current-year charge-offs ratio was 1.5 compared to 3.8 as of December 31, 2008. This decrease in the allowance coverage ratio was expected as evidenced by the charge-off activity during 2009, noted above. The allowance for loan losses as a percentage of ending Private Education Loans in repayment has remained relatively consistent at approximately 8.1 percent at December 31, 2009 and 8.8 percent at December 31, 2008. Managed Private Education Loan delinquencies as a percentage of loans in repayment increased from 10.2 percent to 12.1 percent from December 31, 2008 to December 31, 2009. Managed Private Education Loans in forbearance as a percentage of loans in repayment and forbearance decreased from 7.0 percent as of December 31, 2008 to 5.5 percent at December 31, 2009. As part of concluding that the allowance for loan losses for Private Education Loans is appropriate as of December 31, 2009, the Company analyzed changes in the key ratios disclosed in the tables above.

Managed provision expense decreased to $874 million in 2008 from $1.2 billion in 2007. In the fourth quarter of 2007, the Company recorded provision expense of $667 million for the Managed Private Education Loan portfolio. This significant level of provision expense, compared to prior and subsequent quarters, primarily related to the non-traditional portion of the Company's Private Education Loan portfolio which the Company had been expanding over the past few years. The Company has terminated these non-traditional loan programs because the performance of these loans was found to be materially different from original expectations. The non-traditional portfolio is particularly impacted by the weakening U.S. economy and an underlying borrower's ability to repay.

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

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As we have obtained further experience about the effectiveness of forbearance, we have reduced the amount of time a loan will spend in forbearance, thereby increasing our ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status. As a result, the balance of loans in a forbearance status as of month-end has decreased over the course of 2008 and 2009. In addition, the monthly average amount of loans granted forbearance as a percentage of loans in repayment and forbearance declined to 5.6 percent in the fourth quarter of 2009 compared to the year-ago quarter of 6.5 percent. As of December 31, 2009, 1.9 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current during December.

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, over 70 percent of the loans are current, paid-in-full or receiving an in-school grace or deferment, and 14 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses.

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

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

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

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

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

| December 31, 2007 | Monthly Scheduled Payments Due 0 to 24 | 25 to 48 | More than 48 | Not Yet in Repayment | Total |
|---|---|---|---|---|---|
| Loans in-school/grace/deferment | $ — | $ — | $ — | $ 13,114 | $ 13,114 |
| Loans in forbearance | 2,228 | 118 | 45 | — | 2,391 |
| Loans in repayment — current | 9,184 | 2,807 | 1,648 | — | 13,639 |
| Loans in repayment — delinquent 31-60 days | 407 | 64 | 37 | — | 508 |
| Loans in repayment — delinquent 61-90 days | 221 | 25 | 14 | — | 260 |
| Loans in repayment — delinquent greater than 90 days | 376 | 52 | 31 | — | 459 |
| Total | $ 12,416 | $ 3,066 | $ 1,775 | $ 13,114 | 30,371 |
| Unamortized discount | | | | | (823) |
| Receivable for partially charged-off loans | | | | | 146 |
| Allowance for loan losses | | | | | (1,366) |
| Total Managed Private Education Loans, net | | | | | $ 28,328 |
| Loans in forbearance as a percentage of loans in repayment and forbearance | 17.9% | 3.8% | 2.5% | —% | 13.9% |

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

| | December 31, 2009 | | December 31, 2008 | | December 31, 2007 | |
|---|---|---|---|---|---|---|
| | Forbearance Balance | % of Total | Forbearance Balance | % of Total | Forbearance Balance | % of Total |
| **Cumulative number of months borrower has used forbearance** | | | | | | |
| Up to 12 months | $ 1,050 | 74% | $ 1,075 | 69% | $ 1,641 | 69% |
| 13 to 24 months | 332 | 23 | 368 | 23 | 629 | 26 |
| More than 24 months | 38 | 3 | 119 | 8 | 121 | 5 |
| Total | $ 1,420 | 100% | $ 1,562 | 100% | $ 2,391 | 100% |

**FFELP Loan Losses**

***FFELP Delinquencies and Forbearance***

The tables below present our FFELP loan delinquency trends as of December 31, 2009, 2008 and 2007. Delinquencies have the potential to adversely impact earnings as they are an indication of the borrower's potential to possibly default and as a result require a higher loan loss reserve than loans in current status. Delinquent loans also require increased servicing and collection efforts, resulting in higher operating costs.

| | On-Balance Sheet FFELP Loan Delinquencies December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| (Dollars in millions) | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 35,079 | | $ 39,270 | | $ 31,200 | |
| Loans in forbearance[2] | 14,121 | | 12,483 | | 10,675 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 57,528 | 82.4% | 58,811 | 83.8% | 55,128 | 84.4% |
| Loans delinquent 31-60 days[3] | 4,250 | 6.1 | 4,044 | 5.8 | 3,650 | 5.6 |
| Loans delinquent 61-90 days[3] | 2,205 | 3.1 | 2,064 | 2.9 | 1,841 | 2.8 |
| Loans delinquent greater than 90 days[3] | 5,844 | 8.4 | 5,255 | 7.5 | 4,671 | 7.2 |
| Total FFELP loans in repayment | 69,827 | 100% | 70,174 | 100% | 65,290 | 100% |
| Total FFELP loans, gross | 119,027 | | 121,927 | | 107,165 | |
| FFELP loan unamortized premium | 2,187 | | 2,431 | | 2,259 | |
| Total FFELP loans | 121,214 | | 124,358 | | 109,424 | |
| FFELP loan allowance for losses | (161) | | (138) | | (89) | |
| FFELP loans, net | $ 121,053 | | $ 124,220 | | $ 109,335 | |
| Percentage of FFELP loans in repayment | | 58.7% | | 57.6% | | 60.9% |
| Delinquencies as a percentage of FFELP loans in repayment | | 17.6% | | 16.2% | | 15.6% |
| FFELP loans in forbearance as a percentage of loans in repayment and forbearance | | 16.8% | | 15.1% | | 14.1% |

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

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

| (Dollars in millions) | Off-Balance Sheet FFELP Loan Delinquencies December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 3,312 | | $ 4,115 | | $ 5,060 | |
| Loans in forbearance[2] | 2,726 | | 2,821 | | 2,950 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 11,304 | 82.5% | 12,441 | 81.9% | 13,703 | 79.2% |
| Loans delinquent 31-60 days[3] | 804 | 5.9 | 881 | 5.8 | 1,017 | 5.9 |
| Loans delinquent 61-90 days[3] | 439 | 3.2 | 484 | 3.2 | 577 | 3.3 |
| Loans delinquent greater than 90 days[3] | 1,160 | 8.4 | 1,392 | 9.1 | 1,999 | 11.6 |
| Total FFELP loans in repayment | 13,707 | 100% | 15,198 | 100% | 17,296 | 100% |
| Total FFELP loans, gross | 19,745 | | 22,134 | | 25,306 | |
| FFELP loan unamortized premium | 577 | | 567 | | 636 | |
| Total FFELP loans | 20,322 | | 22,701 | | 25,942 | |
| FFELP loan allowance for losses | (25) | | (27) | | (29) | |
| FFELP loans, net | $ 20,297 | | $ 22,674 | | $ 25,913 | |
| Percentage of FFELP loans in repayment | | 69.4% | | 68.7% | | 68.4% |
| Delinquencies as a percentage of FFELP loans in repayment | | 17.5% | | 18.1% | | 20.8% |
| FFELP loans in forbearance as a percentage of loans in repayment and forbearance | | 16.6% | | 15.7% | | 14.6% |

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

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

| (Dollars in millions) | Managed Basis FFELP Loan Delinquencies December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 38,391 | | $ 43,385 | | $ 36,260 | |
| Loans in forbearance[2] | 16,847 | | 15,304 | | 13,625 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 68,832 | 82.4% | 71,252 | 83.5% | 68,831 | 83.3% |
| Loans delinquent 31-60 days[3] | 5,054 | 6.0 | 4,925 | 5.8 | 4,667 | 5.7 |
| Loans delinquent 61-90 days[3] | 2,644 | 3.2 | 2,548 | 2.9 | 2,418 | 2.9 |
| Loans delinquent greater than 90 days[3] | 7,004 | 8.4 | 6,647 | 7.8 | 6,670 | 8.1 |
| Total FFELP loans in repayment | 83,534 | 100% | 85,372 | 100% | 82,586 | 100% |
| Total FFELP loans, gross | 138,772 | | 144,061 | | 132,471 | |
| FFELP loan unamortized premium | 2,764 | | 2,998 | | 2,895 | |
| Total FFELP loans | 141,536 | | 147,059 | | 135,366 | |
| FFELP loan allowance for losses | (186) | | (165) | | (118) | |
| FFELP loans, net | $ 141,350 | | $ 146,894 | | $ 135,248 | |
| Percentage of FFELP loans in repayment | | 60.2% | | 59.3% | | 62.3% |
| Delinquencies as a percentage of FFELP loans in repayment | | 17.6% | | 16.5% | | 16.7% |
| FFELP loans in forbearance as a percentage of loans in repayment and forbearance | | 16.8% | | 15.2% | | 14.2% |

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

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

***Allowance for FFELP Loan Losses***

The provision for student loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred Risk Sharing losses, in the portfolio of FFELP loans.

The following table summarizes changes in the allowance for FFELP loan losses for the years ended December 31, 2009, 2008 and 2007.

| | Activity in Allowance for FFELP Loans | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | On-Balance Sheet Years Ended December 31, | | | Off-Balance Sheet Years Ended December 31, | | | Managed Basis Years Ended December 31, | | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Allowance at beginning of period | $ 138 | $ 89 | $ 20 | $ 27 | $ 29 | $ 14 | $ 165 | $ 118 | $ 34 |
| Provision for FFELP loan losses | 106 | 106 | 89 | 13 | 21 | 32 | 119 | 127 | 121 |
| Charge-offs | (79) | (58) | (21) | (15) | (21) | (15) | (94) | (79) | (36) |
| Student loan sales and securitization activity | (4) | 1 | 1 | — | (2) | (2) | (4) | (1) | (1) |
| Allowance at end of period | $ 161 | $ 138 | $ 89 | $ 25 | $ 27 | $ 29 | $ 186 | $ 165 | $ 118 |
| Charge-offs as a percentage of average loans in repayment | .1% | .1% | .0% | .1% | .1% | .1% | .1% | .1% | .1% |
| Charge-offs as a percentage of average loans in repayment and forbearance | .1% | .1% | .0% | .1% | .1% | .1% | .1% | .1% | .0% |
| Allowance as a percentage of the ending total loans, gross | .1% | .1% | .1% | .1% | .1% | .1% | .1% | .1% | .1% |
| Allowance as a percentage of ending loans in repayment | .2% | .2% | .1% | .2% | .2% | .2% | .2% | .2% | .1% |
| Average coverage of charge-offs | 2.0 | 2.4 | 4.2 | 1.7 | 1.3 | 1.9 | 2.0 | 2.1 | 3.2 |
| Ending total loans, gross | $ 119,027 | $ 121,927 | $ 107,165 | $ 19,745 | $ 22,134 | $ 25,306 | $ 138,772 | $ 144,061 | $ 132,471 |
| Average loans in repayment | $ 69,020 | $ 66,392 | $ 58,999 | $ 14,293 | $ 16,086 | $ 18,624 | $ 83,313 | $ 82,478 | $ 77,623 |
| Ending loans in repayment | $ 69,827 | $ 70,174 | $ 65,290 | $ 13,707 | $ 15,198 | $ 17,296 | $ 83,534 | $ 85,372 | $ 82,586 |

**Total Provisions for Loan Losses**

The following tables summarize the total loan provisions on both an on-balance sheet and on a Managed Basis for the years ended December 31, 2009, 2008 and 2007.

*Total on-balance sheet loan provisions*

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Private Education Loans | $ 967 | $ 586 | $ 884 |
| FFELP Loans | 106 | 106 | 89 |
| Mortgage and consumer loans | 46 | 28 | 42 |
| Total on-balance sheet provisions for loan losses | $ 1,119 | $ 720 | $ 1,015 |

*Total Managed Basis loan provisions*

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Private Education Loans | $ 1,399 | $ 874 | $ 1,233 |
| FFELP loans | 119 | 127 | 121 |
| Mortgage and consumer loans | 46 | 28 | 40 |
| Total Managed Basis provisions for loan losses | $ 1,564 | $ 1,029 | $ 1,394 |

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

**Total Loan Charge-offs**

The following tables summarize the charge-offs for all loan types on-balance sheet and on a Managed Basis for the years ended December 31, 2009, 2008 and 2007.

*Total on-balance sheet loan charge-offs*

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Private Education Loans | $ 876 | $ 320 | $ 246 |
| FFELP loans | 79 | 58 | 21 |
| Mortgage and consumer loans | 35 | 17 | 11 |
| Total on-balance sheet loan charge-offs | $ 990 | $ 395 | $ 278 |

*Total Managed Basis loan charge-offs*

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Private Education Loans | $ 1,299 | $ 473 | $ 325 |
| FFELP loans | 94 | 79 | 36 |
| Mortgage and consumer loans | 35 | 17 | 11 |
| Total Managed loan charge-offs | $ 1,428 | $ 569 | $ 372 |

The increase in charge-offs on FFELP loans from 2007 through 2009 was primarily the result of legislative changes occurring in 2006 (the reduction in the federal guaranty on new loans to 97 percent) and 2007 (the repeal of the Exceptional Performer designation, under which claims were paid at 99 percent). The majority of our FFELP loans now possess a federal guaranty level on claims filed of either 97 percent or 98 percent, depending on date of disbursement. The increase in charge-offs is also due to the continued weakening of the U.S. economy. See "Private Education Loan Losses — *Allowance for Private Education Loan Losses"* above for a discussion of net charge-offs related to our Private Education Loans.

***Receivable for Partially Charged-Off Private Education Loans***

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

The following tables summarize the activity in the receivable for partially charged-off loans (see *"Allowance for Private Education Loan Losses,"* above, for a further discussion) for the years ended December 31, 2009, 2008 and 2007.

| | Activity in Receivable for Partially Charged-Off Loans | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | On-Balance Sheet Years Ended December 31, | | | Off-Balance Sheet Years Ended December 31, | | | Managed Basis Years Ended December 31, | | |
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| Receivable at beginning of period | $ 222 | $ 118 | $ 64 | $ 92 | $ 28 | $ — | $ 314 | $ 146 | $ 64 |
| Expected future recoveries of current period defaults[1] | 320 | 140 | 86 | 154 | 72 | 28 | 474 | 212 | 114 |
| Recoveries | (43) | (36) | (32) | (17) | (8) | — | (60) | (44) | (32) |
| Receivable at end of period | $ 499 | $ 222 | $ 118 | $ 229 | $ 92 | $ 28 | $ 728 | $ 314 | $ 146 |

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

**Student Loan Acquisitions**

The following tables summarize the components of our student loan acquisition activity for the years ended December 31, 2009, 2008 and 2007.

| | Year Ended December 31, 2009 | | |
|---|---|---|---|
| | FFELP | Private | Total |
| Internal lending brands and Lender Partners | $ 22,375 | $ 3,394 | $ 25,769 |
| Other commitment clients | 347 | — | 347 |
| Spot purchases | 1,523 | — | 1,523 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | 3,376 | 797 | 4,173 |
| Capitalized interest, premiums and discounts | 2,583 | 949 | 3,532 |
| Total on-balance sheet student loan acquisitions | 30,204 | 5,140 | 35,344 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | (3,376) | (797) | (4,173) |
| Capitalized interest, premiums and discounts — off-balance sheet securitized loans | 342 | 498 | 840 |
| Total Managed student loan acquisitions | $ 27,170 | $ 4,841 | $ 32,011 |

| | Year Ended December 31, 2008 | | |
|---|---|---|---|
| | FFELP | Private | Total |
| Internal lending brands and Lender Partners | $ 19,894 | $ 6,437 | $ 26,331 |
| Other commitment clients | 701 | — | 701 |
| Spot purchases | 206 | — | 206 |
| Consolidations from third parties | 462 | 149 | 611 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | 986 | 280 | 1,266 |
| Capitalized interest, premiums and discounts | 2,446 | 921 | 3,367 |
| Total on-balance sheet student loan acquisitions | 24,695 | 7,787 | 32,482 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | (986) | (280) | (1,266) |
| Capitalized interest, premiums and discounts — off-balance sheet securitized loans | 457 | 741 | 1,198 |
| Total Managed student loan acquisitions | $ 24,166 | $ 8,248 | $ 32,414 |

| | Year Ended December 31, 2007 | | |
|---|---|---|---|
| | FFELP | Private | Total |
| Internal lending brands and Lender Partners | $ 17,577 | $ 7,888 | $ 25,465 |
| Wholesale Consolidation Loans(1) | 7,048 | — | 7,048 |
| Other commitment clients | 248 | 57 | 305 |
| Spot purchases | 1,120 | — | 1,120 |
| Consolidations from third parties | 2,206 | 235 | 2,441 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | 3,744 | 582 | 4,326 |
| Capitalized interest, premiums and discounts | 2,279 | 444 | 2,723 |
| Total on-balance sheet student loan acquisitions | 34,222 | 9,206 | 43,428 |
| Consolidations and clean-up calls of off-balance sheet securitized loans | (3,744) | (582) | (4,326) |
| Capitalized interest, premiums and discounts — off-balance sheet securitized loans | 539 | 703 | 1,242 |
| Total Managed student loan acquisitions | $ 31,017 | $ 9,327 | $ 40,344 |

(1) Includes FFELP Consolidation Loans purchased by the Company primarily via the spot market, which augmented the Company's in-house FFELP Consolidation Loan origination process. Wholesale Consolidation Loans were considered incremental volume to the Company's core acquisition channels. In 2008, the Company ceased acquiring Wholesale Consolidation Loans.

As shown in the above tables, 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.

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| FFELP Stafford and Other Student Loans, net | $ 42,979 | $ 44,025 |
| FFELP Stafford Loans Held-for-Sale | 9,696 | 8,451 |
| FFELP Consolidation Loans, net | 68,379 | 71,744 |
| Private Education Loans, net | 22,753 | 20,582 |
| Other loans, net | 420 | 729 |
| Investments(1) | 12,387 | 8,445 |
| Retained Interest in off-balance sheet securitized loans | 1,828 | 2,200 |
| Other(2) | 9,398 | 9,947 |
| Total assets | $ 167,840 | $ 166,123 |

(1) Investments include cash and cash equivalents, short and long-term 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.

**Loan Originations**

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

As a result of the impacts described above, our FFELP internal brand originations were up sharply in 2009, increasing 40 percent from the prior year. Our FFELP lender partner originations declined 42 percent from 2008 to 2009. A number of these Lender Partners, including some of our largest originators have converted to third-party servicing arrangements in which we service loans on their behalf. Combined, total FFELP loan originations increased 21 percent in 2009.

Total Private Education Loan originations declined 50 percent from the prior year to $3.2 billion in the year ended December 31, 2009, as a result of a continued tightening of our underwriting criteria, an increase in guaranteed student loan limits and the Company's withdrawal from certain markets.

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

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

| | Years Ended | | |
|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2007 |
| **Loan Originations — Internal lending brands** | | | |
| Stafford | $ 16,675 | $ 11,593 | $ 7,404 |
| PLUS | 1,594 | 1,437 | 1,439 |
| GradPLUS | 1,094 | 801 | 498 |
| Total FFELP | 19,363 | 13,831 | 9,341 |
| Private Education Loans | 2,969 | 5,791 | 7,267 |
| Total | $ 22,332 | $ 19,622 | $ 16,608 |

| | Years Ended | | |
|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2007 |
| **Loan Originations — Lender Partners** | | | |
| Stafford | $ 2,178 | $ 3,652 | $ 6,963 |
| PLUS | 144 | 362 | 855 |
| GradPLUS | 61 | 62 | 103 |
| Total FFELP | 2,383 | 4,076 | 7,921 |
| Private Education Loans | 207 | 545 | 648 |
| Total | $ 2,590 | $ 4,621 | $ 8,569 |

| | Years Ended | | |
|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2007 |
| **Loan Originations — Total** | | | |
| Stafford | $ 18,853 | $ 15,245 | $ 14,367 |
| PLUS | 1,738 | 1,799 | 2,294 |
| GradPLUS | 1,155 | 863 | 601 |
| Total FFELP | 21,746 | 17,907 | 17,262 |
| Private Education Loans | 3,176 | 6,336 | 7,915 |
| Total | $ 24,922 | $ 24,243 | $ 25,177 |

**Student Loan Activity**

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

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

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

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

(1) FFELP category is primarily Stafford Loans but also includes federally guaranteed PLUS and HEAL Loans.
(2) Represents borrowers consolidating their loans into a new Consolidation Loan. Loans in our off-balance sheet securitization trusts that are consolidated are bought out of the trusts and moved on-balance sheet.
(3) Represents loans within securitization trusts that we are required to consolidate under GAAP once the trusts' loan balances are below the clean-up call threshold.
(4) As of December 31, 2009, the ending balance includes $15.9 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
(5) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

| | On-Balance Sheet Year Ended December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other[1] | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total On-Balance Sheet Portfolio |
| Beginning balance | $ 35,726 | $ 73,609 | $ 109,335 | $ 14,818 | $ 124,153 |
| Net consolidations: | | | | | |
| Incremental consolidations from third parties | — | 462 | 462 | 149 | 611 |
| Consolidations to third parties | (703) | (392) | (1,095) | (41) | (1,136) |
| Net consolidations | (703) | 70 | (633) | 108 | (525) |
| Acquisitions | 21,889 | 1,358 | 23,247 | 7,357 | 30,604 |
| Net acquisitions | 21,186 | 1,428 | 22,614 | 7,465 | 30,079 |
| Internal consolidations[2] | (409) | 529 | 120 | 228 | 348 |
| Off-balance sheet securitizations | — | — | — | — | — |
| Sales | (522) | (26) | (548) | — | (548) |
| Repayments/claims/other | (3,505) | (3,796) | (7,301) | (1,929) | (9,230) |
| Ending balance | $ 52,476 | $ 71,744 | $ 124,220 | $ 20,582 | $ 144,802 |

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

| | Managed Portfolio Year Ended December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other[1] | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Managed Basis Portfolio |
| Beginning balance | $ 45,198 | $ 90,050 | $ 135,248 | $ 28,328 | $ 163,576 |
| Net consolidations: | | | | | |
| Incremental consolidations from third parties | — | 462 | 462 | 149 | 611 |
| Consolidations to third parties | (1,014) | (475) | (1,489) | (98) | (1,587) |
| Net consolidations | (1,014) | (13) | (1,027) | 51 | (976) |
| Acquisitions | 22,135 | 1,569 | 23,704 | 8,099 | 31,803 |
| Net acquisitions | 21,121 | 1,556 | 22,677 | 8,150 | 30,827 |
| Internal consolidations[2] | (493) | 493 | — | — | — |
| Off-balance sheet securitizations | — | — | — | — | — |
| Sales | (522) | (26) | (548) | — | (548) |
| Repayments/claims/other | (5,685) | (4,798) | (10,483) | (2,979) | (13,462) |
| Ending balance[3] | $ 59,619 | $ 87,275 | $ 146,894 | $ 33,499 | $ 180,393 |
| Total Managed Acquisitions[4] | $ 22,135 | $ 2,031 | $ 24,166 | $ 8,248 | $ 32,414 |

(1) FFELP category is primarily Stafford Loans but also includes federally guaranteed PLUS and HEAL Loans.
(2) Represents borrowers consolidating their loans into a new Consolidation Loan. Loans in our off-balance sheet securitization trusts that are consolidated are bought out of the trusts and moved on-balance sheet.
(3) As of December 31, 2008, the ending balance includes $13.7 billion of FFELP Stafford and Other Loans and $2.6 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

| | On-Balance Sheet Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other[1] | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total On-Balance Sheet Portfolio |
| Beginning balance | $ 24,841 | $ 61,324 | $ 86,165 | $ 9,755 | $ 95,920 |
| Net consolidations: | | | | | |
| Incremental consolidations from third parties | — | 2,206 | 2,206 | 235 | 2,441 |
| Consolidations to third parties | (2,352) | (801) | (3,153) | (45) | (3,198) |
| Net consolidations | (2,352) | 1,405 | (947) | 190 | (757) |
| Acquisitions | 19,835 | 8,437 | 28,272 | 8,388 | 36,660 |
| Net acquisitions | 17,483 | 9,842 | 27,325 | 8,578 | 35,903 |
| Internal consolidations | (4,413) | 6,652 | 2,239 | 536 | 2,775 |
| Off-balance sheet securitizations | — | — | — | (1,871) | (1,871) |
| Sales | (331) | (701) | (1,032) | — | (1,032) |
| Repayments/claims/other | (1,854) | (3,508) | (5,362) | (2,180) | (7,542) |
| Ending balance | $ 35,726 | $ 73,609 | $ 109,335 | $ 14,818 | $ 124,153 |

| | Off-Balance Sheet Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other[1] | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Off-Balance Sheet Portfolio |
| Beginning balance | $ 15,028 | $ 18,311 | $ 33,339 | $ 12,833 | $ 46,172 |
| Net consolidations: | | | | | |
| Incremental consolidations from third parties | — | — | — | — | — |
| Consolidations to third parties | (933) | (207) | (1,140) | (93) | (1,233) |
| Net consolidations | (933) | (207) | (1,140) | (93) | (1,233) |
| Acquisitions | 330 | 209 | 539 | 704 | 1,243 |
| Net acquisitions | (603) | 2 | (601) | 611 | 10 |
| Internal consolidations[2] | (1,494) | (745) | (2,239) | (536) | (2,775) |
| Off-balance sheet securitizations | — | — | — | 1,871 | 1,871 |
| Sales | (33) | (85) | (118) | — | (118) |
| Repayments/claims/other | (3,426) | (1,042) | (4,468) | (1,269) | (5,737) |
| Ending balance | $ 9,472 | $ 16,441 | $ 25,913 | $ 13,510 | $ 39,423 |

| | Managed Portfolio Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | FFELP Stafford and Other[1] | FFELP Consolidation Loans | Total FFELP | Total Private Education Loans | Total Managed Basis Portfolio |
| Beginning balance | $ 39,869 | $ 79,635 | $ 119,504 | $ 22,588 | $ 142,092 |
| Net consolidations: | | | | | |
| Incremental consolidations from third parties | — | 2,206 | 2,206 | 235 | 2,441 |
| Consolidations to third parties | (3,285) | (1,008) | (4,293) | (138) | (4,431) |
| Net consolidations | (3,285) | 1,198 | (2,087) | 97 | (1,990) |
| Acquisitions | 20,165 | 8,646 | 28,811 | 9,092 | 37,903 |
| Net acquisitions | 16,880 | 9,844 | 26,724 | 9,189 | 35,913 |
| Internal consolidations[2] | (5,907) | 5,907 | — | — | — |
| Off-balance sheet securitizations | — | — | — | — | — |
| Sales | (364) | (786) | (1,150) | — | (1,150) |
| Repayments/claims/other | (5,280) | (4,550) | (9,830) | (3,449) | (13,279) |
| Ending balance[3] | $ 45,198 | $ 90,050 | $ 135,248 | $ 28,328 | $ 163,576 |
| Total Managed Acquisitions[4] | $ 20,165 | $ 10,852 | $ 31,017 | $ 9,327 | $ 40,344 |

(1) FFELP category is primarily Stafford Loans and also includes PLUS and HEAL Loans.
(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.
(3) As of December 31, 2007, the ending balance includes $1.3 billion of FFELP Stafford and Other Loans and $1.4 billion of FFELP Consolidation Loans disbursed on or after October 1, 2007, which are impacted by CCRAA legislation.
(4) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

**Other Income — Lending Business Segment**

The following table summarizes the components of other income, net, for our Lending business segment for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Gains on debt repurchases | $ 536 | $ 64 | $ — |
| Gains (losses) on sales of loans and securities, net | 284 | (51) | 24 |
| Late fees and forbearance fees | 146 | 143 | 134 |
| Gains on sales of mortgages and other loan fees | — | 3 | 11 |
| Other | 8 | 21 | 25 |
| Total other income, net | $ 974 | $ 180 | $ 194 |

The change in other income over the prior periods presented is primarily the result of the gains on debt repurchased and gains on sales of loans. The Company began repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes during the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company repurchased $5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016. The $284 million of gains on sales of loans and securities, net, in the year ended December 31, 2009 related to the sale of approximately $18.5 billion face amount of FFELP loans to the ED as part of the Purchase Program. The loss in 2008 primarily relates to the sale of approximately $1.0 billion FFELP loans to ED under ECASLA, which resulted in a $53 million loss.

**Operating Expenses — Lending Business Segment**

The following table summarizes the components of operating expenses for our Lending business segment for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Sales and originations | $ 212 | $ 235 | $ 351 |
| Servicing | 266 | 237 | 227 |
| Corporate overhead | 103 | 111 | 112 |
| Total operating expenses | $ 581 | $ 583 | $ 690 |

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses.

***2009 versus 2008***

Operating expenses for the year ended December 31, 2009, remained relatively unchanged from the prior year. In 2009, operating expenses were higher as a result of higher collection costs from a higher number of loans in repayment and delinquent status and higher direct-to-consumer marketing costs related to Private Education Loans. These increases in operating expenses were offset primarily by the full-year effect of the Company's cost reduction efforts conducted throughout 2008.

***2008 versus 2007***

Operating expenses for the year ended December 31, 2008, decreased by 16 percent from 2007. The decrease is primarily due to the impact of our cost reduction efforts and to the suspension of certain student loan programs.

**ASSET PERFORMANCE GROUP (“APG”) BUSINESS SEGMENT**

In our APG business segment, we provide a wide range of accounts receivable and collections services, including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, and accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors as well as sub-performing and non-performing mortgage loans. In the purchased receivables business, we focus on a variety of consumer debt types with emphasis on charged off credit card receivables and distressed mortgage receivables. We purchase these portfolios at a discount to their face value and then use both our internal collection operations, coupled with third-party collection agencies, to maximize the recovery on these receivables.

An overview of this segment and recent developments that have significantly impacted this segment are included in the “Item 1. Business” section of this document. The private sector collections industry is highly fragmented with few large public companies and a large number of small scale privately-held companies. The collections industry is highly competitive. We are responding to these competitive challenges through enhanced servicing efficiencies and by continuing to build on customer relationships through value added services and financings.

**Condensed Statements of Income**

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

| | Year Ended December 31, 2009 | | | |
|---|---|---|---|---|
| | Purchased Paper — Non-Mortgage | Purchased Paper — Mortgage/ Properties | Contingency & Other | Total APG |
| Contingency fee income | $ 2 | $ — | $ 294 | $ 296 |
| Collections revenue | 50 | — | — | 50 |
| Total income | 52 | | 294 | 346 |
| Restructuring expenses | — | — | 1 | 1 |
| Operating expenses | 138 | — | 177 | 315 |
| Total expenses | 138 | | 178 | 316 |
| Net interest expense | 10 | — | 9 | 19 |
| Income (loss) from continuing operations before income tax expense (benefit) | (96) | — | 107 | 11 |
| Income tax expense (benefit) | (34) | — | 41 | 7 |
| Net income (loss) from continuing operations | (62) | — | 66 | 4 |
| Loss from discontinued operations, net of tax | — | (157) | — | (157) |
| Net income (loss) | (62) | (157) | 66 | (153) |
| Less: net income attributable to noncontrolling interest | 1 | — | — | 1 |
| “Core Earnings” net income (loss) attributable to SLM Corporation | $ (63) | $ (157) | $ 66 | $ (154) |
| “Core Earnings” net income (loss) attributable to SLM Corporation: | | | | |
| Continuing operations, net of tax | $ (63) | $ — | $ 66 | $ 3 |
| Discontinued operations, net of tax | — | (157) | — | (157) |
| “Core Earnings” net income (loss) attributable to SLM Corporation | $ (63) | $ (157) | $ 66 | $ (154) |

| | Year Ended December 31, 2008 | | | |
|---|---|---|---|---|
| | Purchased Paper — Non-Mortgage | Purchased Paper — Mortgage/ Properties | Contingency & Other | Total APG |
| Contingency fee income | $ 10 | $ — | $ 330 | $ 340 |
| Collections revenue | 129 | — | — | 129 |
| Total income | 139 | — | 330 | 469 |
| Restructuring expenses | 6 | — | 5 | 11 |
| Operating expenses | 202 | — | 187 | 389 |
| Total expenses | 208 | — | 192 | 400 |
| Net interest expense | 13 | — | 12 | 25 |
| Income (loss) from continuing operations before income tax expense (benefit) | (82) | — | 126 | 44 |
| Income tax expense (benefit) | (29) | — | 52 | 23 |
| Net income (loss) from continuing operations | (53) | — | 74 | 21 |
| Loss from discontinued operations, net of tax | — | (140) | — | (140) |
| Net income (loss) | (53) | (140) | 74 | (119) |
| Less: net income attributable to noncontrolling interest | 4 | — | — | 4 |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ (57) | $ (140) | $ 74 | $ (123) |
| "Core Earnings" net income (loss) attributable to SLM Corporation: | | | | |
| Continuing operations, net of tax | $ (57) | $ — | $ 74 | $ 17 |
| Discontinued operations, net of tax | — | (140) | — | (140) |
| "Core Earnings" net income (loss) attributable to SLM Corporation | $ (57) | $ (140) | $ 74 | $ (123) |

| | Year Ended December 31, 2007 | | | |
|---|---|---|---|---|
| | Purchased Paper — Non-Mortgage | Purchased Paper — Mortgage/ Properties | Contingency & Other | Total APG |
| Contingency fee income | $ 9 | $ — | $ 327 | $ 336 |
| Collections revenue | 217 | — | — | 217 |
| Total income | 226 | — | 327 | 553 |
| Restructuring expenses | 1 | — | 1 | 2 |
| Operating expenses | 164 | — | 197 | 361 |
| Total expenses | 165 | — | 198 | 363 |
| Net interest expense | 13 | — | 14 | 27 |
| Income from continuing operations before income tax expense | 48 | — | 115 | 163 |
| Income tax expense | 18 | — | 42 | 60 |
| Net income from continuing operations | 30 | — | 73 | 103 |
| Income from discontinued operations, net of tax | — | 15 | — | 15 |
| Net income | 30 | 15 | 73 | 118 |
| Less: net income attributable to noncontrolling interest | 2 | — | — | 2 |
| "Core Earnings" net income attributable to SLM Corporation | $ 28 | $ 15 | $ 73 | $ 116 |
| "Core Earnings" net income attributable to SLM Corporation: | | | | |
| Continuing operations, net of tax | $ 28 | $ — | $ 73 | $ 101 |
| Discontinued operations, net of tax | — | 15 | — | 15 |
| "Core Earnings" net income attributable to SLM Corporation | $ 28 | $ 15 | $ 73 | $ 116 |

**Collections Revenue**

In 2008, the Company concluded that its APG purchased paper businesses were no longer a strategic fit. The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. A loss of $51 million was recognized in the fourth quarter of 2008 related to this sale as the net assets were held for sale and carried at the lower of its book basis and fair value as of December 31, 2008. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 (which is further discussed below), which resulted in an after-tax loss of $95 million. The Company continues to wind down the domestic side of its Purchased Paper — Non-Mortgage business. The Company will continue to consider opportunities to sell this business at acceptable prices in the future.

The Company's domestic Purchased Paper — Non-Mortgage business had certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company did not purchase any additional purchased paper in excess of these obligations. The Company recognized $79 million, $111 million and $17 million of impairments in the years ended December 31, 2009, 2008 and 2007, respectively. The impairment is primarily a result of the impact of the economy on the ability to collect on these assets. The impairment of $111 million in 2008 includes the $51 million loss on the sale of the Company's international Purchased Paper — Non-Mortgage business discussed above. Similar to the Purchased Paper — Mortgage/Properties business discussion below, when the Purchased Paper — Non-Mortgage business either sells all of its remaining assets or completely winds down its operations, its results will be shown as discontinued operations.

Net loss attributable to SLM Corporation from discontinued operations was $157 million and $140 million for the years ended December 31, 2009 and 2008, respectively, compared to net income of $15 million for the year ended December 31, 2007. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for $280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after-tax loss of $95 million. Total after-tax impairments, including the loss on sale, for the years ended December 31, 2009, 2008 and 2007 were $154 million, $161 million and $2 million, respectively.

**Contingency Fee Income**

Contingency fee income decreased $44 million from $340 million for the year ended December 31, 2008 to $296 million for the year ended December 31, 2009. This decrease was primarily a result of significantly less guarantor collections revenue associated with rehabilitating delinquent FFELP loans. Loans are considered rehabilitated after a certain number of on-time payments have been collected. The Company earns a rehabilitation fee only when the Guarantor sells the rehabilitated loan. The disruption in the credit markets has limited the sale of rehabilitated loans.

The contingency fee income for the year ended December 31, 2008 was relatively unchanged compared to 2007.

**Purchased Paper — Non-Mortgage**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Face value of purchases for the period | $ 390 | $ 5,353 | $ 6,111 |
| Purchase price for the period | 30 | 483 | 556 |
| Purchase price as a percentage of face value purchased | 7.6% | 9.0% | 9.1% |
| Gross Cash Collections (“GCC”) | $ 376 | $ 655 | $ 463 |
| Collections revenue | 50 | 129 | 217 |
| Collections revenue as a percentage of GCC | 13% | 20% | 47% |
| Carrying value of purchased paper | $ 285 | $ 544 | $ 587 |

The decrease in collections revenue as a percentage of gross cash collections (“GCC”) in 2009 compared to 2008 and 2007 was primarily due to the significant impairment recognized in 2008.

**Contingency Inventory**

The following table presents the outstanding inventory of receivables serviced through our APG business segment. These assets are not on our balance sheet.

| | As of December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Contingency: | | | |
| Student loans | $ 8,762 | $ 9,852 | $ 8,195 |
| Other | 1,262 | 1,726 | 1,509 |
| Total | $ 10,024 | $ 11,578 | $ 9,704 |

**Operating Expenses — APG Business Segment**

For the years ended December 31, 2009, 2008 and 2007, operating expenses for the APG contingency and other businesses totaled $177 million, $187 million and $197 million, respectively. The decrease in operating expenses in 2009 versus prior years is primarily due to the Company’s cost reduction initiatives.

For the years ended December 31, 2009, 2008 and 2007, operating expenses for the APG Purchased Paper — Non-Mortgage business totaled $138 million, $202 million and $164 million, respectively. The decrease from the prior years is primarily due to lower collection costs due to the decreasing size of the portfolio as a result of winding down the business.

At December 31, 2009 and 2008, the APG business segment had total assets of $1.1 billion and $2.0 billion, respectively.

**CORPORATE AND OTHER BUSINESS SEGMENT**

Our Corporate and Other reportable segment reflects the aggregate activity of our smaller operating units, including our Guarantor Servicing and Loan Servicing operating units, Upromise, other products and services, as well as corporate expenses that do not pertain directly to our operating segments.

In our Guarantor Servicing operating unit, we provide a full complement of administrative services to FFELP Guarantors, including guarantee issuance, processing, account maintenance and guarantee fulfillment. In our Loan Servicing operating unit, we originate and service student loans on behalf of lenders, including ED, who are unrelated to SLM Corporation. In our Upromise operating unit, we provide 529 college-savings plan program management, transfer and servicing agent services, and administration services, and operate a consumer savings network.

**Condensed Statements of Income**

The following tables include "Core Earnings" results of operations for our Corporate and Other business segment.

| | Years Ended December 31, | | | % Increase (Decrease) | |
|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 vs. 2008 | 2008 vs. 2007 |
| Net interest income after provisions for losses | $ 5 | $ 6 | $ (1) | $ (17) | $ 700% |
| Guarantor servicing fees | 136 | 121 | 156 | 12 | (22) |
| Loan servicing fees | 53 | 26 | 23 | 104 | 13 |
| Upromise | 112 | 108 | 110 | 4 | (2) |
| Other | 50 | 65 | 85 | (23) | (24) |
| Total other income | 351 | 320 | 374 | 10 | (14) |
| Restructuring expenses | 3 | 23 | 2 | (87) | 1,050 |
| Operating expenses | 284 | 256 | 339 | 11 | (24) |
| Total expenses | 287 | 279 | 341 | 3 | (18) |
| Income from continuing operations, before income tax expense | 69 | 47 | 32 | 47 | 47 |
| Income tax expense | 24 | 17 | 12 | 41 | 42 |
| Net income | 45 | 30 | 20 | 50 | 50 |
| Less: net income attributable to noncontrolling interest | — | — | — | — | — |
| "Core Earnings" net income attributable to SLM Corporation | $ 45 | $ 30 | $ 20 | 50% | 50% |
| "Core Earnings" net income attributable to SLM Corporation: | | | | | |
| Continuing operations, net of tax | $ 45 | $ 30 | $ 20 | 50% | 50% |
| Discontinued operations, net of tax | — | — | — | — | — |
| "Core Earnings" net income attributable to SLM Corporation | $ 45 | $ 30 | $ 20 | 50% | 50% |

USA Funds, the nation's largest guarantee agency, accounted for 86 percent, 85 percent and 86 percent, respectively, of guarantor servicing fees and 2 percent, 11 percent and 16 percent, respectively, of revenues associated with other products and services for the years ended December 31, 2009, 2008 and 2007.

***2009 versus 2008***

The increase in guarantor servicing fees from 2008 to 2009 primarily relates to an increase in guarantor issuance fees earned as a result of a significant increase in FFELP loan guarantees (consistent with the significant increase in the Company's FFELP loan originations) over the prior year as well as an increase in account maintenance fees earned which are a function of the size of the FFELP portfolio. The increase in loan servicing fees from 2008 to 2009 is primarily due to $9 million of servicing revenue related to the 2 million accounts the Company began servicing under the ED Servicing Contract in 2009 and $8 million of additional loan conversion fees earned by the Company when third-party servicing clients sold their FFELP loans to ED under the ED Purchase Program in the third quarter of 2009, as well as an increase in the size of other third-party servicing relationships the Company has.

***2008 versus 2007***

The decrease in guarantor servicing fees from 2007 to 2008 was primarily due to the recognition of $15 million in the fourth quarter of 2007 of previously deferred guarantee account maintenance fee revenue related to a negotiated settlement with USA Funds, as well as a decrease in the account maintenance fees earned in 2008 due to the legislative changes effective October 1, 2007 as a result of CCRAA.

**Operating Expenses — Corporate and Other Business Segment**

The following table summarizes the components of operating expenses for our Corporate and Other business segment.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Operating expenses | $ 110 | $ 90 | $ 109 |
| Upromise | 84 | 91 | 94 |
| General and administrative expenses | 90 | 75 | 136 |
| Total | $ 284 | $ 256 | $ 339 |

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

***2009 versus 2008***

For the years ended December 31, 2009 and 2008, operating expenses for the Corporate and Other business segment totaled $284 million and $256 million, respectively. The increase in operating expenses in 2009 versus the prior year was primarily due to higher expenses incurred to reconfigure the Company's servicing system to meet the requirements of the ED Servicing Contract awarded to the Company on June 17, 2009 to service FFELP loans that have been or will be sold to ED, as well as professional services fees incurred in connection with strategic planning.

***2008 versus 2007***

The decrease in operating expenses in 2008 compared to 2007 was primarily due to $56 million of non-recurring Proposed Merger-related expenses in 2007, as well as the Company's cost reduction initiatives.

At December 31, 2009 and 2008, the Corporate and Other business segment had total assets of $1.2 million and $685 million, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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

### ED Funding Programs

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

As of December 31, 2009, the Company had $9.0 billion of advances outstanding under the Participation Program. Through December 31, 2009, the Company has sold to ED approximately $18.5 billion face amount of loans as part of the Purchase Program. Outstanding debt of $18.5 billion was paid down related to the Participation Program in connection with these loan sales. These loan sales resulted in a $284 million gain. The settlement of the fourth quarter sale of loans out of the Participation Program included repaying the debt by delivering the related loans to ED in a non-cash transaction and receipt of cash from ED for $484 million, representing the reimbursement of a one-percent payment made to ED plus a $75 fee per loan.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the "ED Conduit Program"). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and will accept eligible loans through July 1, 2010. The ED Conduit Program has a term of five years and will expire on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then

the notes will be repaid with funds from the Federal Financing Bank ("FFB"). The FFB will hold the notes for a short period of time and, if at the end of that time the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. As of December 31, 2009, approximately $14.6 billion face amount of our Stafford and PLUS Loans were funded through the ED Conduit Program. For 2009, the average interest rate paid on this facility was approximately 0.75 percent. As of December 31, 2009, there are approximately $820 million face amount of additional FFELP Stafford and PLUS Loans (excluding loans currently in the Participation Program) that can be funded through the ED Conduit Program.

**Additional Funding Sources for General Corporate Purposes**

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

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

***Sallie Mae Bank***

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

***ABS Transactions***

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

In 2009, we completed four FFELP long-term ABS transactions totaling $5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the Term Asset-Backed Securities Loan Facility ("TALF") discussed below.

During 2009, we completed $7.5 billion of Private Education Loan term ABS transactions, all of which were private placement transactions. On January 6, 2009, we closed a $1.5 billion 12.5 year asset-backed securities ("ABS") based facility. This facility is used to provide up to $1.5 billion term financing for Private Education Loans. The fully utilized cost of financing obtained under this facility is expected to be LIBOR plus 5.75 percent. In connection with this facility, we completed one Private Education Loan term ABS transaction totaling $1.5 billion in the first quarter of 2009. The net funding received under the asset-backed securities based facility for this issuance was $1.1 billion. In addition, we completed $6.0 billion of Private Education Loan term ABS transactions which were TALF-eligible. See "*Term Asset-Backed Securities Loan Facility ("TALF")*" below for additional details. Although we have demonstrated our access to the ABS market in 2009 and we expect ABS financing to remain a primary source of funding over the long term, we expect our transaction volumes to be more limited and pricing less favorable than prior to the credit market dislocation that began in the summer of 2007, with significantly reduced opportunities to place subordinated tranches of ABS with investors. At present, while the markets have demonstrated some signs of recovery, we are unable to predict when market conditions will allow for more regular, reliable and cost-effective access to the term ABS market.

***Asset-Backed Financing Facilities***

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

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

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

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

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

Borrowings under the 2008 FFELP ABCP Facility were non-recourse to the Company. As of December 31, 2009, the Company had $8.8 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing this facility as of December 31, 2009 was $10.2 billion.

On January 15, 2010, the Company terminated the 2008 FFELP ABCP Facility and entered into new multi-year ABCP facilities (the "2010 Facility") which will continue to provide funding for the Company's federally guaranteed student loans. The 2010 Facility provides for maximum funding of $10 billion for the first year, $5 billion for the second year and $2 billion for the third year. Upfront fees related to the 2010 Facility were approximately $4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon.

***Term Asset-Backed Securities Loan Facility ("TALF")***

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

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

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

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

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

***Federal Home Loan Bank in Des Moines***

On January 15, 2010, HICA Education Loan Corporation, a subsidiary of the Company, entered into a lending agreement with the Federal Home Loan Bank of Des Moines (the "FHLB"). Under the agreement, the FHLB will provide advances backed by Federal Housing Finance Agency approved collateral which includes federally-guaranteed student loans. The initial borrowing of $25 million at a rate of .23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of January 15, 2010, subject to available collateral, is approximately $11 billion. The Company has provided a guarantee to the FHLB for the performance and payment of HICA's obligations.

***Auction Rate Securities***

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

***Reset Rate Notes***

Certain tranches of our term ABS are reset rate notes. Reset rate notes are subject to periodic remarketing, at which time the interest rates on the notes are reset. The Company also has the option to repurchase a reset rate note upon a failed remarketing and hold it as an investment until such time it can be remarketed. In the event a reset rate note cannot be remarketed on its remarketing date, and is not repurchased, the interest rate generally steps up to and remains at LIBOR plus 0.75 percent until such time as the bonds are successfully remarketed or repurchased. The Company's repurchase of a reset rate note requires additional funding, the availability and pricing of which may be less favorable to the Company than it was at the time the reset rate note was originally issued. Unlike the repurchase of a reset rate note, the occurrence of a failed remarketing does not require additional funding. As a result of the ongoing dislocation in the capital markets, at December 31, 2009, $1.8 billion of our reset rate notes bore interest at, or were swapped to LIBOR plus 0.75 percent due to a failed remarketing. Until capital markets conditions improve, it is possible additional reset rate notes will experience failed remarketings. On October 26, 2009, the Company successfully remarketed a $590 million reset rate note at LIBOR plus 0.40 percent to maturity. All subsequent remarketings have been unsuccessful. As of December 31, 2009, on a Managed Basis, the Company had $4.3 billion and $2.0 billion of reset rate notes due to be remarketed in 2010 and 2011, respectively, and an additional $6.5 billion to be remarketed thereafter.

***Senior Unsecured Debt***

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

**Primary Sources of Liquidity and Available Capacity**

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

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

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

During the year, the Company's new financing transactions generated excess liquidity, some of which was used to repurchase $3.4 billion of the Company's short-term senior unsecured notes, generating pre-tax gains of $536 million.

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

| | December 31, 2009 Available Capacity | December 31, 2008 Available Capacity |
|---|---|---|
| Sources of primary liquidity available for new FFELP Stafford and PLUS Loan originations: | | |
| ED Purchase and Participation Programs(1) | *Unlimited(1)* | *Unlimited(1)* |
| Sources of primary liquidity for general corporate purposes: | | |
| Unrestricted cash and liquid investments: | | |
| Cash and cash equivalents | $ 6,070 | $ 4,070 |
| Commercial paper and asset-backed commercial paper | 1,150 | 801 |
| Other(2) | 131 | 133 |
| Total unrestricted cash and liquid investments(3)(4)(5) | 7,351 | 5,004 |
| Unused commercial paper and bank lines of credit | 3,485 | 5,192 |
| 2008 FFELP ABCP Facilities(6) | 1,703 | 807 |
| 2008 Private Education Loan ABCP Facility | — | 332 |
| Total sources of primary liquidity for general corporate purposes(7) | $ 12,539 | $ 11,335 |

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

(2) At December 31, 2009 and 2008, includes $32 million and $97 million, respectively, due from The Reserve Primary Fund (see "Counterparty Exposure" below). The Company received $32 million from The Reserve Primary Fund on January 29, 2010.

(3) At December 31, 2009 and 2008, excludes $25 million and $26 million, respectively, of investments pledged as collateral related to certain derivative positions and $708 million and $82 million, respectively, of other non-liquid investments, classified as cash and investments on our balance sheet in accordance with GAAP.

(4) At December 31, 2009 and 2008, includes $821 million and $1.6 billion, respectively, of cash collateral pledged by derivative counterparties and held by the Company in unrestricted cash.

(5) At December 31, 2009 and 2008, includes $2.4 billion and $1.1 billion, respectively, of cash and liquid investments at Sallie Mae Bank, for which Sallie Mae Bank is not authorized to dividend to the Company without FDIC approval. This cash will be used primarily to originate or acquire student loans.

(6) Borrowing capacity is subject to availability of collateral. As of December 31, 2009 and 2008, the Company had $2.1 billion and $5.4 billion, respectively, of outstanding unencumbered FFELP loans, net.

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

In addition to the assets listed in the table above, we hold on-balance sheet a number of other unencumbered assets, consisting primarily of Private Education Loans, Retained Interests and other assets. At December 31, 2009, we had a total of $31.3 billion of unencumbered assets, including goodwill and acquired intangibles. Total student loans, net, comprised $14.6 billion of this unencumbered asset total of which $12.5 billion relates to Private Education Loans, net.

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

| (Dollars in billions) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Net assets in secured financing facilities | $ 14.5 | $ 15.6 |
| Unencumbered assets | 31.3 | 36.1 |
| Unsecured debt, term bank deposits, and other borrowings | (35.1) | (42.1) |
| ASC 815 mark-to-market on all hedged debt(1) | (3.4) | (3.4) |
| Other liabilities, net | (2.0) | (1.2) |
| Total GAAP equity | $ 5.3 | $ 5.0 |

(1) At December 31, 2009 and 2008, there are $3.4 billion and $3.6 billion, respectively, of net gains on derivatives hedging this debt, which partially offsets these losses. These gains are a part of the net assets in secured financing facilities and unencumbered assets.

**Counterparty Exposure**

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

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

To provide liquidity for future cash needs, we invest in high quality money market investments. At December 31, 2009, the Company had investments of $32 million with The Reserve Primary Fund ("The Fund"). In September 2008, the Company requested redemption of all monies invested in The Fund prior to The Fund's announcement that it suspended distributions as a result of The Fund's exposure to Lehman Brothers Holdings Inc.'s bankruptcy filing and The Fund's net asset value being below one dollar per share. We were originally informed by The Fund that we would receive our entire investment amount. As of December 31, 2009, we have received a total of $460 million of an initial investment of $500 million from The Fund. In the fourth quarter of 2008, we recorded an impairment of $8 million related to our investment in The Fund in anticipation of losses on our remaining investment. Subsequently, the SEC granted The Fund an indefinite extension to pay distributions as The Fund is being liquidated. On November 25, 2009, the court issued an order providing for (i) the distribution of the remaining assets on a pro rata basis; (ii) an injunction barring all claims against the fund and any of the defendants; and (iii) the appointment of a monitor to oversee the distribution and to review any claims by The Fund's advisor or distributor for management fees and expenses. On January 29, 2010, the Company received $32 million from The Fund.

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

collateral to the counterparties. If we were unable to collect from a counterparty related to the Company and on-balance sheet trust derivatives, we would have a loss equal to the amount the derivative is recorded on our balance sheet. If we were unable to collect from a counterparty related to an off-balance sheet trust derivative, the value of our Residual Interest on our balance sheet would be reduced through earnings.

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

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

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

**Managed Borrowings**

The following tables present the ending balances of our Managed borrowings at December 31, 2009, 2008 and 2007, and average balances and average interest rates of our Managed borrowings for the years ended December 31, 2009, 2008 and 2007. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment under ASC 815. (See "BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment* — Derivative Accounting — *Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities*.")

***Ending Balances***

| | As of December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 Ending Balance | | | 2008 Ending Balance | | | 2007 Ending Balance | | |
| | Short Term | Long Term | Total Managed Basis | Short Term | Long Term | Total Managed Basis | Short Term | Long Term | Total Managed Basis |
| Unsecured borrowings | $ 5,185 | $ 22,797 | $ 27,982 | $ 6,794 | $ 31,182 | $ 37,976 | $ 8,297 | $ 36,796 | $ 45,093 |
| Unsecured term bank deposits | 842 | 4,795 | 5,637 | 1,148 | 1,108 | 2,256 | 254 | — | 254 |
| Indentured trusts (on-balance sheet) | 64 | 1,533 | 1,597 | 31 | 1,972 | 2,003 | 100 | 2,481 | 2,581 |
| ED Participation Program facility (on-balance sheet)(1) | 9,006 | — | 9,006 | 7,365 | — | 7,365 | — | — | — |
| ED Conduit Program facility (on-balance sheet) | 14,314 | — | 14,314 | — | — | — | — | — | — |
| ABCP borrowings (on-balance sheet)(2) | — | 8,801 | 8,801 | 24,768 | — | 24,768 | 25,960 | 67 | 26,027 |
| Securitizations (on-balance sheet) | — | 89,200 | 89,200 | — | 80,601 | 80,601 | — | 68,048 | 68,048 |
| Securitizations (off-balance sheet) | — | 33,615 | 33,615 | — | 37,159 | 37,159 | — | 42,088 | 42,088 |
| Other | 1,472 | — | 1,472 | 1,827 | — | 1,827 | 1,342 | — | 1,342 |
| Total | $ 30,883 | $ 160,741 | $ 191,624 | $ 41,933 | $ 152,022 | $ 193,955 | $ 35,953 | $ 149,480 | $ 185,433 |

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

(2) Includes $1.9 billion outstanding in the 2008 Asset-Backed Loan Facility at December 31, 2008. There was no outstanding balance at December 31, 2009 or December 31, 2007.

***Average Balances***

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| | Average Balance | Average Rate | Average Balance | Average Rate | Average Balance | Average Rate |
| Unsecured borrowings | $ 31,863 | 1.93% | $ 39,794 | 3.65% | $ 46,095 | 5.58% |
| Unsecured term bank deposits | 4,754 | 3.50 | 854 | 4.07 | 166 | 5.26 |
| Indentured trusts (on-balance sheet) | 1,811 | 1.07 | 2,363 | 3.90 | 2,768 | 4.90 |
| ED Participation Program facility (on-balance sheet) | 14,174 | 1.43 | 1,727 | 3.43 | — | — |
| ED Conduit Program facility (on-balance sheet) | 7,340 | .75 | — | — | — | — |
| ABCP borrowings (on-balance sheet)(1) | 16,239 | 2.93 | 24,855 | 5.27 | 13,938 | 5.85 |
| Securitizations (on-balance sheet) | 85,612 | 1.38 | 76,028 | 3.26 | 62,765 | 5.55 |
| Securitizations (off-balance sheet) | 35,377 | .82 | 39,625 | 3.11 | 45,733 | 5.68 |
| Other | 1,391 | .31 | 2,063 | 2.35 | 637 | 4.85 |
| Total | $ 198,561 | 1.51% | $ 187,309 | 3.58% | $ 172,102 | 5.60% |

(1) Includes the 2008 Asset-Backed Loan Facility.

**Unsecured On-Balance Sheet Financing Activities**

The following table presents the senior unsecured credit ratings assigned by major rating agencies as of February 26, 2010.

| | Moody's | S&P | Fitch |
|---|---|---|---|
| Short-term unsecured debt | Not Prime | A-3 | F3 |
| Long-term senior unsecured debt | Ba1 | BBB- | BBB- |

The table below presents our unsecured on-balance sheet funding by funding source for the years ended December 31, 2009 and 2008.

| | Debt Issued For The Years Ended December 31, | | Outstanding at December 31, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Retail notes | $ — | $ — | $ 3,471 | $ 3,914 |
| Foreign currency denominated notes(1) | — | — | 9,230 | 12,127 |
| Extendible notes | — | — | — | 1,464 |
| Global notes (Institutional) | — | 2,437 | 14,694 | 19,874 |
| Medium-term notes (Institutional) | — | — | 587 | 597 |
| Total unsecured corporate borrowings | — | 2,437 | 27,982 | 37,976 |
| Unsecured term bank deposits | 4,531 | 2,845 | 5,637 | 2,256 |
| Total | $ 4,531 | $ 5,282 | $ 33,619 | $ 40,232 |

(1) All foreign currency denominated notes are hedged using derivatives that exchange the foreign denomination for U.S. dollars.

## Securitization Activities

### *Securitization Program*

The following table summarizes our securitization activity for the years ended December 31, 2009, 2008 and 2007. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

| | Years Ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | 2008 | | | | 2007 | | | |
| | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % |
| Securitizations sales: | | | | | | | | | | | | |
| FFELP Stafford/PLUS Loans | — | $ — | $ — | —% | — | $ — | $ — | —% | — | $ — | $ — | —% |
| FFELP Consolidation Loans | — | — | — | — | — | — | — | — | — | — | — | — |
| Private Education Loans | — | — | — | — | — | — | — | — | 1 | 2,001 | 367 | 18.4 |
| Total securitizations sales | — | — | $ — | —% | — | — | $ — | —% | 1 | 2,001 | $ 367 | 18.4% |
| Securitizations financings: | | | | | | | | | | | | |
| FFELP Stafford/PLUS Loans(1) | — | — | | | 9 | 18,546 | | | 3 | 8,955 | | |
| FFELP Consolidation Loans(1)(2) | 3 | 5,339 | | | — | — | | | 5 | 14,476 | | |
| Private Education Loans(1) | 5 | 11,122 | | | — | — | | | — | — | | |
| Total securitizations financings | 8 | 16,461 | | | 9 | 18,546 | | | 8 | 23,431 | | |
| Total securitizations | 8 | $ 16,461 | | | 9 | $ 18,546 | | | 9 | $ 25,432 | | |

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and, accordingly, they are accounted for on-balance sheet as VIEs. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements (which do not relate to the reissuance of third-party beneficial interests) after initial settlement of the securitization or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

(2) In addition to the transactions listed in the above table, the Company settled on a repackaging trust and issued new asset backed securities in the amount of $1.0 billion. The debt issued is collateralized by reset rate notes totaling $1.2 billion.

***Residual Interest in Securitized Receivables***

The following tables summarize the fair value of our Residual Interests and the assumptions used to value such Residual Interests, along with the underlying off-balance sheet student loans that relate to those securitizations in securitization transactions that were treated as sales as of December 31, 2009 and 2008.

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| | FFELP Stafford and PLUS | Consolidation Loan Trusts(1) | Private Education Loan Trusts | Total |
| Fair value of Residual Interests | $ 243 | $ 791 | $ 794 | $ 1,828 |
| Underlying securitized loan balance | 5,377 | 14,369 | 12,986 | 32,732 |
| Weighted average life | 3.3 yrs. | 9.0 yrs. | 6.3 yrs | |
| Prepayment speed (annual rate)(2) | | | | |
| Interim status | 0% | N/A | 0% | |
| Repayment status | 0-14% | 2-4% | 2-15% | |
| Life of loan — repayment status | 9% | 3% | 6% | |
| Expected remaining credit losses (% of outstanding student loan principal)(3)(4) | .10% | .25% | 5.31% | |
| Residual cash flows discount rate | 10.6% | 12.3% | 27.5% | |

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

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

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

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

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

***Off-Balance Sheet Net Assets***

The following table summarizes our off-balance sheet net assets at December 31, 2009 and 2008 on a basis equivalent to our GAAP on-balance sheet trusts, which presents the assets and liabilities in the off-balance sheet trusts as if they were being accounted for on-balance sheet rather than off-balance sheet. This presentation, therefore, includes a theoretical calculation of the premiums on student loans, the allowance for loan losses, and the discounts and deferred financing costs on the debt. However, this presentation does not include any impact of accounting under ASC 815 or ASC 830 for trust derivatives or foreign currency denominated debt. This presentation is not, nor is it intended to be, a liquidation basis of accounting. (See also "LENDING BUSINESS SEGMENT — Summary of our Managed Student Loan Portfolio — *Ending Managed Student Loan Balances, net*" and "LIQUIDITY AND CAPITAL RESOURCES — Managed Borrowings — *Ending Balances*" earlier in this section.)

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Off-Balance Sheet Assets:** | | |
| Total student loans, net | $ 32,611 | $ 35,591 |
| Restricted cash and investments | 1,055 | 1,557 |
| Accrued interest receivable | 537 | 937 |
| Total off-balance sheet assets | 34,203 | 38,085 |
| **Off-Balance Sheet Liabilities:** | | |
| Debt, par value | 33,583 | 37,228 |
| Debt, unamortized discount and deferred issuance costs | (77) | (69) |
| Total debt | 33,506 | 37,159 |
| Accrued interest payable | 25 | 166 |
| Total off-balance sheet liabilities | 33,531 | 37,325 |
| **Off-Balance Sheet Net Assets** | $ 672 | $ 760 |

***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.

The following table summarizes the components of servicing and securitization revenue for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Servicing revenue | $ 226 | $ 247 | $ 285 |
| Securitization revenue, before net Embedded Floor Income, impairment and unrealized fair value adjustment | 309 | 323 | 419 |
| Servicing and securitization revenue, before net Embedded Floor Income, impairment and unrealized fair value adjustment | 535 | 570 | 704 |
| Embedded Floor Income | 284 | 191 | 20 |
| Less: Floor Income previously recognized in gain calculation | (214) | (76) | (9) |
| Net Embedded Floor Income | 70 | 115 | 11 |
| Servicing and securitization revenue, before impairment and unrealized fair value adjustment | 605 | 685 | 715 |
| Unrealized fair value adjustment | (330) | (425) | (24) |
| Gain on consolidation of off-balance sheet trusts | 20 | 2 | — |
| Retained Interest impairment | — | — | (254) |
| Total servicing and securitization revenue | $ 295 | $ 262 | $ 437 |
| Average off-balance sheet student loans | $ 34,414 | $ 37,586 | $ 42,411 |
| Average balance of Retained Interest | $ 1,911 | $ 2,596 | $ 3,385 |
| Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans | .86% | .70% | 1.03% |

Servicing and securitization revenue is primarily driven by the average balance of off-balance sheet student loans, the amount of and the difference in the timing of Embedded Floor Income recognition for off-balance sheet student loans and the unrealized fair value adjustments.

The Company recorded net unrealized mark-to-market losses of $330 million, $425 million and $24 million in the years ended December 31, 2009, 2008 and 2007, respectively, related to the Residual Interest.

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

- Prepayment speed assumptions on FFELP Stafford and Consolidation Loans were decreased. This change reflects the significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. This resulted in a $61 million unrealized mark-to-market gain.
- Life of loan default rate assumptions for Private Education Loans were increased from 9.1 percent to 12.2 percent as a result of the continued weakening of the U.S. economy. This resulted in a $426 million unrealized mark-to-market loss.

As of December 31, 2008, the Company had changed the following significant assumptions compared to those used as of December 31, 2007, to determine the fair value of the Residual Interests:

- Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced, which is expected to continue into the foreseeable future. The decrease in prepayment speeds was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment. This resulted in a $114 million unrealized mark-to-market gain.

- Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $79 million unrealized mark-to-market loss.
- Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within FFELP loan ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities would continue to reset at higher rates for an extended period of time. This resulted in a $116 million unrealized mark-to-market loss.
- The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which was added to the risk free rate for the purpose of arriving at a discount rate, in light of the current economic and credit uncertainty that existed in the market as of December 31, 2008. This discount rate was applied to the projected cash flows to arrive at a fair value representative of the then current economic conditions. The Company increased the risk premium by 1,550 basis points and 390 basis points for Private Education and FFELP, respectively, to take into account the then current level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests. This resulted in a $904 million unrealized mark-to-market loss.

The Company recorded net unrealized mark-to-market losses related to the Residual Interests of $425 million during the year ended December 31, 2008. The mark-to-market losses were primarily related to the increase in the discount rate assumptions discussed above which resulted in a $904 million mark-to-market loss. This was partially offset by an unrealized mark-to-market gain of $555 million related to the Floor Income component of the Residual Interest primarily due to the significant decrease in interest rates from December 31, 2007 to December 31, 2008.

The Company recorded impairments to the Retained Interests of $254 million for the year ended December 31, 2007. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations ($110 million), impairment to the Floor Income component of the Company's Retained Interest due to increases in interest rates during the period ($24 million), and increases in prepayments, defaults, and the discount rate related to Private Education Loans ($120 million).

**CONTRACTUAL CASH OBLIGATIONS**

The following table provides a summary of our obligations associated with long-term notes at December 31, 2009. For further discussion of these obligations, see Note 7, "Borrowings," to the consolidated financial statements. The Company has no outstanding equity forward positions outstanding after the contract settlement on January 9, 2008. See Note 11, "Stockholders' Equity," to the consolidated financial statements.

| | 1 Year or Less | 2 to 3 Years | 4 to 5 Years | Over 5 Years | Total |
|---|---|---|---|---|---|
| Long-term notes: | | | | | |
| Unsecured borrowings | $ — | $ 8,569 | $ 7,936 | $ 6,292 | $ 22,797 |
| Unsecured term bank deposits | — | 3,122 | 1,614 | 59 | 4,795 |
| Secured borrowings[1][2] | 6,883 | 23,706 | 15,202 | 53,743 | 99,534 |
| Total contractual cash obligations[3] | $ 6,883 | $ 35,397 | $ 24,752 | $ 60,094 | $ 127,126 |

(1) Includes long-term beneficial interests of $89.2 billion of notes issued by consolidated VIEs in conjunction with our on-balance sheet securitization transactions and included in long-term notes in the consolidated balance sheet. Timing of obligations is estimated based on the Company's current projection of prepayment speeds of the securitized assets.

(2) Includes $8.8 billion of 2008 Asset-Backed Financing Facilities. On December 31, 2009, ABCP borrowings were reclassified to long-term as the facility was renegotiated on January 15, 2010, resulting in the maturity date being greater than one year from December 31, 2009.

(3) Only includes principal obligations and specifically excludes ASC 815 derivative market value adjustments of $3.4 billion for long-term notes. Interest obligations on notes is predominantly variable in nature, resetting quarterly based on 3-month LIBOR.

Unrecognized tax benefits were $101 million and $81 million for the years ended December 31, 2009 and 2008, respectively. For additional information, see Note 19, "Income Taxes," to the consolidated financial statements.

**OFF-BALANCE SHEET LENDING ARRANGEMENTS**

We have issued lending-related financial instruments, including lines of credit, to meet the financing needs of our institutional customers. In connection with these agreements, the Company also enters into a participation agreement with the institution to participate in the loans as they are originated. In the event that a line of credit is drawn upon, the loan is collateralized by underlying student loans and is usually participated on the same day. The contractual amount of these financial instruments, $850 million at December 31, 2009, represents the maximum possible credit risk should the counterparty draw down the commitment, the Company does not participate in the loan, and the counterparty subsequently fails to perform according to the terms of our contract. The remaining total contractual amount available to be borrowed under these commitments is $850 million. All commitments mature in 2010. We do not believe that these instruments are representative of our actual future credit exposure. To the extent that the lines of credit are drawn upon, the balance outstanding is collateralized by student loans. At December 31, 2009, there were no outstanding draws on lines of credit. For additional information, see Note 17, "Commitments, Contingencies and Guarantees," to the consolidated financial statements.

The Company maintains forward contracts to purchase loans from our lending partners at contractual prices. These contracts typically have a maximum amount we are committed to buy, but lack a fixed or determinable amount as it ultimately is based on the lending partner's origination activity. FFELP forward purchase contracts typically contain language relieving us of most of our responsibilities under the contract due to, among other things, changes in student loan legislation. These commitments are not accounted for as derivatives under ASC 815 as they do not meet the definition of a derivative due to the lack of a fixed and determinable purchase amount. At December 31, 2009, there were $1.3 billion originated loans (FFELP and Private Education Loans) in the pipeline that the Company was committed to purchase.

**MANAGEMENT OF RISKS**

Significant risks that affect the Company may be grouped into the following categories: (1) funding and liquidity; (2) operations; (3) political/reputation; (4) market competition; (5) credit and counterparty; and (6) regulatory and compliance. These risks are discussed in the "Item 1A. Risk Factors" section of this document. Management's strategies for managing these risks are discussed below.

**Risk Management Processes**

Risk management is a shared responsibility throughout the Company. The Board of Directors and its committees oversee significant risks and review the Company's risk management practices. Executive management is responsible for monitoring and assessing the Company's significant risks. Committees composed of management oversee many of these risks. Also, senior managers of each business division have direct and primary responsibility and accountability for managing risks specific to their operations by identifying and assessing risks, implementing internal controls and reporting control issues to the Company's Risk Assessment Department. The Risk Assessment Department monitors these efforts, identifies areas that require increased focus and resources, and reports significant control issues to executive management and the Audit Committee of the Board. The Company's centralized staff functions, such as accounting, compliance, credit risk, human resources and legal, further strengthen our risk controls.

At least annually, the Risk Assessment Department performs a risk assessment to identify the Company's top risks, which supports the development of the internal audit plan. The risk assessment process is based on the risk universe of the Company and solicits input from over 200 managers in the Company regarding effectiveness of internal controls, compliance with laws and regulations and the adequacy of anti-fraud programs, and is the basis for the Company's internal audit plan. Risks are rated on significance and likelihood of occurrence. Risks with the greatest significance and highest likelihood of occurrence are prioritized for

attention and resources from management and designated for the appropriate management committee and/or committee of the Board for oversight.

Management risk committees and their primary responsibility are as follows:

Consumer Products and Services Assessment Committee — reviews new products and services, including operational implications;

Credit Committee: establishes, approves and enforces credit lending policies and practices;

Compliance Committee: advises on and reviews regulatory compliance;

Asset/Liability Committee: manages market, interest rate and balance sheet risk, and investments;

Disclosure Committee: manages risk of compliance with SEC disclosure obligations;

Critical Accounting Assumptions Committee: reviews key critical accounting assumptions, judgments and estimates and manages risk of compliance with financial reporting requirements;

Information Technology Steering Committee: manages security and confidentiality of information and effectiveness of IT infrastructure;

Business Continuity Steering Committee: manages risk of emergency loss of IT and other infrastructure resources;

Allowance for Loan Loss Steering Committee — approves the loan loss reserve based upon review of assumptions and estimates involved in the calculation;

Internal Controls Excellence Steering Committee: monitors internal controls and compliance with the Sarbanes-Oxley Act; and

Regulation Dissemination and Implementation Committee: monitors and disseminates changes in regulations affecting the business lines and advises on implementation of changes where applicable.

The formal risk management process represents only one portion of our overall risk management framework. Our Code of Business Conduct and the on-going training our employees receive in many compliance areas provide a framework for employees to conduct themselves with the highest integrity. We instill a risk-conscious culture through communications, training, policies and procedures and organizational roles and responsibilities. We have strengthened the linkage between the management performance process and individual compensation to encourage employees to work toward corporate-wide compliance goals.

**Liquidity Risk Management**

Liquidity is the ongoing ability to accommodate liability maturities and deposit withdrawals, fund asset growth and business operations, and meet contractual obligations at reasonable market rates. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet the needs and accommodate fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. Sources of liquidity include wholesale market-based funding, temporary federal government programs and deposits at Sallie Mae Bank.

The Finance Committee of the Board of Directors is responsible for approving the Company’s Asset and Liability Management Policy. The Finance Committee of the Board and, in some cases, the full Board, monitor the Company’s liquidity on an ongoing basis. The Corporate Finance Department is responsible for planning and executing our funding activities and strategy.

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, we conduct our liquidity management and business activities in a manner that will preserve and enhance funding stability, flexibility and diversity. Key components of this operating strategy include maintaining direct relationships with wholesale market funding providers and maintaining the ability to liquidate unencumbered assets if necessary. For a further discussion of our liquidity and capital resources and

the sources and uses of liquidity see the “LIQUIDITY AND CAPITAL RESOURCES” section of this Form 10-K.

**Credit Risk Management**

The Company’s Chief Credit Officer reports, on a regular basis, to the Board regarding the Company’s asset quality. In addition, during 2009, the Chief Credit Officer commenced reporting, on a regular basis, to the Audit Committee of the Board regarding asset quality.

Private credit is managed within a credit risk infrastructure which includes (i) a well-defined underwriting and collection policy framework; (ii) an ongoing monitoring and review process of portfolio segments and trends; (iii) assignment and management of credit authorities and responsibilities; and (iv) establishment of an allowance that covers estimated losses based upon portfolio and economic analysis.

Private Education Loans are underwritten and priced according to the risk profile of the borrower, generally determined by a custom credit scoring system and the Company’s proprietary underwriting process. Additionally, for borrowers who do not meet our lending requirements or who desire more favorable terms, we generally require credit-worthy cosigners. The Company bears the full risk of loss of these loans.

Probable losses for Private Education Loans are based upon statistical analysis of inherent losses over specific periods of time and are estimated using sophisticated portfolio modeling, credit scoring and decision support tools to project credit losses. Potential credit losses are considered in our risk-based pricing model. The performance of the Private Education Loan portfolio may be affected by borrowers who fail to complete their education and by the economy. A prolonged economic downturn may have an adverse effect on our credit performance. This is taken into account when establishing allowances to cover estimated losses.

We have credit risk exposure to the various counterparties with whom we have entered into derivative contracts. We review the credit strength of these companies on an ongoing basis. Our credit policies place limits on the amount of exposure we may take with any one counterparty and, in most cases, require collateral to secure the position. The credit risk associated with derivatives is measured based on the replacement cost should the counterparties with contracts in a gain position to the Company fail to perform under the terms of the contract.

Credit risk in our investment portfolio is minimized by only investing in paper with highly rated issuers. Additionally, limits per issuer are determined by our internal credit and investment guidelines to limit our exposure to any one issuer. We also have credit risk with several higher education institutions related to academic facilities loans secured by real estate.

**Market and Interest Rate Risk Management**

We measure interest rate risk by calculating the variability of net interest income in future periods under various interest rate scenarios using projected balances for interest-earning assets, interest-bearing liabilities and derivatives used to hedge interest rate risk. Many assumptions are utilized by management to calculate the impact that changes in interest rates may have on net interest income, the more significant of which are related to student loan volumes and pricing, the timing of cash flows from our student loan portfolio, particularly the impact of Floor Income, and the rate of student loan consolidations, basis risk, credit spreads and the maturity of our debt and derivatives.

**Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of December 31, 2009. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective ASC 815 hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “gains/(losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This 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.

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 ASC 815 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.

*GAAP Basis*

| Index (Dollars in billions) | Frequency of Variable Resets | Assets | Funding[1] | Funding Gap |
|---|---|---|---|---|
| 3-month Commercial paper[2] | daily | $ 112.6 | $ 9.1 | $ 103.5 |
| 3-month Treasury bill | weekly | 6.4 | .1 | 6.3 |
| Prime | annual | .5 | — | .5 |
| Prime | quarterly | 1.3 | — | 1.3 |
| Prime | monthly | 16.9 | — | 16.9 |
| Prime | daily | — | 3.1 | (3.1) |
| PLUS Index | annual | .5 | — | .5 |
| 3-month LIBOR | daily | — | — | — |
| 3-month LIBOR | quarterly | — | 103.4 | (103.4) |
| 1-month LIBOR | monthly | 5.2 | 5.7 | (.5) |
| CMT/CPI Index | monthly/quarterly | — | 2.6 | (2.6) |
| Non-Discrete reset[3] | monthly | — | 25.3 | (25.3) |
| Non-Discrete reset[4] | daily/weekly | 13.1 | 1.9 | 11.2 |
| Fixed Rate[5] | | 13.5 | 18.8 | (5.3) |
| Total | | $ 170.0 | $ 170.0 | $ — |

(1) Funding includes all derivatives that qualify as hedges under ASC 815.

(2) Funding includes $9.0 billion of ED Participation Program facility which resets based on the prior quarter student loan commercial paper index.

(3) Funding consists of auction rate securities, the 2008 ABCP Facilities and the ED Conduit Program facility.

(4) Assets include restricted and non-restricted cash equivalents and other overnight type instruments.

(5) Assets include receivables and other assets (including Retained Interests, goodwill and acquired intangibles). Funding includes 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 typically through the use of basis swaps that typically convert quarterly three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges under ASC 815 and as a result the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

*Managed Basis*

| Index (Dollars in billions) | Frequency of Variable Resets | Assets | Funding(1) | Funding Gap |
|---|---|---|---|---|
| 3-month Commercial paper(2) | daily | $ 130.6 | $ 9.1 | $ 121.5 |
| 3-month Treasury bill | weekly | 8.6 | 5.9 | 2.7 |
| Prime | annual | .9 | — | .9 |
| Prime | quarterly | 6.0 | 1.5 | 4.5 |
| Prime | monthly | 24.2 | 11.8 | 12.4 |
| Prime | daily | — | 3.1 | (3.1) |
| PLUS Index | annual | .5 | .1 | .4 |
| 3-month LIBOR(3) | daily | — | 82.4 | (82.4) |
| 3-month LIBOR | quarterly | — | 21.3 | (21.3) |
| 1-month LIBOR | monthly | 5.2 | 13.6 | (8.4) |
| 1-month LIBOR | daily | — | 8.0 | (8.0) |
| Non-Discrete reset(4) | monthly | — | 26.3 | (26.3) |
| Non-Discrete reset(5) | daily/weekly | 14.2 | 1.5 | 12.7 |
| Fixed Rate(6) | | 10.1 | 15.7 | (5.6) |
| Total | | $ 200.3 | $ 200.3 | $ — |

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

(2) Funding includes $9.0 billion of ED Participation Program facility which resets based on the prior quarter student loan commercial paper index.

(3) Funding includes $1.4 billion of auction rate securities.

(4) Funding consists of auction rate securities, the 2008 ABCP Facilities and the ED Conduit Program facility.

(5) Assets include restricted and non-restricted cash equivalents and other overnight type instruments.

(6) Assets include receivables and other assets (including Retained Interests, goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity (excluding Series B Preferred Stock).

We use interest rate swaps and other derivatives to achieve our risk management objectives. To the extent possible, we 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 three-month LIBOR to fund a large portion of our daily reset three-month commercial paper indexed assets. In addition, we use quarterly reset three-month LIBOR to fund a portion of our quarterly reset Prime rate indexed Private Education Loans. We also use our monthly Non-Discrete reset and 1-month LIBOR funding to fund various asset types. 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. While 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, market disruptions can lead to a temporary divergence between indices as was experienced beginning in the second half of 2007 through the second quarter of 2009 with the commercial paper and LIBOR indices. As of December 31, 2009, on a Managed Basis, we have approximately $107.2 billion of FFELP loans indexed to three-month commercial paper ("3M CP") that are funded with debt indexed to LIBOR. See "LENDING BUSINESS SEGMENT" in "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" for further discussion of this CP/LIBOR relationship.

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 three-month LIBOR to other indices that are more correlated to our asset indices.

***Weighted Average Life***

The following table reflects the weighted average life for our Managed earning assets and liabilities at December 31, 2009.

| | December 31, 2009 | |
|---|---|---|
| **(Averages in Years)** | **On-Balance Sheet** | **Managed** |
| **Earning assets** | | |
| Student loans | 7.9 | 7.9 |
| Other loans | 6.4 | 6.4 |
| Cash and investments | .1 | .1 |
| Total earning assets | 7.3 | 7.3 |
| **Borrowings** | | |
| Short-term borrowings | .5 | .5 |
| Long-term borrowings | 6.6 | 6.7 |
| Total borrowings | 5.4 | 5.7 |

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

***Foreign Currency Exchange Rate Exposure***

Foreign currency exchange rate exposure is primarily the result of foreign denominated liabilities issued by the Company. Cross-currency interest rate swaps are used to lock-in the exchange rate for the term of the liability.

**COMMON STOCK**

The following table summarizes the Company's common share repurchases and issuances for the years ended December 31, 2009, 2008 and 2007. Equity forward activity for the year ended December 31, 2007 is also reported.

| (Shares in millions) | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Common shares repurchased: | | | |
| Open market | — | — | 1.8 |
| Equity forward contracts | — | — | 4.2 |
| Equity forward contracts agreed to be settled[1] | — | — | 44.0 |
| Benefit plans[2] | .3 | 1.0 | 3.3 |
| Total shares repurchased | .3 | 1.0 | 53.3 |
| Average purchase price per share | $ 20.29 | $ 24.51 | $ 44.59 |
| Common shares issued | 17.8 | 1.9 | 109.2 |
| Equity forward contracts: | | | |
| Outstanding at beginning of period | — | — | 48.2 |
| New contracts | — | — | — |
| Settlements | — | — | (4.2) |
| Agreed to be settled[1] | — | — | (44.0) |
| Outstanding at end of period | — | — | — |
| Authority remaining at end of period for repurchases | 38.8 | 38.8 | 38.8 |

(1) On December 31, 2007, the Company and Citibank agreed to physically settle the contract as detailed below. Consequently, the common shares outstanding and shareholders' equity on the Company's year-end balance sheet reflect the physical settlement of the equity forward contract. As of December 31, 2007, the 44 million shares under this equity forward contract are reflected in treasury stock.

(2) Shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

Beginning on November 29, 2007, the Company amended or closed out certain equity forward contracts. On December 19, 2007, the Company entered into a series of transactions with its equity forward counterparties and Citibank to assign all of its remaining equity forward contracts, covering 44,039,890 shares, to Citibank. In connection with the assignment of the equity forward contracts, the Company and Citibank amended the terms of the equity forward contract to eliminate all stock price triggers (which had previously allowed the counterparty to terminate the contracts prior to their scheduled maturity date) and termination events based on the Company's credit ratings. The strike price of the equity forward contract on December 19, 2007, was $45.25 with a maturity date of February 22, 2008. The new Citibank equity forward contract was 100 percent collateralized with cash. On December 31, 2007, the Company and Citibank agreed to physically settle the contract and the Company paid Citibank approximately $1.1 billion, the difference between the contract purchase price and the previous market closing price on the 44,039,890 shares. Consequently, the common shares outstanding and shareholders' equity on the Company's year-end balance sheet reflect the shares issued in the public offerings and the physical settlement of the equity forward contract. As of December 31, 2007, the 44 million shares under this equity forward contract are reflected in treasury stock. The Company paid Citibank the remaining balance of approximately $0.9 billion due under the contract on January 9, 2008. The Company now has no outstanding equity forward positions.

On December 31, 2007, the Company issued 101,781,170 shares of its common stock at a price of $19.65 per share. Net proceeds from the sale were approximately $1.9 billion. The Company used approximately $2.0 billion of the net proceeds from the sale of Series C Preferred Stock and the sale of its common stock to

settle its outstanding equity forward contract (see Note 11, "Stockholders' Equity," to the consolidated financial statements for a further discussion). The remaining proceeds were used for general corporate purposes. The Company issued 9,781,170 shares of the 102 million share offering from its treasury stock. These shares were removed from treasury stock at an average cost of $43.13, resulting in a $422 million decrease to the balance of treasury stock with an offsetting $235 million decrease to retained earnings.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as part of preferred stock dividends for the year of approximately $53 million.

The closing price of the Company's common stock on December 31, 2009 was $11.27.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

See Note 2, "Significant Accounting Policies — *Recently Issued Accounting Standards*." to the consolidated financial statements.

**Item 7A.** ***Quantitative and Qualitative Disclosures about Market Risk***

***Interest Rate Sensitivity Analysis***

The Company's interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the effect on earnings for the years ended December 31, 2009 and 2008 and the effect on fair values at December 31, 2009 and 2008, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different than the asset index. Both of these analyses do not consider any potential impairment to our Residual Interests that may result from asset and funding basis divergence or a higher discount rate that would be used to compute the present value of the cash flows if long-term interest rates increased. See Note 8, "Student Loan Securitization," to the consolidated financial statements which details the potential decrease to the fair value of the Residual Interest that could occur under the referenced interest rate environment.

| | Year Ended December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Rates: | | | | Asset and Funding Index Mismatches(1) | |
| | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | | Increase of 25 Basis Points | |
| (Dollars in millions, except per share amounts) | $ | % | $ | % | $ | % |
| **Effect on Earnings** | | | | | | |
| Increase/(decrease) in pre-tax net income before unrealized gains (losses) on derivative and hedging activities | $ (70) | (7)% | $ (31) | (3)% | $ (321) | (31)% |
| Unrealized gains (losses) on derivative and hedging activities | 108 | 33 | 18 | 5 | 106 | 33 |
| Increase in net income before taxes | $ 38 | 5% | $ (13) | (2)% | $ (215) | (30)% |
| Increase in diluted earnings per common share | $ .080 | 21% | $ (.027) | (7)% | $ (.456) | (120)% |

| | Year Ended December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Interest Rates: | | | | Asset and Funding Index Mismatches(1) | |
| | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | | Increase of 25 Basis Points | |
| (Dollars in millions, except per share amounts) | $ | % | $ | % | $ | % |
| **Effect on Earnings** | | | | | | |
| Increase/(decrease) in pre-tax net income before unrealized gains (losses) on derivative and hedging activities | $ (6) | (3)% | $ 13 | 7% | $ (297) | (162)% |
| Unrealized gains (losses) on derivative and hedging activities | 460 | 82 | 956 | 171 | 95 | 17 |
| Increase in net income before taxes | $ 454 | 121% | $ 969 | 258% | $ (202) | (54)% |
| Increase in diluted earnings per common share | $ .974 | 141% | $ 2.076 | 301% | $ (.433) | (63)% |

(1) If an asset is not funded with the same index/frequency reset of the asset then it is assumed the funding index increases 25 basis points while holding the asset index constant.

| (Dollars in millions) | At December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values** | | | | | |
| Assets | | | | | |
| Total FFELP loans | $ 119,747 | $ (470) | —% | $ (979) | (1)% |
| Private Education Loans | 20,278 | — | — | — | — |
| Other earning assets | 13,472 | (4) | — | (11) | — |
| Other assets | 12,506 | (690) | (6) | (1,266) | (10) |
| Total assets | $ 166,003 | $ (1,164) | (1)% | $ (2,256) | (1)% |
| Liabilities | | | | | |
| Interest bearing liabilities | $ 154,037 | $ (852) | (1)% | $ (2,159) | (1)% |
| Other liabilities | 3,263 | (21) | (1) | 547 | (17) |
| Total liabilities | $ 157,300 | $ (873) | (1)% | $ (1,612) | (1)% |

| (Dollars in millions) | At December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from Increase of 100 Basis Points | | Change from Increase of 300 Basis Points | |
| | Fair Value | $ | % | $ | % |
| **Effect on Fair Values** | | | | | |
| Assets | | | | | |
| Total FFELP loans | $ 107,319 | $ (758) | (1)% | $ (1,602) | (1)% |
| Private Education Loans | 14,141 | — | — | — | — |
| Other earning assets | 9,265 | (9) | — | (25) | — |
| Other assets | 14,590 | (848) | (6) | (2,108) | (14) |
| Total assets | $ 145,315 | $ (1,615) | (1)% | $ (3,735) | (3)% |
| Liabilities | | | | | |
| Interest bearing liabilities | $ 135,070 | $ (837) | (1)% | $ (2,500) | (2)% |
| Other liabilities | 3,604 | (293) | (8) | (273) | (8) |
| Total liabilities | $ 138,674 | $ (1,130) | (1)% | $ (2,773) | (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 "LENDING BUSINESS SEGMENT — Summary of our Managed Student Loan Portfolio — *Floor Income — Managed Basis*," 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. In addition, we can have a mismatch in the index of floating rate debt versus floating rate assets.

During the years ended December 31, 2009 and 2008, certain FFELP loans were earning Floor Income and we locked in a portion of that Floor Income through the use of interest rate swaps 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 preceding tables, 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 unhedged on-balance sheet loans being in a fixed-rate mode due to the Embedded Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed debt. Item (i) will generally cause income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease. In the 100 and 300 basis point scenarios for the year ended December 31, 2009, the decrease in income resulted from item (i) above due to the impact of the low interest rate environment on Floor Income. This was offset by item (ii) above, which had a greater impact in the 300 basis point scenario. In the year ended December 31, 2008, item (i) above was partially offset by item (ii), resulting in a decrease to pretax income in the 100 basis point scenario. In the 300 basis point scenario, item (ii) more than offset item (i), resulting in an increase to pre-tax income.

Under the scenario in the tables above labeled "Asset and Funding Index Mismatches," the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities is the result of LIBOR-based debt funding commercial paper-indexed assets. See "LIQUIDITY AND CAPITAL RESOURCES — Interest Rate Risk Management — *Asset and Liability Funding Gap*" for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivatives and hedging activities as it relates to basis swaps. Basis swaps used to convert LIBOR-based debt to indices that we believe are economic hedges of the indices of the assets being funded resulted in an unrealized loss of $(102) million for both years ended December 31, 2009 and 2008. Offsetting this unrealized loss are basis swaps that economically hedge our off-balance sheet Private Education Loan securitization trusts. Unrealized gains for these basis swaps totaled $208 million for the year ended December 31, 2009, and $197 million for the year ended December 31, 2008. The net impact of both of these items was an unrealized gain for all periods presented.

In addition to interest rate risk addressed in the preceding tables, the Company is also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign currency denominated debt issued by the Company. As it relates to the Company's corporate unsecured and securitization debt programs used to fund the Company's business, the Company's policy is to use cross currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign exchange rates has resulted in material mark-to-market impacts to current-period earnings which have not been factored into the above analysis. The earnings impact is noncash, and at maturity of the instruments the cumulative mark-to-market impact will be zero.

**Item 8. Financial Statements and Supplementary Data**

Reference is made to the financial statements listed under the heading "(a) 1.A. Financial Statements" of Item 15 hereof, which financial statements are incorporated by reference in response to this Item 8.

**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

Nothing to report.

**Item 9A. Controls and Procedures**

**Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, 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 December 31,

2009. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2009, 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 Chief Executive Officer and Chief Financial Officer 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 December 31, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. Other Information**

Nothing to report.

## PART III.

### Item 10. Directors, Executive Officers and Corporate Guidance

The information regarding directors and executive officers set forth under the captions "Proposal 1: Election of Directors" and "Executive Officers" in the Proxy Statement to be filed on schedule 14A relating to the Company's Annual Meeting of Stockholders scheduled to be held on May 13, 2010 (the "2010 Proxy Statement") is incorporated by reference in this section.

The information regarding reports filed under Section 16 of the Securities and Exchange Act of 1934 set forth under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" of our 2010 Proxy Statement is incorporated by reference in this section.

The information regarding the Company's Code of Business Conduct set forth under the caption "Code of Business Conduct" of our 2010 Proxy Statement is incorporated by reference in this section.

The information regarding the Company's process regarding nominees to the board of directors and the identification of the "audit committee financial experts" set forth under the caption "Corporate Governance" of our 2010 Proxy Statement is incorporated by reference in this section.

### Item 11. Executive Compensation

The information set forth under the caption "Executive and Director Compensation" in the 2010 Proxy Statement is incorporated by reference in this section.

### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information set forth under the captions "Stock Ownership," "General Information — Principal Shareholders" and "Equity Compensation Plan Information" in the 2010 Proxy Statement is incorporated by reference in this section. There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.

### Item 13. Certain Relationships and Related Transactions, and Director Independence

The information set forth under the caption "Related Persons Transactions" and, regarding director independence under the caption "Corporate Governance" in the 2010 Proxy Statement is incorporated by reference in this section.

### Item 14. Principal Accounting Fees and Services

The information set forth under the caption "Ratification of the Appointment of Independent Registered Public Accounting Firm" in the Proxy Statement is incorporated by reference in this section.

## PART IV.

**Item 15. Exhibits, Financial Statement Schedules**

**(a) 1. Financial Statements**

A. The following consolidated financial statements of SLM Corporation and the Report of the Independent Registered Public Accounting Firm thereon are included in Item 8 above:


| | |
|---|---|
| Management's Annual Report on Internal Control over Financial Reporting | F-2 |
| Report of Independent Registered Public Accounting Firm | F-3 |
| Consolidated Balance Sheets as of December 31, 2009 and 2008 | F-4 |
| Consolidated Statements of Income for the years ended December 31, 2009, 2008 and 2007 | F-5 |
| Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2009, 2008 and 2007 | F-6 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2009, 2008 and 2007 | F-9 |
| Notes to Consolidated Financial Statements | F-10 |


**2. Financial Statement Schedules**

All schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

**3. Exhibits**

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report.

The Company will furnish at cost a copy of any exhibit filed with or incorporated by reference into this Annual Report. Oral or written requests for copies of any exhibits should be directed to the Corporate Secretary.

**4. Appendices**

Appendix A — Federal Family Education Loan Program

**(b) Exhibits**

| | |
|---|---|
| 10.1 | Amended and Restated Certificate of Incorporation of the "Company," incorporated by reference to Exhibit 4.1 of the Company's Form S-8 filed on May 22, 2009. |
| 10.2 | Amended By-Laws of the Company incorporated by reference to Exhibit 3.1(ii) of the Company's Current Report on Form 8-K filed on August 6, 2008. |
| 10.3 | Board of Directors Stock Option Plan (Incorporated by reference to the "Company" Definitive Proxy Statement on Schedule 14A, as filed with the Securities and Exchange Commission on April 10, 1998.† |
| 10.4 | SLM Holding Corporation Management Incentive Plan, incorporated by reference to Exhibit B of the Company's Definitive Proxy Statement on Schedule 14A, as filed on April 10, 1998.† |
| 10.5 | Stock Option Agreement, SLM Corporation Incentive Plan, ISO, Price-Vested with Replacements 2004, incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2004.† |
| 10.6 | Stock Option Agreement, SLM Corporation Incentive Plan, Non-Qualified, Price-Vested Options-2004, incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2004.† |
| 10.7 | Terms of Performance Stock Grant, incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2004. |

| | |
|---|---|
| 10.8 | Amended and Restated SLM Corporation Incentive Plan, incorporated by reference to Exhibit 10.24 of the Company's Current Report on Form 8-K filed on May 25, 2005.† |
| 10.9 | Director's Stock Plan, incorporated by reference to Exhibit 10.25 of the Company's Current Report on Form 8-K filed on May 25, 2005.† |
| 10.10 | SLM Corporation Incentive Plan Performance Stock Term Sheet "Core" Net Income Target, incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K filed on March 9, 2006.† |
| 10.11 | Stock Option Agreement SLM Corporation incentive Plan Net-Settled, Price-Vested Options — 1 year minimum — 2006, incorporated by reference to Exhibit 10.25 of the Company's Annual Report on Form 10-K filed on March 9, 2006.† |
| 10.12 | SLM Corporation Change in Control Severance Plan for Senior Officers, incorporated by reference to Exhibit 10.27 of the Company's Annual Report on Form 10-K filed on March 9, 2006.† |
| 10.13 | Retainer Agreement between Anthony P. Terracciano and the Company, incorporated by reference to Exhibit 10.30 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008.† |
| 10.14 | Employment Agreement between Albert L. Lord and the Company, incorporated by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008.† |
| 10.15 | Note of Purchase and Security Agreement between Phoenix Funding I, Sallie Mae, Bank of NY Trust Company, Deutsche Bank Trust Company Americas, UBS Real Estate Securities, UBS Securities LLC, incorporated by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.16 | Note of Purchase and Security Agreement between Rendezvous Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.17 | Note of Purchase and Security Agreement between Bluemont Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP. Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to Exhibit 10.31 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.18 | Employment Agreement between John F. Remondi and the Company, incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q filed on August 6, 2008.† |
| 10.19 | Sallie Mae Deferred Compensation Plan for Key Employees Restatement Effective January 1, 2009, filed with this Form 10-K.† |
| 10.20 | Sallie Mae Supplemental 401(k) Savings Plan, filed with this Form 10-K,† |
| 10.21 | Sallie Mae Supplemental Cash Account Retirement Plan, filed with this Form 10-K.† |
| 10.22 | Amendment to the Note of Purchase and Security Agreement between Phoenix Funding I, Sallie Mae, Bank of NY Trust Company, Deutsche Bank Trust Company Americas, UBS Real Estate Securities, UBS Securities LLC, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.23 | Amendment to the "Note of Purchase and Security Agreement between Rendezvous Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JF Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.24 | Amendment to the Note of Purchase and Security Agreement between Bluemont Funding I, Bank of America, JPMorgan Chase, Bank of America Securities LLC, JP Morgan Securities, Barclays Bank PLC, Royal Bank of Scotland, Deutsche Bank Securities, Credit Suisse, Bank of NY Trust Co., Sallie Mae, incorporated by reference to the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |
| 10.25 | Amendment to Schedule of Contracts Substantially Identical to Exhibit 10.34 of the Company's Quarterly Report on Form 10-Q filed on May 9, 2008. |

| | |
|---|---|
| 10.26 | SLM Corporation Incentive Stock Plan Stock Option Agreement, Net-Settled, Performance Vested Options, 2009, filed with this Form 10-K.† |
| 10.27 | SLM Corporation Incentive Plan Performance Stock Term Sheet, “Core Earnings” Net Income Target-Sustained Performance, 2009, filed with this Form 10-K.† |
| 10.28 | SLM Corporation Directors Equity Plan, incorporated by reference to Exhibit 10.1 of the Company’s Form S-8 filed on May 22, 2009.† |
| 10.29 | SLM Corporation 2009-2012 Incentive Plan, incorporated by reference to Exhibit 10.2 of the Company’s Form S-8 filed on May 22, 2009.† |
| 10.30 | Confidential Agreement and Release of C.E. Andrews, incorporated by reference to Exhibit 10.1 of the Company’s Quarterly Report on Form 10-Q filed on August 5, 2009.† |
| 10.31 | Confidential Agreement and Release of Robert Autor, incorporated by reference to Exhibit 10.2 of the Company’s Quarterly Report on Form 10-Q filed on August 5, 2009.† |
| 10.32 | Amended and Restated Note Purchase and Security Agreement: Bluemont Funding I; the Conduit Lenders; the Alternate Lenders; the LIBOR lenders; the Managing Agents; Bank of America, N.A.; JPMorgan Chase Bank, N.A.; Banc of America Securities LLC; J.P. Morgan Securities Inc.; The Bank of New York Mellon Trust Company, National Association; and Sallie Mae, Inc., incorporated by reference to Exhibit 10.3 of the Company’s Quarterly Report on Form 10-Q filed on August 5,2009. |
| 10.33 | Schedule of Contracts Substantially Identical to Exhibit 10.3 in all Material Respects:. Town Center Funding I LLC and: Town Hall Funding I LLC, incorporated by reference to Exhibit 10.4 of the Company’s Quarterly Report on Form 10-Q filed on August 5, 2009. |
| 10.34 | SLM Corporation Directors Equity Plan, Non-Employee Director Restricted Stock Agreement 2009, incorporated by reference to Exhibit 10.5 of the Company’s Quarterly Report on Form 10-Q filed on November 4, 2009.† |
| 10.35 | SLM Corporation Directors Equity Plan, Non-Employee Director Stock Option Agreement 2009, incorporated by reference to Exhibit 10.6 of the Company’s Quarterly Report on Form 10-Q filed on November 4, 2009.† |
| 10.36 | Confidential Agreement and Release of Barry Feierstein, filed with this Form 10-K.† |
| 10.37 | Amendment to Retainer Agreement Anthony Terracciano and SLM Corporation, dated December 24, 2009, filed with this Form 10-K.† |
| 10.38 | Affiliate Collateral Pledge and Security Agreement between SLM Education Credit Finance Corporation, HICA Education Loan Corporation and the Federal Home Loan Bank of Des Moines, dated January 15, 2010, filed with this Form 10-K. |
| 10.39 | Advances, Pledge and Security Agreement between HICA Education Loan Corporation and the Federal Home Loan Bank of Des Moines, dated January 15, 2010, filed with this Form 10-K. |
| 10.40 | Note Purchase and Security Agreement between Bluemont Funding 1; the Conduit Lenders; the Alternate Lenders; the LIBOR lenders; the Managing Agents; Bank of America, N.A.; JPMorgan Chase Bank, N.A.; Banc of America Securities LLC; J.P. Morgan Securities Inc.; The Bank of New York Mellon Trust Company, “National Association; and Sallie Mae, Inc., dated January 15, 2010, filed with this Form 10-K. |
| 10.41 | Schedule of Contracts Substantially Identical to Exhibit 10,40 in all Material Respects: between Town Center Funding 1 LLC and Town Hall Funding I LLC, dated January 15, 2010, filed with this Form 10-K. |
| 10.42 | Executive Severance Plan for Senior Officers, finalized February 2010, filed with this Form 10-K.† |
| 14 | Code of Business Conduct (filed with-the Securities and Exchange Commission with the “Company” Annual Report on Form 10-K for the year ended December 31, 2003). |
| 21.1 | List of Subsidiaries, filed with this Form 10-K. |
| 23 | Consent of PricewaterhouseCoopers LLP (Filed with the Securities and Exchange Commission with this Form 10-K). |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K). |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K). |

| | |
|---|---|
| 32.1 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K). |
| 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2003 (Filed with the Securities and Exchange Commission with this Form 10-K). |

† Management Contract or Compensatory Plan or Arrangement

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: February 26, 2010

SLM CORPORATION

By: /s/ ALBERT L. LORD
Albert L. Lord
*Vice Chairman and Chief Executive Officer*

Pursuant to the requirement of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|---|---|---|
| /s/ ALBERT L. LORD<br>Albert L. Lord | Vice Chairman and Chief Executive Officer (Principal Executive Officer) | February 26, 2010 |
| /s/ JOHN F. REMONDI<br>John F. Remondi | Vice Chairman and Chief Financial Officer (Principal Financial and Accounting Officer) | February 26, 2010 |
| /s/ ANTHONY P. TERRACCIANO<br>Anthony P. Terracciano | Chairman of the Board of Directors | February 26, 2010 |
| /s/ ANN TORRE BATES<br>Ann Torre Bates | Director | February 26, 2010 |
| /s/ WILLIAM M. DIEFENDERFER, III<br>William M. Diefenderfer, III | Director | February 26, 2010 |
| /s/ DIANE SUITT GILLELAND<br>Diane Suitt Gilleland | Director | February 26, 2010 |
| /s/ EARL A. GOODE<br>Earl A. Goode | Director | February 26, 2010 |
| /s/ RONALD F. HUNT<br>Ronald F. Hunt | Director | February 26, 2010 |
| /s/ MICHAEL E. MARTIN<br>Michael E. Martin | Director | February 26, 2010 |
| /s/ BARRY A. MUNITZ<br>Barry A. Munitz | Director | February 26, 2010 |

| Signature | Title | Date |
|---|---|---|
| /s/ HOWARD H. NEWMAN<br>Howard H. Newman | Director | February 26, 2010 |
| /s/ A. ALEXANDER PORTER, JR.<br>A. Alexander Porter, Jr. | Director | February 26, 2010 |
| /s/ FRANK C. PULEO<br>Frank C. Puleo | Director | February 26, 2010 |
| /s/ WOLFGANG SCHOELLKOPF<br>Wolfgang Schoellkopf | Director | February 26, 2010 |
| /s/ STEVEN L. SHAPIRO<br>Steven L. Shapiro | Director | February 26, 2010 |
| /s/ J. TERRY STRANGE<br>J. Terry Strange | Director | February 26, 2010 |
| /s/ BARRY L. WILLIAMS<br>Barry L. Williams | Director | February 26, 2010 |

**CONSOLIDATED FINANCIAL STATEMENTS**
**INDEX**


| | Page |
|---|---|
| Management's Annual Report on Internal Control over Financial Reporting | F-2 |
| Report of Independent Registered Public Accounting Firm | F-3 |
| Consolidated Balance Sheets | F-4 |
| Consolidated Statements of Income | F-5 |
| Consolidated Statements of Changes in Stockholders' Equity | F-6 |
| Consolidated Statements of Cash Flows | F-9 |
| Notes to Consolidated Financial Statements | F-10 |

## MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we assessed the effectiveness of our internal control over financial reporting as of December 31, 2009. In making this assessment, our management used the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management also used an IT governance framework that is based on the COSO framework, *Control Objectives for Information and related Technology*, which was issued by the Information Systems Audit and Control Association and the IT Governance Institute. Based on our assessment and those criteria, management concluded that, as of December 31, 2009, our internal control over financial reporting is effective.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, as stated in their report which appears below.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of SLM Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of SLM Corporation and its subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for retained interests in 2008.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
McLean, VA

February 26, 2010

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

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Assets** | | |
| FFELP Stafford and Other Student Loans (net of allowance for losses of $104,219 and $90,906, respectively) | $ 42,978,874 | $ 44,025,361 |
| FFELP Stafford Loans Held-for-Sale | 9,695,714 | 8,450,976 |
| FFELP Consolidation Loans (net of allowance for losses of $56,949 and $46,637, respectively) | 68,378,560 | 71,743,435 |
| Private Education Loans (net of allowance for losses of $1,443,440 and $1,308,043, respectively) | 22,753,462 | 20,582,298 |
| Other loans (net of allowance for losses of $73,985 and $58,395, respectively) | 420,233 | 729,380 |
| Investments | | |
| Available-for-sale | 1,273,275 | 861,008 |
| Other | 740,553 | 180,397 |
| Total investments | 2,013,828 | 1,041,405 |
| Cash and cash equivalents | 6,070,013 | 4,070,002 |
| Restricted cash and investments | 5,168,871 | 3,535,286 |
| Retained Interest in off-balance sheet securitized loans | 1,828,075 | 2,200,298 |
| Goodwill and acquired intangible assets, net | 1,177,310 | 1,249,219 |
| Other assets | 9,500,358 | 11,140,777 |
| Total assets | $ 169,985,298 | $ 168,768,437 |
| **Liabilities** | | |
| Short-term borrowings | $ 30,896,811 | $ 41,933,043 |
| Long-term borrowings | 130,546,272 | 118,224,794 |
| Other liabilities | 3,263,593 | 3,604,260 |
| Total liabilities | 164,706,676 | 163,762,097 |
| **Commitments and contingencies** | | |
| **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 | 165,000 | 165,000 |
| Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share | 400,000 | 400,000 |
| Series C, 7.25% mandatory convertible preferred stock; 810 and 1,150 shares, respectively, issued at liquidation preference of $1,000 per share | 810,370 | 1,149,770 |
| Common stock, par value $.20 per share, 1,125,000 shares authorized: 552,220 and 534,411 shares issued, respectively | 110,444 | 106,883 |
| Additional paid-in capital | 5,090,891 | 4,684,112 |
| Accumulated other comprehensive loss (net of tax benefit of $23,448 and $43,202, respectively) | (40,825) | (76,476) |
| Retained earnings | 604,467 | 426,175 |
| Total SLM Corporation stockholders' equity before treasury stock | 7,140,347 | 6,855,464 |
| Common stock held in treasury at cost: 67,222 and 66,958 shares, respectively | 1,861,738 | 1,856,394 |
| Total SLM Corporation stockholders' equity | 5,278,609 | 4,999,070 |
| Noncontrolling interest | 13 | 7,270 |
| Total equity | 5,278,622 | 5,006,340 |
| Total liabilities and stockholders' equity | $ 169,985,298 | $ 168,768,437 |

See accompanying notes to consolidated financial statements.

**SLM CORPORATION**
**CONSOLIDATED STATEMENTS OF INCOME**
**(In thousands, except per share amounts)**

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2009** | **2008** | **2007** |
| **Interest income:** | | | |
| FFELP Stafford and Other Student Loans | $ 1,211,587 | $ 1,994,394 | $ 2,060,993 |
| FFELP Consolidation Loans | 1,882,195 | 3,178,692 | 4,343,138 |
| Private Education Loans | 1,582,514 | 1,737,554 | 1,456,471 |
| Other loans | 56,005 | 82,734 | 105,843 |
| Cash and investments | 26,064 | 276,264 | 707,577 |
| Total interest income | 4,758,365 | 7,269,638 | 8,674,022 |
| Total interest expense | 3,035,639 | 5,905,418 | 7,085,772 |
| Net interest income | 1,722,726 | 1,364,220 | 1,588,250 |
| Less: provisions for loan losses | 1,118,960 | 719,650 | 1,015,308 |
| Net interest income after provisions for loan losses | 603,766 | 644,570 | 572,942 |
| **Other income (loss):** | | | |
| Gains on student loan securitizations | — | — | 367,300 |
| Servicing and securitization revenue | 295,297 | 261,819 | 437,097 |
| Gains (losses) on sales of loans and securities, net | 283,836 | (186,155) | (95,492) |
| Gains (losses) on derivative and hedging activities, net | (604,535) | (445,413) | (1,360,584) |
| Contingency fee revenue | 295,883 | 340,140 | 335,737 |
| Collections revenue | 51,152 | 127,823 | 219,683 |
| Guarantor servicing fees | 135,562 | 121,363 | 156,429 |
| Other | 929,151 | 392,076 | 385,303 |
| Total other income | 1,386,346 | 611,653 | 445,473 |
| **Expenses:** | | | |
| Salaries and benefits | 549,137 | 602,868 | 728,095 |
| Other operating expenses | 706,169 | 712,083 | 759,895 |
| Restructuring expenses | 13,767 | 83,516 | 22,505 |
| Total expenses | 1,269,073 | 1,398,467 | 1,510,495 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 721,039 | (142,244) | (492,080) |
| Income tax expense (benefit) | 238,364 | (76,769) | 408,275 |
| Net income (loss) from continuing operations | 482,675 | (65,475) | (900,355) |
| Income (loss) from discontinued operations, net of tax benefit | (157,690) | (143,219) | 6,276 |
| Net income (loss) | 324,985 | (208,694) | (894,079) |
| Less: net income attributable to noncontrolling interest | 847 | 3,932 | 2,315 |
| **Net income (loss) attributable to SLM Corporation** | 324,138 | (212,626) | (896,394) |
| Preferred stock dividends | 145,836 | 111,206 | 37,145 |
| Net income (loss) attributable to SLM Corporation common stock | $ 178,302 | $ (323,832) | $ (933,539) |
| **Net income (loss) attributable to SLM Corporation:** | | | |
| Continuing operations, net of tax | $ 481,828 | $ (69,407) | $ (902,670) |
| Discontinued operations, net of tax | (157,690) | (143,219) | 6,276 |
| Net income (loss) attributable to SLM Corporation | $ 324,138 | $ (212,626) | $ (896,394) |
| **Basic earnings (loss) per common share attributable to SLM Corporation common shareholders:** | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) |
| Discontinued operations | $ (.33) | $ (.30) | $ .02 |
| Total | $ .38 | $ (.69) | $ (2.26) |
| Average common shares outstanding | 470,858 | 466,642 | 412,233 |
| **Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders:** | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) |
| Discontinued operations | $ (.33) | $ (.30) | $ .02 |
| Total | $ .38 | $ (.69) | $ (2.26) |
| Average common and common equivalent shares outstanding | 471,584 | 466,642 | 412,233 |
| Dividends per common share attributable to SLM Corporation common shareholders | $ — | $ — | $ .25 |

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)

| | 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 | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued | Treasury | Outstanding | | | | | | | | | |
| **Balance at December 31, 2006** | 7,300,000 | 433,112,982 | (22,496,170) | 410,616,812 | $565,000 | $ 86,623 | $ 2,565,211 | $ 349,111 | $ 1,834,718 | $ (1,040,621) | $ 4,360,042 | $ 9,115 | $ 4,369,157 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income (loss) | | | | | | | | | (896,394) | | (896,394) | 2,315 | (894,079) |
| Other comprehensive income, net of tax: | | | | | | | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | | | | (101,591) | | | (101,591) | | (101,591) |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | | | | (15,004) | | | (15,004) | | (15,004) |
| Defined benefit pension plans adjustment | | | | | | | | 3,848 | | | 3,848 | | 3,848 |
| Comprehensive income | | | | | | | | | | | (1,009,141) | 2,315 | (1,006,826) |
| Cash dividends: | | | | | | | | | | | | | |
| Common stock ($.25 per share) | | | | | | | | | (102,658) | | (102,658) | | (102,658) |
| Preferred stock, Series A ($3.49 per share) | | | | | | | | | (11,500) | | (11,500) | | (11,500) |
| Preferred stock, Series B ($6.25 per share) | | | | | | | | | (24,796) | | (24,796) | | (24,796) |
| Preferred stock, Series C ($.20 per share) | | | | | | | | | (201) | | (201) | | (201) |
| Restricted stock dividend | | | | | | | | | (8) | | (8) | | (8) |
| Issuance of common shares | | 99,380,099 | 9,816,534 | 109,196,633 | | 19,876 | 1,940,708 | | (235,548) | 423,446 | 2,148,482 | | 2,148,482 |
| Issuance of preferred shares | 1,000,000 | | | | 1,000,000 | | (30,678) | | (648) | | 968,674 | | 968,674 |
| Tax benefit related to employee stock option and purchase plans | | | | | | | 49,016 | | | | 49,016 | | 49,016 |
| Stock-based compensation cost | | | | | | | 65,917 | | | | 65,917 | | 65,917 |
| Cumulative effect of accounting change | | | | | | | | | (5,761) | | (5,761) | | (5,761) |
| Repurchase of common shares: | | | | | | | | | | | | | |
| Open market repurchases | | | (1,809,700) | (1,809,700) | | | | | | (65,018) | (65,018) | | (65,018) |
| Equity forward settlement: | | | | | | | | | | | | | |
| Settlement cost, cash | | | (4,110,929) | (4,110,929) | | | | | | (164,437) | (164,437) | | (164,437) |
| (Gain) loss on settlement | | | — | — | | | | | | 54,716 | 54,716 | | 54,716 |
| Equity forwards agreed to be settled: | | | | | | | | | | | | | |
| Settlement cost, cash | | | (44,039,890) | (44,039,890) | | | | | | (1,992,938) | (1,992,938) | | (1,992,938) |
| (Gain) loss on settlement | | | — | — | | | | | | 1,105,975 | 1,105,975 | | 1,105,975 |
| Benefit plans | | | (3,311,239) | (3,311,239) | | | | | | (152,829) | (152,829) | | (152,829) |
| Contributions | | | | | | | | | | | — | 2,947 | 2,947 |
| Noncontrolling interest — other | | | | | | | | | | | — | (3,017) | (3,017) |
| **Balance at December 31, 2007** | 8,300,000 | 532,493,081 | (65,951,394) | 466,541,687 | $1,565,000 | $ 106,499 | $ 4,590,174 | $ 236,364 | $ 557,204 | $ (1,831,706) | $ 5,223,535 | $ 11,360 | $ 5,234,895 |

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)

| | 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 | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued | Treasury | Outstanding | | | | | | | | | |
| **Balance at December 31, 2007** | 8,300,000 | 532,493,081 | (65,951,394) | 466,541,687 | $1,565,000 | $ 106,499 | $ 4,590,174 | $ 236,364 | $ 557,204 | $ (1,831,706) | $ 5,223,535 | $ 11,360 | $ 5,234,895 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income (loss) | | | | | | | | | (212,626) | | (212,626) | 3,932 | (208,694) |
| Other comprehensive income, net of tax: | | | | | | | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | | | | (45,360) | | | (45,360) | | (45,360) |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | | | | (71,412) | | | (71,412) | | (71,412) |
| Defined benefit pension plans adjustment | | | | | | | | (1,413) | | | (1,413) | | (1,413) |
| Comprehensive income | | | | | | | | | | | (330,811) | 3,932 | (326,879) |
| Cash dividends: | | | | | | | | | | | | | |
| Preferred stock, Series A ($3.49 per share) | | | | | | | | | (11,501) | | (11,501) | | (11,501) |
| Preferred stock, Series B ($4.09 per share) | | | | | | | | | (15,927) | | (15,927) | | (15,927) |
| Preferred stock, Series C ($69.48 per share) | | | | | | | | | (83,128) | | (83,128) | | (83,128) |
| Restricted stock dividend | | | | | | | | | (1,852) | | (1,852) | | (1,852) |
| Issuance of common shares | | 1,908,595 | 3,667 | 1,912,262 | | 382 | 38,575 | | | 79 | 39,036 | | 39,036 |
| Issuance of preferred shares | 150,000 | | | | 150,000 | | (4,005) | | (650) | | 145,345 | | 145,345 |
| Conversion of preferred shares | (230) | 9,595 | | 9,595 | (230) | 2 | 228 | | | | — | | — |
| Tax benefit related to employee stock option and purchase plans | | | | | | | (16,981) | | | | (16,981) | | (16,981) |
| Stock-based compensation cost | | | | | | | 76,121 | | | | 76,121 | | 76,121 |
| Cumulative effect of accounting change | | | | | | | | (194,655) | 194,655 | | — | | — |
| Repurchase of common shares: | | | | | | | | | | | | | |
| Benefit plans | | | (1,010,673) | (1,010,673) | | | | | | (24,767) | (24,767) | | (24,767) |
| Acquisition of noncontrolling interest in Purchased Paper business | | | | | | | | | | | — | (4,355) | (4,355) |
| Noncontrolling interest — other | | | | | | | | | | | — | (3,667) | (3,667) |
| **Balance at December 31, 2008** | 8,449,770 | 534,411,271 | (66,958,400) | 467,452,871 | $1,714,770 | $ 106,883 | $ 4,684,112 | $ (76,476) | $ 426,175 | $ (1,856,394) | $ 4,999,070 | $ 7,270 | $ 5,006,340 |

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)

| | 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 | Noncontrolling Interest | Total Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued | Treasury | Outstanding | | | | | | | | | |
| **Balance at December 31, 2008** | 8,449,770 | 534,411,271 | (66,958,400) | 467,452,871 | $1,714,770 | $ 106,883 | $ 4,684,112 | $ (76,476) | $ 426,175 | $ (1,856,394) | $ 4,999,070 | $ 7,270 | $ 5,006,340 |
| Comprehensive income: | | | | | | | | | | | | | |
| Net income (loss) | | | | | | | | | 324,138 | | 324,138 | 847 | 324,985 |
| Other comprehensive income, net of tax: | | | | | | | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | | | | 2,872 | | | 2,872 | | 2,872 |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | | | | 40,087 | | | 40,087 | | 40,087 |
| Defined benefit pension plans adjustment | | | | | | | | (7,308) | | | (7,308) | | (7,308) |
| Comprehensive income | | | | | | | | | | | 359,789 | 847 | 360,636 |
| Cash dividends: | | | | | | | | | | | | | |
| Preferred stock, Series A ($3.49 per share) | | | | | | | | | (11,500) | | (11,500) | | (11,500) |
| Preferred stock, Series B ($1.76 per share) | | | | | | | | | (6,752) | | (6,752) | | (6,752) |
| Preferred stock, Series C ($72.50 per share) | | | | | | | | | (97,523) | | (97,523) | | (97,523) |
| Restricted stock dividend | | | | | | | | | (10) | | (10) | | (10) |
| Issuance of common shares | | 536,036 | 98 | 536,134 | | 107 | 3,186 | | | 5 | 3,298 | | 3,298 |
| Issuance of preferred shares | | | | | | | 650 | | (650) | | — | | — |
| Conversion of preferred shares | (339,400) | 17,272,269 | | 17,272,269 | (339,400) | 3,454 | 365,357 | | (29,411) | | — | | — |
| Tax benefit related to employee stock option and purchase plans | | | | | | | (9,710) | | | | (9,710) | | (9,710) |
| Stock-based compensation cost | | | | | | | 47,296 | | | | 47,296 | | 47,296 |
| Repurchase of common shares: | | | | | | | | | | | | | |
| Benefit plans | | | (263,640) | (263,640) | | | | | | (5,349) | (5,349) | | (5,349) |
| Sale of international Purchased Paper — Non-Mortgage business | | | | | | | | | | | — | (7,257) | (7,257) |
| Noncontrolling interest — other | | | | | | | | | | | — | (847) | (847) |
| **Balance at December 31, 2009** | 8,110,370 | 552,219,576 | (67,221,942) | 484,997,634 | $1,375,370 | $ 110,444 | $ 5,090,891 | $ (40,825) | $ 604,467 | $ (1,861,738) | $ 5,278,609 | $ 13 | $ 5,278,622 |

See accompanying notes to consolidated financial statements.

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Operating activities** | | | |
| Net income (loss) | $ 324,985 | $ (208,694) | $ (894,079) |
| Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities: | | | |
| Loss (income) from discontinued operations, net of tax | 157,690 | 143,219 | (6,276) |
| Gains on student loan securitizations | — | — | (367,300) |
| Losses on loans and securities, net | 580 | 186,155 | 95,492 |
| Stock-based compensation cost | 51,065 | 86,271 | 74,621 |
| Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards | 324,443 | 559,895 | (214,963) |
| Unrealized (gains)/losses on derivative and hedging activities — equity forwards | — | — | 1,558,025 |
| Provisions for loan losses | 1,118,960 | 719,650 | 1,015,308 |
| Student loans originated for sale, net | (19,099,583) | (7,787,869) | — |
| Decrease (increase) in restricted cash — other | 40,051 | 96,617 | (84,537) |
| Decrease (increase) in accrued interest receivable | 893,516 | (279,082) | (1,046,124) |
| (Decrease) increase in accrued interest payable | (517,401) | (200,501) | 214,401 |
| Adjustment for non-cash (income)/loss related to Retained Interest | 329,953 | 425,462 | 279,246 |
| (Increase) decrease in other assets, goodwill and acquired intangible assets, net | (23,405) | 421,667 | 836,564 |
| (Decrease) in other liabilities | (29,276) | (155,768) | (890,464) |
| Cash (used in) provided by operating activities — continuing operations | (16,753,407) | (5,784,284) | 1,463,993 |
| Cash provided by (used in) operating activities — discontinued operations | 514,713 | 301,234 | (618,117) |
| Total net cash (used in) operating activities | (15,913,709) | (5,691,744) | (48,203) |
| **Investing activities** | | | |
| Student loans acquired | (9,403,093) | (23,337,946) | (39,303,005) |
| Loans purchased from securitized trusts | (5,978) | (1,243,671) | (4,448,766) |
| Reduction of student loans: | | | |
| Installment payments, claims and other | 10,749,227 | 10,333,901 | 11,413,044 |
| Proceeds from securitization of student loans treated as sales | — | — | 1,976,599 |
| Proceeds from sales of student loans | 788,221 | 496,183 | 1,013,295 |
| Other loans — originated | (2,823) | (1,138,355) | (3,396,501) |
| Other loans — repaid | 261,491 | 1,542,307 | 3,420,187 |
| Other investing activities, net | (573,251) | (135,041) | (358,209) |
| Purchases of available-for-sale securities | (128,478,198) | (101,140,587) | (90,087,504) |
| Proceeds from sales of available-for-sale securities | 100,056 | 328,530 | 73,217 |
| Proceeds from maturities of available-for-sale securities | 127,951,879 | 102,436,912 | 89,353,103 |
| Purchases of held-to-maturity and other securities | (889) | (500,255) | (330,450) |
| Proceeds from maturities of held-to-maturity securities and other securities | 79,171 | 407,180 | 435,468 |
| (Increase) decrease in restricted cash — on-balance sheet trusts | (1,181,275) | 918,403 | (1,293,846) |
| Return of investment from Retained Interest | 26,513 | 403,020 | 276,996 |
| Purchase of subsidiaries, net of cash acquired | — | (37,868) | — |
| Net cash provided by (used in) investing activities | 311,051 | (10,667,287) | (31,256,372) |
| **Financing activities** | | | |
| Borrowings collateralized by loans in trust — issued | 12,997,915 | 17,986,955 | 23,943,837 |
| Borrowings collateralized by loans in trust — repaid | (5,689,713) | (6,299,483) | (6,429,648) |
| Asset-backed commercial paper conduits, net | (16,138,186) | (1,649,287) | 21,073,857 |
| ED Participation Program, net | 19,301,929 | 7,364,969 | — |
| ED Conduit Program facility, net | 14,313,837 | — | — |
| Other short-term borrowings issued | 298,294 | 2,592,429 | 594,434 |
| Other short-term borrowings repaid | (1,434,538) | (1,512,031) | (2,342,953) |
| Other long-term borrowings issued | 4,333,181 | 3,563,003 | 1,567,602 |
| Other long-term borrowings repaid | (9,504,267) | (9,518,655) | (3,188,249) |
| Other financing activities, net | (751,087) | 284,659 | 901,263 |
| Excess tax benefit from the exercise of stock-based awards | — | 281 | 30,316 |
| Common stock issued | 664 | 5,979 | 2,125,111 |
| Net settlements on equity forward contracts | — | — | (614,217) |
| Common stock repurchased | — | — | (2,222,394) |
| Common dividends paid | — | — | (102,658) |
| Preferred stock issued | — | 145,345 | 968,674 |
| Preferred dividends paid | (115,775) | (110,556) | (36,497) |
| Noncontrolling interest,net | (9,585) | (6,606) | (3,094) |
| Net cash provided by financing activities | 17,602,669 | 12,847,002 | 36,265,384 |
| Net increase (decrease) in cash and cash equivalents | 2,000,011 | (3,512,029) | 4,960,809 |
| Cash and cash equivalents at beginning of year | 4,070,002 | 7,582,031 | 2,621,222 |
| **Cash and cash equivalents at end of year** | $ 6,070,013 | $ 4,070,002 | $ 7,582,031 |
| Cash disbursements made for: | | | |
| Interest | $ 3,656,545 | $ 6,157,096 | $ 6,897,773 |
| Income taxes | $ 298,285 | $ 699,364 | $ 1,097,340 |

See accompanying notes to consolidated financial statements.

## 1. Organization and Business

SLM Corporation (the "Company") is a holding company that operates through a number of subsidiaries. The Company was formed 37 years ago as the Student Loan Marketing Association, a federally chartered government-sponsored enterprise (the "GSE"), with the goal of furthering access to higher education by acting as a secondary market for student loans. In 2004, the Company completed its transformation to a private company through its wind-down of the GSE. The GSE's outstanding obligations were placed into a Master Defeasance Trust Agreement as of December 29, 2004, which was fully collateralized by direct, noncallable obligations of the United States.

The Company's primary business is to originate and hold student loans by providing funding, delivery and servicing support for education loans in the United States through its participation in the Federal Family Education Loan Program ("FFELP") and through offering non-federally guaranteed Private Education Loans. The Company primarily markets its FFELP Stafford and Private Education Loans through on-campus financial aid offices.

The Company has expanded into a number of fee-based businesses, most notably its Asset Performance Group ("APG"), which is presented as a distinct segment in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting." The Company's APG business segment provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, and accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors as well as sub-performing and non-performing mortgage loans. In 2008, the Company concluded that its APG purchased paper business no longer produced a mutual strategic fit. The Company sold its international Purchased Paper— Non-Mortgage business in the first quarter of 2009. The Company sold all of its assets in the Purchased-Paper—Mortgage/Properties business in the fourth quarter of 2009. The Company continues to wind down the domestic side of its Purchased Paper—Non-Mortgage business.

The Company also earns fees for a number of services, including student loan and guarantee servicing, and for providing processing capabilities and information technology to educational institutions as well as 529 college savings plan program management, transfer and servicing agent services, and administration services through Upromise Investments, Inc. ("UII") and Upromise Investment Advisors, LLC ("UIA"). The Company also operates a consumer savings network through Upromise, Inc. ("Upromise"). References in this Annual Report to "Upromise" refer to Upromise and its subsidiaries, UII and UIA.

On April 16, 2007, the Company announced that a buyer group ("Buyer Group") led by J.C. Flowers & Co. ("J.C. Flowers"), Bank of America, N.A. and JPMorgan Chase, N.A. had signed a definitive agreement ("Merger Agreement") to acquire the Company (the "Proposed Merger") for approximately $25.3 billion or $60.00 per share of common stock. On January 25, 2008, the Company, Mustang Holding Company Inc. ("Mustang Holding"), Mustang Merger Sub, Inc. ("Mustang Sub"), J.C. Flowers, Bank of America, N.A. and JPMorgan Chase Bank, N.A. entered into a Settlement, Termination and Release Agreement (the "Agreement"). Under the Agreement, the lawsuit filed by the Company on October 8, 2007, related to the Proposed Merger, as well as all counterclaims, was dismissed and the Merger Agreement dated April 15, 2007, among the Company, Mustang Holding and Mustang Sub was terminated on January 25, 2008.

On February 26, 2009, the Obama Administration (the "Administration") issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the Direct Student Loan Program ("DSLP"). On September 17, 2009 the House of Representatives passed H.R. 3221, the Student Aid and Fiscal Responsibility act ("SAFRA"), which was consistent with the Administration's 2010 budget request to

**1. Organization and Business (Continued)**

Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration's 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. This proposal is referred to as the "Community Proposal" because it has the widespread support of the student lending community, which includes lenders, Guarantors, financial aid advisors and others. The Company believes that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program that better serves students, schools, ED and taxpayers.

## 2. Significant Accounting Policies

***Consolidation***

The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities ("VIEs") for which SLM Corporation is the primary beneficiary, after eliminating the effects of intercompany accounts and transactions.

ASC 810, "Consolidation," requires VIEs to be consolidated by their primary beneficiaries. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity's activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

As further discussed in Note 8, "Student Loan Securitization," the Company does not consolidate any qualifying special purpose entities ("QSPEs") created for securitization purposes in accordance with ASC 860, "Transfers and Servicing." All of the Company's off-balance sheet securitizations meet the definition of a QSPE and are not consolidated. The Company's accounting treatment for its on-balance sheet securitizations, which are not QSPEs, are governed by ASC 810 and are consolidated in the accompanying financial statements as the Company is the primary beneficiary.

***Use of Estimates***

The Company's financial reporting and accounting policies conform to generally accepted accounting principles in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Key accounting policies that include significant judgments and estimates include valuation and income recognition related to allowance for loan losses, loan effective interest rate method (student loan premiums and discounts), fair value measurements, securitization activities (gain on sale and the related Retained Interest), and derivative accounting.

**2. Significant Accounting Policies (Continued)**

***Fair Value Measurement***

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

- In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;
- In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders' equity;
- In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company's liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model's output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available. However, significant judgment is required by management in developing the inputs.

***Loans***

Loans, consisting of federally insured student loans, Private Education Loans, student loan participations, lines of credit, academic facilities financings, and other consumer and mortgage loans that the Company has the ability and intent to hold for the foreseeable future are classified as held for investment and are carried at amortized cost. Amortized cost includes the unamortized premiums, discounts, and capitalized origination costs and fees, all of which are amortized to interest income as further discussed below. Loans which are held-for-investment also have an allowance for loan loss as needed. Any loans the Company has the ability

**2. Significant Accounting Policies (Continued)**

and intent to sell are classified as held for sale, and carried at the lower of cost or fair value. Loans which are held-for-sale do not have the associated premium, discount, and capitalized origination costs and fees amortized into interest income. In addition, once a loan is classified as held-for-sale, there is no further adjustment to the loan's allowance for loan loss that existed immediately prior to the reclassification to held-for-sale.

As market conditions permit, the Company actively securitizes loans but securitization is viewed as one of many different sources of financing. At the time of a funding need, the most advantageous funding source is identified and, if that source is the securitization program, loans are selected based on the required characteristics to structure the desired transaction (e.g., type of loan, mix of interim vs. repayment status, credit rating, maturity dates, etc.). The Company structures securitizations to obtain the most favorable financing terms. Due to some of the structuring terms, certain transactions qualify for sale treatment under ASC 860 while others do not qualify for sale treatment and are recorded as financings. All student loans are initially categorized as held for investment until there is certainty as to each specific loan's ultimate financing because the Company does not securitize all loans and not all securitizations qualify as sales. It is only when the Company has selected the loans to securitize and that securitization transaction qualifies as a sale under ASC 860 does the Company make the decision to sell such loans. At that time, the loans selected are transferred into the held-for-sale classification and carried at the lower of cost or fair value. If the Company anticipates recognizing a gain related to the impending securitization, then the fair value of the loans is higher than their respective cost basis and no valuation allowance is needed.

Under The Ensuring Continued Access to Student Loans Act of 2008 ("ECASLA"), ED has implemented the Loan Purchase Commitment Program ("Purchase Program"). Under the Purchase Program, ED will purchase eligible FFELP loans at a set price by September 30, 2010 at the option of the Company. The Company is classifying all loans eligible to be sold to ED under the Purchase Program as held-for-sale. The Company currently has the ability and intent to sell such loans to ED under the Purchase Program due to the current environment in the capital markets. These loans are included in the "FFELP Stafford Held-for-Sale Loans" line on the consolidated balance sheets.

***Student Loan Income***

The Company recognizes student loan interest income as earned, adjusted for the amortization of premiums and capitalized direct origination costs, accretion of discounts, and borrower benefits for timely payment ("Repayment Borrower Benefits"). These adjustments are made in accordance with ASC 310, "Receivables," which requires income to be recognized based upon the expected yield of the loan over its life after giving effect to prepayments and extensions, and to estimates related to Repayment Borrower Benefits. As a result, for loans that are held for investment, premiums, discounts, and capitalized direct origination costs and fees are amortized over the estimated life of the loan, which includes an estimate of prepayment speeds. The estimate of the prepayment speed must consider the effect of consolidations, voluntary prepayments and student loan defaults, all of which shorten the life of loan. Prepayment speed estimates must also consider the utilization of deferment and forbearance, which lengthen the life of loan, coupled with management's expectation of future activity. For Repayment Borrower Benefits, the estimates of their effect on student loan yield are based on analyses of historical payment behavior of borrowers who are eligible for the incentives and its effect on the ultimate qualification rate for these incentives. The Company regularly evaluates the assumptions used to estimate its loan life and the qualification rates used for Repayment Borrower Benefits. In instances where there are changes to the assumptions, amortization is adjusted on a cumulative basis to reflect the change since the acquisition of the loan. The Company pays an annual 105 basis point Consolidation Loan Rebate Fee on FFELP Consolidation Loans which is netted against student loan income.

**2. Significant Accounting Policies (Continued)**

Additionally, interest earned on student loans reflects potential non-payment adjustments in accordance with the Company's non-accrual policy as discussed further in "*Allowance for Student Loan Losses*" below.

The Company recognizes certain fee income (primarily late fees and forbearance fees) on student loans according to the contractual provisions of the promissory notes, as well as the Company's expectation of collectability. Student loan fee income is recorded when earned in "other income" in the consolidated statements of income.

***Allowance for Student Loan Losses***

The Company maintains an allowance for loan losses at an amount sufficient to absorb losses incurred in its FFELP loan and Private Education Loan portfolios at the reporting date based on a projection of estimated probable credit losses incurred in the portfolio. The Company analyzes those portfolios to determine the effects that the various stages of delinquency and forbearance have on borrower default behavior and ultimate charge-off. The Company estimates the allowance for loan losses 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, and is a widely used reserving methodology in the consumer finance industry. The Company also uses the migration analysis to estimate the amount of uncollectible accrued interest on Private Education Loans and write-off that amount against current period interest income. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. The Company's default estimates are based on a loss confirmation period of generally two years (i.e., the Company's allowance for loan loss covers the next two years of expected losses). The two-year estimate of the allowance for loan losses is subject to a number of assumptions. If actual future performance in delinquency, charge-offs and recoveries are significantly different than estimated, this could materially affect the Company's estimate of the allowance for loan losses and the related provision for loan losses on the Company's income statement. The Company believes that the Private Education Loan and FFELP allowance for loan losses are appropriate to cover probable losses incurred in the student loan portfolio.

When calculating the allowance for loan losses on Private Education Loans, the Company divides the portfolio into categories of similar risk characteristics based on loan program type, loan status (in-school, grace, forbearance, repayment, and delinquency), underwriting criteria (FICO scores), and existence or absence of a cosigner. As noted above, the Company uses historical experience of borrower default behavior and charge-offs to estimate the probable credit losses incurred in the loan portfolio at the reporting date. Also, the Company uses historical borrower payment behavior to estimate the timing and amount of future recoveries on charged off loans. The Company then applies the default and collection rate projections to each category of loans. Once the quantitative calculation is performed, management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered. One technique for making this determination is through projection modeling, which is used to determine if the allowance for loan losses is sufficient to absorb credit losses anticipated during the loss confirmation period. Projection modeling is a forward-looking projection of charge-offs. Assumptions that are utilized in the projection modeling include (but are not limited to) historical experience, recent changes in collection policies and procedures, collection performance, and macroeconomic indicators. Additionally, management considers changes in laws and regulations that could potentially impact the allowance for loan losses.

The current and future economic environment is taken into account by the Company when calculating the allowance for loan loss. The Company analyzes key economic statistics and the impact they will have on future charge offs. Key economic statistics analyzed as part of the allowance for loan loss are unemployment rates (total and specific to college graduates), consumer confidence and other asset type delinquency rates

**2. Significant Accounting Policies (Continued)**

(credit cards, mortgages). As a result of the economy, provision expense has remained elevated since the fourth quarter of 2008. If the economy weakens beyond the Company's expectations, the expected losses resulting from its default and collection estimates embedded in the allowance could be higher than currently projected.

As part of concluding on the adequacy of the allowance for loan loss, the Company also reviews key allowance and loan metrics. The most relevant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

In 2009, the Company implemented a program which offers loan modifications to borrowers who qualify. Temporary interest rate concessions are granted to borrowers experiencing financial difficulties and who meet other criteria. The allowance on these loans is calculated based on the present value of the expected cash flows (including estimates of future defaults) discounted at the loan's effective interest rate. This calculation contains estimates which are inherently subjective and are evaluated on a periodic basis.

The majority of the Company's Private Education Loan programs do not require that borrowers begin repayment until six months after they have graduated or otherwise left school. Consequently, the Company's loss estimates for these programs are generally low while the borrower is in school. At December 31, 2009, 37 percent of the principal balance in the higher education Private Education Loan portfolio was related to borrowers who are in in-school or grace status and not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin payments on their loans. The allowance for losses will change accordingly.

Similar to the rules governing FFELP payment requirements, the Company's collection policies allow for periods of nonpayment for borrowers requesting additional payment grace periods upon leaving school or experiencing temporary difficulty meeting payment obligations. This is referred to as forbearance status and is considered separately in the Company's allowance for loan losses. The loss confirmation period is in alignment with the Company's typical collection cycle and takes into account these periods of nonpayment.

In general, Private Education Loan principal is charged off against the allowance when the loan exceeds 212 days delinquency. The charge-off amount equals the estimated loss of the defaulted loan balance. Actual recoveries, as they are received, are applied against the remaining loan balance that was not charged-off. If periodic recoveries are less than originally expected, the difference results in immediate additional provision expense and charge-off of such amount.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level set based on the date of loan disbursement. For loans disbursed after October 1, 1993, and before July 1, 2006, the Company receives 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, the Company receives 97 percent reimbursement. The College Cost Reduction and Access Act of 2007 ("CCRAA") reduces the Risk Sharing level for loans disbursed on or after October 1, 2012 to 95 percent reimbursement, which will impact the allowance for loan losses in the future.

Similar to the allowance for Private Education Loan losses, the allowance for FFELP loan losses uses historical experience of borrower default behavior and a two year loss confirmation period to estimate the credit losses incurred in the loan portfolio at the reporting date. The Company divides the portfolio into categories of similar risk characteristics based on loan program type, school type and loan status. The Company then applies the default rate projections, net of applicable Risk Sharing, to each category for the current period to perform its quantitative calculation. Once the quantitative calculation is performed,

**2. Significant Accounting Policies (Continued)**

management reviews the adequacy of the allowance for loan losses and determines if qualitative adjustments need to be considered.

Previously, when Private Education Loans in the Company's off-balance sheet securitized trusts settling before September 30, 2005 become 180 days delinquent, the Company exercised its contingent call option (the Company does not hold the contingent call option for any trusts settling after September 30, 2005) to repurchase these loans at par value 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, in accordance with ASC 310. Beginning in October 2008, the Company decided to no longer exercise its contingent call option. The losses recorded upon repurchase of loans under the contingent call option, for the years ended December 31, 2009, 2008, and 2007 were $0, $141 million, and $123 million, respectively, and were recorded in the "Gains (losses) on sales of loans and securities, net" line item in the consolidated statements of income. Subsequent to buyback, the Company accounts for these loans under ASC 310 in the same manner as discussed under *"Collections Revenue"* for the Company's purchased paper portfolio. The initial valuation at buyback uses a discount rate similar to that used in valuing the Private Education Loan Residual Interests as that rate takes into account the credit and liquidity risks inherent in the loans being repurchased. Interest income recognized is recorded as part of student loan interest income.

***Cash and Cash Equivalents***

Cash and cash equivalents includes term federal funds, Eurodollar deposits, money market funds and bank deposits with original terms to maturity of less than three months.

***Restricted Cash and Investments***

Restricted cash primarily includes amounts for on-balance sheet student loan securitizations and other secured borrowings. This cash must be used to make payments related to trust obligations. Amounts on deposit in these accounts are primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on trust liabilities.

In connection with the Company's tuition payment plan product, the Company receives cash from students and parents that in turn is owed to schools. This cash, a majority of which has been deposited at Sallie Mae Bank, is held in escrow for the beneficial owners. In addition, the cash rebates that Upromise members earn from qualifying purchases from Upromise's participating companies are held in trust for the benefit of the members. This cash is held pursuant to a trust document until distributed in accordance with the Upromise member's request and the terms of the Upromise service. Upromise, which acts as the trustee for the trust, has deposited a majority of the cash with Sallie Mae Bank pursuant to a money market deposit account agreement between Sallie Mae Bank and Upromise as trustee of the trust. Subject to capital requirements and other laws, regulations and restrictions applicable to Utah industrial banks, the cash that is deposited with Sallie Mae Bank in connection with the tuition payment plan and the Upromise rebates described above is not restricted and, accordingly, is not included in restricted cash and investments in the Company's consolidated financial statements, as there is no restriction surrounding the use of funds by the Company.

Securities pledged as collateral related to the Company's derivative portfolio where the counterparty has rights of rehypothecation, are classified as restricted. When the counterparty does not have these rights, the security is recorded in investments and disclosed as pledged collateral in the notes. Additionally, certain counterparties require cash collateral pledged to the Company to be segregated and held in restricted cash accounts per the terms of their International Swaps and Derivatives Association, Inc. ("ISDA") Credit Support Annexes ("CSAs"). Cash balances that the Company's indentured trusts deposit in guaranteed investment contracts that are held in trust for the related

**2. Significant Accounting Policies (Continued)**

note holders are classified as restricted investments. Finally, cash received from lending institutions that is invested pending disbursement for student loans is restricted and cannot be disbursed for any other purpose.

***Investments***

Investments are held to provide liquidity and to serve as a source of income. The majority of the Company's investments are classified as available-for-sale and such securities are carried at fair value, with the temporary changes in fair value carried as a separate component of stockholders' equity. Changes in fair value for available-for-sale securities that have been designated as the hedged item in an ASC 815, "Derivatives and Hedging," fair value hedge (as it relates to the hedged risks) are recorded in the "gains (losses) on derivative and hedging activities, net" line in the consolidated statements of income offsetting changes in fair value of the derivative which is hedging such investment. Temporary changes in fair value of the security as it relates to non-hedged risks are carried as a separate component of stockholders' equity. The amortized cost of debt securities in this category is adjusted for amortization of premiums and accretion of discounts, which are amortized using the effective interest rate method. Other-than-temporary impairment is evaluated by considering several factors including the length of time and extent to which the fair value has been less than the amortized cost basis, the financial condition and near-term prospects of the security (considering factors such as adverse conditions specific to the security and ratings agency actions), and the intent and ability to retain the investment in order to allow for an anticipated recovery in fair value. Other-than-temporary impairment is recorded in earnings if the fair value is less than the amortized cost and the Company intends to sell the security or it is more likely than not that the Company will be required to sell the security before recovery of the loss. If the impairment is not other-than-temporary, the portion of the impairment related to credit losses is recorded in earnings and the impairment related to other factors is recorded in other comprehensive income. Securities classified as trading are accounted for at fair value with unrealized gains and losses included in investment income. Securities that the Company has the intent and ability to hold to maturity are classified as held-to-maturity and are accounted for at amortized cost unless the security is determined to have an other-than-temporary impairment. In this case it is accounted for in the same manner described above.

The Company also has other investments, including a receivable for cash collateral posted to derivative counterparties, the Company's remaining investment in The Reserve Primary Fund and leveraged leases, primarily with U.S. commercial airlines. These investments are accounted for at amortized cost net of impairments in other investments. Insurance-related investments are carried in other assets.

***Interest Expense***

Interest expense is based upon contractual interest rates adjusted for the amortization of debt issuance costs and premiums and the accretion of discounts. The Company's interest expense may also be adjusted for net payments/receipts related to interest rate and foreign currency swap agreements and interest rate futures contracts that qualify and are designated as hedges under GAAP. Interest expense also includes the amortization of deferred gains and losses on closed hedge transactions that qualified as cash flow hedges. Amortization of debt issue costs, premiums, discounts and terminated hedge basis adjustments are recognized using the effective interest rate method.

***Transfer of Financial Assets***

The Company accounts for the transfer of financial assets under ASC 860. The primary activity which falls under ASC 860 for the Company is securitization and other secured borrowing accounting which is further discussed below. The company's indentured trust debt, ABCP borrowings, Ed Conduit and ED

**2. Significant Accounting Policies (Continued)**

Participation Program facility were accounted for as on-balance sheet secured borrowings under ASC 860 as the trusts were either not QSPEs and/or the Company controlled the transferred assets. See *"Securitization Accounting"* below for further discussion on the criteria assessed under ASC 860 to determine whether a transfer of financial assets is a sale or a secured borrowing.

***Securitization Accounting***

To meet the sale criteria of ASC 860 the Company's securitizations use a two-step structure with a QSPE that legally isolates the transferred assets from the Company, even in the event of bankruptcy. Transactions receiving sale treatment are also structured to ensure that the holders of the beneficial interests issued by the QSPE are not constrained from pledging or exchanging their interests, and that the Company does not maintain effective control over the transferred assets. If these criteria are not met, then the transaction is accounted for as an on-balance sheet secured borrowing under ASC 810, "Consolidation," as the Company is the primary beneficiary of the VIE. In all cases, irrespective of whether they qualify as sales under ASC 860, the Company's securitizations are structured such that legally they are sales of assets that isolate the transferred assets from the Company.

The Company assesses the financial structure of each securitization to determine whether the trust or other securitization vehicle meets the sale criteria as defined in ASC 860 and accounts for the transaction accordingly. To be a QSPE, the trust must meet all of the following conditions:

- It is demonstrably distinct from the Company and cannot be unilaterally dissolved by the Company and at least 10 percent of the fair value of its interests is held by independent third parties.
- The permitted activities in which the trust can participate are significantly limited. These activities must be entirely specified in the legal documents at the inception of the QSPE.
- There are limits to the assets the QSPE can hold; specifically, it can hold only financial assets transferred to it that are either passive in nature, passive derivative instruments pertaining to the beneficial interests held by independent third parties, servicing rights, temporary investments pending distribution to security holders, or cash.
- It can only dispose of its assets in automatic response to the occurrence of an event specified in the applicable legal documents and must be outside the control of the Company.

In certain securitizations there are certain terms present within the deal structure that result in such securitizations not qualifying for sale treatment by failing to meet the criteria required for the securitization entity (trust) to be a QSPE, or by failing other criteria for the securitization to qualify as a sale. Accordingly, these securitization trusts are accounted for as VIEs. Because the Company is considered the primary beneficiary in such VIEs, the transfer is deemed a financing and the trust is consolidated in the financial statements. The terms present in these structures that prevent sale treatment are: (1) the Company holds rights that can affect the remarketing of specific trust bonds that are not significantly limited in nature, (2) the trust has the right to enter into interest rate cap agreements after its settlement date that do not relate to the reissuance of third-party beneficial interests or (3) the Company holds an unconditional call option related to a certain percentage of trust assets.

Irrespective of whether a securitization receives sale treatment or not, the Company's continuing involvement with its securitization trusts is generally limited to:

- Owning the equity certificates of the trust.
- The servicing of the student loan assets within the securitization trusts, on both a pre- and post-default basis.

**2. Significant Accounting Policies (Continued)**

- The Company acting as administrator for the securitization transactions it sponsored, which includes remarketing certain bonds at future dates.
- The Company's responsibilities relative to representation and warranty violations and the reimbursement of borrower benefits.
- Certain back-to-back derivatives entered into by the Company contemporaneously with the execution of derivatives by certain Private Education Loan securitization trusts.
- The option held by the Company to buy certain delinquent loans from certain Private Education Loan securitization trusts.
- The option to exercise the clean-up call and purchase the student loans from the trust when the asset balance is 10 percent or less of the original loan balance.
- The option (in certain trusts) to call rate reset notes in instances where the remarketing process has failed.
- The option (in certain trusts that were TALF eligible in 2009) to call the outstanding bonds at a discount to par at a future date

The investors of the securitization trusts have no recourse to the Company's other assets should there be a failure of the trusts to pay when due. Generally, the only arrangements under which the Company has to provide financial support to the trusts are:

- representation and warranty violations requiring the buyback of loans;
- the reimbursement to the trust of borrower benefits afforded the borrowers of student loans that have been securitized; or
- funding specific cash accounts within certain trusts related to the remarketing of certain bonds.

Under the terms of the transaction documents of certain trusts, the Company has, from time to time, exercised its options to purchase delinquent loans from Private Education Loan trusts, to purchase the remaining loans from trusts once the loan balance falls below 10 percent of the original amount, or to call rate reset notes. The Company has not provided any financial support to the securitization trusts that it was not contractually required to provide in the past. Certain trusts maintain financial arrangements with third parties also typical of securitization transactions, such as derivative contracts (swaps) and bond insurance policies that, in the case of a counterparty failure, could adversely impact the value of the Company's Residual Interest.

***Retained Interest***

The Company securitizes its student loan assets, and for transactions qualifying as sales, retains Residual Interests 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.

When the Company qualifies for sale treatment on its securitizations, it recognizes the resulting gain on student loan securitizations in the consolidated statements of income. This gain is based upon the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received. The component in determining the fair value of the assets received that involves the most judgment is the valuation

**2. Significant Accounting Policies (Continued)**

of the Residual Interest. The Company estimates the fair value of the Residual Interest, both initially and each subsequent quarter, based on the present value of future expected cash flows using management's best estimates of the following key assumptions — credit losses, prepayment speeds and discount rates commensurate with the risks involved. Quoted market prices are not available. The Company adopted ASC 825, "Financial Instruments," effective January 1, 2008, whereby the Company elected to carry all Residual Interests at fair value with subsequent changes in fair value recorded in earnings. The Company chose this election in order to simplify the accounting for Residual Interests under one accounting model.

The fair value of the Fixed Rate Embedded Floor Income is a component of the Residual Interest and is determined both initially at the time of the sale of the student loans and each subsequent quarter. This estimate is based on an option valuation and a discounted cash flow calculation that considers the current borrower rate, Special Allowance Payment ("SAP") spreads and the term for which the loan is eligible to earn Floor Income as well as time value, forward interest rate curve and volatility factors. Variable Rate Floor Income received is recorded as earned in securitization income.

The Company also receives income for servicing the loans in its securitization trusts which is recognized as earned. The Company assesses the amounts received as compensation for these activities at inception and on an ongoing basis to determine if the amounts received are adequate compensation as defined in ASC 860. To the extent such compensation is determined to be no more or less than adequate compensation, no servicing asset or obligation is recorded at the time of securitization. Servicing rights are subsequently carried at the lower of cost or market. At December 31, 2009 and 2008, the Company did not have servicing assets or liabilities recorded on the balance sheet.

***Derivative Accounting***

The Company accounts for its derivatives, which include interest rate swaps, cross-currency interest rate swaps, interest rate futures contracts, interest rate cap contracts, Floor Income Contracts and equity forward contracts in accordance with ASC 815, "Derivatives and Hedging," which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded at fair value on the balance sheet as either an asset or liability. Derivative positions are recorded as net positions by counterparty based on master netting arrangements (see Note 9, "Derivative Instruments," under *Risk Management Strategy*) exclusive of accrued interest and cash collateral held or pledged. The Company determines the fair value for its derivative contracts primarily using pricing models that consider current market conditions and the contractual terms of the derivative contract. These factors include interest rates, time value, forward interest rate curve, volatility factors, forward foreign exchange rates, and the closing price of the Company's stock (related to its equity forward contracts). Inputs are generally from active financial markets; however, adjustments are made to derivative valuations for inputs from illiquid markets, and for credit for both when the Company has an exposure to the counterparty net of collateral held and when the counterparty has exposure to the Company net of collateral pledged. The fair values of some derivatives are determined using counterparty valuations. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized with regard to derivatives, and the use of different pricing models or assumptions could produce different financial results. As a matter of policy, the Company compares the fair values of its derivatives that it calculates to those provided by its counterparties. Any significant differences are identified and resolved appropriately.

Many of the Company's derivatives, mainly interest rate swaps hedging the fair value of fixed-rate assets and liabilities, cross-currency interest rate swaps, and certain Eurodollar futures contracts, qualify as effective hedges under ASC 815. For these derivatives, the relationship between the hedging instrument and the hedged items (including the hedged risk and method for assessing effectiveness), as well as the risk management objective and

**2. Significant Accounting Policies (Continued)**

strategy for undertaking various hedge transactions at the inception of the hedging relationship, is documented. Each derivative is designated to either a specific (or pool of) asset(s) or liability(ies) on the balance sheet or expected future cash flows, and designated as either a "fair value" or a "cash flow" hedge. Fair value hedges are designed to hedge the Company's exposure to changes in fair value of a fixed rate or foreign denominated asset or liability, while cash flow hedges are designed to hedge the Company's exposure to variability of either a floating rate asset's or liability's cash flows or an expected fixed rate debt issuance. For effective fair value hedges, both the hedge and the hedged item (for the risk being hedged) are marked-to-market with any difference reflecting ineffectiveness and recorded immediately in the statement of income. For effective cash flow hedges, the change in the fair value of the derivative is recorded in other comprehensive income, net of tax, and recognized in earnings in the same period as the earnings effects of the hedged item. The ineffective portion of a cash flow hedge is recorded immediately through earnings. The assessment of the hedge's effectiveness is performed at inception and on an ongoing basis, generally using regression testing. For hedges of a pool of assets or liabilities, tests are performed to demonstrate the similarity of individual instruments of the pool. When it is determined that a derivative is not currently an effective hedge, ineffectiveness is recognized for the full change in value of the derivative with no offsetting mark-to-market of the hedged item for the current period. If it is also determined the hedge will not be effective in the future, the Company discontinues the hedge accounting prospectively, ceases recording changes in the fair value of the hedged item, and begins amortization of any basis adjustments that exist related to the hedged item.

The Company also has a number of derivatives, primarily Floor Income Contracts and certain basis swaps, that the Company believes are effective economic hedges but are not considered hedges under ASC 815. These derivatives are classified as "trading" for GAAP purposes and as a result they are marked-to-market through GAAP earnings with no consideration for the price fluctuation of the economically hedged item.

Under ASC 450, "Distinguishing Liabilities from Equity," 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 ASC 815 as derivatives. Prior to 2008, the Company used these contracts to lock-in the purchase price of the Company's stock related to share repurchases. As a result, the Company marks its equity forward contracts to market through earnings in the "gains (losses) on derivative and hedging activities, net" line item in the consolidated statements of income along with the net settlement expense on the contracts. The Company has not had any outstanding contracts since January 2008.

The "gains (losses) on derivative and hedging activities, net" line item in the consolidated statements of income includes the unrealized changes in the fair value of the Company's derivatives (except effective cash flow hedges which are recorded in other comprehensive income), the unrealized changes in fair value of hedged items in qualifying fair value hedges, as well as the realized changes in fair value related to derivative net settlements and dispositions that do not qualify for hedge accounting. Net settlement income/expense on derivatives that qualify as hedges under ASC 815 are included with the income or expense of the hedged item (mainly interest expense).

***Goodwill and Acquired Intangible Assets***

The Company accounts for goodwill and acquired intangible assets in accordance with ASC 350, "Intangibles—Goodwill and Other," pursuant to which goodwill is not amortized. Goodwill is tested for impairment annually as of September 30 at the reporting unit level, which is the same as or one level below an operating segment as defined in ASC 280, "Segment Reporting." Goodwill is also tested at interim periods if an event occurs or circumstances change that would indicate the carrying amount may be impaired.

**2. Significant Accounting Policies (Continued)**

In accordance with ASC 350, Step 1 of the goodwill impairment analysis consists of a comparison of the fair value of the reporting unit to its carrying value, including goodwill. If the carrying value of the reporting unit exceeds the fair value, Step 2 in the goodwill impairment analysis is performed to measure the amount of impairment loss, if any. Step 2 of the goodwill impairment analysis compares the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill. The implied fair value of goodwill is determined in a manner consistent with determining goodwill in a business combination. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to that excess.

Other acquired intangible assets, which include but are not limited to tradenames, customer and other relationships, and non-compete agreements, are also accounted for in accordance with ASC 350. Acquired intangible assets with definite or finite lives are amortized over their estimated useful lives in proportion to their estimated economic benefit. Finite-lived acquired intangible assets are reviewed for impairment using an undiscounted cash flow analysis when an event occurs or circumstances change indicating the carrying amount of a finite-lived asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of the asset (or asset group) exceeds the estimated undiscounted cash flows used to determine the fair value of the asset or asset group. The impairment loss recognized would be the difference between the carrying amount and fair value. Indefinite-life acquired intangible assets are not amortized. They are tested for impairment annually as of September 30 or at interim periods if an event occurs or circumstances change that would indicate the carrying value of these assets may be impaired. The annual or interim impairment test of indefinite-lived acquired intangible assets is based primarily on a discounted cash flow analysis.

***Guarantor Servicing Fees***

The Company provides a full complement of administrative services to FFELP Guarantors including guarantee issuance, process, account maintenance, and guarantee fulfillment services for Guarantor agencies, the U.S. Department of Education ("ED"), educational institutions and financial institutions. The fees associated with these services are recognized as earned based on contractually determined rates. The Company is party to a Guarantor Servicing contract with United Student Aid Funds, Inc. ("USA Funds"), which accounted for 86 percent, 85 percent and 86 percent of guarantor servicing fees for the years ended December 31, 2009, 2008, and 2007, respectively.

***Contingency Fee Revenue***

The Company receives fees for collections of delinquent debt on behalf of clients performed on a contingency basis. Revenue is earned and recognized upon receipt of the borrower funds.

The Company also receives fees from Guarantor agencies for performing default aversion services on delinquent loans prior to default. The fee is received when the loan is initially placed with the Company and the Company is obligated to provide such services for the remaining life of the loan for no additional fee. In the event that the loan defaults, the Company is obligated to rebate a portion of the fee to the Guarantor agency in proportion to the principal and interest outstanding when the loan defaults. The Company recognizes fees received, net of actual rebates for defaults, over the service period which is estimated to be the life of the loan.

***Collections Revenue***

The Company has purchased delinquent and charged-off receivables on various types of consumer debt with a primary emphasis on charged-off credit card receivables, and sub-performing and non-performing mortgage loans. The Company accounts for its investments in charged-off receivables and sub-performing and

**2. Significant Accounting Policies (Continued)**

non-performing mortgage loans in accordance with ASC 310. Under ASC 310, the Company establishes static pools of each quarter's purchases and aggregates them based on common risk characteristics. The pools when formed are initially recorded at fair value, based on each pool's estimated future cash flows and internal rate of return. The Company recognizes income each month based on each static pool's effective interest rate. The static pools are tested quarterly for impairment by re-estimating the future cash flows to be received from the pools. If the new estimated cash flows result in a pool's effective interest rate increasing, then this new yield is used prospectively over the remaining life of the static pool. If the new estimated cash flows result in a pool's effective interest rate decreasing, the pool is impaired and written down through a valuation allowance to maintain the effective interest rate. The Company recognized $79 million and $111 million of impairments for the years ended December 31, 2009 and 2008, respectively, as discussed in Note 20, "Segment Reporting."

Net interest income earned, less any impairments recognized, on the purchased portfolios is recorded as collection revenue in the consolidated statements of income. When mortgage loans default and the Company forecloses and owns the underlying real estate, the Company carries such real estate at the lower of cost or fair value. There is approximately $285 million on the balance sheet as of December 31, 2009 related to purchased paper assets.

***Restructuring Activities***

From time to time, the Company implements plans to restructure its business. In conjunction with these restructuring plans, one-time, involuntary benefit arrangements, disposal costs (including contract termination costs and other exit costs), as well as certain other costs that are incremental and incurred as a direct result of the Company's restructuring plans, are accounted for in accordance with ASC 420, "Exit or Disposal Cost Obligations," and are classified as restructuring expenses in the accompanying consolidated statements of income.

In conjunction with its restructuring plans, the Company has entered into one-time benefit arrangements with employees, primarily senior executives, who have been involuntarily terminated. The Company recognizes a liability when all of the following conditions have been met and the benefit arrangement has been communicated to the employees:

- Management, having the authority to approve the action, commits to a plan of termination;
- The plan of termination identifies the number of employees to be terminated, their job classifications or functions and their locations and the expected completion date;
- The plan of termination establishes the terms of the benefit arrangement, including the benefits that employees will receive upon termination, in sufficient detail to enable employees to determine the type and amount of benefits they will receive if they are involuntarily terminated; and
- Actions required to complete the plan of termination indicate that it is unlikely that significant changes to the plan of termination will be made or that the plan of termination will be withdrawn.

Severance costs under such one-time termination benefit arrangements may include all or some combination of severance pay, medical and dental benefits, outplacement services, and certain other costs.

Contract termination costs are expensed at the earlier of (1) the contract termination date or (2) the cease use date under the contract. Other exit costs are expensed as incurred and classified as restructuring expenses if (1) the cost is incremental to and incurred as a direct result of planned restructuring activities, and (2) the cost is not associated with or incurred to generate revenues subsequent to the Company's consummation of the related restructuring activities.

**2. Significant Accounting Policies (Continued)**

In addition to one-time involuntary benefit arrangements, the Company sponsors the SLM Corporation Employee Severance Plan, which provides severance benefits in the event of termination of the Company's and its subsidiaries' full-time employees (with the exception of certain specified levels of management and employees of the Company's APG subsidiaries) and part-time employees who work at least 24 hours per week. The Company also sponsors the DMO Employee Severance Plan, which provides severance benefits to certain specified levels of full-time management and full-time employees in the Company's APG subsidiaries. The Employee Severance Plan and the DMO Employee Severance Plan (collectively, the "Severance Plan") establishes specified benefits based on base salary, job level immediately preceding termination and years of service upon termination of employment due to Involuntary Termination or a Job Abolishment, as defined in the Severance Plan. The benefits payable under the Severance Plan relate to past service and they accumulate and vest. Accordingly, the Company recognizes severance costs to be paid pursuant to the Severance Plan in accordance with ASC 712, "Compensation—Nonretirement Postemployment Benefits," when payment of such benefits is probable and reasonably estimable. Such benefits, including severance pay calculated based on the Severance Plan, outplacement services and continuation pay, have been incurred during the years ended December 31, 2009 and 2008, and the fourth quarter of 2007 as a direct result of the Company's restructuring initiatives. Accordingly, such costs are classified as restructuring expenses in the accompanying consolidated statements of income. See Note 15, "Restructuring Activities," for further information regarding the Company's restructuring activities.

***Software Development Costs***

Certain direct development costs associated with internal-use software are capitalized, including external direct costs of services and payroll costs for employees devoting time to the software projects. These costs are included in other assets and are amortized over a period not to exceed five years beginning when the asset is technologically feasible and substantially ready for use. Maintenance costs and research and development costs relating to software to be sold or leased are expensed as incurred.

During the years ended December 31, 2009, 2008 and 2007, the Company capitalized $16 million, $23 million and $19 million, respectively, in costs related to software development, and expensed $138 million, $120 million and $126 million, respectively, related to routine maintenance, betterments and amortization. At December 31, 2009 and 2008, the unamortized balance of capitalized internally developed software included in other assets was $53 million and $56 million, respectively. The Company amortizes software development costs over three to five years.

***Accounting for Stock-Based Compensation***

On January 1, 2006, the Company adopted the provisions of ASC 718, "Compensation-Stock Compensation," which includes a revision of SFAS No. 123, "Accounting for Stock-Based Compensation," and began recognizing stock-based compensation cost in its consolidated statements of income using the fair value based method. Prior to 2006, the Company accounted for its stock option plans using the intrinsic value method of accounting provided and no compensation cost related to its stock option grants was recognized in its consolidated statements of income.

ASC 718 requires that the excess tax benefits from tax deductions on the exercise of share-based payments exceeding the deferred tax assets from the cumulative compensation cost previously recognized be classified as cash inflows from financing activities in the consolidated statement of cash flows. Prior to the adoption of ASC 718, the Company presented all excess tax benefits resulting from the exercise of share-based payments as operating cash flows. The excess tax benefit for the year ended December 31, 2009 was $0.

**2. Significant Accounting Policies (Continued)**

***Income Taxes***

Income taxes are recorded in accordance with ASC 740, "Income Taxes." The asset and liability approach underlying ASC 740 requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and tax basis of the Company's assets and liabilities. To the extent tax laws change, deferred tax assets and liabilities are adjusted in the period that the tax change is enacted.

"Income tax expense/(benefit)" includes (i) deferred tax expense/(benefit), which represents the net change in the deferred tax asset or liability balance during the year plus any change in a valuation allowance, and (ii) current tax expense/(benefit), which represents the amount of tax currently payable to or receivable from a tax authority plus amounts accrued for unrecognized tax benefits. Income tax expense/(benefit) excludes the tax effects related to adjustments recorded in equity.

New provisions under ASC 740, pertaining to the accounting of uncertainty in income taxes, were adopted on January 1, 2007. Under ASC 740, an uncertain tax position is recognized only if it is more likely than not to be sustained upon examination based on the technical merits of the position. The amount of tax benefit recognized in the financial statements is the largest amount of benefit that is more than fifty percent likely of being sustained upon ultimate settlement of the uncertain tax position. The Company recognizes interest related to unrecognized tax benefits in income tax expense/(benefit), and penalties, if any, in operating expenses.

***Earnings (Loss) per Common Share***

The Company computes earnings (loss) per common share ("EPS") in accordance with ASC 260, "Earnings per Share." See Note 12, "Earnings (Loss) per Common Share," for further discussion.

***Discontinued Operations***

A "Component" of a business comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the Company. When a Component of a business is disposed of or is classified as held for sale in accordance with ASC 360, "Property, Plant and Equipment," such Component is presented separately as discontinued operations in accordance with ASC 205, "Presentation of Financial Statements — Discontinued Operations," if the operations of the Component have been or will be eliminated from the ongoing operations of the Company and the Company will have no continuing involvement with the Component after the disposal transaction is complete. See Note 21, "Discontinued Operations," for further discussion.

***Foreign Currency Transactions***

The Company had financial services operations in foreign countries through the first quarter of 2009. The financial statements of these foreign businesses have been translated into U.S. dollars in accordance with U.S. GAAP. The net investments of the parent in the foreign subsidiary are translated at the current exchange rate at each period-end through the "other comprehensive income" component of stockholders' equity for net investments deemed to be long-term in nature or through net income if the net investment is short-term in nature. Income statement items are translated at the average exchange rate for the period through income. Transaction gains and losses resulting from exchange rate changes on transactions denominated in currencies other than the entity's functional currency are included in other operating income.

**2. Significant Accounting Policies (Continued)**

***Statement of Cash Flows***

Included in the Company's financial statements is the consolidated statement of cash flows. It is the policy of the Company to include all derivative net settlements, irrespective of whether the derivative is a qualifying hedge, in the same section of the statement of cash flows that the derivative is economically hedging.

As discussed above under *"Restricted Cash and Investments,"* the Company's restricted cash balances primarily relate to on-balance sheet securitizations. This balance is primarily the result of timing differences between when principal and interest is collected on the trust assets and when principal and interest is paid on the trust liabilities. As such, changes in this balance are reflected in investing activities.

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the years ended December 31, 2008 and 2007, to be consistent with classifications adopted for 2009, which had no impact on net income, total assets or total liabilities.

***Recently Issued Accounting Standards***

**FASB Accounting Standards Codification**

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

**Transfers of Financial Assets and the Variable Interest Entity ("VIE") Consolidation Model**

In June 2009, the FASB issued topic updates to ASC 860, "Transfers and Servicing," and to ASC 810, "Consolidation."

The topic update to ASC 860, among other things, (1) eliminates the concept of a Qualifying Special Purpose Entity ("QSPE"), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. The topic update to ASC 860 is effective for transactions which occur in fiscal years beginning after November 15, 2009. The impact of ASC 860 to future transactions will depend on how such transactions are structured. ASC 860 relates primarily to the Company's secured borrowing facilities. All of the Company's secured borrowing facilities entered into in 2008 and 2009, including securitization trusts, have been accounted for as on balance sheet financing facilities. These transactions would have been accounted for in the same manner if ASC 860 had been effective during these years.

The topic update to ASC 810 significantly changes the consolidation model for Variable Interest Entities ("VIEs"). The topic update amends ASC 810 and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining who should consolidate a VIE that is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. The topic update to ASC 810 is effective for the first annual reporting period beginning after November 15, 2009.

**2. Significant Accounting Policies (Continued)**

Under ASC 810, if an entity has a Variable Interest in a VIE and that entity is determined to be the Primary Beneficiary of the VIE then that entity will consolidate the VIE. The Primary Beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE. As it relates to the Company's securitized assets, the Company is the servicer of the securitized assets and owns the Residual Interest of the securitization trusts. As a result, the Company is the Primary Beneficiary of its securitization trusts and will consolidate those trusts that are off-balance sheet at their historical cost basis on January 1, 2010. The historical cost basis is the basis that would exist if these securitization trusts had remained on balance sheet since they settled. ASC 810 did not change the accounting of any other VIEs the Company has a variable interest in as of January 1, 2010. These new accounting rules will also apply to new transactions entered into from January 1, 2010 forward.

On January 1, 2010, upon adopting ASC 810, the Company removed the $1.8 billion of Residual Interests associated with these trusts from the consolidated balance sheet and the Company consolidated $35.0 billion of assets ($32.6 billion of which are student loans, net of a $550 million allowance for loan loss) and $34.4 billion of liabilities (primarily trust debt), which resulted in an approximate $0.7 billion after-tax reduction of stockholders' equity (through retained earnings). After adoption of ASC 810, with respect to the securitization trusts that were consolidated on January 1, 2010, the Company's results of operations will no longer reflect servicing and securitization income related to these securitization trusts, but will instead report interest income, provisions for loan losses associated with the securitized assets and interest expense associated with the debt issued from the securitization trusts to third parties. This presentation will be identical to the Company's accounting treatment of prior on-balance securitization trusts. The Company has not had a securitization that was treated as a sale since 2007.

Management allocates capital on a Managed Basis. This change will not impact management's view of capital adequacy for the Company. The Company's unsecured revolving credit facilities contains two principal financial covenants related to tangible net worth and net revenue. The tangible net worth covenant requires the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $3.5 billion as of December 31, 2009. Upon adoption of ASC 810 on January 1, 2010, consolidated tangible net worth as calculated for this covenant was $2.7 billion. Because the transition adjustment upon adoption of ASC 810 is recorded through retained earnings, the net revenue covenant was not impacted by the adoption of ASC 810. The ongoing net revenue covenant will not be affected by ASC 810's impact on the Company's securitization trusts as the net revenue covenant treated all off-balance sheet trusts as on-balance sheet for purposes of calculating net revenue.

**Subsequent Events**

In May 2009, the FASB issued a topic update on ASC 855, "Subsequent Events." This topic update is intended to establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this topic update sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The topic update to ASC 855 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted this topic update effective June 15, 2009 and has evaluated any events subsequent to December 31, 2009, and their impact on the reported results and disclosures.

**2. Significant Accounting Policies (Continued)**

**Fair Value Measurements**

In January 2010, the FASB issued a topic update to ASC 820, "Fair Value Measurements and Disclosures." The update improves reporting by requiring separate disclosures of the amounts of significant transfers in and out of Level 1 and 2 of fair value measurements and a description of the reasons for the transfers. In addition, a reporting unit should report separately information about purchases, sales, issuances, and settlements within the reconciliation of activity in Level 3 fair value measurements. Finally, the update clarifies existing disclosure requirements regarding the level of disaggregation in reporting classes of assets and liabilities and discussion of the inputs and valuation techniques used for level 2 and 3 fair values. This topic update is effective for annual and interim periods beginning January 1, 2010, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for annual and interim periods beginning January 1, 2011.

In August 2009, the FASB issued another topic update to ASC 820. The update provides clarification for the valuation of liabilities when a quoted price in an active market for the liability does not exist and clarifies that a quoted price for the liability when traded as an asset (when no adjustments are required) is a Level 1 fair value measurement. In addition, it also clarifies that an entity is not required to adjust the value of a liability for the existence of a restriction that prevents the transfer of the liability. This topic update was effective for the Company beginning October 1, 2009 and was not material to the Company.

On April 9, 2009, the FASB issued three ASC topic updates regarding fair value measurements and impairment. Under ASC 320, "Investments — Debt and Equity Securities," impairment must be recorded within the consolidated statements of income for debt securities if there exists a fair value loss and the entity intends to sell the security or it is more likely than not the entity will be required to sell the security before recovery of the loss. Additionally, expected credit losses must be recorded through income regardless of the impairment determination above. Remaining fair value losses are recorded to other comprehensive income. ASC 825, "Financial Instruments," requires interim disclosures of the fair value of financial instruments that were previously only required annually. Finally, the topic update to ASC 820 provides guidance for determining when a significant decrease in market activity has occurred and when a transaction is not orderly. It further reiterates that prices from inactive markets or disorderly transactions should carry less weight, if any, to the determination of fair value. These topic updates were effective for the Company beginning April 1, 2009. The adoption of these topic updates was not material to the Company.

**Business Combinations**

In December 2007, the FASB issued a topic update to ASC 805, "Business Combinations." The update requires the acquiring entity in a business combination to recognize the entire acquisition-date fair value of assets acquired and liabilities assumed in both full and partial acquisitions; changes the recognition of assets acquired and liabilities assumed related to contingencies; changes the recognition and measurement of contingent consideration; requires expensing of most transaction and restructuring costs; and requires additional disclosures to enable the users of the financial statements to evaluate and understand the nature and financial effect of the business combination. The ASC 805 topic update applies to all transactions or other events in which the Company obtains control of one or more businesses. The ASC topic update applies prospectively to business combinations for which the acquisition date is on or after the beginning of the reporting period beginning on or after December 15, 2008, which for the Company was January 1, 2009. The adoption of this topic update on January 1, 2009 did not have a material effect on the Company's results of operations or financial position.

## 2. Significant Accounting Policies (Continued)

In February 2009, the FASB issued another topic update to ASC 805. This additional update amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under ASC 805. The ASC topic update had the same effective date as the topic update to ASC 805 referenced above. The adoption of this topic update did not have a material effect on the Company's results of operations or financial position.

**Noncontrolling Interests in Consolidated Financial Statements**

In December 2007, the FASB issued a topic update to ASC 810, "Consolidation." This update requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to presentation as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. On January 1, 2009, the Company adopted this ASC topic update, the provisions of which, among other things, require that minority interests be renamed "noncontrolling interests" and that a company present a consolidated net income (loss) measure that includes the amount attributable to such "noncontrolling interests" for all periods presented. The topic update to ASC 810 applies prospectively for reporting periods beginning on or after December 15, 2008, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented. The Company has reclassified financial statement line items within its consolidated balance sheets, statements of income, statements of changes in stockholders' equity and statements of cash flows for the prior periods to conform to this topic update. Other than the change in presentation of noncontrolling interests, the adoption of this topic update had no impact on the consolidated financial statements.

**Disclosures about Derivative Investments and Hedging Activities**

In March 2008, the FASB updated ASC 815, "Derivatives and Hedging." This topic update requires enhanced disclosures about an entity's derivative and hedging activities, including (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under ASC 815 and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. To meet those objectives, the topic update requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. This ASC topic update is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this topic update on January 1, 2009.

## 3. Student Loans

The FFELP is subject to comprehensive reauthorization every five years and to frequent statutory and regulatory changes. The most recent reauthorization of the student loan programs was the Higher Education Reconciliation Act of 2005 (the "Reconciliation Legislation").

There are three principal categories of FFELP loans: Stafford, PLUS, and FFELP Consolidation Loans. Generally, Stafford and PLUS Loans have repayment periods of between five and ten years. FFELP Consolidation Loans have repayment periods of twelve to thirty years. FFELP loans do not require repayment, or have modified repayment plans, while the borrower is in-school and during the grace period immediately upon leaving school. The borrower may also be granted a deferment or forbearance for a period of time based on need, during which time the borrower is not considered to be in repayment. Interest continues to accrue on loans in the in-school, deferment and forbearance period. FFELP loans obligate the borrower to pay interest at a stated fixed rate or a variable rate reset annually (subject to a cap) on July 1 of each year depending on

**3. Student Loans (Continued)**

when the loan was originated and the loan type. The Company earns interest at the greater of the borrower's rate or a floating rate based on the SAP formula, with the interest earned on the floating rate that exceeds the interest earned from the borrower being paid directly by ED. In low or certain declining interest rate environments when student loans are earning at the fixed borrower rate, and the interest on the funding for the loans is variable and declining, the Company can earn additional spread income that it refers to as Floor Income. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

FFELP loans are guaranteed as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. For loans disbursed after October 1, 1993 and before July 1, 2006, the Company receives 98 percent reimbursement on all qualifying default claims. For loans disbursed on or after July 1, 2006, the Company receives 97 percent reimbursement.

In 2009, the Company sold to ED approximately $18.5 billion face amount of loans as part of the Purchase Program (approximately $840 million face amount of this amount was sold in the third quarter of 2009, with the remainder sold in the fourth quarter of 2009). Outstanding debt of $18.5 billion was paid down related to the Loan Purchase Participation Program ("Participation Program") pursuant to ECASLA in connection with these loan sales. These loan sales resulted in a $284 million gain. The settlement of the fourth quarter sale of loans out of the Participation Program included repaying the debt by delivering the related loans to ED in a non-cash transaction and receipt of cash from ED for $484 million, representing the reimbursement of a of one-percent payment made to ED plus a $75 fee per loan.

In December 2008, the Company sold approximately $494 million (principal and accrued interest) of FFELP loans to ED at a price of 97 percent of principal and unpaid interest pursuant to ED's authority under ECASLA to make such purchases, and recorded a loss on the sale. Additionally, in early January 2009, the Company sold an additional $486 million (principal and accrued interest) in FFELP loans to ED under this program. The loss related to this sale in January was recognized in 2008 as the loans were classified as "held-for-sale" under GAAP. The total loss recognized on these two sales for the year ended December 31, 2008 was $53 million and was recorded in "Losses on sales of loans and securities, net" in the consolidated statements of income.

In addition to FFELP loan programs, which place statutory limits on per year and total borrowing, the Company offers a variety of Private Education Loans. Private Education Loans for post-secondary education and loans for career training can be subdivided into two main categories: loans that supplement FFELP loans primarily for higher and lifelong learning programs and loans for career training. For the majority of the Private Education Loan portfolio, the Company bears the full risk of any losses experienced and, as a result, these loans are underwritten and priced based upon standardized consumer credit scoring criteria.

Forbearance involves granting the borrower a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance in this manner effectively extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While a loan is in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. The Company's forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, the Company requires good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of ultimate collection of the loan. Forbearance as a collection tool is used most

**3. Student Loans (Continued)**

effectively when applied based on a borrower's unique situation, including historical information and judgments. The Company combines borrower information with a risk-based segmentation model to assist in its decision making as to who will be granted forbearance based on the Company's expectations as to a borrower's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

Forbearance may also be granted to borrowers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the borrower is returned to a current repayment status. In more limited instances, delinquent borrowers will also be granted additional forbearance time. As the Company has obtained further experience about the effectiveness of forbearance, the Company has reduced the amount of time a loan will spend in forbearance, thereby increasing the Company's ongoing contact with the borrower to encourage consistent repayment behavior once the loan is returned to a current repayment status.

During the second quarter of 2009, the Company instituted an interest rate reduction program to assist customers in repaying their Private Education Loans through reduced payments, while continuing to reduce their outstanding principal balance. This program is offered in situations where the potential for principal recovery, through a modification of the monthly payment amount, is better than other alternatives currently available. Along with the ability and willingness to pay, the customer must make three consecutive monthly payments at the reduced rate in order to qualify for the program. Once the customer has made the initial three payments, the loans status is returned to current and the interest rate is reduced for the successive twelve month period. At December 31, 2009, approximately $181 million face amount had qualified for the program and are currently receiving a reduction in their interest rate.

The Company may charge the borrower fees on certain Private Education Loans, either at origination, when the loan enters repayment, or both. Such fees are deferred and recognized into income as a component of interest over the estimated average life of the related pool of loans.

As of December 31, 2009 and 2008, 59 percent and 56 percent, respectively, of the Company's on-balance sheet student loan portfolio was in repayment.

**3. Student Loans (Continued)**

The estimated weighted average life of student loans in the Company's portfolio was approximately 7.9 years and 7.8 years at December 31, 2009 and 2008, respectively. The following table reflects the distribution of the Company's student loan portfolio by program.

| | December 31, 2009 | | Year Ended December 31, 2009 | |
|---|---|---|---|---|
| | Ending Balance | % of Balance | Average Balance | Average Effective Interest Rate |
| FFELP Stafford and Other Student Loans, net[1] | $ 52,674,588 | 37% | $ 58,491,748 | 2.07% |
| FFELP Consolidation Loans, net | 68,378,560 | 47 | 70,045,863 | 2.69 |
| Private Education Loans, net | 22,753,462 | 16 | 23,153,975 | 6.83 |
| Total student loans, net[2] | $ 143,806,610 | 100% | $ 151,691,586 | 3.08% |

| | December 31, 2008 | | Year Ended December 31, 2008 | |
|---|---|---|---|---|
| | Ending Balance | % of Balance | Average Balance | Average Effective Interest Rate |
| FFELP Stafford and Other Student Loans, net[1] | $ 52,476,337 | 36% | $ 44,290,909 | 4.50% |
| FFELP Consolidation Loans, net | 71,743,435 | 50 | 73,091,087 | 4.35 |
| Private Education Loans, net | 20,582,298 | 14 | 19,276,067 | 9.01 |
| Total student loans, net[2] | $ 144,802,070 | 100% | $ 136,658,063 | 5.06% |

(1) The FFELP category is primarily Stafford Loans, but also includes federally guaranteed PLUS and HEAL Loans along with $9.7 billion and $8.5 billion of Stafford Loans held-for-sale at December 31, 2009 and 2008, respectively.

(2) The total student loan ending balance includes net unamortized premiums/discounts of $1,628,693 and $1,895,220 as of December 31, 2009 and 2008, respectively.

**4. Allowance for Loan Losses**

The Company's provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred losses, net of recoveries, in the held-for-investment 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 appropriate to cover probable losses incurred in the loan portfolios.

The following tables summarize the total loan loss provisions for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Private Education Loans | $ 966,591 | $ 586,169 | $ 883,474 |
| FFELP Stafford and Other Student Loans | 106,221 | 105,568 | 89,083 |
| Mortgage and consumer loans | 46,148 | 27,913 | 42,751 |
| Total provisions for loan losses | $ 1,118,960 | $ 719,650 | $ 1,015,308 |

**4. Allowance for Loan Losses (Continued)**

**Allowance for Private Education Loan Losses**

The following table summarizes changes in the allowance for Private Education Loan losses for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Allowance at beginning of year** | $ 1,308,043 | $ 1,003,963 | $ 372,612 |
| Total provision | 966,591 | 586,169 | 883,474 |
| Charge-offs | (875,667) | (320,240) | (246,343) |
| Reclassification of interest reserve(1) | 44,473 | 38,151 | — |
| Balance before securitization of Private Education Loans | 1,443,440 | 1,308,043 | 1,009,743 |
| Reduction for securitization of Private Education Loans | — | — | (5,780) |
| **Allowance at end of year**(2) | $ 1,443,440 | $ 1,308,043 | $ 1,003,963 |
| Charge-offs as a percentage of average loans in repayment | 7.2% | 3.8% | 4.1% |
| Charge-offs as a percentage of average loans in repayment and forbearance | 6.7% | 3.3% | 3.7% |
| Allowance as a percentage of the ending total loan balance(3) | 5.8% | 5.8% | 6.2% |
| Allowance as a percentage of the ending loans in repayment | 10.0% | 11.7% | 14.3% |
| Allowance coverage of charge-offs | 1.6 | 4.1 | 4.1 |
| Ending total loans(3) | $ 24,755,598 | $ 22,425,640 | $ 16,289,784 |
| Average loans in repayment | $ 12,137,430 | $ 8,533,356 | $ 5,949,007 |
| Ending loans in repayment | $ 14,379,102 | $ 11,182,053 | $ 7,046,709 |

(1) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance. Prior to 2008, the interest provision was reversed in interest income and then provided for through provision within the allowance for loan loss. For the year ended December 31, 2007, this amount was $21 million.

(2) Includes $32 million in 2009 related to the loan modification program. Prior to 2009 this program was not offered. As of December 31, 2009, $181 million face amount of loans were currently receiving a reduction in their interest rate under this program.

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

**4. Allowance for Loan Losses (Continued)**

The table below shows the Company's Private Education Loan delinquency trends as of December 31, 2009, 2008 and 2007.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| (Dollars in millions) | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 8,910 | | $ 10,159 | | $ 8,151 | |
| Loans in forbearance[2] | 967 | | 862 | | 974 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 12,421 | 86.4% | 9,748 | 87.2% | 6,236 | 88.5% |
| Loans delinquent 31-60 days[3] | 647 | 4.5 | 551 | 4.9 | 306 | 4.3 |
| Loans delinquent 61-90 days | 340 | 2.4 | 296 | 2.6 | 176 | 2.5 |
| Loans delinquent greater than 90 days | 971 | 6.7 | 587 | 5.3 | 329 | 4.7 |
| Total Private Education Loans in repayment | 14,379 | 100% | 11,182 | 100% | 7,047 | 100% |
| Total Private Education Loans, gross | 24,256 | | 22,203 | | 16,172 | |
| Private Education Loan unamortized discount | (559) | | (535) | | (468) | |
| Total Private Education Loans | 23,697 | | 21,668 | | 15,704 | |
| Private Education Loan receivable for partially charged-off loans | 499 | | 222 | | 118 | |
| Private Education Loan allowance for losses | (1,443) | | (1,308) | | (1,004) | |
| Private Education Loans, net | $ 22,753 | | $ 20,582 | | $ 14,818 | |
| Percentage of Private Education Loans in repayment | | 59.3% | | 50.4% | | 43.6% |
| Delinquencies as a percentage of Private Education Loans in repayment | | 13.6% | | 12.8% | | 11.5% |
| Loans in forbearance as a percentage of loans in repayment and forbearance | | 6.3% | | 7.2% | | 12.1% |

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

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

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

**4. Allowance for Loan Losses (Continued)**

**Allowance for FFELP Loan Losses**

The following table summarizes changes in the allowance for student loan losses for federally insured student loan portfolios for the years ended December 31, 2009, 2008, and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Allowance at beginning of year** | $ 137,543 | $ 88,729 | $ 20,315 |
| Provisions for student loan losses | 106,221 | 105,568 | 89,083 |
| Charge-offs | (78,861) | (57,510) | (21,235) |
| Increase/decrease for student loan sales and securitizations | (3,735) | 756 | 566 |
| **Allowance at end of year** | $ 161,168 | $ 137,543 | $ 88,729 |
| Charge-offs as a percentage of average loans in repayment | .1% | .1% | .04% |
| Charge-offs as a percentage of average loans in repayment and forbearance | .1% | .1% | .03% |
| Allowance as a percentage of the ending total loans, gross | .1% | .1% | .1% |
| Allowance as a percentage of the ending loans in repayment | .2% | .2% | .1% |
| Allowance coverage of charge-offs | 2.0 | 2.4 | 4.2 |
| Ending total loans, gross | $ 119,026,931 | $ 121,926,798 | $ 107,164,729 |
| Average loans in repayment | $ 69,020,295 | $ 66,392,120 | $ 58,999,119 |
| Ending loans in repayment | $ 69,826,790 | $ 70,174,192 | $ 65,289,865 |

The Company maintains an allowance for Risk Sharing loan losses on its FFELP portfolio. The level of Risk Sharing has varied for the Company over the past few years with legislative changes. As of December 31, 2009, 50 percent of the on-balance sheet FFELP loan portfolio was subject to three-percent Risk Sharing, 49 percent was subject to two-percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

**4. Allowance for Loan Losses (Continued)**

The table below shows the Company's FFELP loan delinquency trends as of December 31, 2009, 2008 and 2007.

| | December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | 2008 | | 2007 | |
| (Dollars in millions) | Balance | % | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 35,079 | | $ 39,270 | | $ 31,200 | |
| Loans in forbearance[2] | 14,121 | | 12,483 | | 10,675 | |
| Loans in repayment and percentage of each status: | | | | | | |
| Loans current | 57,528 | 82.4% | 58,811 | 83.8% | 55,128 | 84.4% |
| Loans delinquent 31-60 days[3] | 4,250 | 6.1 | 4,044 | 5.8 | 3,650 | 5.6 |
| Loans delinquent 61-90 days | 2,205 | 3.1 | 2,064 | 2.9 | 1,841 | 2.8 |
| Loans delinquent greater than 90 days | 5,844 | 8.4 | 5,255 | 7.5 | 4,671 | 7.2 |
| Total FFELP loans in repayment | 69,827 | 100% | 70,174 | 100% | 65,290 | 100% |
| Total FFELP loans, gross | 119,027 | | 121,927 | | 107,165 | |
| FFELP loan unamortized premium | 2,187 | | 2,431 | | 2,259 | |
| Total FFELP loans | 121,214 | | 124,358 | | 109,424 | |
| FFELP loan allowance for losses | (161) | | (138) | | (89) | |
| FFELP loans, net | $ 121,053 | | $ 124,220 | | $ 109,335 | |
| Percentage of FFELP loans in repayment | | 58.7% | | 57.6% | | 60.9% |
| Delinquencies as a percentage of FFELP loans in repayment | | 17.6% | | 16.2% | | 15.6% |
| FFELP loans in forbearance as a percentage of loans in repayment and forbearance | | 16.8% | | 15.1% | | 14.1% |

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

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

## 5. Investments

A summary of investments and restricted investments as of December 31, 2009 and 2008 follows:

| | December 31, 2009 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Investments** | | | | |
| *Available-for-sale* | | | | |
| U.S. Treasury securities and other U.S. government agency obligations | $ 272 | $ | $ — | $ 272 |
| Other securities: | | | | |
| Asset-backed securities | 110,336 | 306 | (893) | 109,749 |
| Commercial paper and asset-backed commercial paper | 1,149,981 | — | — | 1,149,981 |
| Municipal bonds | 9,935 | 1,942 | — | 11,877 |
| Other | 1,550 | — | (154) | 1,396 |
| Total investment securities available-for-sale | $ 1,272,074 | $ 2,248 | $ (1,047) | $ 1,273,275 |
| **Restricted Investments** | | | | |
| *Available-for sale* | | | | |
| U.S. Treasury securities and other U.S. government agency obligations | $ 25,026 | $ — | $ — | $ 25,026 |
| Guaranteed investment contracts | 26,951 | — | — | 26,951 |
| Total restricted investments available-for-sale | $ 51,977 | $ — | $ — | $ 51,977 |
| *Held-to-maturity* | | | | |
| Guaranteed investment contracts | $ 3,550 | $ — | $ — | $ 3,550 |
| Other | 215 | — | — | 215 |
| Total restricted investments held-to-maturity | $ 3,765 | $ — | $ — | $ 3,765 |

**5. Investments (Continued)**

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| **Investments** | | | | |
| *Available-for-sale* | | | | |
| U.S. Treasury and other U.S. government agency obligations: | | | | |
| U.S. Treasury securities and other U.S. government agency obligations | $ 8,908 | $ 195 | $ — | $ 9,103 |
| Other securities: | | | | |
| Asset-backed securities | 40,907 | 13 | (4,299) | 36,621 |
| Commercial paper and asset-backed commercial paper | 801,169 | — | — | 801,169 |
| Municipal bonds | 10,883 | 1,924 | — | 12,807 |
| Other | 1,673 | — | (365) | 1,308 |
| Total investment securities available-for-sale | $ 863,540 | $ 2,132 | $ (4,664) | $ 861,008 |
| **Restricted Investments** | | | | |
| *Available-for-sale* | | | | |
| Guaranteed investment contracts | $ 31,914 | $ — | $ — | $ 31,914 |
| Total restricted investments available-for-sale | $ 31,914 | $ — | $ — | $ 31,914 |
| *Held-to-maturity* | | | | |
| Guaranteed investment contracts | $ 5,500 | $ — | $ — | $ 5,500 |
| Other securities | 215 | — | — | 215 |
| Total restricted investments held-to-maturity | $ 5,715 | $ — | $ — | $ 5,715 |

In addition to the restricted investments detailed above, at December 31, 2009 and 2008, the Company had restricted cash of $5.1 billion and $3.5 billion, respectively.

As of December 31, 2009 and 2008, $1 million and $2 million of the net unrealized gain/(loss) (after tax) related to available-for-sale investments was included in accumulated other comprehensive income. As of December 31, 2009 and 2008, $50 million ($25 million of which is in restricted cash and investments on the balance sheet) and $26 million (none of which is in restricted cash and investments on the balance sheet), respectively, of available-for-sale investment securities were pledged as collateral.

The Company sold available-for-sale securities with a fair value of $100 million, $457 million and $73 million for the years ended December 31, 2009, 2008, and 2007, respectively. There were no realized gains/(losses) for the years ended December 31, 2009 and 2007. There were $14 million in realized gains (net of hedging losses totaling $4 million) for the year ended December 31, 2008. The cost basis for these securities was determined through specific identification of the securities sold.

**5. Investments (Continued)**

As of December 31, 2009, the stated maturities for the investments (including restricted investments) are shown in the following table:

| | December 31, 2009 | | |
|---|---|---|---|
| | Held-to-Maturity | Available-for-Sale(1) | Other |
| **Year of Maturity** | | | |
| 2010 | $ 215 | $ 1,176,675 | $ 675,725 |
| 2011 | — | — | 5,162 |
| 2012 | — | — | — |
| 2013 | — | 751 | — |
| 2014 | — | — | — |
| 2015-2019 | — | 11,877 | 59,666 |
| After 2019 | 3,550 | 135,949 | 739 |
| Total | $ 3,765 | $ 1,325,252 | $ 741,292 |

(1) Available-for-sale securities are stated at fair value.

At December 31, 2009 and 2008, the Company also had other investments of $741 million and $180 million, respectively. At December 31, 2009, other investments included a $636 million receivable for cash collateral posted to derivative counterparties. Other investments also included leveraged leases which at December 31, 2009 and 2008, totaled $66 million and $76 million, respectively, that are general obligations of American Airlines and Federal Express Corporation. At December 31, 2009 and 2008, other investments also included the Company's remaining investment in The Reserve Primary Fund totaling $32 million and $97 million, respectively. The Company received $32 million from The Reserve Primary Fund on January 29, 2010.

**6. Goodwill and Acquired Intangible Assets**

***Goodwill***

All acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as or one level below an operating segment. The following table summarizes the Company's historical allocation of goodwill to its reporting units, accumulated impairments and net goodwill for each reporting unit.

| | As of December 31, 2009 and 2008 | | |
|---|---|---|---|
| (Dollars in millions) | Gross | Accumulated Impairments | Net |
| Lending | $ 412 | $ (24) | $ 388 |
| APG | 401 | — | 401 |
| Guarantor Servicing | 62 | — | 62 |
| Upromise | 140 | — | 140 |
| Other | 1 | (1) | — |
| Total | $ 1,016 | $ (25) | $ 991 |

**6. Goodwill and Acquired Intangible Assets (Continued)**

***Impairment Testing***

The Company performs goodwill impairment testing annually in the fourth quarter as of a September 30 valuation date or more frequently if an event occurs or circumstances change such that there is a potential that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On February 26, 2009, the Administration issued their 2010 fiscal year budget request to Congress which included provisions that called for the elimination of the FFELP program and which would require all new federal loans to be made through the DSLP. On September 17, 2009 the House of Representatives passed SAFRA which was consistent with the Administration's 2010 budget request to Congress. If it became law SAFRA would eliminate the FFELP and require that, after July 1, 2010, all new federal loans be made through the DSLP. The Administration's 2011 fiscal year budget continued these requests.

The Senate has not yet introduced legislation on this issue. The Company, together with other members of the student loan community, has been working with members of Congress to enhance SAFRA to allow students and schools to continue to choose their loan originator and to require servicers to share in the risk of loan default. The Company believes that maintaining competition in the student loan programs and requiring participants to assume a portion of the risk inherent in the program, two of the major tenets of the Community Proposal, would result in a more efficient and cost effective program better that serves students, schools, ED and taxpayers.

In light of the potential implications of the Administration's 2010 budget proposal to the Company's business model, as well as continued uncertainty in the economy, the tight credit markets and the Company's decline in market capitalization during the first quarter of 2009, the Company assessed goodwill impairment as of March 31, 2009. This assessment resulted in estimated fair values of the Company's reporting units in excess of their carrying values. Accordingly, no goodwill impairment was recorded in the first quarter as a result of this impairment assessment.

During the second and third quarters of 2009, no new unfavorable events or changes in circumstances occurred to warrant an impairment assessment as of June 30 and September 30, 2009, as SAFRA, which was passed by the House of Representatives in the third quarter, was consistent with the Administration's 2010 budget request submitted to Congress in the first quarter of 2009.

In the fourth quarter of 2009, although no new unfavorable events or changes in circumstances occurred, the Company retained an appraisal firm to perform its annual Step 1 impairment testing as prescribed in ASC 350, "Intangibles — Goodwill and Other." Accordingly, the Company engaged the appraisal firm to determine the fair value of each of its four reporting units to which goodwill was allocated as of September 30, 2009. The fair value of each reporting unit was determined by weighting different valuation approaches, as applicable, with the primary approach being the income approach.

The income approach measures the value of each reporting unit based on the present value of the reporting unit's future economic benefit determined based on discounted cash flows derived from the Company's projections for each reporting unit. These projections are generally five-year projections that reflect the future strategic operating and financial performance of each respective reporting unit, including assumptions related to applicable cost savings and planned dispositions or wind down activities. If a component of a reporting unit is winding down or is assumed to wind down, the projections extend through the anticipated wind down period. In conjunction with the Company's September 30, 2009 annual impairment assessment, cash flow projections for the Lending, APG and Guarantor Servicing reporting units were valued assuming the proposed SAFRA legislation is passed. If the Community Proposal is passed, it would result in

**6. Goodwill and Acquired Intangible Assets (Continued)**

additional cash flows for the Lending reporting unit but no material change in cash flows for the APG or Guarantor Servicing reporting units.

Under the Company's guidance, the appraisal firm developed both an asset rate of return and an equity rate of return (or discount rate) for each reporting unit incorporating such factors as a risk free rate, a market rate of return, a measure of volatility (Beta) and a company specific and capital markets risk premium, as appropriate, to adjust for volatility and uncertainty in the economy and to capture specific risk related to the respective reporting units. The Company considered whether an asset sale or an equity sale would be the most likely sale structure for each reporting unit and valued each reporting unit based on the more likely hypothetical scenario. Resulting discount rates and growth rates used as of September 30, 2009, for the Lending, APG, Guarantor Servicing, and Upromise reporting units were:

| | Discount Rate | Growth Rate |
|---|---|---|
| Lending(1) | 11% | 3% |
| APG(2) | 10% | 4% |
| Guarantor Servicing(2) | 10% | 0% |
| Upromise(2) | 15% | 4% |

(1) Assumes an equity sale; therefore, the discount rate is used to value the entire reporting unit.

(2) Assumes an asset sale; therefore, the discount rate is used to value the assets of the reporting unit.

The discount rates reflect market based estimates of capital costs and are adjusted for management's assessment of a market participant's view with respect to execution, concentration and other risks associated with the projected cash flows of individual reporting units. Accordingly, these discount rates are reflective of the long standing contractual relationships associated with these cash flows as well as the wind down nature of the cash flows for certain components of the Lending and APG reporting units and the Guarantor Servicing reporting unit as a whole. Management reviewed and approved these discount rates, including the factors incorporated to develop the discount rates for each reporting unit. For the valuation of the Lending reporting unit, which assumed an equity sale, the discount rate was applied to the reporting unit's projected net cash flows and the residual or terminal value yielding the fair value of equity for the reporting unit. For valuations assuming an asset sale, the discount rates applicable to the individual reporting units were applied to the respective reporting units' projected asset cash flows and residual or terminal values, as applicable, yielding the fair value of the assets for the respective reporting units. The estimated proceeds from the hypothetical asset sale were then used to payoff any liabilities of the reporting unit with the remaining cash equaling the fair value of the reporting unit's equity.

The guideline company or market approach, as well as the publicly traded stock approach, were also considered for the Company's reporting units, as applicable. The market approach generally measures the value of a reporting unit as compared to recent sales or offerings of comparable companies. The secondary market approach indicates value based on multiples calculated using the market value of minority interests in publicly traded comparable companies or guideline companies. Whether analyzing comparable transactions or the market value of minority interests in publicly traded guideline companies, consideration is given to the line of business and the operating performance of the comparable companies versus the reporting unit being tested. Given current market conditions, the lack of recent sales or offerings in the market and the low correlation between the operations of identified guideline companies to the Company's reporting units, less emphasis was placed on the market approach for the APG, Guarantor Servicing and Upromise reporting units.

The Company acknowledges that its stock price (as well as that of its peers) is a consideration in determining the value of its reporting units and the Company as a whole. However, management believes the

**6. Goodwill and Acquired Intangible Assets (Continued)**

income approach is a better measure of the value of its reporting units in the current environment. During the latter half of 2008 and during 2009, the Company experienced a trend of lower and very volatile market capitalization. During 2009, the Company's stock price fluctuated significantly from a low of $3.19 in March 2009 subsequent to the Administration's 2010 budget proposal which would eliminate the FFELP and require all federally funded students loans to be originated through the DSLP, to a high of $12.00 in December 2009. At September 30 and December 31, 2009, the Company's stock price was $8.72 and $11.27, respectively. Based on these share prices as of September 30 and December 31, alone, the market capitalization of the Company was greater than the carrying value of the reporting units. The Company believes the share price has been significantly reduced due to the continued downturn in the credit and economic environment as well as uncertainties surrounding the ongoing legislative process. Management believes these economic factors should not have a long-term impact. In addition, the Company will review and revise, potentially significantly, its business model based on the final form of legislation upon completion of the legislative process.

The following table illustrates the book basis of equity for each reporting unit and the estimated fair value determined in conjunction with Step 1 impairment testing as of September 30, 2009.

| (Dollars in millions) | Book Basis of Equity | Fair Value of Equity | $ Difference | % Difference |
|---|---|---|---|---|
| Lending | $1,474 | $3,270 | $1,796 | 122% |
| APG | 1,390 | 1,690 | 300 | 22 |
| Guarantor Servicing | 142 | 221 | 79 | 56 |
| Upromise | 297 | 430 | 133 | 45 |

The estimated fair value of the Company resulting from its step 1 impairment test was 41 percent higher than its market capitalization. The Company views this as a reasonable "control premium." As discussed above, the Company's stock price was at $12.00 per share during December 2009, which by itself results in a market capitalization that is greater than the carrying value of the reporting units which results in no impairment. Management reviewed and approved the valuation prepared by the appraisal firm for each reporting unit, including the valuation methods employed and the key assumptions used, such as the discount rates, growth rates and control premiums, as applicable, for each reporting unit. Management also performed stress tests of key assumptions using a range of discount rates and growth rates, as applicable. Based on the valuations performed in conjunction with Step 1 impairment testing and these stress tests, there was no indicated impairment for any reporting units at September 30, 2009.

Management acknowledges that the economic slowdown could adversely affect the operating results of the Company's reporting units. In addition, the decrease in the market price of the Company's common stock resulting from the market turbulence and uncertainty surrounding the ongoing legislative process has reduced its total market capitalization. Both of these factors adversely affect the fair value of the Company's reporting units. If the forecasted performance of the Company's reporting units is not achieved, or if the Company's stock price remains at a depressed level or declines further resulting in continued deterioration in the Company's total market capitalization, and depending on the final form of legislation, if any, the fair value of one or more of the reporting units could be significantly reduced, and the Company may be required to record a charge, which could be material, for an impairment of goodwill. Management believes that the turbulence in the stock market and uncertainties surrounding the legislative process has resulted in a market price for the Company's common stock that is not indicative of the true value of the Company's reporting units.

In addition, if SAFRA or the Community Proposal are passed, certain revenue streams in the Lending and APG reporting units and the entire revenue stream of the Guarantor Servicing reporting unit will wind

**6. Goodwill and Acquired Intangible Assets (Continued)**

down over time. As a result, as these revenue streams wind down, goodwill impairment may be triggered for the Lending and APG reporting units and will definitely be triggered for the Guarantor Servicing reporting unit due to the passage of time and depletion of projected cash flows stemming from FFELP-related contracts.

As of September 30, 2008, annual impairment testing indicated no impairment for any reporting units. As of September 30, 2007, annual impairment testing indicated no impairment for any reporting units with the exception of the mortgage and consumer lending reporting unit, due largely to the wind down of one of the Company's mortgage operations. As a result, the Company recognized goodwill impairment of approximately $20 million in the fourth quarter of 2007.

**Goodwill by Reportable Segments**

A summary of changes in the Company's goodwill by reportable segment is as follows:

| (Dollars in millions) | December 31, 2008 | Acquisitions/ Other | December 31, 2009 |
|---|---|---|---|
| Lending | $ 388 | $ — | $ 388 |
| Asset Performance Group | 401 | — | 401 |
| Corporate and Other | 202 | — | 202 |
| Total | $ 991 | $ — | $ 991 |

| (Dollars in millions) | December 31, 2007 | Acquisitions/ Other | December 31, 2008 |
|---|---|---|---|
| Lending | $ 388 | $ — | $ 388 |
| Asset Performance Group | 377 | 24 | 401 |
| Corporate and Other | 200 | 2 | 202 |
| Total | $ 965 | $ 26 | $ 991 |

From September 2004 through January 2008, the Company acquired a 100 percent controlling interest in AFS Holdings, LLC ("AFS") through a series of transactions commencing with the Company's September 2004 acquisition of a 64 percent controlling interest and annual exercise of options to purchase successive 12 percent interests in the Company from December 2005 through January 2008. AFS was a full-service accounts receivable management company that purchased charged off debt and performed third-party receivables servicing across a number of consumer asset classes. As a result of this series of transactions, the Company's APG reportable segment and reporting unit recognized excess purchase price over the fair value of net assets acquired, or goodwill, of $226 million. The total purchase price associated with the Company's acquisition of AFS was approximately $324 million, including cash consideration and certain acquisition costs.

**6. Goodwill and Acquired Intangible Assets (Continued)**

***Acquired Intangible Assets***

Acquired intangible assets include the following:

| (Dollars in millions) | Average Amortization Period | As of December 31, 2009 Gross | Accumulated Amortization | Net |
|---|---|---|---|---|
| Intangible assets subject to amortization: | | | | |
| Customer, services, and lending relationships | 12 years | $ 332 | $ (208) | $ 124 |
| Software and technology | 7 years | 98 | (89) | 9 |
| Non-compete agreements | | 11 | (11) | — |
| Total | | 441 | (308) | 133 |
| Intangible assets not subject to amortization: | | | | |
| Trade name and trademark | Indefinite | 54 | — | 54 |
| Total acquired intangible assets | | $ 495 | $ (308) | $ 187 |

| (Dollars in millions) | Average Amortization Period | As of December 31, 2008 Gross | Accumulated Amortization | Net |
|---|---|---|---|---|
| Intangible assets subject to amortization: | | | | |
| Customer, services, and lending relationships | 13 years | $ 332 | $ (173) | $ 159 |
| Software and technology | 7 years | 93 | (85) | 8 |
| Non-compete agreements | 2 years | 11 | (10) | 1 |
| Total | | 436 | (268) | 168 |
| Intangible assets not subject to amortization: | | | | |
| Trade name and trademark | Indefinite | 91 | — | 91 |
| Total acquired intangible assets | | $ 527 | $ (268) | $ 259 |

The Company recorded amortization of acquired intangible assets from continuing operations totaling $39 million, $53 million, and $63 million for the years ended December 31, 2009, 2008 and 2007, respectively. The Company recorded amortization of acquired intangible assets from discontinued operations totaling $0, $1 million, and $4 million for the years ended December 31, 2009, 2008 and 2007, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives. The Company estimates amortization expense associated with these intangible assets will be $33 million, $27 million, $20 million, $18 million and $13 million for the years ended December 31, 2010, 2011, 2012, 2013 and 2014, respectively.

As discussed in Note 2, "Significant Accounting Policies," the Company tests its indefinite life intangible assets annually as of September 30 or during the course of the year if an event occurs or circumstances change which indicate potential impairment of these assets. The Company also assesses quarterly whether an event or circumstance has occurred which may indicate impairment of its definite life (amortizing) intangible assets.

**6. Goodwill and Acquired Intangible Assets (Continued)**

The Company recorded impairment of certain acquired intangible assets from continuing operations of $37 million, $32 million and $16 million, respectively, for the years ended December 31, 2009, 2008 and 2007. The Company recorded impairment of certain acquired intangible assets from discontinued operations of $0, $5 million and $10 million, respectively, for the years ended December 31, 2009, 2008 and 2007.

In the fourth quarter of 2009, the Company recognized intangible impairments of $37 million primarily related to the Company's exclusive right to market under the USAF Guarantee. This intangible was impaired as a result of the legislative uncertainty surrounding the role of Guarantors in the future. This impairment charge was recorded to operating expense in the Corporate and Other reportable segment.

In 2008, as discussed in Note 20, "Segment Reporting," the Company decided to wind down its purchased paper businesses. As a result, in the third quarter of 2008, the Company recorded an aggregate amount of $37 million of impairment of acquired intangible assets, of which $25 million and $3 million related to the impairment of two trade names associated with continuing operations and discontinued operations, respectively, and $7 million and $2 million related to certain banking customer relationships associated with continuing operations and discontinued operations, respectively.

In 2007, the Company recognized intangible impairments of $10 million attributed to certain banking relationships associated with its discontinued operations. The Company also recognized intangible impairments of $7 million related to certain trade names and relationships in the Lending reporting segment. The Company also recognized intangible impairments of $9 million related to certain tax exempt bonds that enabled the Company to earn a 9.5 percent SAP rate on student loans funded by those bonds in indentured trusts acquired with the Company's acquisition of Southwest Student Services Corporation and Washington Transferee Corporation. The impairment was recognized due to changes in projected interest rates used to initially value the intangible asset and to a regulatory change that restricts the loans on which the Company is entitled to earn a 9.5 percent yield. These impairment charges were recorded to operating expense in the Lending reportable segment.

**7. Borrowings**

Borrowings consist of secured borrowings issued through the Company's securitization program, borrowings through secured facilities and participation programs, unsecured notes issued by the Company, term and demand deposits at Sallie Mae Bank, and as other interest-bearing liabilities related primarily to obligations to return cash collateral held. To match the interest rate and currency characteristics of its borrowings with the interest rate and currency characteristics of its assets, the Company enters into interest rate and foreign currency swaps with independent parties. Under these agreements, the Company makes periodic payments, generally indexed to the related asset rates or rates which are highly correlated to the asset rates, in exchange for periodic payments which generally match the Company's interest obligations on fixed or variable rate notes (see Note 9, "Derivative Financial Instruments"). Payments and receipts on the Company's interest rate and currency swaps are not reflected in the following tables.

**7. Borrowings (Continued)**

The following table summarizes activity related to the senior unsecured debt repurchases for the years ended December 31, 2009 and 2008. The Company began actively repurchasing its outstanding debt in the second quarter of 2008. "Gains on debt repurchases" is shown net of hedging-related gains and losses.

| | Years Ended December 31, 2009 | Years Ended December 31, 2008 |
|---|---|---|
| Unsecured debt principal repurchased | $ 3,447,245 | $ 1,910,326 |
| Cash outlay for principal repurchases | 3,129,415 | 1,866,269 |
| Gains on debt repurchases | 536,190 | 64,477 |

In January 2010, the Company repurchased $812 million of unsecured debt through a tender offer for a gain of $45 million.

The following table summarizes the Company's borrowings as of December 31, 2009 and 2008.

| | December 31, 2009 | | | December 31, 2008 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Short Term | Long Term | Total | Short Term | Long Term | Total |
| Unsecured borrowings | $ 5,185 | $ 22,797 | $ 27,982 | $ 6,794 | $ 31,182 | $ 37,976 |
| Unsecured term bank deposits | 842 | 4,795 | 5,637 | 1,148 | 1,108 | 2,256 |
| ED Participation Program facility | 9,006 | — | 9,006 | 7,365 | — | 7,365 |
| ED Conduit Program facility | 14,314 | — | 14,314 | — | — | — |
| 2008 Asset-Backed Financing Facilities(1) | — | 8,801 | 8,801 | 24,768 | — | 24,768 |
| On-balance sheet securitizations | — | 89,200 | 89,200 | — | 80,601 | 80,601 |
| Indentured trusts | 64 | 1,533 | 1,597 | 31 | 1,972 | 2,003 |
| Other | 1,472 | — | 1,472 | 1,827 | — | 1,827 |
| Total before fair value adjustments | 30,883 | 127,126 | 158,009 | 41,933 | 114,863 | 156,796 |
| ASC 815 fair value adjustments | 14 | 3,420 | 3,434 | — | 3,362 | 3,362 |
| Total | $ 30,897 | $ 130,546 | $ 161,443 | $ 41,933 | $ 118,225 | $ 160,158 |

(1) On December 31, 2009, ABCP borrowings were reclassified to long-term as the facility was renegotiated on January 15, 2010 resulting in the maturity date being greater than one year from December 31, 2009.

***Short-term Borrowings***

Short-term borrowings have a remaining term to maturity of one year or less. The following tables summarize outstanding short-term borrowings (secured and unsecured) at December 31, 2009 and 2008, the

**7. Borrowings (Continued)**

weighted average interest rates at the end of each period, and the related average balances and weighted average interest rates during the periods.

| | December 31, 2009 | | Year Ended December 31, 2009 | |
|---|---|---|---|---|
| | Ending Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate |
| Unsecured term bank deposits | $ 842,636 | 3.33% | $ 929,442 | 3.23% |
| ABCP borrowings | — | — | 16,238,782 | 1.64 |
| ED Participation Program Facility | 9,006,053 | .79 | 14,174,433 | 1.42 |
| ED Conduit Program facility | 14,313,837 | .59 | 7,339,592 | .72 |
| Short-term portion of long-term borrowings | 5,259,278 | 2.58 | 4,408,990 | 2.05 |
| Other interest bearing liabilities | 1,475,007 | .12 | 1,393,280 | .31 |
| Total short-term borrowings | $ 30,896,811 | 1.04% | $ 44,484,519 | 1.45% |
| Maximum outstanding at any month end | $ 53,406,554 | | | |

| | December 31, 2008 | | Year Ended December 31, 2008 | |
|---|---|---|---|---|
| | Ending Balance | Weighted Average Interest Rate | Average Balance | Weighted Average Interest Rate |
| Unsecured term bank deposits | $ 1,147,825 | 3.34% | $ 696,442 | 3.67% |
| ABCP borrowings | 24,767,825 | 2.74 | 24,692,143 | 3.82 |
| ED Participation Program Facility | 7,364,969 | 3.37 | 1,726,751 | 3.41 |
| Short-term portion of long-term borrowings | 6,821,846 | 3.60 | 6,879,459 | 3.69 |
| Other interest bearing liabilities | 1,830,578 | 0.55 | 2,064,547 | 2.35 |
| Total short-term borrowings | $ 41,933,043 | 2.91% | $ 36,059,342 | 3.69% |
| Maximum outstanding at any month end | $ 41,933,043 | | | |

As of December 31, 2009, the Company had $3.5 billion in unsecured revolving credit facilities which provide liquidity support for general corporate purposes. The Company has never drawn on these facilities. These facilities include a $1.9 billion revolving credit facility maturing in October 2010 and a $1.6 billion revolving credit facility maturing in October 2011. These figures reflect the amended size of the facilities as a $215 million commitment from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc. was removed in the fourth quarter of 2009.

On April 24, 2009, in conjunction with the extension of the 2008 ABCP Facilities (see *"Asset-Backed Financing Facilities"* below), a $1.4 billion revolving credit facility maturing in October 2009 was retired and the $1.9 billion revolving credit facility maturing in October 2011 was reduced to $1.6 billion. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain consolidated tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for

**7. Borrowings (Continued)**

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

***Long-term Borrowings***

The following tables summarize outstanding long-term borrowings (secured and unsecured) at December 31, 2009 and 2008, the weighted average interest rates at the end of the periods, and the related average balances during the periods.

| | December 31, 2009 | | Year Ended December 31, 2009 |
|---|---|---|---|
| | Ending Balance(1) | Weighted Average Interest Rate(2) | Average Balance |
| Floating rate notes: | | | |
| U.S. dollar-denominated: | | | |
| Interest bearing, due 2011-2047 | $ 84,849,160 | 1.20% | $ 83,001,692 |
| Non-U.S. dollar-denominated: | | | |
| Australian dollar-denominated, due 2011 | 161,804 | 4.57 | 443,080 |
| Euro-denominated, due 2011-2041 | 7,624,485 | .91 | 8,411,807 |
| Sterling-denominated, due 2011-2039 | 1,153,134 | .88 | 1,273,890 |
| Hong Kong dollar-denominated, due 2011 | 113,741 | .41 | 113,716 |
| Swedish krona-denominated, due 2011 | 85,353 | .66 | 116,736 |
| Canadian dollar-denominated, due 2011 | 229,885 | .67 | 229,885 |
| Total floating rate notes | 94,217,562 | 1.17 | 93,590,806 |
| Fixed rate notes: | | | |
| U.S. dollar-denominated: | | | |
| Interest bearing, due 2011-2043 | 12,355,688 | 5.55 | 11,556,520 |
| Non-U.S.-dollar denominated: | | | |
| Australian dollar-denominated, due 2012 | 165,394 | 4.42 | 278,983 |
| Canadian dollar-denominated, due 2011 | 478,566 | 3.98 | 557,333 |
| Euro-denominated, due 2011-2039 | 6,903,465 | 2.74 | 4,695,963 |
| Hong Kong dollar-denominated, due 2014-2016 | 140,173 | 4.38 | 154,613 |
| Japanese yen-denominated, due 2011-2035 | 426,551 | 1.99 | 671,595 |
| Singapore dollar-denominated, due 2014 | 46,015 | 3.15 | 45,498 |
| Sterling-denominated, due 2011-2039 | 1,901,094 | 5.33 | 2,913,991 |
| Swiss franc-denominated, due 2011 | 182,907 | 2.24 | 160,568 |
| New Zealand dollar-denominated | — | — | 96,529 |
| Mexican peso-denominated, due 2016 | 78,078 | 10.30 | 91,593 |
| Swedish krona-denominated, due 2011 | 60,141 | 3.63 | 60,547 |
| Total fixed rate notes | 22,738,072 | 4.51 | 21,283,733 |
| Unsecured term bank deposits — U.S. dollar-denominated, due 2011-2019 | 4,789,223 | 3.19 | 3,824,908 |
| ABCP borrowings | 8,801,415 | 1.55 | — |
| Total long-term borrowings | $ 130,546,272 | 1.84% | $ 118,699,447 |

(1) Ending balance is expressed in U.S. dollars at December 31, 2009 spot currency exchange rate. Includes fair value adjustments under ASC 815 for notes designated as the hedged item in a fair value hedge.

(2) Weighted average interest rate is stated rate relative to currency denomination of note.

**7. Borrowings (Continued)**

| | December 31, 2008 | | Year Ended December 31, 2008 |
|---|---|---|---|
| | Ending Balance(1) | Weighted Average Interest Rate(2) | Average Balance |
| Floating rate notes: | | | |
| U.S. dollar-denominated: | | | |
| Interest bearing, due 2010-2047 | $ 79,212,638 | 4.12% | $ 76,604,044 |
| Non-U.S. dollar-denominated: | | | |
| Australian dollar-denominated, due 2010-2011 | 462,022 | 7.45 | 523,837 |
| Euro-denominated, due 2010-2041 | 8,713,084 | 4.40 | 8,876,737 |
| Singapore dollar-denominated | — | — | 4,508 |
| Sterling-denominated, due 2010-2039 | 975,851 | 5.72 | 975,808 |
| Japanese yen-denominated | — | — | 8,687 |
| Hong Kong dollar-denominated, due 2011 | 113,691 | 5.06 | 113,666 |
| Swedish krona-denominated, due 2010-2011 | 154,780 | 4.35 | 252,540 |
| Canadian dollar-denominated, due 2011 | 229,885 | 4.57 | 229,885 |
| Total floating rate notes | 89,861,951 | 4.19 | 87,589,712 |
| Fixed rate notes: | | | |
| U.S. dollar-denominated: | | | |
| Interest bearing, due 2010-2043 | 14,749,681 | 5.08 | 12,473,864 |
| Non-U.S.-dollar denominated: | | | |
| Australian dollar-denominated, due 2010-2012 | 247,928 | 7.37 | 407,308 |
| Canadian dollar-denominated, due 2010-2011 | 635,274 | 4.49 | 972,215 |
| Euro-denominated, due 2010-2039 | 6,874,043 | 2.86 | 4,807,924 |
| Hong Kong dollar-denominated, due 2010-2016 | 189,860 | 4.14 | 167,518 |
| Japanese yen-denominated, due 2010-2035 | 1,087,652 | 1.34 | 929,419 |
| Singapore dollar-denominated, due 2014 | 80,576 | 2.95 | 58,884 |
| Sterling-denominated, due 2010-2039 | 2,873,765 | 6.28 | 3,441,142 |
| Swiss franc-denominated, due 2011 | 219,687 | 2.02 | 246,749 |
| New Zealand dollar-denominated, due 2010 | 179,934 | 7.71 | 213,316 |
| Mexican peso-denominated, due 2016 | 72,730 | 11.05 | 91,548 |
| Swedish krona-denominated, due 2011 | 43,066 | 6.33 | 68,110 |
| Total fixed rate notes | 27,254,196 | 4.51 | 23,877,997 |
| Unsecured term bank deposits — U.S. dollar-denominated, due 2010-2013 | 1,108,647 | 4.36 | 157,268 |
| Total long-term borrowings | $ 118,224,794 | 4.26% | $ 111,624,977 |

(1) Ending balance is expressed in U.S. dollars at December 31, 2008 spot currency exchange rate. Includes fair value adjustments under ASC 815 for notes designated as the hedged item in a fair value hedge.

(2) Weighted average interest rate is stated rate relative to currency denomination of note.

**7. Borrowings (Continued)**

At December 31, 2009, the Company had outstanding long-term borrowings with call features totaling $3.3 billion and $100 million of outstanding long-term borrowings that are putable by the investor to the Company prior to the stated maturity date. Generally, these instruments are callable and putable at the par amount. As of December 31, 2009, the stated maturities (for putable debt, the stated maturity date is the put date) and maturities if accelerated to the call dates are shown in the following table:

| | December 31, 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Stated Maturity(1) | | | | Maturity to Call Date(1) | | | |
| | Unsecured Borrowings | Unsecured Term Bank Deposits | Secured Borrowings | Total | Unsecured Borrowings | Unsecured Term Bank Deposits | Secured Borrowings | Total |
| **Year of Maturity** | | | | | | | | |
| 2010 | $ — | $ — | $ 6,882,823 | $ 6,882,823 | $ 1,434,248 | $ 246,496 | $ 16,784,947 | $ 18,465,691 |
| 2011 | 6,372,950 | 1,425,425 | 12,923,080 | 20,721,455 | 6,526,521 | 1,446,423 | 9,121,664 | 17,094,608 |
| 2012 | 2,195,766 | 1,696,413 | 10,783,347 | 14,675,526 | 2,241,214 | 1,531,966 | 7,783,347 | 11,556,527 |
| 2013 | 2,812,148 | 775,155 | 9,149,050 | 12,736,353 | 2,785,701 | 758,760 | 7,149,050 | 10,693,511 |
| 2014 | 5,124,268 | 838,999 | 6,052,836 | 12,016,103 | 5,221,591 | 811,135 | 6,052,836 | 12,085,562 |
| 2015 | 710,055 | — | 5,889,838 | 6,599,893 | 798,924 | — | 5,889,838 | 6,688,762 |
| 2016-2047 | 5,581,984 | 58,788 | 47,852,746 | 53,493,518 | 3,788,972 | — | 46,752,038 | 50,541,010 |
| | 22,797,171 | 4,794,780 | 99,533,720 | 127,125,671 | 22,797,171 | 4,794,780 | 99,533,720 | 127,125,671 |
| ASC 815 (gains) losses on derivative hedging activities | 1,947,250 | (5,557) | 1,478,908 | 3,420,601 | 1,947,250 | (5,557) | 1,478,908 | 3,420,601 |
| Total | $ 24,744,421 | $ 4,789,223 | $ 101,012,628 | $ 130,546,272 | $ 24,744,421 | $ 4,789,223 | $ 101,012,628 | $ 130,546,272 |

(1) The Company views its on-balance sheet securitization trust debt as long-term based on the contractual maturity dates and projects the expected principal paydowns based on the Company's current estimates regarding loan prepayment speeds. The projected principal paydowns in year 2010 include $6.9 billion related to the on-balance sheet securitization trust debt.

***Secured Borrowings***

Variable Interest Entities ("VIEs") are required to be consolidated by their primary beneficiaries. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity's activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities' primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The process of identifying the primary beneficiary involves identifying all other parties that hold variable interests in the entity and determining which of the parties, including the Company, has the responsibility to absorb the majority of the entity's expected losses or the rights to its expected residual returns. The Company is the

**7. Borrowings (Continued)**

primary beneficiary of and currently consolidates the following financing VIEs as of December 31, 2009 and 2008:

| (Dollars in millions) | December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings:** | | | | | | | |
| ED Participation Program facility | $ 9,006 | $ — | $ 9,006 | $ 9,397 | $ 115 | $ 61 | $ 9,573 |
| ED Conduit Program facility | 14,314 | — | 14,314 | 14,594 | 478 | 372 | 15,444 |
| 2008 Asset-Backed Financing Facilities | — | 8,801 | 8,801 | 9,929 | 204 | 100 | 10,233 |
| On-balance sheet securitizations | — | 89,200 | 89,200 | 93,020 | 3,627 | 3,084 | 99,731 |
| Indentured trusts | 64 | 1,533 | 1,597 | 2,225 | 172 | 24 | 2,421 |
| | 23,384 | 99,534 | 122,918 | 129,165 | 4,596 | 3,641 | 137,402 |
| ASC 815 fair value adjustment | — | 1,479 | 1,479 | — | — | — | — |
| Total | $ 23,384 | $ 101,013 | $ 124,397 | $ 129,165 | $ 4,596 | $ 3,641 | $ 137,402 |

| (Dollars in millions) | December 31, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Debt Outstanding | | | Carrying Amount of Assets Securing Debt Outstanding | | | |
| | Short Term | Long Term | Total | Loans | Cash | Other Assets | Total |
| **Secured Borrowings:** | | | | | | | |
| ED Participation Program | $ 7,365 | $ — | $ 7,365 | $ 7,733 | $ 88 | $ 85 | $ 7,906 |
| 2008 Asset-Backed Financing Facilities | 24,768 | — | 24,768 | 31,953 | 462 | 816 | 33,231 |
| On-balance sheet securitizations | — | 80,601 | 80,601 | 81,547 | 2,632 | 2,521 | 86,700 |
| Indentured trusts | 31 | 1,972 | 2,003 | 2,199 | 236 | 40 | 2,475 |
| | 32,164 | 82,573 | 114,737 | 123,432 | 3,418 | 3,462 | 130,312 |
| ASC 815 fair value adjustment | — | 872 | 872 | — | — | — | — |
| Total | $ 32,164 | $ 83,445 | $ 115,609 | $ 123,432 | $ 3,418 | $ 3,462 | $ 130,312 |

***Asset-Backed Financing Facilities***

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

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

**7. Borrowings (Continued)**

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

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

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

Borrowings under the 2008 FFELP ABCP Facility were non-recourse to the Company. As of December 31, 2009, the Company had $8.8 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing this facility as of December 31, 2009 was $10.2 billion.

On January 15, 2010, the Company terminated the 2008 FFELP ABCP Facility and entered into new multi-year ABCP facilities (the "2010 Facility") which will continue to provide funding for the Company's federally guaranteed student loans. The 2010 Facility provides for maximum funding of $10 billion for the first year, $5 billion for the second year and $2 billion for the third year. Upfront fees related to the 2010 Facility were approximately $4 million. The underlying cost of borrowing under the 2010 Facility for the first year is expected to be approximately commercial paper issuance cost plus 0.50 percent, excluding up-front commitment and unused fees.

Borrowings under the 2010 Facility are non-recourse to the Company. The maximum amount the Company may borrow under the 2010 Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. Funding under the 2010 Facility is subject to usual and customary conditions. The 2010 Facility is subject to termination under certain circumstances, including the Company's failure to comply with the principal financial covenants in its unsecured revolving credit facilities. Increases in the borrowing rate of up to LIBOR plus 450 basis points could occur if certain asset coverage ratio thresholds are not met. Failure to pay off the 2010 Facility on the maturity date or to reduce amounts outstanding below the annual maximum step downs will result in a 90-day extension of the 2010 Facility with the interest rate increasing from LIBOR plus 200 basis points to LIBOR plus 300 basis points, over that period. If, at the end of the 90-day extension, these required paydown amounts have not been made, the collateral can be foreclosed upon.

**7. Borrowings (Continued)**

***The Department of Education ("ED") Funding Programs***

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

As of December 31, 2009, the Company had $9.0 billion of advances outstanding under the Participation Program. Through December 31, 2009, the Company has sold to ED approximately $18.5 billion face amount of loans as part of the Purchase Program. Outstanding debt of $18.5 billion was paid down related to the Participation Program in connection with these loan sales. These loan sales resulted in a $284 million gain. The settlement of the fourth quarter sale of loans out of the Participation Program included repaying the debt by delivering the related loans to ED in a non-cash transaction and receipt of cash from ED for $484 million, representing the reimbursement of a of one-percent payment made to ED plus a $75 fee per loan.

Also pursuant to ECASLA, on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS Loans from a conduit vehicle established to provide funding for eligible student lenders (the "ED Conduit Program"). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements, including those relating to borrower benefits. The ED Conduit Program was launched on May 11, 2009 and will accept eligible loans through July 1, 2010. The ED Conduit Program has a term of five years and will expire on January 19, 2014. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. If the conduit does not have sufficient funds to make the required payments on the notes issued by the conduit, then the notes will be repaid with funds from the Federal Financing Bank ("FFB"). The FFB will hold the notes for a short period of time and if at the end of that time the notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. As of December 31, 2009, approximately $14.6 billion face amount of the Company's Stafford and PLUS Loans were funded through the ED Conduit Program. For 2009, the average interest rate paid on this facility was approximately 0.75 percent. As of December 31, 2009, there are approximately $820 million face amount of additional FFELP Stafford and PLUS Loans (excluding loans currently in the Participation Program) that can be funded through the ED Conduit Program.

***Securitizations***

In 2009, the Company completed four FFELP long-term ABS transactions totaling $5.9 billion. The FFELP transactions were composed primarily of FFELP Consolidation Loans which were not eligible for the ED Conduit Program or the Term Asset-Backed Securities Loan Facility ("TALF") discussed below.

**7. Borrowings (Continued)**

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

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. TALF was initiated on March 17, 2009 and currently provides investors who purchase eligible ABS with funding of up to five years. Eligible ABS include 'AAA' rated student loan ABS backed by FFELP and Private Education Loans first disbursed since May 1, 2007. The following $6.0 Billion of Private Education Loan securitizations were completed in 2009 and were TALF eligible:

- On May 5, 2009, the Company priced a $2.6 billion Private Education Loan securitization which closed on May 12, 2009. The issue bears a coupon of 1-month LIBOR plus 6.0 percent and is callable at the issuer's option at 93 percent of the outstanding balance of the ABS between November 15, 2011 and April 16, 2012. If the issue is called on November 15, 2011, the Company expects the effective cost of the financing will be approximately 1-month LIBOR plus 3.7 percent.
- On July 2, 2009, the Company priced a $1.1 billion Private Education Loan securitization which closed on July 14, 2009. The issue bears a coupon of Prime plus 1.25 percent and is callable at the issuer's option at 94 percent of the outstanding balance of the ABS between January 16, 2012 and June 15, 2012. If the issue is called on January 16, 2012, the Company expects the effective cost of the financing will be approximately Prime minus 0.71 percent.
- On August 5, 2009, the Company priced a $1.7 billion Private Education Loan securitization which closed on August 13, 2009. The issue bears a coupon of Prime plus 0.25 percent and is callable at the issuer's option at 94 percent of the outstanding balance of the ABS between August 15, 2013 and July 15, 2014. If the issue is called on August 15, 2013, the Company expects the effective cost of the financing will be approximately Prime minus 0.55 percent.
- On December 2, 2009, the Company priced a $590 million Private Education Career Training Loan securitization which closed on December 10, 2009. The issue includes one tranche that bears a coupon of Prime minus 0.90 percent and a second tranche that bears a coupon of 1-month LIBOR plus 1.85 percent.

In certain of the Company's securitizations, there are terms within the deal structure that result in such securitization not qualifying for sale treatment and, as a result, is accounted for as a secured borrowing. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements after the initial settlement of the securitization which do not relate to the reissuance of third-party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets. These securitizations completed in 2009 are accounted for as secured borrowings.

The Company has concluded, for the Private Education Loan securitizations above which contain the ability to call the bonds in the future at a discount to par, that it is probable it will call these bonds at the call date at the respective discount. Probability is based on the Company's assessment of whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date. If it

**7. Borrowings (Continued)**

becomes less than probable the Company will call these bonds at a future date, it will result in the Company reversing this prior accretion as a cumulative catch up adjustment. The Company has accreted approximately $59 million as a reduction of interest expense through December 31, 2009.

During 2009 and 2008, five and two, respectively, of the Company's off-balance sheet securitization trusts were re-evaluated and it was determined that they no longer met the criteria to be considered QSPEs. These trusts were then evaluated as VIEs and it was determined that they should be consolidated and accounted for as secured borrowings as the Company is the primary beneficiary. These trusts had reached their 10 percent clean-up call levels but the call was not exercised by the Company. Because the Company can now exercise that option at its discretion going forward, the Company effectively controls the assets of the trusts. This resulted in the Company consolidating at fair value $685 million and $289 million in assets and $649 million and $278 million in liabilities related to these trusts during 2009 and 2008, respectively. This resulted in $20 million and $2 million recognized gains in 2009 and 2008, respectively.

***Auction Rate Securities***

At December 31, 2009, the Company had $1.0 billion of taxable and $1.1 billion of tax-exempt auction rate securities outstanding in on-balance sheet securitizations and indentured trusts, respectively. Since February 2008, problems in the auction rate securities market as a whole led to failures of the auctions pursuant to which certain of the Company's auction rate securities' interest rates are set. As a result, all of the Company's auction rate securities as of December 31, 2009 bore interest at the maximum rate allowable under their terms. The maximum allowable interest rate on the Company's $1.0 billion of taxable auction rate securities is generally LIBOR plus 1.50 percent. The maximum allowable interest rate on many of the Company's $1.1 billion of tax-exempt auction rate securities is a formula driven rate, which produced various maximum rates up to 1.14 percent during the fourth quarter of 2009. Since December 31, 2009, certain of the Company's taxable auction rate securities with shorter terms to maturity have had successful auctions.

***Indentured Trusts***

The Company has secured assets and outstanding bonds in indentured trusts resulting from the acquisition of various student loan providers in prior periods. The indentures were created and bonds issued to finance the acquisition of student loans guaranteed under the Higher Education Act. The bonds are limited obligations of the Company and are secured by and payable from payments associated with the underlying secured loans.

***Federal Home Loan Bank in Des Moines***

On January 15, 2010, HICA Education Loan Corporation, a subsidiary of the Company, entered into a lending agreement with the Federal Home Loan Bank of Des Moines (the "FHLB"). Under the agreement, the FHLB will provide advances backed by Federal Housing Finance Agency approved collateral including federally-guaranteed student loans. The initial borrowing of $25 million at a rate of .23 percent under this facility occurred on January 15, 2010 and matured on January 22, 2010. The amount, price and tenor of future advances will vary and will be determined at the time of each borrowing. The maximum amount that can be borrowed, as of January 15, 2010, subject to available collateral, is approximately $11 billion. The Company has provided a guarantee to the FHLB for the performance and payment of HICA's obligations.

**8. Student Loan Securitization**

The Company securitizes its FFELP Stafford Loans, FFELP Consolidation Loans and Private Education Loan assets and, for transactions qualifying as sales, retains a Residual Interest and servicing rights (as the

**8. Student Loan Securitization (Continued)**

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.

***Securitization Activity***

The following table summarizes the Company's securitization activity for the years ended December 31, 2009, 2008 and 2007. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

| | Years Ended December 31, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | | 2008 | | | | 2007 | | | |
| (Dollars in millions) | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % | No. of Transactions | Loan Amount Securitized | Pre-Tax Gain | Gain % |
| Securitizations — sales: | | | | | | | | | | | | |
| FFELP Stafford/PLUS Loans | — | $ — | $ — | —% | — | $ — | $ — | —% | — | $ — | $ — | —% |
| FFELP Consolidation Loans | — | — | — | — | — | — | — | — | — | — | — | — |
| Private Education Loans | — | — | — | — | — | — | — | — | 1 | 2,001 | 367 | 18.4 |
| Total securitizations — sales | — | — | $ — | —% | — | — | $ — | —% | 1 | 2,001 | $ 367 | 18.4% |
| Securitizations — financings: | | | | | | | | | | | | |
| FFELP Stafford/PLUS Loans(1) | — | — | | | 9 | 18,546 | | | 3 | 8,955 | | |
| FFELP Consolidation Loans(1)(2) | 3 | 5,339 | | | — | — | | | 5 | 14,476 | | |
| Private Education Loans(1) | 5 | 11,122 | | | — | — | | | — | — | | |
| Total securitizations — financings | 8 | 16,461 | | | 9 | 18,546 | | | 8 | 23,431 | | |
| Total securitizations | 8 | $ 16,461 | | | 9 | $ 18,546 | | | 9 | $ 25,432 | | |

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and, accordingly, they are accounted for on-balance sheet as VIEs. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements (which do not relate to the reissuance of third-party beneficial interests) after initial settlement of the securitization, or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

(2) In addition to the transactions listed in the above table, the Company settled on a repackaging trust and issued new asset backed securities in the amount of $1.0 billion. The debt issued is collateralized by reset rate notes totaling $1.2 billion.

**8. Student Loan Securitization (Continued)**

Key economic assumptions used in estimating the fair value of the Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the years ended December 31, 2009, 2008 and 2007 were as follows:

| | Years Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | | 2007 | | |
| | FFELP Stafford and PLUS(1) | FFELP Consolidation Loans(1) | Private Education Loans(1) | FFELP Stafford and PLUS(1) | FFELP Consolidation Loans(1) | Private Education Loans(1) | FFELP Stafford and PLUS(1) | FFELP Consolidation Loans(1) | Private Education Loans |
| Prepayment speed (annual rate)(2) | — | — | — | — | — | — | — | — | — |
| Interim status | — | — | — | — | — | — | — | — | 0% |
| Repayment status | — | — | — | — | — | — | — | — | 4-7% |
| Life of loan repayment status | — | — | — | — | — | — | — | — | 6% |
| Weighted average life | — | — | — | — | — | — | — | — | 9.4 yrs. |
| Expected credit losses (% of principal securitized) | — | — | — | — | — | — | — | — | 4.69% |
| Residual cash flows discounted at (weighted average) | — | — | — | — | — | — | — | — | 12.5% |

(1) No securitizations qualified for sale treatment in the period.

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

The following table summarizes cash flows received from or paid to the off-balance sheet securitization trusts during the years ended December 31, 2009, 2008 and 2007:

| (Dollars in millions) | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Net proceeds from new securitizations completed during the period | $ — | $ — | $ 1,977 |
| Cash distributions from trusts related to Residual Interests | 477 | 909 | 782 |
| Servicing fees received(1) | 225 | 246 | 286 |
| Purchases of previously transferred financial assets for representation and warranty violations | (7) | (37) | (33) |
| Reimbursements of borrower benefits(2) | (36) | (29) | (22) |
| Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option | — | (172) | (162) |
| Purchases of loans using clean-up call option | — | (697) | (1,500) |

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

(2) Under the terms of the securitizations, the transaction documents require that the Company reimburse the trusts for any borrower benefits afforded the borrowers of the underlying securitized loans.

**8. Student Loan Securitization (Continued)**

***Residual Interest in Securitized Receivables***

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

| | As of December 31, 2009 | | | |
|---|---|---|---|---|
| (Dollars in millions) | FFELP Stafford and PLUS | Consolidation Loan Trusts(1) | Private Education Loan Trusts | Total |
| Fair value of Residual Interests | $ 243 | $ 791 | $ 794 | $ 1,828 |
| Underlying securitized loan balance | 5,377 | 14,369 | 12,986 | 32,732 |
| Weighted average life | 3.3 yrs. | 9.0 yrs. | 6.3 yrs. | |
| Prepayment speed (annual rate)(2) | | | | |
| Interim status | 0% | N/A | 0% | |
| Repayment status | 0-14% | 2-4% | 2-15% | |
| Life of loan — repayment status | 9% | 3% | 6% | |
| Expected credit losses (% of student loan principal)(3)(4) | .10% | .25% | 5.31% | |
| Residual cash flows discount rate | 10.6% | 12.3% | 27.5% | |

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

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

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

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

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

**8. Student Loan Securitization (Continued)**

Servicing and securitization revenue is primarily driven by the average balance of off-balance sheet student loans, the amount of and the difference in the timing of Embedded Floor Income recognition for off-balance sheet student loans, and the fair value adjustment related to those Residual Interests where the Company has elected to carry such Residual Interests at fair value through earnings under ASC 825.

The Company recorded net unrealized mark-to-market losses of $330 million, $425 million and $24 million in the years ended December 31, 2009, 2008 and 2007, respectively, related to the Residual Interest.

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

- Prepayment speed assumptions on FFELP Stafford and Consolidation Loans were decreased. This change reflects the significant decrease in prepayment activity experienced since 2008. This decrease in prepayment activity, which the Company expects will continue into the foreseeable future, was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA and the current U.S. economic and credit environment. This resulted in a $61 million unrealized mark-to-market gain.
- Life of loan default rate assumptions for Private Education Loans were increased from 9.1 percent to 12.2 percent as a result of the continued weakening of the U.S. economy. This resulted in a $426 million unrealized mark-to-market loss.

As of December 31, 2008, the Company had changed the following significant assumptions compared to those used as of December 31, 2007, to determine the fair value of the Residual Interests:

- Prepayment speed assumptions were decreased for all three asset types primarily as a result of a significant reduction in prepayment activity experienced, which is expected to continue into the foreseeable future. The decrease in prepayment speeds was primarily due to a reduction in third-party consolidation activity as a result of the CCRAA (for FFELP only) and the current U.S. economic and credit environment. This resulted in a $114 million unrealized mark-to-market gain.
- Life of loan default rate assumptions for Private Education Loans were increased as a result of the continued weakening of the U.S. economy. This resulted in a $79 million unrealized mark-to-market loss.
- Cost of funds assumptions related to the underlying auction rate securities bonds ($2.3 billion face amount of bonds) within FFELP loan ($1.7 billion face amount of bonds) and Private Education Loan ($0.6 billion face amount of bonds) trusts were increased to take into account the expectations these auction rate securities would continue to reset at higher rates for an extended period of time. This resulted in a $116 million unrealized mark-to-market loss.
- The discount rate assumption related to the Private Education Loan and FFELP Residual Interests was increased. The Company assessed the appropriateness of the current risk premium, which was added to the risk free rate for the purpose of arriving at a discount rate, in light of the current economic and credit uncertainty that existed in the market as of December 31, 2008. This discount rate was applied to the projected cash flows to arrive at a fair value representative of the then current economic conditions. The Company increased the risk premium by 1,550 basis points and 390 basis points for Private Education Loans and FFELP loans, respectively, to take into account the then current level of cash flow uncertainty and lack of liquidity that existed with the Residual Interests. This resulted in a $904 million unrealized mark-to-market loss.

The Company recorded impairments to the Retained Interests of $254 million for the year ended December 31, 2007. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations ($110 million), impairment to the Floor Income component of the Company's

**8. Student Loan Securitization (Continued)**

Retained Interest due to increases in interest rates during the period ($24 million), and increases in prepayments, defaults, and the discount rate related to Private Education Loans ($120 million).

The following table reflects the sensitivity of the current fair value of the Residual Interests to adverse changes in the key economic assumptions used in the valuation of the Residual Interest at December 31, 2009, discussed in detail in the preceding table. The effect of a variation in a particular assumption on the fair value of the Residual Interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities. These sensitivities are hypothetical, as the actual results could be materially different than these estimates.

| | Year Ended December 31, 2009 | | |
|---|---|---|---|
| (Dollars in millions) | FFELP Stafford/PLUS Loan Trusts(5) | FFELP Consolidation Loan Trusts(5) | Private Education Loan Trusts(5) |
| Fair value of Residual Interest | $ 243 | $ 791(1) | $ 794 |
| Weighted-average life | 3.3 yrs. | 9.0 yrs. | 6.3 yrs. |
| **Prepayment speed assumptions(2)** | | | |
| **Interim status** | 0% | N/A | 0% |
| **Repayment status** | 0-14% | 2-4% | 2-15% |
| **Life of loan — repayment status** | 9% | 3% | 6% |
| Impact on fair value of 5% absolute increase | $ (26) | $ (85) | $ (128) |
| Impact on fair value of 10% absolute increase | $ (47) | $ (151) | $ (229) |
| **Expected credit losses (as a % of student loan principal)** | .10% | .25% | 5.31% (3) |
| Impact on fair value of 5% absolute increase in default rate | $ (4) | $ (8) | $ (176) |
| Impact on fair value of 10% absolute increase in default rate | $ (9) | $ (17) | $ (346) |
| **Residual cash flows discount rate** | 10.6% | 12.3% | 27.5% |
| Impact on fair value of 5% absolute increase | $ (29) | $ (136) | $ (116) |
| Impact on fair value of 10% absolute increase | $ (53) | $ (230) | $ (205) |
| **3 month LIBOR forward curve at December 31, 2009 plus contracted spreads** | | | |
| **Difference between Asset and Funding underlying indices(4)** | | | |
| Impact on fair value of 0.25% absolute increase in funding index compared to asset index | $ (41) | $ (173) | $ (2) |
| Impact on fair value of 0.50% absolute increase in funding index compared to asset index | $ (82) | $ (345) | $ (4) |

(1) Certain consolidation trusts have $3.3 billion of non-U.S. dollar (Euro denominated) bonds outstanding. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with certain counterparties. Additionally, certain Private Education Loan trusts contain interest rate swaps that hedge the basis and reset risk between the Prime indexed assets and LIBOR index notes. As of December 31, 2009, these swaps are in a $910 million gain position (in the aggregate) and the trusts had $603 million of exposure to counterparties (gain position less collateral posted) primarily as a result of the decline in the exchange rates between the U.S. dollar and the Euro. This unrealized market value gain is not part of the fair value of the Residual Interest in the table above. Not all derivatives within the trusts require the swap counterparties to post collateral to the respective trust for changes in market value, unless the trust's swap counterparty's credit rating has been withdrawn or has been downgraded below a certain level. If the swap counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. Ultimately, the Company's exposure related to a swap counterparty failing to make its payments is limited to the fair value of the related trust's Residual Interest, which was $1.3 billion as of December 31, 2009.

(2) See previous table for details on CPR. Impact on fair value due to increase in prepayment speeds only increases the repayment status speeds. Interim status CPR remains 0%.

(3) Expected credit losses are used to project future cash flows related to the Private Education Loan securitization's Residual Interest. However, until the fourth quarter of 2008 when it ceased this activity for all trusts settling prior to September 30, 2005, the Company purchased loans at par when the loans reach 180 days delinquent prior to default under a contingent call option, resulting in no credit losses at the trust nor related to the Company's Residual Interest. When the Company exercises its contingent call option and purchases the loan from the trust at par, the Company records a loss related to these loans that are now on the Company's balance sheet. The Company recorded losses of $0, $141 million and $123 million for the years ended December 31, 2009, 2008 and 2007, respectively, related to this activity and specialty claims. For all trusts settling after October 1, 2005, the Company does not hold this contingent call option.

(4) Student loan assets are primarily indexed to a Treasury bill, commercial paper or a prime index. Funding within the trust is primarily indexed to a LIBOR index. Sensitivity analysis increases funding indexes as indicated while keeping the assets underlying indexes fixed.

(5) In addition to the assumptions in the table above, the Company also projects the reduction in distributions that will result from the various benefit programs that exist related to consecutive on-time payments by borrowers. Related to the entire $1.8 billion Residual Interest, there is $214 million (present value) of benefits projected, which reduce the fair value.

**8. Student Loan Securitization (Continued)**

The table below shows the Company's off-balance sheet Private Education Loan delinquency trends as of December 31, 2009 and 2008.

| | Off-Balance Sheet Private Education Loan Delinquencies | | | |
|---|---|---|---|---|
| | December 31, 2009 | | December 31, 2008 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | $ 2,546 | | $ 3,461 | |
| Loans in forbearance[2] | 453 | | 700 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 8,987 | 90.0% | 8,843 | 92.8% |
| Loans delinquent 31-60 days[3] | 332 | 3.3 | 315 | 3.3 |
| Loans delinquent 61-90 days | 151 | 1.5 | 121 | 1.3 |
| Loans delinquent greater than 90 days | 517 | 5.2 | 251 | 2.6 |
| Total off-balance sheet Private Education Loans in repayment | 9,987 | 100% | 9,530 | 100% |
| Total off-balance sheet Private Education Loans, gross | $ 12,986 | | $ 13,691 | |

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

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

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| (Dollars in millions) | 2009 | 2008 | 2007 |
| Charge-offs | (423) | (153) | (79) |
| Charge-offs as a percentage of average loans in repayment | 4.4% | 1.9% | 1.1% |
| Charge-offs as a percentage of average loans in repayment and forbearance | 4.2% | 1.6% | .9% |
| Ending off-balance sheet total Private Education Loans[1] | $13,215 | $13,782 | $14,227 |
| Average off-balance sheet Private Education Loans in repayment | $ 9,597 | $ 8,088 | $ 7,305 |
| Ending off-balance sheet Private Education Loans in repayment | $ 9,987 | $ 9,530 | $ 7,819 |

(1) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 4,"Allowance for Loan Losses").

## 9. Derivative Financial Instruments

***Risk Management Strategy***

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate changes. The Company's goal is to manage interest rate sensitivity by modifying the repricing frequency and underlying index characteristics of certain balance sheet assets and liabilities (including the Residual Interest from off-balance sheet securitizations) so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. The Company does not use derivative instruments to hedge credit risk associated with debt issued by the Company. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments that are linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation for the period the item is being hedged. The Company views this strategy as a prudent management of interest rate sensitivity. In addition, the Company utilizes derivative contracts to minimize the economic impact of changes in foreign currency exchange rates on certain debt obligations that are denominated in foreign currencies. As foreign currency exchange rates fluctuate, these liabilities will appreciate and depreciate in value. These fluctuations, to the extent the hedge relationship is effective, are offset by changes in the value of the cross-currency interest rate swaps executed to hedge these instruments. Management believes certain derivative transactions entered into as hedges, primarily Floor Income Contracts, basis swaps and Eurodollar futures contracts, are economically effective; however, those transactions generally do not qualify for hedge accounting under ASC 815 (as discussed below) and thus may adversely impact earnings.

Although the Company uses derivatives to offset (or minimize) the risk of interest rate and foreign currency changes, the use of derivatives does expose the Company to both market and credit risk. Market risk is the chance of financial loss resulting from changes in interest rates, foreign exchange rates and market liquidity. Credit risk is the risk that a counterparty will not perform its obligations under a contract and it is limited to the loss of the fair value gain in a derivative that the counterparty owes the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, has no credit risk exposure to the counterparty; however, the counterparty has exposure to the Company. The Company minimizes the credit risk in derivative instruments by entering into transactions with highly rated counterparties that are reviewed regularly by the Company's Credit Department. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivative Association Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements generally are required as well. When the Company has more than one outstanding derivative transaction with the counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e., a legal right to offset receivable and payable derivative contracts), the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. When there is a net negative exposure, the Company considers its exposure to the counterparty to be zero. At December 31, 2009 and 2008, the Company had a net positive exposure (derivative gain positions to the Company less collateral which has been posted by counterparties to the Company) related to corporate derivatives of $246 million and $234 million, respectively.

The Company's on-balance sheet securitization trusts have $10.4 billion of Euro and British Pound Sterling denominated bonds outstanding as of December 31, 2009. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with highly-rated counterparties. As of December 31, 2009, the net positive exposure on these swaps is $1.2 billion. As previously discussed, the Company's corporate derivatives contain provisions which require collateral to be posted on a regular basis for changes in market values. The on-balance sheet trusts' derivatives are structured such that swap counterparties are required to post collateral if their credit rating has been withdrawn or is

**9. Derivative Financial Instruments (Continued)**

below a certain level. If the swap counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. In addition to the credit rating requirement, trusts issued after November 2005 require the counterparty to post collateral due to a net positive exposure on cross-currency interest rate swaps, irrespective of their counterparty rating. The trusts, however, are not required to post collateral to the counterparty.

***ASC 815***

Derivative instruments that are used as part of the Company's interest rate and foreign currency risk management strategy include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities, including the Residual Interests from off-balance sheet securitizations. In addition, prior to 2008, the Company used equity forward contracts based on the Company's stock. The Company accounts for its derivatives under ASC 815 which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. As more fully described below, if certain criteria are met, derivative instruments are classified and accounted for by the Company as either fair value or cash flow hedges. If these criteria are not met, the derivative financial instruments are accounted for as trading.

**Fair Value Hedges**

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. For fair value hedges, the Company generally considers all components of the derivative's gain and/or loss when assessing hedge effectiveness (in some cases the Company excludes time-value components) and generally hedges changes in fair value due to interest rates or interest rates and foreign currency exchange rates or the total change in fair value.

**Cash Flow Hedges**

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings. In the case of a forecasted debt issuance, gains and losses are reclassified to earnings over the period which the stated hedged transaction impacts earnings. If the stated transaction is deemed probable not to occur, gains and losses are reclassified immediately to earnings. In assessing hedge effectiveness, generally all components of each derivative's gains or losses are included in the assessment. The Company generally hedges exposure to changes in cash flows due to changes in interest rates or total changes in cash flow.

**Trading Activities**

When instruments do not qualify as hedges, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. The Company sells interest rate floors (Floor Income Contracts) to hedge the Embedded Floor Income options in student loan assets. The Floor Income Contracts

**9. Derivative Financial Instruments (Continued)**

are written options which under ASC 815 have a more stringent effectiveness hurdle to meet. Therefore, these relationships do not satisfy hedging qualifications under ASC 815, but are considered economic hedges for risk management purposes. The Company uses this strategy to minimize its exposure to changes in interest rates.

The Company uses basis swaps to minimize earnings variability caused by having different reset characteristics on the Company's interest-earning assets and interest-bearing liabilities. These swaps possess a term of up to 14 years with a pay rate indexed to 91-day Treasury bill, 3-month commercial paper, 52-week Treasury bill, LIBOR, Prime, or 1-year constant maturity Treasury rates. The specific terms and notional amounts of the swaps are determined based on management's review of its asset/liability structure, its assessment of future interest rate relationships, and on other factors such as short-term strategic initiatives. ASC 815 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. The Company's basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required by ASC 815. Additionally, some of the Company's FFELP loans can earn at either a variable or a fixed interest rate depending on market interest rates. The Company also has basis swaps that do not meet the ASC 815 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the statement of income.

Prior to 2008, the Company entered into equity forward contracts (see Note 11, "Stockholders' Equity," for a further discussion of equity forward contracts and the settlement of all equity forward contracts in January 2008). The Company utilized the strategy to lock in the purchase price of the Company's stock to better manage the cost of its share repurchases program. In order to qualify as a hedge under ASC 815, the hedged item must impact net income. In this case, the repurchase of the Company's shares did not impact net income; therefore, the equity forwards did not qualify as a ASC 815 hedge. Prior to December 31, 2007, the Company's equity forward contracts provided for physical, net share or net cash settlement options. On December 31, 2007, the terms of the contracts were changed to allow for physical settlement only. This effectively changed the characteristics of the contracts so they no longer were derivatives accounted for under ASC 815 and ASC 480 and instead were accounted for as a liability (recorded at the present value of the repurchase price) under ASC 480. The Company has not had any outstanding contracts since January 2008.

## 9. Derivative Financial Instruments (Continued)

### 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 December 31, 2009 and 2008, and their impact on other comprehensive income and earnings for the years ended December 31, 2009, 2008 and 2007.

### Impact of Derivatives on Consolidated Balance Sheet

| (Dollars in millions) | Hedged Risk Exposure | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|---|
| | | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| **Fair Values**(1) | | | | | | | | | |
| *Derivative Assets* | | | | | | | | | |
| Interest rate swaps | Interest rate | $ — | $ — | $ 684 | $ 1,529 | $ 133 | $ 323 | $ 817 | $ 1,852 |
| Cross currency interest rate swaps | Foreign currency and interest rate | — | — | 2,932 | 2,743 | 44 | 13 | 2,976 | 2,756 |
| Total derivative assets(3) | | — | — | 3,616 | 4,272 | 177 | 336 | 3,793 | 4,608 |
| *Derivative Liabilities* | | | | | | | | | |
| Interest rate swaps | Interest rate | (78) | (146) | (6) | — | (639) | (332) | (723) | (478) |
| Floor/Cap contracts | Interest rate | — | — | — | — | (1,234) | (1,466) | (1,234) | (1,466) |
| Futures | Interest rate | — | — | — | — | (2) | (3) | (2) | (3) |
| Cross currency interest rate swaps | Foreign currency and interest rate | — | — | (192) | (640) | (1) | — | (193) | (640) |
| Other(2) | Interest rate | — | — | — | — | (18) | — | (18) | — |
| Total derivative liabilities(3) | | (78) | (146) | (198) | (640) | (1,894) | (1,801) | (2,170) | (2,587) |
| Net total derivatives | | $ (78) | $ (146) | $ 3,418 | $ 3,632 | $ (1,717) | $ (1,465) | $ 1,623 | $ 2,021 |

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net positive or negative position.

(2) "Other" includes the fair value of the embedded derivatives in asset-backed financings. The embedded derivatives are required to be accounted for as derivatives.

(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

| | Other Assets | | Other Liabilities | |
|---|---|---|---|---|
| | December 31, 2009 | December 31, 2008 | December 31, 2009 | December 31, 2008 |
| Gross position | $ 3,793 | $ 4,608 | $ (2,170) | $ (2,587) |
| Impact of master netting agreements | (1,009) | (1,594) | 1,009 | 1,594 |
| Derivative values with impact of master netting agreements | 2,784 | 3,014 | (1,161) | (993) |
| Cash collateral | (1,268) | (1,624) | 636 | — |
| Net position | $ 1,516 | $ 1,390 | $ (525) | $ (993) |

## 9. Derivative Financial Instruments (Continued)

| (Dollars in billions) | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2009 | Dec. 31, 2008 |
| **Notional Values** | | | | | | | | |
| Interest rate swaps | $ 1.7 | $ 4.8 | $ 12.4 | $ 13.4 | $ 148.2 | $ 159.3 | $ 162.3 | $ 177.5 |
| Floor/Cap contracts | — | — | — | — | 47.1 | 32.4 | 47.1 | 32.4 |
| Futures | — | — | — | — | .1 | .2 | .1 | .2 |
| Cross currency interest rate swaps | — | — | 19.3 | 23.1 | .3 | .1 | 19.6 | 23.2 |
| Other(1) | — | — | — | — | 1.0 | .7 | 1.0 | .7 |
| Total derivatives | $ 1.7 | $ 4.8 | $ 31.7 | $ 36.5 | $ 196.7 | $ 192.7 | $ 230.1 | $ 234.0 |

(1) "Other" includes embedded derivatives bifurcated from on-balance sheet securitization debt, as well as embedded derivatives in the asset-backed financings discussed in footnote 2 to the table above.

### Impact of Derivatives on Consolidated Statements of Income

| (Dollars in millions) | Unrealized Gain (Loss) on Derivatives(1)(2) | | | Realized Gain (Loss) on Derivatives(3) | | | Unrealized Gain (Loss) on Hedged Item(1) | | | Total Gain (Loss) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 | 2009 | 2008 | 2007 |
| **Fair Value Hedges** | | | | | | | | | | | | |
| Interest rate swaps | $ (801) | $ 1,427 | $ 458 | $ 403 | $ 157 | $ (155) | $ 850 | $ (1,532) | $ (468) | $ 452 | $ 52 | $ (165) |
| Cross currency interest rate swaps | 692 | (1,537) | 2,200 | 440 | 67 | (139) | (934) | 1,864 | (2,129) | 198 | 394 | (68) |
| Total fair value derivatives | (109) | (110) | 2,658 | 843 | 224 | (294) | (84) | 332 | (2,597) | 650 | 446 | (233) |
| **Cash Flow Hedges** | | | | | | | | | | | | |
| Interest rate swaps | 2 | — | — | (75) | (37) | (1) | — | — | — | (73) | (37) | (1) |
| Total cash flow derivatives | 2 | — | — | (75) | (37) | (1) | — | — | — | (73) | (37) | (1) |
| **Trading** | | | | | | | | | | | | |
| Interest rate swaps | (526) | (261) | 360 | 433 | 584 | 51 | — | — | — | (93) | 323 | 411 |
| Floor/Cap contracts | 483 | (529) | (209) | (717) | (488) | (68) | — | — | — | (234) | (1,017) | (277) |
| Futures | 1 | (3) | — | (1) | 3 | (1) | — | — | — | — | — | (1) |
| Cross currency interest rate swaps | (26) | 11 | 3 | 4 | 16 | — | — | — | — | (22) | 27 | 3 |
| Equity forward contracts | — | — | (1,558) | — | — | — | — | — | — | — | — | (1,558) |
| Other | (65) | — | — | 1 | — | — | — | — | — | (64) | — | — |
| Total trading derivatives | (133) | (782) | (1,404) | (280) | 115 | (18) | — | — | — | (413) | (667) | (1,422) |
| Total | (240) | (892) | 1,254 | 488 | 302 | (313) | (84) | 332 | (2,597) | 164 | (258) | (1,656) |
| Less: realized gains (losses) recorded in interest expense | — | — | — | 768 | 187 | (295) | — | — | — | 768 | 187 | (295) |
| Gains (losses) on derivative and hedging activities, net | $ (240) | $ (892) | $ 1,254 | $ (280) | $ 115 | $ (18) | $ (84) | $ 332 | $ (2,597) | $ (604) | $ (445) | $ (1,361) |

(1) Recorded in "Gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

## 9. Derivative Financial Instruments (Continued)

### Impact of Derivatives on Consolidated Statements of Changes in Stockholders' Equity (net of tax)

| (Dollars in millions) | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Total gains (losses) on cash flow hedges | $ (22) | $ (95) | $ (17) |
| Realized (gains) losses recognized in interest expense[1][2][3] | 63 | 24 | 2 |
| Hedge ineffectiveness reclassified to earnings[1][4] | (1) | — | — |
| Total change in stockholders' equity for unrealized gains (losses) on derivatives | $ 40 | $ (71) | $ (15) |

(1) Amounts included in "Realized gain (loss) on derivatives" in the "Impact of Derivatives on Consolidated Statements of Income" table above.
(2) Includes net settlement income/expense.
(3) The Company expects to reclassify $3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to net settlement accruals on interest rate swaps.
(4) Recorded in "Gains (losses) derivatives and hedging activities, net" in the consolidated statements of income.

***Collateral***

Collateral held and pledged at December 31, 2009 and 2008 related to derivative exposures between the Company and its derivative counterparties are detailed in the following table:

| (Dollars in millions) | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Collateral held:** | | |
| Cash (obligation to return cash collateral is recorded in short-term borrowings)[1] | $ 1,268 | $ 1,624 |
| Securities at fair value — corporate derivatives (not recorded in financial statements)[2] | 112 | 689 |
| Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements)[3] | 717 | 688 |
| Total collateral held | $ 2,097 | $ 3,001 |
| Derivative asset at fair value including accrued interest | $ 3,119 | $ 3,741 |
| **Collateral pledged to others:** | | |
| Cash (right to receive return of cash collateral is recorded in investments) | $ 636 | $ — |
| Securities at fair value (recorded in investments)[4] | 25 | 26 |
| Securities at fair value (recorded in restricted investments)[5] | 25 | — |
| Securities at fair value re-pledged (not recorded in financial statements)[5][6] | 87 | 191 |
| Total collateral pledged | $ 773 | $ 217 |
| Derivative liability at fair value including accrued interest and premium receivable | $ 758 | $ 677 |

(1) At December 31, 2009 and 2008, $447 million and $0, respectively, was held in restricted cash accounts.
(2) Effective with the downgrade in the Company's unsecured credit ratings on May 13, 2009, certain counterparties do not allow the Company to sell or re-pledge securities it holds as collateral.
(3) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.
(4) Counterparty does not have the right to sell or re-pledge securities.
(5) Counterparty has the right to sell or re-pledge securities.
(6) Represents securities the Company holds as collateral that have been pledged to other counterparties.

**9. Derivative Financial Instruments (Continued)**

The Company's corporate derivatives contain credit contingent features. At the Company's current unsecured credit rating, it has fully collateralized its corporate derivative liability position of $1.1 billion with its counterparties. Further downgrades would not result in any additional collateral requirements, except to provide for more frequent collateral calls. Two counterparties have the right to terminate the contracts with further downgrades, however, these counterparties are currently in an asset position and would be required to deliver assets to the Company in order to terminate. Trust related derivatives do not contain credit contingent features related to the Company's or trust's credit ratings.

Additionally, as of December 31, 2009 and 2008, $381 million and $340 million, respectively, in collateral related to off-balance sheet trust derivatives were held by these off-balance sheet trusts. Collateral posted by third parties to the off-balance sheet trusts cannot be sold or re-pledged by the trusts.

**10. Other Assets**

The following table provides the detail of the Company's other assets at December 31, 2009 and 2008.

| | December 31, 2009 | | December 31, 2008 | |
|---|---|---|---|---|
| | Ending Balance | % of Balance | Ending Balance | % of Balance |
| Derivatives at fair value | $ 2,783,696 | 29% | $ 3,013,644 | 27% |
| Accrued interest receivable | 2,566,984 | 27 | 3,466,404 | 31 |
| Income tax asset, net current and deferred | 1,750,424 | 18 | 1,661,039 | 15 |
| APG purchased paper related receivables and real estate owned | 286,108 | 3 | 1,222,345 | 11 |
| Benefit and insurance-related investments | 472,079 | 5 | 472,899 | 4 |
| Fixed assets, net | 322,481 | 3 | 313,059 | 3 |
| Accounts receivable — general | 807,086 | 9 | 712,854 | 6 |
| Other | 511,500 | 6 | 278,533 | 3 |
| Total | $ 9,500,358 | 100% | $ 11,140,777 | 100% |

The "Derivatives at fair value" line in the above table represents the fair value of the Company's derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At December 31, 2009 and 2008, these balances included $3.4 billion and $3.6 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of December 31, 2009 and 2008, the cumulative mark-to-market adjustment to the hedged debt was $(3.4) billion and $(3.4) billion, respectively.

**11. Stockholders' Equity**

***Preferred Stock***

At December 31, 2009, the Company had outstanding 3.3 million shares of 6.97 percent Cumulative Redeemable Preferred Stock, Series A (the "Series A Preferred Stock") and 4.0 million shares of Floating-Rate Non-Cumulative Preferred Stock, Series B (the "Series B Preferred Stock"). Neither series has a maturity date but can be redeemed at the Company's option beginning November 16, 2009 for Series A Preferred Stock, and on any dividend payment date on or after June 15, 2010 for Series B Preferred Stock. Redemption would include any accrued and unpaid dividends up to the redemption date. The shares have no preemptive or conversion rights and are not convertible into or exchangeable for any of the Company's other securities or

**11. Stockholders' Equity (Continued)**

property. Dividends on both series are not mandatory and are paid quarterly, when, as, and if declared by the Board of Directors. Holders of Series A Preferred Stock are entitled to receive cumulative, quarterly cash dividends at the annual rate of $3.485 per share. Holders of Series B Preferred Stock are entitled to receive quarterly dividends based on 3-month LIBOR plus 70 basis points per annum in arrears, on and until June 15, 2011, increasing to 3-month LIBOR plus 170 basis points per annum in arrears after and including the period beginning on June 15, 2011. Upon liquidation or dissolution of the Company, holders of the Series A and Series B Preferred Stock are entitled to receive $50 and $100 per share, respectively, plus an amount equal to accrued and unpaid dividends for the then current quarterly dividend period, if any, pro rata, and before any distribution of assets are made to holders of the Company's common stock.

On December 31, 2009, the Company had outstanding 810,000 shares of 7.25 percent Mandatory Convertible Preferred Stock, Series C (the "Series C Preferred Stock"). The Series C Preferred Stock was issued on December 31, 2007, and resulted in net proceeds of approximately $1.0 billion. An additional 150,000 shares were issued on January 9, 2008, as a result of the underwriters exercising their over-allotment option, and resulted in net proceeds of $145.5 million. Each share of Series C Preferred Stock has a $1,000 liquidation preference and is subject to mandatory conversion on December 15, 2010. On the mandatory conversion date, each share of the Series C Preferred Stock will automatically convert into shares of the Company's common stock based on a conversion rate calculated using the average of the closing prices per share of the Company's common stock during the 20 consecutive trading day period ending on the third trading day immediately preceding the mandatory conversion date. If the applicable market value on the mandatory conversion date is (i) greater than $23.97, the conversion rate is 41.7188 shares of the Company's common stock per share of Series C Preferred Stock, (ii) less than $19.65, the conversion rate is 50.8906 shares of the Company's common stock per share of Series C Preferred Stock, or (iii) equal to or less than $23.97 but greater than or equal to $19.65, the conversion rate is $1,000 divided by the applicable market value, which is between 41.7188 shares and 50.8906 shares of the Company's common stock per share of Series C Preferred Stock. At any time prior to December 15, 2010, the holder may elect optional conversion in whole or in part at the minimum conversion rate of 41.7188 shares of the Company's common stock per share of Series C Preferred Stock. Series C Preferred Stock is not redeemable. Dividends are not mandatory and are paid quarterly, when, as, and if declared by the Board of Directors. Holders of Series C Preferred Stock are entitled to receive cumulative, quarterly cash dividends at the annual rate of 7.25 percent per share.

During 2009, the Company converted $339 million of its Series C Preferred Stock to common stock. As part of this conversion, the Company delivered to the holders of the preferred stock: (1) approximately 17 million shares (the number of common shares they would most likely receive if the preferred stock they held mandatorily converted to common shares in the fourth quarter of 2010) plus (2) a discounted amount of the preferred stock dividends the holders of the preferred stock would have received if they held the preferred stock through the mandatory conversion date. The accounting treatment for this conversion resulted in additional expense recorded as part of preferred stock dividends for the year of approximately $53 million.

***Common Stock***

The Company's shareholders have authorized the issuance of 1.1 billion shares of common stock (par value of $.20). At December 31, 2009, 485 million shares were issued and outstanding and 77 million shares were unissued but encumbered for outstanding Series C Preferred Stock, outstanding stock options for employee compensation, and remaining authority for stock-based compensation plans. The stock-based compensation plans are described in Note 13, "Stock-Based Compensation Plans and Arrangements."

On December 31, 2007, the Company issued 101,781,170 shares of its common stock at a price of $19.65 per share. Net proceeds from the sale were approximately $1.9 billion. The Company used

**11. Stockholders' Equity (Continued)**

approximately $2.0 billion of the net proceeds from the sale of Series C Preferred Stock and the sale of its common stock to settle its outstanding equity forward contract (see "*Common Stock Repurchase Program and Equity Forward Contracts*" below). The remaining proceeds were used for general corporate purposes. The Company issued 9,781,170 shares of the 102 million share offering from its treasury stock. These shares were removed from treasury stock at an average cost of $43.13, resulting in a $422 million decrease to the balance of treasury stock with an offsetting $235 million decrease to retained earnings.

***Common Stock Repurchase Program and Equity Forward Contracts***

The Company has historically repurchased its common stock through both open market purchases and settlement of equity forward contracts. Beginning on November 29, 2007, the Company amended or closed out certain equity forward contracts. On December 19, 2007, the Company entered into a series of transactions with its equity forward counterparties and Citibank, N.A. ("Citibank") to assign all of its remaining equity forward contracts, covering 44,039,890 shares, to Citibank. In connection with the assignment of the equity forward contracts, the Company and Citibank amended the terms of the equity forward contract to eliminate all stock price triggers (which had previously allowed the counterparty to terminate the contracts prior to their scheduled maturity date) and termination events based on the Company's credit ratings. The strike price of the equity forward contract on December 19, 2007, was $45.25 with a maturity date of February 22, 2008. The new Citibank equity forward contract was 100 percent collateralized with cash. On December 31, 2007, the Company and Citibank agreed to physically settle the contract and the Company paid Citibank approximately $1.1 billion, the difference between the contract purchase price and the previous market closing price on the 44,039,890 shares. This effectively changed the characteristics of the contract so it no longer was a derivative accounted for under ASC 815 and instead was a liability (recorded at the present value of the repurchase price) under ASC 480. Consequently, the common shares outstanding and shareholders' equity on the Company's year-end balance sheet reflect the shares issued in the public offerings and the physical settlement of the equity forward contract. As of December 31, 2007, the 44 million shares under this equity forward contract are reflected in treasury stock. The Company paid Citibank the remaining balance of approximately $0.9 billion due under the contract on January 9, 2008. The Company has no outstanding equity forward positions outstanding after the contract settlement on January 9, 2008.

**11. Stockholders' Equity (Continued)**

The following table summarizes the Company's common share repurchases and issuances for the years ended December 31, 2009, 2008 and 2007. Equity forward activity for the year ended December 31, 2007 is also reported.

| (Shares in millions) | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| Common shares repurchased: | | | |
| Open market | — | — | 1.8 |
| Equity forward contracts | — | — | 4.2 |
| Equity forward contracts agreed to be settled(1) | — | — | 44.0 |
| Benefit plans(2) | .3 | 1.0 | 3.3 |
| Total shares repurchased | .3 | 1.0 | 53.3 |
| Average purchase price per share | $ 20.29 | $ 24.51 | $ 44.59 |
| Common shares issued | 17.8 | 1.9 | 109.2 |
| Equity forward contracts: | | | |
| Outstanding at beginning of period | — | — | 48.2 |
| New contracts | — | — | — |
| Settlements | — | — | (4.2) |
| Agreed to be settled(1) | — | — | (44.0) |
| Outstanding at end of period | — | — | — |
| Authority remaining at end of period for repurchases | 38.8 | 38.8 | 38.8 |

(1) On December 31, 2007, the Company and Citibank agreed to physically settle the contract as detailed above. Consequently, the common shares outstanding and shareholders' equity on the Company's year-end balance sheet reflect the physical settlement of the equity forward contract. At December 31, 2007, the 44 million shares under this equity forward contract were reflected in treasury stock.

(2) Shares withheld from stock option exercises and vesting of restricted stock for employees' tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

The closing price of the Company's common stock on December 31, 2009 was $11.27.

**11. Stockholders' Equity (Continued)**

***Accumulated Other Comprehensive Income (Loss)***

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on investments, unrealized gains and losses on derivatives, and defined benefit pension plans. The following table presents the cumulative balances of the components of other comprehensive income for the years ended December 31, 2009, 2008 and 2007.

| | December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Net unrealized gains (losses) on investments[1] | $ 1,629 | $ (1,243) | $ 238,772 |
| Net unrealized (losses) on derivatives[2] | (53,899) | (93,986) | (22,574) |
| Defined benefit pension plans: | | | |
| Net gain | 11,445 | 18,753 | 20,166 |
| Total defined benefit pension plans[3] | 11,445 | 18,753 | 20,166 |
| Total accumulated other comprehensive income | $ (40,825) | $ (76,476) | $ 236,364 |

(1) Net of tax expense of $901 as of December 31, 2009, tax benefit of $750 as of December 31, 2008, and tax expense of $125,473 as of December 31, 2007.

(2) Net of tax benefit of $31,129, $53,419 and $12,682 as of December 31, 2009, 2008 and 2007, respectively.

(3) Net of tax expense of $6,780, $10,967 and $11,677 as of December 31, 2009, 2008 and 2007, respectively.

## 12. Earnings (Loss) per Common Share

Basic earnings (loss) per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Numerator:** | | | |
| Net income (loss) from continuing operations attributable to common stock | $ 335,992 | $ (180,613) | $ (939,815) |
| Adjusted for dividends of Series C Preferred Stock[1] | — | — | — |
| Net income (loss) from continuing operations attributable to common stock, adjusted | 335,992 | (180,613) | (939,815) |
| Net income (loss) from discontinued operations | (157,690) | (143,219) | 6,276 |
| Net income (loss) attributable to common stock | $ 178,302 | $ (323,832) | $ (933,539) |
| **Denominator *(shares in thousands):*** | | | |
| Weighted average shares used to compute basic EPS | 470,858 | 466,642 | 412,233 |
| Effect of dilutive securities: | | | |
| Dilutive effect of Series C Preferred Stock[1] | — | — | — |
| Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units, Employee Stock Purchase Plan ("ESPP") and equity forwards[2] | 726 | — | — |
| Dilutive potential common shares[3] | 726 | — | — |
| Weighted average shares used to compute diluted EPS | 471,584 | 466,642 | 412,233 |
| **Basic earnings (loss) per common share:** | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) |
| Discontinued operations | (.33) | (.30) | .02 |
| Total | $ .38 | $ (.69) | $ (2.26) |
| **Diluted earnings (loss) per common share:** | | | |
| Continuing operations | $ .71 | $ (.39) | $ (2.28) |
| Discontinued operations | (.33) | (.30) | .02 |
| Total | $ .38 | $ (.69) | $ (2.26) |

(1) The Company's 7.25 percent Mandatory Convertible Preferred Stock Series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between approximately 34 million and 41 million shares of common stock, depending upon the Company's stock price at that time. These instruments were anti-dilutive for the years ended December 31, 2009, 2008 and 2007.

(2) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, non-vested deferred compensation and restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method, and equity forward contracts determined by the reverse treasury stock method. The Company settled all of its outstanding equity forward contracts in January 2008.

(3) For the years ended December 31, 2009, 2008 and 2007, stock options covering approximately 42 million, 38 million and 37 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

## 13. Stock-Based Compensation Plans and Arrangements

As of December 31, 2009, the Company has two active stock-based compensation plans that provide for grants of stock, stock options, restricted stock and restricted stock units to its employees and non-employee directors. The Company also maintains the Employee Stock Purchase Plan (the "ESPP"). Shares issued under these stock-based compensation plans may be either shares reacquired by the Company or shares that are

**13. Stock-Based Compensation Plans and Arrangements (Continued)**

authorized but unissued. The Company also makes grants of stock-based awards under individually negotiated arrangements.

The SLM 2009-2012 Incentive Plan was approved by shareholders on May 22, 2009, and expires on May 22, 2012. At December 31, 2009, 12.1 million shares were authorized to be issued from this plan.

The SLM Corporation Directors Equity Plan, under which stock options and restricted stock are granted to non-employee members of the board of directors, was approved on May 22, 2009, and expires on May 22, 2012. At December 31, 2009, 1 million shares were authorized to be issued from this plan. The Company's non-employee directors are considered employees under the provisions of ASC 718.

From January 1, 2007 through May 21, 2009, the Company granted stock options and restricted stock to its employees and non-employee directors under the SLM Corporation Incentive Plan and the Directors Stock Plan.

The total stock-based compensation cost recognized in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007 was $51 million, $86 million, and $75 million, respectively. The related income tax benefit for the years ended December 31, 2009, 2008 and 2007 was $19 million, $32 million and $28 million, respectively. As of December 31, 2009, there was $36 million of total unrecognized compensation cost related to stock-based compensation programs, which is expected to be recognized over a weighted average period of 2.1 years.

***Stock Options***

The maximum term for stock options is 10 years and the exercise price must be equal to or greater than the market price of the Company's common stock on the grant date. The Company has granted time-vested, price-vested and performance-vested options to its employees and non-employee directors. Time-vested options granted to non-management employees vest one-half in 18 months from grant date and the second one-half in 36 months from grant date. Time-vested options granted to management employees vest one-third per year for three years. Price-vested options granted to management employees vest upon the Company's common stock price reaching a targeted closing price for a set number of days, with a cliff vesting on the eighth anniversary of their grant date. Price-vested options granted to non-employee directors vest upon the Company's common stock price reaching a targeted closing price for a set number of days or the director's election to the Board, whichever occurs later, with a cliff vesting on the fifth anniversary of their grant date. Performance-vested options granted to senior management employees vest one-third per year for three years based on earnings-related performance targets.

The fair values of the options granted in the years ended December 31, 2009, 2008 and 2007 were estimated as of the grant date using a Black-Scholes option pricing model with the following weighted average assumptions:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Risk-free interest rate | 1.51% | 2.50% | 4.88% |
| Expected volatility | 80% | 44% | 21% |
| Expected dividend rate | 0.00% | 0.00% | 2.20% |
| Expected life of the option | 3.5 years | 3.3 years | 3.2 years |

The expected life of the options is based on observed historical exercise patterns. Groups of employees (including non-employee directors) that have received similar option grant terms are considered separately for

**13. Stock-Based Compensation Plans and Arrangements (Continued)**

valuation purposes. The expected volatility is based on implied volatility from publicly-traded options on the Company's stock at the grant date and historical volatility of the Company's stock consistent with the expected life of the option. The risk-free interest rate is based on the U.S. Treasury spot rate at the grant date consistent with the expected life of the option. The dividend yield is based on the projected annual dividend payment per share based on the dividend amount at the grant date, divided by the stock price at the grant date.

As of December 31, 2009, there was $32 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes stock option activity for the year ended December 31, 2009.

| | Number of Options | Weighted Average Exercise Price per Share | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Outstanding at December 31, 2008 | 38,804,704 | $ 33.90 | | |
| Granted | 9,312,700 | 10.59 | | |
| Exercised | (62,600) | 10.60 | | |
| Canceled | (4,760,084) | 31.47 | | |
| Outstanding at December 31, 2009(1) | 43,294,720 | $ 28.77 | 6.13 yrs | $ — |
| Exercisable at December 31, 2009 | 24,225,317 | $ 34.60 | 4.59 yrs | $ — |

(1) Includes gross number of net-settled options awarded. Options granted in 2009 were granted as net-settled options. Upon exercise of a net-settled option, employees are entitled to receive the after-tax spread shares only. The spread shares equal the gross number of options granted less shares for the option cost. Shares for the option cost equal the option price multiplied by the number of gross options exercised divided by the fair market value of SLM common stock at the time of exercise.

The weighted average fair value of options granted was $5.82, $6.93 and $7.89 for the years ended December 31, 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised was $.1 million, $.8 million and $140 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Cash received from option exercises was $.1 million for the year ended December 31, 2009. The actual tax benefit realized for the tax deductions from option exercises totaled $.02 million for the year ended December 31, 2009.

***Restricted Stock***

Restricted stock vests over a minimum of a 12-month performance period, and generally vests between one and three years based on earnings-related performance vesting criteria being met. Non-vested restricted stock granted prior to January 25, 2007 is entitled to dividend credits; non-vested restricted stock granted on or after January 25, 2007 is not.

The fair value of restricted stock awards is determined on the grant date based on the Company's stock price and is amortized to compensation cost on a straight-line basis over the related vesting periods. As of December 31, 2009, there was $3 million of unrecognized compensation cost related to restricted stock, which is expected to be recognized over a weighted average period of 1.6 years.

**13. Stock-Based Compensation Plans and Arrangements (Continued)**

The following table summarizes restricted stock activity for the year ended December 31, 2009.

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2008 | 754,546 | $ 26.99 |
| Granted | 425,400 | 7.92 |
| Vested | (300,396) | 28.81 |
| Canceled | (34,970) | 34.05 |
| Non-vested at December 31, 2009 | 844,580 | $ 16.45 |

The total fair value of shares that vested during the years ended December 31, 2009, 2008 and 2007, was $9 million, $11 million and $8 million, respectively.

***Restricted Stock Units***

Restricted stock units ("RSUs") are stock awards granted to employees that entitle the holder to shares of the Company's common stock as the award vests. The fair value of each grant is determined on the grant date based on the Company's stock price and is amortized to compensation cost on a straight-line basis over the related vesting periods, which are generally between one and three years based on earnings-related performance vesting criteria being met. As of December 31, 2009, there was $.3 million of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted average period of 2.0 years.

The following table summarizes RSU activity for the year ended December 31, 2009.

| | Number of RSUs | Weighted Average Grant Date Fair Value |
|---|---|---|
| Outstanding at December 31, 2008 | 15,500 | $ 11.58 |
| Granted | 64,000 | 11.21 |
| Canceled | (500) | 11.21 |
| Vested and converted to common stock | (3,250) | 16.22 |
| Outstanding at December 31, 2009 | 75,750 | $ 11.07 |

The total fair value of RSUs that vested and converted to common stock during the year ended December 31, 2009 was $.1 million. RSUs with a fair value of $26 million vested during the year ended December 31, 2007 but weren't converted to common stock until 2008.

***Employee Stock Purchase Plan***

Under the ESPP, employees can purchase shares of the Company's common stock at the end of a 12-month offering period at a price equal to the share price at the beginning of the 12-month period, less 15 percent, up to a maximum purchase price of $7,500 plus accrued interest. The purchase price for each offering is determined at the beginning of the offering period.

**13. Stock-Based Compensation Plans and Arrangements (Continued)**

The fair values of the stock purchase rights of the ESPP offerings in the years ended December 31, 2009, 2008 and 2007 were calculated using a Black-Scholes option pricing model with the following weighted average assumptions.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Risk-free interest rate | .53% | 1.91% | 4.97% |
| Expected volatility | 103% | 58% | 23% |
| Expected dividend rate | 0.00% | 0.00% | 2.19% |
| Expected life of the option | 1 year | 1 year | 2 years |

The expected volatility is based on implied volatility from publicly-traded options on the Company's stock at the grant date and historical volatility of the Company's stock consistent with the expected life. The risk-free interest rate is based on the U.S. Treasury spot rate at the grant date consistent with the expected life. The dividend yield is based on the projected annual dividend payment per share based on the current dividend amount at the grant date divided by the stock price at the grant date.

The weighted average fair value of the stock purchase rights of the ESPP offerings for the years ended December 31, 2009, 2008 and 2007 was $4.88, $6.57 and $10.41, respectively. The fair values for 2009 and 2008 were amortized to compensation cost on a straight-line basis over a one-year vesting period. The fair value for 2007 was amortized to compensation cost on a straight-line basis over a two-year vesting period. As of December 31, 2009, there was $.1 million of unrecognized compensation cost related to the ESPP, which is expected to be recognized in January 2010.

During the year ended December 31, 2007, plan participants purchased 215,058 shares of the Company's common stock. No shares were purchased in 2008 or 2009.

**14. Other Income**

The following table summarizes the components of "other income" in the consolidated statements of income for the years ended December 31, 2009, 2008 and 2007.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Gains on debt repurchases | $ 536,190 | $ 64,477 | $ — |
| Late fees and forbearance fees | 146,038 | 142,958 | 135,627 |
| Asset servicing and other transaction fees | 112,162 | 108,292 | 110,215 |
| Loan servicing fees | 53,013 | 26,458 | 26,094 |
| Foreign currency translation gains (losses), net | 22,956 | (30,793) | (2,952) |
| Other | 58,791 | 80,684 | 116,091 |
| Total other income | $ 929,150 | $ 392,076 | $ 385,075 |

***Gains on Debt Repurchases***

The Company began actively repurchasing its outstanding debt in the second quarter of 2008. The Company repurchased $3.4 billion and $1.9 billion face amount of its senior unsecured notes for the years ended December 31, 2009 and 2008, respectively. Since the second quarter of 2008, the Company repurchased

**14. Other Income (Continued)**

$5.3 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2016.

***Late Fees and Forbearance Fees***

The Company recognizes late fees and forbearance fees on student loans when earned according to the contractual provisions of the promissory notes, as well as the Company's expectation of collectability.

***Asset Servicing and Other Transaction Fees***

The Company's Upromise subsidiary has a number of programs that encourage consumers to save for the cost of college education. Upromise has established a consumer savings network which is designed to promote college savings by consumers who are members of this program by encouraging them to purchase goods and services from the companies that participate in the program ("Participating Companies"). Participating Companies generally pay Upromise transaction fees based on member purchase volume, either online or in stores depending on the contractual arrangement with the Participating Company. Typically, a percentage of the purchase price of the consumer members' eligible purchases with Participating Companies is set aside in an account maintained by Upromise on the behalf of its members. The Company recognizes transaction fee revenue in accordance with ASC 605, "Revenue Recognition," as marketing services focused on increasing member purchase volume are rendered based on contractually determined rates and member purchase volumes.

Upromise, through its wholly owned subsidiaries, UII, a registered broker-dealer, and UIA, a registered investment advisor, provides program management, transfer and servicing agent services, and administration services for various 529 college-savings plans. The fees associated with the provision of these services are recognized in accordance with ASC 605 based on contractually determined rates which are a combination of fees based on the net asset value of the investments within the 529 college-savings plans and the number of accounts for which UII and UIA provide record-keeping and account servicing functions.

**15. Restructuring Activities**

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

**15. Restructuring Activities (Continued)**

The following table summarizes the restructuring expenses incurred to date.

| | Years Ended December 31, 2009 | 2008 | 2007 | Cumulative Expense as of December 31, 2009 |
|---|---|---|---|---|
| Severance costs | $ 11,196 | $ 62,599 | $ 22,505 | $ 96,300 |
| Lease and other contract termination costs | 890 | 9,517 | — | 10,407 |
| Exit and other costs | 1,681 | 11,400 | — | 13,081 |
| Total restructuring from continuing operations(1) | 13,767 | 83,516 | 22,505 | 119,788 |
| Total restructuring from discontinued operations | 8,462 | 259 | — | 8,721 |
| Total | $ 22,229 | $ 83,775 | $ 22,505 | $ 128,509 |

(1) Aggregate restructuring expenses from continuing operations incurred across the Company's reportable segments during the years ended December 31, 2009, 2008 and 2007 totaled $10 million, $49 million and $19 million, respectively, in the Company's Lending reportable segment; $1 million, $11 million and $2 million, respectively, in the Company's APG reportable segment; and $3 million, $23 million and $2 million, respectively, in the Company's Corporate and Other reportable segment.

Since its inception in the fourth quarter of 2007 through December 31, 2009, cumulative severance costs were incurred in conjunction with aggregate completed and planned position eliminations of approximately 2,900 positions. Position eliminations were across all of the Company's reportable segments, ranging from senior executives to servicing center personnel. Lease and other contract termination costs and exit and other costs incurred during 2009 and 2008 related primarily to terminated or abandoned facility leases and consulting costs incurred in conjunction with various cost reduction and exit strategies.

The following table summarizes the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet.

| | Severance Costs | Lease and Other Contract Termination Costs | Exit and Other Costs | Total |
|---|---|---|---|---|
| **Balance at December 31, 2007** | $ 18,329 | $ — | $ — | $ 18,329 |
| Net accruals from continuing operations | 62,599 | 9,517 | 11,400 | 83,516 |
| Net accruals from discontinued operations | 259 | — | — | 259 |
| Cash paid | (66,063) | (6,719) | (11,340) | (84,122) |
| **Balance at December 31, 2008** | 15,124 | 2,798 | 60 | 17,982 |
| Net accruals from continuing operations | 11,196 | 890 | 1,681 | 13,767 |
| Net accruals from discontinued operations | 6,562 | 1,900 | — | 8,462 |
| Cash paid | (23,687) | (1,807) | (1,741) | (27,235) |
| **Balance at December 31, 2009** | $ 9,195 | $ 3,781 | $ — | $ 12,976 |

**15. Restructuring Activities (Continued)**

**16. Fair Value Measurements**

The Company uses estimates of fair value in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

- In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;
- In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders' equity;
- In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and
- In the notes to the financial statements.

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company's policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company's liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model's output with market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

The Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

- Level 1 — Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices.
- Level 2 — Inputs from active markets, other than quoted prices for identical instruments, are used to determine fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued.
- Level 3 — Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

***Student Loans***

The Company's FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale; however, the fair value is disclosed in compliance with GAAP. FFELP loans classified as held-for-sale are those which the Company has the ability and intent to sell under various ED loan purchase programs. In these instances, the FFELP loans are valued using the committed sales price under the programs. For all other FFELP loans and Private Education Loans, fair value was determined by modeling loan cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, required return on equity, and expected

**16. Fair Value Measurements (Continued)**

Repayment Borrower Benefits to be earned. In addition, the Floor Income component of the Company's FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants.

***Other Loans***

Facilities financings, and mortgage and consumer loans held for investment are accounted for at cost with fair values being disclosed. Mortgage loans held for sale are accounted for at lower of cost or market. Fair value was determined with discounted cash flow models using the stated terms of the loans and observable market yield curves. In addition, adjustments and assumptions were made for credit spreads, liquidity, prepayment speeds and defaults. A number of significant inputs into the models are not observable.

***Cash and Investments (Including "Restricted")***

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. Investments are classified as trading or available-for-sale are carried at fair value in the financial statements. Investments in U.S. Treasury securities and securities issued by U.S. government agencies that are traded in active markets were valued using observable market prices. Other investments for which observable prices from active markets are not available were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and, when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. These investments consist of mostly overnight/weekly maturity instruments with highly-rated counterparties.

***Borrowings***

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship. When the hedged risk is the benchmark interest rate and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Additionally, foreign currency denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Credit adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Credit adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets.

***Derivative Financial Instruments***

All derivatives are accounted for at fair value in the financial statements. The fair values of a majority of derivative financial instruments, including swaps and floors, were determined by standard derivative pricing and option models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates and volatilities from active markets. In some cases, management utilized internally developed amortization streams to model the fair value for swaps whose notional amounts contractually amortizes with securitized asset balances. Complex structured derivatives or derivatives that trade in less liquid

**16. Fair Value Measurements (Continued)**

markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty, including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, the Company fully collateralizes the exposure, minimizing the adjustment necessary to the derivative valuations for the Company's credit risk. While trusts that contain derivatives are not required to post collateral to counterparties, the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty's exposure to the trusts. It is the Company's policy to compare its derivative fair values to those received by its counterparties in order to validate the model's outputs. The carrying value of borrowings designated as the hedged item in an ASC 815 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

During 2008 and 2009, the bid/ask spread widened significantly for derivatives indexed to certain interest rate indices as a result of market inactivity. As such, significant adjustments for the bid/ask spread and unobservable inputs were used in the fair value calculation resulting in these instruments being classified as level 3 in the fair value hierarchy. Additionally, significant unobservable inputs were used to model the amortizing notional of some swaps tied to securitized asset balances and, as such, these derivatives have been classified as level 3 in the fair value hierarchy. These swaps were transferred into level 3 during the first quarter of 2009 due to a change in the assumption regarding successful remarketing and significant unobservable inputs used to model notional amortizations.

***Residual Interests***

The Residual Interests are carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value is calculated using discounted cash flow models and option models. Observable inputs from active markets are used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds' costs of funds and discount rates are used in determining the fair value and require significant judgment. These unobservable inputs are internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back tests its prepayment speed, default rates and costs of funds assumptions by comparing those assumptions to actuals experienced. Additionally, the Company uses non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interests. Market transactions are not available to validate the models' results. An analysis of the impact of changes to significant inputs is addressed further in Note 8, "Student Loan Securitization."

**16. Fair Value Measurements (Continued)**

The following tables summarize the valuation of the Company's financial instruments that are marked-to-market on a recurring basis in the consolidated financial statements as of December 31, 2009 and 2008.

| (Dollars in millions) | Fair Value Measurements on a Recurring Basis as of December 31, 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Counterparty Netting | Total[4] | Cash Collateral | Net |
| **Assets** | | | | | | | |
| Available for sale investments | $ — | $ 1,330 | $ — | $ — | $ 1,330 | $ — | $ 1,330 |
| Retained Interest in off-balance sheet securitized loans | — | — | 1,828 | — | 1,828 | — | 1,828 |
| Derivative instruments[1][2] | — | 2,023 | 1,770 | (1,009) | 2,784 | (1,268) | 1,516 |
| Total assets | $ — | $ 3,353 | $ 3,598 | $ (1,009) | $ 5,942 | $ (1,268) | $ 4,674 |
| **Liabilities[3]** | | | | | | | |
| Derivative instruments[1][2] | $ (2) | $ (1,650) | $ (518) | $ 1,009 | $ (1,161) | $ 636 | $ (525) |
| Total liabilities | $ (2) | $ (1,650) | $ (518) | $ 1,009 | $ (1,161) | $ 636 | $ (525) |

| (Dollars in millions) | Fair Value Measurements on a Recurring Basis as of December 31, 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Counterparty Netting | Total[4] | Cash Collateral | Net |
| **Assets** | | | | | | | |
| Available for sale investments | $ — | $ 899 | $ — | $ — | $ 899 | $ — | $ 899 |
| Retained Interest in off-balance sheet securitized loans | — | — | 2,200 | — | 2,200 | — | 2,200 |
| Derivative instruments[1][2] | — | 4,372 | 236 | (1,594) | 3,014 | (1,624) | 1,390 |
| Total assets | $ — | $ 5,271 | $ 2,436 | $ (1,594) | $ 6,113 | $ (1,624) | $ 4,489 |
| **Liabilities[3]** | | | | | | | |
| Derivative instruments[1][2] | $ (3) | $ (2,007) | $ (577) | $ 1,594 | $ (993) | $ — | $ (993) |
| Total liabilities | $ (3) | $ (2,007) | $ (577) | $ 1,594 | $ (993) | $ — | $ (993) |

(1) Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

(2) Level 1 derivatives include euro-dollar futures contracts. Level 2 derivatives include derivatives indexed to interest rate indices and currencies that are considered liquid. Level 3 derivatives include derivatives indexed to illiquid interest rate indices and derivatives for which significant adjustments were made to observable inputs.

(3) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

(4) As carried on the balance sheet.

At December 31, 2009 and 2008, the Company had $0 and $462 million (fair value), respectively, of financial instruments recorded on its balance sheet at fair value on a non-recurring basis. The 2008 amount related to FFELP Stafford Loans held-for-sale under one of the ED loan purchase programs.

**16. Fair Value Measurements (Continued)**

The following table summarizes the change in balance sheet carrying value associated with Level 3 financial instruments carried at fair value on a recurring basis during the years ended December 31, 2009 and 2008.

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| (Dollars in millions) | Residual Interests | Derivative Instruments | Total | Residual Interests | Derivative Instruments | Total |
| **Balance, beginning of period** | $ 2,200 | $ (341) | $ 1,859 | $ 3,044 | $ (71) | $ 2,973 |
| Total gains/(losses) (realized and unrealized): | | | | | | |
| Included in earnings[1] | 120 | 91 | 211 | 79 | (314) | (235) |
| Included in other comprehensive income | — | — | — | — | — | — |
| Purchases, issuances and settlements | (492) | 434 | (58) | (923) | 35 | (888) |
| Transfers in and/or out of Level 3 | — | 1,068 | 1,068 | — | 9 | 9 |
| **Balance, end of period** | $ 1,828 | $ 1,252 | $ 3,080 | $ 2,200 | $ (341) | $ 1,859 |
| Change in unrealized gains/(losses) relating to instruments still held at the reporting date | $ (330)[2] | $ 439[3] | $ 109 | $ (424)[2] | $ (298)[3] | $ (722) |

(1) "Included in earnings" is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

| | Years Ended December 31, | |
|---|---|---|
| (Dollars in millions) | 2009 | 2008 |
| Servicing and securitization revenue | $ 120 | $ 79 |
| Gains (losses) on derivative and hedging activities, net | 298 | (314) |
| Interest expense | (207) | — |
| Total | $ 211 | $ (235) |

(2) Recorded in "servicing and securitization revenue (loss)" in the consolidated statements of income.

(3) Recorded in "gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

**16. Fair Value Measurements (Continued)**

The following table summarizes the fair values of the Company's financial assets and liabilities, including derivative financial instruments, as of December 31, 2009 and 2008.

| (Dollars in millions) | December 31, 2009 Fair Value | Carrying Value | Difference | December 31, 2008 Fair Value | Carrying Value | Difference |
|---|---|---|---|---|---|---|
| **Earning assets** | | | | | | |
| FFELP loans | $ 119,747 | $ 121,053 | $ (1,306) | $ 107,319 | $ 124,220 | $ (16,901) |
| Private Education Loans | 20,278 | 22,753 | (2,475) | 14,141 | 20,582 | (6,441) |
| Other loans | 219 | 420 | (201) | 619 | 729 | (110) |
| Cash and investments | 13,253 | 13,253 | — | 8,646 | 8,646 | — |
| Total earning assets | 153,497 | 157,479 | (3,982) | 130,725 | 154,177 | (23,452) |
| **Interest-bearing liabilities** | | | | | | |
| Short-term borrowings | 30,988 | 30,897 | (91) | 41,608 | 41,933 | 325 |
| Long-term borrowings | 123,049 | 130,546 | 7,497 | 93,462 | 118,225 | 24,763 |
| Total interest-bearing liabilities | 154,037 | 161,443 | 7,406 | 135,070 | 160,158 | 25,088 |
| **Derivative financial instruments** | | | | | | |
| Floor Income/Cap contracts | (1,234) | (1,234) | — | (1,466) | (1,466) | — |
| Interest rate swaps | 94 | 94 | — | 1,374 | 1,374 | — |
| Cross currency interest rate swaps | 2,783 | 2,783 | — | 2,116 | 2,116 | — |
| Futures contracts | (2) | (2) | — | (3) | (3) | — |
| Other | (18) | (18) | — | — | — | — |
| **Other** | | | | | | |
| Residual interest in securitized assets | 1,828 | 1,828 | — | 2,200 | 2,200 | — |
| **Excess of net asset fair value over carrying value** | | | $ 3,424 | | | $ 1,636 |

**17. Commitments, Contingencies and Guarantees**

The Company offers a line of credit to certain financial institutions and other institutions in the higher education community for the purpose of originating student loans. In connection with these agreements, the Company also enters into a participation agreement with the institution to participate in the loans as they are originated. In the event that a line of credit is drawn upon, the loan is collateralized by underlying student loans and is usually participated in on the same day. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment, the Company does not participate in the loan and the counterparty subsequently fails to perform according to the terms of its contract with the Company. At December 31, 2009 and 2008, the contractual amount of these financial obligations was $850 million and $1.0 billion, respectively. There were no outstanding draws at December 31, 2009. All outstanding commitments at December 31, 2009 mature in 2010.

In addition, the Company maintains forward contracts to purchase loans from its lending partners at contractual prices. These contracts typically have a maximum amount the Company is committed to buy, but

**17. Commitments, Contingencies and Guarantees (Continued)**

lack a fixed or determinable amount as it ultimately is based on the lending partner's origination activity. FFELP forward purchase contracts typically contain language relieving the Company of most of its responsibilities under the contract due to, among other things, changes in student loan legislation. These commitments are not accounted for as derivatives under ASC 815 as they do not meet the definition of a derivative due to the lack of a fixed and determinable purchase amount. At December 31, 2009, there were $1.3 billion of originated loans (FFELP and Private Education Loans) in the pipeline that the Company is committed to purchase.

***Investor Litigation***

On January 31, 2008, a putative class action lawsuit was filed against the Company and certain officers in the U.S. District Court for the Southern District of New York. This case and other actions arising out of the same circumstances and alleged acts have been consolidated and are now identified as In Re SLM Corporation Securities Litigation. The case purports to be brought on behalf of those who acquired common stock of the Company between January 18, 2007 and January 23, 2008 (the "Securities Class Period"). The complaint alleges that the Company and certain officers violated federal securities laws by issuing a series of materially false and misleading statements and that the statements had the effect of artificially inflating the market price for the Company's securities. The complaint alleges that defendants caused the Company's results for year-end 2006 and for the first quarter of 2007 to be materially misstated because the Company failed to adequately provide for loan losses, which overstated the Company's net income, and that the Company failed to adequately disclose allegedly known trends and uncertainties with respect to its non-traditional loan portfolio. On July 23, 2008, the court appointed Westchester Capital Management ("Westchester") Lead Plaintiff. On December 8, 2008, Lead Plaintiff filed a consolidated amended complaint. In addition to the prior allegations, the consolidated amended complaint alleges that the Company understated loan delinquencies and loan loss reserves by promoting loan forbearances. On December 19, 2008, and December 31, 2008, two rejected lead plaintiffs filed a challenge to Westchester as Lead Plaintiff. On April 1, 2009, the court named a new Lead Plaintiff, SLM Venture, and Westchester appealed to the Second Circuit Court of Appeals. On September 3, 2009, Lead Plaintiffs filed a Second Amended Consolidated Complaint on largely the same allegations as the Consolidated Amended Complaint, but dropped one of the three senior officers as a defendant. On October 1, 2009, the Second Circuit Court of Appeals denied Westchester's *Writ of Mandamus*, thereby deciding the Lead Plaintiff question in favor of SLM Venture. On December 11, 2009, Defendants filed a Motion to Dismiss the Second Amended Consolidated Complaint. This Motion is pending. Lead Plaintiff seeks unspecified compensatory damages, attorneys' fees, costs, and equitable and injunctive relief.

A similar case is pending against the Company, certain officers, retirement plan fiduciaries, and the Board of Directors, In Re SLM Corporation ERISA Litigation, also in the U.S. District Court for the Southern District of New York. The proposed class consists of participants in or beneficiaries of the Sallie Mae 401(K) Retirement Savings Plan ("401K Plan") between January 18, 2007 and "the present" whose accounts included investments in Sallie Mae stock ("401K Class Period"). The complaint alleges breaches of fiduciary duties and prohibited transactions in violation of the Employee Retirement Income Security Act arising out of alleged false and misleading public statements regarding the Company's business made during the 401(K) Class Period and investments in the Company's common stock by participants in the 401(K) Plan. On December 15, 2008, Plaintiffs filed a Consolidated Class Action Complaint and a Second Consolidated Amended Complaint on September 10, 2009. On November 10, 2009, Defendants filed a Motion to Dismiss the matter on all counts. This Motion is pending. The plaintiffs seek unspecified damages, attorneys' fees, costs, and equitable and injunctive relief.

## 17. Commitments, Contingencies and Guarantees (Continued)

***OIG Investigation***

On August 3, 2009, the Company received the final audit report of ED's Office of the Inspector General ("OIG") related to the Company's billing practices for special allowance payments. Among other things, the OIG recommended that ED instruct the Company to return approximately $22 million in alleged special allowance overpayments. The Company continues to believe that its practices were consistent with longstanding ED guidance and all applicable rules and regulations and intends to continue disputing these findings. The Company provided its response to the Secretary on October 2, 2009. The OIG has audited other industry participants with regard to special allowance payments for loans funded by tax exempt obligations and, in certain cases, the Secretary of ED has disagreed with the OIG's recommendations.

***Contingencies***

In the ordinary course of business, the Company and its subsidiaries are routinely defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against the Company and its subsidiaries.

In the ordinary course of business, the Company and its subsidiaries are subject to regulatory examinations, information gathering requests, inquiries and investigations. In connection with formal and informal inquiries in these cases, the Company and its subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of the Company's regulated activities.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, the Company cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with ASC 450, "Contingencies," the Company is required to establish reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

Based on current knowledge, reserves have not been established for any pending litigation or regulatory matters. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on the consolidated financial position or liquidity of the Company.

## 18. Benefit Plans

***Pension Plans***

As of December 31, 2009, the Company's qualified and supplemental pension plans (the "Pension Plans") are frozen with respect to new entrants and participants with less than ten years of service on June 30, 2004. No further benefits will accrue with respect to these participants under the Pension Plans, other than interest accruals on cash balance accounts. Participants with less than five years of service as of June 30, 2004 were fully vested.

For those participants who continued to accrue benefits under the Pension Plans until July 1, 2009, benefits were credited using a cash balance formula. Under the formula, each participant has an account, for

**18. Benefit Plans (Continued)**

record keeping purposes only, to which credits were allocated each payroll period based on a percentage of the participant's compensation for the current pay period. The applicable percentage was 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.

The Company does not provide other postretirement benefits such as postretirement health care or postretirement life insurance benefits.

**18. Benefit Plans (Continued)**

**Qualified and Nonqualified Plans**

The following tables provide a reconciliation of the changes in the qualified and nonqualified plan benefit obligations, fair value of assets, and other comprehensive income for the years ended December 31, 2009 and 2008, respectively, based on a December 31 measurement date:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Change in benefit obligation** | | |
| Projected benefit obligation at beginning of year | $ 206,887 | $ 227,651 |
| Service cost | 3,231 | 6,566 |
| Interest cost | 12,350 | 12,908 |
| Actuarial (gain)/loss | 2,169 | (4,204) |
| Plan curtailment | — | 114 |
| Plan settlement | — | — |
| Special termination benefits | — | — |
| Benefits paid | (23,771) | (36,148) |
| Projected benefit obligation at end of year | $ 200,866 | $ 206,887 |
| **Change in plan assets** | | |
| Fair value of plan assets at beginning of year | $ 211,780 | $ 230,698 |
| Actual return on plan assets | 4,775 | 12,681 |
| Employer contribution | 4,960 | 5,326 |
| Settlement loss | — | — |
| Benefits paid | (23,771) | (36,148) |
| Administrative payments | (660) | (777) |
| Fair value of plan assets at end of year | $ 197,084 | $ 211,780 |
| Funded status at end of year | $ (3,782) | $ 4,893 |
| **Amounts recognized in the statement of financial position consist of:** | | |
| Noncurrent assets | $ 17,368 | $ 27,402 |
| Current liabilities | (1,877) | (2,895) |
| Noncurrent liabilities | (19,273) | (19,614) |
| Net amount recognized in statement of financial position | $ (3,782) | $ 4,893 |
| **Amounts not yet recognized in net periodic pension cost and included in accumulated other comprehensive income:** | | |
| Prior service cost | $ — | $ — |
| Accumulated gain | 18,224 | 29,720 |
| Accumulated other comprehensive income | $ 18,224 | $ 29,720 |
| **Amounts expected to be reflected in net periodic pension cost during the next fiscal year:** | | |
| Prior service cost | $ — | $ — |
| Accumulated gain | 96 | 1,366 |
| Accumulated other comprehensive income | $ 96 | $ 1,366 |
| **Additional year-end information for plans with accumulated benefit obligations in excess of plan assets:** | | |
| Projected benefit obligation | $ 21,149 | $ 22,509 |
| Accumulated benefit obligation | 21,079 | 22,448 |
| Fair value of plan assets | — | — |

The accumulated benefit obligations of the qualified and nonqualified defined benefit plans were $201 million and $206 million at December 31, 2009 and 2008, respectively. There are no plan assets in the

**18. Benefit Plans (Continued)**

nonqualified plans due to the nature of the plans; the corporate assets used to pay these benefits are included above in employer contributions.

**Components of Net Periodic Pension Cost**

Net periodic pension cost included the following components:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Service cost — benefits earned during the period | $ 3,231 | $ 6,566 | $ 7,100 |
| Interest cost on project benefit obligations | 12,350 | 12,908 | 12,337 |
| Expected return on plan assets | (10,713) | (11,709) | (17,975) |
| Curtailment loss | — | 114 | — |
| Settlement (gain)/loss | (1,362) | (5,074) | 1,265 |
| Special termination benefits | — | — | 912 |
| Net amortization and deferral | (1,367) | (1,447) | (719) |
| Net periodic pension cost (benefit) | $ 2,139 | $ 1,358 | $ 2,920 |

Special accounting is required when lump sum payments exceed the sum of the service and interest cost components, and when the average future working lifetime of employees is significantly curtailed. This special accounting requires an accelerated recognition of unrecognized gains or losses and unrecognized prior service costs, creating adjustments to the pension expense. During the years ended December 31, 2009 and 2008, the Company recorded net settlement gains associated with lump-sum distributions from the plans. In 2008, the Company also recorded a curtailment loss for previously unrecognized losses associated with executive non-qualified benefits. During the year ended December 31, 2007, the Company recorded net settlement losses, including a portion related to employees who were involuntarily terminated in the fourth quarter, associated with lump-sum distributions from the supplemental pension plan. These amounts were recorded in accordance with ASC 715, "Compensation — Retirement Benefits," which requires that settlement losses be recorded once prescribed payment thresholds have been reached.

Amortization of unrecognized net gains or losses are included as a component of net periodic pension cost to the extent that the unrecognized gain or loss exceeds 10 percent of the greater of the projected benefit obligation or the market value of plan assets. Gains or losses not yet includible in pension cost are amortized over the average remaining service life of active participants, which is approximately 8 years.

**Assumptions**

The weighted average assumptions used to determine the projected accumulated benefit obligations are as follows:

| | December 31, | |
|---|---|---|
| | 2009 | 2008 |
| Discount rate | 5.85% | 6.25% |
| Expected return on plan assets | 5.25% | 5.25% |
| Rate of compensation increase | N/A | 4.00% |

**18. Benefit Plans (Continued)**

The weighted average assumptions used to determine the net periodic pension cost are as follows:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| Discount rate | 6.25% | 6.00% |
| Expected return on plan assets | 5.25% | 5.25% |
| Rate of compensation increase | 4.00% | 4.00% |

Management is assisted by third party actuaries in measuring the pension liabilities and expense through the use of various assumptions including discount rate, expected return on plan assets, salary increases, employee turnover rates and mortality assumptions.

The year-end discount rate was selected based on a modeling process intended to match expected cash flows from the plans to a yield curve constructed from a portfolio of non-callable Aa bonds with at least $250 million of outstanding issue. Bonds are eliminated if they have maturities of less than six months or are priced more than two standard errors from the market average.

The return on plan assets is based on the strategic asset allocation of the plan assets and a conservative investment policy intended to match plan liability characteristics and preserve funded status.

There is no rate of compensation assumption at December 31, 2009, for the projected accumulated benefit obligation since benefits no longer accrue to participants subsequent to July 1, 2009.

**Assumption Sensitivity**

Changes in the discount rate and the expected rate of return on plan assets inversely impact expense. If the discount rate increased/decreased by 50 basis points, expense would decrease/increase $.7 million from the amount recorded at December 31, 2009. If the expected long-term rate of return on plan assets increased/decreased by 50 basis points, expense would decrease/increase by $1 million.

**Plan Assets**

The weighted average asset allocations at December 31, 2009 and 2008, by asset category, are as follows:

| | Plan Assets December 31, 2009 | Plan Assets December 31, 2008 |
|---|---|---|
| **Asset Category** | | |
| Fixed income securities | 81 | 73 |
| Cash equivalents | 19 | 27 |
| Total | 100% | 100% |

**Investment Policy and Strategy**

The investment strategy was revised during 2007 with the principle objective of preserving funding status. Based on the current funded status of the plan and the ceasing of benefit accruals effective mid-year 2009, the Investment Committee recommended moving plan assets into fixed income securities with the goal of removing funded status risk with investments that better match the plan liability characteristics. At December 31, 2009, the plan is invested 81 percent in high quality bonds with an average credit rating of approximately AA and 19 percent in cash which is invested in U.S. government securities, the duration of which closely matches that of the traditional and cash balance nature of plan liabilities.

**18. Benefit Plans (Continued)**

**Fair Value Measurements**

The Plan investments, at fair value at December 31, 2009 and 2008 are as follows:

| | Fair value at December 31, 2009 | Quoted prices in active markets (Level 1) | Based on Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Fair value at December 31, 2008 |
|---|---|---|---|---|---|
| Assets measured at fair value on a recurring basis: | | | | | |
| Cash and cash equivalents | $ 37,862,392 | $ — | $ 37,862,392 | $ — | $ 57,206,048 |
| Mutual funds | 159,221,849 | — | 159,221,849 | — | 154,573,651 |
| **Total investments** | $ 197,084,241 | $ — | $ 197,084,241 | $ — | $ 211,779,699 |

**Cash Flows**

The Company did not contribute to its qualified pension plan in 2009 and does not expect to contribute in 2010. There are no plan assets in the nonqualified plans due to the nature of the plans, and benefits are paid from corporate assets when due to the participant. It is estimated that approximately $2 million will be paid in 2010 for these benefits. No plan assets are expected to be returned to the employer during 2010.

**Estimated Future Benefit Payments**

The following qualified and nonqualified plan benefit payments, which reflect future interest credits as appropriate, are expected to be paid:

| | |
|---|---|
| 2010 | $13,007 |
| 2011 | 13,441 |
| 2012 | 14,706 |
| 2013 | 12,033 |
| 2014 | 12,308 |
| 2015 — 2019 | 66,168 |

***401(k) Plans***

The Company maintained two safe harbor 401(k) savings plans as defined contribution plans intended to qualify under section 401(k) of the Internal Revenue Code until they were combined December 31, 2009. The Sallie Mae 401(k) Savings Plan covers substantially all employees of the Company outside of Asset Performance Group hired before August 1, 2007. Effective October 1, 2008, the Company matches up to 100 percent on the first 3 percent of contributions and 50 percent on the next 2 percent of contributions after one year of service, and all eligible employees receive a 1 percent core employer contribution. Prior to October 1, 2008, up to 6 percent of employee contributions were matched 100 percent by the Company after one year of service and certain eligible employees received a 2 percent core employer contribution.

The Sallie Mae 401(k) Retirement Savings Plan covers substantially all employees of Asset Performance Group, and after August 1, 2007, the Retirement Savings Plan covers substantially all new hires of the Company. Effective October 1, 2008, the Company matches up to 100 percent on the first 3 percent of contributions and 50 percent on the next 2 percent of contributions after one year of service, and all eligible

**18. Benefit Plans (Continued)**

employees receive a 1 percent core employer contribution. Between August 1, 2007 and September 30, 2008, the match formula was up to 100 percent on the first 5 percent of contributions after one year of service.

The Company also maintains a non-qualified plan to ensure that designated participants receive benefits not available under the 401(k) Plan due to compensation limits imposed by the Internal Revenue Code.

Total expenses related to the 401(k) plans were $15 million, $21 million and $22 million in 2009, 2008 and 2007, respectively.

**19. Income Taxes**

Reconciliations of the statutory U.S. federal income tax rates to the Company's effective tax rate for continuing operations follow:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| Statutory rate | 35.0% | 35.0% | 35.0% |
| Equity forward contracts | — | — | (110.8) |
| State tax, net of federal benefit | (.3) | 3.7 | (4.1) |
| Capitalized transaction costs | — | 8.6 | (2.5) |
| Unrecognized tax benefits, U.S. federal and state, net of federal benefit | (1.3) | 6.0 | (.2) |
| Corporate owned life insurance | (.4) | 2.4 | 1.3 |
| Other, net | .1 | (1.7) | (1.7) |
| Effective tax rate | 33.1% | 54.0% | (83.0)% |

The effective tax rates for discontinued operations for the years ended December 31, 2009, 2008 and 2007 are 27.4 percent, 38.8 percent, and 39.0 percent, respectively. The effective tax rate varies from the statutory U.S. federal rate of 35 percent primarily due to the establishment of a valuation allowance against tax attributes generated as a result of the sale of the assets in its Purchased Paper — Mortgage/Properties business for the year ended December 31, 2009, and due to the impact of state taxes, net of federal benefit, for the years ended December 31, 2009, 2008 and 2007.

**19. Income Taxes (Continued)**

Income tax expense for the years ended December 31, 2009, 2008, and 2007 consists of:

| | December 31, 2009 | December 31, 2008 | December 31, 2007 |
|---|---|---|---|
| Continuing operations current provision/benefit: | | | |
| Federal | $ 116,323 | $ 403,294 | $ 1,013,342 |
| State | (24,527) | 33,553 | 50,725 |
| Foreign | 398 | 678 | 1,045 |
| Total continuing operations current provision | 92,194 | 437,525 | 1,065,112 |
| Continuing operations deferred provision/(benefit): | | | |
| Federal | 141,038 | (467,919) | (632,029) |
| State | 5,453 | (46,029) | (24,327) |
| Foreign | (321) | (346) | (481) |
| Total continuing operations deferred provision/(benefit) | 146,170 | (514,294) | (656,837) |
| Continuing operations provision for income tax expense/(benefit) | $ 238,364 | $ (76,769) | $ 408,275 |
| Discontinued operations current provision/(benefit): | | | |
| Federal | $ (159,234) | $ (1,885) | $ 13,744 |
| State | (8,886) | (817) | 3,140 |
| Total discontinued operations current provision/(benefit) | (168,120) | (2,702) | 16,884 |
| Discontinued operations deferred provision/(benefit): | | | |
| Federal | 97,908 | (75,232) | (10,363) |
| State | 10,819 | (12,871) | (2,513) |
| Total discontinued operations deferred provision/(benefit) | 108,727 | (88,103) | (12,876) |
| Discontinued operations provision for income tax expense/(benefit) | $ (59,393) | $ (90,805) | $ 4,008 |
| Provision for income tax expense/(benefit) | $ 178,971 | $ (167,574) | $ 412,283 |

**19. Income Taxes (Continued)**

At December 31, 2009 and 2008, the tax effect of temporary differences that give rise to deferred tax assets and liabilities include the following:

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| **Deferred tax assets:** | | |
| Loan reserves | $ 737,762 | $ 1,212,653 |
| Market value adjustments on student loans, investments and derivatives | 496,101 | 174,276 |
| Deferred revenue | 83,042 | 70,172 |
| Stock-based compensation plans | 70,528 | 62,325 |
| Accrued expenses not currently deductible | 47,249 | 38,330 |
| Purchased paper impairments | 42,892 | 111,924 |
| Operating loss and credit carryovers | 36,747 | 28,293 |
| Unrealized investment losses | 25,949 | 42,838 |
| Warrants issuance | 19,716 | 27,160 |
| Other | 32,717 | 87,954 |
| Total deferred tax assets | 1,592,703 | 1,855,925 |
| **Deferred tax liabilities:** | | |
| Gains/(losses) on repurchased debt | 187,505 | — |
| Securitization transactions | 93,254 | 302,049 |
| Leases | 64,246 | 73,570 |
| Other | 37,170 | 12,883 |
| Total deferred tax liabilities | 382,175 | 388,502 |
| Net deferred tax assets | $ 1,210,528 | $ 1,467,423 |

Included in other deferred tax assets is a valuation allowance of $25,111 and $4,901 as of December 31, 2009 and 2008, respectively, against a portion of the Company's federal, state and international deferred tax assets. The valuation allowance is primarily attributable to deferred tax assets for federal and state capital loss carryovers and state net operating loss carryovers that management believes it is more likely than not will expire prior to being realized. The change in the valuation allowance primarily resulted from the sale of the assets in its Purchased Paper-Mortgage/Properties business. The ultimate realization of the deferred tax assets is dependent upon the generation of future taxable income of the appropriate character (i.e. capital or ordinary) during the period in which the temporary differences become deductible. Management considers, among other things, the economic slowdown, any impacts if SAFRA or the Community Proposal are passed, the scheduled reversals of deferred tax liabilities, and the history of positive taxable income available for net operating loss carrybacks in evaluating the realizability of the deferred tax assets.

As of December 31, 2009, the Company has federal net operating loss carryforwards of $21,020 which begin to expire in 2022, apportioned state net operating loss carryforwards of $89,958 which begin to expire in 2010, federal and state capital loss carryovers of $44,289 which begin to expire in 2012, and federal and state credit carryovers of $1,845 which begin to expire in 2021.

**19. Income Taxes (Continued)**

**Accounting for Uncertainty in Income Taxes**

New provisions under ASC 740, "Income Taxes," pertaining to the accounting of uncertainty in income taxes, were adopted on January 1, 2007. As a result of this implementation, the Company recognized a $6 million increase in its liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. The total amount of gross unrecognized tax benefits as of January 1, 2007 was $113 million.

The following table summarizes changes in unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007:

| (Dollars in millions) | December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **Unrecognized tax benefits at beginning of year** | $ 86.4 | $ 174.8 | $ 113.3 |
| Increases resulting from tax positions taken during a prior period | 75.2 | 11.3 | 86.5 |
| Decreases resulting from tax positions taken during a prior period | (58.3) | (132.2) | (30.0) |
| Increases/(decreases) resulting from tax positions taken during the current period | (22.5) | 36.2 | .3 |
| Decreases related to settlements with taxing authorities | (17.9) | (.1) | (30.0) |
| Increases related to settlements with taxing authorities | 44.7 | — | 42.3 |
| Reductions related to the lapse of statute of limitations | (3.2) | (3.6) | (7.6) |
| **Unrecognized tax benefits at end of year** | $ 104.4 | $ 86.4 | $ 174.8 |

As of December 31, 2009, the gross unrecognized tax benefits are $104 million. Included in the $104 million are $17 million of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate. In addition, unrecognized tax benefits of $2 million are currently treated as a pending refund claim, reducing the balance of unrecognized tax benefits that, if recognized, would impact the effective tax rate. During 2009, the Company adjusted its unrecognized tax benefits to incorporate new issues that were identified while completing the 2008 U.S. federal income tax return, as well as adjusting the 2003-2007 unrecognized tax benefits to incorporate the net impact of IRS and state tax authority examinations of several of the Company's income tax returns. New information was received from the IRS during the first quarter as part of the IRS examination of the Company's 2005 and 2006 U.S. federal income tax returns, and the IRS issued a Revenue Agent's Report ("RAR") during the second quarter of 2009 ultimately concluding this exam. During the third quarter of 2009, the IRS concluded the examination of the 2003 and 2004 U.S. federal income tax returns of an entity in which the Company is an investor, and the Virginia taxing authority concluded the examination of the Company's 2005 through 2007 income tax returns. Several other less significant amounts of uncertain tax benefits were also added during the year.

The Company recognizes interest costs related to unrecognized tax benefits in income tax expense, and penalties, if any, in operating expenses. The Company has accrued interest, net of tax benefit, of $7 million, $10 million and $18 million as of December 31, 2009, 2008 and 2007 respectively. The income tax expense for the year ended December 31, 2009 includes a reduction in the accrual of interest of $3 million, primarily related to the reduction of uncertain tax benefits as discussed above. The income tax expense for the year ended December 31, 2008 includes a reduction in the accrual of interest of $8 million, primarily related to the reduction of uncertain tax benefits as a result of new information received from the IRS as a part of the 2005-2006 exam cycle for several carryover issues related to the timing of certain income and deduction items. The income tax expense for the year ended December 31, 2007 includes an increase in the accrual of interest of $1 million.

**19. Income Taxes (Continued)**

***Reasonably Possible Significant Increases/Decreases within Twelve Months***

The IRS issued a Revenue Agent's Report ("RAR") during the second quarter of 2007 concluding the primary exam of the Company's 2003 and 2004 U.S. federal tax returns. However, the exam of these years remained open until the third quarter of 2009 when the IRS concluded the examination of an entity in which the Company is an investor. In addition, during the third quarter of 2007, the Company filed an administrative-level appeal related to one unagreed item originating from the Company's 2004 U.S. federal tax return. It is reasonably possible that there will be a decrease in the Company's unrecognized tax benefits as a result of the resolution of this item. When considering both tax and interest amounts, the decrease could be approximately $8 million to $12 million.

The IRS began the examination of the Company's 2007 and 2008 federal income tax returns during the second quarter of 2009. It is reasonably possible that issues that arise during the exam may create the need for an increase in unrecognized tax benefits. Until the exam proceeds further, an estimate of any such amounts cannot currently be made.

In the event that the Company is not contacted for exam by additional tax authorities by the end of 2010, it is reasonably possible that there will be a decrease in the Company's unrecognized tax benefits as a result of the lapse of various statute of limitations periods. When considering both tax and interest amounts, the decrease could be approximately $5 million to $9 million.

***Tax Years Remaining Subject to Exam***

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. U.S. federal income tax returns filed for years prior to 2003 and for years 2005-2006 have been audited and are now resolved. As shown in the table below, the Company's primary operating subsidiary has been audited by the listed states through the year shown, again with all issues resolved. Other combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years).

| State | Year audited through |
|---|---|
| Florida | 2000 |
| Indiana | 2000 |
| Pennsylvania | 2000 |
| California | 2002 |
| Missouri | 2003 |
| New York | 2004 |
| North Carolina | 2005 |
| Texas | 2004 |
| Virginia | 2007 |

**20. Segment Reporting**

The Company has two primary operating segments — the Lending operating segment and the APG, formerly known as DMO, operating segment. The Lending and APG operating segments meet the quantitative thresholds for reportable segments. Accordingly, the results of operations of the Company's Lending and APG segments are presented below. The Company has smaller operating segments including the Guarantor Servicing, Loan Servicing, and Upromise operating segments, as well as certain other products and services

**20. Segment Reporting (Continued)**

provided to colleges and universities which do not meet the required quantitative thresholds. 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 reportable 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 makers, 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" net income. Accordingly, information regarding the Company's reportable segments is provided based on a "Core Earnings" basis. The Company's "Core Earnings" performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core Earnings" net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. 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 10 percent of its total revenue during the years ended December 31, 2009, 2008 and 2007. United Student Aid Funds, Inc. ("USA Funds") is the Company's largest customer in both the APG and Corporate and Other segments. During the years ended December 31, 2009, 2008 and 2007, USA Funds accounted for 16 percent, 46 percent and 35 percent, respectively, of the aggregate revenues generated by the Company's APG and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

***Lending***

In the Company's Lending operating segment, the Company originates and acquires both FFELP loans and Private Education Loans. As of December 31, 2009, the Company managed $176.4 billion of student loans, of which $141.3 billion or 80 percent are federally insured, and has 10 million student and parent customers. The Company's mortgage and other consumer loan portfolio totaled $363 million at December 31, 2009.

Private Education Loans consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers' resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. Most higher education Private Education Loans are made in conjunction with a FFELP loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through historical

**20. Segment Reporting (Continued)**

risk-performance underwriting strategies, the addition of qualified cosigners and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

The following table includes asset information for the Company's Lending business segment.

| | December 31, 2009 | December 31, 2008 |
|---|---|---|
| FFELP Stafford and Other Student Loans, net | $ 42,979 | $ 44,025 |
| FFELP Stafford Loans Held-for-Sale | 9,696 | 8,451 |
| FFELP Consolidation Loans, net | 68,379 | 71,744 |
| Private Education Loans, net | 22,753 | 20,582 |
| Other loans, net | 420 | 729 |
| Cash and investments(1) | 12,387 | 8,445 |
| Retained Interest in off-balance sheet securitized loans | 1,828 | 2,200 |
| Other | 9,398 | 9,947 |
| Total assets | $ 167,840 | $ 166,123 |

(1) Includes restricted cash and investments.

***APG***

The Company's APG operating segment provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors, and sub-performing and non-performing mortgage loans. The Company's APG operating segment serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay-for-performance basis to 15 FFELP Guarantors and for campus-based programs.

In addition to collecting on its own purchased receivables and mortgage loans, the APG operating segment provides receivable management and collection services for federal agencies, credit card clients and other holders of consumer debt.

In 2008, the Company concluded that its APG purchased paper businesses were no longer a strategic fit. The Company sold its international Purchased Paper — Non-Mortgage business in the first quarter of 2009. A loss of $51 million was recognized in the fourth quarter of 2008 related to this sale as the net assets were held for sale and carried at the lower of its book basis and fair value as of December 31, 2008. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 (which is further discussed below), which resulted in an after-tax loss of $95 million. The Company continues to wind down the domestic side of its Purchased Paper — Non-Mortgage business. The Company will continue to consider opportunities to sell this business at acceptable prices in the future.

The Company's domestic Purchased Paper — Non-Mortgage business had certain forward purchase obligations under which the Company was committed to buy purchased paper through April 2009. The Company did not purchase any additional purchased paper in excess of these obligations. The Company recognized

**20. Segment Reporting (Continued)**

$79 million, $111 million and $17 million of impairments in the years ended December 31, 2009, 2008 and 2007, respectively. The impairment is primarily a result of the impact of the economy on the ability to collect on these assets. The impairment of $111 million in 2008 includes the $51 million loss on the sale of the Company's international Purchased Paper — Non-Mortgage business discussed above. Similar to the Purchased Paper — Mortgage/Properties business discussion below, when the Purchased Paper — Non-Mortgage business either sells all of its remaining assets or completely winds down its operations, its results will be shown as discontinued operations.

Net loss attributable to SLM Corporation from discontinued operations was $157 million and $140 million for the years ended December 31, 2009 and 2008, respectively, compared to net income of $15 million for the year ended December 31, 2007. The Company sold all of the assets in its Purchased Paper — Mortgage/Properties business in the fourth quarter of 2009 for $280 million. Because of the sale, the Purchased Paper — Mortgage/Properties business is required to be presented separately as discontinued operations for all periods presented. This sale of assets in the fourth quarter of 2009 resulted in an after-tax loss of $95 million. Total after-tax impairments, including the loss on sale, for the years ended December 31, 2009, 2008 and 2007 were $154 million, $161 million and $2 million, respectively.

At December 31, 2009 and 2008, the APG business segment had total assets of $1.1 billion and $2.0 billion, respectively.

***Corporate and Other***

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

In the Guarantor Servicing operating segment, the Company provides a full complement of administrative services to FFELP Guarantors including guarantee issuance, account maintenance, and guarantee fulfillment. In the Loan Servicing operating segment, the Company provides a full complement of activities required to service student loans on behalf of lenders who are unrelated to the Company. Such servicing activities generally commence once a loan has been fully disbursed and include sending out payment coupons to borrowers, processing borrower payments, originating and disbursing FFELP Consolidation Loans on behalf of the lender, and other administrative activities required by ED.

Upromise markets and administers a consumer savings network and also provides program management, transfer and servicing agent services, and administration services for 529 college-savings plans. The Company's other products and services include comprehensive financing and loan delivery solutions that it provides to college financial aid offices and students to streamline the financial aid process. Corporate overhead includes all of the typical headquarter functions such as executive management, accounting and finance, human resources and marketing.

At December 31, 2009 and 2008, the Corporate and Other business segment had total assets of $1.2 million and $685 million, respectively.

***Measure of Profitability***

The tables below include the condensed operating results for each of the Company's reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that the Company refers to as "Core Earnings" performance measures for each operating segment. While "Core Earnings" results are not a substitute for reported results under GAAP, the Company relies on

**20. Segment Reporting (Continued)**

"Core Earnings" performance measures to manage each operating segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

"Core Earnings" performance measures 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 "Core Earnings" segment totals to the Company's consolidated operating results in accordance with GAAP is also included in the tables below.

## 20. Segment Reporting (Continued)

### *Segment Results and Reconciliations to GAAP*

| (Dollars in millions) | Year Ended December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | Lending | APG | Corporate and Other | Total "Core Earnings" | Adjustments(2) | Total GAAP |
| Interest income: | | | | | | |
| FFELP Stafford and Other Student Loans | $ 1,282 | $ — | $ — | $ 1,282 | $ (70) | $ 1,212 |
| FFELP Consolidation Loans | 1,645 | — | — | 1,645 | 237 | 1,882 |
| Private Education Loans | 2,254 | — | — | 2,254 | (672) | 1,582 |
| Other loans | 56 | — | — | 56 | — | 56 |
| Cash and investments | 9 | — | 20 | 29 | (3) | 26 |
| Total interest income | 5,246 | — | 20 | 5,266 | (508) | 4,758 |
| Total interest expense | 2,971 | 19 | 15 | 3,005 | 30 | 3,035 |
| Net interest income (loss) | 2,275 | (19) | 5 | 2,261 | (538) | 1,723 |
| Less: provisions for loan losses | 1,564 | — | — | 1,564 | (445) | 1,119 |
| Net interest income (loss) after provisions for loan losses | 711 | (19) | 5 | 697 | (93) | 604 |
| Contingency fee revenue | — | 296 | — | 296 | — | 296 |
| Collections revenue | — | 50 | — | 50 | 1 | 51 |
| Guarantor servicing fees | — | — | 136 | 136 | — | 136 |
| Other income | 974 | — | 215 | 1,189 | (286) | 903 |
| Total other income | 974 | 346 | 351 | 1,671 | (285) | 1,386 |
| Restructuring expenses | 10 | 1 | 3 | 14 | — | 14 |
| Operating expenses | 581 | 315 | 284 | 1,180 | 75 | 1,255 |
| Total expenses | 591 | 316 | 287 | 1,194 | 75 | 1,269 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 1,094 | 11 | 69 | 1,174 | (453) | 721 |
| Income tax expense (benefit)(1) | 388 | 7 | 24 | 419 | (181) | 238 |
| Net income (loss) from continuing operations | 706 | 4 | 45 | 755 | (272) | 483 |
| Loss from discontinued operations, net of taxes | — | (157) | — | (157) | (1) | (158) |
| Net income (loss) | 706 | (153) | 45 | 598 | (273) | 325 |
| Less: net income attributable to noncontrolling interest | — | 1 | — | 1 | — | 1 |
| Net income (loss) attributable to SLM Corporation | $ 706 | $ (154) | $ 45 | $ 597 | $ (273) | $ 324 |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 205 | $ — | $ — | $ 205 | | |

(1) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(2) "Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Year Ended December 31, 2009 | | | | |
|---|---|---|---|---|---|
| | Net Impact of Securitization Accounting | Net Impact of Derivative Accounting | Net Impact of Floor Income | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) | $ (965) | $ 298 | $ 129 | $ — | $ (538) |
| Less: provisions for loan losses | (445) | — | — | — | (445) |
| Net interest income (loss) after provisions for loan losses | (520) | 298 | 129 | — | (93) |
| Contingency fee revenue | — | — | — | — | — |
| Collections revenue | 1 | — | — | — | 1 |
| Guarantor servicing fees | — | — | — | — | — |
| Other income | 318 | (604) | — | — | (286) |
| Total other income (loss) | 319 | (604) | — | — | (285) |
| Restructuring expenses | — | — | — | — | — |
| Operating expenses | — | — | — | 75 | 75 |
| Total expenses | — | — | — | 75 | 75 |
| Income (loss) from continuing operations, before income tax benefit | (201) | (306) | 129 | (75) | (453) |
| Loss from discontinued operations, net of taxes | — | — | — | (1) | (1) |
| Total "Core Earnings" adjustments to GAAP | $ (201) | $ (306) | $ 129 | $ (76) | (454) |
| Income tax benefit | | | | | (181) |
| Less: net income attributable to noncontrolling interest | | | | | — |
| Net loss attributable to SLM Corporation | | | | | $ (273) |

## 20. Segment Reporting (Continued)

| (Dollars in millions) | Year Ended December 31, 2008 | | | | | |
|---|---|---|---|---|---|---|
| | Lending | APG | Corporate and Other | Total "Core Earnings" | Adjustments(2) | Total GAAP |
| Interest income: | | | | | | |
| FFELP Stafford and Other Student Loans | $ 2,216 | $ — | $ — | $ 2,216 | $ (221) | $ 1,995 |
| FFELP Consolidation Loans | 3,748 | — | — | 3,748 | (569) | 3,179 |
| Private Education Loans | 2,752 | — | — | 2,752 | (1,015) | 1,737 |
| Other loans | 83 | — | — | 83 | — | 83 |
| Cash and investments | 304 | — | 25 | 329 | (53) | 276 |
| Total interest income | 9,103 | — | 25 | 9,128 | (1,858) | 7,270 |
| Total interest expense | 6,665 | 25 | 19 | 6,709 | (804) | 5,905 |
| Net interest income (loss) | 2,438 | (25) | 6 | 2,419 | (1,054) | 1,365 |
| Less: provisions for loan losses | 1,029 | — | — | 1,029 | (309) | 720 |
| Net interest income (loss) after provisions for loan losses | 1,409 | (25) | 6 | 1,390 | (745) | 645 |
| Contingency fee revenue | — | 340 | — | 340 | — | 340 |
| Collections revenue | — | 129 | — | 129 | (1) | 128 |
| Guarantor servicing fees | — | — | 121 | 121 | — | 121 |
| Other income | 180 | — | 199 | 379 | (356) | 23 |
| Total other income | 180 | 469 | 320 | 969 | (357) | 612 |
| Restructuring expenses | 49 | 11 | 23 | 83 | — | 83 |
| Operating expenses | 583 | 389 | 256 | 1,228 | 88 | 1,316 |
| Total expenses | 632 | 400 | 279 | 1,311 | 88 | 1,399 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 957 | 44 | 47 | 1,048 | (1,190) | (142) |
| Income tax expense (benefit)(1) | 338 | 23 | 17 | 378 | (454) | (76) |
| Net income (loss) from continuing operations | 619 | 21 | 30 | 670 | (736) | (66) |
| Loss from discontinued operations, net of taxes | — | (140) | — | (140) | (3) | (143) |
| Net income (loss) | 619 | (119) | 30 | 530 | (739) | (209) |
| Less: net income attributable to noncontrolling interest | — | 4 | — | 4 | — | 4 |
| Net income (loss) attributable to SLM Corporation | $ 619 | $ (123) | $ 30 | $ 526 | $ (739) | $ (213) |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 55 | $ — | $ — | $ 55 | | |

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

(2) "Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Year Ended December 31, 2008 | | | | |
|---|---|---|---|---|---|
| | Net Impact of Securitization Accounting | Net Impact of Derivative Accounting | Net Impact of Floor Income | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) | $ (837) | $ (115) | $ (102) | $ — | $ (1,054) |
| Less: provisions for loan losses | (309) | — | — | — | (309) |
| Net interest income (loss) after provisions for loan losses | (528) | (115) | (102) | — | (745) |
| Contingency fee revenue | — | — | — | — | — |
| Collections revenue | (1) | — | — | — | (1) |
| Guarantor servicing fees | — | — | — | — | — |
| Other income | 89 | (445) | — | — | (356) |
| Total other income (loss) | 88 | (445) | — | — | (357) |
| Restructuring expenses | — | — | — | — | — |
| Operating expenses | 2 | — | — | 86 | 88 |
| Total expenses | 2 | — | — | 86 | 88 |
| Income (loss) from continuing operations, before income tax benefit | (442) | (560) | (102) | (86) | (1,190) |
| Loss from discontinued operations, net of taxes | — | — | — | (3) | (3) |
| Total "Core Earnings" adjustments to GAAP | $ (442) | $ (560) | $ (102) | $ (89) | (1,193) |
| Income tax benefit | | | | | (454) |
| Less: net income attributable to noncontrolling interest | | | | | — |
| Net loss attributable to SLM Corporation | | | | | $ (739) |

## 20. Segment Reporting (Continued)

| (Dollars in millions) | Year Ended December 31, 2007 | | | | | |
|---|---|---|---|---|---|---|
| | Lending | APG | Corporate and Other | Total "Core Earnings" | Adjustments[2] | Total GAAP |
| Interest income: | | | | | | |
| FFELP Stafford and Other Student Loans | $ 2,848 | $ — | $ — | $ 2,848 | $ (787) | $ 2,061 |
| FFELP Consolidation Loans | 5,522 | — | — | 5,522 | (1,179) | 4,343 |
| Private Education Loans | 2,835 | — | — | 2,835 | (1,379) | 1,456 |
| Other loans | 106 | — | — | 106 | — | 106 |
| Cash and investments | 868 | — | 21 | 889 | (181) | 708 |
| Total interest income | 12,179 | — | 21 | 12,200 | (3,526) | 8,674 |
| Total interest expense | 9,597 | 27 | 21 | 9,645 | (2,559) | 7,086 |
| Net interest income (loss) | 2,582 | (27) | — | 2,555 | (967) | 1,588 |
| Less: provisions for loan losses | 1,394 | — | 1 | 1,395 | (380) | 1,015 |
| Net interest income (loss) after provisions for loan losses | 1,188 | (27) | (1) | 1,160 | (587) | 573 |
| Contingency fee revenue | — | 336 | — | 336 | — | 336 |
| Collections revenue | — | 217 | — | 217 | 3 | 220 |
| Guarantor servicing fees | — | — | 156 | 156 | — | 156 |
| Other income | 194 | — | 218 | 412 | (679) | (267) |
| Total other income | 194 | 553 | 374 | 1,121 | (676) | 445 |
| Restructuring expenses | 19 | 2 | 2 | 23 | — | 23 |
| Operating expenses | 690 | 361 | 339 | 1,390 | 97 | 1,487 |
| Total expenses | 709 | 363 | 341 | 1,413 | 97 | 1,510 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 673 | 163 | 32 | 868 | (1,360) | (492) |
| Income tax expense (benefit)[1] | 249 | 60 | 12 | 321 | 87 | 408 |
| Net income (loss) from continuing operations | 424 | 103 | 20 | 547 | (1,447) | (900) |
| Income from discontinued operations, net of taxes | — | 15 | — | 15 | (9) | 6 |
| Net income (loss) | 424 | 118 | 20 | 562 | (1,456) | (894) |
| Less: net income attributable to noncontrolling interest | — | 2 | — | 2 | — | 2 |
| Net income (loss) attributable to SLM Corporation | $ 424 | $ 116 | $ 20 | $ 560 | $ (1,456) | $ (896) |
| Economic Floor Income (net of tax) not included in "Core Earnings" | $ 8 | $ — | $ — | $ 8 | | |

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

(2) ""Core Earnings" adjustments to GAAP:

| (Dollars in millions) | Year Ended December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Net Impact of Securitization Accounting | Net Impact of Derivative Accounting | Net Impact of Floor Income | Net Impact of Acquired Intangibles | Total |
| Net interest income (loss) | $ (816) | $ 18 | $ (169) | $ — | $ (967) |
| Less: provisions for loan losses | (380) | — | — | — | (380) |
| Net interest income (loss) after provisions for loan losses | (436) | 18 | (169) | — | (587) |
| Contingency fee revenue | — | — | — | — | — |
| Collections revenue | 3 | — | — | — | 3 |
| Guarantor servicing fees | — | — | — | — | — |
| Other income | 680 | (1,359) | — | — | (679) |
| Total other income (loss) | 683 | (1,359) | — | — | (676) |
| Restructuring expenses | — | — | — | — | — |
| Operating expenses | — | — | — | 97 | 97 |
| Total expenses | — | — | — | 97 | 97 |
| Income (loss) from continuing operations, before income tax expense | 247 | (1,341) | (169) | (97) | (1,360) |
| Loss from discontinued operations, net of taxes | — | — | — | (9) | (9) |
| Total "Core Earnings" adjustments to GAAP | $ 247 | $ (1,341) | $ (169) | $ (106) | (1,369) |
| Income tax expense | | | | | 87 |
| Less: net income attributable to noncontrolling interest | | | | | — |
| Net loss attributable to SLM Corporation | | | | | $ (1,456) |

**20. Segment Reporting (Continued)**

***Summary of "Core Earnings" Adjustments to GAAP***

The adjustments required to reconcile from the Company's "Core Earnings" results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income, 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 years ended December 31, 2009, 2008, and 2007.

| (Dollars in millions) | Years Ended December 31, 2009 | 2008 | 2007 |
|---|---|---|---|
| **"Core Earnings" adjustments to GAAP:** | | | |
| Net impact of securitization accounting[1] | $ (201) | $ (442) | $ 247 |
| Net impact of derivative accounting[2] | (306) | (560) | (1,341) |
| Net impact of Floor Income[3] | 129 | (102) | (169) |
| Net impact of acquired intangibles[4] | (76) | (89) | (106) |
| Net tax effect[5] | 181 | 454 | (87) |
| Total "Core Earnings" adjustments to GAAP | $ (273) | $ (739) | $ (1,456) |

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

(2) **Derivative accounting:** "Core Earnings" exclude periodic unrealized gains and losses that are caused primarily by the mark-to-market derivative valuations prescribed by ASC 815 on derivatives that do not qualify for "hedge treatment" under GAAP. These unrealized gains and losses occur in the Company's Lending operating segment. In the Company's "Core Earnings" presentation, 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.

(3) **Floor Income:** The timing and amount (if any) of Floor Income earned in the Company's Lending operating segment is uncertain and in excess of expected spreads. Therefore, the Company only includes such income in "Core Earnings" when it is Fixed Rate Floor Income that is 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, they are marked-to-market through the "gains (losses) on derivative and hedging activities, net" line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For "Core Earnings," the Company reverses the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

(4) **Acquired Intangibles:** The Company excludes goodwill and intangible impairment and amortization of acquired intangibles.

(5) **Net Tax Effect:** Such tax effect is based upon the Company's "Core Earnings" effective tax rate for the year. The net tax effect for the year ended December 31, 2007 includes the impact of the exclusion of the permanent income tax impact of the equity forward contracts. The Company settled all of its equity forward contracts in January 2008.

**20. Segment Reporting (Continued)**

**21. Discontinued Operations**

In the fourth quarter of 2009, the Company sold all of the assets in its Purchased Paper — Mortgage/Properties business for $280 million, resulting in an after-tax loss of $95 million. The Purchased Paper — Mortgage/Properties business is considered a "Component" of the Company's APG reporting unit in accordance with ASC 360 as the business comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes, from the rest of the Company. In accordance with ASC 205, this Component is presented as discontinued operations as (1) the operations and cash flows of the Component have been eliminated from the ongoing operations of the Company as of December 31, 2009, and (2) the Company will have no continuing involvement in the operations of this Component subsequent to the sale.

The following table summarizes the discontinued assets and liabilities of Purchased Paper — Mortgage/Properties business at December 31, 2009 and 2008, respectively.

| | At December 31, | |
|---|---|---|
| | 2009 | 2008 |
| **Assets:** | | |
| Cash and equivalents | $ 351 | $ 11,635 |
| Other assets | 34,072 | 788,163 |
| Assets of discontinued operations | $ 34,423 | $ 799,798 |
| **Liabilities:** | | |
| Liabilities of discontinued operations | $ 29,796 | $ 753,638 |

At December 31, 2009, other assets of the Company's discontinued operations consist of a receivable from SLM Corporation associated with the 2009 net operating loss generated by its discontinued operations, which has been utilized by SLM Corporation and its subsidiaries in its 2009 consolidated U.S. federal income tax return. At December 31, 2009, liabilities of the Company's discontinued operations consist primarily of estimated reserves associated with certain recourse and buy-back provisions associated with the asset sale, as well as restructuring liabilities related to severance and contract termination costs.

The following table summarizes the discontinued operations for the years ended December 31, 2009, 2008 and 2007, respectively.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2009 | 2008 | 2007 |
| **Operations:** | | | |
| Income (loss) from discontinued operations before income taxes | $ (217,083) | $ (234,024) | $ 10,284 |
| Income tax expense (benefit) | (59,393) | (90,805) | 4,008 |
| Income (loss) from discontinued operations, net of taxes | $ (157,690) | $ (143,219) | $ 6,276 |
| **Disposal:** | | | |
| Loss on disposal before income taxes | $ (118,761) | $ — | $ — |
| Income tax benefit | (23,053) | — | — |
| Loss on disposal, net of taxes | $ (95,708) | $ — | $ — |

**22. Quarterly Financial Information (unaudited)**

| | 2009 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net interest income | $ 215,063 | $ 383,701 | $ 525,176 | $ 598,786 |
| Less: provisions for loan losses | 250,279 | 278,112 | 321,127 | 269,442 |
| Net interest income (loss) after provisions for loan losses | (35,216) | 105,589 | 204,049 | 329,344 |
| Gains (losses) on derivative and hedging activities, net | 104,025 | (561,795) | (111,556) | (35,209) |
| Other income | 249,632 | 608,626 | 469,051 | 663,572 |
| Restructuring expenses | 3,773 | 3,333 | 2,492 | 4,169 |
| Operating expenses | 295,116 | 308,164 | 312,904 | 339,122 |
| Income tax expense (benefit) | (5,517) | (43,110) | 80,423 | 206,568 |
| Net income (loss) from continuing operations | 25,069 | (115,967) | 165,725 | 407,848 |
| Loss from discontinued operations, net of taxes | (46,174) | (6,542) | (6,417) | (98,557) |
| Net income (loss) | (21,105) | (122,509) | 159,308 | 309,291 |
| Less: net income attributable to noncontrolling interest | 281 | 211 | 198 | 157 |
| Net income (loss) attributable to SLM Corporation | (21,386) | (122,720) | 159,110 | 309,134 |
| Preferred stock dividends | 26,395 | 25,800 | 42,627 | 51,014 |
| Net income (loss) attributable to SLM Corporation common stock | $ (47,781) | $ (148,520) | $ 116,483 | $ 258,120 |
| Basic earnings (loss) per common share: | | | | |
| Earnings (loss) from continuing operations | $ — | $ (.31) | $ .26 | $ .74 |
| Earnings (loss) from discontinued operations | (.10) | (.01) | (.01) | (.20) |
| Earnings (loss) from net income | $ (.10) | $ (.32) | $ .25 | $ .54 |
| Diluted earnings (loss) per common share: | | | | |
| Earnings (loss) from continuing operations | $ — | $ (.31) | $ .26 | $ .71 |
| Earnings (loss) from discontinued operations | (.10) | (.01) | (.01) | (.19) |
| Earnings (loss) from net income | $ (.10) | $ (.32) | $ .25 | $ .52 |

**22. Quarterly Financial Information (unaudited) (Continued)**

| | 2008 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Net interest income | $ 276,369 | $ 402,543 | $ 474,749 | $ 210,559 |
| Less: provisions for loan losses | 137,311 | 143,015 | 186,909 | 252,415 |
| Net interest income (loss) after provisions for loan losses | 139,058 | 259,528 | 287,840 | (41,856) |
| Gains (losses) on derivative and hedging activities, net | (272,796) | 362,043 | (241,757) | (292,903) |
| Other income | 338,859 | 230,390 | 199,895 | 287,922 |
| Restructuring expenses | 20,520 | 46,740 | 10,508 | 5,748 |
| Operating expenses | 346,046 | 344,302 | 353,739 | 270,864 |
| Income tax expense (benefit) | (60,725) | 167,519 | (51,301) | (132,263) |
| Net income (loss) from continuing operations | (100,720) | 293,400 | (66,968) | (191,186) |
| Loss from discontinued operations, net of taxes | (3,149) | (24,738) | (91,029) | (24,304) |
| Net income (loss) | (103,869) | 268,662 | (157,997) | (215,490) |
| Less: net income attributable to noncontrolling interest | (65) | 2,926 | 544 | 527 |
| Net income (loss) attributable to SLM Corporation | (103,804) | 265,736 | (158,541) | (216,017) |
| Preferred stock dividends | 29,025 | 27,391 | 27,474 | 27,316 |
| Net income (loss) attributable to SLM Corporation common stock | $ (132,829) | $ 238,345 | $ (186,015) | $ (243,333) |
| Basic earnings (loss) per common share: | | | | |
| Earnings (loss) from continuing operations | $ (.27) | $ .56 | $ (.20) | $ (.47) |
| Earnings (loss) from discontinued operations | (.01) | (.05) | (.20) | (.05) |
| Earnings (loss) from net income | $ (.28) | $ .51 | $ (.40) | $ (.52) |
| Diluted earnings (loss) per common share: | | | | |
| Earnings (loss) from continuing operations | $ (.27) | $ .55 | $ (.20) | $ (.47) |
| Earnings (loss) from discontinued operations | (.01) | (.05) | (.20) | (.05) |
| Earnings (loss) from net income | $ (.28) | $ .50 | $ (.40) | $ (.52) |

APPENDIX A

**FEDERAL FAMILY EDUCATION LOAN PROGRAM**

**General**

The Federal Family Education Loan Program, known as FFELP, under Title IV of the Higher Education Act ("HEA"), provides for loans to students who are enrolled in eligible institutions, or to parents of dependent students who are enrolled in eligible institutions, to finance their educational costs. As further described below, payment of principal and interest on the student loans is guaranteed by a state or not-for-profit guarantee agency against:

- default of the borrower;
- the death, bankruptcy or permanent, total disability of the borrower;
- closing of the student's school prior to the end of the academic period;
- false certification of the borrower's eligibility for the loan by the school; and
- an unpaid school refund.

Subject to conditions, a program of federal reinsurance under the HEA entitles guarantee agencies to reimbursement from the U.S. Department of Education ("ED") for between 75 percent and 100 percent of the amount of each guarantee payment. In addition to the guarantee, the holder of student loans is entitled to receive interest subsidy payments and special allowance payments from ED on eligible student loans. Special allowance payments raise the yield to student loan lenders when the statutory borrower interest rate is below an indexed market value.

Four types of FFELP student loans are currently authorized under the HEA:

- Subsidized Federal Stafford Loans to students who demonstrate requisite financial need;
- Unsubsidized Federal Stafford Loans to students who either do not demonstrate financial need or require additional loans to supplement their Subsidized Stafford Loans;
- Federal PLUS Loans to graduate or professional students (effective July 1, 2006) or parents of dependent students whose estimated costs of attending school exceed other available financial aid; and
- FFELP Consolidation Loans, which consolidate into a single loan a borrower's obligations under various federally authorized student loan programs.

Before July 1, 1994, the HEA also authorized loans called "Supplemental Loans to Students" or "SLS Loans" to independent students and, under some circumstances, dependent undergraduate students, to supplement their Subsidized Stafford Loans. The SLS program was replaced by the Unsubsidized Stafford Loan program.

This appendix describes or summarizes the material provisions of Title IV of the HEA, the FFELP and related statutes and regulations. It, however, is not complete and is qualified in its entirety by reference to each actual statute and regulation. Both the HEA and the related regulations have been the subject of extensive amendments over the years. The Company cannot predict whether future amendments or modifications might materially change any of the programs described in this appendix or the statutes and regulations that implement them.

**Legislative Matters**

The FFELP is subject to comprehensive reauthorization at least every 5 years and to frequent statutory and regulatory changes. The most recent reauthorization was the Higher Education Opportunity Act of 2008 ("HEOA 2008"), Public Law 110-315, which the President signed into law August 14, 2008.

Other recent amendments since the program was previously reauthorized by the Higher Education Reconciliation Act of 2005 ("HERA 2005"), which was signed into law February 8, 2006, as part of the Deficit Reduction Act, Public Law 109-171, include the Ensuring Continued Access to Student Loans Act of 2008, Public Law 110-227 (May 7, 2008), and the College Cost Reduction and Access Act ("CCRAA"), Public Law 110-84 (September 27, 2007), and other ED amendments to the FFELP regulations on November 1, 2007 and October 23, 2008.

Previous legislation includes the Ticket to Work and Work Incentives Improvement Act of 1999, by Public Law 106-554 (December 21, 2000), the Consolidated Appropriations Act of 2001, by Public Law 107-139, (February 8, 2002) by Public Law 108-98 (October 10, 2003), and by Public Law 108-409 (October 30, 2004). Since HERA 2005, the HEA was amended by the Third Higher Education Extension Act of 2006 ("THEEA"), Public Law 109-292 (September 30, 2006).

In 1993 Congress created the William D. Ford Federal Direct Loan Program ("DSLP") under which Stafford, PLUS and Consolidation Loans are funded directly by the U.S. Department of Treasury. Each eligible school determines whether it will participate in the FFELP or DSLP or both.

The 1998 reauthorization extended the principal provisions of the FFELP and the DSLP to October 1, 2004. This legislation, as modified by the 1999 act, lowered both the borrower interest rate on Stafford Loans to a formula based on the 91-day Treasury bill rate plus 2.3 percent (1.7 percent during in-school, grace and deferment periods) and the lender's rate after special allowance payments to the 91-day Treasury bill rate plus 2.8 percent (2.2 percent during in-school, grace and deferment periods) for loans originated on or after October 1, 1998. The borrower interest rate on PLUS Loans originated during this period is equal to the 91-day Treasury bill rate plus 3.1 percent.

The 1999 and 2001 acts changed the financial index on which special allowance payments are computed on new loans from the 91-day Treasury bill rate to the three-month commercial paper rate (financial) for FFELP loans disbursed on or after January 1, 2000. For these FFELP loans, the special allowance payments to lenders are based upon the three-month commercial paper (financial) rate plus 2.34 percent (1.74 percent during in-school, grace and deferment periods) for Stafford Loans and 2.64 percent for PLUS and FFELP Consolidation Loans. The 1999 act did not change the rate that the borrower pays on FFELP loans.

The 2000 act changed the financial index on which the interest rate for some borrowers of SLS and PLUS Loans are computed. The index was changed from the 1-year Treasury bill rate to the weekly average one-year constant maturity Treasury yield. The 2002 act changed the interest rate paid by borrowers beginning in fiscal year 2006 to a fixed rate of 6.8 percent for Stafford Loans and 7.9 percent for PLUS Loans, which has since been increased to 8.5 percent by the HERA 2005.

The 1998 reauthorization and P.L. 107-139 set the borrower interest rates on FFELP and DSLP Consolidation Loans for borrowers whose applications are received before July 1, 2003 at a fixed rate equal to the lesser of the weighted average of the interest rates of the loans consolidated, adjusted up to the nearest one-eighth of one percent, and 8.25 percent. The 1998 legislation, as modified by the 1999 and 2002 acts, sets the Special Allowance Payment ("SAP") rate for FFELP loans at the three-month commercial paper rate plus 2.64 percent for loans disbursed on or after January 1, 2000. Lenders of FFELP Consolidation Loans pay a rebate fee of 1.05 percent per annum to ED. All other guaranty fees may be passed on to the borrower.

The 2004 act increased the teacher loan forgiveness level for certain Stafford Loan borrowers, and modified the special allowance calculation for loans made with proceeds of tax-exempt obligations.

The Higher Education Reconciliation Act of 2005 reauthorized the loan programs of the HEA through September 30, 2012. Major provisions, which became effective July 1, 2006 (unless stated otherwise), include:

- Change to a fixed 6.8 percent interest rate for Stafford Loans.
- Increases the scheduled change to a fixed PLUS interest rate from 7.9 percent to 8.5 percent in the FFELP.

- Permanently modifies the minimum special allowance calculation for loans made with proceeds of tax-exempt obligations.
- Requires submission of Floor Income to the government on loans made on or after April 1, 2006.
- Repeals limitations on special allowance for PLUS Loans made on and after January 1, 2000.
- Increases first and second year Stafford loan limits from $2,625 and $3,500 to $3,500 and $4,500 respectively (effective July 1, 2007).
- Increases graduate and professional student unsubsidized Stafford Loan limits from $10,000 to $12,000 (effective July 1, 2007).
- Authorizes graduate and professional students to borrow PLUS Loans.
- Reduces insurance from 98 percent to 97 percent for new loans beginning July 1, 2006.
- Phases out the Stafford Loan origination fee by 2010.
- Reduces insurance for Exceptional Performers from 100 percent to 99 percent.
- Repeals in-school consolidation, spousal consolidation, reconsolidation, and aligns loan consolidation terms in the FFELP and DSLP.
- Mandates the deposit of a one percent federal default fee into a guaranty agency's Federal Fund, which may be deducted from loan proceeds.
- Repeals the guaranty agency Account Maintenance Fee cap (effective FY 2007).
- Reduces Guarantor retention of collection fees on defaulted FFELP Consolidation Loans from 18.5 percent to 10 percent (effective October 1, 2006).
- Provides a discharge for loans that are falsely certified as a result of identity theft.
- Provides 100 percent insurance on ineligible loans due to false or erroneous information on loans made on or after July 1, 2006.
- Allows for a 3-year military deferment for a borrower's loans made on or after July 1, 2001.
- Reduces the monthly payment remittance needed to rehabilitate defaulted loans from 12 to 9.
- Increases from 10 percent to 15 percent the amount of disposable pay a guaranty agency may garnish without borrower consent.
- Streamlines mandatory forbearances to accommodate verbal requests.

The changes made by THEEA include:

- Restrictions on the use of eligible lender trustees by schools that make FFELP loans;
- New discharge provisions for Title IV loans for the survivors of eligible public servants and certain other eligible victims of the terrorist attacks on the United States on September 11, 2001; and
- A technical modification to the HEA provision governing account maintenance fees that are paid to guaranty agencies in the FFELP.

Major changes made by the CCRAA, which were effective October 1, 2007 (unless stated otherwise), include:

- Reduces special allowance payments to for-profit lenders and not-for-profit lenders for both Stafford and Consolidation Loans disbursed on or after October 1, 2007 by 0.55 percentage points and 0.40 percentage points, respectively;

- Reduces special allowance payments to for-profit lenders and not-for-profit lenders for PLUS Loans disbursed on or after October 1, 2007 by 0.85 percentage points and 0.70 percentage points, respectively;
- Reduces fixed interest rates on subsidized Stafford Loans to undergraduates from the current 6.8% to 6.0% for loans disbursed beginning July 1, 2008, to 5.6% for loans disbursed beginning July 1, 2009, to 4.5% for loans disbursed beginning July 1, 2010, and to 3.4% for loans disbursed beginning July 1, 2011 through June 30, 2012. Absent any other legislative changes, the rates would revert to 6.8% for loans disbursed on or after July 1, 2012;
- Increases the lender loan fees on all loan types, from 0.5 percent to 1.0 percent;
- Reduces default insurance to 95 percent of the unpaid principal and accrued interest for loans first disbursed on or after October 1, 2012;
- Eliminates Exceptional Performer designation (and the monetary benefit associated with it) effective October 1, 2007.
- Reduces default collections retention by guaranty agencies from 23 percent to 16 percent.
- Reduces the guaranty agency account maintenance fee from 0.10 percent to 0.06 percent.
- Requires ED to develop and implement a pilot auction for participation in the FFELP Parent PLUS Loan program, by state, effective July 1, 2009.
- Provides loan forgiveness for all DSLP borrowers, and FFELP borrowers that consolidate in the DSLP, in certain public service jobs who make 120 monthly payments.
- Expands the deferment authority for borrowers due to an economic hardship and military service.
- Establishes a new income-based repayment program starting July 1, 2009 for all loans except for parent PLUS Loans and Consolidation Loans that discharged such loans, which includes the potential for loan forgiveness after 25 years.

The ECASLA provisions, which were effective May 5, 2008 (unless stated otherwise), include:

- Increases Unsubsidized Stafford Loan limits for undergraduate students for loans first disbursed on or after July 1, 2008 —
    - by $2,000 for the annual limit
    - and to $31,000 and $57,500 as the aggregate limits for dependent students and independent students respectively.
- Requires, effective for loans first disbursed on or after July 1, 2008, that repayment of a parent PLUS Loan begin no later than 60 days after the final disbursement with interest accrued prior to the beginning of repayment added to the loan principal, or the day after 6 months from the date the dependent student is no longer enrolled at least half time, in which case interest accrued prior to the beginning of repayment may be paid monthly or quarterly, or capitalized no more frequently than quarterly, if agreed by the borrower and lender.
- Removes specification that the repayment period of a PLUS Loan begins on the date of the final disbursement and excludes deferment and forbearance periods for loans first disbursed on or after July 1, 2008.
- Allows extenuating circumstances for credit requirement purposes for a PLUS Loan if the applicant is up to 180 days delinquent on mortgage or medical bill payments or not more than 89 days delinquent on any other debt during the period January 1, 2007, through December 31, 2009.
- Broadens lender of last resort (LLR) provisions so they include subsidized and unsubsidized Stafford Loans and PLUS Loans, prohibits LLR loans with terms and conditions more favorable than those for

non-LLR loans, and subjects lenders and Guarantors serving as LLRs to prohibitions on inducements and to prohibitions regarding advertising, marketing or promoting LLR loans.

- Gives the Secretary authority until July 1, 2009 (subsequently extended to July 1, 2010 by Public Law 110-350 enacted October 7, 2008), if there is inadequate loan capital, to purchase or enter into forward purchase commitments for Stafford and PLUS Loans first disbursed on or after October 1, 2003 and before July 1, 2009, and makes funds available. Any purchase must be without a net cost to the federal government (including the cost of servicing purchased loans), and funds paid to a lender must be used for the lender's continued FFELP participations and making of FFELP loans. Authorizes the Secretary to contract for the servicing of purchased FFELP loans, including with selling lenders, as long as the cost is not more than it would be otherwise.

The Higher Education Opportunity Act of 2008 (HEOA 2008) reauthorized the loan programs of the HEA through September 30, 2014. Major provisions, which became effective August 14, 2008 (unless stated otherwise), include:

- Clarifies the repayment period and the terms for commencement of repayment of PLUS Loans made on or after July 1, 2008, (superseding ECASLA provisions) and makes available in-school deferment to parent borrowers when the student beneficiary is enrolled and a 6-month post-enrollment deferment to all PLUS borrowers following any period of enrollment of the borrower or the student beneficiary.
- Makes Section 207 of the Servicemembers Civil Relief Act applicable to FFELP loans, upon borrower request, reducing the interest rate on such loans to 6% (which encompasses certain fees and other charges), and establishes that as the applicable rate for calculating special allowance payments (for loans made on or after July 1, 2008).
- Expands the criteria for disability discharge, including qualifying borrowers with a permanent disability rating from the Veterans Administration.
- Requires a lender to provide information on the impact of interest capitalization when granting deferment on for an unsubsidized Stafford Loan or forbearance for any FFELP loan and, for forbearance, to provide the borrower with specific information about interest and capitalization at least every 180 days during the forbearance.
- Adds items that the lender must disclose before disbursement and items that the lender must disclose before repayment.
- Requires a lender to provide a bill or statement that corresponds to each payment installment time period and include specific disclosures (for loans with a first payment due on or after July 1, 2009).
- Requires a lender to provide specified information to borrowers who notify the lender of difficulty in paying (for loans with a first payment due on or after July 1, 2009) and to borrowers who become 60 days delinquent (for loans that become delinquent on or after July 1, 2009).
- Eliminates Guarantor and ED obligations for insurance and reinsurance in instances of nondisclosure.
- Adds income-based repayment to plans the lender must offer (except for parent PLUS Loans and Consolidation Loans that discharged such loans) and adds income-based repayment for FFELP borrowers to repay defaulted loans to ED.
- Permits borrower eligibility for in-school deferment to be based on National Student Loan Data System information.
- Adds prohibited inducements that can subject lenders and Guarantors to disqualification from the program and clarifies that both lenders and Guarantors may provide technical assistance comparable to that provided to schools by ED.
- Allows FFELP borrowers to consolidate directly into the DSLP program to use the zero interest feature available to servicemembers.

- Requires a consolidation lender to provide disclosures regarding any loss of benefits, availability of repayment plans, and certain other information.
- Requires the Guarantor to notify a borrower twice of options to remove a loan from default.
- Limits a borrower to loan rehabilitation once and, upon successful rehabilitation, provides for financial and economic education materials to be available to the borrower and for removal of the default from the borrower's credit report.
- Mandates that both the transferor and transferee notify the borrower of certain transfer information when a loan transfer changes the party with which the borrower needs to communicate or send payments.
- Introduces a forgiveness program to repay FFELP loans and to cancel DSLP (except no parent PLUS Loans) at $2000 per year up to an aggregate of $10,000, for non-defaulted borrowers employed full time in areas of national need (replacing the Child Care Loan Forgiveness Program). Subject to appropriations.
- Authorizes repayment of FFELP loans (except parent PLUS Loans) at $6,000 per year up to an aggregate of $40,000 for attorneys employed full time as civil legal assistance attorneys. Subject to appropriations.
- Requires reporting to consumer reporting agencies to indicate that a loan is an education loan and to provide information on repayment status.
- Requires Guarantors to develop educational programs for budgeting and financial management.
- Raises to 30% the school cohort default rate for ineligibility effective in 2012.
- Increases to 15% the maximum cohort default rate for exempting loans from rules that would otherwise require multiple disbursement or delayed disbursement.

Since the HEOA 2008, technical corrections were made to the HEA on July 1, 2009 under H.R. 1777, Public Law 111-39, and other ED amendments were made to the FFELP regulations on October 29, 2009.

**Eligible Lenders, Students and Educational Institutions**

Lenders eligible to make loans under the FFELP generally include banks, savings and loan associations, credit unions, pension funds and, under some conditions, schools and Guarantors. A student loan may be made to, or on behalf of, a "qualified student." A "qualified student" is an individual who

- is a United States citizen, national or permanent resident;
- has been accepted for enrollment or is enrolled and maintaining satisfactory academic progress at a participating educational institution; and
- is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing.

A student qualifies for a subsidized Stafford Loan if his family meets the financial need requirements for the particular loan program. Only PLUS Loan borrowers have to meet credit standards.

Eligible schools include institutions of higher education, including proprietary institutions, meeting the standards provided in the HEA. For a school to participate in the program, ED must approve its eligibility under standards established by regulation.

**Financial Need Analysis**

Subject to program limits and conditions, student loans generally are made in amounts sufficient to cover the student's estimated costs of attending school, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses as determined by the institution. Generally, each loan

applicant (and parents in the case of a dependent child) must undergo a financial need analysis. This requires the applicant (and parents in the case of a dependent child) to submit financial data to a federal processor. The federal processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and the family are expected to contribute towards the student's cost of education. After receiving information on the family contribution, the institution then subtracts the family contribution from the student's estimated costs of attending to determine the student's need for financial aid. Some of this need may be met by grants, scholarships, institutional loans and work assistance. A student's "unmet need" is further reduced by the amount of loans for which the borrower is eligible.

**Special Allowance Payments ("SAP")**

The HEA provides for quarterly special allowance payments to be made by ED to holders of student loans to the extent necessary to ensure that they receive at least specified market interest rates of return. The rates for special allowance payments depend on formulas that vary according to the type of loan, the date the loan was made and the type of funds, tax-exempt or taxable, used to finance the loan. ED makes a SAP for each calendar quarter.

The SAP equals the average unpaid principal balance, including interest which has been capitalized, of all eligible loans held by a holder during the quarterly period multiplied by the special allowance percentage.

For student loans disbursed before January 1, 2000, the special allowance percentage is computed by:

(1) determining the average of the bond equivalent rates of 91-day Treasury bills auctioned for that quarter;

(2) subtracting the applicable borrower interest rate;

(3) adding the applicable special allowance margin described in the table below; and

(4) dividing the resultant percentage by 4.

If the result is negative, the SAP is zero.

| Date of First Disbursement | Special Allowance Margin |
|---|---|
| Before 10/17/86 | 3.50% |
| From 10/17/86 through 09/30/92 | 3.25% |
| From 10/01/92 through 06/30/95 | 3.10% |
| From 07/01/95 through 06/30/98 | 2.50% for Stafford Loans that are in In-School, Grace or Deferment 3.10% for Stafford Loans that are in Repayment and all other loans |
| From 07/01/98 through 12/31/99 | 2.20% for Stafford Loans that are in In-School, Grace or Deferment 2.80% for Stafford Loans that are in Repayment 3.10% for PLUS, SLS and FFELP Consolidation Loans |

For student loans disbursed on or after January 1, 2000, the special allowance percentage is computed by:

(1) determining the average of the bond equivalent rates of 3-month commercial paper (financial) rates quoted for that quarter;

(2) subtracting the applicable borrower interest rate;

(3) adding the applicable special allowance margin described in the table below; and

(4) dividing the resultant percentage by 4.

If the result is negative, the SAP is zero.

| Date of First Disbursement | Special Allowance Margin |
|---|---|
| From 01/01/00 through 09/30/07 | 1.74% for Stafford Loans that are in In-School, Grace or Deferment<br>2.34% for Stafford Loans that are in Repayment<br>2.64% for PLUS and FFELP Consolidation Loans |
| From 10/01/07 and after | 1.19% for Stafford Loans that are in In-School, Grace or Deferment<br>1.79% for Stafford Loans that are in Repayment and PLUS<br>2.09% for FFELP Consolidation Loans<br>Note: The margins for loans held by an eligible not-for-profit holder is higher by 15 basis points. |

- Special Allowance Payments are available on variable rate PLUS Loans and SLS Loans only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. Effective July 1, 2006, this limitation on special allowance for PLUS Loans made on and after January 1, 2000 is repealed. The variable rate is based on the weekly average one-year constant maturity Treasury yield for loans made before July 1, 1998 and based on the 91-day Treasury bill for loans made on or after July 1, 1998. The maximum borrower rate for these loans is between 9 percent and 12 percent.

**Fees**

*Origination Fee.* An origination fee must be paid to ED for all Stafford and PLUS Loans originated in the FFELP. An origination fee is not paid on a Consolidation Loan.

A 3% origination fee must be deducted from the amount of each PLUS Loan.

An origination fee may be, but is not required to be, deducted from the amount of a Stafford loan according to the following table:

| Date of First Disbursement | Maximum Origination Fee |
|---|---|
| Before 07/01/06 | 3% |
| From 7/01/06 through 06/30/07 | 2% |
| From 7/01/07 through 06/30/08 | 1.5% |
| From 7/01/08 through 06/30/09 | 1% |
| From 7/01/09 through 06/30/10 | .5% |
| From 7/01/10 and after | 0% |

*Federal Default Fee.* A federal default fee up to 1% (previously called an insurance premium) may be, but is not required to be, deducted from the amount of a Stafford and PLUS Loan. A federal default fee is not deducted from the amount of a Consolidation Loan.

*Lender Loan Fee.* A lender loan fee is paid to ED on the amount of each loan disbursement of all FFELP loans. For loans disbursed from October 1, 1993 to September 30, 2007, the fee was .50% of the loan amount. The fee increased to 1.0% of the loan amount for loans disbursed on or after October 1, 2007.

*Loan Rebate Fee.* A loan rebate fee of 1.05% is paid annually on the unpaid principal and interest of each Consolidation Loan disbursed on or after October 1, 1993. This fee was reduced to .62% for loans made from October 1, 1998 to January 31, 1999.

**Stafford Loan Program**

For Stafford Loans, the HEA provides for:

- federal reinsurance of Stafford Loans made by eligible lenders to qualified students;
- federal interest subsidy payments on Subsidized Stafford Loans paid by ED to holders of the loans in lieu of the borrowers' making interest payments during in-school, grace and deferment periods; and

- special allowance payments representing an additional subsidy paid by ED to the holders of eligible Stafford Loans.

We refer to all three types of assistance as “federal assistance.”

*Interest.* The borrower’s interest rate on a Stafford Loan can be fixed or variable. Variable rates are reset annually each July 1 based on the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held before the preceding June 1. Stafford Loan interest rates are presented below.

| Trigger Date | Borrower Rate | Maximum Borrower Rate | Interest Rate Margin |
|---|---|---|---|
| Before 01/01/81 | 7% | 7% | N/A |
| From 01/01/81 through 09/12/83 | 9% | 9% | N/A |
| From 09/13/83 through 06/30/88 | 8% | 8% | N/A |
| From 07/01/88 through 09/30/92 | 8% for 48 months; thereafter, 91-day Treasury + Interest Rate Margin | 8% for 48 months, then 10% | 3.25% for loans made before 7/23/92 and for loans made on or before 10/1/92 to new student borrowers; 3.10% for loans made after 7/23/92 and before 7/1/94 to borrowers with outstanding FFELP loans |
| From 10/01/92 through 06/30/94 | 91-day Treasury + Interest Rate Margin | 9% | 3.10% |
| From 07/01/94 through 06/30/95 | 91-day Treasury + Interest Rate Margin | 8.25% | 3.10% |
| From 07/01/95 through 06/30/98 | 91-day Treasury + Interest Rate Margin | 8.25% | 2.50% (In-School, Grace or Deferment); 3.10% (Repayment) |
| From 07/01/98 through 06/30/06 | 91-day Treasury + Interest Rate Margin | 8.25% | 1.70% (In-School, Grace or Deferment); 2.30% (Repayment) |
| From 07/01/06 through 06/30/08 | 6.8% | 6.8% | N/A |
| From 07/01/08 through 06/30/09 | 6.0% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate subsidized loans. | 6.0%, 6.8% | N/A |
| From 07/01/09 through 06/30/10 | 5.6% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate subsidized loans. | 5.6%, 6.8% | N/A |
| From 07/01/10 through 06/30/11 | 4.5% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate subsidized loans. | 4.5%, 6.8% | N/A |
| From 07/01/11 through 06/30/12 | 3.4% for undergraduate subsidized loans; and 6.8% for unsubsidized loans and graduate subsidized loans. | 3.4%, 6.8% | N/A |
| From 07/01/12 and after | 6.8% | 6.8% | N/A |

The trigger date for Stafford Loans made before October 1, 1992 is the first day of the enrollment period for which the borrower’s first Stafford Loan is made. The trigger date for Stafford Loans made on or after October 1, 1992 is the date of the disbursement of the borrower’s Stafford Loan.

*Interest Subsidy Payments.* ED is responsible for paying interest on Subsidized Stafford Loans:

- while the borrower is a qualified student,
- during the grace period, and
- during prescribed deferral periods.

ED makes quarterly interest subsidy payments to the owner of a Subsidized Stafford Loan in an amount equal to the interest that accrues on the unpaid balance of that loan before repayment begins or during any deferral periods. The HEA provides that the owner of an eligible Subsidized Stafford Loan has a contractual right against the United States to receive interest subsidy and special allowance payments.

However, receipt of interest subsidy and special allowance payments is conditioned on compliance with the requirements of the HEA.

Lenders generally receive interest subsidy and special allowance payments within 45 days to 60 days after submitting the applicable data for any given calendar quarter to ED. However, there can be no assurance that payments will, in fact, be received from ED within that period.

If the loan is not held by an eligible lender in accordance with the requirements of the HEA and the applicable guarantee agreement, the loan may lose its federal assistance.

*Loan Limits.* The HEA generally requires that lenders disburse student loans in at least two equal disbursements. The HEA limits the amount a student can borrow in any academic year. The following chart shows loan limits applicable to loans first disbursed on or after July 1, 2008.

| | Dependent Student | | | Independent Student | | |
|---|---|---|---|---|---|---|
| **Borrower Academic Level** | **Subsidized and Unsubsidized** | **Additional Unsubsidized** | **Maximum Annual Total Amount** | **Subsidized and Unsubsidized** | **Additional Unsubsidized** | **Maximum Annual Total Amount** |
| Undergraduate (per year) | | | | | | |
| 1(st) year | $ 3,500 | $2,000 | $ 5,500 | $ 3,500 | $ 6,000 | $ 9,500 |
| 2(nd) year | $ 4,500 | $2,000 | $ 6,500 | $ 4,500 | $ 6,000 | $ 10,500 |
| 3(rd) year and above | $ 5,500 | $2,000 | $ 7,500 | $ 5,500 | $ 7,000 | $ 12,500 |
| Aggregate Limit | $23,000 | $8,000 | $31,000 | $23,000 | $34,500 | $ 57,500 |
| Graduate (per year) | N/A | N/A | N/A | $ 8,500 | $12,000 | $ 20,500 |
| Aggregate Limit (includes undergraduate) | N/A | N/A | N/A | $65,500 | $73,000 | $138,500 |

The following charts show historic loan limits:

| | Dependent Student | Independent Student | | |
|---|---|---|---|---|
| **Borrower Academic Level** | **Subsidized and Unsubsidized On or After 07/1/07** | **Subsidized and Unsubsidized On or After 07/1/07** | **Additional Unsubsidized On or After 07/1/07** | **Maximum Annual Total Amount** |
| Undergraduate (per year) | | | | |
| 1(st) year | $ 3,500 | $ 3,500 | $ 4,000 | $ 7,500 |
| 2(nd) year | $ 4,500 | $ 4,500 | $ 4,000 | $ 8,500 |
| 3(rd) year and above | $ 5,500 | $ 5,500 | $ 5,000 | $ 10,500 |
| Aggregate Limit | $23,000 | $23,000 | $23,000 | $ 46,000 |
| Graduate (per year) | N/A | $ 8,500 | $12,000 | $ 20,500 |
| Aggregate Limit (includes undergraduate) | N/A | $65,500 | $73,000 | $138,500 |

| Borrower's Academic Level Base Amount Subsidized and Unsubsidized On or After 10/1/93 | Subsidized On or After 1/1/87 | All Students Subsidized and Unsubsidized On or After 10/1/93 | Independent Students | |
|---|---|---|---|---|
| | | | Additional Unsubsidized Only On or After 7/1/94 | Maximum Annual Total Amount |
| Undergraduate (per year): | | | | |
| 1st year | $ 2,625 | $ 2,625 | $ 4,000 | $ 6,625 |
| 2nd year | $ 2,625 | $ 3,500 | $ 4,000 | $ 7,500 |
| 3rd year and above | $ 4,000 | $ 5,500 | $ 5,000 | $ 10,500 |
| Graduate (per year) | $ 7,500 | $ 8,500 | $10,000 | $ 18,500 |
| Aggregate Limit: | | | | |
| Undergraduate | $17,250 | $23,000 | $23,000 | $ 46,000 |
| Graduate (including undergraduate) | $54,750 | $65,500 | $73,000 | $138,500 |

For the purposes of the tables above:

- The loan limits include both FFELP and DSLP loans.
- The amounts in the columns labeled "Subsidized and Unsubsidized" represent the combined maximum loan amount per year between Subsidized and Unsubsidized Stafford Loans. Accordingly, the maximum amount that a student may borrow under an Unsubsidized Stafford Loan is the difference between the combined maximum loan amount and the amount the student received in the form of a Subsidized Stafford Loan.

Independent undergraduate students, graduate students and professional students may borrow the additional amounts shown in the next to last columns in the charts above. Dependent undergraduate students may also receive these additional loan amounts if their parents are unable to provide the family contribution amount and it is unlikely that they will qualify for a PLUS Loan.

- Students attending certain medical schools are eligible for higher annual and aggregate loan limits.
- The annual loan limits are sometimes reduced when the student is enrolled in a program of less than one academic year or has less than a full academic year remaining in his program.

*Repayment.* Repayment of a Stafford Loan begins 6 months after the student ceases to be enrolled at least half time. In general, each loan must be scheduled for repayment over a period of not more than 10 years after repayment begins. New borrowers on or after October 7, 1998 who accumulate outstanding loans under the FFELP totaling more than $30,000 are entitled to extend repayment for up to 25 years, subject to minimum repayment amounts and FFELP Consolidation Loan borrowers may be scheduled for repayment up to 30 years depending on the borrower's indebtedness. The HEA currently requires minimum annual payments of $600, unless the borrower and the lender agree to lower payments, except that negative amortization is not allowed. The Act and related regulations require lenders to offer the choice of a standard, graduated, income-sensitive and extended repayment schedule, if applicable, to all borrowers entering repayment. The 2007 legislation introduces an income-based repayment plan on July 1, 2009 that a student borrower may elect during a period of partial financial hardship and have annual payments that do not exceed 15% of the amount by which adjusted gross income exceeds 150% of the poverty line. The Secretary repays or cancels any outstanding principal and interest under certain criteria after 25 years.

*Grace Periods, Deferral Periods and Forbearance Periods.* After the borrower stops pursuing at least a half-time course of study, he must begin to repay principal of a Stafford Loan following the grace period. However, no principal repayments need be made, subject to some conditions, during deferment and forbearance periods.

For borrowers whose first loans are disbursed on or after July 1, 1993, repayment of principal may be deferred while the borrower returns to school at least half-time. Additional deferrals are available, when the borrower is:

- enrolled in an approved graduate fellowship program or rehabilitation program; or
- seeking, but unable to find, full-time employment (subject to a maximum deferment of 3 years); or
- having an economic hardship, as defined in the Act (subject to a maximum deferment of 3 years); or
- serving on active duty during a war or other military operation or national emergency, or performing qualifying National Guard duty during a war or other military operation or national emergency (subject to a maximum deferment of 3 years, and effective July 1, 2006 on loans made on or after July 1, 2001).

The HEA also permits, and in some cases requires, “forbearance” periods from loan collection in some circumstances. Interest that accrues during forbearance is never subsidized. Interest that accrues during deferment periods may be subsidized.

**PLUS and SLS Loan Programs**

The HEA authorizes PLUS Loans to be made to graduate or professional students (effective July 1, 2006) and parents of eligible dependent students and previously authorized SLS Loans to be made to the categories of students now served by the Unsubsidized Stafford Loan program. Borrowers who have no adverse credit history or who are able to secure an endorser without an adverse credit history are eligible for PLUS Loans, as well as some borrowers with extenuating circumstances. The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans for federal insurance and reinsurance. However, interest subsidy payments are not available under the PLUS and SLS programs and, in some instances, special allowance payments are more restricted.

*Parent PLUS Loan Auction Pilot Program.* The 2007 legislation creates a pilot program for parent PLUS loans on July 1, 2009. The Secretary will administer an auction for each state every two years with two winning eligible lenders. Competing lenders will bid based on the amount of SAP the lender is willing to receive from the Secretary, not to exceed CP plus 1.79%. Winning lenders will originate parent PLUS loans to institutions in the state. The Secretary will guarantee 99% of principal and interest against losses from default. PLUS loans will be exempt from lender loan fees. Originating lenders may consolidate PLUS loans and be exempt from paying a consolidation rebate fee. This program has not been implemented.

*Loan Limits.* PLUS and SLS Loans disbursed before July 1, 1993 were limited to $4,000 per academic year with a maximum aggregate amount of $20,000.

The annual and aggregate amounts of PLUS Loans first disbursed on or after July 1, 1993 are limited only to the difference between the cost of the student’s education and other financial aid received, including scholarship, grants and other student loans.

*Interest.* The interest rate for a PLUS or SLS Loan depends on the date of disbursement and period of enrollment. The interest rates for PLUS Loans and SLS Loans are presented in the following chart. Until July 1, 2001, the 1-year index was the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to each June 1. Beginning July 1, 2001, the 1-year index is the weekly average 1-year constant maturity Treasury yield determined the preceding June 26.

| Trigger Date | Borrower Rate | Maximum Borrower Rate | Interest Rate Margin |
|---|---|---|---|
| Before 10/01/81 | 9% | 9% | N/A |
| From 10/01/81 through 10/30/82 | 14% | 14% | N/A |
| From 11/01/82 through 06/30/87 | 12% | 12% | N/A |
| From 07/01/87 through 09/30/92 | 1-year Index + Interest Rate Margin | 12% | 3.25% |
| From 10/01/92 through 06/30/94 | 1-year Index + Interest Rate Margin | PLUS 10%, SLS 11% | 3.10% |
| From 07/01/94 through 06/30/98 | 1-year Index + Interest Rate Margin | 9% | 3.10% |
| From 6/30/98 through 06/30/06 | 91-day Treasury + Interest Rate Margin | 9% | 3.10% |
| From 07/01/06 and after | 8.5% | 8.5% | N/A |

For PLUS and SLS Loans made before October 1, 1992, the trigger date is the first day of the enrollment period for which the loan was made. For PLUS and SLS Loans made on or after October 1, 1992, the trigger date is the date of the disbursement of the loan.

A holder of a PLUS or SLS Loan is eligible to receive special allowance payments during any quarter if:

- the borrower rate is set at the maximum borrower rate and
- the sum of the average of the bond equivalent rates of 3-month Treasury bills auctioned during that quarter and the applicable interest rate margin exceeds the maximum borrower rate.

Effective July 1, 2006, this limitation on special allowance for PLUS Loans made on and after January 1, 2000 is repealed.

*Repayment, Deferments.* Borrowers begin to repay principal of their PLUS and SLS Loans no later than 60 days after the final disbursement unless they use deferment available for the in-school period and the 6-month post enrollment period. Deferment and forbearance provisions, maximum loan repayment periods, repayment plans and minimum payment amounts for PLUS and SLS Loans are generally the same as those for Stafford Loans.

**Consolidation Loan Program**

The HEA also authorizes a program under which borrowers may consolidate one or more of their student loans into a single FFELP Consolidation Loan that is insured and reinsured on a basis similar to Stafford and PLUS Loans. FFELP Consolidation Loans are made in an amount sufficient to pay outstanding principal, unpaid interest, late charges and collection costs on all federally reinsured student loans incurred under the FFELP that the borrower selects for consolidation, as well as loans made under various other federal student loan programs and loans made by different lenders. In general, a borrower's eligibility to consolidate FFELP student loans ends upon receipt of a FFELP Consolidation Loan. Under certain circumstances, a FFELP borrower may obtain a Consolidation Loan under the DSLP.

FFELP Consolidation Loans made on or after July 1, 1994 have no minimum loan amount, although FFELP Consolidation Loans for less than $7,500 do not enjoy an extended repayment period. Applications for FFELP Consolidation Loans received on or after January 1, 1993 but before July 1, 1994 were available only to borrowers who had aggregate outstanding student loan balances of at least $7,500. For applications received before January 1, 1993, FFELP Consolidation Loans were available only to borrowers who had aggregate outstanding student loan balances of at least $5,000.

To obtain a FFELP Consolidation Loan, the borrower must be either in repayment status or in a grace period before repayment begins. In addition, for applications received before January 1, 1993, the borrower must not have been delinquent by more than 90 days on any student loan payment. Prior to July 1, 2006, married couples who were eligible to consolidate agreed to be jointly and severally liable and were treated as one borrower for purposes of loan consolidation eligibility.

FFELP Consolidation Loans bear interest at a fixed rate equal to the greater of the weighted average of the interest rates on the unpaid principal balances of the consolidated loans and 9 percent for loans originated before July 1, 1994. For FFELP Consolidation Loans made on or after July 1, 1994 and for which applications were received before November 13, 1997, the weighted average interest rate is rounded up to the nearest whole percent. FFELP Consolidation Loans made on or after July 1, 1994 for which applications were received on or after November 13, 1997 through September 30, 1998 bear interest at the annual variable rate applicable to Stafford Loans subject to a cap of 8.25 percent. FFELP Consolidation Loans for which the application is received on or after October 1, 1998 bear interest at a fixed rate equal to the weighted average interest rate of the loans being consolidated rounded up to the nearest one-eighth of one percent, subject to a cap of 8.25 percent.

Interest on FFELP Consolidation Loans accrues and, for applications received before January 1, 1993, is paid without interest subsidy by ED. For FFELP Consolidation Loans for which applications were received between January 1 and August 10, 1993, all interest of the borrower is paid during deferral periods. FFELP Consolidation Loans for which applications were received on or after August 10, 1993 are only subsidized if all of the underlying loans being consolidated were Subsidized Stafford Loans. In the case of FFELP Consolidation Loans made on or after November 13, 1997, the portion of a Consolidation Loan that is comprised of Subsidized FFELP Loans and Subsidized DSLP Loans retains subsidy benefits during deferral periods.

No insurance premium is charged to a borrower or a lender in connection with a Consolidation Loan. However, lenders must pay a monthly rebate fee to ED at an annualized rate of 1.05 percent on principal and interest on FFELP Consolidation Loans for loans disbursed on or after October 1, 1993, and at an annualized rate of 0.62 percent for Consolidation Loan applications received between October 1, 1998 and January 31, 1999. The rate for special allowance payments for FFELP Consolidation Loans is determined in the same manner as for other FFELP loans.

A borrower must begin to repay his Consolidation Loan within 60 days after his consolidated loans have been discharged. For applications received on or after January 1, 1993, repayment schedule options include standard, graduated, income-sensitive, extended (for new borrowers on or after October 7, 1998), and income-based (effective July 1, 2009) repayment plans, and loans are repaid over periods determined by the sum of the Consolidation Loan and the amount of the borrower's other eligible student loans outstanding. The maximum maturity schedule is 30 years for indebtedness of $60,000 or more.

**Guarantee Agencies under the FFELP**

Under the FFELP, guarantee agencies guarantee (or insure) loans made by eligible lending institutions. Student loans are guaranteed as to 100 percent of principal and accrued interest against death or discharge. Guarantee agencies also guarantee lenders against default. For loans that were made before October 1, 1993, lenders are insured for 100 percent of the principal and unpaid accrued interest. From October 1, 1993 to June 30, 2006, lenders are insured for 98 percent of principal and all unpaid accrued interest or 100 percent of principal and all unpaid accrued interest if it receives an Exceptional Performance designation by ED. Insurance for loans made on or after July 1, 2006 was reduced from 98 percent to 97 percent, and insurance for claim requests on or after July 1, 2006 under an Exceptional Performance designation was reduced from 100 percent to 99 percent. The Exceptional Performance designation was eliminated (and the monetary benefit associated with it) effective October 1, 2007. Default insurance will be reduced to 95 percent of the unpaid principal and accrued interest for loans first disbursed on or after October 1, 2012.

ED reinsures Guarantors for amounts paid to lenders on loans that are discharged or defaulted. The reimbursement on discharged loans is for 100 percent of the amount paid to the holder. The reimbursement rate for defaulted loans decreases as a Guarantor's default rate increases. The first trigger for a lower reinsurance rate is when the amount of defaulted loan reimbursements exceeds 5 percent of the amount of all loans guaranteed by the agency in repayment status at the beginning of the federal fiscal year. The second

trigger is when the amount of defaults exceeds 9 percent of the loans in repayment. Guarantee agency reinsurance rates are presented in the table below.

| Claims Paid Date | Maximum | 5% Trigger | 9% Trigger |
|---|---|---|---|
| Before October 1, 1993 | 100% | 90% | 80% |
| October 1, 1993 – September 30, 1998 | 98% | 88% | 78% |
| On or after October 1, 1998 | 95% | 85% | 75% |

After ED reimburses a Guarantor for a default claim, the Guarantor attempts to collect the loan from the borrower. However, ED requires that the defaulted guaranteed loans be assigned to it when the Guarantor is not successful. A Guarantor also refers defaulted guaranteed loans to ED to "offset" any federal income tax refunds or other federal reimbursement which may be due the borrowers. Some states have similar offset programs.

To be eligible for federal reinsurance, guaranteed loans must meet the requirements of the HEA and regulations issued under the HEA. Generally, these regulations require that lenders determine whether the applicant is an eligible borrower attending an eligible institution, explain to borrowers their responsibilities under the loan, ensure that the promissory notes evidencing the loan are executed by the borrower; and disburse the loan proceeds as required. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferrals and forbearances, credit the borrower for payments made, and report the loan's status to credit reporting agencies. If a borrower becomes delinquent in repaying a loan, a lender must perform collection procedures that vary depending upon the length of time a loan is delinquent. The collection procedures consist of telephone calls, demand letters, skiptracing procedures and requesting assistance from the Guarantor.

A lender may submit a default claim to the Guarantor after a student loan has been delinquent for at least 270 days. The Guarantor must review and pay the claim within 90 days after the lender filed it. The Guarantor will pay the lender interest accrued on the loan for up to 450 days after delinquency. The guarantor must file a reimbursement claim with ED within 45 days (reduced to 30 days July 1, 2006) after the guarantor paid the lender for the default claim. Following payment of claims, the Guarantor endeavors to collect the loan. Guarantors also must meet statutory and regulatory requirements for collecting loans.

**Student Loan Discharges**

FFELP loans are not generally dischargeable in bankruptcy. Under the United States Bankruptcy Code, before a student loan may be discharged, the borrower must demonstrate that repaying it would cause the borrower or his family undue hardship. When a FFELP borrower files for bankruptcy, collection of the loan is suspended during the time of the proceeding. If the borrower files under the "wage earner" provisions of the Bankruptcy Code or files a petition for discharge on the ground of undue hardship, then the lender transfers the loan to the guarantee agency which then participates in the bankruptcy proceeding. When the proceeding is complete, unless there was a finding of undue hardship, the loan is transferred back to the lender and collection resumes.

Student loans are discharged if the borrower died or becomes totally and permanently disabled. A physician must certify eligibility for a total and permanent disability discharge. Effective January 29, 2007, discharge eligibility was extended to survivors of eligible public servants and certain other eligible victims of the terrorist attacks on the United States on September 11, 2001.

If a school closes while a student is enrolled, or within 90 days after the student withdrew, loans made for that enrollment period are discharged. If a school falsely certifies that a borrower is eligible for the loan, the loan may be discharged. And if a school fails to make a refund to which a student is entitled, the loan is discharged to the extent of the unpaid refund.

**Rehabilitation of Defaulted Loans**

ED is authorized to enter into agreements with the Guarantor under which the Guarantor may sell defaulted loans that are eligible for rehabilitation to an eligible lender. For a loan to be eligible for rehabilitation, the Guarantor must have received reasonable and affordable payments for 12 months (reduced to 9 payments in 10 months effective July 1, 2006), then the borrower may request that the loan be

rehabilitated. Because monthly payments are usually greater after rehabilitation, not all borrowers opt for rehabilitation. Upon rehabilitation, a borrower is again eligible for all the benefits under the HEA for which he or she is not eligible as a default, such as new federal aid, and the negative credit record is expunged. No student loan may be rehabilitated more than once.

The July 1, 2009 technical corrections made to the HEA under H.R. 1777, Public Law 111-39, provide authority between July 1, 2009 through September 30, 2011, for a guaranty agency to assign a defaulted loan to ED depending on market conditions.

**Guarantor Funding**

In addition to providing the primary guarantee on FFELP loans, guarantee agencies are charged with responsibility for maintaining records on all loans on which they have issued a guarantee ("account maintenance"), assisting lenders to prevent default by delinquent borrowers ("default aversion"), post-default loan administration and collections and program awareness and oversight. These activities are funded by revenues from the following statutorily prescribed sources plus earnings on investments.

| Source | Basis |
|---|---|
| Insurance Premium (Changed to Federal Default Fee July 1, 2006) | Up to 1% of the principal amount guaranteed, withheld from the proceeds of each loan disbursement. |
| Loan Processing and Issuance Fee | .4% of the principal amount guaranteed in each fiscal year, paid by ED |
| Account Maintenance Fee | .10% (reduced to .06% on October 1, 2007) of the original principal amount of loans outstanding, paid by ED. |
| Default Aversion Fee | 1% of the outstanding amount of loans submitted by a lender for default aversion assistance, minus 1% of the unpaid principal and interest paid on default claims, which is, paid once per loan by transfers out of the Student Loan Reserve Fund. |
| Collection Retention | 23% (reduced to 16% on October 1, 2007) of the amount collected on loans on which reinsurance has been paid (18.5% collected for a defaulted loan that is purchased by a lender for rehabilitation or consolidation), withheld from gross receipts. Guarantor retention of collection fees on defaulted FFELP Consolidation Loans is reduced from 18.5% to 10% (effective October 1, 2006), and reduced to zero beginning October 1, 2009 on default consolidations that exceed 45 percent of an agency's total collections on defaulted loans. |

The Act requires guaranty agencies to establish two funds: a Student Loan Reserve Fund and an Agency Operating Fund. The Student Loan Reserve Fund contains the reinsurance payments received from ED, Insurance Premiums and the complement of the reinsurance on recoveries. The fund is federal property and its assets may only be used to pay insurance claims and to pay Default Aversion Fees. Recoveries on defaulted loans are deposited into the Agency Operating Fund. The Agency Operating Fund is the Guarantor's property and is not subject to as strict limitations on its use.

If ED determines that a Guarantor is unable to meet its insurance obligations, the holders of loans guaranteed by that Guarantor may submit claims directly to ED and ED is required to pay the full guarantee payments due, in accordance with guarantee claim processing standards no more stringent than those applied by the terminated Guarantor. However, ED's obligation to pay guarantee claims directly in this fashion is contingent upon its making the determination referred to above.

## GLOSSARY

Listed below are definitions of key terms that are used throughout this document. See also APPENDIX A, "FEDERAL FAMILY EDUCATION LOAN PROGRAM," for a further discussion of the FFELP.

**Consolidation Loan Rebate Fee** — All holders of FFELP 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 FFELP 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 prepay 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.

**"Core Earnings"** — The Company prepares financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management evaluates the Company's business segments on a basis that, as allowed under the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 280, "Segment Reporting," differs from GAAP. The Company refers to management's basis of evaluating its segment results as "Core Earnings" presentations for each business segment and refers to these performance measures in its presentations with credit rating agencies and lenders. While "Core Earnings" results are not a substitute for reported results under GAAP, the Company relies on "Core Earnings" performance measures 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" performance measures 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 the Company's chief operating decision makers. "Core Earnings" performance measures are used in developing the Company's financial plans, tracking results, and establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company's core business activities. "Core Earnings" performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core Earnings" net income reflects only current period adjustments to GAAP net income. Accordingly, the Company's 'Core Earnings" presentation does not represent another comprehensive basis of accounting.

See Note 20, "Segment Reporting," to the consolidated financial statements and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — BUSINESS SEGMENTS — Limitations of 'Core Earnings' — *Pre-tax Differences between 'Core Earnings' and GAAP by Business Segment"* for further discussion of the differences between "Core Earnings" and GAAP, as well as reconciliations between "Core Earnings" and GAAP.

In prior filings with the SEC of SLM Corporation's annual reports on Form 10-K and quarterly reports on Form 10-Q, "Core Earnings" has been labeled as " 'Core' net income" or "Managed net income" in certain instances.

**Direct Lending; Direct Loans** — Educational loans provided by the DSLP (see definition, below) to students and parent borrowers directly through ED (see definition below) rather than through a bank or other lender.

**DSLP** — The William D. Ford Federal Direct Loan Program.

**Economic Floor Income** — Economic Floor Income equals Gross Floor Income earned on Managed loans, minus the payments on Floor Income Contracts, plus the amortization of net premiums on both Fixed Rate and Variable Rate Floor Income Contracts (see definitions for capitalized terms, below).

**ED** — The U.S. Department of Education.

**Embedded 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 the Company. At the time of the securitization, the 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")** — The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP Loans. Upon receiving the EP designation, the EP servicer receives reimbursement on default claims higher than the legislated Risk Sharing (see definition below) levels on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default. 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, Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance. The College Cost Reduction Act of 2007 ("CCRAA") eliminated the EP designation effective October 1, 2007. See also Appendix A, "FEDERAL FAMILY EDUCATION LOAN PROGRAM."

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

**FFELP Consolidation Loans** — Under the FFELP, borrowers with multiple eligible student loans may consolidate them into a single student loan with one lender at a fixed rate for the life of the loan. The new loan is considered a FFELP Consolidation Loan. Typically a borrower may consolidate his student loans only once unless the borrower has another eligible loan to consolidate with the existing FFELP Consolidation Loan. The borrower rate on a FFELP 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, FFELP 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 FFELP Consolidation Loans are eligible to earn interest under the Special Allowance Payment ("SAP") formula (see definition below). In April 2008, the Company suspended originating new FFELP Consolidation Loans.

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

**Fixed Rate Floor Income** — Fixed Rate Floor Income is Floor Income (see definition below) associated with student loans with borrower rates that are fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006).

**Floor Income** — FFELP loans generally earn interest at the higher of either the borrower rate, which is fixed over a period of time, or a floating rate based on the SAP formula (see definition below). The Company generally finances its student loan portfolio with floating rate debt whose interest is matched closely to the floating nature of the applicable SAP formula. If interest rates decline to a level at which the borrower rate exceeds the SAP formula rate, the Company continues to earn interest on the loan at the fixed borrower rate while the floating rate interest on our debt continues to decline. In these interest rate environments, the Company refers to the additional spread it earns between the fixed borrower rate and the SAP formula rate as Floor Income. Depending on the type of 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, the Company 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, the Company may earn Floor Income to the next reset date. In accordance with legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all FFELP loans disbursed on or after April 1, 2006.

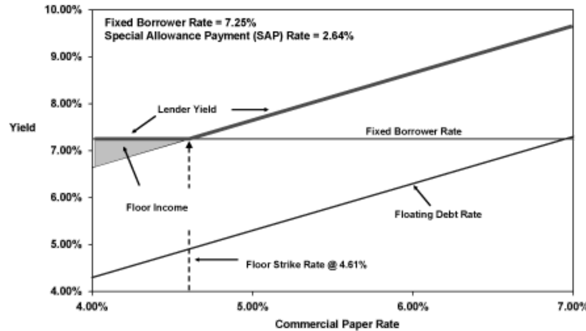
The following example shows the mechanics of Floor Income for a typical fixed rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

| | |
|---|---|
| Fixed Borrower Rate | 7.25% |
| SAP Spread over Commercial Paper Rate | (2.64)% |
| Floor Strike Rate(1) | 4.61% |

(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 4.61 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 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent.

***Graphic Depiction of Floor Income:***




**Floor Income Contracts** — The Company enters into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that the Company expects to earn on a notional amount of underlying student loans being economically hedged, the Company will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, the Company agrees 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 the Company will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under ASC 815, “Derivatives and Hedging,” and each quarter the Company must record the change in fair value of these contracts through income.

**Gross Floor Income** — Floor Income earned before payments on Floor Income Contracts.

**Guarantor(s)** — State agencies or non-profit companies that guarantee (or insure) FFELP loans made by eligible lenders under The Higher Education Act of 1965 (“HEA”), as amended.

**Lender Partners** — Lender Partners are lenders who originate loans under forward purchase commitments under which the Company owns the loans from inception or, in most cases, acquires the loans soon after origination.

**Managed Basis** — The Company generally analyzes the performance of its student loan portfolio on a Managed Basis. The Company views 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.

**Private Education Loans** — Education loans to students or parents of students that are not guaranteed under the FFELP. Private Education Loans include loans for higher education (undergraduate and graduate degrees) and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. The Company's higher education Private Education Loans are not dischargeable in bankruptcy, except in certain limited circumstances. Repayment for alternative education generally begins immediately.

In the context of the Company's Private Education Loan business, the Company uses the term "non-traditional loans" to describe education loans made to certain borrowers that have or are expected to have a high default rate as a result of a number of factors, including having a lower tier credit rating, low program completion and graduation rates or, where the borrower is expected to graduate, a low expected income relative to the borrower's cost of attendance.

**Proposed Merger** — On April 16, 2007, the Company announced that a buyer group ("Buyer Group") led by J.C. Flowers & Co. ("J.C. Flowers"), Bank of America, N.A. and JPMorgan Chase, N.A. (the "Merger") had signed a definitive agreement ("Merger Agreement") to acquire the Company for approximately $25.3 billion or $60.00 per share of common stock. (See also "Merger Agreement" filed with the SEC on the Company's Current Report on Form 8-K, dated April 18, 2007.) On January 25, 2008, the Company, Mustang Holding Company Inc. ("Mustang Holding"), Mustang Merger Sub, Inc. ("Mustang Sub"), J.C. Flowers, Bank of America, N.A. and JPMorgan Chase Bank, N.A. entered into a Settlement, Termination and Release Agreement (the "Agreement"). Under the Agreement, a lawsuit filed by the Company related to the Merger, as well as all counterclaims, was dismissed.

**Repayment Borrower Benefits** — Financial incentives offered to borrowers based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Repayment Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and the amount of the financial benefit offered to the borrower. The Company occasionally changes Repayment Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Repayment Borrower Benefits discount when made.

**Residual Interest** — When the Company securitizes student loans, it retains the right to receive cash flows from the student loans sold to trusts that it sponsors 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 any Embedded Fixed Rate Floor Income described above. The Company values the Residual Interest at the time of sale of the student loans to the trust and as of 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) for our securitization transactions accounted for as sales.

**Risk Sharing** — When a FFELP loan first disbursed on and after July 1, 2006 defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan is at risk for the remaining amount not guaranteed as a Risk

Sharing loss on the loan. FFELP loans originated 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 Exceptional Performer designation from ED were subject to one-percent Risk Sharing for claims filed on or after July 1, 2006 and before October 1, 2007. The CCRAA reduces default insurance to 95 percent of the unpaid principal and accrued interest for loans first disbursed on or after October 1, 2012.

**Special Allowance Payment ("SAP")** — FFELP loans disbursed prior to April 1, 2006 (with the exception of certain PLUS and SLS loans discussed below) 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 the Company. 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. The Company refers to the fixed spread to the underlying index as the SAP spread. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

A schedule of SAP rates is set forth on pages A-7 and A-8 of the Company's 2009 Annual Report on Form 10-K.

**Variable Rate Floor Income** — Variable Rate Floor Income is Floor Income that is earned only through the next reset date. For FFELP Stafford loans whose borrower interest rate resets annually on July 1, the Company may earn Floor Income or Embedded Floor Income based on a calculation of the difference between the borrower rate and the then current interest rate (see definitions for capitalized terms, above).

**Exhibit 10.36**

**Barry Feierstein**

CONFIDENTIAL AGREEMENT AND RELEASE

SLM Corporation and its subsidiaries, predecessors, and affiliates (collectively "SLM") and I have reached the following confidential understanding and agreement. In exchange for the Special Payments and other consideration listed below, I promise to comply fully with the terms of this Confidential Agreement and Release ("Agreement and Release"). In exchange for my promises, SLM agrees to provide me with the benefits listed below, certain of which I am not otherwise entitled.

(1) **Special Payments and Benefits:**

(a) Unless I have revoked this Agreement and Release pursuant to Section (8) below, SLM will pay me severance the following manner: a total amount of **$350,000,** less withholding taxes and other deductions required by law. This severance amount is equal to my annualized based salary. Such severance payment will be made in a lump sum no earlier than the eighth calendar day and no later than the twenty-first calendar day after my signature on this Agreement and Release.

(b) Unless I have revoked this Agreement and Release pursuant to Section (8) below, SLM will pay me additional severance the following manner: a total amount of **$160,200**, less withholding taxes and other deductions required by law. This severance amount is equal to my most recent 24 months of bonus compensation divided by two, including the extent to which the current year's target bonus is earned under the MIP. Such additional payment will be made in a lump sum no earlier than the eighth calendar day and no later than the twenty-first calendar day after my signature on this Agreement and Release.

(c) Rehiring: If I am rehired as an employee of SLM or any of its subsidiaries or affiliates within the 12-month period following my termination, I hereby agree to repay an amount of Section 1(a) (**$350,000** divided by 12 multiplied by the number of months remaining in the 12 month period following my termination, adjusted and reduced by the amount of taxes paid and withheld on that sum), within 30 days after rehire, as a condition of rehire to SLM or any of its subsidiaries or affiliates.

(d) Medical/Dental/Vision Continuation: My current medical, dental and vision coverage will continue through the end of the month of my termination. The first day of the month following my Termination Date, **December 1, 2009**, I will have the right to continue my current medical, dental and vision coverage through COBRA for up to 18 months. If I properly elect COBRA continuation coverage, SLM will pay directly to the insurance carrier the employer portion of the total cost of my medical, dental and vision insurance premiums for the 18th month period of **December 1, 2009 through May 31, 2011**.

(e) Executive Outplacement: I will be eligible to receive, at my option, professional outplacement services from placement firms of my choice for up to **twelve months** to assist me in seeking a new position in an amount of up to **$15,000**.

(f) Executive Physical: I will be eligible to obtain an executive physical in **2010** for up to **$5,000** to be paid for by SLM from one of the designated medical facilities.

(g) Vacation Payout: SLM will pay me **$13,462** for my **80 hours** of reserve vacation leave. Such payment will be made in a lump sum no earlier than the eighth calendar day after my signature on this Agreement and Release and no later than the twenty first calendar day and will be made in a lump sum less withholding taxes and other deductions required by law.

(h) Benefit Programs: I waive future coverage and benefits under all SLM disability programs, but this Agreement and Release does not affect my eligibility for other Company medical, dental, life insurance, retirement, and benefit plans. Whether I sign this Agreement and Release or not, I understand that my rights and continued participation in those plans will be governed by their terms, and that I generally will become ineligible for them shortly after my termination, after which I may be able to purchase continued coverage under certain of such plans. I understand that except for the benefits that may be due under 401(k) and other deferred compensation plans to which I may be entitled under SLM's standard employee benefit plans, that I will not receive any other wage, vacation, PTO, or other similar payments from SLM or any of the entities discussed in Section (2).

(i) For SLM equity vesting purposes, SLM deems my November 1, 2009 termination a job abolishment.

(j) Subject to any earlier payment provisions set forth above, and except for the benefits and payments described in 1(d) (medical/dental/vision continuation) and 1(h)(benefit programs), all payments or reimbursements described in this Section 1 shall be paid to me on or before March 1, 2010.

(2) **Release**: In consideration of the Special Payments and Benefits described above, I agree to release SLM, and all of its subsidiaries, affiliates, predecessors, successors, and all related companies, and all of its former and current officers, employees, directors, and benefits plan trustees of any of them (collectively "Released Parties") from all actions, charges, claims, demands, damages or liabilities of any kind or character whatsoever, known or unknown, which I now have or may have had through the date I sign this Agreement and Release. For example, I am releasing all common law contract, tort, or other claims I might have, as well as all claims I might have under the Age Discrimination in Employment Act (ADEA), the WARN Act, Title VII of the Civil Rights Act of 1964, Sections 1981 and 1983 of the Civil Rights Act of 1866, the Americans with Disabilities Act (ADA), the Employee Retirement Income Security Act of 1974 (ERISA), individual relief under the Sarbanes-Oxley Act of 2002 or American Recovery and Reinvestment Act of 2009, Virginians with Disabilities Act, Virginia Human Rights Act, Virginia Labor and Employment Code Section 40.1 et. seq., and any other federal, state or local laws, to the extent permissible by private agreement and consistent with applicable law. I further waive any right to payment of attorneys' fees, which I may have incurred. It is understood and agreed that by entering into this Agreement and Release, SLM does not admit any violation of law, or any of employee's rights, and has entered into this Agreement and Release solely in the interest of resolving finally all claims and issues relating to employee's employment and separation.

The parties expressly agree however, that nothing in this Release shall preclude my participation as a member of a class in any suit or regulatory action brought against the Released Parties arising out of or relating to any alleged securities violations or diminution in the value of SLM securities.

SLM agrees that the release under this paragraph 2 shall not cover and I reserve and do not waive my rights, directly or indirectly to seek further indemnification and/or contribution under the By-Laws of SLM. SLM hereby reaffirms that I am entitled to indemnification after termination of my employment, for actions taken in my capacity as an officer of SLM Corporation or applicable SLM Corporation subsidiaries under the bylaws of the applicable subsidiary or SLM (subject to the provisions of the By-Laws, which limit indemnity in certain circumstances).

SLM acknowledges that the SLM's Board of Directors passed a resolution on March 20, 2008 pertaining to the advancement of legal expenses for certain officers including me. I hereby agree to repay such legal fees and expenses advanced on my behalf by SLM and incurred by me in relation to (i) the consolidated class action styled *In Re SLM Securities Litigation* (formerly known as *Robert H. Burch v. SLM Corp.*, *Albert L. Lord, Charles Elliott (C.E.) Andrews and Robert S. Autor (*S.D.N.Y., 08-CV-01029)) (ii) the putative class actions relating to SLM's 401(k) Plans (currently styled as *In Re SLM ERISA Litigation* (formerly known as *Slaymon v. SLM Corporation et al*. (S.D.N.Y., 08-CV-4334), *Cordero v. SLM Corporation et al.* (S.D.N.Y., 08-CV-7285), and *Patel v. SLM Corporation et al.* (S.D.N.Y. 08-CV-7846)); and (iii) any related investigation or other proceeding that may subsequently be initiated by the SEC or other governmental or regulatory agencies as well as any shareholder or other private party litigation filed prior to the date hereof or subsequently in connection with related matters (collectively, the "Matters"), if it should ultimately be determined that I am not entitled to indemnification under SLM's bylaws, or otherwise. The foregoing undertaking shall cover each request for advancement of expenses submitted on or after the date hereof by the undersigned with respect to the Matters and shall supersede any undertaking made by the undersigned prior to the date hereof. At the time of my termination, no legal fees were advanced on my behalf.

(3) **Covenant Not To Sue**: Except as set forth in the proviso in Section 2 and otherwise set forth as follows, I agree not to sue the Released Parties with respect to any claims, demands, liabilities or obligations released by this Agreement and Release. The Parties agree, however, that nothing contained in this covenant not to sue or elsewhere in this Agreement and Release shall:

(a) prevent me from challenging, under the Older Workers Benefits Protection Act (29 U.S.C. §626), the knowing and voluntary nature of my release of any age claims in this Agreement and Release before a court, the Equal Employment Opportunity Commission ("EEOC"), or any other federal, state, or local agency;

(b) prevent me from enforcing any future claims or rights that arise under the Age Discrimination in Employment Act ("ADEA") after I have signed this Agreement and Release.

(c) prohibit or restrict me from: (i) making any disclosure of information required by law; (ii) filing a charge, testifying in, providing information to, or assisting in an investigation or proceeding brought by any governmental or regulatory body or official; or (iii) from testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal or state employment law or any federal law relating to fraud or any rule or regulation of the Securities and Exchange Commission or any self-regulatory organization.

Except with respect to the proviso in Section 2 regarding alleged securities violations and notwithstanding anything to the contrary in this paragraph, I hereby waive and release any right to receive any personal relief (for example, money) as a result of any investigation or proceeding of the U.S. Department of Labor, U.S. Department of Education Office of Inspector General, EEOC, or any federal, state, or local government agency or court. Further, with my waiver and release of claims in

this Agreement and Release, I specifically assign to the Released Parties my right to any recovery arising from any such investigation or proceeding.

(4) **Additional Representations and Promises**: I further acknowledge and agree that:

(a) I agree to return all SLM and Released Parties' property in my possession or control to them.

(b) I hereby represent and warrant that I have not reported any illegal conduct or activities to any supervisor, manager, department head, human resources representative, director, officer, agent or any other representative of SLM, any member of the legal or compliance departments, or to the Code of Business Conduct hotline and have no knowledge of any such illegal conduct or activities relating to my duties at SLM. I have disclosed to SLM any information I have concerning any conduct involving SLM that I have reason to believe may be unlawful or that involves any false claims to the United States. I promise to cooperate fully in any investigation SLM undertakes into matters occurring during my employment with SLM. I understand that nothing in this Agreement and Release prevents me from cooperating with any U.S. government investigation. In addition, to the fullest extent permitted by law, I hereby irrevocably assign to the U.S. government any right I might have to any proceeds or awards in connection with any false claims proceedings against SLM.

(c) If I breach any provisions of this Agreement and Release, I agree that I will pay for all reasonable costs incurred by SLM or any entities or individuals covered by this Agreement and Release, including reasonable attorneys' fees, in defending against my claim and seeking to uphold my release, if such breach is upheld under the arbitration provisions in Section 5.

(d) I promise to keep the terms of this Agreement and Release completely confidential except as may be required or permitted by statute, regulation or court order. Notwithstanding the foregoing, I may disclose such information to my immediate family and professional representatives, so long as they are informed and agree to be bound by this confidentiality clause. This Agreement and Release shall not be offered or received in evidence in any action or proceeding in any court, arbitration, administrative agency or other tribunal for any purpose whatsoever other than to carry out or enforce the provisions of this Agreement.

(e) I further promise not to disparage SLM, its business practices, products and services, or any other entity or person covered by this Agreement and Release.

(f) I understand that SLM in the future may change employee benefits or pay. I understand that my job may be refilled.

(g) I have not suffered any job-related wrongs or injuries, such as any type of discrimination, for which I might still be entitled to compensation or relief in the future. I have properly reported all hours that I have worked and I have been paid all wages, overtime, commissions, compensation, benefits, and other amounts that SLM or any Released Party should have paid me in the past.

(h) I intentionally am releasing claims that I do not know I might have and that, with hindsight, I might regret having released. I have not assigned or given away any of the claims that I am releasing.

(i) If SLM or I successfully assert that any provision in this Agreement and Release is void, the rest of the Agreement and Release shall remain valid and enforceable unless the other party to this Agreement and Release elects to cancel it. If this Agreement and Release is cancelled, I will repay the Special Payments I received for signing it, adjusted and reduced by the amount of taxes paid and withheld on that sum, with 10 percent annual interest.

(j) If I initially did not think any representation I am making in this Agreement and Release was true, or if I initially was uncomfortable making it, I resolved all my concerns before signing this Agreement and Release. I have carefully read this Agreement and Release, I fully understand what it means, I am entering into it knowingly and voluntarily, and all my representations in it are true. SLM would not have signed this Agreement and Release but for my promises and representations.

(5) **Arbitration of Disputes**: Except with respect to the proviso in Section 2 concerning securities litigation, SLM and I agree to resolve any disputes we may have with each other through final and binding arbitration. For example, I am agreeing to arbitrate any dispute about the validity of this Agreement and Release or any discrimination claim, which means that an Arbitrator and not a court of law will decide issues of arbitrability and of liability with respect to any claim I may bring; provided, however, that either party may pursue a temporary restraining order and/or preliminary injunctive relief, with expedited discovery where necessary, in a court of competent jurisdiction to protect common law or contractual trade secret or confidential information rights and to enforce the post-employment restrictions in Section 6. I also agree to resolve through final and binding arbitration any disputes I have with SLM, its affiliates, or any current or former officers, employees or directors who elects to arbitrate those disputes under this subsection. Arbitrations shall be conducted by JAMS (also known as Judicial Arbitration & Mediation Services) in accordance with its employment dispute resolution rules. This agreement to arbitrate does not apply to government agency proceedings, but does apply to any lawsuit I might bring, including but not limited to any lawsuit related to a government agency proceeding. By agreeing to this Agreement and Release, I understand that I am waiving my right to a jury trial.

(6) **Confidentiality, Non-Competition, and Non-Solicitation:** Confidentiality, Non-Competition, and Non-Solicitation: Except as required or permitted by statute, regulation or court order, or pursuant to written consent given by SLM's General Counsel, I agree not to disclose to anyone else any of the information or materials which are proprietary or trade secrets of SLM or are otherwise confidential. In addition, in consideration of the Special Payments and Benefits described above, I hereby acknowledge that I previously signed an Agreement Regarding Confidentiality, Intellectual Property, Non-Solicitation, and Non-Competition on September 8, 2004 ("September 8, 2004 Agreement"), and that I continue to be bound by the terms of those agreement except as modified in this paragraph. Notwithstanding the foregoing, in consideration of my additional affirmation that I will follow the terms of the September 8, 2004 Agreement and this Agreement and Release, and the Special Payments and Benefits described above, I agree as follows: I shall not, directly or indirectly, compete with SLM or its subsidiaries or affiliates for a period of twelve (12) months after the date of termination of my employment for whatever reason ("Restricted Period"). For the purposes of this Section 6, "compete" means owning, managing, operating, financing, working, consulting, advising, representing, or providing the same or similar services with or without compensation in any capacity as those I provided to SLM within the last two (2) years of my employment **for a lender or financial institution** engaged in the same business conducted by SLM at the time of my termination.

In further consideration of the Special Payments and Benefits described above in this Agreement and Release, I agree that for twelve (12) months after my date of termination of my

employment for whatever reason (collectively, the “Non-Solicitation Employee Period”) that I shall not solicit or encourage any employee with whom I communicated within the last year of my employment to leave the employ of SLM, or hire any such employees. Further, for a period of twelve (12) months following the termination of my employment with the SLM, I shall not, directly or indirectly, contact or accept business that SLM could otherwise perform from any of SLM’s customers or prospective customers with whom I communicated within the last two (2) years of my employment.

I expressly agree that the markets served by SLM extend nationally are not dependent on the geographic location of the personnel or the businesses by which they are employed and that the restrictions set forth in this Section have been designed to be reasonable and are no greater than are required for the protection of SLM and do not prevent me from earning a livelihood by working in positions that do not compete with SLM. In the event that a court shall determine that any provision of the Agreement is unenforceable, the parties shall request that the court construe this Agreement in such a fashion as to render it enforceable and to revise time, geographic and functional limits to those minimum limits that the court believes are reasonable to protect the interests of SLM. I acknowledge and agree that this covenant has unique, substantial and immeasurable value to SLM, that I have sufficient skills to provide a livelihood for you while this covenant remains in force, and that this covenant will not interfere with my ability to work consistent with my experience, training, and education. To enable SLM to monitor compliance with the obligations imposed by this Agreement, I further agree to inform in writing Sallie Mae’s Senior Vice President, Administration of the identity of my subsequent employer(s) and my prospective job title and responsibilities prior to beginning employment. I agree that this notice requirement shall remain in effect for twelve (12) months following the termination of my employment.

In the event that the Board of Directors of SLM or its successor reasonably determines that I have violated any of the post-employment restrictions of the Agreement and Release or if a court determines that all or a substantial part of such restrictions are held to be unenforceable, I will return to SLM 50% (less withholdings previously withheld by law) of the Special Payments provided to me pursuant to Section 1(a) and Section 1(b) above. The illegality, unenforceability, or ineffectiveness of any provision of this Section shall not affect the legality, enforceability, or effectiveness of any other provision of this Agreement and Release. Notwithstanding the confidentiality provisions identified in Section 4(d) of this Agreement and Release, I may disclose my SLM restrictive covenants to prospective employers and agree that SLM may provide a copy of this Agreement and Release to my prospective or future employers.

(7) **Review Period**: I hereby acknowledge (a) that I initially received a copy of the original draft of this Agreement and Release on or before October 1, 2009; (b) that I was offered a period of 45 days to review and consider it; (c) that I understand I could use as much of the 45 day period as I wish prior to signing; and (d) that I was strongly encouraged to consult with an attorney in writing before signing this Agreement and Release, and understood whether or not to do so was my decision.

(8) **Revocation of Claims**: I understand that I may revoke the waiver of the Age Discrimination in Employment Act (ADEA) claims made in this Agreement and Release within seven (7) days of my signing. My waiver and release of claims under ADEA shall not be effective or enforceable and I will not receive 70% of the Special Payments described in Section (1) above. Revocation of claims can be made by delivering a written notice of revocation to Janice Bogash, Vice President, Human Resources, Sallie Mae, 12061 Bluemont Way, MDC V5102, Reston, VA 20190.

(9) I acknowledge that I have read and understand all of the provisions of this Agreement and Release. This Agreement and Release represents the entire agreement between the Parties concerning

the subject matter hereof and shall not be altered, amended, modified, or otherwise changed except by a writing executed by both Parties. I understand and agree that this Agreement and Release, if not timely revoked pursuant to Section (8), is final and binding when executed by me. I sign this document freely, knowingly and voluntarily. I acknowledge that I have not relied upon any representation or statement, written or oral, not set forth in this Agreement and Release. If any provision of this Agreement and Release is held by a court of competent jurisdiction or by an arbitrator to be contrary to law, the remainder of that provision and the remaining provisions of this Agreement and Release will remain in full force and effect to the maximum extent permitted by applicable law. This Agreement shall be construed under the laws of the Commonwealth of Virginia.

(10) In addition, in consideration of the payments and benefits described above, I further agree to cooperate with SLM, its affiliates, and its legal counsel in any legal proceedings currently pending or brought in the future against SLM, as may be reasonably requested by SLM, including, but not limited to: (1) participation as a witness; (2) drafting, producing, and reviewing documents; (3) assisting with interviews; and (4) contacting SLM. This includes, but is not limited to the pending *In Re SLM Corporation Securities Litigation*, *In Re SLM Corporation ERISA Litigation*, U.S. Department of Education OIG 9.5% Audit, U.S. Department of Education Inducements Review, *Chae v. SLM Corporation et al.*, and *Rodriguez v. SLM Corporation et al.* In the event I am requested, with reasonable notice, to travel as part of this litigation cooperation, SLM agrees to pay my reasonable out of pocket expenses.

(11) <u>Code Section 409A Additional Income Tax Reimbursement.</u> The payments, benefits and rights under this Agreement and Release are intended to be exempt from Internal Revenue Code Section 409A and applicable regulations issued thereunder (collectively “Code Section 409A”). In the event that the payments, benefits and rights provided to me, or for my benefit, under this Agreement and Release (determined without regard to the 409A Make Whole Payment described below) are considered to be non complying deferred compensation for purposes of Code Section 409A (the “409A Non Compliant Payments”) and would result in my being subject to an additional income tax imposed under Code Section 409A, SLM shall pay me an additional payment (a “409A Make Whole Payment”) in an amount such that after payment by me of all taxes (including any interest or penalties incurred by me with respect to such taxes), including, without limitation, any federal, state and local income taxes, any employment taxes, any excise tax imposed by Section 4999 of the Internal Revenue Code and any additional income tax imposed by Code Section 409A (such additional income tax imposed by Code Section 409A, together with any interest or penalties relating to such additional tax, are hereinafter collectively referred to as the “409A Tax”), I will retain an amount of the 409A Make Whole Payment equal to the 409A Tax imposed upon the 409A Non Compliant Payments. Prior to any settlement with the applicable government tax agency or department or a decision by a court of competent jurisdiction regarding the amount of liability, all determinations regarding the additional payment called for in this Section 11 shall be based on the maximum applicable marginal tax rates for each year in which such payments, benefits or rights shall be paid or provided to me or for my benefit. The 409A Make Whole Payment shall be made to me within 30 days after I provide proof of payment of the 409A tax to SLM but in no event later than December 31 of the calendar year following the calendar year in which the 409A Tax is remitted to the taxing authority, unless Code Section 409A requires that the Make Whole Payment be delayed. If the 409A Make Whole Payment is required to be delayed, such payment shall be paid to me as soon as allowed under Code Section 409A and such payment shall be increased by interest for the period of delay at The Wall Street Journal prime rate in effect during the period of the delay.

(12) In consideration of the payments and agreements described above and for additional consideration in the form of a retainer of **$50,000** per calendar month during the months of November,

2009 through May, 2010 and **$39,800** for the calendar month of June 2010, payable to me on or before the tenth (10th) day of each calendar month, SLM agrees to retain me for, and I agree to provide, consulting services to SLM from **November 1, 2009** until **June 30, 2010**. The parties will work in good faith to set the times when these services will be provided, but the total amount of time directed shall not exceed five (5) calendar days per calendar month. The monthly payment shall be deemed a retainer paid to assure that I keep myself available to provide these services, and SLM shall pay this monthly retainer to me regardless of the precise number of days, if any, it directs me to provide the services. During this period, I agree to provide telephone and local, in-person consulting services to SLM. In the event I am requested, with reasonable notice, to travel as part of these consulting services, SLM agrees to pay my reasonable out of pocket expenses. I recognize and agree that my obligations under Section 10 concerning legal proceedings and litigation are not to be considered or deemed consulting services under this Section. In addition, I may terminate this Section 12 with or without cause upon 14 days written notice to the VP, Human Resources of Sallie Mae. In the event of termination by me, with or without cause, SLM will not be obligated to pay me further under this Section. The other terms of this Agreement and Release, including, but not limited to Section 6 and 2, are not affected by this Section 12 or any termination under this Section 12 by either party.

**Before you sign this Agreement and Release, please take it home, read through each section and carefully consider it. SLM recommends that you discuss it with your personal attorney (any personal attorney fees are not covered under the terms of this agreement). You have up to 45 days to consider this Agreement and Release. You may not make any changes to the terms of this Agreement and Release. Except as otherwise provided herein, by signing this Agreement and Release, you will be waiving any claims whether known or unknown.**

| /s/ Barry Feierstein | 10/21/09 |
|---|---|
| Barry Feierstein | Date |
| /s/ Janice Bogash | 10/21/09 |
| Janice Bogash<br>Vice President, Human Resources<br>for SLM Corporation | Date |

**AMENDMENT TO**
**RETAINER AGREEMENT**

This **AMENDMENT TO RETAINER AGREEMENT** (“Agreement”), is entered into this 24th day of December, 2009 by and by and between, Anthony P. Terraciano (“Terraciano”) and SLM Corporation, a corporation organized and existing under the laws of the State of Delaware (the “Company”).

WHEREAS, the Terraciano and the Company entered into a retainer agreement dated as of January 7, 2008 (the “Retainer Agreement”); and

WHEREAS, the Board of Directors and the Executive Committee of the Company have approved certain changes to the Retainer Agreement;

WHEREAS, Terraciano and the Company desire to amend the Retainer Agreement to reflect such changes;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the Company and Terraciano hereby agree as follows:

**1. Amendment of Term.** Effective October 30, 2008, the Term of the Retainer Agreement is extended to January 7, 2012.

**2. Reduction of Annual Cash Retainer.** The Annual Cash Retainer is reduced from $600,000 to $480,000 effective October 30, 2008, and the Annual Cash Retainer is further reduced from $480,000 to $420,000 effective January 1, 2010.

**3. Vesting of Stock Award.** Effective October 30, 2008, the vesting of the first tranche of the Stock Award (66,666 shares) is postponed from January 7, 2009 to January 7, 2010. Effective January 1, 2010, the vesting of the first tranche and second tranche of the Stock Award (133,333 shares) is postponed from January 7, 2010 to January 7, 2011.

**4. Defined Terms.** Capitalized terms used herein but not defined herein shall have the meanings given to them in the Retainer Agreement.

**5. <u>Ratification</u>.** Other than as amended hereby, the Retainer Agreement is hereby ratified and confirmed.

**IN WITNESS WHEREOF**, the Company and Terraciano have caused this Amendment to Retainer Agreement to be executed as of the date first written above.

**SLM CORPORATION**

By: /s/ Carol R. Rakatansky
Name: Carol R. Rakatansky
Title: Auth. Agent and Corporate Secretary

**TERRACIANO**

/s/ Anthony P. Terraciano
Anthony P. Terraciano

**Exhibit 10.38**

***Execution Copy***

**AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

THIS AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT (“Pledge Agreement”), dated as of January 15, 2010 is made by and among SLM Education Credit Finance Corporation, a corporation organized and existing under the laws of the State of Delaware (“Pledgor”), HICA Education Loan Corporation, a corporation organized and existing under the laws of the State of South Dakota (“Borrower”), and the Federal Home Loan Bank of Des Moines (“Bank”).

WHEREAS, Borrower is a member and stockholder of the Bank;

WHEREAS, Pledgor is an Affiliate of Borrower (for purposes of this Pledge Agreement, “Affiliate” means any person or company which controls, is controlled by, or is under common control with, Borrower, including any holding company, any subsidiary, or any service corporation of the Borrower);

WHEREAS, Borrower and the Bank have entered into an Advances, Pledge and Security Agreement, dated as of January 15, 2010 (such agreement, including any amendments and addenda thereto and any successor agreement that may be entered into by Borrower and the Bank in substitution therefor, hereinafter the “Borrower Advances Agreement”), pursuant to which the Bank may advance funds from time to time to Borrower and Borrower may pledge certain collateral from time to time to the Bank; and

WHEREAS, at the request of Borrower, and in order to induce the Bank to make additional Advances to Borrower, Pledgor has agreed to pledge certain of its property as collateral to and for the benefit of the Bank to secure the obligations of Borrower to the Bank;

NOW, THEREFORE, for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Pledgor, Borrower, and the Bank agree as follows:

1. Pledgor’s Receipt of Borrower Advances Agreement; Definitions. Pledgor hereby acknowledges and agrees that it has received a copy of the Borrower Advances Agreement (including all amendments thereto) and that it is familiar with the terms and conditions thereof. Unless otherwise defined herein or the context otherwise requires, all capitalized terms used herein shall have the same meanings as in the Borrower Advances Agreement, except that “Borrower” as used herein shall be synonymous with “Member” as used in the Borrower Advances Agreement.

2. Creation of Security Interest. As security for all indebtedness now or hereafter outstanding from the Borrower to the Bank under the Borrower Advances Agreement, Pledgor hereby assigns, transfers and pledges to the Bank, and grants to the Bank a security interest in, certain property which is (i) specifically listed and identified in Attachment A hereto or any amendment thereto or any substitute Attachment A that may be provided by the Pledgor with the agreement of the Bank from time to time (such list, as amended or substituted from time to time, the “Collateral Schedule”), or (ii) all of the proceeds of the foregoing (collectively, the “Pledgor

Collateral”).

The Pledgor Collateral shall constitute collateral for all purposes under the Borrower Advances Agreement and, in addition to any rights or duties with respect to the Pledgor Collateral created by this Pledge Agreement, the Pledgor and the Bank shall have the same rights and duties with respect to the Pledgor Collateral as do Borrower and the Bank, respectively, with respect to Collateral under the Borrower Advances Agreement.

The Bank agrees that it will cooperate with requests from the Pledgor to deliver evidence, in form and substance reasonably satisfactory to the Pledgor, of the release from the security interest granted to the Bank hereunder in and to items of Pledgor Collateral which the Bank has agreed may be removed from the Collateral Schedule, subject to the satisfaction of any conditions precedent to the release of such Pledgor Collateral under this Pledge Agreement and the Borrower Advances Agreement.

3. Delivery. Upon the Bank’s written or oral request, or promptly at any time that the Borrower becomes subject to any mandatory collateral delivery requirements that may be established in writing by the Bank, and in either case from time to time thereafter, the Pledgor shall deliver (or, in the case of uncertificated securities, otherwise transfer) to the Bank, or to a custodian designated by the Bank, Pledgor Collateral in an amount determined by the Bank. Pledgor Collateral delivered to the Bank or to a custodian designated by the Bank shall be endorsed or assigned in recordable form by the Pledgor as directed by the Bank.

4. Right of Bank to Proceed Against Pledgor Collateral; Right of Bank to Require Additional Collateral or Repayment; Waivers; Borrower Acknowledgment.

(a) Pledgor agrees that, upon the occurrence of a default under the Borrower Advances Agreement and as modified by this Pledge Agreement, the Bank may proceed against the Pledgor Collateral in accordance with the terms of the Borrower Advances Agreement as though Pledgor were the Member thereunder. Pledgor hereby waives and agrees not to assert: (i) any and all right to presentment, protest, demand for payment, notice of default, dishonor or nonpayment and all other notices to or upon Borrower or Pledgor, including, without limitation, notice as to the making of any Advance or other extension of credit to Borrower or the exercise of any right by the Bank hereunder or under the Borrower Advances Agreement; and (ii) any and all right to require the Bank to proceed against Borrower or any Collateral pledged by Borrower before enforcing the Bank’s rights against the Pledgor Collateral, and any other defense based upon an election of remedies.

(b) By execution hereof, Borrower acknowledges its consent to the terms and conditions hereof and Borrower hereby waives and agrees not to assert any and all right to require the Bank to proceed against Pledgor or Pledgor Collateral before enforcing the Bank’s rights against the Borrower or the Collateral and any other defense based upon an election of remedies.

5. Representations and Agreements by Pledgor. Pledgor hereby represents, warrants

to, and agrees with the Bank that:

(a) Each item of Pledgor Collateral satisfies all the criteria for collateral set forth in the Borrower Advances Agreement, except that the Pledgor Collateral is owned by Pledgor, rather than by Borrower, free and clear of any liens, encumbrances or other interests other than the lien and security interest granted to the Bank hereunder;

(b) Pledgor has full power, right and authority to grant the security interest in the Pledgor Collateral created hereby, as specified herein and has taken all corporate action necessary to authorize the execution and delivery of this Pledge Agreement;

(c) The security interest in the Pledgor Collateral created hereby has been duly and validly granted by Pledgor and such security interest, and this Pledge Agreement, are enforceable in accordance with the terms hereof;

(d) This Pledge Agreement has been authorized or ratified and approved by Pledgor's Board of Directors and will be maintained continuously among Pledgor's official records;

(e) A certified copy of the Board of Director's resolution evidencing its approval hereof is attached hereto as Attachment "B," the form of which has been previously approved by the Bank or its counsel;

(f) An opinion of Pledgor's counsel that Pledgor has the power, right and authority to grant the security interest in the Pledgor Collateral created hereby, that Pledgor has taken all corporate action necessary to authorize the execution and delivery of this Pledge Agreement, and that there is no impediment to the Bank enforcing its interests against the Pledgor Collateral under this Pledge Agreement has been provided to and accepted by the Bank, a copy of which is attached hereto as attachment "C";

(g) All information contained in any report, schedule or other documentation provided from time to time by Pledgor to the Bank will be true and correct in all material respects as of the time given;

(h) Pledgor agrees to make, execute, record and deliver to the Bank such financing statements, notices, assignments, listings, powers and other documents with respect to the Pledgor Collateral and the Bank's security interest therein in such form as the Bank may require;

(i) On or prior to the date hereof, Pledgor has acknowledged and agreed to the terms and provisions of the servicing and custodial agreement pursuant to which the Bank's designated servicer has agreed to service the Student Loan Collateral in the event that Bank and the Bank Eligible Lender Trustee (or SLM Education Credit Finance Corporation, not in its individual capacity but solely as interim eligible lender trustee on behalf of and for the benefit of the Bank (in such capacity, the "Interim Bank Eligible Lender Trustee") until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) become the beneficial and record owners, respectively, of the

Student Loan Collateral pursuant to the terms of the Borrower Advances Agreement;

(j) On or prior to the date hereof, Pledgor has caused to be amended any servicing agreement pursuant to which any Student Loan Collateral pledged by Pledgor will be serviced during the term of the Borrower Advances Agreement in order to (a) make the Bank and the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) an intended third party beneficiary of such servicing agreement and (b) include an acknowledgment by the related servicer of the rights of the Bank and the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) in such Student Loan Collateral. If, at any time after the execution of this Pledge Agreement, the Student Loan Collateral pledged by Pledgor shall become subject to the terms of any other servicing agreement, Pledgor hereby agrees to cause such servicing agreement to include the provisions described in clauses (a) and (b) in the preceding sentence; and

(k) Pledgor hereby represents and warrants to the Bank that each of the representations and warranties contained in Attachment E hereto, which is hereby incorporated herein and made a part of this Agreement, are true and correct with respect to each item of Student Loan Collateral as of the date each such item of Student Loan Collateral is pledged by Pledgor to the Bank pursuant to the terms of this Pledge Agreement.

6. Representation and Warranties by Borrower. Borrower hereby represents, warrants and agrees to and with the Bank that:

(a) Borrower has full power, right and authority to enter into this Pledge Agreement and has taken all corporate action necessary to authorize the execution and delivery of this Pledge Agreement;

(b) This Pledge Agreement is enforceable against Borrower in accordance with the terms hereof;

(c) This Pledge Agreement has been authorized or ratified and approved by Borrower's Board of Directors and will be maintained continuously among Borrower's official records;

(d) A certified copy of the Board of Director's resolution evidencing its approval hereof is attached hereto as Attachment "D," the form of which has been previously approved by the Bank or its counsel;

(e) Borrower agrees to make, execute, record, and deliver to the Bank such financing statements, notices, assignments, listings, powers and other documents with respect to the Pledgor Collateral and the Bank's security interest therein in such form as the Bank may require; and

(f) Borrower agrees that a failure by either Borrower or Pledgor to perform any of the rights, responsibilities, duties, representations, warranties, and agreements under this Pledge Agreement shall constitute a default under the Borrower Advances Agreement.

7. Governing Law. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of New York without regard to the conflicts of law principles thereof (other than Sections 5-1401 and 5-1402 of the New York General Obligations Law).

8. Partial Exercise; Amendment; Severability. No delay on the part of the Bank in exercising any right, power or privilege shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude other or further exercise thereof or the exercise of any other right, power or privilege or be construed to be a waiver of any default under the Borrower Advances Agreement. No waiver by the Bank of any such default shall be effective unless in writing and signed by an authorized officer of the Bank, and no such waiver shall be deemed to be a waiver of a subsequent default under the Borrower Advances Agreement or be deemed to be a continuing waiver. No course of dealing between Borrower or Pledgor, respectively, and the Bank or its agents or employees shall be effective to change, modify or discharge any provision of this Pledge Agreement, or the Borrower Advances Agreement or to constitute a waiver of any default thereunder. If any provision of this Pledge Agreement is held invalid or unenforceable to any extent or in any application, the remainder of this agreement, or application of such provision to different persons or circumstances or in different jurisdictions, shall not be affected thereby.

9. Legal Title to Student Loan Collateral. To the extent necessary to comply with the Higher Education Act of 1965, as amended, or related regulations promulgated by the U.S. Secretary of Education, legal title to all of the Student Loan Collateral shall be pledged to and vested at all times in the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) on behalf of and for the benefit of the Bank and, for the avoidance of doubt, the Bank shall for all purposes be considered the beneficial owner of such Student Loan Collateral but shall not, for any reason whatsoever, be deemed to own the title thereto.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, each of Pledgor, Borrower, and the Bank has respectively caused this Pledge Agreement to be signed in its name by its duly authorized representative as of the date first above mentioned.

**FEDERAL HOME LOAN BANK OF DES MOINES**, as Bank

**By:** **/s/ Aaron B. Lee**
**Name:** **Aaron B. Lee**
**Title:** **Assistant Vice President / Associate General Counsel**
**Date:** **January 15, 2010**

**By:** **/s/ Jodie L. Stephens**
**Name:** **Jodie L. Stephens**
**Title:** **Collateral Risk Manager**
**Date:** **January 15, 2010**

**SLM EDUCATION CREDIT FINANCE CORPORATION**, as Pledgor

**By:** **/s/ Mark D. Rein**
**Name:** **Mark D. Rein**
**Title:** **Vice President**
**Date:** **January 15, 2010**

ACCEPTED, ACKNOWLEDGED, AND APPROVED:

**HICA EDUCATION LOAN CORPORATION (Member # 5165)**, as Borrower

**By:** **/s/ Mark D. Rein**
**Name:** **Mark D. Rein**
**Title:** **President**
**Date:** **January 15, 2010**

**ATTACHMENT A**
**TO AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

Under the Affiliate Collateral Pledge and Security Agreement dated January 15, 2010, the Pledgor agrees to pledge as Pledgor Collateral those individual loans specifically identified on Form ___ (or such successor form as the Bank shall require) and provided by Pledgor to the Bank from time to time, which such individual loans are in the following collateral types as outlined in applicable Bank policies and procedures:

[COLLATERAL SCHEDULE TO BE INCLUDED]

**SLM EDUCATION CREDIT FINANCE CORPORATION**, as Pledgor

**By:** ______________________________

**Name:** ______________________________

**Title:** ______________________________

**Date:** ______________________________

**By:** ______________________________

**Name:** ______________________________

**Title:** ______________________________

**Date:** ______________________________

ACKNOWLEDGED BY:

**FEDERAL HOME LOAN BANK OF DES MOINES**, as Bank

**By:** ______________________________

**Name:** ______________________________

**Title:** ______________________________

**Date:** ______________________________

**ATTACHMENT B**
**TO AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

FORM OF RESOLUTION OF PLEDGOR REGARDING AFFILIATE COLLATERAL
PLEDGE AND SECURITY AGREEMENT

WHEREAS, ____________________ ("Pledgor") is an Affiliate of ______________________ __________________ ("Borrower" (for purposes of this resolution, Affiliate means any person or company which controls, is controlled by, or is under common control with, Borrower, including any holding company, any subsidiary, or any service corporation of the Borrower);

WHEREAS, Borrower must pledge a certain level of property ("Collateral") to the Federal Home Loan Bank of Des Moines ("Bank") in order to secure loans or "advances" from the Bank to Borrower made pursuant to an Advances, Pledge and Security Agreement dated __________;

WHEREAS, Borrower has requested that Pledgor pledge certain Collateral on behalf of Borrower to the Bank in order for Borrower to secure advances from the Bank;

WHEREAS, after study and consideration and consultation with counsel, the Board of Directors of Pledgor has determined that it is in the best interests of Pledgor to pledge Collateral to the Bank on behalf of Borrower; and

WHEREAS, an Affiliate Collateral Pledge and Security Agreement ("Pledge Agreement"), which would govern the agreement between the Bank, Pledgor, and Borrower regarding the Collateral pledged to the Bank by Pledgor on behalf of Borrower has been presented at this meeting by management with the recommendation that it be adopted;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of Pledgor hereby approves the Pledge Agreement in substantially the form presented to the Directors and attached hereto;

RESOLVED FURTHER, that the Chief Executive Officer and other appropriate officers of Pledgor be, and each of them hereby is, authorized and directed to execute the Pledge Agreement with the Bank and to deliver Collateral to the Bank or its custodian as the Bank may direct; and

RESOLVED FURTHER, that the Chief Executive Officer of Pledgor and such other officers of Pledgor as he/she shall designate are hereby authorized and directed to make, execute, and deliver, or cause to be made, executed and delivered, all such agreements, schedules, documents, instruments and other papers and to pay such fees and expenses and to do or cause to be done all

such acts and things, in the name and on behalf of Pledgor, under its seal or otherwise, as may be deemed necessary, appropriate or desirable to effectuate or carry out the purposes and intent of the foregoing resolutions.

I HEREBY CERTIFY that the foregoing true and correct copies of resolutions duly adopted by the Board of Directors of Pledgor on ___________, ___, and that the same have not been altered, amended, repealed or rescinded and remain in full force and effect as of this ___________ day of ___________, ___.

_________________________________
[Name of Corporate Secretary]
Secretary

**ATTACHMENT C**
**TO AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

Date

Federal Home Loan Bank of Des Moines
Skywalk Level
801 Walnut Street, Suite 200
Des Moines, Iowa 50309

Ladies and Gentlemen:

I have acted as counsel to ______________________ ("Pledgor") in connection with the preparation of the Affiliate Collateral Pledge and Security Agreement (the "Agreement"). This opinion letter is rendered pursuant to the Agreement.

In the capacity described above, I have considered such matters of law and of fact, including the examination of originals or copies, certified or otherwise identified to our satisfaction, of such records and documents of the Pledgor, certificates of officers and representatives of the Pledgor, certificates of public officials and such other documents as I have deemed appropriate as a basis for the opinions hereinafter set forth. I have assumed the genuineness of all signatures on original or certified copies and the conformity to original or certified copies of all copies of documents submitted to me. As to various questions of fact relevant to the opinions expressed below, I have relied upon statements or certificates of public officials and of officers and representatives of the Pledgor and its affiliates. I have assumed that the Agreement is enforceable in accordance with its terms against the parties thereto.

Any opinion as to enforceability is limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights (including, and without limitation, fraudulent conveyance and other laws of similar import) and by equitable principles and defenses affecting creditors' rights generally, and by the discretion of the courts in granting equitable remedies, including specific performance (regardless whether such enforceability is considered in a proceeding at law or in equity and regardless of whether such limitations are derived from constitutions, statutes, judicial decisions or otherwise).

The opinions set forth herein are limited to the laws of the State of ___________ and applicable federal laws. I express no opinion as to matters governed by law other than the laws of the State of __________.

Based upon and subject to the foregoing, it is my opinion that:

(1) Pledgor was duly organized as a corporation, and is existing and in good standing,

under the laws of the State of ___________.

(2) Pledgor has the corporate power to execute and deliver the Agreement, to perform its obligations thereunder, to own and use its assets and to conduct its business.

(3) Pledgor has duly authorized the execution and delivery of the Agreement and all performance by Pledgor thereunder and has duly executed and delivered the Agreement.

(4) The execution and delivery by Pledgor of the Agreement do not, and if Pledgor were now to perform its obligations under the Agreement such performance would not, result in any:

(i) violation of Pledgor's articles of incorporation or bylaws;

(ii) material violation of any existing federal or state constitution, statute, regulation, rule, order, or law to which Pledgor or the assets are subject;

(iii) material breach of or default under any material written agreements;

(iv) creation or imposition of a material contractual lien or security interest in, on or against the assets under any written agreements; or

(v) violation of any judicial or administrative decree, writ, judgment or order to which, to our knowledge, Pledgor or the assets are subject.

(5) No consent, approval authorization or other action by, or filling with, any governmental authority of the United States or the State of ___________ is required for Pledgor's execution and delivery of the Agreement.

(6) The Agreement is enforceable against Pledgor in accordance with its terms.

This opinion letter is provided to you for your exclusive use solely in connection with the Agreement, and may not be relied upon by any other person for any purpose or by you for any other purpose without my prior written consent.

Very truly yours,

**ATTACHMENT D**
**TO AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

FORM OF RESOLUTION OF BORROWER REGARDING AFFILIATE COLLATERAL
PLEDGE AND SECURITY AGREEMENT

WHEREAS, ____________________ ("Pledgor") is an Affiliate of ____________________ ______________________________ ("Borrower') (for purposes of this resolution, Affiliate means any person or company which controls, is controlled by, or is under common control with, Borrower, including any holding company, any subsidiary, or any service corporation of the Borrower);

WHEREAS, Borrower is a customer and member of the Federal Home Loan Bank of Des Moines ("Bank") and desires to obtain loans, or "advances," from the Bank to Borrower made pursuant to an Advances, Pledge and Security Agreement dated __________;

WHEREAS, Borrower must pledge a certain level of property ("Collateral") to the Bank in order to secure advances from the Bank;

WHEREAS, Borrower has requested that Pledgor pledge certain Collateral on behalf of Borrower to the Bank in order for Borrower to secure advances from the Bank;

WHEREAS, an Affiliate Collateral Pledge and Security Agreement ("Pledge Agreement"), which would govern the agreement between the Bank, Pledgor, and Borrower regarding the Collateral pledged by the Pledgor to the Bank on behalf of Borrower has been presented at this meeting by management with the recommendation that it be adopted;

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of Borrower hereby approves the Pledge Agreement in substantially the form presented to the Directors and attached hereto;

RESOLVED FURTHER, that the Chief Executive Officer and other appropriate officers of Borrower be, and each of them hereby is, authorized and directed to accept, acknowledge and approve the Pledge Agreement with the Bank; and

RESOLVED FURTHER, that the Chief Executive Officer of Borrower and such other officers of Borrower as he/she shall designate are hereby authorized and directed to make, execute and deliver, or cause to be made, executed and delivered, all such agreements schedules, documents, instruments and other papers and to pay such fees and expenses and to do or cause to be done all such acts and things, in the name and on behalf of Borrower, under its seal or otherwise, as may be deemed necessary, appropriate or desirable to effectuate or carry out the purposes and intent of the foregoing resolutions.

I HEREBY CERTIFY that the foregoing are true and correct copies of resolutions duly adopted by the Board of Directors of Borrower on ___________ ___, ___, and that the same have not been altered, amended, repealed or rescinded and remain in full force and effect as of this ___________ day of __________, ___.

________________________________
[Name of Corporate Secretary]
Secretary

**ATTACHMENT E**
**TO AFFILIATE COLLATERAL PLEDGE AND SECURITY AGREEMENT**

REPRESENTATIONS AND WARRANTIES OF PLEDGOR

Defined terms used herein and not otherwise defined in the Pledge Agreement shall have the meanings ascribed to such terms in the Glossary contained herein.

The Pledgor hereby represents and warrants to the Bank that, with respect to the Student Loan Collateral pledged by Pledgor to the Bank under the Pledge Agreement:

(a) Such Student Loan Collateral constitutes “accounts,” “promissory notes” or “payment intangibles” within the meaning of the applicable UCC and are within the coverage of Sections 432(m)(1)(E) and 439(d)(3) of the Higher Education Act;

(b) Each item of Student Loan Collateral is an Eligible FFELP Loan as of the date it is pledged by Pledgor to the Bank under the Pledge Agreement and the description of such Eligible FFELP Loans set forth in the Pledge Agreement and in any other documents or written information provided to the Bank in connection with the Pledge Agreement (other than documents or information stated to be preliminary which have subsequently been replaced by definitive documents or information), as applicable, is true and correct in all material respects;

(c) The Pledgor is authorized to pledge such Student Loan Collateral; and the sale, assignment and transfer, as applicable, of such Student Loan Collateral has been made pursuant to and consistent with the laws and regulations under which the Pledgor operates, and will not violate any decree, judgment or order of any court or agency, or conflict with or result in a breach of any of the terms, conditions or provisions of any agreement or instrument to which the Pledgor is a party or by which the Pledgor or its property is bound, or constitute a default (or an event which could constitute a default with the passage of time or notice or both) thereunder;

(d) No consents or approvals are required for the consummation of the pledge of the Student Loan Collateral under the Pledge Agreement to the Bank;

(e) Any payments on such Student Loan Collateral received by the Pledgor, or any agent on its behalf, which have been allocated to the reduction of principal and interest on such Student Loan Collateral have been allocated on a simple interest basis;

(f) Due diligence and reasonable care have been exercised in making, administering, servicing and collecting on the Student Loan Collateral and, with respect to any item of Student Loan Collateral for which repayment terms have been established, all disclosures of information required to be made pursuant to the Higher Education Act have been made; and

(g) Except for any items of Student Loan Collateral executed electronically or evidenced by a master promissory note, there is only one original executed copy of the Student

Loan Note evidencing each such item of Student Loan Collateral. For each item of Student Loan Collateral that was executed electronically, the applicable servicer has possession of the electronic records evidencing the Student Loan Note. Each applicable servicer has in its possession a copy of the endorsement and each Loan Transmittal Summary Form identifying the Student Loan Notes that constitute or evidence the Student Loan Collateral. The Student Loan Notes that constitute or evidence the Student Loan Collateral do not have any marks or notations indicating that they are currently pledged, assigned or otherwise conveyed to any Person other than the Bank. All financing statements filed or to be filed against Pledgor in favor of the Bank in connection herewith describing the Student Loan Collateral contain a statement to the following effect: "A purchase of or security interest in any collateral described in this financing statement will violate the rights of the Federal Home Loan Bank of Des Moines."

**GLOSSARY**

*"**Adverse Claim**"* means a lien, security interest, charge, encumbrance or other right or claim or restriction in favor of any Person (including any UCC financing statement or similar instrument filed against the assets of that Person) other than, with respect to the Student Loan Collateral, any lien, security interest, charge, encumbrance or other right or claim or restriction in favor of the Bank.

"***Consolidation Loan***" means a loan made to a borrower which loan consolidates such borrower's PLUS Loans, SLS Loans, direct loans made by the Department of Education, Stafford Loans made in accordance with the Higher Education Act and/or loans made under the Federal Health Education Assistance Loan Program authorized under Sections 701 through 720 of the Public Health Services Act.

*"**Defaulted Student Loan**"* means any Student Loan (a) as to which any payment or portion thereof is more than the number of days past due from the original due date thereof that would permit the Bank Eligible Lender Trustee, the Interim Bank Eligible Lender Trustee, or any other Person acting on its behalf, to submit a default claim to the applicable Guarantor under the terms of the Higher Education Act (which number of days, as of the date of the Pledge Agreement, is 270), (b) the Obligor of which is the subject of an Event of Bankruptcy (without giving effect to any applicable cure or continuance period) or is deceased or disabled or (c) as to which a continuing condition exists that, with notice or the lapse of time or both, would constitute a default, breach, violation or event permitting acceleration under the terms of such Student Loan (other than payment defaults continuing for a period of not more than the number of days past due from the original due date thereof that would permit the submission of a default claim to the applicable Guarantor under the terms of the Higher Education Act).

"***Department of Education***" means the United States Department of Education, or any other officer, board, body, commission or agency succeeding to the functions thereof under the Higher Education Act.

"***Eligible FFELP Loan***" means a Student Loan which meets the following criteria as of any date of determination:

(a) such Student Loan is fully disbursed;

(b) such Student Loan is a Stafford Loan, an SLS Loan, a PLUS Loan or a Consolidation Loan and the Obligor thereof was an Eligible Obligor at the time such Student Loan was originated;

(d) such Student Loan is a U.S. Dollar denominated obligation payable in the United States;

(e) at least 97% of the principal of and interest on such Student Loan is guaranteed by the applicable Guarantor and eligible for reinsurance under the Higher Education Act, such percentage to be met without giving effect to any increase due to any special servicer status under the Higher Education Act of any applicable Servicer;

(f) such Student Loan provides for periodic payments which fully amortize the amount financed over its term to maturity (exclusive of any deferral or forbearance periods granted in accordance with applicable law, including, without limitation, the Higher Education Act, and in accordance with the applicable Guarantee Agreement);

(g) such Student Loan is being serviced by the Master Servicer under the Servicing Agreement or by a Subservicer in accordance with the terms of the Servicing Agreement;

(h) such Student Loan bears interest at a stated rate equal to the maximum rate permitted under the Higher Education Act for such Student Loan (before giving effect to any borrower benefit programs);

(i) such Student Loan is eligible for the payment of quarterly Special Allowance Payments at a rate established under the formula set forth in the Higher Education Act for such Student Loan;

(j) if not yet in repayment status, such Student Loan is eligible for the payment of Interest Subsidy Payments by the Department of Education or, if not so eligible, is a Student Loan for which interest either is billed quarterly to the Obligor or deferred until commencement of the repayment period, in which case such accrued interest is subject to capitalization to the full extent permitted by the applicable Guarantor;

(k) such Student Loan is not a Defaulted Student Loan;

(l) such Student Loan is supported by the following documentation:

(i) loan application, and any supplement thereto;

(ii) evidence of Guarantee;

(iii) any other document and/or record which the Pledgor, the Bank, the Bank Eligible Lender Trustee, Interim Bank Eligible Lender Trustee, the related Servicer or other agent may be required to retain pursuant to the Higher Education Act;

(iv) if applicable, payment history (or similar documentation) including (A) an indication of the Principal Balance and the date through which interest has been paid, each as of the related date of determination and (B) an accounting of the allocation of all payments by the Obligor or on the Obligor's behalf to principal and interest on the Student Loan;

(v) if applicable, documentation which supports periods of current or past deferment or past forbearance;

(vi) if applicable, a collection history, if the Student Loan was ever in a delinquent status, including detailed summaries of contacts and including the addresses or telephone numbers used in contacting or attempting to contact the related Obligor and any endorser and, if required by the Guarantor, copies of all letters and other correspondence relating to due diligence processing;

(vii) if applicable, evidence of all requests for skip-tracing assistance and current address of the related Obligor, if located;

(viii) if applicable, evidence of requests for pre-claims assistance, and evidence that the Obligor's school(s) have been notified; and

(ix) if applicable, a record of any event resulting in a change to or confirmation of any data in the student loan file;

(m) such Student Loan was originated and has been serviced in compliance with all requirements of applicable law, including the Higher Education Act and all origination fees authorized to be collected pursuant to Section 438 of the Higher Education Act have been paid to the United States Secretary of Education;

(n) such Student Loan is evidenced by a single original Student Loan Note and any addendum thereto (or a certified copy thereof if more than one Student Loan is represented by a single Student Loan Note and all Student Loans represented thereby are not being sold) (whether e-signed or otherwise), containing terms in accordance with those required by the FFELP Program, the applicable Guarantee Agreements and other applicable requirements and which does not require the Obligor to consent to the transfer, pledge, sale or assignment of the rights and duties of the Pledgor or the Bank (or the Bank Eligible Lender Trustee or the Interim Bank Eligible Lender Trustee on behalf of the Bank) and does not contain any provision that restricts the ability of the Bank to exercise its rights under the Pledge Agreement, the Borrower Advances Agreement, the Servicing Agreement or any related agreement or document;

(o) immediately prior to the pledge thereof to the Bank, the Pledgor has good and marketable title to such Student Loan free and clear of any Adverse Claim or other encumbrance, lien or security interest, or any other prior commitment, other than as may be granted in favor of the Bank and the Bank Eligible Lender Trustee;

(p) such Student Loan has not been modified, extended or renegotiated in any way, except (i) as required under the Higher Education Act or other applicable laws, rules and regulations and the applicable Guarantee Agreement, (ii) as provided for or permitted under the applicable underwriting guidelines or Servicing Policies if such modification, extension or renegotiation does not materially adversely affect the value or collectability thereof or (iii) as provided for in the Pledge Agreement, the Borrower Advances Agreement, the Servicing Agreement or any related agreement or document;

(q) such Student Loan constitutes a legal, valid and binding obligation to pay on the part of the related Obligor enforceable in accordance with its terms and is not noted on the appropriate Servicer's books and records as being subject to a current bankruptcy proceeding;

(r) such Student Loan constitutes an instrument, an account or a general intangible as defined in the UCC in the jurisdiction that governs the perfection of the interests of the Bank therein and the perfection of the Bank's interest therein;

(s) the pledge of such Student Loan to the Bank or the Bank Eligible Lender Trustee or Interim Bank Eligible Lender Trustee on its behalf pursuant to the Pledge Agreement, and the granting of a security interest to the Bank pursuant to this Agreement does not contravene or conflict with any applicable law, rule or regulation, or require the consent or approval of, or notice to, any Person;

(t) the pledge of such Student Loans will not result in, and is not expected to cause a default under the Borrower Advances Agreement; and

(u) the pledge of such Student Loans will not cause, and is not expected to cause the Advance Equivalency to be insufficient for the purpose of fully securing the Member's Advances.

"***Eligible Institution***" means (a) an institution of higher education, (b) a vocational school or (c) any other institution which, in all of the above cases, is an "eligible institution" as defined in the Higher Education Act and has been approved by the Department of Education and the applicable Guarantor.

"***Eligible Lender Trustee Guarantee Agreement***" means any guarantee or similar agreement issued by any Guarantor to the Bank Eligible Lender Trustee relating to the Guarantee of Student Loans, and any amendment thereto entered into in accordance with the provisions thereof and hereof.

"***Eligible Obligor***" means an Obligor who is eligible under the Higher Education Act to be the obligor of a loan for financing a program of education at an Eligible Institution, including an Obligor who is eligible under the Higher Education Act to be an obligor of a loan made pursuant to Section 428A, 428B and 428C of the Higher Education Act.

"***Event of Bankruptcy***" means, with respect to a specified Person, (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person

or any substantial part of its property in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person's affairs, which decree or order remains unstayed and in effect for a period of 30 consecutive days; or (b) the commencement by such Person of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

"***Federal Reimbursement Contracts***" means any agreement between any Guarantor and the Department of Education providing for the payment by the Department of Education of amounts authorized to be paid pursuant to the Higher Education Act, including but not necessarily limited to reimbursement of amounts paid or payable upon defaulted student loans Guaranteed by such Guarantor to holders of qualifying student loans Guaranteed by any Guarantor.

"***FFELP Program***" means the Federal Family Education Loan Program authorized under the Higher Education Act, including Stafford Loans, SLS Loans, PLUS Loans and Consolidation Loans.

"***Guarantee***" or "***Guaranteed***" means, with respect to a Student Loan, the insurance or guarantee by the applicable Guarantor, in accordance with the terms and conditions of the applicable Guarantee Agreement, of some or all of the principal of and accrued interest on such Student Loan and the coverage of such Student Loan by the Federal Reimbursement Contracts providing, among other things, for reimbursement to such Guarantor for losses incurred by it on defaulted Student Loans insured or guaranteed by such Guarantor.

"***Guarantee Agreements***" means the Federal Reimbursement Contracts, the Eligible Lender Trustee Guarantee Agreements and any other guarantee or agreement issued by a Guarantor to the Bank Eligible Lender Trustee or the Interim Eligible Lender Trustee, which pertain to Student Loans, providing for the payment by the Guarantor of amounts authorized to be paid pursuant to the Higher Education Act to holders of qualifying Student Loans guaranteed in accordance with the Higher Education Act by such Guarantor.

"***Guarantor***" means any entity listed on Attachment C to the Servicing Agreement authorized to guarantee Student Loans under the Higher Education Act and with which the Eligible Lender Trustee maintains in effect a Guarantee Agreement.

"***Higher Education Act***" means the Higher Education Act of 1965, as amended or supplemented from time to time, and all regulations and guidelines promulgated thereunder.

“***Interest Subsidy Payments***” means the interest subsidy payments on certain Student Loans authorized to be made by the Department of Education pursuant to Section 428 of the Higher Education Act or similar payments authorized by federal law or regulations.

“***Master Servicer***” means Sallie Mae, Inc., as servicer under the Servicing Agreement.

“***Obligor***” means the borrower or co-borrower or any other Person obligated to make payments with respect to a Student Loan.

“***Person***” means an individual, partnership, corporation (including a statutory trust), limited liability company, joint stock company, trust, unincorporated association, joint venture, government (or any agency or political subdivision thereof) or other entity.

“***PLUS Loan***” means a student loan originated under the authority set forth in Section 428A or B (or a predecessor section thereto) of the Higher Education Act and shall include student loans designated as “PLUS Loans” or “Grad PLUS Loans,” as defined under the Higher Education Act.

“***Principal Balance***” means, with respect to any Student Loan and any specified date, the outstanding principal amount of such Student Loan, plus accrued and unpaid interest thereon to be capitalized.

“***Servicer***” means the Master Servicer or a Subservicer.

“***Servicing Agreement***” means the Servicing and Custodial Agreement, dated as of January 15, 2010 (the “Servicing Agreement”), among the Bank, the Master Servicer, and The Bank of New York Mellon Trust Company, National Association, not in its individual capacity but solely as eligible lender trustee on behalf of the Bank.

“***Servicing Policies***” means the policies and procedures of the Master Servicer or any Subservicer, as applicable, with respect to the servicing of Student Loans.

“***SLS Loan***” means a student loan originated under the authority set forth in Section 428A (or a predecessor section thereto) of the Higher Education Act and shall include student loans designated as “SLS Loans,” as defined under the Higher Education Act.

“***Special Allowance Payments***” means special allowance payments on Student Loans authorized to be made by the Department of Education pursuant to Section 438 of the Higher Education Act, or similar allowances authorized from time to time by federal law or regulation.

“***Stafford Loan***” means a loan designated as such that is made under the Robert T. Stafford Student Loan Program in accordance with the Higher Education Act.

“***Student Loan***” means a Consolidation Loan, a PLUS Loan, an SLS Loan or a Stafford Loan.

"***Student Loan Note***" means the promissory note or notes of an Obligor and any amendment thereto evidencing such Obligor's obligation with regard to a Student Loan or the electronic records evidencing the same.

"***Subservicer***" means any subservicer appointed by the Servicer in accordance with the terms of the Servicing Agreement.

"***UCC***" means the Uniform Commercial Code as from time to time in effect in the specified jurisdiction.

"***United States***" means the United States of America.

**Exhibit 10.39**

***Execution Copy***

**Advances, Pledge and Security Agreement**

**Specific Pledge**

This Advances, Pledge and Security Agreement ("Agreement") is entered on January 15, 2010 between HICA Education Loan Corporation ("Member"), with principal offices in Reston, Virginia, and the Federal Home Loan Bank of Des Moines ("Bank"), with principal offices in Des Moines, Iowa.

**WHEREAS,** the Bank may from time to time make available extensions of credit to the Member ("Advances"), in accordance with the Federal Home Loan Bank Act, the regulations and directives of the Federal Housing Finance Agency, the Confirmations issued hereunder, and the policies and procedures currently set forth in the Bank's Member Products and Services Policy, as amended, superseded or replaced by the Bank's Board of Directors from time to time, and the Bank's Credit and Collateral Procedures, as amended, superseded or replaced by the Bank's management from time to time (collectively referred to herein as the "Member Policies and Procedures");

**WHEREAS,** the Member desires, from time to time, to obtain Advances from the Bank in accordance with the terms and conditions of this Agreement, the Confirmations issued hereunder and the Member Policies and Procedures; and

**WHEREAS,** the Bank requires that all Advances, and all other indebtedness, arising from any and all obligations or liabilities of the Member to the Bank be secured pursuant to this Agreement, and the Member agrees to provide such security;

**NOW THEREFORE**, for valuable consideration, intending to be legally bound, and with respect to each and every such Advance, the Bank and Member agree as follows:

**Section 1. Applications.** The Member shall request an Advance in such form as shall be specified by the Bank. Nothing contained in this Agreement or the Member Policies and Procedures shall be construed as an agreement or commitment by the Bank to grant any Advance hereunder. The Bank expressly reserves its right and power to either grant or deny in its sole discretion any Advance.

**Section 2. Confirmation of Advance.** Each Advance, and, except as otherwise provided, all other indebtedness, shall be evidenced by a writing or electronic record, in such form or forms as may be determined by the Bank from time to time ("Confirmation"), issued by the Bank to the Member. The Member and the Bank shall be bound by the terms and conditions set forth herein, in the Confirmation and in the Member Policies and Procedures. Any inconsistencies between the terms and conditions of a Confirmation, this Agreement, or the Member Policies and Procedures, shall be resolved in favor of this Agreement.

**Section 3. Payment to the Bank.** The Member shall repay each Advance and make payments of interest thereon and any and all costs, expenses, fees and penalties relating thereto as specified herein and in the Member Policies and Procedures and the related Confirmation. All payments shall be made at the office of the Bank in Des Moines, Iowa, or at such other place as the Bank, or its successors or assigns, may from time to time appoint in writing.

The Member shall maintain in its demand deposit account(s) with the Bank (collectively, the "Demand Deposit Account") an amount at least equal to the amounts then currently due and payable to the Bank on outstanding Advances. The Member hereby authorizes the Bank to debit the Demand Deposit Account for all amounts due and payable to the Bank on any Advance or other indebtedness. If the amount in the Demand Deposit Account is, at any time, insufficient to pay such due and payable amounts, the Bank may, without notice to the Member, apply any other funds or assets then in the possession of the Bank to the payment of such amounts.

Past due payments of principal, interest, or other amounts payable in connection with any Advance may, at the option of the Bank, bear interest until paid at a default rate that is 3% per annum higher than the then current rate being charged by the Bank for Advances.

**Section 4. Creation of Security Interest in Collateral.** As collateral security for any and all such Advances, Member assigns, transfers, and pledges to the Bank, its successors or assigns, property of Member as described in Exhibit A (the "Collateral"), which may be amended from time to time. With respect to such Collateral, Member undertakes and agrees as follows:

A. To keep and maintain such Collateral free and clear of pledges, liens and encumbrances to others as is required to meet the Member's collateral maintenance level. The "required collateral maintenance level" means the amount of Collateral the Member is required to maintain to secure its Advances with the Bank as set forth and calculated in accordance with the Member Policies and Procedures;

B. To assemble and deliver Collateral to the Bank or its authorized agents immediately upon demand of the Bank; and as specified by the Bank in the Member Policies and Procedures to pay for the safekeeping of Collateral.

C. To make, execute and deliver to the Bank such assignments, endorsements, listings, powers, financing statements or other instruments as the Bank may reasonably request respecting such Collateral.

**Section 5. Assignment to Bank of Security Interest in Bank Stock.** The Member hereby assigns, transfers and pledges to the Bank, its successors or assigns, all stock of the Federal Home Loan Bank of Des Moines owned by the Member as collateral security for payment of any and all indebtedness, whether in the nature of an Advance or otherwise, of the Member to the Bank, its successors and assigns.

**Section 6. Covenants.** The Member represents, warrants, and covenants to the Bank, which representations, warranties, and covenants shall be deemed to be repeated at all times until the termination of this Agreement:

A. No Event of Default, as defined in Section 9, with respect to the Member has occurred and is continuing or would occur as a result of the Member entering into or performing its obligations under this Agreement or any Advance.

B. The Member owns and has marketable title to the Collateral free and clear of any and all liens, claims, or encumbrances of any kind, and has the right and authority to grant a security interest in the Collateral and to subject all of the Collateral to this Agreement.

C. All of the Collateral meets the standards and requirements with respect thereto established by the Member Policies and Procedures.

D. The Member shall at all times maintain and accurately reflect the terms of this Agreement, including the Bank's interest in Collateral, and all Advances and other indebtedness on its books and records.

E. The Member has the full power and authority and has received all corporate and governmental authorizations and approvals as may be required to enter into and perform its obligations under this Agreement and any Advance.

**Section 7. Duty to Use Reasonable Care.** In the event Member delivers Collateral to the Bank or its agent pursuant to Section 4 above, the duty of the Bank with respect to said Collateral shall be solely to use reasonable care in the custody and preservation of the Collateral in its possession.

**Section 8. Additional Security.** Member shall assign additional or substituted Collateral for such Advances at any time the Bank shall deem it necessary for the Bank's protection.

**Section 9. Events of Default.** The Bank may consider the Member in default hereunder upon the occurrence of any of the following events or conditions:

A. Failure of the Member to pay any interest, or repay any principal or pay any other amount due in connection with any Advance; or

B. Breach or failure to perform by the Member of any covenant, promise, condition, obligation or liability contained or referred to herein, or any other agreement to which the Member and the Bank are parties; or

C. Proof being made that any representation, statement or warranty made or furnished in any manner to the Bank by or on behalf of the Member in connection with all or part of any Advance was false in any material respect when made or furnished; or

D. Any tax levy, attachment, garnishment, levy of execution or other process issued against the Member or the Collateral; or

E. Any suspension of payment by the Member to any creditor or any events which result in acceleration of the maturity of any indebtedness of the Member to others under any indenture, agreement or other undertaking; or

F. Application for, or appointment of, a receiver of any part of the property of the Member, or in case of adjudication of insolvency, or assignment for benefit of creditors, or general transfer of assets by the Member, or if management of the Member is taken over by any supervisory authority, or in case of any other form of liquidation, merger, sale of a substantial portion of the Member's assets outside of the ordinary course of the Member's business or voluntary dissolution, or upon termination of the membership of the Member in the Federal Home Loan Bank of Des Moines, or in the case of Advances made under the provisions of 12 U.S.C. § 1431(g)(4) or any successor provisions, if at any time thereafter the creditor liabilities of the Member, excepting its liabilities to the Bank, are increased in any manner to an amount exceeding 5% of its net assets; or

G. Determination by the Bank that a material adverse change has occurred in the financial condition of the Member from that disclosed at the time of the making of any Advance, or from the condition of the Member as theretofore most recently disclosed to the Bank in any manner; or

H. If the Bank reasonably and in good faith deems itself insecure even though the Member is not otherwise in default.

**Section 10. Bank Remedies in the Event of Default.** Upon the occurrence of any default hereunder, the Bank may, at its option, declare the entire amount of any and all Advances or other indebtedness to be immediately due and payable. Without limitation of any of its rights and remedies hereunder or under other law, the Bank shall have all of the remedies of a secured party under the Uniform Commercial Code of the State of Iowa. The Member agrees to pay all the costs and expenses of the Bank in the collection of the secured indebtedness and enforcement of the Bank's rights hereunder including, without limitation, reasonable attorney's fees. The Bank may sell the Collateral or any part thereof in such manner and for such price as the Bank deems appropriate without any liability for any loss due to decrease in the market value of the Collateral during the period held. The Bank shall have the right to purchase all or part of the Collateral at public or private sale. If any notification of intended disposition of any of the Collateral is required by law, such notification shall be deemed reasonable and properly given if mailed, postage prepaid, at least five days before any such disposition to the address of the Member appearing on the records of the Bank.

The proceeds of any sale shall be applied in the following order: first, to pay all costs and expenses of every kind for the enforcement of this Agreement or the care, collection, safekeeping, sale, foreclosure, delivery or otherwise respecting the Collateral (including expenses for legal services); then to interest and fees on all indebtedness of the Member to the Bank; then to the principal amount of any such indebtedness whether or not such indebtedness is due or accrued. The Bank, at its discretion or as assigned by law, may apply any surplus to indebtedness of Member to third parties claiming a secondary security interest in the Collateral. Any remaining surplus shall be paid to the Member.

**Section 11. Appointment of Bank as Attorney-in-Fact.** Member does hereby make, constitute and appoint Bank its true and lawful attorney-in-fact to deal with the Collateral in the

event of default and, in its name and stead to release, collect, compromise, settle, and release or record any note, mortgage or deed of trust which is a part of such Collateral as fully as the Member could do if acting for itself. The powers herein granted are coupled with an interest, and are irrevocable, and full power of substitution is granted to the Bank in the premises.

**Section 12. Audit and Verification of Collateral.** In extension and not in limitation of all requirements of law respecting examination of the Member by or on behalf of the Bank, the Member agrees that all Collateral pledged hereunder shall always be subject to audit and verification by or on behalf of the Bank in its corporate capacity.

**Section 13. Resolution to be Furnished by Member.** The Member agrees to furnish to the Bank at the execution of this Agreement, and from time to time hereafter, a certified copy of a resolution of its Board of Directors or other governing body authorizing such of the Member's officers, agents, and employees as the Member shall select, to apply for Advances from the Bank. In lieu of requiring an additional resolution upon execution of this Agreement, the Bank may rely on a previously furnished resolution of the Member's Board of Directors or other governing body with respect to Advances made pursuant to this Agreement.

**Section 14. Applicable Law.** This Agreement and all Advances and other indebtedness obtained hereunder shall be governed by the statutory and common law of the United States and, to the extent federal law incorporates or defers to state law, the laws (exclusive of choice of law provisions) of the State of Iowa. Notwithstanding the foregoing, the Uniform Commercial Code as in effect in the State of Iowa shall apply to the parties' rights and obligations with respect to the Collateral. If any portion of this Agreement conflicts with applicable law, such conflict shall not affect any other provision of this Agreement that can be given effect without the conflicting provision, and to this end the provisions of this Agreement are severable.

**Section 15. Jurisdiction.** In any action or proceeding brought by the Bank or the Member in order to enforce any right or remedy under this Agreement, Member hereby submits to the jurisdiction of the United States District Court for the Southern District of Iowa, or if such action or proceeding may not be brought in Federal Court, the jurisdiction of the Iowa District Court in Polk County. If any action or proceeding is brought by the Member seeking to obtain relief against the Bank arising out of this Agreement and such relief is not granted by a court of competent jurisdiction, the Member will pay all attorney's fees and court costs incurred by the Bank in connection therewith.

**Section 16. Effective Date; Agreement Constitutes Entire Agreement.** This Agreement shall be effective on the date of execution of this Agreement by the parties hereto. Except as set forth in this paragraph, this Agreement, together with the Member Policies and Procedures and any applicable Confirmations, shall embody the entire agreement and understanding between the parties hereto relating to the subject matter hereof and thereof. This Agreement may not be amended except by written amendment executed by the Bank and the Member. Each such Confirmation and the Member Policies and Procedures shall be incorporated herein. Advances made by the Bank to the Member prior to the effective date of this Agreement shall be governed exclusively by the terms of the prior agreements pursuant to which such Advances were made, except that (i) any default thereunder shall constitute default

hereunder, (ii) Collateral furnished as security hereunder shall also secure such prior Advances and (iii) the rights and obligations with respect to such Collateral shall be governed by the terms of this Agreement.

**Section 17. Section Headings.** Section headings are not to be considered part of this Agreement. Section headings are solely for convenience of reference, and shall not affect the meaning or interpretation of this Agreement or any of its provisions.

**Section 18. Successors and Assigns.** This Agreement shall be binding upon each of the parties, successors and permitted assigns. The Member may not assign any obligation hereunder without the prior written consent of the Bank. The Bank may assign any or all of its rights and obligations hereunder or with respect to any Advance or other indebtedness to any other party.

**Section 19. No Waiver of Rights.** A failure or delay in exercising any right, power or privilege in respect of this Agreement will not be presumed to operate as a waiver, and a single or partial exercise of any right, power or privilege will not be presumed to preclude any subsequent or further exercise of any right, power, or privilege or the exercise of any other right, power or privilege.

**Section 20. Remedies Cumulative.** The rights, powers, remedies and privileges provided in this Agreement are cumulative and not exclusive of any rights, powers, remedies and privileges provided by law.

**IN WITNESS WHEREOF,** each of the parties has caused this Agreement to be signed in its name by its duly authorized representatives as of the dates below.

**HICA EDUCATION LOAN CORPORATION (Member # 5165)**

**By:** **/s/ Mark D. Rein**
**Name:** **Mark D. Rein**
**Title:** **President**
**Date:** **January 15, 2010**

**FEDERAL HOME LOAN BANK OF DES MOINES**

**By:** **/s/ Jodie L. Stephens**
**Name:** **Jodie L. Stephens**
**Title:** **Collateral Risk Manager**
**Date:** **January 15, 2010**

**Exhibit A**

**[Collateral List]**

**Addendum Number 1**

**To**

**Advances, Pledge and Security Agreement**

**Member # 5165**

**Specific Pledge**

This Addendum Number 1 to Advances, Pledge and Security Agreement (this "Addendum") is entered into between HICA Education Loan Corporation ("Member"), with principal offices in Reston, Virginia, and the Federal Home Loan Bank of Des Moines ("Bank"), with principal offices in Des Moines, Iowa.

**WHEREAS**, the Member and the Bank are parties to that certain Advances, Pledge and Security Agreement dated January 15, 2010 (the "Base Agreement"); and

**WHEREAS**, the Member and the Bank desire that certain provisions of the Base Agreement be supplemented, amended and modified in accordance with the terms of this Addendum in order to (i) permit the Member to pledge to the Bank certain federally guaranteed student loans as "Collateral" for Advances made by the Bank to the Member, (ii) cause the terms of the Base Agreement, as modified by this Addendum (the Base Agreement, together with and as modified, amended and supplemented by this Addendum, is collectively referred to as the "Agreement"), to reflect, to the extent necessary to comply with the Higher Education Act (as defined herein), the pledge of legal title to the Student Loan Collateral (as defined herein) to (a) The Bank of New York Mellon Trust Company, National Association, not in its individual capacity but solely as eligible lender trustee on behalf of and for the benefit of the Bank (in such capacity, the "Bank Eligible Lender Trustee") and (b) SLM Education Credit Finance Corporation, not in its individual capacity but solely as interim eligible lender trustee on behalf of and for the benefit of the Bank (in such capacity, the "Interim Bank Eligible Lender Trustee") until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee, and (iii) make certain other changes to the Base Agreement in order to reflect the terms of the agreement between the Member and the Bank;

**NOW THEREFORE**, for valuable consideration, intending to be legally bound, and with respect to each and every Advance under the Agreement, the Bank and the Member agree as follows:

**Section 1. Inconsistencies.** Any inconsistencies between this Addendum, the Base Agreement or the Member Policies and Procedures shall be resolved in favor of this Addendum.

**Section 2. Definitions.** Capitalized terms used and not defined herein shall have the meanings ascribed to such terms in the Base Agreement.

**Section 3. Modifications.** Notwithstanding anything in the Base Agreement or the Member Policies and Procedures to the contrary, the parties hereto agree as follows:

A. To the extent necessary to comply with the Higher Education Act of 1965, as amended, or related regulations promulgated by the U.S. Secretary of Education (the "Higher Education Act"), legal title to all of the Collateral consisting of student loans reinsured under Title IV of the Higher Education Act and made to persons for post secondary education at eligible institutions (the "Student Loan Collateral") shall be pledged to and, in the event that the Bank and the Bank Eligible Lender Trustee are to become the beneficial and record owners, respectively, of the Student Loan Collateral, vested in the Bank Eligible Lender Trustee (or the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) on behalf of and for the benefit of the Bank and, for the avoidance of doubt, the Bank shall for all purposes be considered the beneficial owner of such Student Loan Collateral but shall not, for any reason whatsoever, be deemed to own the title thereto;

B. The Member undertakes and agrees to keep and maintain at all times Collateral which has an Advance Equivalency sufficient to fully secure its Advances. Advance Equivalency is calculated by applying commercially reasonable Collateral Maintenance Levels to the fair market value or book value of Collateral. The Member acknowledges that the Bank may increase such Collateral Maintenance Levels, in a commercially reasonable and nondiscriminatory manner as determined by the Bank, by providing written notice of any such increase to the Member at least thirty (30) calendar days prior to implementing the same. The Member hereby agrees that, for purposes of calculating the Advance Equivalency of the Collateral, such calculation shall not take into consideration any item of Student Loan Collateral in respect of which there has been a breach of any representation or warranty of the Member or any of its affiliates in the origination, sale, pledge, servicing or administration of such item of Student Loan Collateral which has a material adverse effect on the interest of the Bank in such item of Student Loan Collateral;

C. With the consent of the Bank, the Member may withdraw any Collateral specified in a written request to the Bank, provided that the Bank reasonably determines that the remaining Collateral, after giving effect to such withdrawal, has an Advance Equivalency at least equal to Member's Advances;

D. The Member agrees to make, execute and deliver to the Bank such assignments, endorsements, listings, powers, or other documents or instruments, or to take any such other measures as the Bank may reasonably request in order to protect its security interest in the Collateral. The Member authorizes the Bank to file any and all financing statements and amendments thereto as the Bank reasonably deems desirable to perfect and protect its security interest in the Collateral;

E. The Member agrees to provide any information regarding the Collateral reasonably requested by the Bank and to make its books and records available to the Bank audits or verification pursuant to Section 12 of the Base Agreement;

F. Member agrees to provide any information requested by the Bank in connection with an Advance or Collateral and any information contained in any status report, schedule, or other documents requested or required hereunder and any other information given from time to time by the Member as to each item of Collateral;

G. All references to the Bank in the Agreement and the Member Policies and Procedures means the Bank Eligible Lender Trustee (or the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) for all purposes involving the holding or transferring of legal title to any Student Loan Collateral;

H. At or prior to the execution of this Addendum, the Member shall have caused the amendment of any servicing agreement pursuant to which the Student Loan Collateral will be serviced during the term of the Agreement in order to (i) make the Bank an intended third party beneficiary of such servicing agreement and (ii) include an acknowledgment by the related servicer of the rights of the Bank and the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) in the Student Loan Collateral. If, at any time after the execution of this Addendum, the Student Loan Collateral shall become subject to the terms of any other servicing agreement, the Member hereby agrees to cause such servicing agreement to include the provisions described in clauses (i) and (ii) in the preceding sentence;

I. If any affiliate of the Member (each, an “Affiliate”) becomes a party to an Affiliate Collateral Pledge and Security Agreement with the Bank, the Member hereby agrees to cause any such Affiliate, at or prior to the execution of such Affiliate Collateral Pledge and Security Agreement, to (i) acknowledge and agree to the terms and provisions of the servicing and custodial agreement pursuant to which the Bank’s designated servicer has agreed to service the Student Loan Collateral in the event that Bank and the Bank Eligible Lender Trustee (or the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) become the beneficial and record owners, respectively, of the Student Loan Collateral pursuant to the terms of the Agreement and (ii) amend any servicing agreement pursuant to which any Student Loan Collateral pledged by such Affiliate will be serviced during the term of the Agreement in order to (a) make the Bank and the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered

into in favor of the Bank Eligible Lender Trustee) an intended third party beneficiary of such servicing agreement and (b) include an acknowledgment by the related servicer of the rights of the Bank and the Bank Eligible Lender Trustee (and the Interim Bank Eligible Lender Trustee until such time as guarantee agreements with the applicable state agencies or guarantors have been entered into in favor of the Bank Eligible Lender Trustee) in such Student Loan Collateral. If, at any time after the execution of this Addendum, the Student Loan Collateral pledged by an Affiliate shall become subject to the terms of any other servicing agreement, the Member hereby agrees to cause such servicing agreement to include the provisions described in clauses (ii)(a) and (b) in the preceding sentence; and

J. It is further agreed that no Affiliate other than SLM Education Credit Finance Corporation shall be permitted to pledge any item of Student Loan Collateral for which there is not a guarantee agreement with the applicable state agency or guarantor in favor of the Bank Eligible Lender Trustee; and

K. Section 14 of the Base Agreement is hereby deleted and replaced in its entirety with the following:

"**Section 14. Applicable Law and Severability**. This Agreement and the rights and obligations of the parties hereunder shall be construed in accordance with and be governed by the laws of the State of New York without regard to the conflicts of law principles thereof (other than Sections 5-1401 and 5-1402 of the New York General Obligations Law). In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby."

**Section 4. Effective Date; Entire Agreement.** Upon execution of this Addendum by the parties hereto, the Agreement shall be effective as of the date of the Base Agreement. The Agreement, together with the Member Policies and Procedures and any applicable Confirmations, shall embody the entire agreement and understanding between the parties hereto relating to the subject matter hereof and thereof. The Agreement may not be amended except by written amendment executed by the Bank and the Member.

**IN WITNESS WHEREOF**, each of the parties has caused this Addendum Number 1 to Advances, Pledge and Security Agreement to be signed in its name by its duly authorized representatives as of the dates below.

**HICA EDUCATION LOAN CORPORATION ( Member # 5165 )**

**By:** ______________________________
**Name:** **Mark D. Rein**
**Title:** **President**
**Date:** **January 15, 2010**

**FEDERAL HOME LOAN BANK OF DES MOINES**

**By:** ______________________________
**Name:** **Jodie L. Stephens**
**Title:** **Collateral Risk Manager**
**Date:** **January 15, 2010**

ACKNOWLEDGED AND AGREED TO BY THE UNDERSIGNED FOR THE SOLE PURPOSE OF ACKNOWLEDGING THE GRANT OF A SECURITY INTEREST IN THE STUDENT LOAN COLLATERAL BY THE MEMBER IN FAVOR OF THE BANK AND THE BANK ELIGIBLE LENDER TRUSTEE AND IN NO EVENT SHALL THE UNDERSIGNED BE DEEMED TO BE A PARTY TO THE BASE AGREEMENT OR ADDENDUM NUMBER 1 THERETO:

**THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION**, not in its individual capacity but solely in its capacity as Bank Eligible Lender Trustee

**By:** ______________________________

**Name:** **Melissa A. Hancock**

**Title:** **Vice President**

**Date:** **January 15, 2010**

ACKNOWLEDGED AND AGREED TO BY THE UNDERSIGNED FOR THE SOLE PURPOSE OF ACKNOWLEDGING THE GRANT OF A SECURITY INTEREST IN THE STUDENT LOAN COLLATERAL BY THE MEMBER IN FAVOR OF THE BANK AND THE INTERIM BANK ELIGIBLE LENDER TRUSTEE AND IN NO EVENT SHALL THE UNDERSIGNED, IN SUCH CAPACITY, BE DEEMED TO BE A PARTY TO THE BASE AGREEMENT OR ADDENDUM NUMBER 1 THERETO:

**SLM EDUCATION CREDIT FINANCE CORPORATION**, not in its individual capacity but solely in its capacity as Interim Bank Eligible Lender Trustee

**By:** ________________________________________
**Name:** **Mark D. Rein**
**Title:** **Vice President**
**Date:** **January 15, 2010**

**EXHIBIT 10.40**

**EXECUTION COPY**

---

NOTE PURCHASE AND SECURITY AGREEMENT

by and among

BLUEMONT FUNDING I,
as the Trust,

THE CONDUIT LENDERS PARTY HERETO,
as Conduit Lenders,

CERTAIN FINANCIAL INSTITUTIONS PARTIES HERETO,
as Alternate Lenders,

CERTAIN FINANCIAL INSTITUTIONS PARTIES HERETO,
as LIBOR Lenders,

CERTAIN FINANCIAL INSTITUTIONS PARTIES HERETO,
as Managing Agents,

BANK OF AMERICA, N.A.,
as Administrative Agent,

JPMORGAN CHASE BANK, N.A.,
as Syndication Agent,

BANC OF AMERICA SECURITIES LLC and
J.P. MORGAN SECURITIES INC.,
as Lead Arrangers,

THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION,
as Eligible Lender Trustee,

and
SALLIE MAE, INC.,
as Administrator

January 15, 2010

---

TABLE OF CONTENTS


| | | |
|---|---|---|
| ARTICLE I. DEFINITIONS | | 2 |
| **Section 1.01.** | Certain Defined Terms | 2 |
| **Section 1.02.** | Other Terms | 48 |
| **Section 1.03.** | Computation of Time Periods | 48 |
| **Section 1.04.** | Calculation of Yield Rate and Certain Fees | 49 |
| **Section 1.05.** | Time References | 49 |
| ARTICLE II. THE FACILITY | | 49 |
| **Section 2.01.** | Issuance and Purchase of Class A Notes; Making of Advances | 49 |
| **Section 2.02.** | The Initial Advance and Subsequent Advances | 50 |
| **Section 2.03.** | Reduction, Termination or Increase of the Maximum Financing Amount and Prepayment of the Class A Notes | 53 |
| **Section 2.04.** | The Accounts | 54 |
| **Section 2.05.** | Transfers from Collection Account | 57 |
| **Section 2.06.** | Capitalized Interest Account and Reserve Account | 60 |
| **Section 2.07.** | Transfers from the Capitalized Interest Account and Reserve Account | 61 |
| **Section 2.08.** | Management of Trust Accounts | 62 |
| **Section 2.09.** | [RESERVED] | 64 |
| **Section 2.10.** | Grant of a Security Interest | 64 |
| **Section 2.11.** | Evidence of Debt | 65 |
| **Section 2.12.** | Payments by the Trust | 65 |
| **Section 2.13.** | Payment of Stamp Taxes, Etc | 66 |
| **Section 2.14.** | Sharing of Payments, Etc | 66 |
| **Section 2.15.** | Yield Protection | 66 |
| **Section 2.16.** | Extension of Liquidity Expiration Date and Scheduled Maturity Date | 68 |
| **Section 2.17.** | Servicer Advances | 70 |
| **Section 2.18.** | Release and Transfer of Pledged Collateral | 70 |
| **Section 2.19.** | Effect of Release | 72 |
| **Section 2.20.** | Taxes | 72 |
| **Section 2.21.** | Replacement or Repayment of Facility Group | 75 |

| | | |
|---|---|---|
| **Section 2.22.** | Notice of Amendments to Program Support Agreements | 77 |
| **Section 2.23.** | Lender Holding Account | 77 |
| **Section 2.24.** | Deliveries by Administrative Agent | 79 |
| **Section 2.25.** | Mark-to-Market Valuation | 79 |
| **Section 2.26.** | Inability to Determine Rates | 81 |
| **Section 2.27.** | Calculation of Monthly Yield | 81 |

ARTICLE III. THE CLASS A NOTES 82

| | | |
|---|---|---|
| **Section 3.01.** | Form of Class A Notes Generally | 82 |
| **Section 3.02.** | Securities Legend | 82 |
| **Section 3.03.** | Priority | 83 |
| **Section 3.04.** | Execution and Dating | 83 |
| **Section 3.05.** | Registration, Registration of Transfer and Exchange, Transfer Restrictions | 83 |
| **Section 3.06.** | Mutilated, Destroyed, Lost and Stolen Class A Notes | 84 |
| **Section 3.07.** | Persons Deemed Owners | 85 |
| **Section 3.08.** | Cancellation | 85 |
| **Section 3.09.** | CUSIP/DTC Listing | 85 |
| **Section 3.10.** | Legal Final Maturity Date | 85 |

ARTICLE IV. CONDITIONS TO CLOSING DATE AND ADVANCES 85

| | | |
|---|---|---|
| **Section 4.01.** | Conditions Precedent to Closing Date | 85 |
| **Section 4.02.** | Conditions Precedent to Advances | 88 |
| **Section 4.03.** | Condition Subsequent to Advances (other than the Initial Advance) | 92 |
| **Section 4.04.** | Conditions Precedent to Addition of New Seller | 92 |

ARTICLE V. REPRESENTATIONS AND WARRANTIES 93

| | | |
|---|---|---|
| **Section 5.01.** | General Representations and Warranties of the Trust | 93 |
| **Section 5.02.** | Representations and Warranties of the Trust Regarding the Administrative Agent's Security Interest | 97 |
| **Section 5.03.** | Particular Representations and Warranties of the Trust | 97 |
| **Section 5.04.** | Repurchase of Student Loans; Reimbursement | 99 |
| **Section 5.05.** | Administrator Actions Attributable to the Trust | 99 |

ARTICLE VI. COVENANTS OF THE TRUST 99

| | | |
|---|---|---|
| **Section 6.01.** | Preservation of Separate Existence | 99 |
| **Section 6.02.** | Notice of Termination Event, Potential Termination Event or Amortization Event | 100 |
| **Section 6.03.** | Notice of Material Adverse Change | 100 |
| **Section 6.04.** | Compliance with Laws; Preservation of Corporate Existence; Code of Conduct | 100 |
| **Section 6.05.** | Enforcement of Obligations | 100 |
| **Section 6.06.** | Maintenance of Books and Records | 102 |
| **Section 6.07.** | Fulfillment of Obligations | 102 |
| **Section 6.08.** | Notice of Material Litigation | 102 |
| **Section 6.09.** | Notice of Relocation | 102 |
| **Section 6.10.** | Rescission or Modification of Trust Student Loans and Transaction Documents | 102 |
| **Section 6.11.** | Liens | 103 |
| **Section 6.12.** | Sales of Assets; Consolidation/Merger | 105 |
| **Section 6.13.** | Change in Business | 105 |
| **Section 6.14.** | Residual Interest | 105 |
| **Section 6.15.** | General Reporting Requirements | 105 |
| **Section 6.16.** | Inspections | 107 |
| **Section 6.17.** | ERISA | 108 |
| **Section 6.18.** | Servicers | 108 |
| **Section 6.19.** | Acquisition, Financing, Collection and Assignment of Student Loans | 108 |
| **Section 6.20.** | Administration and Collection of Trust Student Loans | 108 |
| **Section 6.21.** | Obligations of the Trust With Respect to Pledged Collateral | 108 |
| **Section 6.22.** | Asset Coverage Requirement | 108 |
| **Section 6.23.** | Amendment of Organizational Documents | 109 |
| **Section 6.24.** | Amendment of Underwriting Guidelines or Servicing Policies | 109 |
| **Section 6.25.** | No Payments on Excess Distribution Certificate | 109 |
| **Section 6.26.** | Borrower Benefit Programs | 109 |
| **Section 6.27.** | [RESERVED] | 110 |
| **Section 6.28.** | Most Favored Nations | 110 |
| **Section 6.29.** | Advance Rates | 110 |

**Section 6.30.** Releases 110

ARTICLE VII. AMORTIZATION EVENTS AND TERMINATION EVENTS 110

**Section 7.01.** Amortization Events 110
**Section 7.02.** Termination Events 112
**Section 7.03.** Remedies 115
**Section 7.04.** Setoff 116

ARTICLE VIII. INDEMNIFICATION 116

**Section 8.01.** Indemnification by the Trust 116
**Section 8.02.** Indemnification and Limited Guaranty by SLM Corporation 117

ARTICLE IX. ADMINISTRATIVE AGENT, SYNDICATION AGENT AND MANAGING AGENTS 118

**Section 9.01.** Authorization and Action of Administrative Agent and Syndication Agent 118
**Section 9.02.** Authorization and Action of Managing Agents 119
**Section 9.03.** Agency Termination 120
**Section 9.04.** Administrative Agent’s, Syndication Agent’s and Managing Agent’s Reliance, Etc. 120
**Section 9.05.** Administrative Agent, Syndication Agent, Managing Agents and Affiliates 121
**Section 9.06.** Decision to Purchase Class A Notes and Make Advances 121
**Section 9.07.** Successor Administrative Agent or Syndication Agent 121
**Section 9.08.** Successor Managing Agents 122
**Section 9.09.** Reimbursement 123
**Section 9.10.** Notice of Amortization Events, Termination Events, Potential Amortization Events, Potential Termination Events or Servicer Defaults 123

ARTICLE X. MISCELLANEOUS 123

**Section 10.01.** Amendments, Etc. 123
**Section 10.02.** Notices; Non-Public Information, Etc. 125
**Section 10.03.** No Waiver; Remedies; Limitation of Liability 127
**Section 10.04.** Successors and Assigns; Binding Effect 127
**Section 10.05.** Termination and Survival 133

| | | |
|---|---|---|
| **Section 10.06.** | Governing Law | 133 |
| **Section 10.07.** | Submission to Jurisdiction; Waiver of Jury Trial; Appointment of Service Agent | 134 |
| **Section 10.08.** | Costs and Expenses | 134 |
| **Section 10.09.** | Bankruptcy Non-Petition and Limited Recourse | 135 |
| **Section 10.10.** | Recourse Against Certain Parties | 135 |
| **Section 10.11.** | Execution in Counterparts; Severability | 136 |
| **Section 10.12.** | Confidentiality | 136 |
| **Section 10.13.** | Section Titles | 138 |
| **Section 10.14.** | Entire Agreement | 138 |
| **Section 10.15.** | No Petition | 138 |
| **Section 10.16.** | Excess Funds | 139 |
| **Section 10.17.** | Eligible Lender Trustee | 139 |
| **Section 10.18.** | USA PATRIOT Act Notice | 139 |

| | |
|---|---|
| EXHIBIT A | COMMITMENTS |
| EXHIBIT B | LIST OF APPROVED GUARANTORS |
| EXHIBIT C | FORM OF MONTHLY REPORT |
| EXHIBIT D | FORM OF ADVANCE REQUEST |
| EXHIBIT E | FORM OF MONTHLY ADMINISTRATIVE AGENT'S REPORT |
| EXHIBIT F | FORM OF NOTICE OF RELEASE |
| EXHIBIT G | FORM OF PRO FORMA REPORT (SECTION 2.18(b)(iii)) |
| EXHIBIT H | FORM OF RELEASE RECONCILIATION STATEMENT |
| EXHIBIT I | FORM OF 2.20(d) CERTIFICATE |
| EXHIBIT J | FORM OF CLASS A VARIABLE FUNDING NOTE |
| EXHIBIT K | [RESERVED] |
| EXHIBIT L | FORM OF ADVANCE RECONCILIATION STATEMENT |
| EXHIBIT M | NOTICE ADDRESSES |

**NOTE PURCHASE AND SECURITY AGREEMENT**

**THIS NOTE PURCHASE AND SECURITY AGREEMENT** (this *"**Agreement**"*) is made as of January 15, 2010, among **BLUEMONT FUNDING I**, a statutory trust duly organized under the laws of the State of Delaware, as the trust hereunder (the *"**Trust**"*), **SALLIE MAE, INC.**, a Delaware corporation, as administrator (the *"**Administrator**"*), **THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION**, a national banking association, as the eligible lender trustee hereunder (the *"**Eligible Lender Trustee**"*), **J.P. MORGAN SECURITIES INC.** and **BANC OF AMERICA SECURITIES LLC**, as lead arrangers (the *"**Lead Arrangers**"*), the **CONDUIT LENDERS** (as hereinafter defined) from time to time parties hereto, the **ALTERNATE LENDERS** (as hereinafter defined) from time to time parties hereto, the **LIBOR LENDERS** (as hereinafter defined) from time to time parties hereto, **JPMORGAN CHASE BANK, N.A.**, a national banking association, **BANK OF AMERICA, N.A.**, a national banking association, **BARCLAYS BANK PLC**, a public limited company organized under the laws of England and Wales, **THE ROYAL BANK OF SCOTLAND PLC**, a bank organized under the laws of Scotland, **DEUTSCHE BANK AG**, **NEW YORK BRANCH**, a German banking corporation acting through its New York Branch, **ALPINE SECURITIZATION CORPORATION**, a Delaware corporation, and **ROYAL BANK OF CANADA**, a Canadian chartered bank acting through its New York Branch, each as agent on behalf of its related LIBOR Lender and/or its related Conduit Lenders, Alternate Lenders and Program Support Providers (as hereinafter defined) (and together with any other similar financial institutions which become parties hereto, collectively, the *"**Managing Agents**"*), **JPMORGAN CHASE BANK, N.A.,** as syndication agent hereunder (in such capacity, the *"**Syndication Agent**"*), and **BANK OF AMERICA, N.A.**, as the administrative agent for the Conduit Lenders, Alternate Lenders, LIBOR Lenders and Managing Agents (in such capacity, the *"**Administrative Agent**"*).

PRELIMINARY STATEMENTS

WHEREAS, the Conduit Lenders are special purpose entities engaged in the business of issuing promissory notes and obtaining funding (directly or indirectly) in the commercial paper market and purchasing notes of certain entities for the purpose of financing financial assets of such entities; and

WHEREAS, the LIBOR Lenders are financial institutions engaged in the business of purchasing notes of certain entities for the purpose of financing financial assets of such entities; and

WHEREAS, from time to time, the Master Depositor has purchased, and may continue to purchase, certain Eligible FFELP Loans in accordance with the Purchase Agreements; and

WHEREAS, from time to time, the Depositor has purchased, and will continue to purchase, certain Eligible FFELP Loans in accordance with the Conveyance Agreement and the Tri-Party Transfer Agreement; and

WHEREAS, from time to time, the Trust has purchased, and will continue to purchase, certain Eligible FFELP Loans in accordance with the Sale Agreement; and

WHEREAS, the Eligible Lender Trustee has maintained and will continue to maintain, legal title of the Trust Student Loans on behalf of the Trust in accordance with the terms of the Trust Agreement; and

WHEREAS, the Trust desires to fund or refinance, as the case may be, such purchases through the issuance of its Class A variable funding notes (the *"**Class A Notes**"*) and the sale of such Class A Notes to the Managing Agents for the benefit of the Conduit Lenders, the LIBOR Lenders and the Alternate Lenders, as applicable, on the terms and conditions set forth herein; and

WHEREAS, the Conduit Lenders may, from time to time, assign all or a part of such Class A Notes or assign interests therein or commitments to purchase or fund such Class A Notes to the Alternate Lenders or to certain Program Support Providers pursuant to the terms of the Program Support Agreements; and

WHEREAS, each Managing Agent is willing to act as the agent on behalf of its related Conduit Lenders, Alternate Lenders, LIBOR Lenders and Program Support Providers, as applicable, pursuant to this Agreement and the corresponding Program Support Agreements.

NOW, THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto agree as follows:

## ARTICLE I.

## DEFINITIONS

**Section 1.01.** Certain Defined Terms. Certain capitalized terms used throughout this Agreement are defined above or in this Section.

As used in this Agreement and its exhibits, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined unless otherwise noted).

*"**Accounting Based Consolidation Event**"* means the consolidation, for financial and/or regulatory accounting purposes, of all or any portion of the assets and liabilities of a Conduit Lender that are subject to this Agreement or any other Transaction Document with all or any portion of the assets and liabilities of an Affected Party or any of its Affiliates. An Accounting Based Consolidation Event shall be deemed to occur on the date any Affected Party or its Affiliate shall acknowledge in writing that any such consolidation of the assets and liabilities of the Conduit Lender shall occur.

*"**Additional Student Loan**"* means any Student Loan that becomes a Trust Student Loan after the Closing Date.

"***Adjusted Cash Income***" means, for any period, Adjusted Revenue for such period less Operating Expenses for such period.

"***Adjusted Pool Balance***" means, as of any date:

(a) (i) the aggregate of the Principal Balance of each Eligible FFELP Loan acquired by the Trust on or prior to the Valuation Date set forth in the most recent Valuation Report multiplied by the Applicable Percentage for such Eligible FFELP Loan, determined by reference to the most recent Valuation Report[1], plus (ii) the Collateral Value of each Eligible FFELP Loan acquired by the Trust since the Valuation Date set forth in the most recent Valuation Report, minus (iii) the aggregate of the Principal Balance of each Eligible FFELP Loan that was subject to a release pursuant to Section 2.18 since the Valuation Date set forth in the most recent Valuation Report, multiplied by the Applicable Percentage for such Eligible FFELP Loan, minus

(b) the Excess Concentration Amount multiplied by the weighted average Applicable Percentage for all Eligible FFELP Loans.

"***Adjusted Revenue***" means, for any period, (a) the sum, without duplication, of all items which would fairly be presented in the consolidated income statement of SLM Corporation and its consolidated subsidiaries for such period (subject to normal year-end adjustments) prepared in accordance with GAAP as (i) "total interest income" and (ii) "total other income," less (b) the sum of (i) "provisions for losses," (ii) "gains on student loan securitizations" and (iii) "servicing and securitization revenue," eliminating (c) "total net impact of SFAS No. 133 derivative accounting," and including (d) "net interest income on securitized loans, after provisions for losses," in the case of (c) and (d) above as currently reported in SLM Corporation's most recent Form 10-Q or Form 10-K, as applicable, under "MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS" or as subsequently identified in writing by SLM Corporation.

"***Administrative Agent***" means Bank of America, N.A., a national banking association, and its successors and assigns, in its capacity as agent for the Conduit Lenders, the Managing Agents, the LIBOR Lenders and the Alternate Lenders hereunder.

"***Administrative Agent Fees***" means the fees, reasonable expenses and charges of the Administrative Agent, including reasonable legal fees and expenses, as set forth in the Administrative Agent and Syndication Agent Fee Letter.

"***Administrative Agent and Syndication Agent Fee Letter***" means the Administrative Agent and Syndication Agent Fee Letter, dated as of the Closing Date, among the Trust, the Administrative Agent and the Syndication Agent.

"***Administrative Questionnaire***" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

---

1 Lenders to confirm that the Closing Date will be a Valuation Date.

"***Administration Account***" means the special account created pursuant to Section 2.04(b).

"***Administration Agreement***" means the Amended and Restated Administration Agreement, dated as of the Closing Date, among the Depositor, the Trust, the Eligible Lender Trustee, the Administrator and the Administrative Agent.

"***Administrator Fee***" means, for each calendar month, a fee payable to the Administrator monthly in arrears equal to $10,000.

"***Administrator***" means Sallie Mae, Inc., a Delaware corporation, and its successors and assigns, in its capacity as administrator of the Trust in accordance with the Administration Agreement.

"***Administrator Default***" has the meaning assigned to such term in Section 5.01 of the Administration Agreement.

"***Advance***" means an advance, including a Purchase Price Advance, an Excess Collateral Advance or a Capitalized Interest Advance, made by the Lenders pursuant to Article II.

"***Advance Date***" means, with respect to any Advance, the date on which such Advance is made.

"***Advance Reconciliation Statement***" has the meaning assigned to such term in Section 4.03.

"***Advance Request***" has the meaning assigned to such term in Section 2.02(b).

"***Adverse Claim***" means a lien, security interest, charge, encumbrance or other right or claim or restriction in favor of any Person (including any UCC financing statement or similar instrument filed against the assets of that Person) other than, with respect to the Pledged Collateral, any lien, security interest, charge, encumbrance or other right or claim or restriction in favor of the Administrative Agent, for the benefit of the Secured Creditors.

"***Affected Party***" means the Administrative Agent, the Syndication Agent, each Co-Valuation Agent, each LIBOR Lender, each Conduit Lender, each Managing Agent, each Alternate Lender, each Program Support Provider and any permitted assignee or participant of any LIBOR Lender, any Conduit Lender, any Alternate Lender or any Program Support Provider.

"***Affiliate***" means, when used with respect to a Person, any other Person controlling, controlled by or under common control with such Person. A Person shall be deemed to control another person if the controlling Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the other Person, whether through the ownership of voting securities or membership interests, by contract or otherwise.

"***Agent Parties***" has the meaning assigned to such term in Section 10.02(c).

"***Aggregate Note Balance***" means, as of any date of determination, the principal amount of each Class A Note Outstanding and for all Class A Notes, the aggregate principal amount of all Class A Notes Outstanding, after giving effect to (i) all distributions applied to principal on the Class A Notes on such date of determination and (ii) Advances made on such date of determination.

"***Agreement***" means this Note Purchase and Security Agreement, together with all exhibits and appendices attached hereto.

"***Alternate Lender***" means any financial institution identified as an Alternate Lender on Exhibit A attached hereto as such Exhibit may be amended, restated or otherwise revised from time to time, and any successors or assigns (subject to Section 10.04).

"***Amortization Event***" has the meaning assigned to such term in Section 7.01.

"***Amortization Period***" means the period commencing upon the occurrence of an Amortization Event and ending upon the earliest of (a) the date the Class A Notes and all other Obligations are paid in full, (b) 90 days (or in the case of an Amortization Event under Section 7.01(j), 85 days) from the occurrence of such Amortization Event, (c) solely with respect to an Amortization Event under Section 7.01(i) or Section 7.01(j), the reinstatement of the Revolving Period pursuant to the terms of such Section and (d) the occurrence of a Termination Event.

"***Amortization Period Rate***" means, (a) during the first 30 days following the commencement of the Amortization Period, the Base Rate plus 1.00% per annum plus the Non-Renewal Step-Up Rate, (b) during the second 30 days following the commencement of the Amortization Period, the Base Rate plus 1.50% per annum plus the Non-Renewal Step-Up Rate and (c) thereafter, until the Termination Date, the Base Rate plus 2.00% per annum plus the Non-Renewal Step-Up Rate.

"***Applicable Margin***" means, with respect to any Advance and any Lender, the Applicable Margin as set forth in the Lenders Fee Letter.

"***Applicable Percentage***" has the meaning set forth in the Side Letter.

"***Approved Fund***" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of any entity that administers or manages a Lender.

"***Asset Coverage Ratio***" means, on the last day of each calendar month, and as of any other date of determination, the ratio (expressed as a percentage) of (a) the sum of (i) the Adjusted Pool Balance as of such date, (ii) (without duplication) any accrued and unpaid interest thereon and any accrued and unpaid Special Allowance Payments and Interest Subsidy Payments on the Trust Student Loans as of such date and (iii) funds (including Eligible Investments) on deposit in the Collection Account, the Administration Account, the Capitalized Interest Account and the Reserve Account, if any, as of such date, to (b) the Reported Liabilities as of such date and rounding to the nearest second decimal place.

"***Assignee Group***" means two or more assignees that meet the requirements to be an assignee under Section 10.04(b) and that are Affiliates of one another, commercial paper conduits managed by the same manager or affiliated managers or Approved Funds managed by the same investment advisor.

"***Assignment Amount***" means, with respect to an Alternate Lender at the time of any assignment pursuant to Section 10.04(g), an amount equal to the lesser of (a) such Alternate Lender's pro rata share of the aggregate principal amount of the Class A Notes requested by the related Conduit Lender to be assigned at such time plus any accrued and unpaid interest owed thereon at the applicable CP Rate and (b) such Alternate Lender's unused Assignment Commitment (minus the unrecovered principal amount of such Alternate Lender's investments pursuant to the Program Support Agreement to which it is a party).

"***Assignment Commitment***" means, with respect to an Alternate Lender, such Alternate Lender's Commitment multiplied by 1.02.

"***Authorized Officer***" means:

(a) with respect to the Trust, any officer of the Eligible Lender Trustee who is authorized to act for the Eligible Lender Trustee in matters relating to the Trust pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Eligible Lender Trustee to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by the Eligible Lender Trustee from time to time thereafter and delivered to the Administrative Agent);

(b) with respect to the Administrator, any officer of the Administrator who is authorized to act for the Administrator in matters relating to itself or to the Trust and to be acted upon by the Administrator pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Administrator to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by the Administrator from time to time thereafter and delivered to the Administrative Agent);

(c) with respect to the Depositor, any officer of the Depositor who is authorized to act for the Depositor in matters relating to itself or to be acted upon by the Depositor pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Depositor to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by the Depositor from time to time thereafter and delivered to the Administrative Agent);

(d) with respect to the Master Servicer, any officer of the Master Servicer who is authorized to act for the Master Servicer in matters relating to itself or to be acted upon by the Master Servicer pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Master Servicer to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by the Master Servicer from time to time thereafter and delivered to the Administrative Agent);

(e) with respect to the Eligible Lender Trustee, any officer of the Eligible Lender Trustee who is authorized to act for the Eligible Lender Trustee in matters relating to itself or to

be acted upon by the Eligible Lender Trustee pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Eligible Lender Trustee to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by the Eligible Lender Trustee from time to time thereafter and delivered to the Administrative Agent);

(f) with respect to SLM Corporation, chief executive officer, chief financial officer, president, any vice president, treasurer or other senior officer of SLM Corporation who is authorized to act for SLM Corporation in matters relating to itself or to be acted upon by SLM Corporation pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by SLM Corporation to the Administrative Agent on the Closing Date (as such list may be modified or supplemented by SLM Corporation from time to time thereafter and delivered to the Administrative Agent); and

(g) with respect to the Administrative Agent, any officer of the Administrative Agent who is authorized to act for the Administrative Agent in matters relating to itself or to be acted upon by the Administrative Agent pursuant to the Transaction Documents and who is identified on the list of Authorized Officers delivered by the Administrative Agent to the Administrator and the Eligible Lender Trustee on the Closing Date (as such list may be modified or supplemented by the Administrative Agent from time to time thereafter and delivered to the Administrator and the Eligible Lender Trustee).

*"**Available Funds**"* means, with respect to a Settlement Date, the sum of the following amounts received into the Collection Account with respect to the related Settlement Period:

(a) all collections of principal and interest on the Trust Student Loans, including any payments received from the Guarantees on the Trust Student Loans but net of (i) any collections in respect of principal on the Trust Student Loans applied by the Trust to repurchase Guaranteed loans from the Guarantors under the Guarantee Agreements, (ii) amounts required by the Higher Education Act to be paid to the Department or to be repaid or rebated to Obligors (whether or not in the form of a principal reduction of the applicable Trust Student Loan) on the Trust Student Loans for that Settlement Period including Floor Income Rebate Fees and Monthly Rebate Fees and (iii) amounts deposited into the Floor Income Rebate Account during the related Settlement Period;

(b) any Interest Subsidy Payments and Special Allowance Payments with respect to the Trust Student Loans received during that Settlement Period for the Trust Student Loans;

(c) all Liquidation Proceeds from any Trust Student Loans which became Liquidated Student Loans during that Settlement Period in accordance with the Servicer's applicable Servicing Policies, plus all Recoveries on Liquidated Student Loans which were written off in prior Settlement Periods or during that Settlement Period;

(d) the aggregate amounts received during that Settlement Period for those Trust Student Loans (i) repurchased by the applicable Seller or the Depositor, as applicable, (ii) purchased by the Servicer or its assignee, (iii) in respect of SLM Corporation's guaranty of the repurchase obligations of the applicable Seller, the Depositor or the Servicer or (iv) sold to another eligible lender pursuant to Section 3.11 of the Servicing Agreement;

(e) the aggregate amounts, if any, received by the Trust from the applicable Seller, the Depositor or the Servicer, as the case may be, as reimbursement of non-guaranteed principal or interest amounts, or lost Interest Subsidy Payments and Special Allowance Payments, on the Trust Student Loans pursuant to the Sale Agreement or Section 3.05 of the Servicing Agreement, respectively;

(f) amounts received by the Trust pursuant to Sections 3.01 and 3.12 of the Servicing Agreement during that Settlement Period as to yield or principal adjustments other than deposits into the Borrower Benefit Account;

(g) investment earnings for that Settlement Period earned on investments in the Trust Accounts during such Settlement Period;

(h) amounts, if any, transferred into the Collection Account from the Capitalized Interest Account in excess of the Required Capitalized Interest Account Balance, calculated as of the end of the Settlement Period related to that Settlement Date;

(i) amounts, if any, transferred into the Collection Account from the Reserve Account in excess of the Reserve Account Specified Balance, calculated as of the end of the Settlement Period related to that Settlement Date;

(j) amounts, if any, transferred into the Collection Account from the Floor Income Rebate Account representing amounts no longer required to be held in connection with floor income payment obligations;

(k) amounts, if any, transferred into the Collection Account from the Administration Account in accordance with Section 2.04(b);

(l) amounts, if any, transferred into the Collection Account from the Borrower Benefit Account to offset reductions in yield on affected Trust Student Loans and any amounts released from the Borrower Benefit Account in accordance with Section 6.26(b) during the related Settlement Period;

(m) amounts, if any, received by the Trust from SLM Corporation under the Revolving Credit Agreement and which have been deposited into the Collection Account;

(n) all proceeds from any Permitted Release (to the extent such proceeds were not previously used to prepay the Aggregate Note Balance or used to purchase new Eligible FFELP Loans);

(o) amounts received, if any, in respect of insurance proceeds; and

(p) all other Collections or other amounts deposited into the Collection Account for application pursuant to Section 2.05(b) on the applicable Settlement Date;

provided, that if on any Settlement Date, there would not be sufficient funds, after application of Available Funds, as defined above, and application of amounts available from the Capitalized Interest Account and the Reserve Account, in that order, to pay any of the items specified in

clauses (i) through (iv) of Section 2.05(b), then Available Funds for that Settlement Date will include, in addition to the Available Funds as defined above, amounts on deposit in the Collection Account, or amounts held by the Administrative Agent for deposit into the Collection Account which would have constituted Available Funds for the Settlement Date immediately succeeding that Settlement Date, up to the amount necessary to pay such items, and the Available Funds for the immediately succeeding Settlement Date will be adjusted accordingly.

"***Bankruptcy Code***" means Title 11 of the United States Code (11 U.S.C. Section 101 et seq.), as amended from time to time, and any successor statute.

"***Base Rate***" means, for any day, a rate per annum determined by the Administrative Agent equal to the highest of (a) the sum of the LIBOR Base Rate (determined in accordance with clause (ii) of the definition thereof) and 1.00% for such day, (b) the Prime Rate for such day and (c) the sum of 0.50% and the Federal Funds Rate for such day.

"***Base Rate Advance***" means an Advance funded with reference to the Base Rate.

"***Benefit Plan***" means any employee benefit plan as defined in Section 3(3) of ERISA in respect of which the Trust or any ERISA Affiliate is, or at any time during the immediately preceding six years was, an "employer" as defined in Section 3(5) of ERISA.

"***Borrower Benefit Account***" means the special account created pursuant to Section 2.04(d).

"***Borrower Benefit Amount***" means, the sum of:

(a) expected net present value of the product of (1) the excess of (x) the weighted average interest rate reduction as described in clause (i) of the definition of Borrower Benefit Programs on all Eligible FFELP Loans sold to the Trust on such Advance Date and (y) 0.25%, and (2) the aggregate Principal Balance of all Eligible FFELP Loans sold to the Trust on such Advance Date;

(b) expected net present value of the product of (1) the excess of (x) the weighted average rebate as described in clause (ii) of the definition of Borrower Benefit Programs relating to all Eligible FFELP Loans sold to the Trust on such Advance Date and (y) 0.20%; and (2) the aggregate original loan amount of all Eligible FFELP Loans sold to the Trust on such Advance Date; and

(c) expected net present value of the product of (1) excess of (x) the weighted average interest rate reduction as described in clause (iii) of the definition of Borrower Benefit Programs on all Eligible FFELP Loans sold to the Trust on such Advance Date and (y) 0.20%; and (2) the aggregate Principal Balance of all Eligible FFELP Loans sold to the Trust on such Advance Date.

"***Borrower Benefit Programs***" means any of the following borrower benefit programs:

(i) the "Direct Repay/ACH Benefit plan" benefit program under which Obligors who make student loan payments electronically through automatic monthly

deductions receive an interest rate reduction as long as loan payments continue to be successfully deducted from the borrower's bank account;

(ii) any borrower benefit program under which Obligors who make a certain number of scheduled payments on time receive a rebate of their original loan amount; and

(iii) any other borrower benefit program (other than the Direct/Repay ACH Benefit plan described in clause (i) above) under which Obligors who make a certain number of scheduled payments on time receive an interest rate reduction.

"***Business Day***" means a day of the year other than a Saturday or a Sunday or other day on which (a) banks are not authorized or required to close in Charlotte, North Carolina or New York, New York and (b) trust companies are not authorized or required to close in Wilmington, Delaware; provided, however, if the term "Business Day" is used in connection with the LIBOR Rate, it means any day on which (x) dealings in dollar deposits are carried on in the London interbank market and (y) banks are not authorized or required to close in New York, New York.

"***Capitalized Interest Account***" means the special account created pursuant to Section 2.06(a).

"***Capitalized Interest Account Funding Event***" means the occurrence of (i) the third Business Day preceding the Scheduled Maturity Date, (ii) with respect to an Amortization Event under Sections 7.01(a) through (h), the first day of an Amortization Period, (iii) with respect to an Amortization Event under Section 7.01(i) or (j), the last day of an Amortization Period (unless caused by the reinstatement of the Revolving Period in which case no Capitalized Interest Account Funding Event shall have occurred), or (iv) the Termination Date.

"***Capitalized Interest Account Specified Balance***" means, as of any date of determination, the sum of (i) for each Eligible FFELP Loan that is a Trust Student Loan included in the Initial Pool, the product of 3.15% multiplied by the Principal Balance thereof as of such date of determination, and (ii) for each Eligible FFELP Loan that becomes a Trust Student Loan not included in the Initial Pool, the product of 6.10% multiplied by the Principal Balance thereof as of such date of determination.

"***Capitalized Interest Account Unfunded Balance***" means, as of any date of determination, the amount, if any, by which (x) the Capitalized Interest Account Specified Balance exceeds (y) the outstanding balance of Capitalized Interest Advances then on deposit in the Capitalized Interest Account.

"***Capitalized Interest Advance***" means an Advance made upon a Capitalized Interest Account Funding Event or as provided in Section 2.21(b), the proceeds of which are to be deposited into the Capitalized Interest Account.

"***Carryover Servicing Fee***" has the meaning specified in Attachment A to the Servicing Agreement.

"***Change of Control***" means (i) a merger or consolidation of the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer, as

applicable, into another Person (other than an Affiliate of SLM Corporation), (ii) any merger or consolidation to which the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer, as applicable, shall be a party resulting in the creation of another Person (other than an Affiliate of SLM Corporation), (iii) any Person (other than an Affiliate of SLM Corporation) succeeding to the properties and assets of the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer, as applicable, substantially as a whole or (iv) an event or series of events by which any Person (other than an Affiliate of SLM Corporation) acquires the right to vote more than 50% of the common stock or other voting interest of the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer, as applicable.

"***Churchill Bluemont Note Purchase Agreement***" means the Amended and Restated Note Purchase and Security Agreement, dated as of April 24, 2009, among Bluemont Funding I, the conduit lenders party thereto, the alternate lenders party thereto, the LIBOR lenders party thereto, Bank of America, N.A., as administrative agent, the managing agents party thereto, The Bank of New York Mellon Trust Company, National Association, as eligible lender trustee, and Sallie Mae, Inc., as administrator.

"***Churchill Eligible FFELP Loan***" means, with respect to the Initial Pool only, a Student Loan that was an Eligible FFELP Loan under and as defined in any of the Churchill Note Purchase Agreements immediately prior to the termination of the Churchill FFELP Loan Facilities and, at any time of determination after the Closing Date, satisfies the criteria in subclauses (a) through (j) and (l) through (v) of clause (2) of the definition of "Eligible FFELP Loan" under this Agreement.

"***Churchill FFELP Loan Facilities***" means, collectively, the financing facilities established pursuant to the Churchill Note Purchase Agreements.

"***Churchill Note Purchase Agreements***" means the Churchill Bluemont Note Purchase Agreement, the Churchill Town Center Note Purchase Agreement and the Churchill Town Hall Note Purchase Agreement.

"***Churchill Town Center Note Purchase Agreement***" means the Amended and Restated Note Purchase and Security Agreement, dated as of April 24, 2009, among Town Center Funding I, the conduit lenders party thereto, the alternate lenders party thereto, the LIBOR lenders party thereto, Bank of America, N.A., as administrative agent, the managing agents party thereto, The Bank of New York Mellon Trust Company, National Association, as eligible lender trustee, and Sallie Mae, Inc., as administrator.

"***Churchill Town Hall Note Purchase Agreement***" means the Amended and Restated Note Purchase and Security Agreement, dated as of April 24, 2009, among Town Hall Funding I, the conduit lenders party thereto, the alternate lenders party thereto, the LIBOR lenders party thereto, Bank of America, N.A., as administrative agent, the managing agents party thereto, The Bank of New York Mellon Trust Company, National Association, as eligible lender trustee, and Sallie Mae, Inc., as administrator.

"***Class A Advance***" means an Advance under a Class A Note.

"***Class A Note***" means a variable funding note, substantially in the form attached hereto as Exhibit J.

"***Closing Date***" means January 15, 2010.

"***Co-Valuation Agents***" means J.P. Morgan Securities Inc., Banc of America Securities LLC and Barclays Bank PLC, or any other entity appointed as a successor Co-Valuation Agent pursuant to the Valuation Agent Agreement.

"***Co-Valuation Agents Fees***" means the fees and charges, if any, of the Co-Valuation Agents, including reasonable legal fees and expenses, payable to the Co-Valuation Agents pursuant to the Valuation Agent Fee Letter.

"***Code***" means the Internal Revenue Code of 1986, as amended from time to time, or any successor statute and the regulations promulgated and rulings issued thereunder.

"***Collateral Value***" means with respect to each pool of Eligible FFELP Loans to be added to the Trust Student Loans in connection with a particular Purchase Price Advance, an amount equal to the product of the weighted average advance rate referred to in clause (a) of the definition of Applicable Percentage for such pool and the aggregate Principal Balance of such pool; provided, however, that if the Applicable Percentage set forth in the most recent Valuation Report is the percentage referred to in clause (b) or (c) of the definition of Applicable Percentage, then in calculating each of the percentages used in determining the weighted average advance rate referred to in clause (a) of the definition of Applicable Percentage for such pool, each such percentage shall be multiplied by a fraction the numerator of which is the lower of the percentages calculated pursuant to clause (b) and (c) of the definition of Applicable Percentage in the most recent Valuation Report, and the denominator of which is the weighted average advance rate calculated pursuant to clause (a) of the definition of Applicable Percentage in the most recent Valuation Report.

"***Collection Account***" means the special account created pursuant to Section 2.04(a).

"***Collections***" means (a) all amounts received with respect to principal and interest and other proceeds, payments and reimbursements, including Recoveries, with respect to any Trust Student Loan and any other collection of cash with respect to such Trust Student Loan and (b) all other cash collections and other cash proceeds of the Pledged Collateral (including, without limitation, in each of clauses (a) and (b) above, each of the items enumerated in the definition of Available Funds with respect to any Settlement Period).

"***Commitment***" means (i) with respect to a Lender, the obligation, if any, of such Lender to fund Advances pursuant to this Agreement in the amount stated to be such Lender's "Commitment" on Exhibit A attached hereto, as such Exhibit may be amended, restated or otherwise revised from time to time including by the Administrative Agent to reflect assignments, reallocations, decreases and increases of the Commitments permitted under this Agreement and (ii) with respect to a Facility Group, the aggregate Commitment of the Lenders within such Facility Group, in each case as such Commitment may be reduced or increased pursuant to Section 2.03; provided, however, that upon termination of a Revolving Period that is

not capable of being reinstated, and on each Settlement Date thereafter on which the Aggregate Note Balance has been reduced, the Commitment shall be reduced for (a) each Lender to an amount equal to such Lender's Pro Rata Share of the sum of (1) the Aggregate Note Balance of the Class A Note held by such Lender's Facility Group and (2) the Capitalized Interest Account Unfunded Balance, and (b) each Facility Group to an amount equal to the sum of (1) the Aggregate Note Balance of the Class A Note held by such Facility Group and (2) such Facility Group's Pro Rata Share of the Capitalized Interest Account Unfunded Balance.

"***Committed Conduit Lender***" means any Conduit Lender that has a Commitment and any of its successors or assigns (subject to Section 10.04).

"***Conduit Assignee***" means, with respect to a Conduit Lender, any special purpose entity that finances its activities directly or indirectly through asset backed commercial paper and (x) is administered by a Managing Agent or any Affiliate of a Managing Agent or (y) has entered into a Program Support Agreement with an Alternate Lender which is a member of such Conduit Lender's Facility Group or an Affiliate of such an Alternate Lender, and in either case is designated by such Conduit Lender's Managing Agent from time to time to accept an assignment from such Conduit Lender of outstanding Advances; provided, however, that with respect to any Conduit Lender with a Commitment hereunder, such Conduit Assignee must be an assignee with respect to such Commitment.

"***Conduit Lender***" means any special purpose entity identified as a Conduit Lender on Exhibit A attached hereto, as such Exhibit may be amended, restated or otherwise revised from time to time, and any successors or assigns (subject to Section 10.04).

"***Consolidated Tangible Net Worth***" means, as of any date of determination, the consolidated stockholders' equity of SLM Corporation and its consolidated subsidiaries, determined in accordance with GAAP, less their consolidated Intangible Assets, all determined as of such date.

"***Consolidation Loan***" means a loan made to a borrower which loan consolidates such borrower's PLUS/SLS Loans, direct loans made by the Department of Education, Stafford Loans made in accordance with the Higher Education Act and/or loans made under the Federal Health Education Assistance Loan Program authorized under Sections 701 through 720 of the Public Health Services Act.

"***Conveyance Agreement***" means the Conveyance Agreement, dated as of February 29, 2008, among the Master Depositor, the Depositor and the Interim Eligible Lender Trustee, under which the Master Depositor may from time to time transfer, on a true sale basis, certain Eligible FFELP Loans to the Depositor, together with all transfer agreements, blanket endorsements and bills of sale executed pursuant thereto.

"***CP***" means the commercial paper notes issued from time to time by means of which a Conduit Lender (directly or indirectly) obtains financing.

"***CP Advance***" means an Advance made through the issuance of CP.

"***CP Rate***" means, for any Settlement Period, for any Conduit Lender, for the portion of the Aggregate Note Balance funded by such Conduit Lender directly or indirectly with CP, the rate equivalent to the weighted average cost (as determined by the applicable Managing Agent and which shall include Dealer Fees, incremental carrying costs incurred with respect to CP maturing on dates other than those on which corresponding funds are received by the Conduit Lender, other borrowings by the Conduit Lender to fund any Advances hereunder or its related commercial paper issuer if the Conduit Lender does not itself issue commercial paper (other than under any Program Support Agreement), actual costs of swapping foreign currencies into dollars to the extent the CP is issued in a market outside the U.S. and any other costs associated with the issuance of CP) of or related to the issuance of CP that are allocated, in whole or in part, by the Conduit Lender or the applicable Managing Agent to fund or maintain such portion of the Aggregate Note Balance (and which may be also allocated in part to the funding of other assets of the Conduit Lender); provided, however, that if the rate (or rates) is a discount rate, then the rate (or if more than one rate, the weighted average of the rates) shall be the rate resulting from converting such discount rate (or rates) to an interest-bearing equivalent rate per annum.

"***Cutoff Date***" means the Initial Cutoff Date or any Subsequent Cutoff Date, as applicable.

"***Dealer Fees***" means a commercial paper dealer fee, payable to each Conduit Lender, of not greater than five basis points per annum on the amount of CP Advances made by such Conduit Lender.

"***Debt***" means, with respect to any Person, (a) indebtedness of such Person for borrowed money; (b) obligations of such Person evidenced by bonds, debentures, notes, letters of credit, interest rate and currency swaps or other similar instruments; (c) obligations of such Person to pay the deferred purchase price of property or services; (d) obligations of such Person as lessee under leases which shall have been or should be, in accordance with GAAP, recorded as capital leases; (e) obligations secured by an Adverse Claim upon property or assets owned by such Person, even though such Person has not assumed or become liable for the payment of such obligations; (f) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, indebtedness or obligations of other Persons of the kinds referred to in clauses (a) through (e) above; (g) all obligations of such Person upon which interest charges are customarily paid; (h) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person; (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances or as an account party in respect of letters of credit and letters of guaranty; (j) all obligations of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such obligations provide that such Person is not liable therefor; and (k) any other liabilities of such Person which would be treated as indebtedness in accordance with GAAP.

"***Defaulted Student Loan***" means any Trust Student Loan (a) as to which any payment or portion thereof is more than the number of days past due from the original due date thereof that would permit the Eligible Lender Trustee, or any other Person acting on its behalf, to submit

a default claim to the applicable Guarantor under the terms of the Higher Education Act (which number of days, as of the Closing Date, is 270), (b) the Obligor of which is the subject of an Event of Bankruptcy (without giving effect to any applicable cure or continuance period) or is deceased or disabled or (c) as to which a continuing condition exists that, with notice or the lapse of time or both, would constitute a default, breach, violation or event permitting acceleration under the terms of such Student Loan (other than payment defaults continuing for a period of not more than the number of days past due from the original due date thereof that would permit the submission of a default claim to the applicable Guarantor under the terms of the Higher Education Act).

"***Defaulting Lender***" means any Alternate Lender, LIBOR Lender or Committed Conduit Lender that has failed to make its Pro Rata Share of any Advance required to be made by such Lender as and when required under Section 2.01(d) and has not reimbursed the other Lenders for such failure in accordance with the last sentence of Section 2.01(d).

"***Delaware Trustee***" means BNY Mellon Trust of Delaware, a Delaware banking corporation.

"***Delinquent Student Loan***" means any Trust Student Loan, which is not a Defaulted Student Loan, as to which any payment, or portion thereof, is more than 120 days past due from the original due date thereof.

"***Departing Facility Group***" means a Facility Group whose Commitment the Trust has determined to assign in accordance with Section 2.21(a).

"***Department of Education***" or "***Department***" means the United States Department of Education, or any other officer, board, body, commission or agency succeeding to the functions thereof under the Higher Education Act.

"***Depositor***" means Bluemont Funding LLC, a Delaware limited liability company, in its capacity as depositor with respect to the Trust.

"***Depositor Interim Trust Agreement***" means the interim trust agreement, dated as of February 29, 2008, between the Depositor and the Interim Eligible Lender Trustee.

"***Distressed Lender***" means any Lender that (i) is a Defaulting Lender, (ii) becomes or is insolvent or has a parent company that has become or is insolvent or (iii) becomes the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

"***Eligible FFELP Loan***" means either:

(1) a Churchill Eligible FFELP Loan; or

(2) a Student Loan which meets the following criteria as of any date of determination:

(a) such Student Loan is fully disbursed;

(b) [reserved];

(c) such Student Loan is a Stafford Loan, an SLS Loan, a PLUS Loan or a Consolidation Loan and the Obligor thereof was an Eligible Obligor at the time such Student Loan was originated;

(d) such Student Loan is a U.S. Dollar denominated obligation payable in the United States;

(e) at least 97% of the principal of and interest on such Student Loan is guaranteed by the applicable Guarantor and eligible for reinsurance under the Higher Education Act, such percentage to be met without giving effect to any increase due to any special servicer status under the Higher Education Act of any applicable Servicer;

(f) such Student Loan provides for periodic payments which fully amortize the amount financed over its term to maturity (exclusive of any deferral or forbearance periods granted in accordance with applicable law, including, without limitation, the Higher Education Act, and in accordance with the applicable Guarantee Agreement);

(g) such Student Loan is being serviced by a Servicer under a Servicing Agreement; which is in full force and effect (provided that the Servicing Agreement with Pennsylvania Higher Education Assistance Agency shall qualify for such purposes notwithstanding the absence of the approval of the Office of the Attorney General of the Commonwealth of Pennsylvania as long as such approval is obtained within 90 days after the Closing Date or such later date as is consented to in writing by the Required Managing Agents) and all other conditions for such agreement to be in full force and effect have been satisfied on, and at all times after, the Closing Date) and if such Student Loan is serviced by a Subservicer, the related Obligor has been directed to make all payments into a Permitted Lockbox;

(h) such Student Loan bears interest at a stated rate equal to the maximum rate permitted under the Higher Education Act for such Student Loan (before giving effect to any borrower benefit programs);

(i) such Student Loan is eligible for the payment of quarterly Special Allowance Payments at a rate established under the formula set forth in the Higher Education Act for such Student Loan;

(j) if not yet in repayment status, such Student Loan is eligible for the payment of Interest Subsidy Payments by the Department of Education or, if not so eligible, is a Student Loan for which interest either is billed quarterly to the Obligor or deferred until commencement of the repayment period, in which case such accrued interest is subject to capitalization to the full extent permitted by the applicable Guarantor;

(k) such Student Loan is not a Defaulted Student Loan at the time the Advance to purchase such Student Loan is made (except with respect to any Churchill Eligible FFELP Loan);

(l) such Student Loan is supported by the following documentation:

(i) loan application, and any supplement thereto;

(ii) evidence of Guarantee;

(iii) any other document and/or record which the Trust or the related Servicer or other agent may be required to retain pursuant to the Higher Education Act;

(iv) if applicable, payment history (or similar documentation) including (A) an indication of the Principal Balance and the date through which interest has been paid, each as of the related date of determination and (B) an accounting of the allocation of all payments by the Obligor or on the Obligor's behalf to principal and interest on the Student Loan;

(v) if applicable, documentation which supports periods of current or past deferment or past forbearance;

(vi) if applicable, a collection history, if the Student Loan was ever in a delinquent status, including detailed summaries of contacts and including the addresses or telephone numbers used in contacting or attempting to contact the related Obligor and any endorser and, if required by the Guarantor, copies of all letters and other correspondence relating to due diligence processing;

(vii) if applicable, evidence of all requests for skip-tracing assistance and current address of the related Obligor, if located;

(viii) if applicable, evidence of requests for pre-claims assistance, and evidence that the Obligor's school(s) have been notified; and

(ix) if applicable, a record of any event resulting in a change to or confirmation of any data in the Student Loan file;

(m) such Student Loan was originated and has been serviced in compliance with all requirements of applicable law, including the Higher Education Act and all origination fees authorized to be collected pursuant to Section 438 of the Higher Education Act have been paid to the United States Secretary of Education;

(n) such Student Loan is evidenced by a single original Student Loan Note and any addendum thereto (or a certified copy thereof if more than one Student Loan is represented by a single Student Loan Note and all Student Loans represented thereby are not being sold) (whether e-signed or otherwise), containing terms in accordance with those required by the FFELP Program, the applicable Guarantee Agreements and other applicable requirements and which does not require the Obligor to consent to the transfer, sale or assignment of the rights and duties

of the related Seller, the Master Depositor (or the Interim Eligible Lender Trustee on behalf of the Master Depositor), or the Depositor (or the Interim Eligible Lender Trustee on behalf of the Depositor) or the Trust (or the Eligible Lender Trustee on behalf of the Trust) and does not contain any provision that restricts the ability of the Administrative Agent, on behalf of the Secured Creditors, to exercise its rights under the Transaction Documents;

(o) in each case, (i) immediately prior to the sale thereof to the Master Depositor, the applicable Seller had, (ii) immediately prior to the sale thereof by the Master Depositor to the Depositor or the Related SPE Seller, as applicable, the Master Depositor had, (iii) if applicable, immediately prior to the sale thereof by a Related SPE Seller to the Depositor, such Related SPE Seller had, and (iv) immediately following the acquisition thereof on the related Advance Date, the Trust has, good and marketable title to such Student Loan free and clear of any Adverse Claim or other encumbrance, lien or security interest, or any other prior commitment, other than as may be granted in favor of the Administrative Agent, on behalf of the Secured Creditors;

(p) such Student Loan has not been modified, extended or renegotiated in any way, except (i) as required under the Higher Education Act or other applicable laws, rules and regulations and the applicable Guarantee Agreement, (ii) as provided for or permitted under the applicable underwriting guidelines or Servicing Policies if such modification, extension or renegotiation does not materially adversely affect the value or collectability thereof or (iii) as provided for in the Transaction Documents;

(q) such Student Loan constitutes a legal, valid and binding obligation to pay on the part of the related Obligor enforceable in accordance with its terms and is not noted on the appropriate Servicer's books and records as being subject to a current bankruptcy proceeding;

(r) such Student Loan constitutes an instrument, an account or a general intangible as defined in the UCC in the jurisdiction that governs the perfection of the interests of the Trust therein and the perfection of the Secured Creditors' interest therein;

(s) the sale or assignment of such Student Loan to the Master Depositor or an interim eligible lender trustee on its behalf pursuant to a Purchase Agreement, the sale or assignment of which to the Depositor or the Interim Eligible Lender Trustee on its behalf pursuant to the Conveyance Agreement or the Tri-Party Transfer Agreement, the sale or assignment of which to the Trust or the Eligible Lender Trustee on its behalf pursuant to the Sale Agreement, and the granting of a security interest to the Administrative Agent pursuant to this Agreement does not contravene or conflict with any applicable law, rule or regulation, or require the consent or approval of, or notice to, any Person;

(t) such Student Loan was (i) acquired by the Master Depositor pursuant to a Purchase Agreement and then acquired by the Depositor pursuant to the Conveyance Agreement or (ii) acquired by the Depositor pursuant to the Tri-Party Transfer Agreement, and subsequently sold to the Trust pursuant to the Sale Agreement, and notwithstanding whether the Trust or a Related SPE Trust owned the Student Loan prior to the Closing Date, was not previously owned by the Trust at any time on or after the Closing Date and subsequently re-acquired by the Trust after the Closing Date, unless such repurchase is required under the Higher Education Act;

(u) the purchase price paid for such Student Loan at the time of purchase by the Trust (i) did not exceed the Applicable Percentage (in effect at the time of purchase) multiplied by the Principal Balance thereof, plus amounts, if any, drawn under the Revolving Credit Agreement; and (ii) is reasonably equal to its fair market value at the time of purchase; and

(v) the purchase of such Student Loan will not result in (i) an Amortization Event, (ii) a Termination Event or (iii) an increase in any Excess Concentration Amount that would result in the Asset Coverage Ratio being less than 100%.

For so long as any Rating Agency considers the Trust potentially to be a "Debt Collection Agency" (as defined in Title 20 of the New York City Administrative Code), with respect to any Student Loan, in the case where (i) the related Obligor resides in New York City, (ii) the related Student Loan was purchased or will be purchased on or after July 16, 2009, and (iii) on such related purchase date the related Obligor had not made all payments then due and payable, such Student Loan is not or will not be an Eligible FFELP Loan.

"***Eligible Institution***" means (a) an institution of higher education, (b) a vocational school or (c) any other institution which, in all of the above cases, is an "eligible institution" as defined in the Higher Education Act and has been approved by the Department of Education and the applicable Guarantor.

"***Eligible Investments***" means book-entry securities, negotiable instruments or securities represented by instruments in bearer or registered form which evidence:

(a) direct obligations of, and obligations fully guaranteed as to timely payment by, the United States of America, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association or any agency or instrumentality of the United States of America, the obligations of which are backed by the full faith and credit of the United States of America; provided, that obligations of, or guaranteed by, the Government National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association shall be Eligible Investments only if, at the time of investment, they have a rating from each of the Rating Agencies in the highest investment category granted thereby;

(b) demand deposits, time deposits or certificates of deposit of any depository institution or trust company incorporated under the laws of the United States of America or any State (or any domestic branch of a foreign bank) and subject to supervision and examination by federal or state banking or depository institution authorities (including depository receipts issued by any such institution or trust company as custodian with respect to any obligation referred to in clause (a) above or portion of such obligation for the benefit of the holders of such depository receipts); provided, that at the time of the investment or contractual commitment to invest therein (which shall be deemed to be made again each time funds are reinvested following each Settlement Date), the commercial paper or other short-term senior unsecured debt obligations (other than such obligations the rating of which is based on the credit of a Person other than such

depository institution or trust company) thereof shall have a credit rating from each of the Rating Agencies in the highest investment category granted thereby;

(c) non-extendible commercial paper having, at the time of the investment, a rating from each of the Rating Agencies then rating that commercial paper in the highest investment category granted thereby;

(d) investments in money market funds having a rating from each of the Rating Agencies in the highest investment category granted thereby (including funds for which the Administrative Agent, the Syndication Agent, or the Eligible Lender Trustee or any of their respective Affiliates is investment manager or advisor);

(e) bankers' acceptances issued by any depository institution or trust company referred to in clause (b) above; and

(f) repurchase obligations with respect to any security that is a direct obligation of, or fully guaranteed by, the United States of America or any agency or instrumentality thereof, the obligations of which are backed by the full faith and credit of the United States of America, in each case entered into with a depository institution or trust company (acting as principal) described in clause (b) above.

For purposes of the definition of "Eligible Investments," the phrase "highest investment category" means (i) in the case of Fitch, "AAA" for long-term investments (or the equivalent) and "F-1+" for short-term investments (or the equivalent), (ii) in the case of Moody's, "Aaa" for long-term investments and "Prime-1" for short-term investments, and (iii) in the case of S&P, "AAA" for long-term investments and "A-1+" for short-term investments. A proposed investment not rated by Fitch but rated in the highest investment category by Moody's and S&P shall be considered to be rated by each of the Rating Agencies in the highest investment category granted thereby. In the event the rating(s) of an Eligible Investment falls below the applicable rating(s) set forth herein, the Administrator shall promptly (but in no event longer than the earlier of (x) the maturity date of such Eligible Investment and (y) 60 days from the time of such downgrade) replace such investment, at no cost to the Trust, with an Eligible Investment which has the required ratings; provided, that if each of the Rating Agencies has approved an Eligible Investment with other terms relating to a downgrade (including, but not limited to collateralization of the Eligible Investment or furnishing a guaranty or insurance), such other terms shall prevail.

"***Eligible Lender***" means any "eligible lender," as defined in the Higher Education Act, which has received an eligible lender designation from the Department of Education or from a Guarantor with respect to Student Loans.

"***Eligible Lender Trustee***" means The Bank of New York Mellon Trust Company, National Association, a national banking association, not in its individual capacity but solely as Eligible Lender Trustee under the Trust Agreement and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the terms of the Trust Agreement.

"***Eligible Lender Trustee Fees***" means the fees, reasonable expenses and charges of the Eligible Lender Trustee, including reasonable legal fees and expenses, as agreed to in writing by the Eligible Lender Trustee and the Administrator.

"***Eligible Lender Trustee Guarantee Agreement***" means any guarantee or similar agreement issued by any Guarantor to the Eligible Lender Trustee relating to the Guarantee of Trust Student Loans, and any amendment thereto entered into in accordance with the provisions thereof and hereof.

"***Eligible Obligor***" means an Obligor who is eligible under the Higher Education Act to be the obligor of a loan for financing a program of education at an Eligible Institution, including an Obligor who is eligible under the Higher Education Act to be an obligor of a loan made pursuant to Section 428A, 428B and 428C of the Higher Education Act.

"***ERISA***" means the U.S. Employee Retirement Income Security Act of 1974, as amended from time to time, or any successor statute and the regulations promulgated and rulings issued thereunder.

"***ERISA Affiliate***" means (a) any corporation which is a member of the same controlled group of corporations (within the meaning of Section 414(b) of the Code) as the Trust, (b) a trade or business (whether or not incorporated) under common control (within the meaning of Section 414(c) of the Code) with the Trust, or (c) a member of the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Trust, any corporation described in clause (a) above or any trade or business described in clause (b) above or other Person which is required to be aggregated with the Trust pursuant to regulations promulgated under Section 414(o) of the Code.

"***Estimated Interest Adjustment***" means, for each Settlement Date with respect to any Facility Group, the variation, if any, between (x) the Yield paid on the preceding Settlement Date to such Facility Group and (y) the Yield that accrued on the portion of the Aggregate Note Balance allocable to such Facility Group during the Interest Accrual Period then ending on such preceding Settlement Date. The amount by which clause (y) exceeds clause (x) shall be a positive Estimated Interest Adjustment and the amount by which clause (x) exceeds clause (y) shall be a negative Estimated Interest Adjustment.

"***Eurodollar Reserve Percentage***" means, for any day during any period, the reserve percentage (expressed as a decimal, rounded upward to the next 1/100th of 1%) in effect on such day, whether or not applicable to any Lender, under regulations issued from time to time by the Board of Governors of the Federal Reserve System for determining the maximum reserve requirement (including any emergency, special, supplemental or other marginal reserve requirement) with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities"). The LIBOR Rate shall be adjusted automatically as of the effective date of any change in the Eurodollar Reserve Percentage.

"***Event of Bankruptcy***" means, with respect to a specified Person, (a) the filing of a decree or order for relief by a court having jurisdiction in the premises in respect of such Person or any substantial part of its property in an involuntary case under any applicable federal or state

bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or ordering the winding-up or liquidation of such Person's affairs, which decree or order remains unstayed and in effect for a period of 30 consecutive days; or (b) the commencement by such Person of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or the consent by such Person to the entry of an order for relief in an involuntary case under any such law, or the consent by such Person to the appointment of or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator or similar official for such Person or for any substantial part of its property, or the making by such Person of any general assignment for the benefit of creditors, or the failure by such Person generally to pay its debts as such debts become due, or the taking of action by such Person in furtherance of any of the foregoing.

"***Excess Collateral Advance***" means an Advance made to the Trust that is not a Purchase Price Advance or a Capitalized Interest Advance and is made to provide additional Available Funds; provided, however, that the amount of any such Advance shall not exceed the amount by which (a) the Adjusted Pool Balance plus the sum of the amounts on deposit in the Trust Accounts (other than the Borrower Benefit Account and the Floor Income Rebate Account) exceeds (b) the Reported Liabilities.

"***Excess Concentration Amount***" has the meaning set forth in the Side Letter.

"***Excess Distribution Certificate***" has the meaning assigned to such term in the Trust Agreement.

"***Excess Spread***" means the annualized percentage, calculated on the last day of each calendar month, which is a fraction, the numerator of which is the positive difference, if any, between (x) the Expected Interest Collections for such month with respect to the Trust Student Loans and (y) the sum of (i) the Primary Servicing Fee payable to the Master Servicer for such month, (ii) all other fees payable under this Agreement for such month (other than the Non-Use Fee), (iii) all Monthly Rebate Fees for such month, (iv) all other accrued and unpaid amounts generally payable by the Trust with respect to the Trust Student Loans to the Department or any Guarantor, regardless of whether such amounts are then due and owing and whether such amounts may be netted or deducted from payments to be received from the Department or such Guarantor, as applicable, and (v) all Yield payable to the Lenders for such month in respect of the Class A Notes, and the denominator of which is the product of (x) the weighted average Principal Balance of all Trust Student Loans held by the Trust during such month and (y) the Applicable Percentage as calculated based upon the most recent Valuation Report delivered in the succeeding calendar month.

"***Excess Spread Test***" means the three-month average Excess Spread (or, with respect to the first Settlement Period hereunder, the one-month Excess Spread or, with respect to the second Settlement Period hereunder, the two-month average Excess Spread) is greater than or equal to 0.25%.

"***Excess Yield***" means, with respect to any Advances for any Lender and any Settlement Date, the amount by which:

(A) the sum of the amounts calculated pursuant to clauses (a) and (b) of the definition of "Yield" with respect to such Advance during the related Yield Period exceeds

(B) (X) the aggregate sum for each day within such Yield Period of (a) the sum of (i)(I) with respect to a CP Advance, the Related LIBOR Rate plus 0.25% and (II) with respect to a LIBOR Advance, the applicable LIBOR Rate for such LIBOR Advance and (ii) the Used Fee Rate (without giving effect to the application of the Non-Renewal Step-Up Rate) that would be applicable if such Advance were a CP Advance, multiplied by (b) the outstanding principal amount of such Lender's Advances on such day, divided by (Y) 360.

"***Excluded Taxes***" has the meaning assigned to such term in Section 2.20(a).

"***Exiting Facility Group***" means any Maturity Non-Renewing Facility Group.

"***Exiting Facility Group Amortization Period***" means, with respect to any Maturity Non-Renewing Facility Group, the period beginning on the then current Scheduled Maturity Date for such Maturity Non-Renewing Facility Group and ending on the earliest to occur of (i) the occurrence of an Amortization Event or a Termination Event, (ii) 90 days after the start of the period described above and (iii) the date the Aggregate Note Balance of the Class A Note held by the Exiting Facility Group has been repaid in full.

"***Expected Interest Collections***" means, for any calendar month, the sum of (i) the amount of interest due or accrued with respect to the Trust Student Loans and payable by the related Obligors thereon during such calendar month (whether or not such interest is actually paid), (ii) all Interest Subsidy Payments and Special Allowance Payments estimated to have accrued with respect to the Trust Student Loans during such calendar month whether or not actually received and (iii) investment earnings on the Trust Accounts for such calendar month.

"***Facility Group***" means a Managing Agent and its related Conduit Lenders, Alternate Lenders, LIBOR Lenders and Program Support Providers, as applicable.

"***Fair Market Auction***" means a commercially reasonable sale of Trust Student Loans pursuant to an arm's-length auction process with respect to which (a) bids have been solicited from two or more potential bidders including at least two bidders that are not Affiliates of SLM Corporation, (b) at least one bid is received from a bidder that is not an Affiliate of SLM Corporation and (c) if an Affiliate of SLM Corporation submits the winning bid, such bid is in an amount reasonably equal to the fair market value of the Trust Student Loans being sold.

"***Federal Funds Rate***" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided, that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (adjusted, if necessary, to the nearest 1/100 of 1%) charged to the Administrative Agent on such day on such transactions as determined by it.

"***Federal Reimbursement Contracts***" means any agreement between any Guarantor and the Department of Education providing for the payment by the Department of Education of amounts authorized to be paid pursuant to the Higher Education Act, including but not necessarily limited to reimbursement of amounts paid or payable upon defaulted student loans Guaranteed by such Guarantor to holders of qualifying student loans Guaranteed by any Guarantor.

"***Fee Letters***" means the Administrative Agent and Syndication Agent Fee Letter, the Lenders Fee Letter and the Valuation Agent Fee Letter.

"***FFELP Loan***" means a Consolidation Loan, a PLUS Loan, an SLS Loan or a Stafford Loan.

"***FFELP Loan Facilities***" means the FFELP student loan conduit securitization facilities established pursuant to (i) this Agreement; (ii) that certain Note Purchase and Security Agreement, dated as of the Closing Date, among Town Center Funding I, the arrangers party thereto, the conduit lenders party thereto, the alternate lenders party thereto, the LIBOR lenders party thereto, Bank of America, N.A., as administrative agent, the managing agents party thereto, The Bank of New York Mellon Trust Company, National Association, as eligible lender trustee, JPMorgan Chase Bank, N.A., as syndication agent, and Sallie Mae, Inc., as administrator; and (iii) that certain Note Purchase and Security Agreement, dated as of the Closing Date, among Town Hall Funding I, the arrangers party thereto, the conduit lenders party thereto, the alternate lenders party thereto, the LIBOR lenders party thereto, Bank of America, N.A., as administrative agent, the managing agents party thereto, The Bank of New York Mellon Trust Company, National Association, as eligible lender trustee, JPMorgan Chase Bank, N.A., as syndication agent, and Sallie Mae, Inc., as administrator.

"***FFELP Program***" means the Federal Family Education Loan Program authorized under the Higher Education Act, including Stafford Loans, SLS Loans, PLUS Loans and Consolidation Loans.

"***Financing Costs***" means an amount equal to the sum (without duplication) of (i) the accrued Yield applicable to the Class A Notes for the preceding Yield Period; (ii) the Non-Use Fee applicable to the Class A Notes for the preceding Settlement Period; (iii) any past due Yield payable on the Class A Notes; (iv) any past due Non-Use Fees applicable to the Class A Notes; (v) interest on any related loans or other disbursements payable by the Lenders as a result of unreimbursed draws on or under a Program Support Agreement supporting the purchase of the Class A Notes; and (vi) increased costs of the Affected Parties resulting from Yield Protection, if any.

"***Fitch***" means Fitch, Inc. (or its successors in interest).

"***Floor***" has the meaning assigned to such term in the Side Letter.

"***Floor Income Rebate Account***" means the special account created pursuant to Section 2.04(c).

"***Floor Income Rebate Fee***" means the quarterly rebate fee payable to the Department of Education on Trust Student Loans originated on or after April 1, 2006 for which interest payable by the related Obligors for such quarter exceeds the Interest Subsidy Payments or Special Allowance Payments applicable to such Trust Student Loans for such quarter.

"***Fund***" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding, or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its activities.

"***GAAP***" means generally accepted accounting principles as in effect from time to time in the United States that are applicable to the circumstances as of the date of determination and applied on a consistent basis.

"***GLB Regulations***" means the Joint Banking Agencies' Privacy of Consumer Financial Information, Final Rule (12 CFR Parts 40, 216, 332 and 573) or the Federal Trade Commission's Privacy of Consumer Financial Information, Final Rule (16 CFR Part 313), as applicable, implementing Title V of the Gramm-Leach-Bliley Act, Public Law 106-102, as amended.

"***Governmental Authority***" means any nation or government, any state or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, any body or entity exercising executive, legislative, judicial, regulatory or administrative functions or pertaining to government, including without limitation any court, and any Person owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"***Grant***" or "***Granted***" means to pledge, create and grant a security interest in and with regard to property. A Grant of Trust Student Loans, other assets or of any other agreement includes all rights, powers and options (but none of the obligations) of the granting party thereunder.

"***Guarantee***" or "***Guaranteed***" means, with respect to a Student Loan, the insurance or guarantee by the applicable Guarantor, in accordance with the terms and conditions of the applicable Guarantee Agreement, of some or all of the principal of and accrued interest on such Student Loan and the coverage of such Student Loan by the Federal Reimbursement Contracts providing, among other things, for reimbursement to such Guarantor for losses incurred by it on defaulted Student Loans insured or guaranteed by such Guarantor.

"***Guarantee Agreements***" means the Federal Reimbursement Contracts, the Eligible Lender Trustee Guarantee Agreements and any other guarantee or agreement issued by a Guarantor to the Eligible Lender Trustee, which pertain to Student Loans, providing for the payment by the Guarantor of amounts authorized to be paid pursuant to the Higher Education Act to holders of qualifying Student Loans guaranteed in accordance with the Higher Education Act by such Guarantor.

"***Guarantee Payments***" means, with respect to a Student Loan, any payment made by a Guarantor pursuant to a Guarantee Agreement in respect of a Trust Student Loan.

"***Guarantee Percentage***" means, with respect to a Student Loan, the percentage of principal of and accrued interest on such Student Loan that is Guaranteed under the applicable Guarantee Agreement.

"***Guarantor***" means any entity listed on Exhibit B to this Agreement authorized to guarantee Student Loans under the Higher Education Act and with which the Eligible Lender Trustee maintains in effect a Guarantee Agreement.

"***Guaranty and Pledge Agreement***" means the Guaranty and Pledge Agreement, dated as of the Closing Date, between the Depositor and the Administrative Agent.

"***Higher Education Act***" means the Higher Education Act of 1965, as amended or supplemented from time to time, and all regulations and guidelines promulgated thereunder.

"***Holding Account Lender***" means (i) any Non-Rated Lender and (ii) any other Lender that has elected at its option to make a Lender Holding Deposit.

"***Indemnified Party***" has the meaning assigned to such term in Section 8.01(a).

"***Indemnity Agreement***" means the Indemnity Agreement entered into by SLM Corporation, the Trust and the Administrative Agent dated as of the Closing Date.

"***Initial Cutoff Date***" means the date set forth as such in the initial Advance Request.

"***Initial Pool***" means the pool of FFELP Loans owned by the Trust immediately prior to the termination of the Churchill Bluemont Note Purchase Agreement.

"***Intangible Assets***" means the amount (to the extent reflected in determining such consolidated stockholders' equity) of all unamortized debt discount and expense, unamortized deferred charges (which for purposes of this definition do not include deferred taxes or premiums paid in connection with the purchase of student loans), goodwill, patents, trademarks, service marks, trade names, anticipated future benefit of tax loss carry-forwards, copyrights, organization or developmental expenses and other intangible assets.

"***Interest Accrual Period***" means, each period from a Settlement Date until the immediately succeeding Settlement Date, provided, that the initial Interest Accrual Period shall be the period from the Closing Date until the first Settlement Date.

"***Interest Coverage Ratio***" means, for any period of four consecutive fiscal quarters, the ratio of Adjusted Cash Income for such period to Interest Expense for such period.

"***Interest Expense***" means, for any period, the aggregate amount which would fairly be presented in the consolidated income statement of SLM Corporation and its consolidated subsidiaries for such period (subject to normal year-end adjustments) prepared in accordance with GAAP as "total interest expense."

"***Interest Subsidy Payments***" means the interest subsidy payments on certain Trust Student Loans authorized to be made by the Department of Education pursuant to Section 428 of the Higher Education Act or similar payments authorized by federal law or regulations.

"***Interim Eligible Lender Trustee***" means The Bank of New York Mellon Trust Company, National Association, a national banking association, not in its individual capacity but solely as eligible lender trustee for the Depositor under the Depositor Interim Trust Agreement, for the Master Depositor under the Master Depositor Interim Trust Agreement, or for the applicable Sellers under the Seller Interim Trust Agreements, as applicable, and its successor or successors and any other corporation which may at any time be substituted in its place.

"***Interim Trust Agreements***" means collectively, the Seller Interim Trust Agreements, the Master Depositor Interim Trust Agreement and the Depositor Interim Trust Agreement.

"***Investment Deficit***" has the meaning assigned to such term in Section 2.01(d).

"***Investment Company Act***" means the Investment Company Act of 1940, as amended.

"***Lead Arrangers***" means Banc of America Securities LLC and J.P. Morgan Securities Inc.

"***Legal Final Maturity Date***" means the date occurring on the 40th anniversary of the termination of a Revolving Period that is not capable of being reinstated under the terms of this Agreement.

"***Lender Guarantor***" means any Person which has provided in favor of the Administrative Agent an irrevocable guaranty or provided an irrevocable letter of credit, to secure the obligations of a Non-Rated Lender to fund a Capitalized Interest Advance.

"***Lender Holding Account***" has the meaning assigned to such term in Section 2.23(a).

"***Lender Holding Deposit***" has the meaning assigned to such term in Section 2.23(a).

"***Lenders***" means, collectively, the Conduit Lenders, the Alternate Lenders and the LIBOR Lenders.

"***Lenders Fee Letter***" means the Fee Letter, dated as of the Closing Date, among the Trust and the Managing Agents from time to time party thereto.

"***Liabilities***" means the sum of the Trust's obligations with respect to (a) the Aggregate Note Balance, (b) all accrued and unpaid Financing Costs applicable thereto to the extent not included in the Aggregate Note Balance, (c) any accrued and unpaid fees, including Servicing Fees, Eligible Lender Trustee Fees and any other fees or payment obligations (other than borrower benefits to the extent the associated reduction in yield has been prefunded in the Borrower Benefit Account) payable by the Trust pursuant to the Transaction Documents, (d) any outstanding Servicer Advances, (e) amounts due and unpaid under the Revolving Credit Agreement, (f) all amounts payable by the Trust with respect to the Trust Student Loans to the Department or any Guarantor then due and owing, regardless of whether such amounts may be

netted or deducted from payments to be received from the Department or such Guarantor (other than any such amount payable from or with respect to which the Trust will be reimbursed from the Floor Income Rebate Account) and (g) any other accrued and unpaid Obligations.

"***LIBOR Advance***" means an Advance funded with reference to the LIBOR Rate.

"***LIBOR Base Rate***" means:

(i) for any Tranche Period for any Alternate Lender or Conduit Lender:

(a) the rate per annum (carried out to the fifth decimal place) equal to the rate determined by the applicable Managing Agent to be the offered rate that appears on the page of the Reuters Screen that displays an average British Bankers Association Interest Settlement Rate (such page currently being LIBOR01) for deposits in United States dollars (for delivery on the first day of such period) with a term equivalent to such period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such period;

(b) in the event the rate referenced in the preceding subsection (a) does not appear on such page or service or such page or service shall cease to be available, the rate per annum (carried to the fifth decimal place) equal to the rate determined by the applicable Managing Agent to be the offered rate on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in United States dollars (for delivery on the first day of such period) with a term equivalent to such period, determined as of approximately 11:00 a.m. (London time) two Business Days prior to the first day of such period; or

(c) in the event the rates referenced in the preceding subsections (a) and (b) are not available, the rate per annum determined by the applicable Managing Agent as the rate of interest at which Dollar deposits (for delivery on the first day of such period) in same day funds in the approximate amount of the applicable investment to be funded by reference to the LIBOR Rate and with a term equivalent to such period would be offered by its London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such period; and

(ii) for any day during an Interest Accrual Period for any LIBOR Lender:

(a) the rate per annum (carried out to the fifth decimal place) equal to the rate determined by the Administrative Agent to be the offered rate that appears on the page of the Reuters Screen on such day that displays an average British Bankers Association Interest Settlement Rate (such page currently being LIBOR01) for deposits in United States dollars (for delivery on a date two Business Days later) with a term equivalent to one month;

(b) in the event the rate referenced in the preceding subsection (a) does not appear on such page or service or such page or service shall cease to be available, the rate per annum (carried to the fifth decimal place) equal to the rate determined by the

Administrative Agent to be the offered rate on such day on such other page or other service that displays an average British Bankers Association Interest Settlement Rate for deposits in United States dollars (for delivery on a date two Business Days later) with a term equivalent to one month; or

(c) in the event the rates referenced in the preceding subsections (a) and (b) are not available, the rate per annum determined by the Administrative Agent on such day as the rate of interest at which Dollar deposits (for delivery on a date two Business days later than such day) in same day funds in the approximate amount of the applicable investment to be funded by reference to the LIBOR Rate and with a term equivalent to one month would be offered by its London Branch to major banks in the London interbank eurodollar market at their request.

"***LIBOR Lender***" means any Person identified as a LIBOR Lender on Exhibit A attached hereto, as such Exhibit may be amended, restated or otherwise revised from time to time, and any successors or assigns (subject to Section 10.04).

"***LIBOR Rate***" for any Tranche Period (when used with respect to any Alternate Lender) or for any day during an Interest Accrual Period (when used with respect to any LIBOR Lender), means a rate per annum determined by the Administrative Agent pursuant to the following formula:

$$\text{LIBOR Rate} = \frac{\text{LIBOR Base Rate}}{1.00 - \text{Eurodollar Reserve Percentage}}$$

"***Liquidated Student Loan***" means any defaulted Trust Student Loan liquidated by the Servicer (which shall not include any Trust Student Loan on which payments pursuant to the applicable Guarantee are received) or which the Servicer has, after using all reasonable efforts to realize upon such Trust Student Loan, determined to charge off in accordance with the applicable Servicing Policies.

"***Liquidation Proceeds***" means, with respect to any Liquidated Student Loan which became a Liquidated Student Loan during the current Settlement Period in accordance with the applicable Servicing Policies, the moneys collected in respect of the liquidation thereof from whatever source, other than Recoveries, net of the sum of any amounts expended by the Servicer in connection with such liquidation and any amounts required by law to be remitted to the Obligor on such Liquidated Student Loan.

"***Liquidity Expiration Date***" means January 14, 2011, or if such date is extended pursuant to Section 2.16(a), the date to which it is so extended; provided, that the Liquidity Expiration Date may not be extended beyond the Scheduled Maturity Date.

"***Liquidity Non-Renewing Facility Group***" means a Facility Group that has determined not to extend the Liquidity Expiration Date in accordance with Section 2.16(a).

"***Lockbox Bank***" means a bank that maintains a lockbox into which a Subservicer, or the Obligors of the Trust Student Loans serviced by such Subservicer, deposit Collections.

"***Lockbox Bank Fees***" means fees, reasonable expenses and charges of a Lockbox Bank as may be agreed to in writing by the Administrator and the Lockbox Bank; provided, that the fees (excluding reasonable expenses and charges) of a Lockbox Bank shall not exceed in the aggregate $2,500 per annum.

"***Managing Agent***" means each of the agents identified as a Managing Agent on Exhibit A attached hereto as such Exhibit may be amended, restated or otherwise revised from time to time, acting on behalf of its related LIBOR Lenders and its related Conduit Lenders, Alternate Lenders and Program Support Providers under this Agreement, as applicable, and any of its successors or assigns (subject to Section 10.04).

"***Market Value Percentage***" has the meaning assigned to such term in the Valuation Agent Agreement.

"***Master Depositor***" means Churchill Funding LLC, a Delaware limited liability company.

"***Master Depositor Interim Trust Agreement***" means the interim trust agreement, dated as of February 29, 2008, between the Master Depositor and the Interim Eligible Lender Trustee.

"***Master Servicer***" means Sallie Mae, Inc., a Delaware corporation, and its successors and permitted assigns.

"***Material Adverse Effect***" means a material adverse effect on:

(a) with respect to the Trust, the status, existence, perfection, priority or enforceability of the Administrative Agent's interest in the Pledged Collateral or the ability of the Trust to perform its obligations under this Agreement or any other Transaction Document or the ability to collect on a material portion of the Pledged Collateral; or

(b) with respect to any other Person, the ability of the applicable Person to perform its obligations under this Agreement or any other Transaction Document.

"***Material Subservicer***" means, as of any date of determination, any Subservicer responsible for servicing more than 15% of the Trust Student Loans by aggregate Principal Balance.

"***Maturity Non-Renewing Facility Group***" means a Facility Group that has determined not to extend the Scheduled Maturity Date in accordance with Section 2.16(b).

"***Maximum Advance Amount***" means, for any Advance Date:

(a) with respect to a Purchase Price Advance, an amount equal to the lesser of (i) the Maximum Financing Amount minus the sum of (A) the Capitalized Interest Account Unfunded Balance and (B) the Aggregate Note Balance and (ii) the aggregate Collateral Value of the Eligible FFELP Loans being acquired;

(b) with respect to an Excess Collateral Advance, an amount equal to the Maximum Financing Amount minus the sum of (A) the Capitalized Interest Account Unfunded Balance and (B) the Aggregate Note Balance (after giving effect to any Purchase Price Advance to be made on such Advance Date); and

(c) with respect to a Capitalized Interest Advance, an amount equal to the lesser of (i) the aggregate Commitments of all Lenders minus the Aggregate Note Balance and (ii) the amount necessary to cause the amount on deposit in the Capitalized Interest Account to equal the Required Capitalized Interest Account Balance.

"***Maximum Financing Amount***" means at any time on or after (i) the Closing Date and prior to January 14, 2011, $3,333,333,333.34, (ii) January 14, 2011 and prior to January 13, 2012, $1,666,666,666.66, and (iii) January 13, 2012, $666,666,666.66, as such amount may be adjusted from time to time pursuant to Sections 2.03 and 2.21.

"***Minimum Asset Coverage Requirement***" means an Asset Coverage Ratio of greater than or equal to 100%.

"***MNPI***" has the meaning assigned to such term in Section 10.02(b).

"***Monthly Administrative Agent's Report***" means the report to be delivered by the Administrative Agent pursuant to Section 2.05(a).

"***Monthly Rebate Fee***" means the monthly rebate fee payable to the Department of Education on the Trust Student Loans which are Consolidation Loans.

"***Monthly Report***" means a report, in substantially the form of Exhibit C hereto, prepared by the Administrator and furnished to the Administrative Agent.

"***Moody's***" means Moody's Investors Service, Inc. (or its successors in interest).

"***Multiemployer Plan***" means a "multiemployer plan" as defined in Section 4001(a)(3) of ERISA which is or was at any time during the current year or the immediately preceding six years contributed to by the Trust or any ERISA Affiliate.

"***Net Adjusted Revenue***" means, for any period, Adjusted Revenue for such period less Interest Expense and Operating Expenses for such period.

"***New York UCC***" means the New York Uniform Commercial Code as in effect from time to time.

"***Non-Defaulting Lender***" has the meaning assigned to such term in Section 2.01(d).

"***Non-Rated Lender***" means any Alternate Lender, LIBOR Lender or Committed Conduit Lender which does not satisfy any of the following: (i) has a short-term unsecured indebtedness rating of at least "A-1" by S&P and "Prime-1" by Moody's, (ii) has a Lender Guarantor which has a short-term unsecured indebtedness rating of at least "A-1" by S&P and "Prime-1" by Moody's or (iii) has a Qualified Program Support Provider.

"***Non-Renewal Step-Up Rate***" has the meaning assigned to such term in the Lenders Fee Letter.

"***Non-U.S. Lender***" has the meaning assigned to such term in Section 2.20(d).

"***Non-Use Fee***" means, with respect to each Facility Group, a non-use fee, payable monthly by the Trust to the Managing Agent for such Facility Group as set forth in the Lenders Fee Letter.

"***Note***" means a Class A Note issued by the Trust hereunder to a Registered Owner.

"***Note Account***" has the meaning specified in Section 2.11.

"***Note Purchase***" means the purchase of Class A Notes under this Agreement.

"***Note Purchasers***" means the Lenders and, if applicable, their respective Program Support Providers, and their respective successors and assigns (subject to Section 10.04). Each Facility Group shall purchase its Class A Notes and otherwise act through its Managing Agent.

"***Note Register***" has the meaning assigned to such term in Section 3.05(a).

"***Note Registrar***" has the meaning assigned to such term in Section 3.05(a).

"***Notice of Release***" has the meaning assigned to such term in Section 2.18(b)(iii).

"***Obligations***" means all present and future indebtedness and other liabilities and obligations (howsoever created, arising or evidenced, whether direct or indirect, absolute or contingent, or due or to become due) of the Trust to the Secured Creditors, arising under or in connection with this Agreement or any other Transaction Document or the transactions contemplated hereby or thereby and shall include, without limitation, all liability for principal of and Financing Costs on the Class A Notes, closing fees, unused line fees, audit fees, Administrative Agent Fees, Syndication Agent Fees, Co-Valuation Agents Fees, expense reimbursements, indemnifications, and other amounts due or to become due under the Transaction Documents, including, without limitation, interest, fees and other obligations that accrue after the commencement of an insolvency proceeding (in each case whether or not allowed as a claim in such insolvency proceeding).

"***Obligor***" means the borrower or co-borrower or any other Person obligated to make payments with respect to a Student Loan.

"***Officer's Certificate***" means a certificate signed and delivered by an Authorized Officer.

"***Official Body***" means any government or political subdivision or any agency, authority, bureau, central bank, commission, department or instrumentality of any such government or political subdivision, or any court, tribunal, grand jury or arbitrator, or any accounting board or authority (whether or not a part of government) which is responsible for the establishment or

interpretation of national or international accounting principles, in each case whether foreign or domestic.

"***Omnibus Amendment and Reaffirmation***" means the Omnibus Amendment and Reaffirmation dated as of the Closing Date, among the Trust, the Eligible Lender Trustee, the Interim Eligible Lender Trustee, the Depositor, the Master Depositor, each Seller, Sallie Mae, Inc., SLM Corporation and the Administrative Agent, amending and reaffirming certain of the Transaction Documents that were in effect prior to the Closing Date.

"***Omnibus Waiver and Consent***" means that certain Omnibus Waiver and Consent dated as of February 29, 2008 given by SLM Education Credit Finance Corporation and SLM Corporation.

"***Ongoing Seller***" means any of the Sellers other than Mustang Funding I, LLC, Mustang Funding II, LLC and Phoenix Fundings LLC.

"***Operating Expenses***" means, for any period, the aggregate amount which would fairly be presented in the consolidated income statement of SLM Corporation and its consolidated subsidiaries for such period (subject to normal year-end adjustments) prepared in accordance with GAAP as "total operating expenses."

"***Opinion of Counsel***" means an opinion in writing of outside legal counsel, who may be counsel or special counsel to the Trust, any Affiliate of the Trust, the Eligible Lender Trustee, the Administrator, the Administrative Agent, the Syndication Agent, any Managing Agent or any Lender.

"***Other Applicable Taxes***" has the meaning assigned to such term in Section 2.13.

"***Other Taxes***" has the meaning assigned to such term in Section 2.20(a).

"***Outstanding***" means, when used with respect to Class A Notes, as of the date of determination, all Class A Notes theretofore authenticated and delivered under this Agreement except,

(a) Class A Notes theretofore cancelled by the Note Registrar or delivered to the Note Registrar for cancellation; and

(b) Class A Notes for whose payment or repayment money in the necessary amount and currency and in immediately available funds has been theretofore deposited with the Administrative Agent for the Registered Owners of such Class A Notes; and

(c) Class A Notes which have been exchanged for other Class A Notes, or in lieu of which other Class A Notes have been delivered, pursuant to this Agreement.

"***Participant***" has the meaning assigned to such term in Section 10.04(m).

"***Patriot Act***" has the meaning assigned to such term in Section 10.18.

"***PBGC***" means the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA (or any successor).

"***Permitted Excess Collateral Release***" means a release of Pledged Collateral to the holder of the Excess Distribution Certificate pursuant to Section 2.18(d); provided that so long as the Depositor or any Affiliate of the Depositor is the holder of the Excess Distribution Certificate, the Depositor or such Affiliate, as applicable, to the extent it transfers the Student Loans received in connection with such release, does so only in a manner providing for (i) a transfer of loans consistent with those set forth in the definition of Permitted Release under clauses (a), (b), (c), (d), (e), (f) or (h) (but excluding any specific requirements set forth in Section 2.18(b)(iv)(I)(A) or Section 2.18(c)) or (ii) a transfer to a special purpose entity which is not inconsistent with the factual assumptions set forth in the opinion letters referred to in Section 5.02(h).

"***Permitted Lockbox***" means a lockbox arrangement between a Subservicer and a Lockbox Bank approved by the Administrative Agent, with respect to which Collections from Obligors whose Student Loans are serviced by such Subservicer are sent to the related lockboxes and are forwarded by the applicable Lockbox Bank to the Collection Account within two Business Days after receipt of good funds.

"***Permitted Release***" means a release of Pledged Collateral in connection with (a) a Take Out Securitization, (b) a Whole Loan Sale, (c) a Fair Market Auction, (d) a Permitted SPE Transfer, (e) a Permitted Seller Buy-Back, (f) a Servicer Buy-Out, (g) a Permitted Excess Collateral Release or (h) any other transfer of Pledged Collateral with respect to which the Administrative Agent has received a Required Legal Opinion.

"***Permitted Seller Buy-Back***" means an arm's length transfer of Pledged Collateral by the Trust to the Depositor and subsequently by the Depositor to the applicable Seller, so long as the aggregate principal amount of all such Permitted Seller Buy-Backs since February 29, 2008, does not exceed ten percent of the lesser of (i) the highest Aggregate Note Balance outstanding at any time under this Agreement and (ii) the aggregate original principal amount of all Student Loans sold, directly or indirectly to the Trust by SLM Education Credit Finance Corporation, including any Student Loans deemed to have been sold by SLM Education Credit Finance Corporation, in its capacity as the assignee of the Student Loan Marketing Association.

"***Permitted SPE Sale Agreement***" means (i) the Sale Agreement Master Securitization Terms Number 1000, dated as of April 24, 2009, among the Depositor, as seller, VL Funding LLC, as purchaser, the Master Servicer, the Eligible Lender Trustee and The Bank of New York Mellon Trust Company, National Association, as Purchaser Eligible Lender Trustee and (ii) any other sale agreement among the Depositor, as seller, a Permitted SPE Transferee, as purchaser, the Master Servicer, the Eligible Lender Trustee and The Bank of New York Mellon Trust Company, National Association, as Purchaser Eligible Lender Trustee.

"***Permitted SPE Transfer***" means an arm's length transfer of Pledged Collateral by the Trust to the Depositor and subsequently by the Depositor to a Permitted SPE Transferee pursuant to a Permitted SPE Sale Agreement.

"***Permitted SPE Transferee***" means (i) a Related SPE Seller or (ii) a special purpose entity established by SLM Corporation or SLM Education Credit Finance Corporation, which is not a Seller (other than VL Funding LLC and VK Funding LLC), for which the Administrative Agent has received an Opinion of Counsel reasonably satisfactory to it as to the non-consolidation of such special purpose entity with SLM Corporation, Sallie Mae, Inc., the Sellers, the Master Depositor, the Depositor and the Related SPE Trusts under each other FFELP Loan Facility.

"***Person***" means an individual, partnership, corporation (including a statutory trust), limited liability company, joint stock company, trust, unincorporated association, joint venture, government (or any agency or political subdivision thereof) or other entity.

"***Platform***" has the meaning assigned to such term in Section 10.02(b).

"***Pledged Collateral***" has the meaning specified in Section 2.10.

"***PLUS Loan***" means a student loan originated under the authority set forth in Section 428A or B (or a predecessor section thereto) of the Higher Education Act and shall include student loans designated as "PLUS Loans" or "Grad PLUS Loans," as defined under the Higher Education Act.

"***Potential Amortization Event***" means an event which but for the lapse of time or the giving of notice, or both, would constitute an Amortization Event.

"***Potential Termination Event***" means an event which but for the lapse of time or the giving of notice, or both, would constitute a Termination Event.

"***Power of Attorney***" means that certain Power of Attorney of the Trust dated as of the Closing Date, appointing Bank of America, N.A., as Administrative Agent, as the Trust's attorney-in-fact.

"***Primary Servicing Fee***" for any Settlement Date has the meaning specified in Attachment A to the Servicing Agreement, and shall include any such fees from prior Settlement Dates that remain unpaid.

"***Prime Rate***" means, for any day, a fluctuating rate per annum equal to the rate of interest in effect for such day as publicly announced from time to time by the Administrative Agent as its "prime rate." The "prime rate" is a rate set by the Administrative Agent based upon various factors including the Administrative Agent's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the prime rate announced by the Administrative Agent shall take effect at the opening of business on the day specified in the public announcement of such change.

"***Principal Balance***" means, with respect to any Student Loan and any specified date, the outstanding principal amount of such Student Loan, plus accrued and unpaid interest thereon to be capitalized.

"***Principal Distribution Amount***" means, with respect to any Settlement Date, (i) during a Revolving Period so long as no Termination Event has occurred and is continuing, the excess, if any, of (a) the Aggregate Note Balance as of the end of the related Settlement Period over (b) the lesser of the (x) the Adjusted Pool Balance and (y) the Maximum Financing Amount minus the Capitalized Interest Account Unfunded Balance, as of the end of the related Settlement Period, and (ii) at any other time, the Aggregate Note Balance.

"***Pro Rata Share***" means (a) with respect to any particular Facility Group, a fraction (expressed as a percentage) the numerator of which is the aggregate Commitment of such Facility Group and the denominator of which is the Maximum Financing Amount; (b) with respect to any Lender within a Facility Group, the percentage of such Facility Group's Pro Rata Share allocated to such Lender by its Managing Agent; and (c) with respect to any repayment of Class A Notes with respect to any Lender, a fraction (expressed as a percentage) the numerator of which is the Aggregate Note Balance attributable to such Lender, and the denominator of which is the Aggregate Note Balance; provided, that for so long as any Lender is a Defaulting Lender, the Aggregate Note Balance attributable to such Lender shall be disregarded for purposes of determining such calculation and its Pro Rata Share under this clause (c) shall be deemed to be zero.

"***Program Support Agreement***" means, with respect to any Conduit Lender, any liquidity agreement or any other agreement entered into by any Program Support Provider providing for the issuance of one or more letters of credit for the account of such Conduit Lender (or any related commercial paper issuer that finances such Conduit Lender), the issuance of one or more surety bonds for which such Conduit Lender or such related issuer is obligated to reimburse the applicable Program Support Provider for any drawings thereunder, the sale by the Conduit Lender or such related issuer to any Program Support Provider of any interest in a Class A Note (or portions thereof or participations therein) and/or the making of loans and/or other extensions of liquidity or credit to the Conduit Lender or such related issuer in connection with its commercial paper program, together with any letter of credit, surety bond or other instrument issued thereunder.

"***Program Support Provider***" means and includes any Person now or hereafter extending liquidity or credit or having a commitment to extend liquidity or credit to or for the account of, or to make purchases from, a Conduit Lender (or any related commercial paper issuer that finances such Conduit Lender) in support of commercial paper issued, directly or indirectly, by such Conduit Lender in order to fund Advances made by such Conduit Lender hereunder or issuing a letter of credit, surety bond or other instrument to support any obligations arising under or in connection with such Conduit Lender's or such related issuer's commercial paper program, but only to the extent that such letter of credit, surety bond, or other instrument supported either CP issued to make Advances and purchase the Class A Notes hereunder or was dedicated to that Program Support Provider's support of the Conduit Lender as a whole rather than one particular issuer (other than the Trust) within such Conduit Lender's commercial paper program.

"***Program Support Termination Event***" means the earliest to occur of the following: (a) any Program Support Provider related to a Conduit Lender has its rating lowered below "A-1" by S&P, "Prime-1" by Moody's or "F1" by Fitch (if rated by Fitch), unless a replacement Program Support Provider having ratings of at least "A-1" by S&P, "Prime-1" by Moody's and "F1" by

Fitch (if rated by Fitch) is substituted within 30 days of such downgrade or alternative arrangements are then in place that are sufficient to continue to enable such Rating Agency to rate the affected CP at least "A-1" by S&P, "Prime-1" by Moody's and "F1" by Fitch (if rated by Fitch); (b) any Program Support Provider shall fail to honor any of its payment obligations under its Program Support Agreement unless alternative arrangements are then in place that are sufficient to continue to enable such Rating Agency to rate the affected CP at least "A-1" by S&P, "Prime-1" by Moody's and "F1" by Fitch (if rated by Fitch); (c) a Program Support Agreement shall cease for any reason to be in full force and effect or be declared null and void; or (d) the final maturity date of such Program Support Agreement (unless such final maturity date is extended pursuant to the Program Support Agreement).

"***Proprietary Institution***" means a for-profit vocational school.

"***Proprietary Loan***" means a loan made to or for the benefit of a student attending a Proprietary Institution; provided, however, that if a Student Loan that was initially a Proprietary Loan is consolidated, that Student Loan shall no longer be a Proprietary Loan.

"***Public Lender***" has the meaning assigned to such term in Section 10.02(b).

"***Purchase Agreement***" means each Purchase Agreement between a Seller (other than a Related SPE Seller), the Interim Eligible Lender Trustee, if applicable, Sallie Mae, Inc., as master servicer, and the Master Depositor, together with all purchase agreements, blanket endorsements and bills of sale executed pursuant thereto.

"***Purchase Price Advance***" means an Advance made to fund the purchase by the Trust of Eligible FFELP Loans.

"***Qualified Institution***" means the Administrative Agent or, with the written consent of the Administrative Agent and the Trust (or the Administrator on behalf of the Trust), any bank or trust company which has (a) a long-term unsecured debt rating of at least "A2" by Moody's and at least "A" by S&P and (b) a short-term rating of at least "Prime-1" by Moody's and at least "A-1" by S&P.

"***Qualified Program Support Provider***" mean, with respect to a Committed Conduit Lender, any Program Support Provider to such Conduit Lender which has a Program Support Agreement in a form acceptable to the Rating Agencies and has a short-term unsecured indebtedness rating of at least "A-1" by S&P and "Prime-1" by Moody's.

"***Rating Agencies***" means Moody's, S&P and, if applicable, Fitch.

"***Rating Agency Condition***" means, with respect to a particular amendment to or change in the Transaction Documents, that each Rating Agency rating the CP of any Conduit Lender shall, if required pursuant to such Conduit Lender's program documents or by the related Managing Agent, have provided a statement in writing that such amendment or change will not result in a withdrawal or reduction of the ratings of such CP, and that each Rating Agency rating the Class A Notes shall have provided a statement in writing that such amendment or change will not result in a withdrawal or reduction of the ratings of such Class A Notes.

"***Records***" means all documents, books, records, Student Loan Notes and other information (including without limitation, computer programs, tapes, disks, punch cards, data processing software and related property and rights) maintained with respect to Trust Student Loans or otherwise in respect of the Pledged Collateral.

"***Recoveries***" means moneys collected from whatever source with respect to any Liquidated Student Loan which was written off in prior Settlement Periods or during the current Settlement Period, net of the sum of any amounts expended by the Servicer with respect to such Student Loan for the account of any Obligor and any amounts required by law to be remitted to any Obligor.

"***Register***" means that register maintained by the Administrative Agent, pursuant to Section 10.04(j), on which it will record the Lenders' rights hereunder, and each assignment and acceptance and participation.

"***Registered Owner***" means the Person in whose name a Note is registered in the Note Register. The Managing Agents shall be the initial Registered Owners.

"***Regulatory Change***" means, relative to any Affected Party:

(a) after the date of this Agreement, any change in or the adoption or implementation of, any new (or any new interpretation or administration of any existing):

(i) United States federal or state law or foreign law applicable to such Affected Party;

(ii) regulation, interpretation, directive, requirement, guideline or request (whether or not having the force of law) applicable to such Affected Party of (A) any court or Governmental Authority charged with the interpretation or administration of any law referred to in clause (a)(i) above or (B) any fiscal, monetary or other authority having jurisdiction over such Affected Party; or

(iii) generally accepted accounting principles or regulatory accounting principles applicable to such Affected Party and affecting the application to such Affected Party of any law, regulation, interpretation, directive, requirement, guideline or request referred to in clause (a)(i) or (a)(ii) above; or

(b) any change after the date of this Agreement in the application to such Affected Party (or any implementation by such Affected Party) of any existing law, regulation, interpretation, directive, requirement, guideline or request referred to in clause (a)(i), (a)(ii) or (a)(iii) above.

"***Related LIBOR Rate***" means, with respect to any CP Advance and any Yield Period, the LIBOR Base Rate that would be applicable under clause (ii) of the definition thereof to a LIBOR Advance with an Interest Accrual Period corresponding to the related Settlement Period; provided, that if any Conduit Lender calculates its CP Rate based on match-funding rather than pool funding, the Related LIBOR Rate for such Conduit Lender shall be calculated based on an interest rate equal to the weighted average of the LIBOR Base Rate under clause (ii) of the

definition thereof as calculated on each date during which CP is issued to fund or maintain the CP Advances during the related Settlement Period and as reported to the Administrative Agent by the applicable Managing Agent under Section 2.27.

"***Related Parties***" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"***Related SPE Sellers***" means Town Hall Funding LLC and Town Center Funding LLC, each a Delaware limited liability company.

"***Related SPE Trusts***" means Town Hall Funding I and Town Center Funding I, each a Delaware statutory trust.

"***Release Reconciliation Statement***" has the meaning assigned to such term in Section 2.18.

"***Released Collateral***" means any Pledged Collateral released pursuant to Section 2.18.

"***Reportable Event***" means any of the events set forth in Section 4043(c) of ERISA.

"***Reported Liabilities***" means, as of any date, the Liabilities of the Trust (less amounts then outstanding under the Revolving Credit Agreement) reported to the Trust (or to the Administrator on behalf of the Trust) as set forth in the most recent Monthly Report and as adjusted for any Advances made since the date of such Monthly Report or with respect to which the Trust (or the Administrator on behalf of the Trust) has actual knowledge.

"***Reporting Date***" means the twenty-second (22nd) day of each calendar month, beginning February 22, 2010 or, if such day is not a Business Day, the immediately preceding Business Day.

"***Requested Advance Amount***" means the amount of the Advance that is requested by the Trust.

"***Required Borrower Benefit Amount***" means (i) any amount required to be deposited into the Borrower Benefit Account pursuant to Section 6.26(a)(ii) and (ii) any Borrower Benefit Amount.

"***Required Capitalized Interest Account Balance***" means (i) at any time that no Capitalized Interest Account Funding Event has occurred and is continuing, $0, (ii) after the occurrence and during the continuation of a Capitalized Interest Account Funding Event, the Capitalized Interest Account Specified Balance, and (iii) at any time a Maturity Non-Renewing Facility Group is required to make a Capitalized Interest Advance pursuant to Section 2.21(b), the amount of such Capitalized Interest Advance.

"***Required Holding Deposit Amount***" has the meaning assigned to such term in Section 2.23.

"***Required Legal Opinion***" means an opinion of Bingham McCutchen LLP, or such other outside counsel to the Trust reasonably acceptable to the Administrative Agent, with respect to the true sale of Trust Student Loans and non-consolidation issues that describes the facts of the proposed transaction and contains conclusions reasonably determined by the Administrative Agent to be in form and substance similar to the conclusions contained in the legal opinions previously delivered to and accepted by the Administrative Agent on the Closing Date.

"***Required Managing Agents***" means, at any time, not less than three Managing Agents representing Facility Groups then holding at least 66-2/3% of the Aggregate Note Balance; provided, that if there are no outstanding Advances, then "Required Managing Agents" means at such time not less than three Managing Agents representing Facility Groups then holding at least 66-2/3% of the Commitments; and provided further, that the Commitments and Advances held by a Distressed Lender's Facility Group shall not be included in determining whether Required Managing Agents have approved or not approved any amendments, waivers or other actions requiring the approval of the Required Managing Agents under this Agreement or any other Transaction Document.

"***Required Ratings***" means, with respect to the Class A Notes, "Aaa" by Moody's and "AAA" by S&P.

"***Reserve Account***" means the special account created pursuant to Section 2.06(b).

"***Reserve Account Specified Balance***" means (a) on the Closing Date and for each Settlement Period, cash or Eligible Investments in an amount equal to one-quarter of one percent (0.25%) of the Student Loan Pool Balance as of the Closing Date, or as of the last day of that Settlement Period, as applicable, and (b) for each Advance Date, the sum of (i) the Reserve Account Specified Balance as of the last day of the most recent Settlement Period (or, if prior to the end of the first Settlement Period ending after the Closing Date, the Closing Date) and (ii) one-quarter of one percent (0.25%) of the Principal Balance of the Additional Student Loans purchased by the Trust since the last day of the most recent Settlement Period (including Additional Student Loans being purchased by the Trust with the Advance to be made on such Advance Date); provided, however, that the Reserve Account Specified Balance shall be not less than $500,000.

"***Reset Date***" means with respect to any LIBOR Advance made by an Alternate Lender or a Conduit Lender, the last Business Day of the related Tranche Period.

"***Revolving Credit Agreement***" means the subordinated revolving credit agreement, dated as of February 29, 2008, between the Trust and SLM Corporation to (i) fund the difference, if any, between the amount of each related Advance and the fair market value of the Eligible FFELP Loans purchased pursuant to the Sale Agreement on the related date of purchase and (ii) at the option of SLM Corporation, to cure any breach of the Minimum Asset Coverage Requirement caused by an adjustment of the Applicable Percentage, as such agreement may be amended, restated, supplemented or otherwise modified from time to time.

"***Revolving Period***" means (A) the period commencing on the Closing Date and terminating on the earliest to occur of (i) the Scheduled Maturity Date, (ii) the first day of an Amortization Period and (iii) the Termination Date, and (B) any other period beginning on the date of reinstatement of a Revolving Period pursuant to Section 7.01(i) or Section 7.01(j) and terminating on the earliest to occur thereafter of (i) the Scheduled Maturity Date, (ii) the first day of an Amortization Period and (iii) the Termination Date.

"***S&P***" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc. (or its successors in interest).

"***Sale Agreement***" means the Sale Agreement, dated as of February 29, 2008, among the Depositor, the Trust, the Interim Eligible Lender Trustee and the Eligible Lender Trustee, and under which the Depositor may from time to time transfer certain Eligible FFELP Loans to the Trust, together with all sale agreements, blanket endorsements and bills of sale executed pursuant thereto.

"***Schedule of Trust Student Loans***" means a listing of all Trust Student Loans delivered to and held by the Administrative Agent (which Schedule of Trust Student Loans may be in the form of microfiche, CD-ROM, electronic or magnetic data file or other medium acceptable to the Administrative Agent), as from time to time amended, supplemented, or modified, which Schedule of Trust Student Loans shall be the master list of all Trust Student Loans then comprising a part of the Pledged Collateral pursuant to this Agreement.

"***Scheduled Maturity Date***" means January 11, 2013, or if such date is extended pursuant to Section 2.16(b), the date to which so extended.

"***Secured Creditors***" means the Administrative Agent, the Syndication Agent, each Conduit Lender, LIBOR Lender, Alternate Lender, Managing Agent, Co-Valuation Agent and Program Support Provider, and any assignee or participant of any Lender or any Program Support Provider pursuant to the terms hereof.

"***Securities Act***" means the Securities Act of 1933, as amended.

"***Securities Intermediary***" means Bank of America, N.A. and its successors or assigns.

"***Securitization Value Percentage***" has the meaning assigned to such term in the Valuation Agent Agreement.

"***Seller Interim Trust Agreements***" means (i) the interim trust agreement, dated February 29, 2008, between the Interim Eligible Lender Trustee and VG Funding, LLC, (ii) the interim trust agreement, dated February 29, 2008, between the Interim Eligible Lender Trustee and VL Funding LLC and (iii) the interim trust agreement, dated February 29, 2008, between the Interim Eligible Lender Trustee and Phoenix Fundings LLC.

"***Sellers***" means one or more of SLM Education Credit Finance Corporation, VG Funding, LLC, VL Funding LLC, Mustang Funding I, LLC, Mustang Funding II, LLC, Phoenix Fundings LLC and the Related SPE Sellers, and when the conditions precedent set forth under Section 4.02(c) have been satisfied, VK Funding LLC, and such other subsidiaries of SLM

Corporation as may be agreed upon by the Required Managing Agents and with respect to which the requirements of Section 4.04 have been satisfied; provided, however, that if a proposed seller is a special purpose subsidiary of SLM Corporation for which the Master Servicer is responsible for any repurchase obligations, only the consent of the Administrative Agent shall be required.

"***Servicer***" means the Master Servicer or a Subservicer.

"***Servicer Advances***" means any Financing Costs advanced by the Master Servicer pursuant to Section 2.17.

"***Servicer Buy-Out***" means the right of the Master Servicer, as set forth in Section 3.05(h) of the Servicing Agreement, to purchase any Trust Student Loans (when added to the aggregate Principal Balance of all Trust Student Loans previously purchased pursuant to a Servicer Buy-Out) in an amount not to exceed 2%, in the aggregate since February 29, 2008, of the Aggregate Note Balance then Outstanding.

"***Servicer Default***" means a "Servicer Default" as defined in Section 5.01 of the Servicing Agreement.

"***Servicing Agreement***" means, individually or collectively, (a) the Amended and Restated Servicing Agreement, dated as of the Closing Date, among the Trust, the Master Servicer, the Eligible Lender Trustee, the Administrator and the Administrative Agent, (b) (i) the Subservicing Agreement dated as of the Closing Date, among Pennsylvania Higher Education Assistance Agency, as subservicer, the Master Servicer, the Trust and the Eligible Lender Trustee, (ii) the Federal FFEL Subservicing Agreement dated June 4, 2008, among ACS Education Services, Inc., as subservicer, the Master Servicer, the Administrator, the Trust and the Eligible Lender Trustee, (iii) the Subservicing Agreement dated as of September 30, 2008, among Education Loan Servicing Corporation, doing business as Xpress Loan Servicing, as subservicer, the Master Servicer, the Administrator, the Trust and the Eligible Lender Trustee, and (iv) the Subservicing Agreement dated as of February 29, 2008, among Great Lakes Educational Loan Services, Inc., as subservicer, the Master Servicer, the Administrator, the Trust and the Eligible Lender Trustee, (c) any other servicing agreement among the Trust, the Master Servicer and any Subservicer under which the respective Subservicer agrees to administer and collect the Trust Student Loans but the Master Servicer remains responsible to the Trust for the performance of such duties, which is substantially similar to any of the subservicing agreements signed with Great Lakes Educational Loan Services, Inc., ACS Education Services, Inc., Education Loan Servicing Corporation, doing business as Xpress Loan Servicing, or Pennsylvania Higher Education Assistance Agency, or is otherwise consented to by the Administrative Agent, which consent is not to be unreasonably withheld or delayed, and (d) any other subservicing agreement among the Trust, the Master Servicer and a Subservicer, consented to by the Administrative Agent, under which such Subservicer agrees to administer and collect certain Trust Student Loans, but with respect to which the Master Servicer is not liable for such Trust Student Loans.

"***Servicing Fees***" means the Primary Servicing Fee, the Carryover Servicing Fee and any other fees payable by the Trust to the Master Servicer or the Subservicers in respect of servicing Trust Student Loans pursuant to the provisions of any Servicing Agreement.

"***Servicing Policies***" means the policies and procedures of the Master Servicer or any Subservicer, as applicable, with respect to the servicing of Student Loans.

"***Settlement Date***" means the 25th day of each calendar month, beginning February 25, 2010 or, if such day is not a Business Day, the following Business Day.

"***Settlement Period***" means (i) initially the period commencing on the Closing Date and ending on January 31, 2010, and (ii) thereafter, (a) during a Revolving Period or an Amortization Period, each monthly period ending on (and inclusive of) the last day of the calendar month and (b) after the occurrence and during the continuation of a Termination Event, such period as determined by the Administrative Agent in its sole discretion (which may be a period as short as one Business Day).

"***Side Letter***" means the Side Letter, dated as of the Closing Date, among the Trust, the Administrator, the Administrative Agent, the Managing Agents, the Eligible Lender Trustee and certain other financial institutions party thereto.

"***SLM Corporation***" means SLM Corporation, a Delaware corporation, and its successors and assigns.

"***SLM Guaranty***" means the Guaranty dated as of March 20, 2008 made by SLM Corporation with respect to certain obligations of Sallie Mae, Inc. under the Purchase Agreements, the Conveyance Agreement and the Tri-Party Transfer Agreement.

"***SLM Indemnified Amounts***" has the meaning assigned to such term in Section 8.02.

"***SLS Loan***" means a student loan originated under the authority set forth in Section 428A (or a predecessor section thereto) of the Higher Education Act and shall include student loans designated as "SLS Loans," as defined under the Higher Education Act.

"***Solvent***" means, at any time with respect to any Person, a condition under which:

(a) the fair value and present fair saleable value of such Person's total assets is, on the date of determination, greater than such Person's total liabilities (including contingent and unliquidated liabilities) at such time;

(b) the fair value and present fair saleable value of such Person's assets is greater than the amount that will be required to pay such Person's probable liability on its existing debts as they become absolute and matured ("debts," for this purpose, includes all legal liabilities, whether matured or unmatured, liquidated or unliquidated, absolute, fixed or contingent);

(c) such Person is, and shall continue to be, able to pay all of its liabilities as such liabilities mature; and

(d) such Person does not have unreasonably small capital with which to engage in its current and in its anticipated business.

"***Special Allowance Payments***" means special allowance payments on Student Loans authorized to be made by the Department of Education pursuant to Section 438 of the Higher Education Act, or similar allowances authorized from time to time by federal law or regulation.

"***Stafford Loan***" means a loan designated as such that is made under the Robert T. Stafford Student Loan Program in accordance with the Higher Education Act.

"***Step-Down Date***" means any of the dates on which the Maximum Financing Amount is reduced in accordance with the definition thereof.

"***Step-Up Fees***" means, with respect to any Facility Group's Class A Notes and any Yield Period, the sum of (1) the Non-Use Fee payable to such Facility Group for such Yield Period and (2) the applicable Excess Yield.

"***Student Loan***" means a FFELP Loan.

"***Student Loan Notes***" means the promissory note or notes of an Obligor and any amendment thereto evidencing such Obligor's obligation with regard to a Student Loan or the electronic records evidencing the same.

"***Student Loan Pool Balance***" means, (i) as of the Initial Cutoff Date, the aggregate Principal Balance of the Trust Student Loans as reported by the Administrator for such date; and (ii) as of any other date of determination, (x) the aggregate Principal Balance (as reported by the Administrator on the last Monthly Report delivered to the Administrative Agent) of the Trust Student Loans, calculated as of the end of the previous calendar month, plus (y) the aggregate Principal Balance of the Trust Student Loans acquired since the end of the previous calendar month as of their respective Cutoff Dates, minus (z) the aggregate Principal Balance of the Trust Student Loans disposed of by the Trust since the end of the previous calendar month as of their respective dates of disposition.

"***Subsequent Cutoff Date***" means, with respect to any Trust Student Loan, the "Purchase Date" for such Trust Student Loan as such term is defined in the Sale Agreement.

"***Subservicer***" means, on the Closing Date, Great Lakes Educational Loan Services, Inc., ACS Education Services, Inc., Education Loan Servicing Corporation, doing business as Xpress Loan Servicing and Pennsylvania Higher Education Assistance Agency and, thereafter, any subservicer appointed by the Master Servicer pursuant to the Servicing Agreement of the Master Servicer.

"***Syndication Agent***" means JPMorgan Chase Bank, N.A.

"***Syndication Agent Fees***" means, the fees, reasonable expenses and charges, if any, of the Syndication Agent, payable pursuant to the Administrative Agent and Syndication Agent Fee Letter.

"***Take Out Securitization***" means a sale or transfer of any portion of the Trust Student Loans by the Trust (directly or indirectly) to a trust sponsored by an Affiliate of the Depositor as

part of a publicly or privately traded, rated or unrated student loan securitization, pass-through, pay through, secured note or similar transaction.

"***Termination Date***" means the earliest to occur of (a) any date designated as the date for terminating the entire Maximum Financing Amount pursuant to Section 2.03, (b) the last day of an Amortization Period (other than an Amortization Period ending as a result of the reinstatement of a Revolving Period) and (c) the date of the declaration or automatic occurrence of the Termination Date pursuant to Article VII.

"***Termination Event***" has the meaning assigned to such term in Article VII.

"***Tranche Period***" with respect to LIBOR Advances made by an Alternate Lender or a Conduit Lender, means a period commencing on the date such LIBOR Advance is disbursed or on a Reset Date and ending on the date one day, one week or one month thereafter, as selected by the Trust on its Advance Request; provided, that (i) any Tranche Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Tranche Period shall end on the next preceding Business Day; (ii) any Tranche Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Tranche Period) shall end on the last Business Day of the calendar month at the end of such Tranche Period; and (iii) in no event shall any Tranche Period end after the then current Scheduled Maturity Date.

"***Transaction Documents***" means, collectively, this Agreement, the Trust Agreement, the Administration Agreement, each Servicing Agreement, each Purchase Agreement, the Conveyance Agreement, the Sale Agreement, the Tri-Party Transfer Agreement, each Permitted SPE Sale Agreement, all Guarantee Agreements, the Interim Trust Agreements, the Valuation Agent Agreement, the Guaranty and Pledge Agreement, the Indemnity Agreement, the Revolving Credit Agreement, the Power of Attorney, the Fee Letters, the Side Letter, the Omnibus Waiver and Consent, the SLM Guaranty, the Omnibus Amendment and Reaffirmation, and all other instruments, fee letters, documents and agreements executed in connection with any of the foregoing.

"***Transaction Parties***" means, collectively, the Trust, the Depositor, the Administrator, the Master Depositor, the Master Servicer, each Seller and SLM Corporation.

"***Treasury Regulations***" means any regulations promulgated by the Internal Revenue Service interpreting the provisions of the Code.

"***Tri-Party Transfer Agreement***" means the sale and purchase agreement, dated as of February 29, 2008, among the Depositor, the Related SPE Sellers, the Master Servicer and the related eligible lender trustees.

"***Trust***" means Bluemont Funding I, a Delaware statutory trust, and its successors and assigns.

"***Trust Accounts***" means the Administration Account, Collection Account, Capitalized Interest Account, Reserve Account, Borrower Benefit Account and Floor Income Rebate Account.

"***Trust Agreement***" means the Second Amended and Restated Trust Agreement, dated as of the Closing Date, among the Depositor, the Delaware Trustee and the Eligible Lender Trustee.

"***Trust Indemnified Amounts***" has the meaning assigned to such term in Section 8.01.

"***Trust Materials***" has the meaning assigned to such term in Section 10.02(b).

"***Trust Student Loan***" means any Student Loan held by the Trust.

"***UCC***" means the Uniform Commercial Code as from time to time in effect in the specified jurisdiction.

"***United States***" means the United States of America.

"***Used Fee Rate***" means, with respect to any Lender, the used fee rate as set forth in the Lenders Fee Letter.

"***Valuation Agent Agreement***" means the Valuation Agent Agreement, dated as of February 29, 2008, among the Trust, the Administrator, the Administrative Agent, and the Co-Valuation Agents.

"***Valuation Agent Fee Letter***" means the Valuation Agent Fee Letter, dated as of the Closing Date, among the Trust and the Co-Valuation Agents, setting forth the Co-Valuation Agents Fees, as such letter may be amended, restated, supplemented or otherwise modified from time to time.

"***Valuation Date***" has the meaning assigned to such term in the Valuation Agent Agreement.

"***Valuation Report***" means a report furnished by the Administrative Agent pursuant to Section 2.25(a).

"***Valuation Step-Up Event***" means the Asset Coverage Ratio (calculated without giving effect to clauses (b)(ii) and (c)(ii) of the definition of "Applicable Percentage") is less than 100% for five (5) consecutive Business Days while the Minimum Asset Coverage Requirement remains satisfied; provided, that a Valuation Step-Up Event will not occur if the Market Value Percentage and the Securitization Value Percentage are each equal to or greater than the Floor.

"***Valuation Step-Up Rate***" means, with respect to any Lender, the valuation step-up rate as set forth in the Lenders Fee Letter.

"***Weighted Average Remaining Term in School***" means, as of any date of determination, (a) the sum, for all Eligible FFELP Loans that are in in-school status, of the products of (i) the Principal Balance of each such Eligible FFELP Loan, as of such date, and (ii)

the number of months remaining in school shown on the Servicer's record, as of such date, for the student with respect to such Eligible FFELP Loan, divided by (b) the aggregate Principal Balance of all Eligible FFELP Loans that are in in-school status, as of such date.

"***Whole Loan Sale***" means a sale of all or a part of the Trust Student Loans to a third-party purchaser in exchange for not less than fair market value.

"***Yield***" means, for each Facility Group's Class A Notes and any Yield Period, (a) the aggregate sum for each day within such Yield Period of the applicable Yield Rate for such day multiplied by the outstanding principal amount of such Facility Group's Class A Note on such day, divided by 360, plus or minus (b) the Estimated Interest Adjustment if and as applicable minus (c) any Step-Up Fees described in clause (2) of the definition thereof.

"***Yield Period***" means, for a CP Advance or a Base Rate Advance, each Settlement Period and for a LIBOR Advance, each Interest Accrual Period.

"***Yield Protection***" means any Note Purchaser's reasonable increased costs for taxes, reserves, special deposits, insurance assessments, breakage costs, changes in regulatory capital requirements (or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, such Note Purchaser) and certain reasonable expenses imposed on such Note Purchaser.

"***Yield Rate***" means, with respect to any date of determination:

(a) other than during an Amortization Period, after the occurrence and during the continuation of a Valuation Step-Up Event or on and after the occurrence of a Termination Event:

(i) if a Conduit Lender funds (directly or indirectly) its portion of the Aggregate Note Balance with CP, the CP Rate plus the applicable Used Fee Rate;

(ii) if an Alternate Lender or a Conduit Lender (if funding its investment other than with CP) funds its portion of the Aggregate Note Balance, the applicable LIBOR Rate (or if LIBOR Rate is not available, the applicable Base Rate) plus the Applicable Margin; or

(iii) if a LIBOR Lender funds its portion of the Aggregate Note Balance, the applicable LIBOR Rate (or if LIBOR Rate is not available, the applicable Base Rate) plus the Applicable Margin;

(b) during an Amortization Period, the applicable Amortization Period Rate, or if greater, at any time that the Asset Coverage Ratio (calculated without giving effect to clauses (b)(ii) and (c)(ii) of the definition of "Applicable Percentage") is less than 100% for five (5) consecutive Business Days, the rate calculated pursuant to clause (a) above plus the applicable Valuation Step-Up Rate;

(c) after the occurrence and during the continuation of a Valuation Step-Up Event and so long as neither an Amortization Period nor a Termination Event exists, the rate calculated pursuant to clause (a) above plus the applicable Valuation Step-Up Rate; or

(d) on and after the occurrence of a Termination Event, the Base Rate plus 2.50% per annum plus the applicable Non-Renewal Step-Up Rate, or if greater, at any time that the Asset Coverage Ratio (calculated without giving effect to clauses (b)(ii) and (c)(ii) of the definition of "Applicable Percentage") is less than 100% for five (5) consecutive Business Days, the rate calculated pursuant to clause (a) above plus the applicable Valuation Step-Up Rate.

**Section 1.02.** Other Terms.

(a) All accounting terms not specifically defined herein shall be construed in accordance with GAAP. All terms used in Article 9 of the UCC in the State of New York and not specifically defined herein, are used herein as defined in such Article 9. Any reference to an agreement herein shall be deemed to include a reference to such agreement as amended, supplemented or otherwise modified from time to time.

(b) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall."

(c) Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Transaction Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Transaction Document, shall be construed to refer to such Transaction Document in its entirety and not to any particular provision thereof, (iv) all references in any Transaction Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Transaction Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties.

**Section 1.03.** Computation of Time Periods. Unless otherwise stated in this Agreement, in the computation of a period of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding."

**Section 1.04.** Calculation of Yield Rate and Certain Fees. The Yield Rate on the Class A Notes and all fees payable to the Lenders, the Note Purchasers or the Registered Owners pursuant to this Agreement are calculated based on the actual number of days divided by 360. Interest shall accrue on the Class A Notes from and including the day on which the related Advance is made, and shall not accrue on the Class A Notes or any portion thereof, for the day on which the Class A Notes or such portion is paid. Each determination by the Administrative Agent (or, with respect to the calculation of any CP Rate, LIBOR Base Rate or LIBOR Rate, the applicable Managing Agent), of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

**Section 1.05.** Time References. All time references in this Agreement shall refer to the time in New York, New York unless otherwise noted.

## ARTICLE II.

## THE FACILITY

**Section 2.01.** Issuance and Purchase of Class A Notes; Making of Advances.

(a) In consideration of the agreements of the Note Purchasers hereunder, and subject to the terms and conditions set forth in this Agreement, (y) the Trust agrees to sell, transfer and deliver to each Managing Agent, on behalf of its related Note Purchasers, and (z) each Managing Agent on behalf of its related Note Purchasers agrees to purchase from the Trust, on the Closing Date, a Class A Note, the outstanding principal amount of which shall not exceed the applicable Pro Rata Share of such Facility Group multiplied by the Maximum Financing Amount. Subject to the satisfaction of the conditions precedent set forth in Section 4.01, the purchase price payable on the Closing Date for the Class A Note for each Facility Group shall be equal to such Facility Group's Pro Rata Share of the Aggregate Note Balance as of the Closing Date. The payment of such purchase price shall be subject to the same requirements applicable to an Advance under Section 2.01(b). Each Note shall be issued in the name of a Registered Owner.

(b) On the terms and conditions hereinafter set forth, each Alternate Lender, LIBOR Lender and Committed Conduit Lender agrees to make Advances during a Revolving Period (or, with respect to Capitalized Interest Advances, at such times in accordance with Section 4.02(c)), and each other Conduit Lender may, in its sole discretion, make Advances to the Trust from time to time up to an aggregate principal amount outstanding at any one time not to exceed the Maximum Financing Amount in effect at the time of such Advance; provided, that: (i) the aggregate Advances made on any date, together with advances made under the other FFELP Loan Facilities on such date, must be in a principal amount equal to $50,000,000 or integral multiples of $500,000 in excess thereof (other than (x) Capitalized Interest Advances and (y) Excess Collateral Advances made on a Settlement Date the proceeds of which are used to pay amounts owing under clauses (ii) through (iv) of Section 2.05(b), in each case as to which such minimum is not applicable) and (ii) the Requested Advance Amount on any Advance Date shall not exceed the Maximum Advance Amount. Within the limits set forth in this Section and the other terms and conditions of this Agreement, during a Revolving Period, the Trust, acting through the Administrator, may request Advances, repay Advances and reborrow Advances under this Section; provided, however, that after the end of the Revolving Period, Capitalized

Interest Advances will continue to be made in accordance with Section 4.02(c). In addition, the Administrative Agent may also request Capitalized Interest Advances after the occurrence of a Capitalized Interest Account Funding Event. All Class A Notes issued hereunder shall be denominated in and be payable in United States dollars. Yield on each CP Advance, each Base Rate Advance and each LIBOR Advance shall be due and payable on each Settlement Date. The Aggregate Note Balance and all other Obligations hereunder, if not previously paid pursuant to Section 2.05(b) or otherwise, shall be due and payable on the Termination Date.

(c) Each Lender's obligations under this Section are several and the failure of any Lender to make available its Pro Rata Share of any Requested Advance Amount on an Advance Date shall not relieve any other Note Purchaser of its obligations hereunder or, except as provided in Section 2.01(d), obligate any other Note Purchaser to honor the obligations of any Defaulting Lenders. Advances shall be allocated among the Facility Groups in accordance with their respective Pro Rata Shares and shall be further allocated to each Lender within a Facility Group as designated by the applicable Managing Agent. Notwithstanding anything contained in this Agreement to the contrary, (i) no Conduit Lender shall fund any portion of any Advance which would cause the aggregate principal amount of its Advances to exceed the Commitments of its related Alternate Lenders; (ii) no Alternate Lender, LIBOR Lender or Committed Conduit Lender shall be obligated to fund any portion of any Advance which would cause the aggregate principal amount of its Advances to exceed its Commitment; and (iii) no Facility Group shall be obligated to fund any portion of any Advance which would cause the aggregate principal amount of its Advances to exceed its total Commitment. The Commitment of each Lender as of the Closing Date is set forth on Exhibit A.

(d) If by 2:00 p.m. on an Advance Date, whether or not the Administrative Agent has advanced the applicable Requested Advance Amount, one or more Alternate Lenders, LIBOR Lenders or Committed Conduit Lenders fails to make its Pro Rata Share of any Advance required to be made by such Lender available to the Administrative Agent pursuant to this Agreement (the aggregate amount not so made available to the Administrative Agent being herein called the ***"Investment Deficit"***), then the Administrative Agent shall, by no later than 5:00 p.m. on the applicable Advance Date instruct each Alternate Lender, LIBOR Lender and Committed Conduit Lender which is not a Defaulting Lender (each, a ***"Non-Defaulting Lender"***) to pay, by no later than noon on the next Business Day in immediately available funds, to the account designated by the Administrative Agent, an amount equal to the lesser of (i) such Non-Defaulting Lender's proportionate share (based upon the relative Commitments of the Non-Defaulting Lenders) of the Investment Deficit and (ii) its unused Commitment. A Defaulting Lender shall forthwith, upon demand, pay to the Administrative Agent for the ratable benefit of the Non-Defaulting Lenders all amounts paid by each Non-Defaulting Lender on behalf of such Defaulting Lender.

**Section 2.02.** The Initial Advance and Subsequent Advances.

(a) [Reserved].

(b) Subject to the satisfaction of the conditions precedent set forth in this Agreement and in accordance with the terms and conditions of Section 2.01 and this Section, the Trust, acting through the Administrator, may request an Advance hereunder by giving written notice

substantially in the form of Exhibit D (each, an "***Advance Request***") to the Administrative Agent not later than 11:00 a.m. on the second Business Day (or with respect to the initial Advance, not later than 11:00 a.m. on the Business Day) prior to the proposed Advance Date, which the Administrative Agent shall promptly forward to the Managing Agents not later than 1:00 p.m. on such date. Each such Advance Request shall specify:

(i) the Requested Advance Amount, which, together with the advances made under the other FFELP Loan Facilities on such date, shall be equal to or greater than $50,000,000 in the aggregate with respect to all Facility Groups, except as otherwise permitted under Section 2.01(b);

(ii) the proposed Advance Date;

(iii) if such Advance is a Purchase Price Advance, the aggregate Collateral Value of the Eligible FFELP Loans to be acquired; and

(iv) the Asset Coverage Ratio after giving effect to such Advance.

In addition, each Advance Request shall include a pro forma calculation and certification establishing (x) with respect to a Purchase Price Advance or an Excess Collateral Advance, that the Minimum Asset Coverage Requirement will be satisfied after giving effect to such Advance and (y) with respect to a Capitalized Interest Advance, the Maximum Advance Amount for such Capitalized Interest Advance and that the proceeds thereof will be deposited into the Capitalized Interest Account.

No later than 2:00 p.m. on the Advance Date, each Conduit Lender (other than a Committed Conduit Lender) may, in its sole discretion, and each Committed Conduit Lender and LIBOR Lender shall, upon satisfaction of the applicable conditions set forth in this Agreement, make available to the Trust in same day funds, its respective Pro Rata Share of the Requested Advance Amount by payment to the Administration Account; provided, that Capitalized Interest Advances made by a Maturity Non-Renewing Facility Group may be made on a non-pro rata basis as contemplated in Section 2.21(b). If a Conduit Lender (other than a Committed Conduit Lender) elects not to fund its respective Pro Rata Share of the Requested Advance Amount, such Conduit Lender's related Alternate Lenders shall, upon satisfaction of the applicable conditions set forth in this Agreement, make available to the Trust in same day funds, their respective Pro Rata Shares of the Requested Advance Amount by payment to the Administration Account and the related Managing Agent shall, no later than 2:00 p.m. on such Advance Date and on each Reset Date, notify the Administrator and the Administrative Agent of the actual Yield Rate applicable to such LIBOR Advance, and the related Tranche Period. Each Advance made by a Conduit Lender shall be a CP Advance unless the applicable Managing Agent otherwise provides notice as provided in the immediately succeeding sentence. To the extent any Conduit Lender is unable or declines to fund a requested Advance by issuing CP or if any Conduit Lender's Alternate Lenders fund any requested Advance in its place, the applicable Conduit Lender's Managing Agent shall promptly advise the Administrative Agent and the Administrator, on behalf of the Trust.

(c) So long as no Amortization Period or Termination Event exists or would result therefrom, the Administrator, on behalf of the Trust, may request that the Administrative Agent pay any amounts on deposit in the Administration Account as a prepayment on any principal of, and Financing Costs due or accrued on, the Class A Notes in whole or in part on any Business Day by giving written notice two Business Days prior to such date to the Administrative Agent and each Managing Agent indicating the amount of such prepayment and the Business Day on which such prepayment shall be made. The Trust shall pay the applicable Managing Agent for the account of the applicable Lenders in its Facility Group, on demand, such amount or amounts as shall compensate such Lenders for any loss (including loss of profit), cost or expense incurred by such Lenders and including any claims arising under any Program Support Agreement (as reasonably determined by the applicable Managing Agent) and hold such Lenders harmless from any such loss, cost or expenses, incurred by them as a result of payments with respect to the Class A Notes in connection with a prepayment under this Section 2.02(c), a request by the Trust pursuant to Section 2.21, a Permitted Release under Section 2.18 or otherwise, whether voluntary, mandatory, automatic by reason of acceleration or otherwise, such compensation to be (i) limited to an amount equal to any loss or expense suffered by the Lenders during the period from the date of receipt of such repayment to (but excluding) the maturity of the related CP (in the case of a CP Advance by a match-funded Conduit Lender), the maturity of sufficient pool-funded CP (in the case of a CP Advance by a pool-funded Conduit Lender) or the maturity of the related Tranche Period (in the case of a LIBOR Advance by an Alternate Lender or a Conduit Lender), (ii) net of the income, if any, received by the recipient of such reductions from investing the proceeds of such reductions and (iii) inclusive of any loss or expense arising from the liquidation or re-employment of funds obtained by it to maintain such Advance or from fees payable to terminate the deposits from which such funds were obtained; provided, however, that the Trust shall not be obligated to pay such breakage amounts for a period in excess of 60 days under clause (i) above if aggregate discretionary prepayments by the Trust do not exceed 20% of the Aggregate Note Balance per month; provided further, that no such breakage amounts shall be payable by the Trust with respect to the regular distribution of Available Funds (other than proceeds of Permitted Releases) on any Settlement Date pursuant to the priority of payments set forth in Section 2.05(b). The determination by the applicable Managing Agent of the amount of any such loss or expense shall be set forth in a written notice to the Administrator (with a copy to the Administrative Agent), on behalf of the Trust, including a statement as to such loss or expense (including calculation thereof in reasonable detail), and shall be conclusive, absent manifest error.

(d) Each Advance Request shall be irrevocable and binding on the Trust, and the Trust shall indemnify each Lender against any loss or expense incurred by such Lender, either directly or indirectly (including, in the case of a Conduit Lender, through the applicable Program Support Agreement) as a result of any failure by the Trust to complete such Advance, including any loss or expense incurred by such Lender or such Lender's Managing Agent, either directly or indirectly (including, in the case of a Conduit Lender, pursuant to the applicable Program Support Agreement) by reason of the liquidation or reemployment of funds acquired by such Lender (or the applicable Program Support Provider(s)) (including funds obtained by issuing CP or promissory notes or obtaining deposits or loans from third parties) in order to fund such Advance. Any such amounts shall constitute Yield Protection hereunder.

(e) ***Prefunding of Advances***. In order to allow the Lenders to raise funds at times and in amounts that are more advantageous to the Lenders than might otherwise be possible, the Trust may, after consultation with the Administrative Agent and in connection with a proposed purchase or series of purchases of Trust Student Loans, request that all or a portion of the related Purchase Price Advance be funded prior to the actual acquisition of the related Trust Student Loans. Each such prefunding shall constitute a separate Purchase Price Advance for purposes of Section 4.02(b)(xiv) and (xv) and shall otherwise be subject to all applicable conditions precedent, measured as of the date such loans are actually purchased, for Purchase Price Advances set forth in Article IV. The proceeds of any such prefunded advance shall be deposited into the Administration Account (or such subaccount thereof as the Administrative Agent may establish for purposes of convenience) and shall not be released to the Trust until the date of purchase of the related Trust Student Loans. So long as the conditions precedent to a new Advance would be satisfied as if the Lenders were making a new Advance, the Trust may draw against such prefunding amount on any Business Day in order to consummate the related purchase of Trust Student Loans on such date. Upon the occurrence of a Termination Event, the Administrative Agent may direct that any such amounts on deposit in the Administration Account or subaccount, as applicable, be transferred to the Collection Account to be distributed in accordance with Section 2.05 and used to reduce the Aggregate Note Balance.

**Section 2.03.** Reduction, Termination or Increase of the Maximum Financing Amount and Prepayment of the Class A Notes.

(a) The Trust, acting through the Administrator, may, upon at least five Business Days' written notice to the Administrative Agent, (i) terminate the entire facility or (ii) reduce in part the portion of the Maximum Financing Amount that exceeds the sum of the Capitalized Interest Account Unfunded Balance and the Aggregate Note Balance. Any partial reduction in the Maximum Financing Amount shall be in an amount equal to or greater than $100,000,000 or any integral multiple of $10,000,000 in excess thereof. If such reduction in the Maximum Financing Amount is not in connection with an Exiting Facility Group, such reduction shall be allocated among the Commitments of the Facility Groups in accordance with their Pro Rata Shares and shall be allocated among the Commitments of the Lenders within each Facility Group as designated by the applicable Managing Agent. If such reduction in the Maximum Financing Amount is in connection with an Exiting Facility Group, such reduction shall be allocated first to the Commitment of the Exiting Facility Group and then any balance remaining shall be allocated among the remaining Facility Groups as set forth in the preceding sentence. The Trust shall pay, in immediately available funds, all outstanding principal and Financing Costs on the Class A Notes owned by any Lender, together with any other Obligations owed to such Lender, upon the termination of its Commitment pursuant to this Section 2.03(a).

(b) During any Exiting Group Amortization Period, if there are not sufficient proceeds from Permitted Releases, the Administrative Agent may, in accordance with the procedures set forth in Section 7.03(b), sell or otherwise dispose of a portion of the Pledged Collateral in an amount sufficient to pay the Aggregate Note Balance and Financing Costs of the Outstanding Class A Notes owned by each Exiting Facility Group. Amounts received from any such sale or disposition of Pledged Collateral shall be deposited into the Administration Account and, provided no Amortization Event or Termination Event has occurred and is continuing and the Minimum Asset Coverage Requirement has been satisfied, such amounts shall be distributed

to the Exiting Facility Groups, on any Business Day which is not a Settlement Date in accordance with the priority of payments described in Section 2.05(b)(viii). Amounts received from the sale of Pledged Collateral in excess of the amount required to repay in full the Aggregate Note Balance and Financing Costs of the Outstanding Class A Notes owned by the Exiting Facility Groups (or which are prohibited by the proviso in the immediately preceding sentence from being paid exclusively to the Exiting Facility Groups) which are deposited in the Collection Account shall be treated as Available Funds; provided, that any Yield Protection associated with any such prepayment shall be paid to the Administrative Agent for the benefit of the applicable Lender on the next Settlement Date (to the extent of Available Funds) in accordance with the priority of payments described in Section 2.05(b). All reductions to principal owed to an Exiting Facility Group in connection with any such disposition, together with any reductions to principal received by such Exiting Facility Group pursuant to clauses (viii) and (xiii) of Section 2.05(b) shall constitute a permanent reduction in the Commitment of such Exiting Facility Group and the Lenders part of such Exiting Facility Group and their Pro Rata Shares shall be calculated accordingly.

(c) The Maximum Financing Amount shall not be increased except by amendment in accordance with Section 10.01 and any future assignments of Commitments will reduce the Commitments of the applicable Lenders in accordance with Section 10.04.

(d) On each Step-Down Date, the Maximum Financing Amount shall be reduced to the amount specified in the definition of "Maximum Financing Amount" for such Step-Down Date. Such reduction shall be allocated among the Commitments of the Facility Groups in accordance with their Pro Rata Shares and shall be allocated among the Commitments of the Lenders within each Facility Group as designated by the applicable Managing Agent; provided, however, that in no event shall the Commitment be reduced for (a) any Lender to an amount less than such Lender's Pro Rata Share of the sum of (1) the Aggregate Note Balance of the Class A Note held by such Lender's Facility Group and (2) the Capitalized Interest Account Unfunded Balance, and (b) any Facility Group to an amount less than the sum of (1) the Aggregate Note Balance of the Class A Note held by such Facility Group and (2) such Facility Group's Pro Rata Share of the Capitalized Interest Account Unfunded Balance. If the sum of (i) the Aggregate Note Balance of the Outstanding Class A Notes and (ii) the Capitalized Interest Account Unfunded Balance on any Step-Down Date exceeds the Maximum Financing Amount for such Step-Down Date, the Trust, acting through the Administrator, shall pay in immediately available funds a portion of the Aggregate Note Balance of the Outstanding Class A Notes owned by each Facility Group, to be applied ratably to each Facility Group in accordance with its Pro Rata Share and within each Facility Group as designated by the applicable Managing Agent, in an aggregate amount equal to or greater than such excess, together with any accrued and unpaid Financing Costs payable if the date of such payment is not a Settlement Date.

**Section 2.04.** The Accounts.

(a) ***Collection Account.*** On or prior to the Closing Date, the Trust shall establish and maintain, or cause to be established and maintained, the Collection Account. The Collection Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Collection Account shall be in the name of the Trust for the benefit of the

Administrative Agent, on behalf of the Secured Creditors. Neither the Trust nor the Administrator shall have any withdrawal rights from the Collection Account. Any Collections received by the Trust, the Administrator, the Eligible Lender Trustee, the Sellers, the Depositor, the Servicers, or any agent thereof, as the case may be, are to be transmitted to the Collection Account as soon as practicable, but in any event, within two Business Days of receipt of good funds. The Trust shall direct the Eligible Lender Trustee, each Servicer, each Seller, the Depositor and each agent of any of the foregoing, in writing, to transmit any Collections it receives with respect to the Trust Student Loans directly to the Administrative Agent for deposit to the Collection Account within two Business Days of receipt of good funds. Funds on deposit in the Collection Account may be invested from time to time in Eligible Investments at the direction of the Administrator in accordance with Section 2.08. Upon the payment in full of all Obligations hereunder and the termination of this Agreement, the Administrative Agent agrees to send notice to the Master Servicer that this Agreement has terminated and that Collections no longer are to be forwarded to the Collection Account pursuant to this Agreement. All investment earnings on the funds on deposit in the Collection Account during any Settlement Period shall be applied as Available Funds for the applicable Settlement Period. The Administrative Agent shall apply funds on deposit in the Collection Account as described in Section 2.05. Each of the Trust and the Administrator agree, by executing this Agreement, to hold any Collections received in trust for the Administrative Agent and to comply with the remittance procedures set forth in this Section 2.04.

(b) ***Administration Account.*** On or prior to the Closing Date, the Trust shall establish and maintain, or cause to be established and maintained, the Administration Account. The Administration Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Administration Account shall be in the name of the Trust for the benefit of the Administrative Agent, on behalf of the Secured Creditors. So long as no Amortization Period or Termination Event exists or would result therefrom, funds in the Administration Account shall be applied to the following (in the order such events occur for so long as funds are available in the Administration Account): (i) to make payments to any Exiting Facility Group pursuant to Section 2.03(b); (ii) to finance the purchase of Eligible FFELP Loans pursuant to Section 2.05(c); (iii) if necessary, to be deposited into the Collection Account on each Settlement Date to cover any shortfall in amounts on deposit in the Collection Account as Available Funds to pay amounts described in clauses (i) through (ix) of Section 2.05(b); (iv) to be released to the Trust to the extent permitted under Section 2.25(d); (v) to be withdrawn for deposit to the extent permitted under Section 4.03; and (vi) if so requested by the Administrator on behalf of the Trust, to be disbursed on any Business Day as a prepayment of principal of the Outstanding Class A Notes pursuant to Section 2.02(c). During an Amortization Period and on and after the Termination Date, funds in the Administration Account shall be released to the Administrative Agent for the account of the applicable Note Purchasers to reduce the Aggregate Note Balance of the Outstanding Class A Notes and to pay accrued Yield thereon. Funds on deposit in the Administration Account may be invested from time to time in Eligible Investments in accordance with Section 2.08 hereof. All investment earnings on the funds on deposit in the Administration Account during any Settlement Period shall be deposited into the Collection Account by the Administrative Agent on or before the second Business Day after the end of that Settlement Period and applied as Available Funds on the Settlement Date for that Settlement Period. Except for the right of the Administrator to withdraw funds as expressly set forth in this

Agreement, neither the Trust nor the Administrator shall have any withdrawal rights from the Administration Account. Any funds remaining in the Administration Account after the payment in full of all Obligations under the Transaction Documents shall be paid to the holder of the Excess Distribution Certificate.

(c) ***Floor Income Rebate Account***. On or prior to the Closing Date, the Trust shall establish and maintain, or cause to be established and maintained, the Floor Income Rebate Account. The Floor Income Rebate Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Floor Income Rebate Account shall be in the name of the Trust for the benefit of the Administrative Agent, on behalf of the Secured Creditors. Neither the Trust nor the Administrator shall have any withdrawal rights from the Floor Income Rebate Account. On or before each Settlement Date, the Administrator will instruct the Administrative Agent to transfer from the Collection Account to the Floor Income Rebate Account the estimated monthly accrual of Floor Income Rebate Fees for the prior calendar month (the "***Estimated Excess Accrual***"). Funds on deposit in the Floor Income Rebate Account may be invested from time to time in Eligible Investments in accordance with Section 2.08 hereof. All investment earnings on the funds on deposit in the Floor Income Rebate Account during any Settlement Period shall be deposited into the Collection Account by the Administrative Agent on or before the second Business Day after the end of that Settlement Period and applied as Available Funds on the Settlement Date for that Settlement Period. On the Settlement Date following each quarterly date as of which the Servicers notify the Trust of the aggregate amount of Floor Income Rebate Fees, if any, that is due and owing to the Department of Education for the preceding quarterly period, the Administrative Agent shall transfer from the Floor Income Rebate Account to the Collection Account the aggregate Estimated Excess Accrual for the related Settlement Periods to pay any Floor Income Rebate Fees due and owing to the Department of Education pursuant to Section 2.05(e) and apply any excess funds in accordance with Section 2.05(b). Any funds remaining in the Floor Income Rebate Account after the payment in full of all Obligations under the Transaction Documents shall be paid to the holder of the Excess Distribution Certificate.

(d) ***Borrower Benefit Account***. On or prior to the Closing Date, the Trust shall establish and maintain, or cause to be established and maintained, the Borrower Benefit Account. The Borrower Benefit Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Borrower Benefit Account shall be in the name of the Trust for the benefit of the Administrative Agent, on behalf of the Secured Creditors. Neither the Trust nor the Administrator shall have any withdrawal rights from the Borrower Benefit Account. In the event that new borrower benefits, which are not required under the Higher Education Act or other applicable laws, rules or regulations, are offered to Obligors, the result of which is to reduce the yield on the related Eligible FFELP Loans, the Borrower Benefit Account will be funded in accordance with Section 6.26 hereof. On or before each Settlement Date, the Administrator will instruct the Administrative Agent to transfer from the Borrower Benefit Account to the Collection Account all amounts on deposit in the Borrower Benefit Account which relate to the related Settlement Period and apply such funds in accordance with Section 2.05(b). Funds on deposit in the Borrower Benefit Account may be invested from time to time in Eligible Investments in accordance with Section 2.08. All investment earnings on the funds on

deposit in the Borrower Benefit Account during any Settlement Period shall be deposited into the Collection Account by the Administrative Agent on or before the second Business Day after the end of that Settlement Period and applied as Available Funds on the Settlement Date for the related Settlement Period. Funds on deposit in the Borrower Benefit Account shall also be transferred and released in accordance with Section 6.26(b). Any funds remaining in the Borrower Benefit Account after the payment in full of all Obligations under the Transaction Documents shall be paid to the holder of the Excess Distribution Certificate.

**Section 2.05.** Transfers from Collection Account.

(a) On or prior to each Reporting Date, the Trust shall cause the Administrator to prepare the Monthly Report and shall provide or cause to be provided to the Administrator all information necessary or appropriate to accurately prepare such Monthly Report, all calculations, unless otherwise specified, to be made as of the end of the related Settlement Period, and cause the Administrator to forward such Monthly Report to the Administrative Agent and each Rating Agency. The Administrative Agent shall promptly forward the Monthly Report to each Managing Agent. The Administrative Agent shall provide to the Trust and the Administrator the Monthly Administrative Agent's Report in the form attached as Exhibit E hereto no later than five Business Days prior to each Reporting Date.

(b) The Administrative Agent, on each Settlement Date, shall make the following deposits and distributions from Available Funds in the Collection Account in the amount and in the order of priority set forth below as directed by the Administrator on behalf of the Trust (or if the Administrator fails to provide such direction, as provided by the Administrative Agent) pursuant to the Monthly Report, on which the Administrative Agent may conclusively rely, on such Settlement Date (or as otherwise provided in Article VII), in the following priority:

(i) pay to the Master Servicer an amount equal to its unreimbursed Servicer Advances due and owing;

(ii) pay to the Lockbox Banks, the Eligible Lender Trustee and the Administrator, as appropriate and on a pro rata basis, an amount equal to the Lockbox Bank Fees, the Eligible Lender Trustee Fees and the Administrator Fees, which are due and owing as of the close of business on the last day of the immediately preceding calendar month; provided, however, that the reasonable out-of-pocket costs and expenses (which shall not include fees) of such Persons shall not exceed in the aggregate $100,000 per annum;

(iii) pay to the Master Servicer, for the benefit of the Master Servicer and any Subservicers, an amount equal to the Primary Servicing Fees which are due and owing as of the close of business on the last day of the immediately preceding Settlement Period;

(iv) on a *pro rata* basis, based on the amounts owed, (A) pay to the Administrative Agent, for the benefit of the holders of the Class A Notes (excluding Class A Notes held by any Defaulting Lenders), Yield on such Class A Notes (excluding, for the avoidance of doubt, any Step-Up Fees) for the previous Yield Period and (B) pay to the Administrative Agent and each Managing Agent as Registered Owner of its Class

A Note, as appropriate, an amount equal to all other Financing Costs related to such Class A Notes (other than amounts owed with respect to Step-Up Fees or with respect to Financing Costs of a type described in clause (ii), (iv), (v) or (vi) of the definition thereof);

(v) [reserved];

(vi) *first*, pay to the Capitalized Interest Account, any amount required to cause the amount on deposit in the Capitalized Interest Account to equal the Required Capitalized Interest Account Balance and *second*, to the Reserve Account, any amount required to cause the amount on deposit in the Reserve Account to equal the Reserve Account Specified Balance;

(vii) following the replacement of the Master Servicer, pay to the replacement Master Servicer the reasonable expenses and charges resulting from the transition in servicing, to the extent such costs have not been paid by the predecessor Master Servicer; provided, that amounts paid under this clause (vii) shall not exceed $300,000;

(viii) if an Exiting Facility Group Amortization Period has begun and is continuing, provided no Amortization Event or Termination Event has occurred and is continuing and the Minimum Asset Coverage Requirement is satisfied before and after giving effect to such payment, pay to the Administrative Agent for the benefit of each Exiting Facility Group its ratable share of the Principal Distribution Amount until each Class A Note of each Exiting Facility Group has been paid in full;

(ix) pay to the Administrative Agent for the benefit of the Note Purchasers, the Principal Distribution Amount (to the extent not distributed pursuant to clause (viii) above) in accordance with their Pro Rata Shares;

(x) *first*, pay to the replacement Master Servicer any amounts described in clause (vii) above which were not previously paid due to the limitation specified in the proviso to such clause (vii), and *second*, pay to the Administrative Agent, for the benefit of the Note Purchasers of Class A Notes (excluding Class A Notes held by Defaulting Lenders), on a pro rata basis if necessary, any Step-Up Fees and Yield Protection due and owing pursuant to this Agreement as of the close of business on the last day of the immediately preceding Settlement Period;

(xi) pay to the Lockbox Banks, the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Co-Valuation Agents, the Conduit Lenders, the LIBOR Lenders, the Managing Agents, the Alternate Lenders, the Program Support Providers and any Affected Party, on a pro rata basis if necessary, any amounts due and owing and not previously paid pursuant to clause (ii) above and any Trust Indemnified Amounts due and owing pursuant to this Agreement or any other Transaction Document as of such Settlement Date;

(xii) pay to the Administrative Agent (i) for the benefit of the Defaulting Lenders any Yield, Step-Up Fees, principal or Yield Protection due and owing and not paid above and (ii) for the benefit of all the Note Purchasers, the Administrative Agent,

the Managing Agents and the Program Support Providers, an amount equal to any other Obligations (other than principal, Yield or Step-Up Fees of any Class A Notes) which are accrued and owing as of the close of business on the last day of the immediately preceding Settlement Period;

(xiii) pay to the Administrative Agent for the benefit of each Exiting Facility Group, to the extent not paid in clause (viii) or (ix) above, *pro rata*, an amount up to the Aggregate Note Balance of each Exiting Facility Group's Class A Note until each Class A Note of each Exiting Facility Group has been paid in full;

(xiv) pay to the Administrator, reimbursements of any out-of-pocket costs and expenses relating to the administration of the Trust or paid on behalf of the Trust, including fees paid to the Rating Agencies on behalf of the Trust, to the extent not previously paid;

(xv) *pro rata*, pay to SLM Corporation in repayment of any SLM Indemnified Amounts paid by it pursuant to Section 8.02(b) and pay to the Administrator in repayment of any amounts paid by it pursuant to Section 10.08;

(xvi) pay to the Master Servicer, for the benefit of the Master Servicer and any Subservicers, an amount equal to any other amounts due and payable to them including Carryover Servicing Fees, if any, which are accrued and unpaid as of the close of business on the last day of the immediately preceding Settlement Period;

(xvii) so long as no Amortization Period or Termination Event exists or would result therefrom, pay to the Administrative Agent for deposit into the Administration Account to fund new purchases of Eligible FFELP Loans;

(xviii) during a Revolving Period, solely to the extent requested by the Administrator as a prepayment of the Class A Notes in an amount up to the Aggregate Note Balance, pay to the Administrative Agent for the account of the applicable Note Purchasers in accordance with their Pro Rata Shares until the Aggregate Note Balance of the Class A Notes is paid in full;

(xix) pay to SLM Corporation in repayment of accrued interest on and the unpaid principal balance borrowed under the Revolving Credit Agreement;

(xx) if the Administrative Agent has received written notice that any amounts are owed to a former Facility Group under the Guaranty and Pledge Agreement, to pay to the Managing Agent for such former Facility Group any remaining funds up to the amounts then owed under the Guaranty and Pledge Agreement;

(xxi) pay to the applicable parties, for any contingent amounts due and owing under the Churchill Bluemont Note Purchase Agreement due to the application of the survival provisions of Section 10.05 of the Churchill Bluemont Note Purchase Agreement; and

(xxii) if so requested by the Administrator (and so long as (A) no Valuation Step-Up Event, Amortization Event or Termination Event has occurred and is continuing and no Potential Termination Event described in Section 7.02(f) or (g) has occurred and is continuing and (B) there is no unresolved dispute as described in Section 2.25(e) as to the Applicable Percentage to be applied with respect to such Settlement Period), to pay to the holder of the Excess Distribution Certificate, any Available Funds remaining after the payment in full of each of the foregoing items.

(c) Any funds deposited into the Administration Account for the purpose of purchasing or financing Eligible FFELP Loans or prepayment of the Class A Notes shall be disbursed pursuant to a written direction of the Administrator, on behalf of the Trust, or to the Administrative Agent, as applicable.

(d) In the event that there are insufficient Available Funds to pay the amounts set forth in clauses (ii) through (iv) of Section 2.05(b) due and payable on such date and if no Servicer Advance has been made and no funds withdrawn from the Reserve Account or the Capitalized Interest Account to pay such amounts, and an Excess Collateral Advance could be made in accordance with the terms hereof, then the Trust shall request an Excess Collateral Advance in the amount necessary to pay such amounts.

(e) On each Settlement Date, prior to making the deposits and distributions specified in Section 2.05(b), the Administrative Agent shall pay, from funds on deposit in the Collection Account, any accrued and unpaid amounts due and owing to the Department or any Guarantor, including, without limitation, any Floor Income Rebate Fees and Monthly Rebate Fees, as directed by the Administrator on behalf of the Trust (or if the Administrator fails to provide such direction, as provided by the Administrative Agent) pursuant to the Monthly Report, on which the Administrative Agent may conclusively rely.

**Section 2.06.** Capitalized Interest Account and Reserve Account.

(a) On or prior to the Closing Date, the Trust shall establish and maintain, or cause to be established and maintained, the Capitalized Interest Account. The Capitalized Interest Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Capitalized Interest Account shall be in the name of the Trust for the benefit of the Administrative Agent, on behalf of the Secured Creditors. Neither the Trust nor the Administrator shall have any withdrawal rights from the Capitalized Interest Account. If at any time a Capitalized Interest Account Funding Event occurs, the Trust shall request a Capitalized Interest Advance in an amount equal to the applicable Maximum Advance Amount for such Advance and deposit the proceeds thereof into the Capitalized Interest Account. In the event that a Capitalized Interest Account Funding Event occurs solely with respect to one or more Maturity Non-Renewing Facility Groups, such Advance shall be requested solely from such Maturity Non-Renewing Facility Groups. Thereafter, on each Settlement Date, the Administrator shall cause to be deposited into the Capitalized Interest Account from Available Funds pursuant to Section 2.05(b)(vi) such additional amounts as are necessary to cause the amount on deposit in the Capitalized Interest Account to be equal to the Required Capitalized Interest Account Balance calculated as of the last day of the related Settlement Period. Funds on deposit in the

Capitalized Interest Account may be invested from time to time in Eligible Investments in accordance with Section 2.08. The Administrative Agent shall apply funds on deposit in the Capitalized Interest Account as described in Section 2.07(a).

(b) On or prior to the Closing Date, the Administrator shall establish and maintain, or cause to be established and maintained, the Reserve Account by depositing into the Reserve Account cash or Eligible Investments equal to the Reserve Account Specified Balance as of the date of the initial Advance hereunder. The Reserve Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the Secured Creditors. The Reserve Account shall be in the name of the Trust for the benefit of the Administrative Agent, on behalf of the Secured Creditors. Neither the Trust nor the Administrator shall have any withdrawal rights from the Reserve Account. On each Advance Date, the Trust shall deposit into the Reserve Account from proceeds of each Advance the amount, if any, necessary to bring the balance in such account up to the Reserve Account Specified Balance. Thereafter, on each Settlement Date, the Administrator shall cause to be deposited into the Reserve Account from Available Funds pursuant to Section 2.05(b)(vi) such additional amounts as are necessary to cause the amount on deposit in the Reserve Account to be equal to the Reserve Account Specified Balance calculated as of the last day of the related Settlement Period. Funds on deposit in the Reserve Account may be invested from time to time in Eligible Investments in accordance with Section 2.08. The Administrative Agent shall apply funds on deposit in the Reserve Account as described in Section 2.07(b).

**Section 2.07.** Transfers from the Capitalized Interest Account and Reserve Account.

(a) To the extent there are insufficient Available Funds in the Collection Account to pay the amounts set forth in clauses (ii) through (iv) of Section 2.05(b) in accordance with the provisions of Section 2.05 on any Settlement Date, the Administrative Agent shall transfer to the Collection Account moneys held by the Administrative Agent in the Capitalized Interest Account, to the extent available for distribution on the specified day, to pay the amounts set forth in clauses (ii) through (iv) of Section 2.05(b) in the priority set forth in Section 2.05.

(b) To the extent there are insufficient Available Funds in the Collection Account to pay the amounts set forth in clauses (ii) through (iv) of Section 2.05(b) in accordance with the provisions of Section 2.05 on any Settlement Date (after taking into account any amounts transferred to the Collection Account pursuant to Section 2.07(a)), the Administrative Agent shall transfer to the Collection Account moneys held by the Administrative Agent in the Reserve Account, to the extent available for distribution on the specified day, to pay the amounts set forth in clauses (ii) through (iv) of Section 2.05(b) in the priority set forth in Section 2.05.

(c) To the extent, as of the end of any Settlement Period, there are funds on deposit in the Reserve Account in excess of the Reserve Account Specified Balance calculated as of the end of such Settlement Period (giving effect to any purchase of Additional Student Loans between the end of such Settlement Period and the related Settlement Date) or there are funds on deposit in the Capitalized Interest Account in excess of the Required Capitalized Interest Account Balance calculated as of the end of such Settlement Period, then the Administrative Agent shall withdraw such excess funds from the relevant account and deposit it into the

Collection Account to be used as Available Funds on the related Settlement Date. In addition, the Administrative Agent shall withdraw and apply funds from the Capitalized Interest Account as and when required in accordance with Section 2.21(b).

**Section 2.08.** Management of Trust Accounts.

(a) All funds held in the Trust Accounts, including investment earnings thereon, shall be invested at the direction of the Administrator in Eligible Investments having a maturity date not later than the next date on which any distributions are to be made from funds on deposit in such Trust Accounts; provided, however, that from and after the Termination Date, the Administrative Agent shall have the sole right to restrict the maturities of any investments held in the Trust Accounts and to direct the withdrawal of any such investments for the purposes of paying the amounts described in Section 2.05(b), including, without limitation, any unpaid principal and Financing Costs on the Class A Notes. All investment earnings (net of losses) on such Eligible Investments shall be credited to the applicable Trust Accounts. In the event that the Administrator shall have failed to give investment directions to the Administrative Agent by 11:00 a.m. on any Business Day on which there may be uninvested cash deposited in any Trust Account, the Administrative Agent shall have no obligation to invest such funds and shall not be liable for any lost potential investment earnings.

(b) Bank of America, N.A. ("***Bank of America***"), in its capacity as Securities Intermediary or depositary bank with respect to each Trust Account, hereby agrees with the Trust and the Administrative Agent that (i) each of the Trust Accounts is either a securities account or deposit account maintained at Bank of America; provided, however, that if, at any time, the rating assigned to Bank of America is downgraded below "A-1" by S&P, the Administrative Agent shall, in cooperation with the Administrator, promptly (but in no event longer that 60 days from the time of such downgrade), at no cost to the Trust, transfer each of the Trust Accounts to another financial institution which has either a long-term senior unsecured debt rating of "A+" or better or a short-term senior unsecured debt or certificate of deposit rating of "A-1" or better by S&P, (ii) each item of property (whether investment property, financial asset, security, cash or instrument) credited to any Trust Account shall be treated as a *"financial asset"* within the meaning of Section 8-102(a)(9) of the UCC to the extent any such Trust Account is a securities account, (iii) Bank of America shall treat the Administrative Agent as entitled to exercise the rights that comprise each financial asset credited to the Trust Accounts, (iv) Bank of America shall comply with entitlement orders originated by the Administrative Agent with respect to any of the foregoing accounts that is a securities account and shall comply with instructions directing the disposition of funds originated by the Administrative Agent with respect to any of the foregoing accounts that is a deposit account, in each case without the further consent of any other person or entity, (v) except as otherwise provided in subsection (a) of this Section, Bank of America shall not agree to comply with entitlement orders or instructions directing the disposition of funds originated by any person or entity other than the Administrative Agent, (vi) the Trust Accounts, and all property credited to such accounts shall not be subject to any lien, security interest, right of set-off or encumbrance in favor of Bank of America in its capacity as Securities Intermediary or depositary bank or anyone claiming through Bank of America as Securities Intermediary or depositary bank (other than the Administrative Agent), and (vii) the agreement herein between Bank of America and the Administrative Agent shall be governed by the laws of the State of New York and the jurisdiction of Bank of America, in its capacity as

Securities Intermediary or depositary bank with respect to each Trust Account, shall be the State of New York for purposes of the UCC. Each term used in this Section 2.08(b) and in Section 2.08(c) and defined in the New York UCC shall have the meaning set forth in the New York UCC.

(c) No Eligible Investment held in the Trust Accounts in the form of an instrument or certificated security as defined in the New York UCC in the possession of the Securities Intermediary (i) shall be subject to any other security interest or (ii) shall constitute proceeds of any property subject to such third party's security interest.

(d) The Trust agrees to report as its income for financial reporting and tax purposes (to the extent reportable) all investment earnings on amounts in the Trust Accounts.

(e) Any investment of any funds in the Trust Accounts shall be made under the following terms and conditions:

(i) any such investment of funds shall be made in Eligible Investments which will mature no later than the next Settlement Date (or such shorter periods as the Administrative Agent may direct); and

(ii) with respect to each of the investments credited to any of the Trust Accounts, the Administrative Agent for the benefit of the Secured Creditors shall have a first priority perfected security interest in such investment, perfected by control to the extent permitted under Article 9 of the UCC.

(f) The Administrative Agent shall not in any way be held liable by reason of any insufficiency in the Trust Accounts resulting from losses on investments made in accordance with the provisions of this Agreement (but the institution serving as Administrative Agent shall at all times remain liable for its own debt obligations, if any, constituting part of such investments).

(g) With respect to each of the Trust Accounts that is a "securities account" as defined in Section 8-501(a) of the UCC (each, a "***Securities Account***"), the Securities Intermediary hereby confirms and agrees that:

(i) all securities, financial assets or other property credited to the Securities Accounts shall be registered in the name of the Securities Intermediary by a clearing corporation or other securities intermediary and as to which the Securities Intermediary is entitled to exercise the rights that comprise any financial assets credited to such Securities Account, indorsed to the Securities Intermediary in blank or credited to another Securities Account maintained in the name of the Securities Intermediary, and in no case shall any financial asset credited to any Securities Account be registered in the name of the Trust, payable to the order of the Trust or specially indorsed to the Trust;

(ii) all securities and other property delivered to the Securities Intermediary pursuant to this Agreement shall be promptly credited to the appropriate Securities Account;

(iii) each Securities Account is an account to which financial assets are or may be credited;

(iv) except for the claims and interest of the Administrative Agent and of the Trust in the Securities Accounts and without independent investigation of any kind, the Securities Intermediary does not know of any claim to, or interest in, any Securities Account or in any "financial asset" (as defined in Section 8-102(a)(9) of the UCC) credited thereto; if any person asserts any lien, encumbrance or adverse claim (including any writ, garnishment, judgment, warrant of attachment, execution or similar process) against any Securities Account or in any financial asset carried therein, the Securities Intermediary will promptly notify the Administrative Agent and the Trust thereof upon receiving notice or other actual knowledge thereof.

(h) Each party hereto acknowledges that the Securities Intermediary constitutes a "securities intermediary" within the meaning of Section 8-102(a)(14) of the UCC with respect to each Securities Account and constitutes a "bank" within the meaning of Section 9-102(a)(8) of the New York UCC with respect to each Trust Account that is a "deposit account."

**Section 2.09.** [RESERVED].

**Section 2.10.** Grant of a Security Interest. To secure the prompt and complete payment when due of the Obligations and the performance by the Trust of all of the covenants and obligations to be performed by it pursuant to this Agreement and each other Transaction Document, the Trust (and the Eligible Lender Trustee, in its capacity as titleholder to the Trust Student Loans) hereby (i) assigns to the Administrative Agent, and Grants to the Administrative Agent a security interest in, all of its right, title and interest in (but none of its obligations under), each of the Transaction Documents, including all rights and remedies thereunder (excluding any rights and remedies of the Trust under the Revolving Credit Agreement); and (ii) further Grants to the Administrative Agent on behalf of the Secured Creditors (and their respective successors and assigns), a security interest in all of the Trust's and the Eligible Lender Trustee's, on behalf of the Trust, right, title and interest in the following property, whether now owned or existing or hereafter arising or acquired and wheresoever located:

(a) all Trust Student Loans;

(b) all Collections from Trust Student Loans, including, without limitation, all Interest Subsidy Payments, Special Allowance Payments, borrower payments and reimbursements of principal and accrued interest on default claims received and to be received from any Guarantor;

(c) all Eligible Investments, funds and accrued earnings thereon held in the Trust Accounts;

(d) all Records relating to any of the foregoing items;

(e) all supporting obligations, liens securing any of the foregoing, money and claims and other rights under insurance policies relating to any of the foregoing;

(f) all accounts, general intangibles, payment intangibles, instruments, investment property, documents, chattel paper, goods, moneys, letters of credit, letter of credit rights, certificates of deposit, deposit accounts and all other property and interests in property of the Trust or the Eligible Lender Trustee, on behalf of the Trust, whether tangible or intangible; and

(g) all proceeds of any of the foregoing (collectively, along with the right and title to and interest of the Trust (and the Eligible Lender Trustee, in its capacity as titleholder to the Trust Student Loans) in the Transaction Documents pursuant to clause (i) above and all proceeds thereof, the "***Pledged Collateral***").

The Trust and the Eligible Lender Trustee agree that the foregoing sentence is intended to grant in favor of the Administrative Agent, on behalf of the Secured Creditors, a first priority continuing lien and security interest in all of the Trust's (and the Eligible Lender Trustee's in its capacity as titleholder to the Trust Student Loans) personal property from and after the Closing Date. Each of the Trust and the Eligible Lender Trustee authorizes the Administrative Agent and its counsel to file UCC financing statements in form and substance satisfactory to the Eligible Lender Trustee, describing the collateral as all or any portion of the Pledged Collateral, including describing the collateral as all personal property of the Trust. In addition, at the request of the Administrative Agent, the Trust shall file or cause to be filed, and authorizes the Administrative Agent to file, UCC financing statement assignments assigning to the Administrative Agent any financing statement showing the Trust as secured party with respect to the Pledged Collateral. The Trust further confirms and agrees that the Administrative Agent shall have, following the occurrence or declaration of the Termination Date, the sole right to enforce the Trust's rights and remedies under the Transaction Documents with respect to the Pledged Collateral for the benefit of the Secured Creditors, but without any obligation on the part of the Administrative Agent or any other Secured Creditor or any of their respective Affiliates, to perform any of the obligations of the Trust under the Transaction Documents.

**Section 2.11.** Evidence of Debt. Each Managing Agent shall maintain a Note Account (the "***Note Account***") on its books in which shall be recorded (a) all Advances owed to each related Lender in its related Facility Group by the Trust pursuant to this Agreement, (b) the Aggregate Note Balance of the Class A Note held by or on behalf of its related Facility Group, (c) all payments of principal and Financing Costs made by the Trust on such Class A Note, and (d) all appropriate debits and credits with respect to its related Facility Group as provided in this Agreement including, without limitation, all fees, charges, expenses and interest. All entries in each Managing Agent's Note Account shall be made in accordance with such Managing Agent's customary accounting practices as in effect from time to time. The entries in the Note Account shall be conclusive and binding for all purposes, absent manifest error. Any failure to so record or any errors in doing so shall not, however, limit or otherwise affect the obligation of the Trust to pay any amount owing with respect to the Class A Notes or any of the other Obligations.

**Section 2.12.** Payments by the Trust. All payments to be made by the Trust shall be made without set-off, recoupment or counterclaim. Except as otherwise expressly provided herein, all payments by, or on behalf of, the Trust for the account of a Conduit Lender, a LIBOR Lender, an Alternate Lender or a Program Support Provider, as the case may be, shall be made to the Administrative Agent, for further credit to an account designated by such Conduit Lender, LIBOR Lender, Alternate Lender or Program Support Provider or its related Managing Agent, in

United States dollars. Such payments (other than amounts already on deposit in the Collection Account) shall be made in immediately available funds to the Administrative Agent no later than 12:00 noon on the date specified herein and the Administrative Agent shall forward such amounts to such Conduit Lender, LIBOR Lender, Alternate Lender or Program Support Provider no later than 1:00 p.m. on the date specified herein. Payments shall be applied in the order of priority specified in Section 2.05(b). Any payment which is received later than 1:00 p.m. (other than payments from amounts already on deposit in the Collection Account) shall be deemed to have been received on the following Business Day and any applicable interest or fee shall continue to accrue.

**Section 2.13.** Payment of Stamp Taxes, Etc. Subject to any limitations set forth in Section 2.20, the Trust agrees to pay any present or future stamp, mortgage, value-added, court or documentary taxes or any other excise or property taxes, charges or similar levies imposed by any federal, state or local governmental body, agency or instrumentality (hereinafter referred to as "***Other Applicable Taxes***") relating to this Agreement, any of the other Transaction Documents or any recordings or filings made pursuant hereto and thereto.

**Section 2.14.** Sharing of Payments, Etc. If, other than as expressly provided elsewhere herein, any Note Purchaser shall obtain on account of the Class A Notes owned by it any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) in excess of its Pro Rata Share (or other share contemplated hereunder), such Note Purchaser shall immediately (a) notify the Administrative Agent of such fact and (b) purchase from the other Note Purchasers such participations made by them as shall be necessary to cause such purchasing Note Purchaser to share the excess payment pro rata (based on the Pro Rata Share of each Note Purchaser) with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from the purchasing Note Purchaser, such purchase shall to that extent be rescinded and each other Note Purchaser shall repay to the purchasing Note Purchaser the purchase price paid therefor, together with an amount equal to such paying Note Purchaser's ratable share (according to the proportion of (i) the amount of such paying Note Purchaser's required repayment to (ii) the total amount so recovered from the purchasing Note Purchaser) of any interest or other amount paid or payable by the purchasing Note Purchaser in respect of the total amount so recovered. The Trust agrees that any Note Purchaser so purchasing a participation from another Note Purchaser may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Note Purchaser was the direct creditor of the Trust in the amount of such participation. The Administrative Agent will keep records (which shall be conclusive and binding in the absence of manifest error) of participations purchased under this Section and will in each case notify each Managing Agent following any such purchases or repayments.

**Section 2.15.** Yield Protection.

(a) If (i) any Regulatory Change (including a change to Regulation D under the Securities Act):

(A) shall impose, modify or deem applicable any reserve (including, without limitation, any reserve imposed by the Federal Reserve Board), special deposit, insurance assessment, or similar requirement against assets of any

Affected Party, deposits or obligations with or for the account of any Affected Party or with or for the account of any Affiliate (or entity deemed by the Federal Reserve Board to be an affiliate) of an Affected Party, or credit extended to or participated in by any Affected Party;

(B) shall change the amount of capital maintained or required or requested or directed to be maintained by any Affected Party;

(C) shall impose any other condition, cost or expense affecting this Agreement or any portion of the Obligations owed or funded in whole or in part by any Affected Party, or its obligations or rights, if any, to pay any portion of its unused Commitment or to provide funding therefor (other than any condition or expense resulting from the gross negligence or willful misconduct of such Affected Party);

(D) shall change the rate for, or the manner in which the Federal Deposit Insurance Corporation (or any successor thereto) assesses deposit insurance premiums or similar charges; or

(E) subject any Affected Party to any tax of any kind whatsoever with respect to this Agreement, any Obligations or any LIBOR Advance made by it, or change the basis of taxation of payments to such Affected Party in respect thereof (except for Other Taxes or Other Applicable Taxes covered by Sections 2.13 and 2.20 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Affected Party),

or (ii) an Accounting Based Consolidation Event shall at any time occur,

and the result of any of the foregoing is or would be:

(F) to increase the cost to or to impose a cost in any material amount on an Affected Party funding or making or maintaining any portion of the Obligations, or any purchases, reinvestments or loans or other extensions of credit under the Program Support Agreement or any Transaction Document or any commitment of such Affected Party with respect to the foregoing;

(G) to reduce the amount of any sum received or receivable by an Affected Party under this Agreement, or under any Program Support Agreement or any Transaction Document with respect thereto;

(H) in the sole determination of such Affected Party, to reduce the rate of return on the capital of an Affected Party as a consequence of its obligations hereunder or under any Program Support Agreement or arising in connection herewith to a level below that which the Affected Party could otherwise have achieved; or

(I) to cause an internal capital charge or other imputed cost upon such Affected Party, which in the sole determination of such Affected Entity is

allocable to the Trust or the transactions contemplated in this Agreement;

then on or before the 30th day following the date of demand by such Affected Party (which demand shall be accompanied by a statement setting forth in reasonable detail the basis of such demand), the Trust shall pay directly to such Affected Party such additional amount or amounts as will compensate such Affected Party for such additional or increased cost or charge or such reduction; provided, that such additional amount or amounts shall not be payable with respect to any period in excess of 90 days prior to the date of demand by the Affected Party unless (1) the effect of the Regulatory Change or Accounting Based Consolidation Event is retroactive by its terms to a period prior to the date of the Regulatory Change or Accounting Based Consolidation Event, as applicable, in which case any additional amount or amounts shall be payable for the retroactive period but only if the Affected Party provides its written demand not later than 90 days after such Regulatory Change or Accounting Based Consolidation Event; or (2) the Affected Party reasonably and in good faith did not believe the Regulatory Change or Accounting Based Consolidation Event resulted in such an additional or increased cost or charge or such a reduction during such prior period. Each Affected Party agrees that the Trust shall not be asked to pay amounts which the Affected Party's similarly situated customers are not being requested to pay.

(b) Each Affected Party will promptly notify the Administrator and the Administrative Agent of any event of which it has actual knowledge which will entitle such Affected Party to any compensation pursuant to this Section; provided, however, no failure or delay in giving such notification shall adversely affect the rights of any Affected Party to such compensation.

(c) In determining any amount provided for or referred to in this Section, an Affected Party may use any reasonable averaging or attribution methods that it (in its sole discretion exercised in good faith) shall deem applicable and which it applies on a consistent basis. Any Affected Party when making a claim under this Section shall submit to the Administrator and the Administrative Agent a statement as to such increased cost or reduced return (including calculation thereof in reasonable detail), which statement shall, in the absence of manifest error, be conclusive and binding upon the Trust and the Administrative Agent.

**Section 2.16.** Extension of Liquidity Expiration Date and Scheduled Maturity Date.

(a) ***Extension of Liquidity Expiration Date.*** Provided that no Amortization Period or Termination Event shall have occurred and be continuing, the Trust, acting through the Administrator, may, at any time during the period which is no greater than 90 days or less than 45 days immediately preceding the Liquidity Expiration Date (as such date may have been previously extended pursuant to this Section 2.16(a)), request that the then applicable Liquidity Expiration Date be extended for an additional period of 364 days; provided, however, that the Liquidity Expiration Date shall not be extended past the Scheduled Maturity Date. Any such request shall be in writing and delivered to each Managing Agent and the Administrative Agent. None of the Lenders, Managing Agents or Facility Groups shall have any obligation to extend the Liquidity Expiration Date at any time. Any such extension of the Liquidity Expiration Date with respect to a Lender shall be effective only upon the written agreement of the Trust, the Managing Agent for such Lender's Facility Group, such Lender and, if applicable, the related

Conduit Lender. Each Managing Agent will (on behalf of its related Note Purchasers) respond to any such request by providing a response to the Trust and the Administrative Agent within the earlier of (i) 30 days of its receipt of such request and (ii) 30 days prior to the then-effective Liquidity Expiration Date; provided, however, that if any Facility Group determines that it will not extend the Liquidity Expiration Date prior to the response date set forth above, the related Managing Agent shall notify the Administrator as soon as practicable after such determination has been made. Any failure by a Managing Agent to respond by the later of the dates set forth in clause (i) and (ii) of the preceding sentence shall be deemed to be a rejection of the requested extension by such Managing Agent and the related Lenders in its Facility Group. If one or more Managing Agents does not extend the Liquidity Expiration Date and the Administrator fails to arrange for the assignment of the Commitment of any Liquidity Non-Renewing Facility Group pursuant to Section 2.21(e) within the time designated therein, the Liquidity Expiration Date shall not be extended for all Facility Groups and the Non-Renewal Step-Up Rate shall increase as provided in the Lenders Fee Letter. For the avoidance of doubt, in the event that the Liquidity Expiration Date is not extended, each Facility Group, including any Liquidity Non-Renewing Facility Group, shall continue to make Advances in accordance with the terms of this Agreement in an amount not to exceed the amount of each Facility Group's unused Commitment until the earliest of the occurrence of an Amortization Event, a Termination Event or the Scheduled Maturity Date.

(b) ***Extension of Scheduled Maturity Date.*** Provided that no Amortization Event or Termination Event shall have occurred and be continuing, the Trust, acting through the Administrator, may, at any time during the period which is no greater than 90 days or less than 45 days immediately preceding the Scheduled Maturity Date (as such date may have been previously extended pursuant to this Section 2.16(b)), request that the then applicable Scheduled Maturity Date be extended for an additional period of up to 364 days. Any such request shall be in writing and delivered to each Managing Agent and the Administrative Agent. None of the Lenders, Managing Agents or Facility Groups shall have any obligation to extend the Scheduled Maturity Date at any time. Any such extension of the Scheduled Maturity Date with respect to a Lender shall be effective only upon the written agreement of the Trust, the Managing Agent for such Lender's Facility Group, such Lender and, if applicable, the related Conduit Lender. Each Managing Agent will (on behalf of its related Note Purchasers) respond to any such request by providing a response to the Trust and the Administrative Agent within the later of (i) 30 days of its receipt of such request and (ii) 30 days prior to the then-effective Scheduled Maturity Date; provided, however, that if any Facility Group determines that it will not renew its Commitment prior to the response date set forth above, the related Managing Agent shall notify the Administrator as soon as practicable after such determination has been made. Any failure by a Managing Agent to respond by the later of the dates set forth in clause (i) and (ii) of the preceding sentence shall be deemed to be a rejection of the requested extension by such Managing Agent and the related Lenders in its Facility Group. If one or more Managing Agents (but less than all) does not extend the Scheduled Maturity Date, the provisions of Section 2.21(b) shall apply with respect to its Facility Group and the Scheduled Maturity Date shall be extended with respect to the remaining Facility Groups. Notwithstanding the foregoing, in connection with each extension of the Scheduled Maturity Date as provided herein, the Trust shall provide an Opinion of Counsel to the effect that each Advance evidenced under the Class A Notes will constitute indebtedness for United States federal income tax purposes.

**Section 2.17.** Servicer Advances. In the event that, on the Settlement Date relating to any Settlement Period, the amount on deposit in the Collection Account which is allocable to the payment of amounts described in Sections 2.05(b)(ii) through (iv) due and payable on such Settlement Date is not sufficient to pay such amounts, the Master Servicer may, if permitted pursuant to its Servicing Agreement, make an advance in an amount equal to such insufficiency to the extent it believes such Servicer Advance will be recoverable.

**Section 2.18.** Release and Transfer of Pledged Collateral.

(a) The Administrative Agent hereby agrees, and is hereby authorized, to release its lien on that portion of the Pledged Collateral transferred from the Trust to the Depositor or the Servicer as a result of purchases or repurchases (including substitutions) of Trust Student Loans pursuant to the Sale Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement, any Purchase Agreement or any Servicing Agreement; provided, however, that with respect to a repurchase of a Student Loan pursuant to the Sale Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement or a Purchase Agreement that is not a Permitted Release covered by clause (b) below, it shall be a condition to such release that the Administrative Agent shall have received cash into the Administration Account in an amount equal to the sum of (i) the product of the Applicable Percentage (determined as if each Student Loan were an Eligible FFELP Loan) multiplied by the Principal Balance of such Student Loan and (ii) any amount previously drawn under the Revolving Credit Agreement to purchase such Student Loan (as reduced by any payments of principal received on such Student Loan, proportionately, based on the portion of the purchase price of such Student Loan financed under the Revolving Credit Agreement) or, in the case of any substitution, the Trust shall have received new Eligible FFELP Loans with a Principal Balance equal to or greater than the Principal Balance of the Student Loans being released and the tests set forth in Section 2.18(b)(ii)(B) and (C) shall be satisfied; and provided further, that with respect to purchases of Student Loans by a Servicer required or expressly permitted as a result of the related Servicing Agreement that is not a Permitted Release covered by clause (b) below, the Administrative Agent has received cash into the Administration Account in an amount equal to that set forth in Section 3.05(a) of the Servicing Agreement or, in the case of any substitution, the Trust shall have received new Eligible FFELP Loans with a Principal Balance equal to or greater than the Principal Balance of the Student Loans being released and the tests set forth in Section 2.18(b)(ii)(B) and (C) shall be satisfied.

(b) In addition, the Administrative Agent hereby further agrees, and is hereby authorized, to release its lien on that portion of the Pledged Collateral transferred from the Trust to the Depositor or an Affiliate thereof in connection with a Permitted Release. The release of the Administrative Agent's security interest in any Released Collateral pursuant to this Section 2.18(b) shall be subject to the following conditions precedent unless the Required Managing Agents (or following a Termination Event or Amortization Event or with respect to a failure to satisfy condition (ii)(B) below, all of the Managing Agents exclusive of any Managing Agent for any Distressed Lender) have waived such condition (and by transferring the Pledged Collateral the Trust shall be deemed to have certified that all such conditions precedent are satisfied):

(i) such release shall be a Permitted Release,

(ii) before and after giving effect to such release and to any simultaneous acquisition of Trust Student Loans at such time,

(A) there shall not exist any Amortization Event, Servicer Default, Termination Event or Potential Termination Event;

(B) the Asset Coverage Ratio is greater than or equal to 100%; and

(C) the Weighted Average Remaining Term in School shall be less than 24 months,

(iii) three Business Days prior to any such release that is a Take Out Securitization, a Fair Market Auction, a Whole Loan Sale, a Permitted SPE Transfer, a Permitted Seller Buy-Back, a Permitted Excess Collateral Release or a Servicer Buy-Out, the Trust, acting through the Administrator, shall have delivered a notice describing the Trust Student Loans proposed to be released substantially in the form and substance of Exhibit F attached hereto (a "***Notice of Release***") to the Administrative Agent, certifying that the foregoing conditions described in clause (ii) above shall have been satisfied in connection therewith, together with a pro forma report in the form attached hereto as Exhibit G, demonstrating compliance with the conditions described in clause (ii) above,

(iv) on or prior to such Permitted Release, the Trust shall have deposited (I) into the Administration Account cash in an amount equal to the sum of (A) the product of the Applicable Percentage (determined as if each Trust Student Loan proposed to be released were an Eligible FFELP Loan) multiplied by the Principal Balance of each Trust Student Loan proposed to be released and (B) any amount previously drawn under the Revolving Credit Agreement to purchase such Student Loan (as reduced by any payments of principal received on such Student Loan, proportionately, based on the portion of the purchase price of such Student Loan financed under the Revolving Credit Agreement) and (II) into the Collection Account cash in an amount equal to all Financing Costs (including Step-Up Fees) due and not paid as of the most recent Settlement Date, and

(v) if such release involves Trust Student Loans with an aggregate Principal Balance of more than $500,000,000, the Trust, acting through the Administrator, shall have made the required deliveries under Section 2.25(f).

(c) Within five Business Days after each release of collateral hereunder in connection with a Take Out Securitization, the Trust, acting through the Administrator, shall deliver to the Administrative Agent a reconciliation statement (the "***Release Reconciliation Statement***") which shall include an updated calculation, based on actual figures, in the form attached as Exhibit H, confirming that the Minimum Asset Coverage Requirement was satisfied before and after giving effect to the related release. If the Release Reconciliation Statement shows that the value of the released Trust Student Loans was greater than the value provided on the Notice of Release, then the Trust shall deposit such difference into the Administration Account.

(d) No more than once per calendar month during a Revolving Period, on any date between the delivery of the monthly Valuation Report during such month and the Settlement Date occurring during such month, so long as the Minimum Asset Coverage Requirement is

satisfied and no Exiting Facility Group Amortization Period exists, the Trust shall be permitted to dividend, distribute or otherwise transfer Trust Student Loans to the holder of the Excess Distribution Certificate with an aggregate Principal Balance in an amount that would not cause a failure to satisfy the Minimum Asset Coverage Requirement; provided, however, that (i) if the aggregate Principal Balance of the Trust Student Loans to be transferred exceeds $500,000,000, then the Trust shall only be permitted to transfer such Trust Student Loans on or after the third (3rd) Business Day following the delivery of the information described in Section 2.25(f); and (ii) the Trust shall have deposited into the Collection Account an amount equal to all Financing Costs (including Step-Up Fees) due and not paid as of the most recent Settlement Date. The Administrative Agent hereby agrees, and is hereby authorized, to release its lien on that portion of the Pledged Collateral transferred from the Trust to the holder of the Excess Distribution Certificate as a Permitted Release and the provisions of Section 2.18(b) (excluding clause (iv)(I)(A) thereof) shall apply to such release.

(e) The Administrative Agent hereby further agrees, and is hereby authorized, to release its lien on any remaining portion of the Pledged Collateral upon payment in full of the Aggregate Note Balance of all Class A Notes Outstanding and all other Obligations and termination of all Commitments of the Lenders hereunder.

**Section 2.19.** Effect of Release. Upon the satisfaction of the conditions in Section 2.18, all right, title and interest of the Administrative Agent in, to and under such Released Collateral shall terminate and revert to the Trust, its successors and assigns, and the right, title and interest of the Administrative Agent in such Released Collateral shall thereupon cease, terminate and become void; and, upon the written request of the Trust, acting through its Administrator, its successors or assigns, and at the cost and expense of the Trust, the Administrative Agent, acting through the Administrator, shall deliver and, if necessary, execute such UCC-3 financing statements and releases prepared by and submitted to the Administrative Agent for authorization as are necessary or reasonably requested in writing by the Trust, acting through the Administrator, to terminate and remove of record any documents constituting public notice of the security interest in such Released Collateral granted hereunder being released.

**Section 2.20.** Taxes.

(a) All payments made by the Trust under this Agreement shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding any U.S. federal taxes (other than federal withholding taxes on interest), net income taxes and franchise taxes or branch profit taxes (imposed in lieu of net income taxes) imposed on the Administrative Agent, any Managing Agent, any Lender or any Program Support Provider as a result of a present or former connection between the Administrative Agent, the Syndication Agent, each Co-Valuation Agent, any Managing Agent, such Lender or any Program Support Provider and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Administrative Agent, any Managing Agent, such Lender or any Program Support Provider having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or any other Transaction Document) (collectively, the

*“**Excluded Taxes**”*). If any non-Excluded Taxes, levies, imposts, duties, charges, fees of any kind, deductions, withholdings or assessments (including, but not limited to any current or future stamp as documentary taxes or any other excise or property taxes, charges or similar levies, but excluding Excluded Taxes) (*“**Other Taxes**”*) are required to be withheld from any amounts payable to the Administrative Agent, the Syndication Agent, each Co-Valuation Agent, any Managing Agent, any Lender or any Program Support Provider hereunder, the amounts so payable to the Administrative Agent, any Managing Agent, such Lender or any Program Support Provider shall be increased to the extent necessary to yield to the Administrative Agent, the Syndication Agent, each Co-Valuation Agent, any Managing Agent, such Lender or any Program Support Provider (after payment of all Other Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement; provided, however, that the Trust shall not be required to increase any such amounts payable to any Lender with respect to (i) any Other Taxes that are United States withholding taxes imposed on amounts payable to such Lender at the time such Lender becomes a party to this Agreement, except to the extent that such Lender’s assignor (if any) was entitled, at the time of the assignment, to receive additional amounts from the Trust with respect to such Other Taxes pursuant to this paragraph or (ii) Other Taxes to the extent the Administrative Agent, Managing Agent or Lender will receive a refund or realize the benefit of a credit or reduction in taxes or amount owed to any taxing jurisdiction. To be entitled to receive additional amounts for Other Taxes, the Administrative Agent, Managing Agent or Lender must certify to the Trust that, based upon advice from one of its inside or outside tax advisors, such Administrative Agent, Managing Agent or Lender does not reasonably expect to receive a refund or realize the benefit of a credit or reduction in taxes or amount owed to any taxing jurisdiction as a result of such Other Taxes.

(b) In addition, the Trust shall pay to the relevant Governmental Authority in accordance with applicable law all Other Taxes imposed upon the Administrative Agent, any Managing Agent, such Lender or any Program Support Provider that arise from any payment made hereunder or from the execution, delivery, or registration of or otherwise similarly with respect to, this Agreement.

(c) Whenever any Other Taxes are payable by the Trust, the Administrative Agent or the applicable Managing Agent shall promptly notify the Trust in writing and as soon as practicable, but no later than 30 days thereafter, the Trust shall send to the Administrative Agent for its own account or for the account of the Syndication Agent, any Co-Valuation Agent, any Managing Agent, any Program Support Provider or relevant Lender, as the case may be, a certified copy of an original official receipt received by the Trust showing payment thereof. The Trust agrees to indemnify the Administrative Agent, any Managing Agent, any Program Support Provider and each Lender within 10 days after demand therefor from and against the full amount of the Other Taxes arising out of this Agreement (whether directly or indirectly) imposed upon or paid by the Administrative Agent, any Managing Agent, any Program Support Provider or such Lender and any liability (including penalties, interest, and expenses arising with respect thereto), regardless of whether such Other Taxes were correctly or legally asserted by the relevant Governmental Authority; provided, that such Lender shall have provided the Trust with evidence, setting forth in reasonable detail, of payment of such Other Taxes, and the certification required in clause (a) above.

(d) Each Lender (or transferee) that is not a "U.S. Person" as defined in section 7701(a)(30) of the Code (a "***Non-U.S. Lender***") shall deliver to the Trust and the Administrative Agent and its Managing Agent two copies of either U.S. Internal Revenue Service form W-8BEN or form W-8ECI, or, in the case of a Non-U.S. Lender claiming exemption from the withholding of U.S. federal income tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest," both a form W-8BEN and a certificate substantially in the form of Exhibit I (a "***2.20(d) Certificate***") or any subsequent versions thereof or successors thereto, in all cases properly completed and duly executed by such Non-U.S. Lender, claiming complete exemption from withholding of U.S. federal income tax on all payments by the Trust under this Agreement. Such forms shall be delivered by each Non-U.S. Lender at least five Business Days before the date of the initial payment to be made pursuant to this Agreement by the Trust to such Lender. In addition, each Non-U.S. Lender shall deliver such forms promptly upon the obsolescence or invalidity of any form previously delivered by such Non-U.S. Lender. Each Non-U.S. Lender shall promptly notify the Trust at any time it determines that it is no longer in a position to provide any previously delivered certificate to the Trust (or any other form of certification adopted by the U.S. taxing authorities for such purpose). Notwithstanding any other provision in this paragraph, a Non-U.S. Lender shall not be required to deliver any subsequent form pursuant to this paragraph that such Non-U.S. Lender is not legally able to deliver.

(e) For any period with respect to which a Lender has failed to provide the Trust, the Administrative Agent or its Managing Agent with the appropriate form, certificate or other document described in Section 2.20(d) (unless such failure is due to a change in treaty, law or regulation, or any interpretation or administration thereof by any Governmental Authority, occurring after the date on which a form, certificate or other document originally was required to be provided), such Lender shall not be entitled to indemnification of additional amounts under Section 2.20 with respect to Other Taxes by reason of such failure; provided, however, that should a Lender, which is otherwise exempt from or subject to a reduced rate of withholding tax, become subject to Other Taxes because of its failure to deliver a form required hereunder, the Trust shall take such steps as such Lender shall reasonably request to recover such Other Taxes.

(f) A Lender which is entitled to an exemption from or reduction of non-U.S. withholding tax under the law of the jurisdiction in which the Trust is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Trust (with a copy to the Administrative Agent), at the time or times prescribed by the applicable law or reasonably requested by the Trust, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate; provided, that such Lender is legally entitled to complete, execute and deliver such documentation and in such Lender's judgment such completion, execution or submission would not materially prejudice the legal position of such Lender.

(g) In cases in which the Trust makes a payment under this Agreement to a U.S. Person with knowledge that such U.S. Person is acting as an agent for a foreign person, the Trust will not treat such payment as being made to a U.S. Person for purposes of Treas. Reg. § 1.1441-1(b)(2)(ii) (or a successor provision) without the express written consent of such U.S. Person.

(h) Each Lender hereby agrees that, upon the occurrence of any circumstances entitling such Lender to indemnification or additional amounts pursuant to this Section 2.20, such Lender shall use reasonable efforts to designate a different lending office if the making of such a change would avoid the need for, or materially reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be materially disadvantageous to such Lender.

(i) If a Lender receives a refund or realizes the benefit of a credit or reduction in respect of any Other Taxes as to which the Lender has been indemnified by the Trust, or with respect to which the Trust has paid an additional amount hereunder, the Lender shall, within 30 days after the date of such receipt or realization, pay over the amount of such refund or credit (to the extent so attributable, but only to the extent of indemnity payments made, or additional amounts paid, by the Trust under this Section with respect to the taxes or Other Taxes giving rise to such refund or credit) to the Trust, net of all out-of-pocket expenses of such Lender related to claiming such refund or credit, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund or credit); provided, however, that (i) the Lender, acting in good faith, will be the sole judge of the amount of any such refund, credit or reduction and of the date on which such refund, credit or reduction is received, (ii) the Lender, acting in good faith, shall have absolute discretion as to the order and manner in which it employs or claims tax refunds, credits, reductions and allowances available to it and (iii) the Trust agrees to repay the Lender, upon written request from the Lender, as the case may be, the amount of such refund, credit or reduction received by the Trust, plus any penalties, interest or other charges imposed by the relevant Governmental Authority, in the event and to the extent, the Lender is required to repay such refund, credit or reduction to any relevant Governmental Authority.

(j) Notwithstanding any other provision of this Agreement, in the event that a Lender is party to a merger or consolidation pursuant to which such Lender no longer exists or is not the surviving entity (but excluding any change in the ownership of such Lender), any taxes payable under applicable law as a result of such change shall be considered Excluded Taxes to the extent such taxes are in excess of the taxes that would have been payable had such change not occurred.

(k) Within 30 days of the written request of the Trust therefor, the applicable Lender shall execute and deliver to the Trust such certificates, forms or other documents which can be furnished consistent with the facts and which are reasonably necessary to assist the Trust in applying for refunds of taxes remitted hereunder; provided, that nothing in this Section 2.20 shall be construed to require any Lender to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Trust or any other Person.

(l) The Trust and each Lender will treat the Class A Notes as debt for U.S. federal income tax purposes.

(m) The agreements in this Section shall survive the termination of this Agreement and the payment of all amounts payable hereunder.

**Section 2.21.** Replacement or Repayment of Facility Group.

(a) ***Departing Facility Group.*** In the event that (i) the Trust is required to pay amounts under Section 2.15, 2.20 or 10.08 or Article VIII of this Agreement that are particular to an individual Lender, a Program Support Provider or its Managing Agent, (ii) the Administrator reasonably determines that, as a result of a Conduit Lender issuing CP outside the United States commercial paper market, the funding costs for such Conduit Lender are materially higher than for other Lenders, (iii) a Program Support Termination Event occurs with respect to a Program Support Provider or (iv) a Lender becomes a Distressed Lender, then the Trust may require, at its sole expense and effort, upon notice to such Lender or Program Support Provider or to the applicable Managing Agent, that the Managing Agent for such Lender or Program Support Provider assign, without recourse, to one or more financial institutions designated by the Administrator, on behalf of the Trust, all of the rights and obligations hereunder of all, or with the consent of the related Managing Agent, the applicable, Lenders or Program Support Providers within such Facility Group in accordance with Section 10.04; provided, that in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.20, such assignment will result in a reduction in such compensation or payments thereafter; and provided, further that all amounts owing to any member of the Departing Facility Group shall have been paid in full immediately upon the effectiveness of such assignment.

A Managing Agent shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by the affected Lender, Program Support Provider, or Managing Agent or otherwise, the circumstances entitling the Trust to require such assignment and delegation cease to apply. Each member of the Departing Facility Group shall cooperate fully with the Trust in effecting any such assignment.

(b) ***Maturity Non-Renewing Facility Group.*** In the event that one or more Managing Agents (but less than all) gives notice that its Facility Group will not extend the Scheduled Maturity Date pursuant to Section 2.16(b), then the Trust, acting through the Administrator, may request that each such Managing Agent arrange for an assignment to one or more entities and financial institutions designated by the Administrator, acting on behalf of the Trust, of all of the rights and obligations hereunder of such Maturity Non-Renewing Facility Group in accordance with Section 10.04. If the Managing Agent does not comply with such request within ten Business Days of such request, then the Administrator, on behalf of the Trust, may arrange for an assignment to one or more existing Facility Groups or replacement Facility Groups of all of the rights and obligations hereunder of the Maturity Non-Renewing Facility Group in accordance with Section 10.04. Each member of the Maturity Non-Renewing Facility Group shall cooperate fully with the Administrator in effecting any such assignment. If the Administrator is unable to arrange such an assignment prior to the Scheduled Maturity Date, then the Commitment of the Maturity Non-Renewing Facility Group to make new Advances hereunder shall terminate on the relevant Scheduled Maturity Date; provided, that the Maturity Non-Renewing Facility Group shall make a Capitalized Interest Advance in an amount equal to the lesser of (i) its Pro Rata Share of the Capitalized Interest Account Unfunded Balance and (ii) such Maturity Non-Renewing Facility Group's unused Commitment on the Business Day prior to its Scheduled Maturity Date, for deposit into the Capitalized Interest Account; provided further, that the Maturity Non-Renewing Facility Group will continue to make Advances in an amount not to exceed the amount of such Maturity Non-Renewing Facility Group's unused Commitment until its Scheduled Maturity Date. The Exiting Facility Group Amortization Period

for the Maturity Non-Renewing Facility Group shall begin on its Scheduled Maturity Date. So long as the Exiting Facility Group Amortization Period for such Maturity Non-Renewing Facility Group has not terminated pursuant to clause (i) or (ii) of the definition thereof, at such time as all other Advances made by such Maturity Non-Renewing Facility Group have been paid in full, the aggregate amount of all Capitalized Interest Advances made by the Maturity Non-Renewing Facility Group shall be repaid to such Maturity Non-Renewing Facility Group to reduce its portion of the Aggregate Note Balance to zero.

(c) [Reserved].

(d) ***Termination of the Exiting Facility Group Amortization Period.*** The Exiting Facility Group Amortization Period with respect to any Exiting Facility Group shall terminate upon the occurrence of an Amortization Event or Termination Event. After the occurrence of either such event, the Exiting Facility Group shall be entitled to payment with respect to the Aggregate Note Balance pro rata with other Note Purchasers in accordance with Section 2.05(b) or Section 7.03, as applicable.

(e) ***Liquidity Non-Renewing Facility Group.*** In the event that one or more Managing Agents gives notice that its Facility Group will not extend the Liquidity Expiration Date pursuant to Section 2.16(a), then the Trust, acting through the Administrator, may request that each such Managing Agent arrange for an assignment to one or more entities and financial institutions designated by the Administrator, acting on behalf of the Trust, of all of the rights and obligations hereunder of such Liquidity Non-Renewing Facility Group in accordance with Section 10.04. If the Managing Agent does not comply with such request within ten Business Days of such request, then the Administrator, on behalf of the Trust, may arrange for an assignment to one or more existing Facility Groups or replacement Facility Groups of all of the rights and obligations hereunder of the Liquidity Non-Renewing Facility Group in accordance with Section 10.04. Each member of the Liquidity Non-Renewing Facility Group shall cooperate fully with the Administrator in effecting any such assignment. If the Administrator is unable to arrange such an assignment prior to the Liquidity Expiration Date, then the Liquidity Expiration Date shall not be extended with respect to all Facility Groups. For the avoidance of doubt, in the event that the Liquidity Expiration Date is not extended, each Facility Group, including any Liquidity Non-Renewing Facility Group, shall continue to make Advances in accordance with the terms of this Agreement in an amount not to exceed the amount of each Facility Group's unused Commitment until the earliest of the occurrence of an Amortization Event, a Termination Event or the Scheduled Maturity Date.

**Section 2.22.** Notice of Amendments to Program Support Agreements. Each Managing Agent shall provide the Trust and the Administrator with written notice of any amendment to the Program Support Agreements executed in connection with this Agreement if such amendment is reasonably expected by such Managing Agent to result in any material increase in costs or expenses for the Trust or otherwise materially impact the Trust.

**Section 2.23.** Lender Holding Account.

(a) Each Non-Rated Lender must, at the time such Lender becomes a party hereto (or, if a Lender hereunder subsequently becomes a Non-Rated Lender, within ten Business Days of

the time it becomes a Non-Rated Lender), and any other Lender may, in its sole discretion at any time, make an advance (such advance, the "***Lender Holding Deposit***") to the Administrative Agent in an amount equal to its Pro Rata Share of the Capitalized Interest Account Unfunded Balance (such amount, the "***Required Holding Deposit Amount***"). Upon receipt of any such Lender Holding Deposit, the Administrative Agent shall deposit such funds into a trust account maintained at a Qualified Institution (each such account, a "***Lender Holding Account***"), in the name of such Holding Account Lender and referencing the name of the Trust. The Lender Holding Account shall be maintained as a segregated account at the Administrative Agent, and shall be under the sole dominion and control of the Administrative Agent, on behalf of the applicable Holding Account Lender and the Trust. The Lender Holding Account shall not be deemed to be a Trust Account for purposes of this Agreement, but shall be deemed to be property of the Holding Account Lender held for the benefit of the Trust as described herein, and neither the Administrator nor the Trust shall have any rights to withdraw funds from such Lender Holding Account or any interest in or rights to the earnings thereon. Thereafter, until the release and termination of such Lender Holding Account under clause (b) below, any Capitalized Interest Advance to be made by such Holding Account Lender shall be made by withdrawing funds from such Lender Holding Account. Each of the applicable Holding Account Lender and the Trust hereby grants to the Administrative Agent full power and authority, on behalf of the Trust and the applicable Holding Account Lender, to withdraw funds from the applicable Lender Holding Account in order to honor such Holding Account Lender's obligations to fund any Capitalized Interest Advance.

(b) Each Lender Holding Account with respect to any Holding Account Lender, once established, shall continue to be maintained until the earliest of (i) the assignment by such Lender of all of its rights pursuant to Section 10.04 hereof, (ii) such Lender receiving a short-term unsecured indebtedness rating of at least "A-1" by S&P and "Prime-1" by Moody's, (iii) such Lender obtaining a guarantee or letter of credit that causes it to cease to be a Holding Account Lender, (iv) the funding of a Capitalized Interest Advance through a withdrawal of funds from such Lender Holding Account that satisfies in full such Holding Account Lender's obligation to fund further Capitalized Interest Advances and (v) the payment in full of the Aggregate Note Balance and the termination of the Commitments hereunder. Upon any of the events described in clauses (i) through (v) of the immediately preceding sentence, the Administrative Agent, at the times and in the manner requested by the Holding Account Lender, shall sell, liquidate or otherwise transfer the investments on deposit in the applicable Lender Holding Account to such accounts as the Holding Account Lender may request, and release to the Holding Account Lender any remaining funds on deposit in such Lender Holding Account. If, due to a reduction in or partial assignment of Commitments of the Holding Account Lender, the amounts on deposit in its Lender Holding Account exceed the applicable Required Holding Deposit Amount, the Administrative Agent shall, at the request of such Holding Account Lender, release such excess to such Holding Account Lender.

(c) From and after the establishment of a Lender Holding Account until one of the events described in clauses (i) through (v) of the first sentence of Section 2.23(b), the Administrative Agent shall continue to maintain such Lender Holding Account and shall, at the direction of the applicable Holding Account Lender, from time to time invest and reinvest the funds on deposit in such Lender Holding Account in Eligible Investments having a maturity not greater than those permitted for funds in the Trust Accounts under Section 2.08(a). The funding

of a Lender Holding Deposit shall not be considered an Advance or part of the Aggregate Note Balance for any purpose under this Agreement, including for purposes of calculating any Yield or Non-Use Fees owed to the Facility Groups hereunder or under the Lenders Fee Letter, as applicable. The Administrative Agent shall remit or cause to be remitted to the Managing Agent for each relevant Holding Account Lender, on each Settlement Date or on such other dates on which the Administrative Agent and such Managing Agent mutually agree, all realized investment earnings earned or received in connection with the investment of such funds on deposit in the Lender Holding Account of such Holding Account Lender so long as the release of such earnings would not cause the amount on deposit in the Lender Holding Account to be less than the Required Holding Deposit Amount. Notwithstanding anything contained herein to the contrary, neither the Administrative Agent nor the Trust shall have any liability for any loss arising from any investment or reinvestment made by it in accordance with, and pursuant to, the provisions hereof.

**Section 2.24.** Deliveries by Administrative Agent. The Administrative Agent agrees that it will forward to the Managing Agents each of the following, promptly after receipt thereof: (a) the annual Administrator's statement delivered to the Administrative Agent pursuant to Section 3.02(a) of the Administration Agreement and (b) any notice of a change in the location of the records of a Servicer delivered to the Administrative Agent pursuant to Section 2.03 of the Servicing Agreement.

**Section 2.25.** Mark-to-Market Valuation.

(a) In accordance with the Valuation Agent Agreement, the Administrator shall provide to the Co-Valuation Agents and, upon request, to each Managing Agent, no later than (i) the fifth calendar day of each month, a collateral tape reflecting the portfolio of Trust Student Loans as of the end of the immediately preceding calendar month and (ii) if required under the Valuation Agent Agreement, the fifth calendar day after each Valuation Date, a collateral tape reflecting the portfolio of Trust Student Loans as of such Valuation Date (provided, that portfolio information from subservicers may not be available). Pursuant to the Valuation Agent Agreement, on or before the fifth Business Day after receipt of such collateral tape, each Co-Valuation Agent will deliver to the Administrative Agent two mark-to-market valuations of the Trust Student Loans based on such collateral tape. The Administrative Agent shall deliver to the Administrator, each Managing Agent and the Co-Valuation Agents on or before the Business Day following receipt of the mark-to-market valuations from the Co-Valuation Agents, a Valuation Report setting forth (i) the mark-to-market valuations submitted by the Co-Valuation Agents and (ii) the resulting Applicable Percentage determined in accordance with the Valuation Agent Agreement.

(b) If any Managing Agent disagrees at any time with the mark-to-market valuation stated in the Valuation Report by more than 0.25% (e.g., such Managing Agent believes that a different percentage, which is at least 0.25% less than the mark-to-market valuation set forth in such Valuation Report, should be used to reflect the market value of the Trust Student Loans), such Managing Agent shall submit a notice of such dispute in writing together with such Managing Agent's own good faith valuation to each Co-Valuation Agent, the Administrative Agent and the Administrator within two Business Days after receipt of the related Valuation Report. In such event, the Co-Valuation Agents shall be required to negotiate with such

Managing Agent in good faith to determine an agreed upon mark-to-market valuation within three Business Days after receipt of such notice. If the Co-Valuation Agents do not reach an agreement with the Managing Agent within such three Business Day period, the mark-to-market valuation to be used for determining the new Applicable Percentage shall be the average of the mark-to-market valuations submitted by the Co-Valuation Agents and such Managing Agent.

(c) If the Administrator disagrees at any time with the mark-to-market valuation stated in the Valuation Report by more than 0.25% (e.g., the Administrator believes that a different percentage, which is at least 0.25% greater than the mark-to-market valuation set forth in such Valuation Report, should be used to reflect the market value of the Trust Student Loans), the Administrator shall submit a notice of such dispute in writing to the Administrative Agent and each Co-Valuation Agent within two Business Days after receipt of the related Valuation Report. The Co-Valuation Agents shall be required to negotiate with the Administrator in good faith to determine an agreed upon mark-to-market valuation within three Business Days after receipt of such notice. At the end of such period, each Co-Valuation Agent shall resubmit its good faith valuation (adjusted, to the extent applicable, following such negotiation) to the Administrative Agent and the mark-to-market valuation to be used for determining the new Applicable Percentage shall be the average of the mark-to-market valuations submitted by the Co-Valuation Agents.

(d) During the pendency of any dispute described in clause (b) or (c) above, the Applicable Percentage to be applied shall be the disputed Applicable Percentage set forth in the Valuation Report; provided, however, that to the extent the Administrator has disputed the Applicable Percentage, the Administrator, on behalf of the Trust, shall cause to be transferred into the Administration Account amounts, if any, required for the Asset Coverage Ratio to not be less than 100.00% based on the disputed Applicable Percentage, which amounts shall be maintained therein until such dispute is resolved, at which time the Administrator, on behalf of the Trust, may, if the dispute is resolved at a higher valuation, withdraw the portion of such payment that is no longer required to satisfy the condition that the Asset Coverage Ratio not be less than 100.00% and release such amount to the Trust. To the extent an Applicable Percentage changes due to either a mark-to-market valuation or as a result of the process required to achieve or maintain the Required Ratings, all new Eligible FFELP Loans shall thereafter be sold to the Trust using such revised Applicable Percentages. With respect to all Eligible FFELP Loans then owned by the Trust, the Administrator, on behalf of the Trust, shall cure any deficiency resulting from the Asset Coverage Ratio being less than 100.00% due to a mark-to-market valuation, by causing cash or Eligible Investments to be contributed, or by causing Eligible FFELP Loans to be transferred, to the Trust by the fifth Business Day following the date of adjustment of the Applicable Percentage and deliver an updated calculation of the Asset Coverage Ratio on such Business Day demonstrating that the Asset Coverage Ratio will not be less than 100.00% after giving effect to such cure.

(e) No amounts shall be paid to the holder of the Excess Distribution Certificate pursuant to Section 2.05(b)(xxii) until any dispute as to the Applicable Percentage is resolved and, if applicable, any additional amounts required to be deposited into the Administration Account to satisfy the Minimum Asset Coverage Requirement shall have been deposited therein.

(f) In connection with any Permitted Release under Section 2.18 involving a release of Trust Student Loans with an aggregate Principal Balance of more than $500,000,000, the Trust, acting through the Administrator, shall deliver to each Co-Valuation Agent either (i) summary statistics of the Pledged Collateral being released, together with a copy of a collateral tape describing the released assets, to the extent such a tape has been prepared and delivered to any third parties in connection with such release, or (ii) an updated collateral tape reflecting the portfolio of Trust Student Loans after giving effect to such release. The Trust, acting through the Administrator, shall also use commercially reasonable efforts to provide, with reasonable promptness, such other information as may be reasonably requested by any Managing Agent in connection with such release. The Managing Agents may request that a mark-to-market valuation be conducted in connection with such release in accordance with and subject to the terms of the Valuation Agent Agreement.

(g) The parties agree that, for purposes of this Agreement and the Valuation Agent Agreement, delivery of any collateral tape shall be effective if (i) the same is posted through the Administrator's customary file transfer protocols as in effect on the Closing Date (as such protocols may be modified in a manner mutually acceptable to the Administrator and the Co-Valuation Agents), and (ii) notice of such posting is given to the applicable recipient in accordance with Section 10.02.

**Section 2.26.** Inability to Determine Rates. If the Required Managing Agents determine, for any reason in connection with any request for a LIBOR Advance, that (a) dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Tranche Period of such LIBOR Advance, (b) adequate and reasonable means do not exist for determining the LIBOR Base Rate for any requested Tranche Period with respect to a proposed LIBOR Advance, or (c) the LIBOR Base Rate for any requested Tranche Period with respect to a proposed LIBOR Advance does not adequately and fairly reflect the cost to such Lenders of funding such Advance, the Administrative Agent will promptly so notify the Trust and each Lender. Thereafter, the obligation of the Lenders to make or maintain a LIBOR Advance shall be suspended until the Administrative Agent (upon the instruction of the Required Managing Agents) revokes such notice. Upon receipt of such notice, the Trust may revoke any pending request for a LIBOR Advance, or failing that, will be deemed to have converted such request into a request for Base Rate Advances in the amount specified therein.

**Section 2.27.** Calculation of Monthly Yield. On or before the fifth calendar day after the last day of any Settlement Period, each Managing Agent shall notify the Administrator and the Administrative Agent of the Yield payable to its Facility Group on the succeeding Settlement Date together with, (i) if interest for any portion of any Class A Note for any portion of such Settlement Period is determined by reference to the CP Rate, the applicable CP Rate for such Settlement Period for the applicable Conduit Lender and if such CP Rate is calculated based on match-funding rather than pool funding, the Related LIBOR Rate applicable to such Conduit Lender; (ii) if interest for any portion of any Class A Note for any portion of such Settlement Period is determined by reference to the LIBOR Rate, such Managing Agent's calculation of the applicable LIBOR Rate for such Settlement Period (which rate may be based on such Managing Agent's good faith estimates of the LIBOR Rates to be in effect during the remainder of such Interest Accrual Period) and (iii) any Estimated Interest Adjustments owing in respect of the previous Settlement Date.

## ARTICLE III.

## THE CLASS A NOTES

**Section 3.01.** Form of Class A Notes Generally.

(a) The Class A Notes shall be in substantially the form set forth in Exhibit J with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Agreement, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may, consistently herewith, be determined by the officers executing such Class A Notes, as evidenced by their execution of the Class A Notes.

(b) The Class A Notes shall be typewritten or printed.

(c) The Class A Notes shall be issuable only in registered form and with a maximum aggregate principal amount that, when aggregated with the maximum aggregate principal amounts of each other Outstanding Class A Note, will not be less than the Maximum Financing Amount. One Class A Note in the maximum aggregate principal amount equal to the Pro Rata Share of the Maximum Financing Amount of each Facility Group shall be registered in the name of the Managing Agent for such Facility Group.

(d) All Class A Notes shall be substantially identical except as to maximum denomination and except as may otherwise be provided in or pursuant to this Section.

**Section 3.02.** Securities Legend. Each Note issued hereunder will contain the following legend:

THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), AND HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR REGULATORY AUTHORITY OF ANY STATE. THIS NOTE HAS BEEN OFFERED AND SOLD PRIVATELY. THE REGISTERED OWNER HEREOF ACKNOWLEDGES THAT THESE SECURITIES ARE “RESTRICTED SECURITIES” THAT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT AND AGREES FOR THE BENEFIT OF THE TRUST AND ITS AFFILIATES THAT THESE SECURITIES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (I) TO A PERSON WHOM THE TRANSFEROR REASONABLY BELIEVES IS AN INSTITUTIONAL ACCREDITED INVESTOR TO WHOM NOTICE IS GIVEN THAT THE RESALE, PLEDGE OR TRANSFER IS BEING MADE IN RELIANCE ON REGULATION D, AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION OR (II) TO A PERSON IN A TRANSACTION THAT IS REGISTERED UNDER THE SECURITIES ACT OR THAT IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS. THE HOLDER

HEREOF, BY ACQUIRING THIS NOTE, REPRESENTS AND AGREES FOR THE BENEFIT OF THE DEPOSITOR, THE ADMINISTRATOR, THE ADMINISTRATIVE AGENT AND THE ELIGIBLE LENDER TRUSTEE THAT: IT IS AN INSTITUTIONAL ACCREDITED INVESTOR (AS DEFINED IN RULE 501(a)(1)-(3) AND (7) OF REGULATION D UNDER THE SECURITIES ACT) OR AN ENTITY IN WHICH ALL THE EQUITY OWNERS COME WITHIN SUCH PARAGRAPHS; ITS ACQUISITION OF THIS NOTE IS OTHERWISE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS AND IT IS HOLDING THIS NOTE FOR INVESTMENT PURPOSES AND NOT FOR DISTRIBUTION.

**Section 3.03.** Priority. Except as permitted by Section 2.05(b), Section 2.21 or Section 7.03(b), all Class A Notes issued under this Agreement shall be in all respects equally and ratably entitled to the benefits hereof and secured by the Pledged Collateral without preference, priority or distinction on account of the actual time or times of authentication and delivery, all in accordance with the terms and provisions of this Agreement. All payments of Financing Costs on the Class A Notes shall be made pro rata among all Outstanding Class A Notes based on the amount of Financing Costs owed on such Class A Notes, without preference or priority of any kind. Except as provided in Sections 2.05(b) and 2.21, payments of principal on the Class A Notes shall be made pro rata among all Outstanding Class A Notes, without preference or priority of any kind.

**Section 3.04.** Execution and Dating. The Class A Notes shall be executed on behalf of the Trust by any of the Authorized Officers of the Eligible Lender Trustee. The signature of any of these officers on the Class A Notes may be manual or facsimile. Each Note shall be dated the date of its execution.

**Section 3.05.** Registration, Registration of Transfer and Exchange, Transfer Restrictions.

(a) The Trust shall cause to be kept a register (the *"**Note Register**"*) in which, subject to such reasonable regulations as it may prescribe, the Trust shall provide for the registration of the Class A Notes and for transfers of the Class A Notes. The Administrative Agent, acting solely for this purpose as agent for the Trust, shall serve as *"**Note Registrar**"* for the purpose of registering the Class A Notes and transfers of the Class A Notes as herein provided.

(b) Upon surrender for registration of transfer of any Note at the address of the Trust referred to in Exhibit M, the Trust shall execute and deliver in the name of the designated transferee or transferees, one or more new Class A Notes of any authorized denominations and of a like tenor and aggregate principal amount.

(c) At the option of the Registered Owner, Class A Notes may be exchanged for other Class A Notes of the same series and of like tenor in a maximum principal amount consistent with Section 3.01(c), upon surrender of the Class A Notes to be exchanged at such office or agency. Whenever any Class A Notes are so surrendered for exchange, the Trust shall execute and deliver the Class A Notes, which the Registered Owner making the exchange is entitled to receive.

(d) All Class A Notes issued upon any registration of transfer or exchange of Class A Notes shall be the valid obligations of the Trust, evidencing the same debt, and entitled to the same benefits under this Agreement, as the Class A Notes surrendered upon such registration of transfer or exchange.

(e) Every Note presented or surrendered for registration of transfer or for exchange shall (if so required by the Trust or the Administrative Agent) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Trust and the Note Registrar duly executed, by the Registered Owner thereof or his attorney duly authorized in writing with such signature guaranteed by a commercial bank or trust company, or by a member firm of a national securities exchange, and such other documents as the Administrative Agent may require. The Trust shall notify the Administrative Agent, as the Note Registrar, of each transfer or exchange of Class A Notes.

(f) No service charge shall be made for any registration of transfer or exchange of Class A Notes, but the Trust or the Administrative Agent may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of Class A Notes.

**Section 3.06.** Mutilated, Destroyed, Lost and Stolen Class A Notes.

(a) If any mutilated Class A Note is surrendered to the Administrative Agent, the Trust shall execute and deliver in exchange therefor a new Class A Note of the same series and of like tenor and maximum principal amount and bearing a number not contemporaneously outstanding. If there shall be delivered to the Trust (i) evidence to the Trust's satisfaction of the destruction, loss or theft of any Class A Note and (ii) such security or indemnity as may be required by them to hold the Trust and any of its agents, including the Administrative Agent and the Eligible Lender Trustee, harmless, then, in the absence of notice to the Trust that such Class A Note has been acquired by a bona fide purchaser, the Trust shall execute and deliver, in lieu of any such destroyed, lost or stolen Class A Note, a new Class A Note of the same series and of like tenor and principal amount and maximum principal amount and bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Class A Note has become or is about to become due and payable, the Trust in its discretion may, instead of issuing a new Class A Note, pay such Class A Note.

(c) Upon the issuance of any new Class A Note under this Section, the Trust may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Note Registrar) connected therewith.

(d) Every new Class A Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Class A Note shall constitute an original additional contractual obligation of the Trust, whether or not the destroyed, lost or stolen Class A Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Agreement equally and proportionately with any and all other Class A Notes duly issued hereunder.

(e) The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Class A Notes.

**Section 3.07.** Persons Deemed Owners. Prior to due presentment of a Class A Note for registration of transfer, the Trust, the Administrative Agent and any agent of the Trust or the Administrative Agent may treat the Person in whose name such Class A Note is registered as the absolute owner of such Class A Note for the purpose of receiving payment of principal of and Financing Costs on such Class A Note and for all other purposes whatsoever, whether or not such Class A Note be overdue, and none of the Trust, the Administrative Agent or any agent of the Trust or the Administrative Agent shall be affected by notice to the contrary.

**Section 3.08.** Cancellation. Subject to Section 3.05(b), all Class A Notes surrendered for payment, prepayment in whole, registration of transfer or exchange shall, if surrendered to any Person other than the Trust, be delivered to the Trust and shall be promptly cancelled by the Trust. The Trust may at any time cancel any Class A Notes previously delivered hereunder which the Trust may have acquired in any manner whatsoever, and may cancel any Class A Notes previously executed hereunder which the Trust has not issued and sold. No Class A Notes shall be executed and delivered in lieu of or in exchange for any Class A Notes cancelled as provided in this Section, except as expressly permitted by this Agreement. All cancelled Class A Notes held by the Trust shall be held or destroyed by the Trust in accordance with its standard retention or disposal policy as in effect at the time.

**Section 3.09.** CUSIP/DTC Listing. Each of the Administrator, SLM Corporation and the Trust hereby covenants and agrees, at the request of any Lender, to take any actions reasonably requested by any such requesting Lender in order to obtain a CUSIP number for such Lender's Class A Notes or to list such Lender's Class A Notes on The Depository Trust Company (*"**DTC**"*); provided, however, that the Trust shall not be required to pay amounts under Section 2.15, 2.20 or 10.08 as a result of such action. The requesting Lender agrees to pay all costs and expenses (other than legal expenses) associated with obtaining any such CUSIP number or making such listing on DTC, and the Administrator agrees to pay all costs and expenses associated with any amendments to be made to this Agreement as determined to be reasonably necessary to accomplish the foregoing; provided further, that the parties hereto agree that no amendment fee in connection therewith will apply.

**Section 3.10.** Legal Final Maturity Date. The Class A Notes shall be due and payable in full on the Legal Final Maturity Date.

## ARTICLE IV.

## CONDITIONS TO CLOSING DATE AND ADVANCES

**Section 4.01.** Conditions Precedent to Closing Date. The purchase of the Class A Notes on the Closing Date is subject to the conditions precedent, unless waived by the Required Managing Agents (and the Trust, by executing this Agreement, shall be deemed to have certified that all such conditions precedent unless waived are satisfied on the Closing Date), that:

(a) the Administrative Agent shall have received on or before the Closing Date, the following documents and opinions, in form and substance satisfactory to the Administrative Agent and each Managing Agent:

(i) executed copies of the Transaction Documents and each Class A Note; provided, however, that the Servicing Agreement with Pennsylvania Higher Education Assistance Agency shall be approved as to form and legality and executed by all parties thereto on the Closing Date except for the Office of Attorney General of the Commonwealth of Pennsylvania, and shall be executed by the Office of Attorney General of the Commonwealth of Pennsylvania within 90 days after the Closing Date (or such later date that is consented to in writing by the Required Managing Agents); provided, further, that if such approval by the Office of Attorney General of the Commonwealth of Pennsylvania is not received within such 90 day (or longer) period, the Administrator shall take such further action as necessary to obtain such approval;

(ii) UCC-1 Financing Statements and UCC-3 amendments to Financing Statements;

(iii) Officer's Certificates of each of the Eligible Lender Trustee, the Administrator, the Master Servicer, SLM Corporation, the Sellers, the Master Depositor, and the Depositor certifying, in each case, the articles of incorporation or equivalent organization document, certificate of formation, by-laws or the equivalent, board resolutions, good standing certificates and the incumbency and specimen signature of each officer authorized to execute the Transaction Documents to which it is a party (on which certificates the Administrative Agent, Managing Agents and Note Purchasers may conclusively rely until such time as the Administrative Agent and the Managing Agents shall receive from the applicable Person a revised certificate meeting the requirements of this clause);

(iv) Officer's Certificates of the Administrator and the Eligible Lender Trustee certifying that each of the Guarantee Agreements that have been provided to the Administrative Agent are true and correct copies thereof and remain in full force and effect;

(v) Opinions of counsel to the Trust, the Depositor, the Master Depositor, each Seller, the Administrator, the Master Servicer, SLM Corporation, and the Eligible Lender Trustee in form and substance acceptable to the Administrative Agent; with respect to, among other things: (A) the due organization, good standing and power and authority of each of the Transaction Parties; (B) the due authorization, execution and delivery of each of the Transaction Documents by the Transaction Parties party thereto; (C) the enforceability of each of the transaction documents against each of the Transaction Parties party thereto (in the case of the Servicing Agreement with Pennsylvania Higher Education Assistance Agency, upon the Office of Attorney General of the Commonwealth of Pennsylvania executing and delivering the same); (D) that all governmental consents or filings required under New York or federal law or applicable corporate law in connection with the execution, delivery and performance of the Transaction Documents have been made; (E) the absence of conflicts with organizational

documents, laws, regulations, court orders or contracts arising from the execution, delivery and performance by the Transaction Parties of the Transaction Documents; (F) the exemption from registration of the Notes under the Securities Act; (G) the exemption of the Trust and the Depositor from registration under the Investment Company Act; (H) the validity and perfection of the security interests created under the Transaction Documents; (I) that each transfer of assets under the Purchase Agreements, the Conveyance Agreement and the Tri-Party Transfer Agreement constitutes a "true sale" in the event of the bankruptcy of the applicable Seller or, in the case of the Conveyance Agreement, the Master Depositor; (J) the priority of any security interests created under the Transaction Documents; (K) the non-consolidation of the assets and liabilities of the Depositor and the Trust with the Sellers, the Master Depositor, Sallie Mae, Inc. and SLM Corporation in the event of the bankruptcy of any such entity; and (L) the treatment of the Class A Notes as debt for federal income tax purposes and the classification of the Trust not as an association or otherwise taxable as a corporation for federal income tax purposes;

(vi) a schedule of all Trust Student Loans as of the Closing Date;

(vii) UCC search report results dated a date reasonably near the Closing Date listing all effective financing statements which name the Trust, any Seller, the Master Depositor, the Depositor or the Eligible Lender Trustee (under its present name or any previous names) in any jurisdictions where filings are to be made under clause (ii) above (or similar filings would have been made in the past five years);

(viii) financing statement terminations on Form UCC-3, if necessary, to release any liens;

(ix) evidence of establishment of the Trust Accounts;

(x) evidence of any required certification from S&P and Moody's with respect to pre-review Conduit Lenders;

(xi) such powers of attorney as the Administrative Agent or any Managing Agent shall reasonably request to enable the Administrative Agent to collect all amounts due under any and all of the Pledged Collateral;

(xii) a list of any pre-approved Lockbox Bank arrangements and copies of all related documentation;

(xiii) a letter from Moody's stating that the Class A Notes have received a long term definitive rating of "Aaa", subject to customary surveillance procedures; and

(xiv) a letter from S&P stating that the Class A Notes have received a long term definitive rating of "AAA", subject to customary surveillance procedures;

(b) all fees due and payable to the Lead Arrangers, the Co-Valuation Agents, the Lenders, the Managing Agents, the Administrative Agent, the Syndication Agent and the Eligible Lender Trustee on the Closing Date shall have been paid;

(c) the Managing Agents shall have completed satisfactory due diligence on SLM Corporation and its Affiliates;

(d) the other FFELP Loan Facilities shall have closed contemporaneously;

(e) all outstanding obligations under the Churchill Note Purchase Agreements shall have been paid in full and the Churchill Note Purchase Agreements shall have terminated; and

(f) such other information, certificates, documents and actions as the Required Managing Agents and the Administrative Agent may reasonably request have been received or performed.

**Section 4.02.** Conditions Precedent to Advances.

(a) ***Conditions Precedent to All Advances.*** Each Advance (excluding any Capitalized Interest Advances) shall be subject to the further conditions precedent, unless waived by the Required Managing Agents (or, in the case of clauses (iv)(B)(1), (iv)(B)(2), (iv)(B)(4), (iv)(C), (iv)(D), (iv)(F), (v), (x) and (xi) below, waived by all of the Managing Agents exclusive of any Managing Agent for any Distressed Lender), that on the date of such Advance (and the Trust, by accepting the proceeds of such Advance, shall be deemed to have certified that all such conditions unless waived are satisfied on the date of such Advance):

(i) with respect to any Purchase Price Advance, the Eligible FFELP Loans are being (A) purchased by the Master Depositor from an Ongoing Seller pursuant to a Purchase Agreement, (B) then purchased by the Depositor or a Related SPE Seller from the Master Depositor pursuant to the Conveyance Agreement, (C) then, if applicable, purchased by the Depositor from a Related SPE Seller pursuant to the Tri-Party Transfer Agreement and (D) subsequently purchased by the Trust from the Depositor pursuant to the Sale Agreement;

(ii) with respect to any Purchase Price Advance, on or prior to the Advance Date, the Trust shall cause to be delivered to the Administrative Agent copies of the relevant Purchase Agreement (except to the extent previously delivered), Conveyance Agreement (except to the extent previously delivered), Tri-Party Transfer Agreement (except to the extent previously delivered), Sale Agreement (except to the extent previously delivered), bills of sale and blanket endorsements, together with a Schedule of Trust Student Loans, and copies of all schedules, financing statements and other documents required to be delivered by the applicable Seller, the Master Depositor, the Related SPE Seller (if applicable) and the Depositor as a condition of purchase thereunder;

(iii) with respect to any Advance, on or prior to the Advance Date, the Trust shall cause to be delivered to the Administrative Agent an Advance Request at the time required in Section 2.02(b);

(iv) on the Advance Date, the following statements shall be true, and the Trust by accepting the amount of such Advance shall be deemed to have certified that:

(A) the representations and warranties contained in Article V are correct on and as of such day as though made on and as of such date, both before and after giving effect to such Advance (or, to the extent such representations and warranties speak as of a specific date, were true and correct on and as of such date);

(B) no event has occurred and is continuing, or would result from such Advance, which constitutes (1) a Termination Event, (2) a Servicer Default, (3) a Potential Termination Event, or (4) an Amortization Event;

(C) the Requested Advance Amount does not exceed the Maximum Advance Amount;

(D) there has occurred no event which could reasonably be determined to have a Material Adverse Effect with respect to the Trust;

(E) no law or regulation shall prohibit, and no order, judgment or decree of any Official Body shall prohibit or enjoin, the making of such Advances in accordance with the provisions hereof;

(F) the amount of money equal to any shortfall in the Reserve Account Specified Balance on such date shall be deposited into the Reserve Account on such date from the proceeds of such Advance; and

(G) all covenants and agreements contained in the Transaction Documents, including the delivery of all reports required to be delivered thereunder, shall have been complied with by the Trust, subject to any applicable grace periods or waivers granted;

(v) the Termination Date shall not have been declared;

(vi) with respect to any Purchase Price Advance, the related Servicer, as bailee for the Administrative Agent for the benefit of the Secured Creditors, shall be in possession of the original Student Loan Notes or certified copies thereof, to the extent more than one loan is evidenced by such Student Loan Note, representing the Student Loans being financed with the proceeds of such Advance;

(vii) with respect to any Purchase Price Advance, all conditions precedent to the Trust's acquisition of the Student Loans to be financed with the proceeds of such Advance (other than the payment of the purchase price therefor) shall have been satisfied;

(viii) no suit, action or other proceeding, investigation or injunction, or final judgment relating thereto, shall be pending or threatened before any court or governmental agency, seeking to restrain or prohibit or to obtain damages or other relief in connection with any of the Transaction Documents or the consummation of the transactions contemplated hereby;

(ix) no statute, rule, regulation or order shall have been enacted, entered or deemed applicable by any government or governmental or administrative agency or court that would make the transactions contemplated by any of the Transaction Documents illegal or otherwise prevent the consummation thereof;

(x) after giving effect to such Advance, the Asset Coverage Ratio shall be greater than or equal to 100%;

(xi) the ratings for the Class A Notes shall not have been reduced below the applicable Required Ratings on such Advance Date;

(xii) the amount of such Advance, together with any amounts drawn under the Revolving Credit Agreement in connection with the purchase of the related Student Loans, shall, in the aggregate, be reasonably equal to the fair market value of such Student Loans;

(xiii) with respect to any Purchase Price Advance, after giving effect to the purchase by the Trust of the related additional Eligible FFELP Loans, the Weighted Average Remaining Term in School shall not be more than 24 months;

(xiv) except with respect to the initial Advance hereunder, the Requested Advance Amount for such Advance Date, together with the aggregate amount of all advances to be made under the other FFELP Loan Facilities on such Advance Date, shall not exceed $1,500,000,000;

(xv) except with respect to the initial Advance hereunder, the sum of (A) the Requested Advance Amount on such Advance Date, (B) the aggregate amount of all advances to be made under the other FFELP Loan Facilities on such Advance Date, (C) the amount of all Advances already made during such calendar week and (D) the aggregate amount of all advances already made under the other FFELP Loan Facilities during such calendar week, shall not exceed $5,000,000,000; and

(xvi) there were no Financing Costs (including Step-Up Fees) due and not paid as of the most recent Settlement Date.

(b) ***Conditions Precedent to Capitalized Interest Advances.*** Each Capitalized Interest Advance shall be subject to the following conditions precedent, unless waived by each of the Managing Agents, that on the date of such Advance (and the Trust, by accepting the proceeds of such Advance, shall be deemed to have certified that all such conditions unless waived are satisfied on the date of such Advance):

(i) the Trust shall cause to be delivered to the Administrative Agent an Advance Request (and, if the Trust fails to deliver such Advance Request, the Administrative Agent shall prepare and deliver to the Managing Agents on the Trust's behalf) at the time required in Section 2.02(b); and

(ii) on the Advance Date, the following statements shall be true, and the Trust by accepting the amount of such Advance shall be deemed to have certified that:

(A) the Requested Advance Amount for the Capitalized Interest Advance does not, in the aggregate, exceed the Maximum Advance Amount;

(B) no law or regulation shall prohibit, and no order, judgment or decree of any Official Body shall prohibit or enjoin, the making of such Advances in accordance with the provisions hereof;

(C) no Event of Bankruptcy shall have occurred with respect to the Trust; and

(D) the Scheduled Maturity Date shall not have occurred.

(c) ***Additional Conditions Precedent to Initial Advance for the Purchase of Student Loans from VK Funding LLC.*** With respect to the initial Purchase Price Advance the proceeds of which will be used to purchase Eligible Student Loans from VK Funding LLC, such Purchase Price Advance shall be subject to the further conditions precedent (unless waived by the Administrative Agent and the Required Managing Agents) that the Trust or the Administrator shall have delivered copies of the following documents to the Administrative Agent in form and substance acceptable to the Administrative Agent:

(i) Each purchase agreement pursuant to which VK Funding LLC purchases such Student Loans;

(ii) The Purchase Agreement pursuant to which VK Funding LLC will sell Student Loans to the Master Depositor;

(iii) Omnibus waiver and consent with respect to the agreements described in clauses (i) and (ii) above, executed and delivered by SLM Education Credit Finance Corporation and SLM Corporation;

(iv) Eligible lender trustee agreement between VK Funding LLC and VK Funding LLC's *"Eligible Lender Trustee"* (as defined in such agreement);

(v) UCC, tax lien, pending suit and judgment searches against VK Funding LLC in the appropriate jurisdictions;

(vi) A good standing certificate and organizational documents certified by the Secretary of State of VK Funding LLC's jurisdiction of organization, together with an officer's certificate with respect to VK Funding's organizational documents and incumbency of officers in the form prepared for the initial Sellers;

(vii) Evidence of filing of UCC financing statements reflecting VK Funding and its eligible lender trustee, in the form prepared for the initial Sellers in the appropriate jurisdiction;

(viii) Satisfactory evidence that all Student Loans sold by VK Funding will be transferred on a lien released basis;

(ix) To the extent not already covered by a legal opinion of outside legal counsel given to the Administrative Agent, a legal opinion in form reasonably acceptable to the Administrative Agent with respect to true sale, enforceability and security interest issues and the non-consolidation between (a) VK Funding LLC and (b) VL Funding LLC, the Depositor, the Trust, the Related SPE Sellers and the Related SPE Trusts; and

(x) Such other certificates and documents as the Administrative Agent may reasonably request.

**Section 4.03.** Condition Subsequent to Advances (other than the Initial Advance). Within five Business Days after each Advance other than the initial Advance, the Trust shall cause to be delivered to the Administrative Agent a reconciliation statement (the "***Advance Reconciliation Statement***") which shall include an updated calculation, based on actual figures, and certification in the form attached as Exhibit L confirming that the Minimum Asset Coverage Requirement was satisfied after giving effect to the related Advance. If the Advance Reconciliation Statement shows that the actual value of the Trust Student Loans was less than the value provided on the pro forma certification or that the Minimum Asset Coverage Requirement was not satisfied as of the Advance Date, then the Trust shall deposit into the Administration Account an amount for each Trust Student Loan equal to the product of (a) the Applicable Percentage for such Trust Student Loan multiplied by (b) such difference in value. If the Advance Reconciliation Statement shows that the value of the Trust Student Loans was greater than the value provided on the pro forma certification, then the Administrative Agent shall release funds to the Depositor in an amount, for each Trust Student Loan, equal to the product of (x) the Applicable Percentage for such Trust Student Loan multiplied by (y) such difference in value from the following accounts in order and to the extent available: *first*, from the Administration Account and *second*, from the Collection Account. Before funds from the Collection Account may be used for this purpose, the Administrator must determine that the amounts on deposit in the Collection Account as of the date of payment (excluding any Special Allowance Payments or Interest Subsidy Payments received during the current Settlement Period) after any withdrawal for this purpose are sufficient to pay items (i) through (iv) in Section 2.05(b) of this Agreement due and payable on the next Settlement Date.

**Section 4.04.** Conditions Precedent to Addition of New Seller. The addition of any new Seller to a Purchase Agreement shall be subject to the prior written consent of the Administrative Agent and the further conditions precedent that (a) at least five Business Days prior to the first transfer of Eligible FFELP Loans from such Seller, the Trust or the Administrator shall have delivered copies of the following documents to the Administrative Agent and the Managing Agents in form acceptable to the Administrative Agent and the Required Managing Agents and (b) at least three Business Days prior to the first transfer of Eligible FFELP Loans from such Seller, the Administrative Agent shall have delivered notice of the proposed addition of such new Seller to the Rating Agencies:

(i) Executed agreements adding the Seller (and, if applicable, the eligible lender trustee for such Seller) to a Purchase Agreement;

(ii) If applicable, an executed trust agreement with respect to the Seller and the Seller's "Eligible Lender Trustee" (as defined in such trust agreement), to the extent

the Seller will be transferring Student Loans with respect to which legal title is held by such trustee;

(iii) UCC, tax lien, pending suit and judgment searches against the Seller in the appropriate jurisdictions;

(iv) A good standing certificate and organizational documents certified by the Secretary of State of such Seller's jurisdiction of organization, together with an officer's certificate with respect to such Seller's organizational documents and incumbency of officers in the form prepared for the initial Sellers;

(v) Evidence of filing of UCC financing statements reflecting the Seller and, to the extent applicable, its eligible lender trustee, in the form prepared for the initial Sellers in the appropriate jurisdiction; and

(vi) To the extent not already covered by a legal opinion of outside legal counsel given to the Administrative Agent, a legal opinion in form reasonably acceptable to the Administrative Agent with respect to true sale, non-consolidation, enforceability and security interest issues.

## ARTICLE V.

## REPRESENTATIONS AND WARRANTIES

**Section 5.01.** General Representations and Warranties of the Trust. The Administrator (on behalf of the Trust) represents and warrants for the benefit of the Secured Creditors as follows on the Closing Date, on the date of each Advance and on each Reporting Date:

(a) The Trust is a statutory trust duly organized, validly existing and in good standing solely under the laws of the State of Delaware and is duly qualified to do business, and is in good standing, in every jurisdiction in which the nature of its business requires it to be so qualified.

(b) The execution, delivery and performance by the Trust of this Agreement and all Transaction Documents to be delivered by it in connection herewith or therewith, including the Trust's use of the proceeds of Advances,

(i) are within the Trust's organizational powers,

(ii) have been duly authorized by all necessary organizational action,

(iii) do not contravene (A) the Trust's organizational documents; (B) any law, rule or regulation applicable to the Trust; (C) any contractual restriction binding on or affecting the Trust or its property; or (D) any order, writ, judgment, award, injunction or decree binding on or affecting the Trust or its property,

(iv) do not result in a breach of or constitute a default under any indenture, agreement, lease or other instrument to which the Trust is a party,

(v) do not result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties (other than in favor of the Administrative Agent, for the benefit of the Secured Creditors, with respect to the Pledged Collateral), and

(vi) no transaction contemplated hereby or by the other Transaction Documents to which it is a party requires compliance with any bulk sales act or similar law.

(c) This Agreement and the other Transaction Documents to which it is named as a party have each been duly executed and delivered by the Eligible Lender Trustee, on behalf of the Trust. The Class A Notes have been duly and validly authorized and, when executed and paid for in accordance with the terms of this Agreement, will be duly and validly issued and Outstanding, and will be entitled to the benefits of this Agreement.

(d) No permit, authorization, consent, license or approval or other action by, and no notice to or filing with, any Official Body is required for the due execution, delivery and performance by the Trust of this Agreement or any other Transaction Document to which it is a party, except for the filing of UCC financing statements which shall have been filed on or prior to the date of the initial Advance and except as may be required under non-U.S. law in connection with any future transfer of the Class A Notes.

(e) This Agreement and each other Transaction Document to which the Trust is a party constitute the legal, valid and binding obligations of the Trust, enforceable against the Trust in accordance with their respective terms, subject to (i) applicable bankruptcy, insolvency, moratorium, or other similar laws affecting the rights of creditors and (ii) general principles of equity, whether such enforceability is considered in a proceeding in equity or at law.

(f) No Amortization Event, Termination Event, Servicer Default, or, to the best of the Trust's knowledge, Potential Termination Event has occurred and is continuing.

(g) No Monthly Report, Valuation Report (but only to the extent that information contained therein is supplied by the Administrator on behalf of the Trust or by the Trust), information, exhibit, financial statement, document, book, record or report furnished or to be furnished by or on behalf of the Trust to the Affected Parties in connection with this Agreement is or will be incorrect in any material respect as of the date it is or shall be dated.

(h) The Class A Notes will be characterized as debt for federal income tax purposes. The Trust has or has caused to be (i) timely filed all tax returns (federal, state and local) required to be filed, (ii) paid or made adequate provision for the payment of all taxes, assessments and other governmental charges and (iii) accounted for the sale and pledge of the Trust Student Loans in its books consistent with GAAP.

(i) There is no action, suit, proceeding, inquiry or investigation at law or in equity or before or by any court, public board or body pending or, to the knowledge of the Trust, overtly threatened in writing against or affecting the Trust (x) asserting the invalidity of this Agreement or any other Transaction Document, (y) seeking to prevent the consummation of any of the transactions contemplated by this Agreement and the other Transaction Documents, or

(z) wherein an unfavorable decision, ruling or finding would have a Material Adverse Effect on the Trust or which affects, or purports to affect, the validity or enforceability against the Trust of any Transaction Document.

(j) The Trust is not required to register as an "investment company" or a company controlled by an "investment company" under the Investment Company Act.

(k) The Trust is Solvent on the Closing Date and at the time of (and immediately after) each Advance and each purchase of Eligible FFELP Loans made by the Trust. The Trust has given reasonably equivalent value to the Depositor in consideration for the transfer to it of the Trust Student Loans from the Depositor and each such transfer shall not have been made for or on account of an antecedent debt owed by the Depositor to it. No Event of Bankruptcy has occurred with respect to the Trust.

(l) The principal place of business and chief executive office of the Trust and the office where the Trust keeps any Records in its possession are located at the addresses of the Trust referred to in Section 10.02 or such other location as the Trust shall have given notice of to the Administrative Agent pursuant to this Agreement.

(m) The Trust has no trade names, fictitious names, assumed names or "doing business as" names or other names under which it has done or is doing business.

(n) All representations and warranties of the Trust set forth in the Transaction Documents to which it is a party are true and correct in all material respects as of the date made the Trust is hereby deemed to have made each such representation and warranty, as of the date made, to, and for the benefit of, the Secured Creditors as if the same were set forth in full herein.

(o) The Trust is not in violation of, or default under, any material law, rule, regulation, order, writ, judgment, award, injunction or decree binding upon it or affecting the Trust or its property or any indenture, agreement, lease or instrument.

(p) The Trust has incurred no Debt and has no other obligation or liability (except for any contingent liabilities arising out of events which occurred prior to the Closing Date and which survive the termination of the Churchill Bluemont Note Purchase Agreement), other than normal trade payables and the Liabilities. The Trust is not aware of any liabilities, contingent or otherwise, that are outstanding under the Churchill Bluemont Note Purchase Agreement as of the Closing Date (other than those liabilities which have been satisfied in full on the Closing Date).

(q) The sale of the Class A Notes to the initial Note Purchasers pursuant to this Agreement will not require the registration of the Class A Notes under the Securities Act.

(r) (i) No Reportable Event has occurred during the six year period prior to the date on which this representation is made or deemed made with respect to any Benefit Plan; (ii) no steps have been taken by any Person to terminate any Benefit Plan subject to Title IV of ERISA; (iii) no contribution failure or other event has occurred with respect to any Benefit Plan which is sufficient to give rise to a lien on the assets of the Trust or any ERISA Affiliate in favor of the PBGC, during such six-year period; (iv) each Benefit Plan has been administered in all material respects in compliance with its terms and the applicable provisions of ERISA and the Code; (v)

neither the Trust nor any ERISA Affiliate maintains or contributes to any employee welfare benefit plan within the meaning of Section 3(1) of ERISA which provides benefits to employees after termination of employment and which is unfunded by a material amount, except as specifically required by the continuation requirements of Part 6 of Title I of ERISA; (vi) the present value of all accrued benefits under each Benefit Plan subject to Title IV of ERISA (based on those assumptions used to fund such Benefit Plans) did not, as of the last valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Benefit Plan allocable to such accrued benefits; (vii) neither the Trust nor any ERISA Affiliate has had a complete or partial withdrawal from any Multiemployer Plan and neither the Trust nor any ERISA Affiliate would become subject to any liability under ERISA if the Trust or any such ERISA Affiliate were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made; and (viii) no such Multiemployer Plan is insolvent within the meaning of Section 4245 of ERISA or in reorganization within the meaning of Section 4241 of ERISA; provided, that this subsection (r) shall not apply to events which could not reasonably be expected to have a Material Adverse Effect on the Trust or on SLM Corporation.

(s) No proceeds of any Advances will be used by the Trust for any purpose that violates applicable law, including Regulation U of the Federal Reserve Board. The Trust does not own any "margin stock" within the meaning of Regulation T, U and X of the Federal Reserve Board.

(t) Each Student Loan to be financed with the proceeds of any Advance constitutes an Eligible FFELP Loan as of the date of such Advance and is purchased, or was previously purchased by the Trust, from the Depositor pursuant to the Sale Agreement. Each Trust Student Loan represented as an Eligible FFELP Loan in a Monthly Report, in fact satisfied as of the last day of the related Settlement Period the definition of "Eligible FFELP Loan". Each Trust Student Loan represented to be an Eligible FFELP Loan on any other date or included in the calculation of Asset Coverage Ratio on any other date in fact satisfied as of such date the definition of "Eligible FFELP Loan".

(u) Since the date of its formation, no event has occurred which has had a Material Adverse Effect on the Trust.

(v) The information provided to the Administrative Agent and the Managing Agents with respect to the Trust Student Loans is accurate in all material respects.

(w) Each payment of interest on and principal of the Class A Notes will have been (i) in payment of a debt incurred in the ordinary course of business or financial affairs on the part of the Trust and (ii) made in the ordinary course of business or financial affairs of the Trust.

(x) At all times from and after February 29, 2008, the Administrator has caused and will cause the Trust to comply with the factual assumptions set forth in the opinion letters issued as of the Closing Date by Bingham McCutchen LLP to the Secured Creditors relating to the issues of substantive consolidation and true sale and with the covenants set forth in Section 6.01(b) and 6.01(c).

**Section 5.02.** Representations and Warranties of the Trust Regarding the Administrative Agent's Security Interest. The Administrator (on behalf of the Trust) hereby represents and warrants for the benefit of the Secured Creditors as follows on the Closing Date, each Advance Date, and each Reporting Date:

(a) This Agreement creates a valid and continuing security interest (as defined in the New York UCC) in the Pledged Collateral in favor of the Administrative Agent, which security interest is both perfected and prior to all other liens, charges, security interests, mortgages or other encumbrances, and is enforceable as such as against creditors of and purchasers from the Trust.

(b) The Trust, by and through the Eligible Lender Trustee as its Eligible Lender, owns and has good and marketable title to the Trust Student Loans and other Pledged Collateral free and clear of any Adverse Claim.

(c) The Trust has caused the filing of all appropriate financing statements in the proper filing office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Pledged Collateral granted to the Administrative Agent hereunder.

(d) All executed originals (or certified copies thereof to the extent more than one loan is evidenced by such Student Loan Note) of each Student Loan Note that constitute or evidence the Trust Student Loans have been delivered to the applicable Servicer, as bailee for the Administrative Agent for the benefit of the Secured Creditors.

(e) Other than the security interest granted to the Administrative Agent pursuant to this Agreement, the Trust has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Pledged Collateral. The Trust has not authorized the filing of and is not aware of any financing statements against the Trust that include a description of collateral covering the Pledged Collateral other than any financing statement relating to the security interest granted to the Administrative Agent hereunder or any financing statement that has been terminated. There are no judgments or tax lien filings against the Trust.

(f) The Trust is a "registered organization" (as defined in §9-102(a)(70) of the UCC) organized exclusively under the laws of the State of Delaware and, for purposes of Article 9 of the UCC, the Trust is located in the State of Delaware.

(g) The Trust's exact legal name is the name set forth for it on the signature page hereto.

**Section 5.03.** Particular Representations and Warranties of the Trust. The Administrator (on behalf of the Trust) further represents and warrants to each of the parties hereto with respect to each of the Trust Student Loans included in the Pledged Collateral:

(a) Such Trust Student Loans constitute "accounts," "promissory notes" or "payment intangibles" within the meaning of the applicable UCC and are within the coverage of Sections 432(m)(1)(E) and 439(d)(3) of the Higher Education Act;

(b) Such Trust Student Loans are Eligible FFELP Loans as of the date they become Pledged Collateral and as of any other date upon which they are declared by the Trust or the Administrator to be Eligible FFELP Loans and the description of such Eligible FFELP Loans set forth in the Transaction Documents or the Schedule of Trust Student Loans and in any other documents or written information provided to any of the parties hereunder (other than documents or information stated to be preliminary which have subsequently been replaced by definitive documents or information), as applicable, is true and correct in all material respects;

(c) The Trust is authorized to pledge such Trust Student Loans and the other Pledged Collateral; and the sale, assignment and transfer of such Trust Student Loans has been made pursuant to and consistent with the laws and regulations under which the Trust operates, and will not violate any decree, judgment or order of any court or agency, or conflict with or result in a breach of any of the terms, conditions or provisions of any agreement or instrument to which the Trust is a party or by which the Trust or its property is bound, or constitute a default (or an event which could constitute a default with the passage of time or notice or both) thereunder;

(d) No consents or approvals are required for the consummation of the pledge of the Pledged Collateral hereunder to the Administrative Agent for the benefit of the Secured Creditors;

(e) Any payments on such Trust Student Loans received by the Trust which have been allocated to the reduction of principal and interest on such Trust Student Loans have been allocated on a simple interest basis;

(f) Due diligence and reasonable care have been exercised in making, administering, servicing and collecting the Trust Student Loans and, with respect to any Trust Student Loan for which repayment terms have been established, all disclosures of information required to be made pursuant to the Higher Education Act have been made;

(g) Except for Trust Student Loans executed electronically or Trust Student Loans evidenced by a master promissory note, there is only one original executed copy of the Student Loan Note evidencing each such Trust Student Loan. For such Trust Student Loans that were executed electronically, the Master Servicer has possession of the electronic records evidencing the Student Loan Note. Each applicable Servicer has in its possession a copy of the endorsement and each Loan Transmittal Summary Form identifying the Student Loan Notes that constitute or evidence the Trust Student Loans. The Student Loan Notes that constitute or evidence the Trust Student Loans do not have any marks or notations indicating that they are currently pledged, assigned or otherwise conveyed to any Person other than the Administrative Agent. All financing statements filed or to be filed against the Eligible Lender Trustee and the Trust in favor of the Administrative Agent in connection herewith describing the Pledged Collateral contain a statement to the following effect: "A purchase of or security interest in any collateral described in this financing statement will violate the rights of the Secured Party"; and

(h) The applicable parties shall have performed, satisfied and complied with the conditions set forth in Section 3 of the Purchase Agreement, the Conveyance Agreement (or the Tri-Party Transfer Agreement, as applicable) and the Sale Agreement as of the date of the related bill of sale.

**Section 5.04.** Repurchase of Student Loans; Reimbursement. The Trust shall cause the obligations of each of the Depositor, the Master Depositor, the Master Servicer and the Sellers (or any guarantor on its respective behalf) to purchase, repurchase, make reimbursement or substitute Trust Student Loans to be enforced to the extent such obligations are set forth in the Sale Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement, the applicable Purchase Agreement and the Servicing Agreement. The Trust shall cause any such repurchase amount or reimbursement to be remitted to the Collection Account. Any substitute Trust Student Loan obtained by the Trust from the Master Depositor, the Depositor, any Servicer or Seller shall constitute Pledged Collateral hereunder.

**Section 5.05.** Administrator Actions Attributable to the Trust. Any action required to be taken by the Trust hereunder may be taken by the Administrator on behalf of the Trust, to the extent permitted under the Administration Agreement. The Trust shall be fully responsible for each of the representations, warranties, certifications and other statements made herein, in any other Transaction Document, any Advance Request, any Notice of Release or any other communication hereunder or thereunder by the Administrator on its behalf as if such representations, warranties, certifications or statements had been made directly by the Trust. In addition, the Trust shall be fully responsible for all actions of the Administrator taken on its behalf under this Agreement or any other Transaction Document as if such actions had been taken directly by the Trust. Nothing in this Section shall limit the responsibility of the Administrator, or relieve the Administrator from any liability for exceeding its authority under the Administration Agreement.

## ARTICLE VI.

## COVENANTS OF THE TRUST

From and after the Closing Date until all of the Obligations hereunder and under the other Transaction Documents have been satisfied in full:

**Section 6.01.** Preservation of Separate Existence.

(a) **Nature of Business**. The Trust will engage in no business other than (i) purchases, sales and financings of Trust Student Loans, (ii) the other transactions permitted or contemplated by this Agreement and the other Transaction Documents, and (iii) any other transactions permitted or contemplated by its organizational documents as they exist on the Closing Date, or as amended as such amendments may be permitted pursuant to the terms of this Agreement. The Trust will incur no other Debt except as expressly contemplated by the Transaction Documents.

(b) **Maintenance of Separate Existence**. The Trust will do all things necessary to maintain its existence as a Delaware statutory trust separate and apart from all Affiliates of the Trust, including complying with the provisions described in Section 9j(iv) of the Limited Liability Company Agreement of the Depositor.

(c) **Transactions with Affiliates**. The Trust will not enter into, or be a party to, any transaction with any of its respective Affiliates, except (i) the transactions permitted or

contemplated by this Agreement (including the sale and purchase of Eligible FFELP Loans to or from Affiliates) or the other Transaction Documents; and (ii) other transactions (including, without limitation, the lease of office space or computer equipment or software by the Trust to or from an Affiliate) (A) in the ordinary course of business, (B) pursuant to the reasonable requirements of the Trust's business, (C) upon fair and reasonable terms that are no less favorable to the Trust than could be obtained in a comparable arm's-length transaction with a Person not an Affiliate of the Trust, and (D) not inconsistent with the factual assumptions set forth in the opinion letter issued as of the Closing Date by Bingham McCutchen LLP to the Secured Creditors relating to the issues of substantive consolidation.

**Section 6.02.** Notice of Termination Event, Potential Termination Event or Amortization Event. As soon as possible and in any event within three Business Days after the occurrence of each Termination Event, each Potential Termination Event, each Amortization Event and each Potential Amortization Event (or, to the extent the Trust does not have knowledge of a Termination Event, Potential Termination Event, Amortization Event or Potential Amortization Event, promptly upon obtaining such knowledge), the Trust will provide (or shall cause the Administrator to provide) to the Administrative Agent a statement setting forth details of such Termination Event, Potential Termination Event, Amortization Event or Potential Amortization Event and the action which the Trust has taken or proposes to take with respect thereto. The Administrative Agent shall promptly forward such notice to the Managing Agents. The Administrative Agent shall promptly provide written notice of any Termination Event, Potential Termination Event, Amortization Event or Potential Amortization Event of which it has knowledge to the applicable Rating Agencies.

**Section 6.03.** Notice of Material Adverse Change. As soon as possible and in any event within three Business Days after becoming aware of an event which could reasonably be expected to have a Material Adverse Effect on the Trust, the Trust will provide to the Administrative Agent written notice thereof. The Administrative Agent shall promptly forward such notice to the Managing Agents.

**Section 6.04.** Compliance with Laws; Preservation of Corporate Existence; Code of Conduct.

(a) The Trust will comply in all material respects with all applicable laws, rules, regulations and orders and preserve and maintain its legal existence, and will preserve and maintain its rights, franchises, qualifications and privileges in all material respects.

(b) Sallie Mae, Inc. agrees to comply in all material respects with the Student Loan Code of Conduct that it entered into with the New York Attorney General on April 11, 2007 and agrees to comply in all material respects with any other similar codes of conduct that it may expressly agree to after the Closing Date.

**Section 6.05.** Enforcement of Obligations.

(a) ***Enforcement of Trust Student Loans.*** The Trust shall cause to be diligently enforced and taken all steps, actions and proceedings reasonably necessary for the enforcement of all terms, covenants and conditions of all Trust Student Loans and agreements in connection

therewith (except as otherwise permitted pursuant to the Transaction Documents), including the prompt payment of all principal and interest payments and all other amounts due the Trust or the Eligible Lender Trustee, as applicable thereunder.

(b) ***Enforcement of Servicing Agreements and Administration Agreement.*** The Trust shall cause to be diligently enforced and taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Servicing Agreements and the Administration Agreement, including all Interest Subsidy Payments, Special Allowance Payments and all defaulted payments Guaranteed by any Guarantor and/or by the Department of Education which relate to any Trust Student Loans. Except as otherwise permitted under any Transaction Document, the Trust shall not permit the release of the obligations of any Servicer under any Servicing Agreement or of the Administrator under the Administration Agreement and shall at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Trust, the Eligible Lender Trustee and the Secured Creditors under or with respect to each Servicing Agreement and the Administration Agreement. The Trust shall not consent or agree to or permit any amendment or modification of any Servicing Agreement or of the Administration Agreement, except (i) as required by the Higher Education Act; (ii) solely for the purpose of extending the term thereof; or (iii) in any other manner, if such modification, amendment or supplement is made pursuant to the terms of that agreement. Upon the occurrence of a Servicer Default and during the continuation thereof, the Trust shall replace the Servicer subject to such Servicer Default if instructed to do so by the Administrative Agent. Upon the occurrence of an Administrator Default and during the continuation thereof, the Trust shall replace the Administrator if instructed to do so by the Administrative Agent.

(c) ***Enforcement of Purchase Agreements, Conveyance Agreement, Tri-Party Transfer Agreement and Sale Agreement.*** The Trust shall cause to be diligently enforced and taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of each Purchase Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement and the Sale Agreement. Except as otherwise permitted under any Transaction Document, the Trust shall not permit the release of the obligations of any Seller under any Purchase Agreement, of the Master Depositor under the Conveyance Agreement, of any Related SPE Seller under the Tri-Party Transfer Agreement or of the Depositor under the Sale Agreement (or in each case any guarantor of the obligations thereof) and shall at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Trust, the Depositor, the Master Depositor, the Eligible Lender Trustee and the Secured Creditors under or with respect to each Purchase Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement and the Sale Agreement. Except as otherwise permitted under any Transaction Document, the Trust shall not consent or agree to or permit any amendment or modification of any Purchase Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement or the Sale Agreement which will in any manner materially adversely affect the rights or security of the Administrative Agent, the Eligible Lender Trustee or the Secured Creditors. To the extent such action is required under the terms of the Sale Agreement, upon a determination that a Trust Student Loan sold pursuant to a Purchase Agreement was not an Eligible FFELP Loan at the time it was represented to be as such, the Trust shall require the Depositor to repurchase such Trust Student Loan from the Trust pursuant to the Sale Agreement.

(d) ***Enforcement and Amendment of Guarantee Agreements.*** So long as any Class A Notes are Outstanding and each Trust Student Loan is guaranteed by a Guarantee, the Administrator on behalf of the Trust shall (i) from and after the date on which the Eligible Lender Trustee on its behalf shall have entered into any Guarantee Agreement covering Trust Student Loans, cause the Eligible Lender Trustee to maintain such Guarantee Agreement and diligently enforce the Eligible Lender Trustee's rights thereunder; (ii) cause the Eligible Lender Trustee to enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Trust Student Loans covered thereby; and (iii) not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any such Guarantee Agreement or any similar or supplemental agreement in any manner which would materially and adversely affect the ability of the Trust to perform its obligations under this Agreement or cause a Material Adverse Effect with respect to the Trust without the prior written consent of the Administrative Agent.

**Section 6.06.** Maintenance of Books and Records. The Administrator on behalf of the Trust shall maintain and implement or cause to be maintained and implemented administrative and operating procedures (including, without limitation, an ability to recreate records evidencing the Pledged Collateral in the event of the destruction of the originals thereof), and keep and maintain, or cause to be kept and maintained, all documents, books, records and other information reasonably necessary or advisable for the collection of all the Pledged Collateral.

**Section 6.07.** Fulfillment of Obligations. The Trust shall fulfill its obligations pursuant to the Transaction Documents. The Trust shall cause each of its Affiliates to fulfill its respective obligations pursuant to the Transaction Documents.

**Section 6.08.** Notice of Material Litigation. As soon as possible and in any event within three Business Days of the Trust's actual knowledge thereof, the Trust shall cause the Administrative Agent to be provided with written notice of (a) any litigation, investigation or proceeding which may exist at any time which could be reasonably likely to have a Material Adverse Effect on the Trust; and (b) to the extent reasonably requested by the Administrative Agent in connection with the delivery of each Monthly Report, a monthly update of material adverse developments in previously disclosed litigation, including in each case, if known to the Trust, including any of the same against a Servicer.

**Section 6.09.** Notice of Relocation. The Administrator on behalf of the Trust shall cause the Administrative Agent to be provided notice of any change in the location of the Trust's principal offices or any change in the location of the Trust's books and records within thirty days before any such change.

**Section 6.10.** Rescission or Modification of Trust Student Loans and Transaction Documents.

(a) Except as expressly permitted in the Servicing Agreement, the Trust shall not permit the release of the obligations of any Obligor under any Trust Student Loan and shall at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Trust and the Secured Creditors under or with respect to each Trust Student Loan and each agreement in connection therewith. The Trust shall not consent or

agree to or permit any modification, extension or renegotiation in any way of any Trust Student Loan or agreement in connection therewith unless such modification, extension or renegotiation is (i) required under the Higher Education Act or other applicable laws, rules and regulations and the applicable Guarantee Agreement, (ii) provided for in the applicable underwriting guidelines or Servicing Policies, if such modification, extension or renegotiation does not materially adversely affect the value or collectability thereof or (iii) expressly provided for or permitted in the Transaction Documents. Nothing in this Agreement shall be construed to prevent the Trust, the Eligible Lender Trustee or the Administrative Agent, as applicable, from offering any Obligor any borrower benefit to the extent permissible by this Agreement or the Servicing Agreement or settling a default or curing a delinquency on any Trust Student Loan on such terms as shall be permitted by law and shall be consistent with the applicable underwriting guidelines or Servicing Policies.

(b) Unless otherwise specified pursuant to clause (a) above or in any Transaction Document, without the written consent of the Required Managing Agents (and the written consent of the Administrative Agent or the Syndication Agent to the extent any of the following would require the Administrative Agent or the Syndication Agent to take any action or amend, modify or waive the duties or responsibilities of the Administrative Agent or the Syndication Agent hereunder), the Trust will not (nor will it permit any of its agents to):

(i) cancel, terminate, extend, amend, modify or waive (or consent to or approve any of the foregoing) any provision of any Transaction Document (other than any cancellation or termination of a Guarantee Agreement that does not apply at such time to any Trust Student Loans or any extension, amendment, modification or waiver of a Guarantee Agreement that would not have a Material Adverse Effect on the Trust); or

(ii) take or consent to any other action that may impair the rights of any Secured Creditor to any Pledged Collateral or modify, in a manner adverse to any Secured Creditor, the right of such Secured Creditor to demand or receive payment under any of the Transaction Documents (other than any action with regard to a Guarantee Agreement that does not apply at such time to any Trust Student Loans or any extension, amendment, modification or waiver of a Guarantee Agreement that would not have a Material Adverse Effect on the Trust).

**Section 6.11.** Liens.

(a) ***Transaction Documents*.** The Trust (i) will cause to be taken all action necessary to perfect, protect, keep in full force and effect and more fully evidence the ownership interest of the Trust (or of the Eligible Lender Trustee, acting on behalf of the Trust) and the first priority perfected security interest of the Administrative Agent in favor of the Secured Creditors in the Trust Student Loans, Collections with respect thereto and in the other Pledged Collateral and the Transaction Documents including, without limitation, (A) filing and maintaining effective financing statements (Form UCC-1) in all necessary or appropriate filing offices; (B) filing continuation statements, amendments or assignments with respect thereto in such filing offices; (C) filing amendments, releases and terminations with respect to filed financing statements, as necessary; and (D) executing or causing to be executed such other instruments or notices as may be necessary or appropriate; and (ii) will cause to be taken all additional actions to perfect,

protect, keep in full force and effect and fully evidence the first priority security interest of the Administrative Agent, for the benefit of the Secured Creditors, in the Trust Student Loans and other Pledged Collateral related thereto reasonably requested by the Administrative Agent.

(b) ***UCC Matters; Protection and Perfection of Pledged Collateral; Delivery of Documents.*** Unless the Trust has complied with Section 6.09, the Trust will keep its principal place of business and chief executive office, and the office where it keeps any Records in its possession, at the address of the Trust referred to in Exhibit M. The Trust will not make any change to its name unless prior to the effective date of any such name change or use, the Trust delivers to the Administrative Agent such financing statements necessary, or as the Administrative Agent may request, to reflect such name change, together with such other documents and instruments as the Administrative Agent may request in connection therewith. The Trust will not change its jurisdiction of formation or its corporate structure.

The Trust agrees that from time to time, at its expense, it will promptly execute and deliver all further instruments and documents, and take all further action necessary, or that the Administrative Agent may reasonably request, in order to maintain the Administrative Agent's first priority perfected security interest in the Pledged Collateral for the benefit of the Secured Creditors, or to enable the Administrative Agent or the Secured Creditors to exercise or enforce any of their respective rights hereunder (provided, however, that the foregoing sentence shall not be deemed to require the Trust or the Master Servicer to relocate or deliver any Student Loan Notes to or at the direction of the Administrative Agent prior to the Termination Date). Without limiting the generality of the foregoing, the Trust will: (i) authorize and file such financing or continuation statements, or amendments thereto or assignments thereof, and such other instruments or notices, as may be necessary or appropriate (or as the Administrative Agent may request); and (ii) mark their master data processing records evidencing such Pledged Collateral with a legend or numeric code acceptable to the Administrative Agent, evidencing that the Administrative Agent, for the benefit of the Secured Creditors, has acquired an interest therein as provided in this Agreement. The Trust hereby authorizes the Administrative Agent, or any Secured Creditor on behalf of the Trust, to file one or more financing or continuation statements, and amendments thereto and assignments thereof, relative to all or any of the Pledged Collateral now existing or hereafter arising without the signature of the Trust where permitted by law. A carbon, photographic or other reproduction of this Agreement or any financing statement covering the Pledged Collateral, or any part thereof, shall be sufficient as a financing statement. If the Trust fails to perform any of its agreements or obligations under this Section, the Administrative Agent or any Secured Creditor may (but shall not be required to) itself perform, or cause performance of, such agreement or obligation, and the expenses of the Administrative Agent or such Secured Creditor incurred in connection therewith shall be payable by the Trust upon the Administrative Agent's or such Secured Creditor's demand therefor.

For purposes of enabling the Administrative Agent or any such Secured Creditor to exercise their respective rights described in the preceding sentence and elsewhere in this Agreement, the Trust and the Eligible Lender Trustee hereby authorize, and irrevocably grant a Power of Attorney, exercisable only after the occurrence and during the continuation of a Termination Event, to the Administrative Agent and its respective successors and assigns to take any and all steps in the Trust's and the Eligible Lender Trustee's name and on behalf of the Trust and/or the Eligible Lender Trustee necessary or desirable, in the determination of the

Administrative Agent, as the case may be, to collect all amounts due under any and all Trust Student Loans and other Pledged Collateral, including, without limitation, (i) endorsing the promissory notes to the Administrative Agent or its designee, such that the Administrative Agent or such designee becomes the holder of the promissory notes and has the rights and powers of a holder under applicable law, (ii) endorsing the Trust's and/or the Eligible Lender Trustee's name on checks and other instruments representing Collections and (iii) enforcing such Trust Student Loans and other Pledged Collateral.

**Section 6.12.** Sales of Assets; Consolidation/Merger.

(a) ***Sales, Liens, Etc.*** Except as otherwise provided herein or in any other Transaction Document, the Trust will not (nor will it permit the Eligible Lender Trustee to) sell, assign (by operation of law or otherwise) or otherwise dispose of, or create or suffer to exist any Adverse Claim upon or with respect to, any Pledged Collateral.

(b) ***Merger, Etc.*** The Trust will not merge or consolidate with any other entity. The Trust will not convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions), all or substantially all of its assets (whether now owned or hereafter acquired), or acquire all or substantially all of the assets or capital stock or other ownership interest of any Person, other than with respect to asset acquisitions or dispositions permitted under the Transaction Documents. The Trust shall not form or create any subsidiary without the consent of each Managing Agent.

**Section 6.13.** Change in Business. The Trust will not make any change in the character of its business, which change could reasonably be expected to impair the collectability of any Pledged Collateral or otherwise materially adversely affect the interests or remedies of the Administrative Agent or the Note Purchasers under this Agreement or any other Transaction Document.

**Section 6.14.** Residual Interest. The Trust will not issue any Excess Distribution Certificates (other than replacement Excess Distribution Certificates) to any Person other than the Depositor; provided, however, that the Excess Distribution Certificate may be transferred to and owned by an Affiliate of the Depositor and the Depositor or such Affiliate may pledge the Excess Distribution Certificate to the Administrative Agent for the benefit of the Secured Creditors to secure the obligations under the Transaction Documents.

**Section 6.15.** General Reporting Requirements. The Trust shall provide to the Administrative Agent (and, as applicable, will cause the Master Servicer to provide) the following:

(a) as soon as available and in any event within 120 days after the end of each fiscal year of the Trust, the Depositor and the Master Servicer, an annual statement of compliance with the Transaction Documents and applicable law together with an agreed upon procedures letter delivered by an independent public accountant with respect to the Transaction Documents, all in form acceptable to the Administrative Agent;

(b) as soon as available and in any event within 90 days after the end of each fiscal year of SLM Corporation, a copy of the balance sheet of SLM Corporation and its consolidated

subsidiaries and the related statements of income, stockholders' equity and cash flows for such year, each prepared in accordance with GAAP consistently applied and duly certified by nationally recognized independent certified public accountants selected by SLM Corporation, together with a certificate of an officer certifying that such financial statements fairly present in all material respects the financial condition of SLM Corporation and its consolidated subsidiaries;

(c) as soon as available and in any event within 60 days after the end of each fiscal quarter of SLM Corporation, a copy of an unaudited balance sheet of SLM Corporation and its consolidated subsidiaries and the related statements of income, stockholders' equity and cash flows for such fiscal quarter, each prepared in accordance with GAAP consistently applied, together with a certificate of an officer certifying that such financial statements fairly present in all material respects the financial condition of SLM Corporation and its consolidated subsidiaries;

(d) promptly following the Administrative Agent's or any Managing Agent's request therefor, copies of all financial statements, settlement statements, portfolio and other material reports, notices, disclosures, certificates and other written material delivered or made available to the Trust by any Person pursuant to the terms of any Transaction Document;

(e) promptly following the Administrative Agent's or any Managing Agent's request therefor, such other information respecting the Trust Student Loans and the other Pledged Collateral or the conditions or operations, financial or otherwise, of the Trust as the Administrative Agent or any Managing Agent may from time to time reasonably request;

(f) with respect to each Guarantor, promptly after receipt thereof as made available to the Trust after request therefor, copies of any audited financial statements of such Guarantor certified by an independent certified public accounting firm;

(g) with respect to each Servicer and promptly after receipt thereof after a good faith effort to obtain such material is made by the Trust, (i) copies of any annual audited financial statements of such Servicer other than the Master Servicer for so long as the Master Servicer is a consolidated subsidiary of SLM Corporation, to the extent available, certified by an independent certified public accounting firm, (ii) on an annual basis within 30 days after receipt thereof, copies of SAS 70 reports for such Servicer, or, if not available, the annual compliance audit for each Servicer required by Section 428(b)(1)(U) of the Higher Education Act and (iii) to the extent not included in the financial information provided pursuant to clauses (i) and (ii) above and to the extent available, such Servicer's net dollar loss for the year due to servicing errors;

(h) promptly following the Administrative Agent's or any Managing Agent's request therefor, a Schedule of Trust Student Loans;

(i) promptly and in any event within 45 days after the filing or receiving thereof, copies of all reports and notices with respect to (A) any "Reportable Event," relating to a Benefit Plan (B) the institution of proceedings or the taking of any other action regarding the termination of, withdrawal from, reorganization within the meaning of Section 4241 of ERISA or insolvency within the meaning of Section 4245 of ERISA, any Benefit Plan subject to Title IV of ERISA

which the Trust or any of its ERISA Affiliates files under ERISA with the Internal Revenue Service, the PBGC or the U.S. Department of Labor or which the Trust or any of its ERISA Affiliates receives from the PBGC, (C) a failure to make any required contribution to a Benefit Plan or (D) the creation of any lien against the assets of the Trust or an ERISA Affiliate in favor of the PBGC or a Benefit Plan under ERISA;

(j) promptly after the occurrence thereof, written notice of changes in the Higher Education Act or any other law of the United States that could reasonably have a probability of having a Material Adverse Effect on the Trust or could materially and adversely affect (i) the ability of a Servicer to perform its obligations under its Servicing Agreement, (ii) the ability of a Subservicer to perform its obligations under its Servicing Agreement, or (iii) the collectability or enforceability of a material amount of the Trust Student Loans, or any Guarantee Agreement or Federal Reimbursement Contract with respect to a material amount of Trust Student Loans;

(k) promptly, notice of any change in the accountants of the Trust or SLM Corporation;

(l) promptly, after the occurrence thereof or if sooner upon any executive officer of the Administrator having direct or primary responsibility for ABS trust administration obtaining knowledge of any pending change, notice of any change in the accounting policy of the Trust or SLM Corporation to the extent such change could reasonably be seen to have a material and adverse impact on the transactions contemplated herein;

(m) promptly, copies of any written notices received by SLM Corporation or any of its Affiliates from the Department or any other Governmental Authority regarding any material non-compliance by SLM Corporation or any of its Affiliates with any government sponsored facility for the financing of FFELP Loans; and

(n) any information made available to the Eligible Lender Trustee pursuant to Section 11.05(b) of the Trust Agreement to the extent such information was not previously delivered to the Administrative Agent.

**Section 6.16.** Inspections. The Administrative Agent and the Managing Agents may, upon reasonable notice and from time to time during regular business hours, once per calendar year (or, after the occurrence and during the continuation of an Amortization Event or a Termination Event, as frequently as requested by the Administrative Agent on behalf of any Managing Agent) (i) examine and make copies of and take abstracts from all books, records and documents (including computer tapes and disks) relating to the Pledged Collateral and (ii) visit the offices and properties of the Trust (or the Master Servicer or Subservicer, as applicable) for the purpose of examining such materials described in clause (i) above, and to discuss matters relating to the Pledged Collateral or the Trust's (or the Master Servicer's or Subservicer's) performance hereunder and under the other Transaction Documents with any of the officers, directors, employees or independent public accountants of the Trust (to the extent available), the Master Servicer or Subservicer having knowledge of such matters. Any reasonable expenses related to such inspections shall be reimbursable directly by the Master Servicer. In addition, from time to time during the year, the Administrative Agent and the Managing Agents may, at

their own expense, conduct any other inspections as they may deem necessary or appropriate, provided such inspections occur upon reasonable notice and during regular business hours.

**Section 6.17.** ERISA. The Trust will not adopt, maintain, contribute to or incur by any of its own actions or assume any legal obligation with respect to any Benefit Plan or Multiemployer Plan.

**Section 6.18.** Servicers. Except as permitted by any Servicing Agreement, the Trust will not permit any Person other than the Master Servicer or a Subservicer to collect, service or administer the Trust Student Loans. The Trust will promptly provide, or cause to be provided, to the Rating Agencies notice of any resignation, replacement, merger or consolidation of the Servicer and of any amendments or other modifications made to the Servicing Agreement.

**Section 6.19.** Acquisition, Financing, Collection and Assignment of Student Loans. The Trust shall acquire or finance only Eligible FFELP Loans with proceeds of the Advances and shall cause to be collected all principal and interest payments on all the Trust Student Loans and all sums to which the Trust or Administrative Agent is entitled pursuant to the Sale Agreement, and all Interest Subsidy Payments, Special Allowance Payments and all defaulted payments Guaranteed by any Guarantor which relate to such Trust Student Loans as more fully set forth in the Servicing Agreement. The Trust shall assign or direct the assignment of such Trust Student Loans for payment of guarantee benefits as required by applicable law and regulations. The Trust shall comply in all material respects with any Guarantor’s rules and regulations which apply to such Trust Student Loans. From and after the Closing Date, the Trust shall purchase only Student Loans from the Depositor pursuant to the Sale Agreement that have been sold by (i) an Ongoing Seller to the Master Depositor pursuant to a Purchase Agreement and by the Master Depositor to the Depositor pursuant to the Conveyance Agreement or (ii) a Related SPE Seller to the Depositor pursuant to the Tri-Party Transfer Agreement.

**Section 6.20.** Administration and Collection of Trust Student Loans. All Trust Student Loans shall be administered and collected either by the Trust or by the Master Servicer or a Subservicer on behalf of the Trust in accordance in all material respects with the Servicing Agreements.

**Section 6.21.** Obligations of the Trust With Respect to Pledged Collateral. The Trust will (a) at its expense, regardless of any exercise by any Secured Creditor of its rights hereunder, timely and fully perform and comply with all provisions, covenants and other promises required to be observed by it under the Transaction Documents included in the Pledged Collateral to the same extent as if the Pledged Collateral had not been pledged hereunder; and (b) pay when due any taxes, including without limitation, sales and excise taxes, payable in connection with the Pledged Collateral. In no event shall any Secured Creditor have any obligation or liability with respect to any Trust Student Loans or other instrument document or agreement included in the Pledged Collateral, nor shall any of them be obligated to perform any of the obligations of the Trust or any of its Affiliates thereunder. The Trust will timely and fully comply in all respects with each Transaction Document to which it is a party.

**Section 6.22.** Asset Coverage Requirement. The Trust shall at all times, to the best of its actual knowledge, cause the Asset Coverage Ratio to not be less than 100.00%.

**Section 6.23.** Amendment of Organizational Documents. The Trust shall cause the Administrative Agent to be notified in writing of any proposed amendments to the Trust's organizational documents. No such amendment shall become effective unless and until the Required Managing Agents have consented in writing thereto, which consent shall not be unreasonably withheld or delayed.

**Section 6.24.** Amendment of Underwriting Guidelines or Servicing Policies. Promptly after the occurrence thereof, the Trust shall cause the Administrative Agent to be notified of any material changes to the underwriting guidelines or Servicing Policies. The Trust shall not permit or implement any change in the underwriting guidelines or Servicing Policies applicable to any Trust Student Loan which would materially and adversely affect the collectability of any Trust Student Loan, the performance of the portfolio of Trust Student Loans or the Administrative Agent's security interest in such Trust Student Loans without the prior written consent of the Required Managing Agents, and unless such changes are made with respect to all FFELP Loans serviced by the Servicer for its own portfolio and for securitization trusts sponsored by SLM Corporation.

**Section 6.25.** No Payments on Excess Distribution Certificate. Except as expressly permitted by Section 2.05(b) or Section 2.18(d) of this Agreement, the Trust shall not make any payments or distributions with respect to the Excess Distribution Certificate without the prior written consent of the Required Managing Agents.

**Section 6.26.** Borrower Benefit Programs.

(a) The Trust shall cause the Servicer to maintain any rate reduction programs or other borrower benefit programs in effect at the time the Trust purchased such Trust Student Loan. The Trust shall not permit any Servicer to apply any additional rate reduction programs with respect to the Trust Student Loans unless (i) such borrower benefit program is required under the Higher Education Act, (ii) the Master Servicer, the Depositor or the applicable Seller has deposited funds into the Borrower Benefit Account in an amount sufficient to offset any effective yield reductions in accordance with Section 3.12 of the Servicing Agreement and the Rating Agency Condition has been satisfied with respect to such program or (iii) the Administrative Agent has consented to the Trust's participation in that borrower benefit program or other rate reduction program and the Rating Agency Condition has been satisfied with respect to such program.

(b) With respect to each Advance Date for a Purchase Price Advance, if any Eligible FFELP Loans (excluding any Eligible FFELP Loans that were owned by the Trust or any Related SPE Trusts on the Closing Date) to be sold to the Trust on such Advance Date are subject to a Borrower Benefit Program, the Master Servicer, the Depositor or the applicable Seller shall deposit any Borrower Benefit Amount relating to such Eligible FFELP Loans into the Borrower Benefit Account. On each Settlement Date, based on information provided by the Servicer, the Administrative Agent shall withdraw funds on deposit in the Borrower Benefit Account in excess of the expected net present value of the aggregate maximum amount of borrower benefits (including Borrower Benefit Amounts) that could be payable on all related Trust Student Loans for which Required Borrower Benefit Amounts were previously deposited and shall deposit such excess amount into the Collection Account and treat such excess amount

as Available Funds for such Settlement Date. In addition, on each date that the advance rates under clause (a) of the definition of "Applicable Percentage" are adjusted by the Rating Agencies, the Administrative Agent shall withdraw all funds on deposit in the Borrower Benefit Account on such date and shall deposit such amount into the Collection Account for application as Available Funds on the next Settlement Date.

**Section 6.27.** [RESERVED].

**Section 6.28.** Most Favored Nations. If, at any time while the Class A Notes are Outstanding, SLM Corporation or any of its Affiliates enters into, or commits to enter into, any financing transaction which contains financial covenants substantially similar or in addition to those set forth in Section 7.02(p) or 7.02(q) herein, the Administrator must, prior to the time SLM Corporation or any of its Affiliates enters into such transaction, certify to the Administrative Agent and the Managing Agents a true and correct copy of all financial covenants contained in any such financing transaction. If, in the reasonable determination of the Required Managing Agents, such financial covenants are materially more favorable to the lenders under such financing transaction than the corresponding covenants set forth herein, then, at the request of the Administrative Agent, this Agreement shall be amended in accordance with Section 10.01 to conform to the more restrictive (or more expansive, as applicable) financial covenants set forth in the related transaction documents.

**Section 6.29.** Advance Rates. In connection with each Step-Down Date, if required by the Rating Agencies, the Administrator, on behalf of the Trust, shall seek to obtain updated advance rates described in clause (a) of the definition of "Applicable Percentage" from the Rating Agencies.

**Section 6.30.** Releases. Each time that an aggregate Principal Balance of Trust Student Loans (that are owned by the Trust and the Related SPE Trusts on the Closing Date), that are or have been transferred pursuant to one or more Permitted Releases by the Trust and/or the Related SPE Trusts, exceeds $1,000,000,000, the Administrator on behalf of the Trust shall obtain a ratings affirmation letter from each Rating Agency as soon as practicable thereafter; provided however, that no letter need be obtained if at such time a Rating Agency does not require that its rating be reaffirmed. For the avoidance of doubt, any Trust Student Loan included in the calculation of a $1,000,000,000 threshold shall not be included in future calculations for determining the date upon which an additional ratings affirmation letter may need to be obtained.

## ARTICLE VII.

## AMORTIZATION EVENTS AND TERMINATION EVENTS

**Section 7.01.** Amortization Events.

Each of the following events (each, an "***Amortization Event***") shall be an Amortization Event under this Agreement:

(a) the Aggregate Note Balance and all other Obligations due under the Transaction Documents are not repaid in full on the Scheduled Maturity Date (as such date may be extended from time to time); or

(b) any settlement or one or more judgments or orders for the payment of money or adverse rulings shall be rendered against any Seller, the Depositor, the Master Depositor, any Related SPE Seller, the Administrator or the Master Servicer in excess of $50,000,000 on an individual basis or on an aggregate basis that relates to the student loan origination or servicing practices of such Person and such settlement, judgment or ruling shall remain unsatisfied or unstayed for a period in excess of 30 days; or

(c) the filing of any judgment or adverse ruling against any Seller, the Depositor, the Master Depositor, the Master Servicer, the Administrator, any Related SPE Seller or SLM Corporation that could reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on such Person and such judgment or ruling shall remain unsatisfied or unstayed for a period in excess of 30 days; or

(d) any material adverse development in any federal or state litigation, investigation or proceeding against the Trust, the Depositor, the Administrator, any Seller, the Master Servicer, the Master Depositor, any Related SPE Seller, or SLM Corporation shall occur that could reasonably be expected to have a Material Adverse Effect on such Person or on the Pledged Collateral which continues for 30 days after the earlier to occur of knowledge thereof or written notice thereof shall have been received by the Trust; or

(e) the filing of any actions or proceedings against the Trust, the Depositor, the Administrator, any Seller, the Master Servicer, any Related SPE Seller, the Master Depositor or SLM Corporation that involves the Transaction Documents or any material portion of the Pledged Collateral as to which the Administrative Agent reasonably believes there is likely to result a materially adverse determination which remains unsettled, unsatisfied or unstayed for a period in excess of 30 days; or

(f) (i) the Internal Revenue Service shall file notice of a lien involving a sum in excess of $50,000,000 pursuant to Section 6323 of the Code with regard to any assets of the Trust and such lien shall not have been released within two Business Days, (ii) any Person shall institute steps to terminate any Benefit Plan if the assets of such Benefit Plan are insufficient to satisfy all of its benefit liabilities in excess of $50,000,000 (as determined under Title IV of ERISA), or a contribution failure in excess of $50,000,000 occurs with respect to any Benefit Plan, which is sufficient to give rise to a lien under Section 302(f) or 303(k), as applicable, of ERISA or where the PBGC shall, or shall indicate its intention to, file notice of a lien pursuant to Section 4068 of ERISA with regard to any of the assets of the Trust and in each case such lien shall not have been released within two Business Days, or (iii) any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving a Benefit Plan; or any Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, a Benefit Plan subject to Title IV of ERISA, which Reportable Event is likely to result in termination of such Benefit Plan; or the Trust or any ERISA Affiliate is likely to incur any liability in connection with the withdrawal from, or the insolvency within the meaning of Section 4245 of ERISA or reorganization within the meaning of Section 4241 of ERISA of, a Multiemployer Plan; provided, that an event described in this subsection (f) shall not be an Amortization Event unless such event could reasonably be expected to have a Material Adverse Effect on the Trust or on SLM Corporation; or

(g) any material provision of this Agreement or any other Transaction Document (other than a Guarantee Agreement that does not apply at such time to any Trust Student Loans) to which the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer is a party shall cease to be in full force and effect for a period of 30 days subject to any other applicable cure period under this Agreement or any other Transaction Documents; or

(h) any amendment to the Higher Education Act or any other federal law becomes effective that materially adversely affects the interests of the Administrative Agent or the Note Purchasers in the Pledged Collateral; or

(i) the sum of (i) the Aggregate Note Balance of the Outstanding Class A Notes and (ii) the Capitalized Interest Account Unfunded Balance shall exceed the Maximum Financing Amount; provided, that an Amortization Period caused solely by this clause (i) shall terminate and the Revolving Period shall be reinstated if the sum of (i) the Aggregate Note Balance of the Outstanding Class A Notes and (ii) the Capitalized Interest Account Unfunded Balance no longer exceeds the Maximum Financing Amount; or

(j) the Asset Coverage Ratio shall be less than 100.00% and such deficiency shall not have been cured within five Business Days following the earlier to occur of actual knowledge or receipt of such notice by the Administrator (it being understood that, without limitation, the Administrator's receipt of a Valuation Report shall constitute notice for purposes hereof); provided, that an Amortization Period caused solely by this clause (j) shall terminate and the Revolving Period shall be reinstated if the Asset Coverage Ratio subsequently ceases to be less than 100.00%.

**Section 7.02.** Termination Events.

Each of the following events (each, a *"**Termination Event**"*) shall be a Termination Event under this Agreement:

(a) (i) the Trust shall fail to pay the Aggregate Note Balance or any other Obligations in full on the last day of the Amortization Period (other than an Amortization Period ending as a result of the reinstatement of the Revolving Period), (ii) the Trust shall fail to make any payment under Sections 2.05(b)(i) through 2.05(b)(iv) within five Business Days of the due date thereof, or (iii) the Trust, the Depositor, the Master Servicer, the Master Depositor, any Material Subservicer, SLM Corporation or the Eligible Lender Trustee shall fail to make any other payment, transfer or deposit (unless waived by the payee or in the case of a failure to make a payment by a Material Subservicer, such failure was cured by the Master Servicer within the permissible grace period) on the date first required of such party under the Transaction Documents and such failure shall remain uncured following the expiration of any applicable payment or grace period provided for in the Transaction Documents (including the Amortization Period, if applicable); provided, however, that failure by the Trust to make a required payment on a Settlement Date under Sections 2.05(b)(vi) through (xxi) solely due to insufficient Available Funds on such Settlement Date shall not by itself constitute a Termination Event (other than with respect to all amounts due and owing on the Termination Date or as expressly specified below); or

(b) any material representation, warranty, certification or statement made or deemed to be made by the Trust, the Administrator, the Eligible Lender Trustee, any Seller, the Depositor, the Master Depositor, the Master Servicer or any Material Subservicer (to the extent such entity remains a Subservicer after the 30-day cure period noted below) under or in connection with this Agreement or any other Transaction Document, or other information, report or document delivered pursuant hereto or thereto shall prove to have been incorrect in any material respect when made, deemed made or delivered (except for representations and warranties concerning Eligible FFELP Loans with respect to which the applicable Seller, the Depositor, the Master Depositor or the Servicer has repurchased the related Student Loans) and shall remain unremedied (if such default can be remedied) for the greater of (i) 30 days or (ii) the time period expressly provided for the cure of such representation or warranty in the related Transaction Document, in each case after written notice thereof shall have been received by the Trust; or

(c) the Trust, the Administrator, the Eligible Lender Trustee, any Seller, the Depositor, the Master Depositor, the Master Servicer, any Material Subservicer or SLM Corporation shall materially default in the performance or observance of any term, covenant or undertaking to be performed or observed herein (except for the obligation to cure a mark-to-market valuation deficiency described in the last sentence of Section 2.25(d), which shall instead first result in an Amortization Event as provided in Section 7.01(j)), or in any other Transaction Document on its part and any such failure shall remain unremedied (if such default can be remedied) for 30 days after the earlier to occur of actual knowledge by an Authorized Officer of the Trust, the Administrator or the Master Servicer and written notice thereof shall have been received by the Trust (or, if the obligation in question arises under another Transaction Document, within the cure period, if any, provided in such Transaction Document); provided, however, such 30-day cure period shall not apply to defaults under Section 6.01, 6.11, 6.12, or 6.25; or

(d) a Servicer Default shall have occurred with respect to the Master Servicer or the Servicing Agreement of the Master Servicer shall not be in full force and effect for any reason and the Master Servicer shall not have been replaced within 30 days after notification from the Administrative Agent; or

(e) an Event of Bankruptcy shall have occurred with respect to the Trust, the Eligible Lender Trustee, the Depositor, the Master Depositor, any Seller, the Administrator, the Master Servicer, SLM Corporation or any Material Subservicer (to the extent such entity remains a Subservicer after the 30-day period provided in the definition of an Event of Bankruptcy); or

(f) **[**reserved**]**; or

(g) the Trust shall fail to deposit, (i) for two consecutive Settlement Periods, into the Reserve Account, such additional amounts, if any, as are necessary to cause the amount on deposit in the Reserve Account to be at least equal to the Reserve Account Specified Balance, (ii) into the Borrower Benefit Account, any amount required to be deposited therein under the Transaction Documents on or prior to the first Settlement Date for such deposit as described in the Transaction Documents or (iii) into the Floor Income Rebate Account, amounts required to

be deposited therein when and as such amounts are required to be deposited pursuant to the Transaction Documents; or

(h) the filing of any judgment or adverse ruling against the Trust that could reasonably be expected to have a Material Adverse Effect on the Trust and such judgment or ruling shall continue unsatisfied or unstayed for a period in excess of 30 days; or

(i) the Administrative Agent, for the benefit of the Secured Creditors, shall, for any reason, cease to have a valid and perfected first priority security interest in the Pledged Collateral, or the Trust shall, for any reason, cease to have a valid and perfected first priority ownership interest in any of the Pledged Collateral, in each case for a period of two Business Days following the date the Administrator acquired such knowledge or its receipt of such notice; or

(j) a Change of Control has occurred with respect to the Trust, the Administrator, any Seller, the Depositor, the Master Depositor or the Master Servicer; or

(k) the Depositor shall fail to maintain its status as a limited purpose bankruptcy remote limited liability company or the Trust shall fail to maintain its status as a single purpose bankruptcy remote Delaware statutory trust; or

(l) the Excess Spread Test is not satisfied; or

(m) the Trust shall be required to register as an "investment company" or a company controlled by an "investment company" under the Investment Company Act; or

(n) any Seller, the Depositor, the Master Depositor, the Master Servicer, any Material Subservicer (to the extent such Material Subservicer has not been removed as a Subservicer prior to the expiration of any related cure period), the Administrator or any Affiliate thereof (other than the Trust) shall default with respect to any outstanding financing arrangement (other than in connection with this Agreement and the Transaction Documents) representing indebtedness in excess of $50,000,000 and either (i) such indebtedness is incurred with respect to any other financing comprising part of the FFELP Loan Facilities or (ii) the result of such default is to cause the acceleration of such indebtedness; or

(o) the Asset Coverage Ratio (calculated without giving effect to clauses (b) and (c) of the definition of "Applicable Percentage") shall be less than 100% and such deficiency shall not have been cured within one Business Day; or

(p) the Consolidated Tangible Net Worth of SLM Corporation shall be less than $1,380,000,000; or

(q) at the last day of any fiscal quarter of SLM Corporation, both (i) the Interest Coverage Ratio shall be less than 1.15:1.00 and (ii) the Net Adjusted Revenue shall be less than $400,000,000, in each case for the period of four consecutive fiscal quarters then ended; or

(r) the Trust shall fail to pay to any Exiting Facility Group its Pro Rata Share of the Aggregate Note Balance within 90 days of the commencement of the Exiting Facility Group Amortization Period with respect to such Exiting Facility Group; or

(s) any Rating Agency shall withdraw or downgrade its rating of the Class A Notes below the Required Ratings; or

(t) any failure by the Trust to pay amounts required to be paid under Section 2.15, 8.01 or 10.08 on or before the 30th day following the date of demand for payment thereof.

**Section 7.03.** Remedies.

(a) ***Amortization Event.*** After the occurrence of an Amortization Event and during the continuation of the Amortization Period, the Yield Rate shall be increased as provided in clause (b) of the definition thereof and any increase in amounts owed shall be payable as Step-Up Fees subject to the priority of payments set forth in Section 2.05(b). In addition, following the occurrence of an Amortization Event and during the continuation of the Amortization Period, no further Advances (other than Capitalized Interest Advances) shall be made. During the Amortization Period, the Administrative Agent or any party acting on its behalf shall not have the right to seize or sell the Pledged Collateral. Upon the expiration of the Amortization Period (other than by reason of the reinstatement of the Revolving Period), the Administrative Agent may, by notice to the Trust, declare that the Termination Date has occurred and may sell the Pledged Collateral to the extent required in order to repay in full all outstanding Advances and all other amounts due and owing under this Agreement and the other Transaction Documents in accordance with the procedures set forth in subsection (b) below.

(b) ***Termination Event.*** After the occurrence of a Termination Event, the Yield Rate shall be increased as set forth in clause (d) of the definition thereof and any increase in amounts owed shall be payable as Step-Up Fees subject to the priority of payments set forth in Section 2.05(b). In addition, after the occurrence of a Termination Event, the Administrative Agent may, and shall, at the direction of the Required Managing Agents, by notice to the Trust, declare that a Termination Date shall have occurred (except that, in the case of any event described in Section 7.02(e) above, the Termination Date shall be deemed to have occurred automatically). Upon the declaration of the Termination Date or the automatic occurrence thereof, no further Advances will be made and all of the Obligations due and owing to the Affected Party shall become immediately due and payable. Upon any such declaration or automatic occurrence, the Administrative Agent (for the benefit of the Secured Creditors) shall have, in addition to all other rights and remedies under this Agreement or otherwise, all other rights and remedies provided to a secured party under the UCC of the applicable jurisdiction and other applicable laws, which rights shall be cumulative. The rights and remedies of a secured party which may be exercised by the Administrative Agent pursuant to this Article shall include, without limitation, the right, without notice except as specified below, to solicit and accept bids for and sell the Pledged Collateral or any part thereof in one or more parcels at a public or private sale, at any exchange, broker's board or at any of the Administrative Agent's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Administrative Agent may deem commercially reasonable, including selling Trust Student Loans on a servicing released basis; provided, that the Administrative Agent may not, without the prior

written consent of the Required Managing Agents, sell the entire corpus of the Trust Student Loans unless the net proceeds of such sale will be sufficient to pay in full all interest and principal owing on the Class A Notes. Any sale or transfer by the Administrative Agent of Trust Student Loans shall only be made to an Eligible Lender. The Trust agrees that, to the extent notice of sale shall be required by law, ten Business Days' notice to the Trust and the Administrator of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification and that it shall be commercially reasonable for the Administrative Agent to sell the Pledged Collateral to an Eligible Lender on an "as is" basis, without representation or warranty of any kind. The proceeds of any such sale shall be deposited into the Collection Account and shall be distributed pursuant to Section 2.05(b). The Administrative Agent shall not be obligated to make any sale of Pledged Collateral regardless of notice of sale having been given and may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

**Section 7.04.** Setoff. Each of the Secured Creditors and the Administrative Agent on behalf of all the Secured Creditors is hereby authorized (in addition to any other rights it may have) at any time after the occurrence of the Termination Date due to the occurrence of a Termination Event or during the continuation of a Potential Termination Event to set off, appropriate and apply (without presentment, demand, protest or other notice which are hereby expressly waived) any deposits and any other indebtedness held or owing by such Secured Creditor or all the Secured Creditors, as applicable, to, or for the account of, the Trust against the amount of the Outstanding Class A Notes and other Obligations owing by the Trust to such Secured Creditor or to the Administrative Agent on behalf of such Secured Creditor (even if contingent or unmatured).

## ARTICLE VIII.

## INDEMNIFICATION

**Section 8.01.** Indemnification by the Trust.

(a) Without limiting any other rights which the Affected Parties or any of their respective Affiliates may have hereunder or under applicable law, the Trust hereby agrees to indemnify the Affected Parties and each of their respective members, investors, officers, directors, employees, agents, advisors, attorneys-in-fact and Affiliates (each, an "***Indemnified Party***") from and against any and all damages, losses, claims, liabilities and related costs and expenses, including reasonable attorneys' fees and disbursements (except as may be expressly limited by Section 10.08) awarded against or incurred by any of the Indemnified Parties arising out of or as a result of the purchase of any Class A Notes, the funding of Advances, this Agreement, the other Transaction Documents or the Pledged Collateral; excluding, however (i) any indemnified amounts to the extent determined by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Indemnified Party seeking indemnification and (ii) any recourse for Defaulted Student Loans or Delinquent Student Loans or losses attributable to changes in the market value of the Trust Student Loans because of changes in market interest rates or in rate of prepayment (the foregoing, being collectively referred to as "***Trust Indemnified Amounts***").

(b) Any amounts subject to the indemnification provisions of this Section 8.01 shall be paid by the Trust, to the extent not already paid by the Seller, the Depositor or the Servicer under any other Transaction Documents, to the related Indemnified Party on or before the 30th day following the date of demand therefor accompanied by reasonable supporting documentation with respect to such amounts.

**Section 8.02.** Indemnification and Limited Guaranty by SLM Corporation.

(a) Without limiting any other rights that any such Person may have hereunder or under applicable law (including, without limitation, the right to recover damages for breach of contract), SLM Corporation hereby agrees to indemnify each Indemnified Party, from and against any and all damages, losses, claims, liabilities and related costs and expenses, including attorneys' fees and disbursements awarded against or incurred by any of them arising out of or relating to (i) the Transaction Documents, the transactions contemplated under the Transaction Documents or the Trust Student Loans, or (ii) use of proceeds hereunder, including indemnified amounts arising out of or relating to any Regulatory Change after the date of this Agreement that results in any Other Tax, all interest and penalties thereon or with respect thereto, and all out-of-pocket costs and expenses, including the reasonable fees and expenses of counsel in defending against the same, which may arise by reason of the purchases hereunder, or any security interest in the Trust Student Loans or any item of the Trust Student Loans; excluding, however, (A) indemnified amounts to the extent determined by a court of competent jurisdiction to have resulted from gross negligence or willful misconduct on the part of such Indemnified Party, (B) any amounts payable as indemnification by the Trust for which the Indemnified Party has a claim against the Depositor, the Master Depositor, a Seller or the Master Servicer under the indemnification provisions in the Sale Agreement, the Conveyance Agreement, the Tri-Party Transfer Agreement, any Purchase Agreement or the Servicing Agreement, unless such claim has not been paid within the applicable timeframe provided therein, (C) recourse for Defaulted Student Loans or Delinquent Student Loans or losses attributable to changes in the market value of the Trust Student Loans because of changes in market interest rates or in rate of prepayment, or (D) indemnified amounts to the extent that such indemnified amounts, together with any amounts paid by SLM Corporation pursuant to Section 8.02(c), exceed in the aggregate the least of (1) 5% of the highest Aggregate Note Balance at any time during the immediately preceding 12-month period, (2) $133,333,333, and (3) 10% of the then applicable Maximum Financing Amount (the foregoing being collectively referred to as *"**SLM Indemnified Amounts**"*).

(b) Any Trust Indemnified Amounts which are also SLM Indemnified Amounts and are not paid by the Trust on or before the 30th day following the date of demand pursuant to Section 8.01, shall be paid by SLM Corporation to the related Indemnified Party within five Business Days following demand therefor accompanied by reasonable supporting documentation with respect to such amounts.

(c) SLM Corporation further agrees that, to the extent there are insufficient Available Funds in the Collection Account on any Settlement Date to pay any Non-Use Fee due and owing on such Settlement Date in accordance with Section 2.05(b), SLM Corporation shall pay to the Managing Agent for each Facility Group on such Settlement Date the portion of such Facility Group's Non-Use Fee that would otherwise not be paid; provided, however, that SLM

Corporation shall not be obligated to pay any amounts under this Section 8.02(c) to the extent that the aggregate amounts paid under Section 8.02(a) and this Section 8.02(c) exceed the least of (1) 5% of the highest Aggregate Note Balance at any time during the immediately preceding 12-month period, (2) $133,333,333, and (3) 10% of the then applicable Maximum Financing Amount. Any failure by SLM Corporation to pay its obligations under this Section 8.02(c) (other than by reason of the proviso in the immediately preceding sentence) that remains uncured for five (5) Business Days after SLM Corporation receives notice from the Administrative Agent or any Managing Agent of any such obligation being due and payable shall constitute a Termination Event under Section 7.02(a) of this Agreement. SLM Corporation hereby subordinates (to the rights of the Secured Creditors to receive payment of the Obligations in full in immediately available funds) and releases any and all rights and claims it may now or hereafter have or acquire against the Trust in connection with this Section 8.02(c) that would constitute it a "creditor" of the Trust for purposes of the Bankruptcy Code, including all rights of subrogation against the Trust and its property and all rights of indemnification, contribution and reimbursement from the Trust and its property, all of which are hereby waived.

## ARTICLE IX.

## ADMINISTRATIVE AGENT, SYNDICATION AGENT AND MANAGING AGENTS

**Section 9.01.** Authorization and Action of Administrative Agent and Syndication Agent.

(a) The Conduit Lenders, the LIBOR Lenders, the Managing Agents and the Alternate Lenders, as of the Closing Date, accept the appointment of and authorize the Administrative Agent and the Syndication Agent to take such action as agent on their behalf and to exercise such powers as are delegated to the Administrative Agent and the Syndication Agent by the terms hereof, together with such powers as are reasonably incidental thereto. Each of the Administrative Agent and the Syndication Agent reserves the right, in its sole discretion, to take any actions and exercise any rights or remedies under this Agreement and any related agreements and documents. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Transaction Document, the Administrative Agent and the Syndication Agent shall not have any duties or responsibilities, except those expressly set forth in this Agreement, nor shall the Administrative Agent or the Syndication Agent have or be deemed to have any fiduciary relationship with any Lender or Managing Agent, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Transaction Document or otherwise exist against the Administrative Agent and the Syndication Agent. Without limiting the generality of the foregoing sentence, the use of the terms "Administrative Agent" and "Syndication Agent" in this Agreement with reference to the Administrative Agent and the Syndication Agent, respectively, are not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such terms are used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) Each of the Administrative Agent and the Syndication Agent may execute any of its duties under this Agreement or any other Transaction Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters

pertaining to such duties. Each of the Administrative Agent and the Syndication Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care. The Administrative Agent agrees to give the Managing Agents notice of each notice and determination and a copy of each certificate and report (if such notice, report, determination, or certificate is not given by the applicable Person to such Managing Agent) given to it by the Trust, the Administrator, any Seller, the Master Depositor, the Depositor, any Servicer, any Co-Valuation Agent or the Eligible Lender Trustee pursuant to the terms of the Transaction Documents within five Business Days of receipt thereof. Except for actions which each of the Administrative Agent and the Syndication Agent is expressly required to take pursuant to this Agreement, neither the Administrative Agent nor the Syndication Agent shall be required to take any action which exposes the Administrative Agent or the Syndication Agent to personal liability or which is contrary to applicable law unless the Administrative Agent or the Syndication Agent shall receive further assurances to its satisfaction from the Managing Agents that it will be indemnified against any and all liability and expense which may be incurred in taking or continuing to take such action.

**Section 9.02.** Authorization and Action of Managing Agents.

(a) Each Lender hereby accepts the appointment of and authorize its related Managing Agent to take such action as agent on its behalf and to exercise such powers as are delegated to such Managing Agent by the terms hereof, together with such powers as are reasonably incidental thereto. Each Managing Agent reserves the right, in its sole discretion, to take any actions and exercise any rights or remedies under this Agreement and any related agreements and documents. Notwithstanding any provision to the contrary contained elsewhere in this Agreement or in any other Transaction Document, no Managing Agent shall have any duties or responsibilities, except those expressly set forth in this Agreement, nor shall any Managing Agent have or be deemed to have any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Transaction Document or otherwise exist against any Managing Agent. Without limiting the generality of the foregoing sentence, the use of the term *"Managing Agent"* in this Agreement with reference to any Managing Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

(b) Each Managing Agent may execute any of its duties under this Agreement or any other Transaction Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. No Managing Agent shall be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care. Each Managing Agent agrees to give to its related Lenders prompt notice of each notice and determination and a copy of each certificate and report (if such notice, report, determination, or certificate is not given by the applicable Person to such Lender) given to it by the Administrative Agent, the Syndication Agent, the Trust, the Administrator, any Seller, the Depositor, any Servicer, any Co-Valuation Agent or the Eligible Lender Trustee pursuant to the terms of this Agreement. Except for actions which each Managing Agent is expressly required to take pursuant to this Agreement, such Managing Agent shall not be required to take any action which exposes such Managing Agent to personal liability or which is

contrary to applicable law unless such Managing Agent shall receive further assurances to its satisfaction from its related Lenders that it will be indemnified against any and all liability and expense which may be incurred in taking or continuing to take such action.

**Section 9.03.** Agency Termination. The appointment and authority of the Administrative Agent, the Syndication Agent and the Managing Agents hereunder shall terminate upon the payment by the Trust of all Obligations hereunder unless sooner terminated pursuant to Sections 9.07 and 9.08, as applicable.

**Section 9.04.** Administrative Agent's, Syndication Agent's and Managing Agent's Reliance, Etc. None of the Administrative Agent, the Syndication Agent, any Managing Agent or any of their respective directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it as Administrative Agent, the Syndication Agent, or Managing Agent, as applicable, under or in connection with this Agreement or any related agreement or document, except for its own gross negligence or willful misconduct. Without limiting the foregoing, each of the Administrative Agent, the Syndication Agent and each Managing Agent:

(a) may consult with legal counsel (including counsel for the Trust or any Affiliate of the Trust), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts;

(b) makes no warranty or representation to any Lender, any Managing Agent or any Program Support Provider and shall not be responsible to any Lender, any Managing Agent or any Program Support Provider for any statements, warranties or representations made by the Trust, the Administrator, SLM Corporation, the Eligible Lender Trustee, any Seller, the Depositor, any Servicer, any Guarantor or any Co-Valuation Agent in connection with this Agreement or any other Transaction Document;

(c) shall not have any duty to ascertain or to inquire as to the performance or observance of any of the terms, covenants or conditions of this Agreement or any other Transaction Document on the part of the Trust, the Administrator, SLM Corporation, the Eligible Lender Trustee, any Servicer, any Seller, the Depositor, any Guarantor or any Co-Valuation Agent or to inspect the property (including the books and records) of the Trust, the Administrator, SLM Corporation, the Eligible Lender Trustee, any Servicer, any Seller, the Depositor, any Guarantor or any Co-Valuation Agent;

(d) shall not be responsible to any Lender, any Managing Agent, or any Program Support Provider, as the case may be, for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any Transaction Document or any other instrument or document furnished pursuant hereto; and

(e) shall incur no liability under or in respect of this Agreement by acting upon any notice (including notice by telephone), consent, certificate or other instrument or writing (which may be by facsimile or other electronic means) believed by it in good faith to be genuine and signed or sent by the proper party or parties.

**Section 9.05.** Administrative Agent, Syndication Agent, Managing Agents and Affiliates. The Administrative Agent, the Syndication Agent, the Managing Agents and their Affiliates may generally engage in any kind of business with the Trust, the Administrator, SLM Corporation, the Eligible Lender Trustee, any Servicer, any Guarantor, any Seller, the Depositor, any of their respective Affiliates and any Person who may do business with or own securities of the Trust, the Administrator, SLM Corporation, the Eligible Lender Trustee, any Servicer, any Guarantor, any Seller, the Depositor, or any of their respective Affiliates, all as if such entities were not the Administrative Agent, the Syndication Agent or a Managing Agent and without any duty to account therefor to any Lender, any Managing Agent or any Program Support Provider.

**Section 9.06.** Decision to Purchase Class A Notes and Make Advances. The Lenders acknowledge that each has, independently and without reliance upon the Administrative Agent or any Managing Agent, and based on such documents and information as it has deemed appropriate, made its own evaluation and decision to enter into this Agreement and to make Advances hereunder. The Lenders also acknowledge that each will, independently and without reliance upon the Administrative Agent, any Managing Agent or any of their Affiliates, and based on such documents and information as it shall deem appropriate at the time, continue to make its own decisions in taking or not taking action under this Agreement or any related agreement, instrument or other document. Furthermore, each of the Lenders and Managing Agents acknowledges and agrees that although it may have received modeling and other structural information (including cash flow analysis) from the Administrative Agent or a Managing Agent, neither the Administrative Agent nor any Managing Agent assumes any responsibility for the accuracy or completeness of such information and such information is not intended to be relied upon as a prediction of performance or for any other reason.

**Section 9.07.** Successor Administrative Agent or Syndication Agent.

(a) The Administrative Agent or the Syndication Agent may resign at any time by giving five days' written notice thereof to the Syndication Agent or the Administrative Agent, as applicable, each Conduit Lender, each Managing Agent, each LIBOR Lender, each Alternate Lender, the Trust, the Administrator and the Eligible Lender Trustee. Upon any such resignation, the Conduit Lenders, the Managing Agents, the LIBOR Lenders and the Alternate Lenders shall have the right to appoint a successor Administrative Agent or Syndication Agent approved by the Administrator (which approval will not be unreasonably withheld or delayed and will not be required after the occurrence and during the continuation of a Termination Event). If no successor Administrative Agent or Syndication Agent shall have been so appointed and shall have accepted such appointment within sixty days after the retiring Administrative Agent's or Syndication Agent's giving of notice of resignation, then the retiring Administrative Agent or Syndication Agent may, on behalf of the Conduit Lenders, the Managing Agents, the LIBOR Lenders and the Alternate Lenders, appoint a successor Administrative Agent or Syndication Agent. If the successor Administrative Agent or Syndication Agent is not an Affiliate of the resigning Administrative Agent or Syndication Agent, a LIBOR Lender or an Alternate Lender, such successor Administrative Agent or Syndication Agent shall be subject to the Administrator's prior written approval (which approval will not be unreasonably withheld or delayed). Upon the acceptance of any appointment as Administrative Agent or Syndication Agent hereunder by a successor Administrative Agent or Syndication Agent, such successor Administrative Agent or Syndication Agent shall thereupon succeed to and become vested with

all of the rights, powers, privileges and duties of the retiring Administrative Agent or Syndication Agent, and the retiring Administrative Agent or Syndication Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent's or Syndication Agent's resignation hereunder as Administrative Agent or Syndication Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was an Administrative Agent or Syndication Agent under this Agreement.

(b) The "Administrative Agent" and "Syndication Agent" shall include any successors to the Administrative Agent or Syndication Agent as a result of a merger, consolidation, combination, conversion, reorganization or any other transaction (or series of related transactions) in which shares of the Administrative Agent's or the Syndication Agent's capital stock are sold or exchanged for or converted or otherwise changed into other stock or securities, cash and/or any other property, or the sale, lease, assignment, transfer or other conveyance of a majority of the assets of the Administrative Agent or the Syndication Agent in any transaction (or series of related transactions). Notwithstanding anything to the contrary in this Agreement, no consent of the Lenders, the Managing Agents or the Trust shall be required in connection with the succession of the Administrative Agent or the Syndication Agent as a result of any of the foregoing transactions.

**Section 9.08.** Successor Managing Agents. Any Managing Agent may resign at any time by giving five days' written notice thereof to its related Lenders, the Trust, the Administrator, the Administrative Agent and the Eligible Lender Trustee. Upon any such resignation, the applicable Lenders shall have the right to appoint a successor Managing Agent approved by the Administrator (which approval will not be unreasonably withheld or delayed and will not be required (x) after the occurrence and during the continuation of a Termination Event or (y) if the successor is a Lender (including a Conduit Assignee) or a Program Support Provider within the resigning Managing Agent's Facility Group). If no successor Managing Agent shall have been so appointed and shall have accepted such appointment, within sixty days after the retiring Managing Agent's giving of notice of resignation, then the retiring Managing Agent may, on behalf of its related Lenders, appoint a successor Managing Agent. If the successor Managing Agent is not an Affiliate of the resigning Managing Agent or a Lender (including a Conduit Assignee) or a Program Support Provider within the resigning Managing Agent's Facility Group, such successor Managing Agent shall be subject to the Administrator's prior written approval (which approval will not be unreasonably withheld or delayed and will not be required after the occurrence and during the continuation of a Termination Event). Upon the acceptance of any appointment as a Managing Agent hereunder by a successor Managing Agent, such successor Managing Agent shall thereupon succeed to and become vested with all of the rights, powers, privileges and duties of the retiring Managing Agent, a new Class A Note will be issued in the name of the successor Managing Agent as Registered Owner in exchange for the retiring Managing Agent's Class A Note pursuant to Section 3.05(c) and the retiring Managing Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Managing Agent's resignation hereunder as a Managing Agent, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was a Managing Agent under this Agreement.

**Section 9.09.** Reimbursement. Each Managing Agent, Alternate Lender, LIBOR Lender and Committed Conduit Lender agrees to reimburse and indemnify the Administrative Agent, the Syndication Agent and its officers, directors, employees, representatives, counsel and agents (to the extent the Administrative Agent or the Syndication Agent is not paid or reimbursed by the Trust, the Administrator, SLM Corporation, the Master Servicer, the Sellers or the Depositor), ratably according to the amounts owed to each such Person hereunder, from and against such Lender's ratable share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever which may be imposed on, incurred by, or asserted against the Administrative Agent or the Syndication Agent in any way relating to or arising out of this Agreement or any other Transaction Document or any action taken or omitted by the Administrative Agent or the Syndication Agent under this Agreement or any Transaction Document; provided, that no Lender shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Administrative Agent's or the Syndication Agent's gross negligence or willful misconduct. Without limitation of the foregoing, each Alternate Lender, LIBOR Lender and Committed Conduit Lender agrees to reimburse the Administrative Agent and the Syndication Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Administrative Agent and the Syndication Agent in connection with the due diligence, negotiation, preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement or any other Transaction Document, in each case to the extent that the Administrative Agent or the Syndication Agent is not reimbursed for such expenses by the Trust, the Administrator, SLM Corporation, the Master Servicer, the Sellers, the Master Depositor or the Depositor.

**Section 9.10.** Notice of Amortization Events, Termination Events, Potential Amortization Events, Potential Termination Events or Servicer Defaults. Neither the Administrative Agent nor the Syndication Agent shall be deemed to have knowledge or notice of the occurrence of an Amortization Event, a Termination Event, a Potential Amortization Event, a Potential Termination Event or a Servicer Default, unless the Administrative Agent or the Syndication Agent has received written notice from a Note Purchaser, a Managing Agent or the Trust referring to this Agreement, describing such Amortization Event, Termination Event, Potential Amortization Event, Potential Termination Event or Servicer Default and stating that such notice is a "Notice of Termination Event or Potential Termination Event," "Notice of Amortization Event or Potential Amortization Event" or "Notice of Servicer Default," as applicable. The Administrative Agent or the Syndication Agent will notify the Managing Agents of its receipt of any such notice.

## ARTICLE X.

## MISCELLANEOUS

**Section 10.01.** Amendments, Etc.

(a) Unless otherwise specified herein, no amendment to or waiver of any provision of this Agreement or the Side Letter nor consent to any departure by the Trust or any other Person

therefrom shall in any event be effective unless the same shall be in writing and signed by the Trust, the Eligible Lender Trustee and the Required Managing Agents and the Rating Agency Condition has been satisfied; provided, however, that (u) SLM Education Credit Finance Corporation agrees that it shall notify the Administrative Agent in writing of any proposed amendments or other modifications to the organizational documents of any Seller, any Related SPE Seller, the Master Depositor or the Depositor and will not effect any such amendment or other modification without the prior written consent of the Required Managing Agents, not to be unreasonably withheld; (w) any waiver of the Termination Event set forth in Section 7.02(r) shall also require the consent of the applicable Exiting Facility Group; (x) no such amendment, waiver or consent shall, without the consent of the Administrative Agent or the Syndication Agent, require the Administrative Agent or the Syndication Agent, as applicable, to take any action or amend, modify or waive the duties, responsibilities or rights of the Administrative Agent or the Syndication Agent, as applicable, hereunder or under any other Transaction Document; (y) the consent of the applicable Alternate Lender, LIBOR Lender or Committed Conduit Lender, shall be required to increase the amount of its Commitment or extend the Scheduled Maturity Date; and (z) no such amendment, waiver or consent shall, without the consent of each affected Managing Agent exclusive (except in the case of clauses (ii)(A), (ii)(B), (iii), (v), (vi) and (vii) below) of any Managing Agent for any Distressed Lender (unless such amendment, waiver or consent is (A) necessary to correct a mistake or cure any ambiguity or (B) made solely to satisfy the Rating Agency Condition, in each case as reasonably determined by the Required Managing Agents):

(i) amend Section 7.01, Section 7.02 or Article VIII or the definitions of Adjusted Pool Balance, Amortization Period, Applicable Percentage (including as set forth in the Side Letter), Asset Coverage Ratio, Defaulted Student Loan, Eligible FFELP Loan, Excess Concentration Amount (including as set forth in the Side Letter), Excess Spread, Excess Spread Test, Floor (including as set forth in the Side Letter), Maximum Advance Amount, Minimum Asset Coverage Requirement, or Required Managing Agents or any other provision hereof specifying the percentage of Managing Agents required to waive, amend or modify any rights hereunder or make any determination or grant any consent hereunder contained in this Agreement or modify the then existing Excess Concentration Amount;

(ii) amend, modify or waive any provision of this Agreement in any way which would (A) reduce the amount of principal or Financing Costs payable on account of any Note or delay any scheduled date for payment thereof, (B) reduce fees payable by the Trust to the Administrative Agent, the Managing Agents or the Lenders or delay the dates on which such fees are payable or (C) modify any provisions relating to the Asset Coverage Ratio or any required reserves so as to reduce such reserves;

(iii) agree to the payment of a different rate of interest on the Class A Notes pursuant to this Agreement;

(iv) waive the Termination Events set forth in Section 7.02(e) (with respect to the Trust, the Administrator, the Master Servicer or SLM Corporation), Section 7.02(j), Section 7.02(o) and Section 7.02(s);

(v) amend this Section 10.01 in any way other than expanding the list of amendments, waivers or consents that require the consent of each Managing Agent;

(vi) release all or substantially all of the Pledged Collateral except as expressly permitted by this Agreement;

(vii) amend Section 2.14 in a manner that would alter the pro rata sharing of payments required thereby; or

(viii) amend, modify or waive any provision of the Side Letter.

(b) Any such amendment, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given. To the extent the consent of any of the parties hereto (other than the Trust) is required under any of the Transaction Documents, the determination as to whether to grant or withhold such consent shall be made by such party in its sole discretion without any implied duty toward any other Person, except as otherwise expressly provided herein or therein. The parties acknowledge that, before entering into such an amendment or granting such a waiver or consent, Lenders may be entitled to receive an amount as may be mutually agreed upon between the Trust and the Managing Agents and, in addition, may be required to obtain the approval of some or all of the Program Support Providers. If any Conduit Lender is required pursuant to its program documents to provide notice of an amendment to the Transaction Documents to any Rating Agency rating the CP of such Conduit Lender, such Conduit Lender's related Managing Agent shall provide such Rating Agency with notice of such amendment to the Transaction Documents.

(c) The Administrative Agent covenants and agrees not to consent to any amendment or waiver to the Administration Agreement or the Servicing Agreement referred to in clause (a) of the definition thereof or any Servicing Agreement with a Material Subservicer without receiving the consent of the Required Managing Agents (or, in the case of any amendment to Section 5.01 of the Servicing Agreement in clause (a) of the definition of Servicing Agreement, all of the Managing Agents exclusive of any Managing Agent for any Distressed Lender).

**Section 10.02.** Notices; Non-Public Information, Etc.

(a) ***Notices.*** All notices and other communications provided for hereunder shall, unless otherwise stated herein, be in writing (including communication by facsimile copy or other electronic means) and mailed, delivered by nationally recognized overnight courier service, transmitted or delivered by hand, as to each party hereto, at its address set forth on Exhibit M hereto or at such other address as shall be designated by such party in a written notice to the other parties hereto. Each such notice, request or other communication shall be effective (i) if given by facsimile, when such facsimile is transmitted to the specified facsimile number and an appropriate confirmation is received, (ii) if given by e-mail, when sent to the specified e-mail address and an appropriate confirmation is received, (iii) if given by mail, five days after being deposited in the United States mails, first class postage prepaid (except that notices and communications pursuant to Article II shall not be effective until received), (iv) if given by nationally recognized courier guaranteeing overnight delivery, the Business Day following such day after such communication is delivered to such courier or (v) if given by any other means,

when delivered at the address (electronic or otherwise) specified in this Section. Notwithstanding the foregoing, with respect to any Transaction Document, any recipient may designate what it deems to be appropriate confirmation and that notification by e-mail to it shall not be effective without such confirmation.

(b) ***MNPI.*** The Trust hereby acknowledges that (i) the Administrative Agent and/or the Syndication Agent will make available to the Lenders materials and/or information provided by or on behalf of the Trust hereunder (collectively, "***Trust Materials***") by posting the Trust Materials on IntraLinks or another similar electronic system (the "***Platform***") and (ii) certain of the Lenders may be "public-side" Lenders (each, a "***Public Lender***") which may have personnel who do not wish to receive material non-public information (within the meaning of the United States federal securities laws) with respect to the Trust or its Affiliates, or the respective securities of any of the foregoing ("***MNPI***"), and who may be engaged in investment and other market-related activities with respect to the Trust's or its Affiliate's securities or debt. The Trust hereby agrees that (w) all Trust Materials that are to be made available to Public Lenders shall be clearly and conspicuously marked "PUBLIC" which, at a minimum, shall mean that the word "PUBLIC" shall appear prominently on the first page thereof; (x) by marking Trust Materials "PUBLIC," the Trust shall be deemed to have authorized the Administrative Agent, the Syndication Agent and the Lenders to treat such Trust Materials as not containing any MNPI with respect to the Trust, its Affiliates or their respective securities for purposes of United States federal and state securities laws (provided, however, that to the extent such Trust Materials constitute confidential information, they shall be treated as set forth in Section 10.12); (y) all Trust Materials marked "PUBLIC" are permitted to be made available through a portion of the Platform designated "Public Investor;" and (z) the Administrative Agent and the Syndication Agent shall be entitled to treat any Trust Materials that are not marked "PUBLIC" as being suitable only for posting on a portion of the Platform not designated "Public Investor."

(c) ***The Platform.*** THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR COMPLETENESS OF THE TRUST MATERIALS OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE TRUST MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE TRUST MATERIALS OR THE PLATFORM. In no event shall any of the Administrative Agent, the Syndication Agent or any of its Related Parties (collectively, the "***Agent Parties***") have any liability to the Trust, any Lender or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Trust's, the Administrative Agent's or the Syndication Agent's transmission of Trust Materials through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses are determined by a court of competent jurisdiction by a final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Agent Party.

(d) ***Private Side Information.*** Each Public Lender agrees to cause at least one individual at or on behalf of such Public Lender at all times to have selected the "Private Side

Information" or similar designation on the content declaration screen of the Platform in order to enable such Public Lender or its delegate, in accordance with such Public Lender's compliance procedures and applicable law, including United States federal and state securities laws, to make reference to Trust Materials that are not made available through the "Public Side Information" portion of the Platform and that may contain MNPI with respect to the Trust or its securities for purposes of United States federal or state securities laws.

**Section 10.03.** No Waiver; Remedies; Limitation of Liability. No failure or delay by any party hereto in exercising any right hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law. No claim may be made by any Transaction Party or any other Person against any Lender, Managing Agent, the Administrative Agent, the Syndication Agent or any of their Related Parties for any indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages) in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement or any act, omission or event occurring in connection therewith; and each party hereto hereby waives, releases and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor. No claim may be made by any Lender, Managing Agent, the Administrative Agent, the Syndication Agent or any other Person against any Transaction Party or any of their Related Parties for any indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages) in respect of any claim for breach of contract or any other theory of liability arising out of or related to the transactions contemplated by this Agreement or any act, omission or event occurring in connection therewith; and each party hereto hereby waives, releases and agrees not to sue upon any claim for any such damages, whether or not accrued and whether or not known or suspected to exist in its favor.

**Section 10.04.** Successors and Assigns; Binding Effect.

(a) This Agreement shall be binding on the parties hereto and their respective successors and permitted assigns; provided, however, that neither the Trust nor the Administrator may assign or otherwise transfer any of its rights or obligations or delegate any of its duties hereunder or under any of the other Transaction Documents to which it is a party without the prior written consent of the Administrative Agent. Except as provided in clauses (b), (d), (f) and (g) below and except as provided in Article III, no provision of this Agreement shall in any manner restrict the ability of any Lender to assign, participate, grant security interests in, or otherwise transfer any portion of its Note.

(b) ***Lenders***. Any Alternate Lender, LIBOR Lender or Committed Conduit Lender may assign all or any portion of its Commitment and any Lender may assign all or any portion of its interest in its Facility Group's Class A Notes, the Pledged Collateral and its other rights and obligations hereunder to any Person with the prior written approval of the Administrator and the Administrative Agent (which approvals shall not be unreasonably withheld or delayed and shall not be required after the occurrence and during the continuation of a Termination Event) and the approval of the Managing Agent of such Lender's Facility Group; provided, however, such consent of the Administrator or the Administrative Agent shall not be required in the case of an

assignment to a Lender, an Affiliate of an existing Lender, an Approved Fund or a commercial paper conduit managed or administered by an Affiliate of an existing Lender or Managing Agent (it being understood that in the case of an assignment to a commercial paper conduit that does not become a Committed Conduit Lender, the related Commitment must be assigned to or retained by, as applicable, an Alternate Lender within such conduit's Facility Group); provided further, that (x) in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and interest in its Facility Group's Class A Notes at the time owing to it or in the case of any assignment to a Lender, an Affiliate of a Lender an Approved Fund or a commercial paper conduit managed by an Affiliate of an existing Lender or Managing Agent, no minimum amount need be assigned; and (y) in any case not described in clause (x) of this proviso, the aggregate minimum amount of the Commitment or interest in a Facility Group's Class A Notes to be assigned determined as of the date of the assignment and assumption agreement shall not be less than $10,000,000, unless each of the Administrative Agent and, so long as no Amortization Event or Termination Event has occurred and is continuing, the Administrator otherwise consents (each such consent not to be unreasonably withheld or delayed); provided, however, that concurrent assignments to members of an Assignee Group and concurrent assignment from members of an Assignee Group to a single assignee (or to an assignee and members of its Assignee Group) will be treated as a single assignment for purposes of determining whether such minimum amount has been met.

In connection with any such assignment, the assignor shall deliver to the assignee(s) an assignment and assumption agreement, duly executed, assigning to such assignee a pro rata interest in such assignor's Commitment and other obligations hereunder and in its interest in its Facility Group's Class A Notes and the Pledged Collateral and other rights hereunder, and such assignor shall promptly execute and deliver all further instruments and documents, and take all further action, that the assignee may reasonably request, in order to protect, or more fully evidence the assignee's right, title and interest in and to such interest and to enable the Administrative Agent, on behalf of such assignee, to exercise or enforce any rights hereunder and under the other Transaction Documents to which such assignor is or, immediately prior to such assignment, was a party. Upon any such assignment, (i) the assignee shall have all of the rights and obligations of the assignor hereunder and under the other Transaction Documents to which such assignor is or, immediately prior to such assignment, was a party with respect to such assignor's Commitment and interest in its Facility Group's Class A Notes and the Pledged Collateral for all purposes of this Agreement and under the other Transaction Documents to which such assignor is or, immediately prior to such assignment, was a party and (ii) the assignor shall have no further obligations with respect to the portion of its Commitment which has been assigned and shall relinquish its rights with respect to the portion of its interest in its Facility Group's Class A Notes and Pledged Collateral which has been assigned for all purposes of this Agreement and under the other Transaction Documents to which such assignor is or, immediately prior to such assignment, was a party. No such assignment shall be effective until a fully executed copy of the related assignment and assumption agreement has been delivered to the Administrative Agent, the applicable Managing Agent and the Administrator, together with an assignment processing and recordation fee in the amount of $3,500.00 (which fee includes all costs and expenses of the Administrative Agent, assignor and assignee for which the Trust is responsible in connection with such assignment); provided, however, that the Administrative Agent may, in its sole discretion elect to waive such processing recordation fee in the case of any assignment.

(c) The assignee, if it is not a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire. No such assignment shall be made to the Trust or any of the Trust's Affiliates, except as otherwise explicitly permitted by this Agreement.

(d) ***Conduit Lenders***. Without limiting the foregoing, each Conduit Lender may, from time to time, with prior or concurrent notice to the Trust, the Administrator, the Managing Agent for such Conduit Lender's Facility Group, and the Administrative Agent, in one transaction or a series of transactions, assign all or a portion of its interest in its Facility Group's Class A Notes and its rights and obligations under this Agreement and any other Transaction Documents to which it is a party to a Conduit Assignee. Upon and to the extent of such assignment by a Conduit Lender to a Conduit Assignee:

(i) such Conduit Assignee shall be the owner of the assigned portion of the related Facility Group's Class A Notes and the right to make Advances;

(ii) unless otherwise provided for in an agreement among the Conduit Assignee, the Administrative Agent and the Trust, the Managing Agent for the Conduit Lender assignor will act as the Managing Agent for such Conduit Assignee, with all corresponding rights and powers, express or implied, granted to the Managing Agent hereunder or under the other Transaction Documents;

(iii) such Conduit Assignee (and any related commercial paper issuer, if such Conduit Assignee does not itself issue commercial paper) and their respective Program Support Providers and other Related Parties shall have the benefit of all the rights and protections provided to the Conduit Lender and its Program Support Provider(s) herein and in the other Transaction Documents (including any limitation on recourse against such Conduit Assignee or Related Parties, any agreement not to file or join in the filing of a petition to commence an insolvency proceeding against such Conduit Assignee, and the right to assign to another Conduit Assignee as provided in this paragraph);

(iv) such Conduit Assignee shall assume all (or the assigned or assumed portion) of the Conduit Lender's obligations, if any, hereunder or any other Transaction Document, and the Conduit Lender shall be released from such obligations, in each case to the extent of such assignment, and the obligations of the Conduit Lender and such Conduit Assignee shall be several and not joint;

(v) all distributions in respect of the Class A Notes shall be made to the applicable agent or Managing Agent, as applicable, on behalf of the Conduit Lender and such Conduit Assignee on a pro rata basis according to their respective interests;

(vi) the defined terms and other terms and provisions of this Agreement and the other Transaction Documents shall be interpreted in accordance with the foregoing; and

(vii) if requested by the Administrative Agent or the Managing Agent with respect to the Conduit Assignee, the parties will execute and deliver such further agreements and documents and take such other actions as the Administrative Agent or

such Managing Agent may reasonably request to evidence and give effect to the foregoing.

No assignment by a Conduit Lender to a Conduit Assignee of all or any portion of its interest in its Facility Group's Class A Notes shall in any way diminish its related Alternate Lenders' obligation under this Agreement to fund any Advances not previously funded by the Conduit Lender or such Conduit Assignee.

(e) In the event that a Conduit Lender makes an assignment to a Conduit Assignee in accordance with clause (d) above, the Alternate Lenders in such Conduit Lender's Facility Group:

(i) if requested by the related Managing Agent, shall terminate their participation in the applicable Program Support Agreement related to the assigning Conduit Lender to the extent of such assignment;

(ii) if requested by the related Managing Agent, shall execute (either directly or through a participation agreement, as determined by such Managing Agent) the program support agreement related to such Conduit Assignee, to the extent of such assignment, the terms of which shall be substantially similar to those of the participation or other agreement entered into by such Alternate Lender with respect to the applicable Program Support Agreement (or which shall be otherwise reasonably satisfactory to the related Managing Agent and the Alternate Lenders);

(iii) if requested by the Conduit Assignee, shall enter into such agreements as requested by the Conduit Assignee pursuant to which they shall be obligated to provide funding to the Conduit Assignee on substantially the same terms and conditions as is provided for in this Agreement in respect of the Conduit Lender (or which agreements shall be otherwise reasonably satisfactory to the Conduit Assignee and the Alternate Lenders); and

(iv) shall take such actions as the Administrative Agent shall reasonably request in connection therewith.

(f) Notwithstanding the foregoing, each of the Administrator and the Trust hereby agrees and consents to the assignment by any Conduit Lender from time to time of all or any part of its rights under, interest in and title to the Advances, the Pledged Collateral, this Agreement, and the other Transaction Documents to any Program Support Provider.

(g) If its related Managing Agent so elects, a Conduit Lender shall assign (and each of the Administrator and the Trust consents to such assignment), effective on the Assignment Date referred to below, all or such portions as may be elected by the Conduit Lender of its interest in its Facility Group's Note, at such time to its related Alternate Lender(s); provided, however, that no such assignment shall take place pursuant to this paragraph at a time when an Event of Bankruptcy with respect to such Conduit Lender exists. No further documentation or action on the part of the Conduit Lender shall be required to exercise the rights set forth in the immediately preceding sentence, other than the giving of notice by its related Managing Agent on behalf of the Conduit Lender referred to above and the delivery by such related Managing

Agent of a copy of such notice to each related Alternate Lender (the date of the receipt by the applicable Managing Agent of any such notice being the "***Assignment Date***"). Each related Alternate Lender hereby agrees, unconditionally and irrevocably and under all circumstances, without setoff, counterclaim or defense of any kind, to pay the full amount of its Assignment Amount on such Assignment Date to its related Conduit Lender or Conduit Lenders in immediately available funds to an account designated by the related Managing Agent. Upon payment of its Assignment Amount, each such Alternate Lender shall acquire an interest in such Facility Group's Class A Notes equal to that transferred by the Conduit Lender. In the event that the aggregate of the Assignment Amounts paid by any Facility Group's Alternate Lenders pursuant to this paragraph on any Assignment Date occurring is less than the principal balance of the Class A Notes of the applicable Conduit Lender on such Assignment Date, then to the extent payments are therefore received by the applicable Managing Agent hereunder in respect of such Class A Notes in excess of the aggregate of the unrecovered Assignment Amounts funded by the related Alternate Lenders, such excess shall be remitted by the applicable Managing Agent to the applicable Conduit Lenders.

(h) By executing and delivering an assignment and assumption agreement, the assignor and assignee thereunder confirm to and agree with each other and the other parties hereto as follows:

(i) other than as provided in such assignment and assumption agreement, the assignor makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement, the other Transaction Documents or any other instrument or document furnished pursuant hereto or thereto or the execution, legality, validity, enforceability, genuineness, sufficiency or value or this Agreement, the other Transaction Documents or any such other instrument or document;

(ii) the assignor makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Administrator, SLM Corporation, the Trust or any Affiliate thereof or the performance or observance by the Administrator, SLM Corporation, the Trust or any Affiliate thereof of any of their respective obligations under this Agreement or the other Transaction Documents or any other instrument or document furnished pursuant hereto;

(iii) such assignee confirms that it has received a copy of this Agreement and each other Transaction Document and such other instruments, documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such assignment and assumption agreement and to purchase such interest;

(iv) such assignee will, independently and without reliance upon the Administrative Agent, any Managing Agent, any other Lender, or any of their respective Affiliates, or the assignor and based on such agreements, documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Transaction Documents;

(v) such assignee appoints and authorizes the Administrative Agent and its applicable Managing Agent to take such action as agent on its behalf and to exercise such powers under this Agreement, the other Transaction Documents and any other instrument or document furnished pursuant hereto or thereto as are delegated to the Administrative Agent or its applicable Managing Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto and to enforce its respective rights and interests in and under this Agreement, the other Transaction Documents and the Pledged Collateral;

(vi) such assignee agrees that it will perform in accordance with their terms all of the obligations which by the terms of this Agreement and the other Transaction Documents are required to be performed by it as the assignee of the assignor; and

(vii) such assignee agrees that it will not institute against the Conduit Lenders any proceeding of the type referred to in Section 10.15 prior to the date which is one year and one day (or, if longer, any applicable preference period plus one day) after the payment in full of all CP issued by the Conduit Lender (or any related commercial paper issuer, if the Conduit Lender does not itself issue CP).

(i) From and after the effective date specified in each assignment and acceptance, (i) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such assignment and acceptance, have the rights and obligations of the assigning Lender under this Agreement, (ii) the assigning Lender shall, to the extent of the interest so assigned, be relieved from its obligations hereunder and (iii) in the case of an assignment of all of a Lender's rights and obligations hereunder, such Lender shall cease to be a party hereto; provided, that such Lender shall continue to be entitled to the benefits of Sections 2.02(c), 2.15, 2.20 and 10.08 and Article VIII, in each case solely with respect to facts and circumstances occurring prior to the effective date of such assignment.

(j) The Administrative Agent shall, acting solely for this purpose as an agent of the Trust, maintain a register (the "***Register***") on which it will record the Lenders' rights hereunder, and each assignment and acceptance and participation. The Register shall include the names and addresses of the Lenders (including all assignees, successors and participants). Failure to make any such recordation, or any error in such recordation, shall not affect the Lenders' obligations in respect of such rights. If a Lender assigns or sells a participation in its rights hereunder, it shall provide the Trust and the Administrative Agent with the information described in this paragraph and permit the Trust to review such information as reasonably needed for the Trust and the Administrative Agent to comply with its obligations under this Agreement or to maintain the Obligations at all times in "registered form" within the meaning of Sections 163(f), 871(h)(2) and 881(c)(2) of the Code and any related regulations. The entries in the Register shall be conclusive, and the Trust, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Trust and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(k) Each Lender may at any time pledge or Grant a security interest in all or any portion of its rights under this Agreement (including, without limitation, rights to payment of principal and Yield) to secure its obligations, including without limitation any pledge, grant, or assignment to secure obligations to a Federal Reserve Bank, without notice to or consent of SLM Corporation, the Administrator, the Trust or the Administrative Agent; provided, that no such pledge or Grant of a security interest shall release a Lender from any of its obligations under this Agreement, or substitute any such pledgee or grantee for such Lender as a party to this Agreement.

(l) [Reserved].

(m) Any Lender may, without the consent of, or notice to, the Trust or the Administrative Agent, sell participations to any Person (other than a natural person or the Trust or any of the Trust's Affiliates) (each, a "***Participant***") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or its interest in its Facility Group's Class A Notes owing to it); provided, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations; (iii) the Trust and the Administrative Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement; and (iv) such Lender shall obtain from the Participant, on behalf of the Administrator, a confidentiality agreement consistent with the restrictions set forth in Section 10.12 or a written agreement to comply with the provisions of Section 10.12.

(n) In the event that the Person who is then acting as Administrative Agent assigns or participates, in its capacity as a Lender, the entire remaining amount of its Commitment and interest in its Facility Group's Class A Notes to an entity that (i) is not an Affiliate of such Person, (ii) is not an Approved Fund with respect to such Person, (iii) is not a commercial paper conduit managed or administered by such Person or an Affiliate of such Person and (iv) does not receive credit or liquidity support from such Person with respect to the interest so assigned or participated, then the Administrator shall provide notice of such assignment or participation to Moody's (and in the case of a participation, such Person shall provide notice thereof to the Administrator) promptly after the occurrence thereof.

**Section 10.05.** Termination and Survival. This Agreement shall remain in full force and effect until the Aggregate Note Balance of all Class A Notes Outstanding and all other Obligations are paid in full; provided, that the rights and remedies with respect to any breach of a representation and warranty made by or on behalf of the Trust pursuant to Article V and the indemnification and payment provisions of Articles VIII and IX and Sections 2.14, 2.15, 2.20, 10.06, 10.07, 10.08, 10.09, 10.10, 10.12, 10.14, 10.15, 10.16 and 10.17 shall be continuing and shall survive the termination of this Agreement and, with respect to the Administrative Agent's, the Syndication Agent's, each Managing Agent's and the Eligible Lender Trustee's rights under Articles VIII, IX and X, the removal or resignation of the Administrative Agent, the Syndication Agent, such Managing Agent or the Eligible Lender Trustee.

**Section 10.06.** Governing Law. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN

ACCORDANCE WITH AND BE GOVERNED BY THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF (OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW).

**Section 10.07.** Submission to Jurisdiction; Waiver of Jury Trial; Appointment of Service Agent.

(a) EACH OF THE PARTIES HERETO HEREBY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK AND OF ANY NEW YORK STATE COURT SITTING IN THE CITY OF NEW YORK FOR PURPOSES OF ALL LEGAL PROCEEDINGS ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER TRANSACTION DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT IT MAY EFFECTIVELY DO SO, ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF THE VENUE OF ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT AND ANY CLAIM THAT ANY SUCH PROCEEDING BROUGHT IN SUCH A COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM. NOTHING IN THIS SECTION 10.07 SHALL AFFECT THE RIGHT OF THE ADMINISTRATIVE AGENT, THE SYNDICATION AGENT, THE MANAGING AGENTS OR THE NOTE PURCHASERS TO BRING ANY ACTION OR PROCEEDING AGAINST THE TRUST OR THE ADMINISTRATOR OR ANY OF THEIR RESPECTIVE PROPERTY IN THE COURTS OF OTHER JURISDICTIONS.

(b) EACH OF THE PARTIES HERETO HEREBY WAIVES ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE, WHETHER SOUNDING IN CONTRACT, TORT OR OTHERWISE, AMONG ANY OF THEM ARISING OUT OF, CONNECTED WITH, RELATING TO OR INCIDENTAL TO THE RELATIONSHIP BETWEEN THEM IN CONNECTION WITH THIS AGREEMENT OR THE OTHER TRANSACTION DOCUMENTS.

(c) The Trust and the Administrator each hereby appoint CT Corporation located at 111 Eighth Avenue, New York, New York 10011 as the authorized agent upon whom process may be served in any action arising out of or based upon this Agreement, the other Transaction Documents to which such Person is a party or the transactions contemplated hereby or thereby that may be instituted in the United States District Court for the Southern District of New York and of any New York State court sitting in The City of New York by the Administrative Agent or the Note Purchasers or any successor or assignee of any of them.

**Section 10.08.** Costs and Expenses. The Trust agrees to pay, on or before the 30th day following the date of demand, all reasonable and customary costs, fees and expenses of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Lead Arrangers, the Managing Agents, the Lenders or the Program Support Providers incurred in connection with the due diligence, negotiation, preparation, execution, delivery, renewal or any amendment or modification of, or any waiver or consent issued in connection with, this Agreement, any Program Support Agreement or any other Transaction Document, including, without limitation,

the reasonable fees and out-of-pocket expenses of counsel for the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Lead Arrangers, the Managing Agents, the Lenders or the Program Support Providers with respect thereto and all costs, fees and expenses, if any (including the applicable Rating Agency fees and reasonable auditors' and counsel fees and expenses), incurred by the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Lead Arrangers, the Managing Agents, the Lenders or the Program Support Providers in connection with the enforcement of this Agreement and the other Transaction Documents. Notwithstanding the foregoing, each of the Managing Agents, the Lenders and the Program Support Providers agrees that the Trust shall only be required to pay amounts for legal fees and expenses of not more than one law firm engaged by the Administrative Agent or the Syndication Agent, as applicable, on behalf of the Secured Creditors, unless otherwise agreed to by the Trust in its sole discretion. Each of SLM Education Credit Finance Corporation and the Administrator agrees to pay such required payments on behalf of the Trust on the Closing Date to the extent such expenses are properly invoiced prior to the Closing Date.

**Section 10.09.** Bankruptcy Non-Petition and Limited Recourse. Notwithstanding any other provision of this Agreement, each party hereto (other than the Trust) covenants and agrees that it shall not, prior to the date which is one year and one day (or, if longer, any applicable preference period plus one day) after payment in full of the Class A Notes, institute against, or join any other Person in instituting against, the Trust, any bankruptcy, reorganization, arrangement, insolvency or liquidation proceeding, or any similar proceeding under any federal or state bankruptcy or similar law; provided, that nothing in this provision shall preclude or be deemed to stop any party hereto (a) from taking any action prior to the expiration of the aforementioned one year and one day period in (i) any case or proceeding voluntarily filed or commenced by the Trust or (ii) any involuntary insolvency proceeding filed or commenced against the Trust by any Person other than a party hereto or (b) from commencing against the Trust or the Pledged Collateral any legal action which is not a bankruptcy, reorganization, arrangement, insolvency or a liquidation proceeding. The obligations of the Trust under this Agreement are limited recourse obligations payable solely from the Pledged Collateral and, following realization of the Pledged Collateral and its application in accordance with the terms hereof, any outstanding obligations of the Trust hereunder shall be extinguished and shall not thereafter revive. In addition, no recourse shall be had for any amounts payable or any other obligations arising under this Agreement against any officer, member, director, employee, partner or security holder of the Trust or any of its successors or assigns. The provisions of this Section shall survive the termination of this Agreement.

**Section 10.10.** Recourse Against Certain Parties. No recourse under or with respect to any obligation, covenant or agreement (including, without limitation, the payment of any fees or any other obligations) of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers as contained in this Agreement or any other agreement, instrument or document entered into by it pursuant hereto or in connection herewith shall be had against any administrator of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers or any incorporator, Affiliate, stockholder, officer, employee or director of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers or of any such administrator, as such, by the

enforcement of any assessment or by any legal or equitable proceeding, by virtue of any statute or otherwise; it being expressly agreed and understood that the agreements of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders and the Program Support Providers contained in this Agreement and all of the other agreements, instruments and documents entered into by the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers pursuant hereto or in connection herewith are, in each case, solely the corporate obligations of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers, as applicable. No personal liability whatsoever shall attach to or be incurred by any administrator of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers or any incorporator, stockholder, Affiliate, officer, employee or director thereof or any such administrator, as such, or any of them, under or by reason of any of the obligations, covenants or agreements of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers contained in this Agreement or in any other such instruments, documents or agreements, or which are implied therefrom, and any and all personal liability of every such administrator and each incorporator, stockholder, Affiliate, officer, employee or director of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers or of any such administrator, or any of them, for breaches by the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent, the Managing Agents, the Lenders or the Program Support Providers of any such obligations, covenants or agreements, which liability may arise either at common law or at equity, by statute or constitution, or otherwise, is hereby expressly waived as a condition of and in consideration for the execution of this Agreement. The provisions of this Section shall survive the termination of this Agreement and, with respect to the rights of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent or the Managing Agents, the resignation or removal of the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent or the Managing Agents.

**Section 10.11.** Execution in Counterparts; Severability. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. Delivery by facsimile or electronic mail of an executed signature page of this Agreement or any other Transaction Document shall be effective as delivery of an executed counterpart hereof. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

**Section 10.12.** Confidentiality.

(a) Each of the Administrative Agent, the Syndication Agent, the Managing Agents and the Lenders agrees to keep confidential and not disclose any non-public information or documents related to the Trust or any Affiliate of the Trust delivered or provided to such Person in connection with this Agreement, any other Transaction Document or the transactions contemplated hereby or thereby and which are clearly identified in writing by the Trust or such

Affiliate as being confidential; provided, however, that each of the foregoing may disclose such information:

(i) to the extent required or deemed necessary and/or advisable by such Person's counsel in any judicial, regulatory, arbitration or governmental proceeding or under any law, regulation, order, subpoena or decree;

(ii) to its officers, directors, employees, accountants, auditors and outside counsel, in each case, provided they are informed of the confidentiality thereof and agree to maintain such confidentiality;

(iii) to any Program Support Provider, any potential Program Support Provider, or any assignee or participant or potential assignee or participant of any Program Support Provider, provided they are informed of the confidentiality thereof and agree to maintain such confidentiality;

(iv) to any assignee, participant or potential assignee or participant of or with any of the foregoing;

(v) in connection with the enforcement of its rights and remedies under this Agreement or of any of the other Transaction Documents or any Program Support Agreement;

(vi) to any Rating Agency rating the Class A Notes, the CP of the Conduit Lenders or rating SLM Corporation; and

(vii) to such other Persons as may be approved by the Trust.

Notwithstanding the foregoing, the foregoing obligations shall not apply to any such information, documents or portions thereof that (x) were of public knowledge or literature generally available to the public at the time of such disclosure; or (y) have become part of the public domain by publication or otherwise, other than as a result of the failure of such party or any of its respective employees, directors, officers, advisors, accountants, auditors, or legal counsel to preserve the confidentiality thereof.

(b) Each of the Trust and the Administrator hereby agrees that it will not disclose the contents of this Agreement or any other Transaction Document or any other proprietary or confidential information of or with respect to any Note Purchaser, any Managing Agent, the Administrative Agent, the Syndication Agent or any Program Support Provider to any other Person except (i) its auditors and attorneys, employees or financial advisors (other than any commercial bank) and any nationally recognized statistical rating organization, provided such auditors, attorneys, employees, financial advisors or rating agencies are informed of the highly confidential nature of such information or (ii) as otherwise required by applicable law or order of a court of competent jurisdiction; provided, that, to the extent reasonably practicable, the Trust and the Administrator shall provide to the Administrative Agent and Syndication Agent an opportunity to review the form and content of a disclosure pursuant to this clause (ii) prior to the making of such disclosure and shall provide to each Managing Agent an opportunity to review

any such disclosure which mentions by name such Managing Agent or any member of its Facility Group.

(c) Notwithstanding any other provision herein to the contrary, each of the parties hereto (and each employee, representative or other agent of each such party) may disclose to any and all persons, without limitation of any kind, any information with respect to the United States federal, state and local "tax treatment" and "tax structure" (in each case, within the meaning of Treasury Regulation Section 1.6011-4) of the transactions contemplated by the Transaction Documents and all materials of any kind (including opinions or other tax analyses) that are provided to such party or its representatives relating to such tax treatment and tax structure; provided, that no person may disclose the name of or identifying information with respect to any party identified in the Transaction Documents or any pricing terms or other nonpublic business or financial information that is unrelated to the United States federal, state and local tax treatment of the transaction and is not relevant to understanding the United States federal, state and local tax treatment of the transaction, without complying with the provisions of Section 10.12(a); provided, further, that with respect to any document or similar item that in either case contains information concerning the tax treatment or tax structure of the transaction as well as other information, this sentence shall only apply to such portions of the document or similar item that relate to the United States federal, state and local tax treatment or tax structure of the transactions contemplated hereby.

**Section 10.13.** Section Titles. The section titles contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

**Section 10.14.** Entire Agreement. This Agreement, including all Exhibits, Schedules and Appendices and other documents attached hereto or incorporated by reference herein, together with the other Transaction Documents constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all other negotiations, understandings and representations, oral or written, with respect to the subject matter hereof.

**Section 10.15.** No Petition. Each of the Trust, the Administrator, the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent and the Managing Agents hereby covenants and agrees with respect to each Conduit Lender that, prior to the date which is one year and one day (or, if longer, any applicable preference period plus one day) after the payment in full of all outstanding indebtedness of such Conduit Lender (or its related commercial paper issuer), it will not institute against or join any other person or entity in instituting against such Conduit Lender any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings or other similar proceeding under the laws of the United States or any state of the United States. The foregoing shall not limit the rights of the Trust, the Administrator, the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent or the Managing Agents to file any claim in, or otherwise take any action with respect to, any insolvency proceeding instituted against any Conduit Lender by a Person other than the Trust, the Administrator, the Eligible Lender Trustee, the Administrative Agent, the Syndication Agent or the Managing Agents, as applicable. The provisions of this Section shall survive the termination of this Agreement.

**Section 10.16.** Excess Funds. Notwithstanding any provisions contained in this Agreement to the contrary, no Conduit Lender shall, nor shall be obligated to, pay any amount pursuant to this Agreement unless (i) such Conduit Lender has received funds which may be used to make such payment and which funds are not required to repay its CP when due and (ii) after giving effect to such payment, either (x) such Conduit Lender could issue CP to refinance all of its outstanding CP (assuming such outstanding CP matured at such time) in accordance with the program documents governing such Conduit Lender's securitization program or (y) all of such Conduit Lender's CP are paid in full. Any amount which a Conduit Lender does not pay pursuant to the operation of the preceding sentence shall not constitute a claim (as defined in §101 of the Bankruptcy Code) against or corporate obligation of such Conduit Lender for any such insufficiency unless and until such Conduit Lender satisfies the provisions of clauses (i) and (ii) above.

**Section 10.17.** Eligible Lender Trustee.

(a) The parties hereto agree that the Eligible Lender Trustee shall be afforded all of the rights, immunities and privileges afforded to the Eligible Lender Trustee under the Trust Agreement in connection with its execution of this Agreement.

(b) Notwithstanding the foregoing, none of the Secured Parties shall have recourse to the assets of the Eligible Lender Trustee in its individual capacity in respect of the obligations of the Trust. The parties hereto acknowledge and agree that The Bank of New York Mellon Trust Company, National Association and any successor eligible lender trustee is entering into this Agreement solely in its capacity as Eligible Lender Trustee, and not in its individual capacity, and in no case shall The Bank of New York Mellon Trust Company, National Association (or any person acting as successor eligible lender trustee) be personally liable for or on account of any of the statements, representations, warranties, covenants or obligations stated to be those of the Trust, all such liability, if any, being expressly waived by the parties hereto, any person claiming by, through, or under any such party.

**Section 10.18.** USA PATRIOT Act Notice. Each Lender that is subject to the Patriot Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Trust that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the *"**Patriot Act**"*), it is required to obtain, verify and record information that identifies the Trust, which information includes the name and address of the Trust and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Trust in accordance with the Patriot Act.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

THE TRUST:

**BLUEMONT FUNDING I**

By: THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION, not in its individual capacity but solely in its capacity as Eligible Lender Trustee under the Second Amended and Restated Trust Agreement dated as of the Closing Date by and among the Depositor, the Delaware Trustee and the Eligible Lender Trustee

By: /s/ Michael G. Ruppel
Name: Michael G. Ruppel
Title: Vice President

THE ELIGIBLE LENDER TRUSTEE:

**THE BANK OF NEW YORK MELLON TRUST COMPANY, NATIONAL ASSOCIATION**, not in its individual capacity but solely in its capacity as Eligible Lender Trustee under the Second Amended and Restated Trust Agreement dated as of the Closing Date by and among the Depositor, the Delaware Trustee and the Eligible Lender Trustee

By: /s/ Michael G. Ruppel
Name: Michael G. Ruppel
Title: Vice President

THE ADMINISTRATOR:

**SALLIE MAE, INC.**

| | |
|---|---|
| By: | /s/ Stephen J. O’Connell |
| Name: | Stephen J. O’Connell |
| Title: | Senior Vice President |

THE ADMINISTRATIVE AGENT:

**BANK OF AMERICA, N.A.**

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

**BANK OF AMERICA, N.A.**, as securities intermediary and depositary bank with respect to the Trust Accounts

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

LEAD ARRANGER:

**BANC OF AMERICA SECURITIES LLC**

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

**BANK OF AMERICA FACILITY GROUP:**

CONDUIT LENDERS:

**RANGER FUNDING COMPANY LLC**

By: /s/ Doris J. Hearn
Name: Doris J. Hearn
Title: Vice President

**YC SUSI TRUST**

By: BANK OF AMERICA, NATIONAL ASSOCIATION, as Administrative Trustee

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

**ENTERPRISE FUNDING COMPANY LLC**

By: /s/ Kevin P. Burns
Name: Kevin P. Burns
Title: Vice President

**KITTY HAWK FUNDING CORPORATION**

By: /s/ Phillip A. Martone
Name: Phillip A. Martone
Title: Vice President

MANAGING AGENT:

**BANK OF AMERICA, N.A.**

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

ALTERNATE LENDER:

**BANK OF AMERICA, N.A.**

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

LIBOR LENDER:

**BANK OF AMERICA, N.A.**

By: /s/ Jeffrey K. Fricano
Name: Jeffrey K. Fricano
Title: Principal

THE SYNDICATION AGENT:

**JPMORGAN CHASE BANK, N.A.**

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

LEAD ARRANGER:

**J.P. MORGAN SECURITIES INC.**

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

**JPMORGAN FACILITY GROUP:**

CONDUIT LENDERS:

**CHARIOT FUNDING LLC**

By: JPMORGAN CHASE BANK, N.A., its attorney-in-fact

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

**FALCON ASSET SECURITIZATION COMPANY LLC**

By: JPMORGAN CHASE BANK, N.A., its attorney-in-fact

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

**JS SILOED TRUST**

By: JPMORGAN CHASE BANK, N.A., as Administrative Trustee

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

**PARK AVENUE RECEIVABLES COMPANY, LLC**

By: JPMORGAN CHASE BANK, N.A., its attorney-in-fact

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

MANAGING AGENT:

**JPMORGAN CHASE BANK, N.A.**

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

ALTERNATE LENDER:

**JPMORGAN CHASE BANK, N.A.**

By: /s/ Catherine V. Frank
Name: Catherine V. Frank
Title: Executive Director

**BARCLAYS FACILITY GROUP:**

COMMITTED CONDUIT LENDERS:

**SHEFFIELD RECEIVABLES CORPORATION**

By: BARCLAYS BANK PLC, as attorney-in-fact

By: /s/ Janette Lieu
Name: Janette Lieu
Title: Director

**SALISBURY RECEIVABLES COMPANY LLC**

By: BARCLAYS BANK PLC, as attorney-in-fact

By: /s/ Janette Lieu
Name: Janette Lieu
Title: Director

MANAGING AGENT:

**BARCLAYS BANK PLC**
By: /s/ Jeffrey Goldberg
Name: Jeffrey Goldberg
Title: Director

**RBS FACILITY GROUP:**

CONDUIT LENDERS:

**AMSTERDAM FUNDING CORPORATION**

By: /s/ Jill A. Russo
Name: Jill A. Russo
Title: Vice President

**WINDMILL FUNDING CORPORATION**

By: /s/ Jill A. Russo
Name: Jill A. Russo
Title: Vice President

MANAGING AGENT:

**THE ROYAL BANK OF SCOTLAND PLC**

By: RBS Securities Inc., as agent

By: /s/ Michael Zappaterrini
Name: Michael Zappaterrini
Title: Managing Director

ALTERNATE LENDER:

**THE ROYAL BANK OF SCOTLAND PLC**

By: RBS Securities Inc., as agent

By: /s/ Michael Zappaterrini
Name: Michael Zappaterrini
Title: Managing Director

**DEUTSCHE BANK FACILITY GROUP:**

CONDUIT LENDER:

**GEMINI SECURITIZATION CORP., LLC**

By: /s/ Frank B. Bilotta
Name: Frank B. Bilotta
Title: President

MANAGING AGENT:

**DEUTSCHE BANK AG, NEW YORK BRANCH**

By: /s/ Joseph J. Lau
Name: Joseph J. Lau
Title: Director

By: /s/ Chawey Wu
Name: Chawey Wu
Title: Vice President

ALTERNATE LENDER:

**DEUTSCHE BANK AG, NEW YORK BRANCH**

By: /s/ Joseph J. Lau
Name: Joseph J. Lau
Title: Director

By: /s/ Chawey Wu
Name: Chawey Wu
Title: Vice President

**CREDIT SUISSE FACILITY GROUP:**

CONDUIT LENDER:

**ALPINE SECURITIZATION CORPORATION**

By: /s/ Mark Golombeck
Name: Mark Golombeck
Title: Attorney-In-Fact

By: /s/ Josh Borg
Name: Josh Borg
Title: Attorney-In-Fact

MANAGING AGENT:

**ALPINE SECURITIZATION CORPORATION**

By: /s/ Mark Golombeck
Name: Mark Golombeck
Title: Attorney-In-Fact

By: /s/ Josh Borg
Name: Josh Borg
Title: Attorney-In-Fact

ALTERNATE LENDER:

**CREDIT SUISSE, NEW YORK BRANCH**

By: /s/ Mark Golombeck
Name: Mark Golombeck
Title: Attorney-In-Fact

By: /s/ Josh Borg
Name: Josh Borg
Title: Attorney-In-Fact

**RBC FACILITY GROUP:**

CONDUIT LENDERS:

**OLD LINE FUNDING, LLC**

By: Royal Bank of Canada, as its Agent, as attorney-in-fact

By: /s/ Sofia Shields
Name: Sofia Shields
Title: Authorized Signatory

**THUNDER BAY FUNDING, LLC**

By: Royal Bank of Canada, as its Agent, as attorney-in-fact

By: /s/ Sofia Shields
Name: Sofia Shields
Title: Authorized Signatory

MANAGING AGENT:

**ROYAL BANK OF CANADA**

By: /s/ Thomas C. Dean
Name: Thomas C. Dean
Title: Authorized Signatory

By: /s/ Karen Stone
Name: Karen Stone
Title: Authorized Signatory

ALTERNATE LENDER:

**ROYAL BANK OF CANADA**

By: /s/ Thomas C. Dean
Name: Thomas C. Dean
Title: Authorized Signatory

By: /s/ Karen Stone
Name: Karen Stone
Title: Authorized Signatory

Agreed and acknowledged
with respect to Section 3.09 and Section 8.02:

SLM CORPORATION

By: /s/ Stephen J. O'Connell
Name: Stephen J. O'Connell
Title: Senior Vice President

Agreed and acknowledged with
respect to Section 10.01(a) and the last sentence of Section 10.08:

SLM EDUCATION CREDIT FINANCE CORPORATION

By: /s/ Mark D. Rein
Name: Mark D. Rein
Title: Vice President

**Exhibit 10.41**

**Schedule of Contracts Substantially Identical to EXHIBIT 10.10 in all Material Respects**

The following contracts are substantially identical in all material respects to the contract filed herewith as EXHIBIT 10.40, except as to the identity of the Trust that is the issuer of the variable funding notes that are to be sold pursuant to each such contract, as set forth below:

1. Note Purchase and Security Agreement dated January 15, 2010, where **TOWN CENTER FUNDING I**, a statutory trust duly organized under the laws of the State of Delaware, is the “Trust” thereunder (instead of Bluemont Funding I, which is the Trust under EXHIBIT 10.40); and

2. Note Purchase and Security Agreement dated January 15, 2010, where **TOWN HALL FUNDING I**, a statutory trust duly organized under the laws of the State of Delaware, is the “Trust” thereunder (instead of Bluemont Funding I, which is the Trust under EXHIBIT 10.40).

**Exhibit 10.42**

**SLM CORPORATION**

**Executive Severance Plan for Senior Officers**

The effective date of the Plan is May 22, 2009.

## ARTICLE 1

## NAME, PURPOSE AND EFFECTIVE DATE

**1.01** **Name and Purpose of Plan**. The name of this plan is the SLM Corporation Executive Severance Plan for Senior Officers (“Plan”). The purpose of the Plan is to provide compensation and benefits to certain senior level officers of SLM Corporation (the “Corporation”) upon employment termination.

**1.02** **Effective Date**. The effective date of the Plan is May 22, 2009. The compensation and benefits payable under the Plan are payable upon certain employment terminations that occur after the effective date of this Plan.

**1.03** **Employment Contracts Govern; Change in Control Severance Plan.** To the extent that an Eligible Officer is a party to an employment or other contract or agreement that provides for any severance payments upon such Eligible Officer’s termination of employment with the Corporation, then that contract or agreement governs, and not this Plan. Upon the expiration of such contract or agreement, this Plan will govern. In addition, to the extent that the Change in Control Severance Plan for Senior Officers provides for severance payments upon an Eligible Officer’s termination of employment with the Corporation, then that Plan will govern, and not this Plan.

**1.04** **ERISA Status**. This Plan is intended to be an unfunded plan that is maintained primarily to provide severance compensation and benefits to a select group of “management or highly compensated employees” within the meaning of Sections 201, 301, and 401 of the Employee Retirement Income Security Act of 1974 (“ERISA”), and therefore to be exempt from the provisions of Parts 2, 3, and 4 of Title I of ERISA.

## ARTICLE 2

## DEFINITIONS

The following words and phrases have the following meanings unless a different meaning is plainly required by the context:

**2.01** **“Average Bonus”** means the annualized performance bonus compensation calculated under this Plan for the rolling 24-month period immediately prior to the Eligible Officer’s Termination Date, including as a full month the month during which the Termination Date occurs. An example of a calculation of the Average Bonus portion of a Severance Payment according to the Plan is attached hereto as Exhibit A. For purposes of calculating Average Bonus under this Plan for the current fiscal year, the Eligible Officer’s base salary and target bonus at the Termination Date will be used and the Corporate performance scores from all completed quarters during the relevant portion of the fiscal year will be used. Notwithstanding anything to the contrary herein, if an Eligible Officer has fewer than 24 months of employment with the Corporation as of his or her Termination Date, then “Average Bonus” means the annualized performance bonus compensation calculated as described above but prorated for the portion of the

rolling 24 month period that is represented by the time from the Eligible Officer's date of hire to the Eligible Officer's Termination Date. An example of a calculation of the Average Bonus portion of a Severance Payment according to the previous sentence is attached hereto as Exhibit B.

**2.02** **"Base Salary"** means the annual base rate of compensation payable to an Eligible Officer at the time of a Termination Event, such annual base rate of compensation not reduced by any pre-tax deferrals under any tax-qualified plan, non-qualified deferred compensation plan, qualified transportation fringe benefit plan under Code Section 132(f), or cafeteria plan under Code Section 125 maintained by the Corporation, but excluding the following: incentive or other bonus plan payments, accrued vacation, commissions, sick leave, holidays, jury duty, bereavement, other paid leaves of absence, short-term disability payments, recruiting/job referral bonuses, severance, hiring bonuses, long-term disability payments, payments from a nonqualified deferred compensation plan maintained by the Corporation, or amounts paid on account of the exercise of stock options or on account of the award or vesting of restricted or performance stock or other stock-based compensation. Notwithstanding anything to the contrary herein, Base Salary will include the two-year average of any amounts included (or to be included) in the taxable income of the Eligible Officer during the rolling two-year period immediately prior to the Termination Date on account of vesting of restricted or performance stock granted by the Corporation on the terms contained therein.

**2.03** **"Board of Directors"** means the Board of Directors of SLM Corporation.

**2.04** **"For Cause"** means a determination by the Committee (as defined herein) that there has been a willful and continuing failure of an Eligible Officer to perform substantially his duties and responsibilities (other than as a result of Eligible Officer's death or Disability) and, if in the judgment of the Committee such willful and continuing failure may be cured by an Eligible Officer, that such failure has not been cured by an Eligible Officer within ten (10) business days after written notice of such was given to Eligible Officer by the Committee, or that Eligible Officer has committed an act of Misconduct (as defined below). For purposes of this Plan, "Misconduct" means: (a) embezzlement, fraud, conviction of a felony crime, pleading guilty or nolo contendere to a felony crime, or breach of fiduciary duty or deliberate disregard of the Corporation's Code of Business Code; (b) personal dishonesty of Eligible Officer materially injurious to the Corporation; (c) an unauthorized disclosure of any Proprietary Information; or (d) competing with the Corporation while employed by the Corporation or during the Restricted Period, in contravention of the non-competition and non-solicitation agreements substantially in the form provided in Exhibit C upon termination of employment.

**2.05** **"Termination of Employment For Good Reason"** means: (a) a material reduction in the position or responsibilities of the Eligible Officer not including a change in title only; (b) a reduction in Eligible Officer's Base Salary or a material reduction in Eligible Officer's compensation arrangements (provided that variability in the value of stock-based compensation or in the compensation provided under the SLM Corporation Incentive Plan or a successor plan will not be deemed to cause a material reduction in compensation); or (c) a relocation of the Eligible Officer's primary work location to a distance of more than seventy-five (75) miles from its location. If an Eligible Officer continues his or her employment with the Corporation for more than six months after the occurrence of an event described above that constitutes a Termination for

Good Reason, then the Eligible Officer shall be deemed to have given his or her consent to such event and the Eligible Officer shall not be eligible for a Severance Payment under this Plan as a result of that event and shall be deemed to have waived all rights in regard to such event.

**2.06 "Termination Date"** means the Eligible Officer's last date of employment with the Corporation.

**2.07 "Termination of Eligible Officer's Employment Without Cause"** means termination of an Eligible Officer's employment by the Corporation for any reason other than "For Cause" or on account of death or disability, as defined in the Corporation's long-term disability policy in effect at the time of termination ("Disability").

## ARTICLE 3

## ELIGIBILITY AND BENEFITS

**3.01 Eligible Officers.** Officers of SLM Corporation at the level of Senior Vice President and above are eligible for benefits under this Plan (each an "Eligible Officer").

**3.02 Severance Benefits**. (a) An Eligible Officer will be entitled to receive a severance payment ("Severance Payment") and continuation of medical and dental insurance benefits and outplacement services, all as provided herein, after any of the following events (each a "Termination Event"): (I) Termination of Employment for Good Reason, provided that if such termination is on account of a decision to resign due to clause (a) of the definition of "Termination by Eligible Officer For Good Reason," such Eligible Officer continues his or her employment for a transition period mutually agreed to by the Corporation and the Executive Officer or (II) upon a Termination of Eligible Officer's Employment Without Cause or (III) upon mutual agreement of the Corporation and an Eligible Officer.

(b) The amount of the Severance Payment will equal the sum of the Eligible Officer's Base Salary plus the Eligible Officer's Average Bonus times a multiplier. The multiplier for Eligible Officers with the title of Chief Executive Officer will be two (2). The multiplier for Eligible Officers with a title higher than Executive Vice President, such as Senior Executive Vice President and Vice Chairman but not including the Chief Executive Officer, will be 1 $^{1}/_{2}$ (one and one half). The multiplier for all other Eligible Officers will be one (1). Contingent upon signing the Confidential Agreement and Release, the Severance Payment will be made to the Eligible Officer in a single lump sum cash payment within forty-five (45) calendar days after the Eligible Officer's Termination Date. Notwithstanding anything to the contrary herein, in no event shall a Severance Payment paid to an Eligible Officer hereunder exceed the Eligible Officer's Base Salary plus incentive bonus multiplied by three (the "Payment Limit"), and if a Severance Payment hereunder were to exceed such amount, then such payment shall be reduced to the highest amount that does not exceed the Payment Limit.

(c) For eighteen (18) months (or twenty-four (24) months if the Eligible Officer is the Chief Executive Officer) following the Eligible Officer's Termination Date, the Eligible Officer and his or her eligible dependents or survivors will be entitled to continue to participate in any medical and dental insurance plans generally available to the senior management of the

Corporation, as such plans may be in effect from time to time on the terms generally applied to actively employed senior management of the Corporation, including any Eligible Officer cost-sharing provision. An Eligible Officer and his or her eligible dependents will cease to be covered under the foregoing medical and/or dental insurance plans if he or she becomes eligible to obtain coverage under medical and/or dental insurance plans of a subsequent employer.

(d) An Eligible Officer will be entitled to receive outplacement services from the Corporation or the Corporation's service provider(s.)

(e) Upon a Termination Event, to the extent already provided in the terms and conditions of an Eligible Officer's equity grants, all outstanding and unvested equity awards held by an Eligible Officer and granted by the Corporation before May 22, 2009 will become vested and non-forfeitable. Any outstanding and unvested equity awards held by an Eligible Officer and granted after May 22, 2009 shall be governed by the terms and conditions applicable to such grants.

(f) All payments and benefits provided under this Section 3.02 are conditioned on the Eligible Officer's continuing compliance with this Plan and the Eligible Officer's execution (and effectiveness) of a release of claims and covenant not to sue and non-competition and non-solicitation agreements substantially in the form provided in Exhibit C hereto.

**3.03** **Section 409A**. Notwithstanding anything herein to the contrary, to the extent that the Committee determines, in its sole discretion, that any payments or benefits to be provided hereunder to or for the benefit of an Eligible Officer who is also a "specified employee" (as such term is defined under Section 409A(a)(2)(B)(i) of the Code or any successor or comparable provision) would be subject to the additional tax imposed under Section 409A(a)(1)(B) of the Code or any successor or comparable provision, the commencement of such payments and/or benefits will be delayed until the earlier of (x) the date that is six months following the Termination Date or (y) the date of the Eligible Officer's death (such date is referred to herein as the "Distribution Date"). In the event that the Committee determines that the commencement of any of the benefits to be provided under Section 3.03(b) are to be delayed pursuant to the preceding sentence, the Corporation will require the Eligible Officer to bear the full cost of such benefits until the Distribution Date at which time the Corporation will reimburse the Designated Employee for all such costs.

## ARTICLE 4

## WELFARE BENEFIT COMMITTEE

**4.01** **Welfare Benefit Plan Committee**. The Plan will be administered by the Welfare Benefit Plan Committee, appointed by and serving at the pleasure of the Board of Directors and consisting of at least three (3) officers of the Corporation (the "Committee").

**4.02** **Powers**. The Committee will have full power, discretion and authority to interpret, construe and administer the Plan and any part hereof, and the Committee's interpretation and construction hereof, and any actions hereunder, will be binding on all persons for all purposes. The Committee will provide for the keeping of detailed, written minutes of its actions. The

Committee, in fulfilling its responsibilities may (by way of illustration and not of limitation) do any or all of the following:

(i) allocate among its members, and/or delegate to one or more other persons selected by it, responsibility for fulfilling some or all of its responsibilities under the Plan in accordance with Section 405(c) of ERISA;

(ii) designate one or more of its members to sign on its behalf directions, notices and other communications to any entity or other person;

(iii) establish rules and regulations with regard to its conduct and the fulfillment of its responsibilities under the Plan;

(iv) designate other persons to render advice with respect to any responsibility or authority pursuant to the Plan being carried out by it or any of its delegates under the Plan; and

(v) employ legal counsel, consultants and agents as it may deem desirable in the administration of the Plan and rely on the opinion of such counsel.

**4.03** **Action by Majority.** The majority of the members of the Committee in office at the time will constitute a quorum for the transaction of business. All resolutions or other actions taken by the Committee will be by the vote of the majority at any meeting or by written instrument signed by the majority.

## ARTICLE 5

## CLAIM FOR BENEFITS UNDER THIS PLAN

**5.01** **Claims for Benefits under this Plan**. A condition precedent to receipt of severance benefits is the execution of an unaltered release of claims in form and substance prescribed by the Corporation. If an Eligible Officer believes that an individual should have been eligible to participate in the Plan or disputes the amount of benefits under the Plan, such individual may submit a claim for benefits in writing to the Committee within sixty 60 days after the individual's termination of employment. If such claim for benefits is wholly or partially denied, the Committee will within a reasonable period of time, but no later than 90 days after receipt of the written claim, notify the individual of the denial of the claim. If an extension of time for processing the claim is required, the Committee may take up to an additional 90 days, provided that the Committee sends the individual written notice of the extension before the expiration of the original 90-day period. The notice provided to the individual will describe why an extension is required and when a decision is expected to be made. If a claim is wholly or partially denied, the denial notice: (1) will be in writing, (2) will be written in a manner calculated to be understood by the individual, and (3) will contain (a) the reasons for the denial, including specific reference to those plan provisions on which the denial is based; (b) a description of any additional information necessary to complete the claim and an explanation of why such information is necessary; (c) an explanation of the steps to be taken to appeal the adverse determination; and (d) a statement of the individual's right to bring a civil action under section 502(a) of ERISA following an adverse decision after appeal. The Committee will have full discretion consistent with their fiduciary

obligations under ERISA to deny or grant a claim in whole or in part. If notice of denial of a claim is not furnished in accordance with this section, the claim will be deemed denied and the claimant will be permitted to exercise his rights to review pursuant to Section 9.02 and 9.03.

**5.02** **Right to Request Review of Benefit Denial**. Within 60 days of the individual's receipt of the written notice of denial of the claim, the individual may file a written request for a review of the denial of the individual's claim for benefits In connection with the individual's appeal of the denial of his benefit, the individual may submit comments, records, documents, or other information supporting the appeal, regardless of whether such information was considered in the prior benefits decision. Upon request and free of charge, the individual will be provided reasonable access to and copies of all documents, records and other information relevant to the claim.

**5.03** **Disposition of Claim**. The Committee will deliver to the individual a written decision on the claim promptly, but not later than 60 days after the receipt of the individual's written request for review, except that if there are special circumstances which require an extension of time for processing, the 60-day period will be extended to 120 days; provided that the appeal reviewer sends written notice of the extension before the expiration of the original 60-day period. If the appeal is wholly or partially denied, the denial notice will: (1) be written in a manner calculated to be understood by the individual, (2) contain references to the specific plan provision(s) upon which the decision was based; (3) contain a statement that, upon request and free of charge, the individual will be provided reasonable access to and copies of all documents, records and other information relevant to the claim for benefits; and (4) contain a statement of the individual's right to bring a civil action under section 502(a) of ERISA.

**5.04** **Exhaustion**. An individual must exhaust the Plan's claims procedures prior to bringing any claim for benefits under the Plan in a court of competent jurisdiction.

## ARTICLE 6

## MISCELLANEOUS

**6.01** **Successors**. (a) Any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Corporation's business and/or assets, or all or substantially all of the business and/or assets of a business segment of the Corporation will be obligated under this Plan in the same manner and to the same extent as the Corporation would be required to perform it in the absence of a succession.

(b) This Plan and all rights of the Eligible Officer hereunder will inure to the benefit of, and be enforceable by, the Eligible Officer's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

**6.02** **Creditor Status of Eligible Officers**. In the event that any Eligible Officer acquires a right to receive payments from the Corporation under the Plan, such right will be no greater than the right of any unsecured general creditor of the Corporation.

The effective date of the Plan is May 22, 2009.

**6.03 Facility of Payment**. If it will be found that (a) an Eligible Officer entitled to receive any payment under the Plan is physically or mentally incompetent to receive such payment and to give a valid release therefor, and (b) another person or an institution is then maintaining or has custody of such Eligible Officer, and no guardian, committee, or other representative of the estate of such person has been duly appointed by a court of competent jurisdiction, the payment may be made to such other person or institution referred to in (b) above, and the release will be a valid and complete discharge for the payment.

**6.04 Notice of Address**. Each Eligible Officer entitled to benefits under the Plan must file with the Corporation, in writing, his post office address and each change of post office address. Any communication, statement or notice addressed to such Eligible Officer at such address will be deemed sufficient for all purposes of the Plan, and there will be no obligation on the part of the Corporation to search for or to ascertain the location of such Eligible Officer.

**6.05 Headings**. The headings of the Plan are inserted for convenience and reference only and shall have no effect upon the meaning of the provisions hereof.

**6.06 Choice of Law.** The Plan shall be construed, regulated and administered under the laws of the Commonwealth of Virginia (excluding the choice-of-law rules thereto), except that if any such laws are superseded by any applicable Federal law or statute, such Federal law or statute shall apply.

**6.07 Construction.** Whenever used herein, a masculine pronoun shall be deemed to include the masculine and feminine gender, a singular word shall be deemed to include the singular and plural and vice versa in all cases where the context requires.

**6.08 Termination; Amendment; Waiver**. (a) Prior to the occurrence of a Termination Event, the Board of Directors, or a delegated Committee of the Board, may amend or terminate the Plan at any time and from time to time. Termination or amendment of the Plan will not affect any obligation of the Corporation under the Plan which has accrued and is unpaid as of the effective date of the termination or amendment. Unless and until a Termination Event shall have occurred, an Eligible Officer shall not have any vested rights under the Plan or any agreement entered into pursuant to the Plan.

(b) From and after the occurrence of a Termination Event, no provision of this Plan shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Eligible Officer and by an authorized officer of the Corporation (other than the Eligible Officer). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Notwithstanding anything herein to the contrary, the Board of Directors may, in its sole discretion, amend the Plan (which amendment shall be effective upon its adoption or at such other time designated by the Board of Directors) at any time prior to a Termination Event as may be necessary to avoid the imposition of the additional tax under Section 409A(a)(1)(B) of the Code; provided, however, that any such amendment shall be implemented in such a manner as to

The effective date of the Plan is May 22, 2009.

preserve, to the greatest extent possible, the terms and conditions of the Plan as in existence immediately prior to any such amendment.

**6.09** **Whole Agreement**. This Plan contains all the legally binding understandings and agreements between the Eligible Officer and the Corporation pertaining to the subject matter thereof and supersedes all such agreements, whether oral or in writing, previously entered into between the parties.

**6.10** **Withholding Taxes**. All payments made under this Plan will be subject to reduction to reflect taxes required to be withheld by law.

**6.11** **No Assignment**. The rights of an Eligible Officer to payments or benefits under this Plan shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Section 6.11 shall be void.

The effective date of the Plan is May 22, 2009.

**Exhibit 21.1**

SUBSIDIARIES OF
SLM CORPORATION

| Name | Jurisdiction of Incorporation |
|---|---|
| AFS US, Inc. | Delaware |
| AFS Blocker, Inc. | Delaware |
| AFS Holdings, LLC | Delaware |
| AFS-HOV LLC | Delaware |
| AMS Office Park, Inc. | Rhode Island |
| Arrow Financial International, LLC | Delaware |
| Arrow Financial Services, LLC | Delaware |
| Arrow Global, LLC | Delaware |
| Arrow Global Receivables Management, LLC | Delaware |
| Arrow Securitizations, LLC | Delaware |
| Bluemont Funding LLC | Delaware |
| Cavalier Funding LLC, | Delaware |
| Cavalier Funding l LLC | Delaware |
| Cavalier Funding 2 LLC | Delaware |
| Churchill Funding LLC | Delaware |
| Crimson Funding, LLC | Delaware |
| Crimson Funding I, LLC | Delaware |
| Crimson Funding II, LLC | Delaware |
| Crimson Funding III, LLC | Delaware |
| HICA Holding, Inc. | South Dakota |
| HICA Education Loan Corporation | South Dakota |
| Mustang Funding I, LLC | Delaware |
| Mustang Funding II, LLC | Delaware |
| Nellie Mae Corporation | Delaware |
| Phoenix Fundings LLC | Delaware |
| Sallie Mae Bank | Utah |
| Sallie Mae, Inc. | Delaware |
| Sallie Mae — Canada Financial Corporation | Canada |
| Sallie Mae Education Trust | Delaware |
| Sallie Mae India, Inc. | Delaware |
| Sallie Mae Philippines, Inc. | Delaware |
| Sallie Mae UK Holding Corporation | Delaware |
| Sallie Mae UK Loan Corporation | Delaware |
| Secondary Market Company, LLC | Delaware |
| Secondary Market Services, LLC | Delaware |
| SLFR, LLC | Delaware |
| SLM Education Credit Finance Corporation | Delaware |
| SLM Education Credit Funding LLC | Delaware |
| SLM Education Loan Corporation | Delaware |
| SLM Funding LLC | Delaware |

| Name | Jurisdiction of Incorporation |
|---|---|
| SLM Grammercy Corporation | Delaware |
| SLM Originations Corporation | Delaware |
| Southwest Student Services Corporation | Delaware |
| Southwest Student Services Finance Corporation | Delaware |
| SSSC I LLC | Delaware |
| SSSC II LLC | Delaware |
| SSSC IV LLC | Delaware |
| SSSC Partners, LLC | Delaware |
| Student Loan Finance Association, Inc. | Idaho |
| Student Loan Finance Association — Washington, Inc. | Washington |
| Student Loan Funding LLC | Delaware |
| Student Loan Funding Holdings LLC | Delaware |
| Student Loan Funding Resources LLC | Ohio |
| Town Hall Funding LLC | Delaware |
| Town Center Funding LLC | Delaware |
| VG Funding, LLC | Delaware |
| VK Funding LLC | Delaware |
| VL Funding LLC | Delaware |
| Washington Resources LLC | Washington |

* Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of SLM Corporation are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this report.

**Exhibit 23**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (Nos. 333-148229 and 333-155492) and on Form S-8 (Nos. 333-140285, 333-125317, 333-33577, 333-44425, 333-53631, 333-68634, 333-80921, 333-92132, 333-109315, 333-109319, 333-33575, 333-92132, 333-159447 and 333-116136) of SLM Corporation of our report dated February 26, 2010 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
McLean, VA
February 26, 2010

**Exhibit 31.1**

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

I, Albert L. Lord, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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 officer 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/ ALBERT L. LORD
Albert L. Lord
Vice Chairman and Chief Executive Officer
(Principal Executive Officer)
February 26, 2010

**Exhibit 31.2**

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

I, John F. Remondi, certify that:

1. I have reviewed this annual report on Form 10-K 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 officer 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 officer 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/ JOHN F. REMONDI
John F. Remondi
Vice Chairman and Chief Financial Officer
(Principal Financial and Accounting Officer)
February 26, 2010

**Exhibit 32.1**

**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 Annual Report of SLM Corporation (the "Company") on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Albert L. Lord, Vice Chairman and 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/ ALBERT L. LORD
Albert L. Lord
Vice Chairman and Chief Executive Officer
(Principal Executive Officer)
February 26, 2010

**Exhibit 32.2**

**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 Annual Report of SLM Corporation (the “Company”) on Form 10-K for the year ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, John F. Remondi, Vice Chairman and Chief Financial 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/ JOHN F. REMONDI
John F. Remondi
Vice Chairman and Chief Financial Officer
(Principal Financial and Accounting Officer)
February 26, 2010