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

Form 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2007 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 Number: 001-13251

SLM Corporation
(Exact name of registrant as specified in its charter)

Delaware	**52-2013874**
(State or 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)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☑ Accelerated filer o Non-accelerated filer 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 ☑

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

Class	Outstanding at April 30, 2007
Voting common stock, $.20 par value	411,416,060 shares

GLOSSARY

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

Borrower Benefits — Borrower Benefits are financial incentives offered to borrowers who qualify based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of 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. We occasionally change Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Borrower Benefits discount.

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 pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance.

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

Our "Core Earnings" 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 our chief operating decision maker. Our "Core Earnings" performance measures are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company's core business activities. Our "Core Earnings" 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 11 TO THE CONSOLIDATED FINANCIAL STATEMENTS — Segment Reporting" and "MANAGEMENT'S DISCUSSION AND ANALYSIS — BUSINESS SEGMENTS — Limitations of 'Core Earnings'" 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 Report on Form 10-K and quarterly report on Form 10-Q, "Core Earnings" has been labeled as "'Core' net income" or "Managed net income" in certain instances.

Direct Loans — Student loans originated directly by ED under the FDLP.

ED — The U.S. Department of Education.

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

Exceptional Performer ("EP") Designation — The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP loans. Upon receiving the EP designation, the EP servicer receives 99 percent reimbursement on default claims on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the three percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the three percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance.

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

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

FFELP Consolidation Loans — Under the Federal Family Education Loan Program ("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 note 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).

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

Fixed Rate Floor Income — We refer to Floor Income (see definition below) associated with student loans whose borrower rate is fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006) as Fixed Rate Floor Income.

Floor Income — FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with new legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all new FFELP loans disbursed on or after April 1, 2006.

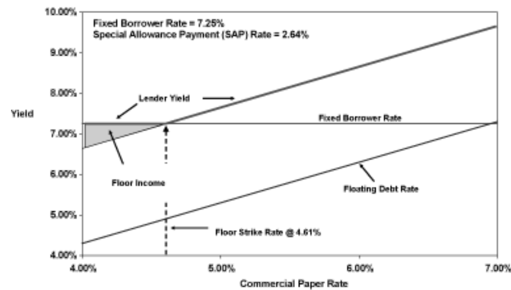
The following example shows the mechanics of Floor Income for a typical fixed rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

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. The difference between the fixed borrower rate and the lender's expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

Graphic Depiction of Floor Income:



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

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

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

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

Preferred Lender List — Most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

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

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

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

Reconciliation Legislation — The Higher Education Reconciliation Act of 2005, which reauthorized the student loan programs of the HEA and generally became effective as of July 1, 2006.

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

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

Risk Sharing — When a FFELP loan defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan generally must absorb the remaining three percent not guaranteed as a Risk Sharing loss on the loan. FFELP student 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 EP designation (see definition above) from ED are subject to one-percent Risk Sharing for claims filed on or after July 1, 2006.

Special Allowance Payment ("SAP") — FFELP student loans originated prior to April 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan's repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. 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.

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

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

Wholesale Consolidation Channel — During 2006, we implemented a new loan acquisition strategy under which we began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augments our traditional FFELP Consolidation Loan origination process. We refer to this new loan acquisition strategy as our Wholesale Consolidation Channel. FFELP Consolidation Loans acquired through this channel are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our brand strategy.

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

SLM CORPORATION

FORM 10-Q
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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2007 (Unaudited)	December 31, 2006
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $10,192 and $8,701, respectively)	$ 28,561,670	$ 24,840,464
FFELP Consolidation Loans (net of allowance for losses of $12,087 and $11,614, respectively)	66,170,098	61,324,008
Private Education Loans (net of allowance for losses of $369,072 and $308,346, respectively)	9,849,481	9,755,289
Other loans (net of allowance for losses of $19,803 and $20,394, respectively)	1,350,416	1,308,832
Investments		
Available-for-sale	2,342,845	2,464,121
Other	94,215	99,330
Total investments	2,437,060	2,563,451
Cash and cash equivalents	3,679,108	2,621,222
Restricted cash and investments	3,719,020	3,423,326
Retained Interest in off-balance sheet securitized loans	3,643,322	3,341,591
Goodwill and acquired intangible assets, net	1,364,016	1,371,606
Other assets	6,102,275	5,585,943
Total assets	$ 126,876,466	$ 116,135,732
Liabilities		
Short-term borrowings	$ 4,428,980	$ 3,528,263
Long-term borrowings	114,070,797	104,558,531
Other liabilities	3,990,878	3,679,781
Total liabilities	122,490,655	111,766,575
Commitments and contingencies		
Minority interest in subsidiaries	9,029	9,115
Stockholders' equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share; Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share	565,000	565,000
Common stock, par value $.20 per share, 1,125,000 shares authorized; 434,587 and 433,113 shares issued, respectively	86,918	86,623
Additional paid-in capital	2,638,334	2,565,211
Accumulated other comprehensive income (net of tax of $158,417 and $183,684, respectively)	300,884	349,111
Retained earnings	1,833,359	1,834,718
Stockholders' equity before treasury stock	5,424,495	5,400,663
Common stock held in treasury: 22,650 and 22,496 shares, respectively	1,047,713	1,040,621
Total stockholders' equity	4,376,782	4,360,042
Total liabilities and stockholders' equity	$ 126,876,466	$ 116,135,732

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31, 2007 (Unaudited)	Three Months Ended March 31, 2006 (Unaudited)
Interest income:		
FFELP Stafford and Other Student Loans	$ 450,762	$ 298,500
FFELP Consolidation Loans	1,014,846	821,335
Private Education Loans	338,421	241,353
Other loans	27,973	23,307
Cash and investments	113,904	95,810
Total interest income	1,945,906	1,480,305
Total interest expense	1,532,090	1,092,784
Net interest income	413,816	387,521
Less: provisions for losses	150,330	60,319
Net interest income after provisions for losses	263,486	327,202
Other income:		
Gains on student loan securitizations	367,300	30,023
Servicing and securitization revenue	251,938	98,931
Losses on securities, net	(30,967)	(2,948)
Gains (losses) on derivative and hedging activities, net	(356,969)	(86,739)
Guarantor servicing fees	39,241	26,907
Debt management fees	87,322	91,612
Collections revenue	65,562	56,681
Other	96,433	71,376
Total other income	519,860	285,843
Operating expenses:		
Salaries and benefits	186,350	175,340
Other	169,824	147,969
Total operating expenses	356,174	323,309
Income before income taxes and minority interest in net earnings of subsidiaries	427,172	289,736
Income taxes	310,014	137,045
Income before minority interest in net earnings of subsidiaries	117,158	152,691
Minority interest in net earnings of subsidiaries	1,005	1,090
Net income	116,153	151,601
Preferred stock dividends	9,093	8,301
Net income attributable to common stock	$ 107,060	$ 143,300
Basic earnings per common share	$ .26	$ .35
Average common shares outstanding	411,040	412,675
Diluted earnings per common share	$ .26	$ .34
Average common and common equivalent shares outstanding	418,449	422,974
Dividends per common share	$ .25	$ .22

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at December 31, 2005	7,300,000	426,483,527	(13,346,717)	413,136,810	$ 565,000	$ 85,297	$ 2,233,647	$ 367,910	$ 1,111,743	$ (572,172)	$ 3,791,425
Comprehensive income:											
Net income									151,601		151,601
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(44,950)			(44,950)
Change in unrealized gains (losses) on derivatives, net of tax								5,531			5,531
Minimum pension liability								5			5
Comprehensive income											112,187
Cash dividends:											
Common stock ($.22 per share)									(91,473)		(91,473)
Preferred stock, series A ($.87 per share)									(2,875)		(2,875)
Preferred stock, series B ($1.30 per share)									(5,267)		(5,267)
Issuance of common shares		2,845,835	46,002	2,891,837		569	83,036			2,568	86,173
Preferred stock issuance costs and related amortization							159		(159)		—
Tax benefit related to employee stock option and purchase plans							27,061				27,061
Stock-based compensation cost							20,349				20,349
Repurchase of common shares:											
Equity forwards:											
Exercise cost, cash			(2,447,832)	(2,447,832)						(133,994)	(133,994)
(Gain) loss on settlement			—	—						(806)	(806)
Benefit plans			(850,608)	(850,608)						(47,852)	(47,852)
Balance at March 31, 2006	7,300,000	429,329,362	(16,599,155)	412,730,207	$ 565,000	$ 85,866	$ 2,364,252	$ 328,496	$ 1,163,570	$ (752,256)	$ 3,754,928

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares Issued	Common Stock Shares Treasury	Common Stock Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Losses)	Retained Earnings	Treasury Stock	Total Stockholder's Equity
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
Comprehensive income:											
Net income									116,153		116,153
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(48,188)			(48,188)
Change in unrealized gains (losses) on derivatives, net of tax								483			483
Defined benefit pension plans adjustment, net of tax								(522)			(522)
Comprehensive income											67,926
Cash dividends:											
Common stock ($.25 per share)									(102,658)		(102,658)
Preferred stock, series A ($.87 per share)									(2,875)		(2,875)
Preferred stock, series B ($1.52 per share)									(6,058)		(6,058)
Issuance of common shares		1,473,681	35,123	1,508,804		295	47,420			1,574	49,289
Preferred stock issuance costs and related amortization							160		(160)		—
Tax benefit related to employee stock option and purchase plans							8,648				8,648
Stock-based compensation cost							16,895				16,895
Cumulative effect of accounting change									(5,761)		(5,761)
Repurchase of common shares:											
Benefit plans			(188,919)	(188,919)						(8,666)	(8,666)
Balance at March 31, 2007	7,300,000	434,586,663	(22,649,966)	411,936,697	$ 565,000	$ 86,918	$ 2,638,334	$ 300,884	$ 1,833,359	$ (1,047,713)	$ 4,376,782

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2007 (Unaudited)	Restated 2006 (Unaudited)
Operating activities		
Net income	$ 116,153	$ 151,601
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(367,300)	(30,023)
Losses on securities, net	30,967	2,948
Stock-based compensation cost	26,101	22,768
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(80,240)	(83,332)
Unrealized (gains)/losses on derivative and hedging activities — equity forwards	412,206	122,411
Provisions for losses	150,330	60,319
Minority interest, net	(1,609)	(1,674)
Mortgage loans originated	(226,208)	(349,332)
Proceeds from sales of mortgage loans	250,156	368,008
Decrease (increase) in restricted cash-other	22,202	(63,629)
(Increase) in accrued interest receivable	(350,454)	(233,427)
Increase in accrued interest payable	107,183	30,253
Adjustment for non-cash (income)/loss related to Retained Interest	(67,836)	52,524
(Increase) in other assets, goodwill and acquired intangible assets, net	(29,291)	(66,988)
Increase (decrease) in other liabilities	197,456	(193,826)
Total adjustments	73,663	(363,000)
Net cash provided by (used in) operating activities	189,816	(211,399)
Investing activities		
Student loans acquired	(12,278,480)	(8,322,746)
Loans purchased from securitized trusts (primarily loan consolidations)	(1,347,297)	(1,338,498)
Reduction of student loans:		
Installment payments	2,900,029	2,494,862
Proceeds from securitization of student loans treated as sales	1,976,599	7,985,275
Proceeds from sales of student loans	4,184	9,214
Other loans originated	(965,223)	(289,585)
Other loans repaid	897,602	295,396
Other investing activities, net	(58,236)	(33,065)
Purchases of available-for-sale securities	(15,448,651)	(10,263,898)
Proceeds from sales of available-for-sale securities	73,143	—
Proceeds from maturities of available-for-sale securities	15,567,592	10,811,460
Purchases of held-to-maturity and other securities	(540)	(235,804)
Proceeds from maturities of held-to-maturity securities and other securities	7,065	176,344
(Increase) decrease in restricted cash — on-balance sheet trusts	(379,218)	100,961
Return of investment from Retained Interest	62,455	36,580
Net cash (used in) provided by investing activities	(8,988,976)	1,426,496
Financing activities		
Short-term borrowings issued	1,204,049	15,290,752
Short-term borrowings repaid	(957,381)	(15,297,685)
Long-term borrowings issued	1,567,602	1,653,839
Long-term borrowings repaid	(1,312,003)	(1,763,784)
Borrowings collateralized by loans in trust issued	11,203,950	—
Borrowings collateralized by loans in trust — activity	(1,638,925)	(1,082,549)
Other financing activities, net	(8,395)	(22,681)
Excess tax benefit from the exercise of stock-based awards	4,331	17,108
Common stock issued	35,423	71,942
Net settlements on equity forward contracts	(121,348)	(13,855)
Common stock repurchased	(8,666)	(181,846)
Common dividends paid	(102,658)	(91,473)
Preferred dividends paid	(8,933)	(8,142)
Net cash provided by (used in) financing activities	9,857,046	(1,428,374)
Net increase (decrease) in cash and cash equivalents	1,057,886	(213,277)
Cash and cash equivalents at beginning of period	2,621,222	2,498,655
Cash and cash equivalents at end of period	$ 3,679,108	$ 2,285,378
Cash disbursements made for:		
Interest	$ 1,477,775	$ 1,022,758
Income taxes	$ 159,962	$ 148,597

See accompanying notes to consolidated financial statements.

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1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results for the year ending December 31, 2007. The consolidated balance sheet at December 31, 2006, as presented, was derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the period ended December 31, 2006. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's 2006 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2006 to be consistent with classifications adopted for 2007.

Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited)

The Company restated its 2006 quarterly consolidated statements of cash flows as more fully described within the Company's 2006 Annual Report on Form 10-K at Note 2, "Significant Accounting Policies — *Statement of Cash Flows* — Restatement of the Consolidated Statements of Cash Flows" and Note 21, "Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited)." The restatements solely affected the classification of items in operating, investing and financing activities, and had no impact on the net increase (decrease) in cash and cash equivalents set forth in the consolidated statements of cash flows for any of the previously reported periods. The restatements did not affect the Company's consolidated balance sheets, consolidated statements of income or consolidated statements of changes in stockholders' equity. Accordingly, the Company's historical revenues, net income, earnings per share, total assets and total stockholders' equity remain unchanged.

Recently Issued Accounting Pronouncements

The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities — Including an Amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value (on an instrument by instrument basis) improving financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Most recognized financial assets and liabilities are eligible items for the measurement option established by the statement. There are a few exceptions, including an investment in a subsidiary or an

1. Significant Accounting Policies (Continued)

interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits and financial instruments classified as shareholder's equity. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company is currently evaluating the impact of this standard on its financial statements. The statement will be effective beginning January 1, 2008.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value. The Company is currently evaluating the potential impact of SFAS No. 157 on its financial statements.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets," which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This statement was effective for the Company beginning January 1, 2007.

This statement:

- Requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset as the result of (i) a transfer of the servicer's financial assets that meet the requirement for sale accounting; (ii) a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"; or (iii) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.
- Requires all separately recognized servicing assets or liabilities to be initially measured at fair value, if practicable.
- Permits an entity to either (i) amortize servicing assets or liabilities in proportion to and over the period of estimated net servicing income or loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date (amortization method); or (ii) measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur (fair value measurement method). The method must be chosen for each separately recognized class of servicing asset or liability.
- At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value.

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1. Significant Accounting Policies (Continued)

- Requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and liabilities.

The adoption of SFAS No. 156 did not have a material impact on the Company's financial statements as the Company did not elect to carry its servicing rights at fair value through earnings.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 140. This statement was effective for the Company beginning January 1, 2007.

This statement:

- Requires that all interests in securitized financial assets be evaluated to determine if the interests are free standing derivatives or if the interests contain an embedded derivative;
- Clarifies which interest-only strips and principal-only strips are exempt from the requirements of SFAS No. 133;
- Clarifies that the concentrations of credit risk in the form of subordination are not an embedded derivative; and
- Allows a hybrid financial instrument containing an embedded derivative that would have required bifurcation under SFAS No. 133 to be measured at fair value as one instrument on a case by case basis;
- Amends SFAS Statement No. 140 to eliminate the prohibition of a qualifying special purpose entity from holding a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument.

In January 2007, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," Implementation Issues No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor (Amended)," and No. B40, "Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets." The guidance clarifies various aspects of SFAS No. 155 and will require the Company to either (1) separately record embedded derivatives that may reside in the Company's Residual Interest and on-balance sheet securitization debt, or (2) if embedded derivatives exist that require bifurcation, mark-to-market through income changes in the fair value of the Company's Residual Interest and on-balance sheet securitization debt in their entirety. This standard is prospectively applied in 2007 for new securitizations and does not apply to the Company's existing Residual Interest or on-balance sheet securitization debt that settled prior to 2007.

If material embedded derivatives exist within the Residual Interest that require bifurcation, the Company will most likely elect to carry the entire Residual Interest at fair value with subsequent changes in fair value recorded in earnings. This could have a material impact on earnings, as prior to the adoption of SFAS No. 155, changes in the fair value of these Residual Interests would have been recorded through other comprehensive income (except for impairment which is recorded through income). The Company elected this option related to the Private Education Loan securitization which settled in the first quarter of 2007 and as a result, recorded a $79 million unrealized gain through earnings that, prior to the adoption of SFAS No. 155, would have been recorded through other comprehensive income. The Company has concluded, based on its current

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1. Significant Accounting Policies (Continued)

securitization deal structures, that its on-balance sheet securitization debt will not be materially impacted upon the adoption of SFAS No. 155 as embedded derivatives will not have a material value. Accordingly, there was no impact in the first quarter of 2007.

2. Allowance for Student Loan Losses

The Company's provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the student loan portfolios. The evaluation of the provisions for student loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. The Company believes that the allowance for student loan losses is appropriate to cover probable losses in the student loan portfolios.

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Balance at beginning of period	$ 328,661	$ 219,062
Provisions for student loan losses	147,195	57,799
Charge-offs	(85,812)	(33,388)
Recoveries	6,790	6,389
Net charge-offs	(79,022)	(26,999)
Balance before reductions for student loan sales and securitizations	396,834	249,862
Reductions for student loan sales and securitizations	(5,483)	(2,185)
Balance at end of period	$ 391,351	$ 247,677

In addition to the provisions for student loan losses, provisions for other losses totaled $3 million and $2 million for the three months ended March 31, 2007 and 2006, respectively.

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2. Allowance for Student Loan Losses (Continued)

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance at beginning of period	$ 308,346	$ 204,112
Provision for Private Education Loan losses	141,627	54,372
Charge-offs	(81,911)	(32,726)
Recoveries	6,790	6,389
Net charge-offs	(75,121)	(26,337)
Balance before securitization of Private Education Loans	374,852	232,147
Reduction for securitization of Private Education Loans	(5,780)	—
Balance at end of period	$ 369,072	$ 232,147
Net charge-offs as a percentage of average loans in repayment (annualized)	6.27%	2.83%
Allowance as a percentage of the ending total loan balance	3.61%	2.43%
Allowance as a percentage of ending loans in repayment	7.58%	5.96%
Allowance coverage of net charge-offs (annualized)	1.21	2.17
Average total loans	$ 11,354,166	$ 9,015,727
Ending total loans	$ 10,218,554	$ 9,543,311
Average loans in repayment	$ 4,859,260	$ 3,780,100
Ending loans in repayment	$ 4,867,215	$ 3,897,945

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2. Allowance for Student Loan Losses (Continued)

Delinquencies

The table below presents the Company's Private Education Loan delinquency trends as of March 31, 2007, December 31, 2006, and March 31, 2006. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

	March 31, 2007		December 31, 2006		March 31, 2006	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 5,220		$ 5,218		$ 5,573	
Loans in forbearance[2]	494		359		412	
Loans in repayment and percentage of each status:						
Loans current	4,260	87.5%	4,214	86.9%	3,487	89.4%
Loans delinquent 31-60 days[3]	184	3.8	250	5.1	170	4.4
Loans delinquent 61-90 days[3]	131	2.7	132	2.7	106	2.7
Loans delinquent greater than 90 days[3]	292	6.0	255	5.3	135	3.5
Total Private Education Loans in repayment	4,867	100%	4,851	100%	3,898	100%
Total Private Education Loans, gross	10,581		10,428		9,883	
Private Education Loan unamortized discount	(363)		(365)		(340)	
Total Private Education Loans	10,218		10,063		9,543	
Private Education Loan allowance for losses	(369)		(308)		(232)	
Private Education Loans, net	$ 9,849		$ 9,755		$ 9,311	
Percentage of Private Education Loans in repayment	46.0%		46.5%		39.4%	
Delinquencies as a percentage of Private Education Loans in repayment	12.5%		13.1%		10.6%	

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

(2) Loans for borrowers who have requested extension of grace period 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.

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3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of March 31, 2007 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 374	$ (126)	$ 248
Tax exempt bond funding	10 years	—	—	—
Software and technology	7 years	95	(66)	29
Non-compete agreements	2 years	12	(9)	3
Total		481	(201)	280
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	115	—	115
Total acquired intangible assets		$ 596	$ (201)	$ 395

(Dollars in millions)	Average Amortization Period	As of December 31, 2006 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 367	$ (115)	$ 252
Tax exempt bond funding	10 years	46	(37)	9
Software and technology	7 years	94	(62)	32
Non-compete agreements	2 years	12	(9)	3
Total		519	(223)	296
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	106	—	106
Total acquired intangible assets		$ 625	$ (223)	$ 402

The Company recorded amortization of acquired intangibles totaling $15 million and $14 million for the three months ended March 31, 2007 and 2006, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

In connection with the Company's acquisition of Southwest Student Services Corporation and Washington Transferee Corporation, the Company acquired certain tax exempt bonds that enable the Company to earn a 9.5 percent Special Allowance Payment ("SAP") rate on student loans funded by those bonds in indentured trusts. In the first quarter of 2007, the Company recognized an impairment of $9 million due to changes that restrict the loans on which the Company is entitled to earn a 9.5 percent yield. The impaired intangible asset is reported in the Lending segment and the impairment charge is included in operating expense in the Lending segment.

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3. Goodwill and Acquired Intangible Assets (Continued)

A summary of changes in the Company's goodwill by reportable segment (see Note 11, "Segment Reporting") is as follows:

(Dollars in millions)	December 31, 2006	Adjustments	March 31, 2007
Lending	$ 406	$ —	$ 406
Debt Management Operations	349	10	359
Corporate and Other	215	(9)	206
Total	$ 970	$ 1	$ 971

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, "Business Combinations." The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company's acquisitions is reviewed for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets," addressed further in Note 2, "Significant Accounting Policies," within the Company's 2006 Annual Report on Form 10-K.

4. Student Loan Securitization

Securitization Activity

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

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4. Student Loan Securitization (Continued)

The following table summarizes the Company's securitization activity for the three months ended March 31, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended March 31,							
	2007				2006			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
Securitization sales:								
FFELP Stafford/PLUS loans	—	$ —	$ —	—%	2	$ 5,004	$ 17	.3%
FFELP Consolidation Loans	—	—	—	—	1	3,002	13	.4
Private Education Loans	1	2,000	367	18.4	—	—	—	—
Total securitizations — sales	1	2,000	$ 367	18.4%	3	8,006	$ 30	.4%
Securitization financings:								
FFELP Stafford/PLUS Loans[1]	2	7,004			—	—		
FFELP Consolidation Loans[1]	1	4,002			—	—		
Total securitizations — financings	3	11,006			—	—		
Total securitizations	4	$ 13,006			3	$ 8,006		

(1) Certain securitizations are structured to not qualify for sale treatment and accordingly, they are accounted for on-balance sheet as variable interest entities ("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 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.

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4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three months ended March 31, 2007 and 2006 were as follows:

	Three Months Ended March 31,					
	2007			2006		
	FFELP Stafford(1)	FFELP Consolidation Loans(1)	Private Education Loans	FFELP Stafford	FFELP Consolidation Loans	Private Education Loans(1)
Prepayment speed (annual rate)(2)	—	—	—	*	6%	—
Interim status	—	—	0%	—	—	—
Repayment status	—	—	4-7%	—	—	—
Life of loan repayment status	—	—	6%	—	—	—
Weighted average life	—	—	9.4 yrs.	3.7 yrs.	8.3 yrs.	—
Expected credit losses (% of principal securitized)	—	—	4.69%	.15%	.27%	—
Residual cash flows discounted at (weighted average)	—	—	12.5%	12.4%	10.5%	—

(1) No securitizations qualified for sale treatment in the period.

(2) Effective December 31, 2006, the Company implemented Constant Prepayment Rates ("CPR") curves for Residual Interest valuations that are based on the number of months since entering repayment that better reflect the CPR as the loan seasons. Under this methodology, a different CPR is applied to each year of a loan's seasoning. Previously, the Company applied a CPR that was based on a static life of loan assumption, irrespective of seasoning, or, in the case of FFELP Stafford and PLUS loans, the Company used a vector approach in applying the CPR. The repayment status CPR depends on the number of months since first entering repayment or as the loans seasons through the portfolio. 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.

* CPR of 20 percent for 2006, 15 percent for 2007 and 10 percent thereafter.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the

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4. Student Loan Securitization (Continued)

underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of March 31, 2007 and 2006.

	As of March 31, 2007			
Dollars in millions	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 637	$ 671	$ 2,336	$ 3,644
Underlying securitized loan balance(3)	13,058	17,268	14,807	45,133
Weighted average life	2.8 yrs.	7.2 yrs.	7.4 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan — repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.07%	.06%	4.39%	
Residual cash flows discount rate	12.4%	10.5%	12.5%	

	As of December 31, 2006			
Dollars in millions	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 701	$ 676	$ 1,965	$ 3,342
Underlying securitized loan balance(3)	14,794	17,817	13,222	45,833
Weighted average life	2.9 yrs.	7.3 yrs.	7.2 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan — repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.06%	.07%	4.36%	
Residual cash flows discount rate	12.6%	10.5%	12.6%	

(1) Includes $147 million and $151 million related to the fair value of the Embedded Floor Income as of March 31, 2007 and December 31, 2006, 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) At March 31, 2007 and December 31, 2006, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $332 million and $389 million, respectively, which related to the Retained Interests.

(3) In addition to student loans in off-balance sheet trusts, the Company had $58.2 billion and $48.6 billion of securitized student loans outstanding (face amount) as of March 31, 2007 and December 31, 2006, respectively, in on-balance sheet securitization trusts.

(4) Effective December 31, 2006, the Company implemented 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. Previously, the Company applied a CPR that was based on a static life of loan assumption, and, in the case of FFELP Stafford and PLUS loans, the Company applied a vector approach, irrespective of 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.

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4. Student Loan Securitization (Continued)

The Company recorded $11 million and $52 million of impairment related to the Retained Interests for the three months ended March 31, 2007 and 2006, respectively. The impairment charges were primarily the result of FFELP Stafford loans prepaying faster than projected through loan consolidation ($11 million and $24 million for the three months ended March 31, 2007 and 2006, respectively). The impairment for the quarter ended March 31, 2006 also related to the Floor Income component of the Company's Retained Interest due to increases in interest rates during the period ($28 million).

The table below shows the Company's off-balance sheet Private Education Loan delinquency trends as of March 31, 2007, December 31, 2006 and March 31, 2006.

	March 31, 2007		December 31, 2006		March 31, 2006	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 6,821		$ 5,608		$ 3,456	
Loans in forbearance[2]	1,147		822		784	
Loans in repayment and percentage of each status:						
Loans current	6,475	94.7%	6,419	94.5%	4,389	95.5%
Loans delinquent 31-60 days[3]	145	2.1	222	3.3	106	2.3
Loans delinquent 61-90 days[3]	88	1.3	60	.9	46	1.0
Loans delinquent greater than 90 days[3]	131	1.9	91	1.3	55	1.2
Total off-balance sheet Private Education Loans in repayment	6,839	100%	6,792	100%	4,596	100%
Total off-balance sheet Private Education Loans, gross	$ 14,807		$ 13,222		$ 8,836	

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

(2) Loans for borrowers who have requested extension of grace period 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 programs.

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

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at March 31, 2007 and December 31, 2006 and their impact on other comprehensive income and earnings for the three months ended March 31, 2007 and 2006. At March 31, 2007 and December 31, 2006, $618 million (of which $76 million is in restricted cash and investments on the balance sheet) and $418 million (of which $53 million is in restricted cash and investments on the balance sheet) fair

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5. Derivative Financial Instruments (Continued)

value, respectively, of available-for-sale investment securities and $13 million and $28 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006	March 31, 2007	December 31, 2006
Fair Values(1)								
Interest rate swaps	$ (10)	$ (9)	$ (306)	$ (355)	$ (50)	$ (111)	$ (366)	$ (475)
Floor/Cap contracts	—	—	—	—	(196)	(200)	(196)	(200)
Futures	—	—	—	—	—	—	—	—
Equity forwards	—	—	—	—	(504)	(213)	(504)	(213)
Cross currency interest rate swaps	—	—	1,640	1,440	—	—	1,640	1,440
Total	$ (10)	$ (9)	$ 1,334	$ 1,085	$ (750)	$ (524)	$ 574	$ 552
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 2.4	$ 2.1	$ 15.6	$ 15.6	$ 187.5	$ 162.0	$ 205.5	$ 179.7
Floor/Cap contracts	—	—	—	—	22.8	21.5	22.8	21.5
Futures	.1	.1	—	—	.6	.6	.7	.7
Cross currency interest rate swaps	—	—	23.1	23.0	—	—	23.1	23.0
Other(2)	—	—	—	—	2.3	2.0	2.3	2.0
Total	$ 2.5	$ 2.2	$ 38.7	$ 38.6	$ 213.2	$ 186.1	$ 254.4	$ 226.9
(Shares in millions)								
Contracts								
Equity forwards	—	—	—	—	48.2	48.2	48.2	48.2

(1) Fair values reported are exclusive of collateral held and/or pledged.

(2) “Other” consists of an embedded derivative ($2 billion notional) bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. In addition, beginning in the first quarter of 2007, “Other” also includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155 (see Note 1, “Significant Accounting Policies — Accounting for Certain Hybrid Financial Instruments”). All of the embedded derivatives have had a de minimis fair value since bifurcation.

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5. Derivative Financial Instruments (Continued)

	Three Months Ended March 31,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2007	2006	2007	2006	2007	2006	2007	2006
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ —	$ 2	$ —	$ —	$ —	$ —	$ —	$ 2
Amortization of effective hedges[1]	1	4	—	—	—	—	1	4
Change in accumulated other comprehensive income, net	$ 1	$ 6	$ —	$ —	$ —	$ —	$ 1	$ 6
Earnings Summary								
Amortization of closed futures contracts' gains/losses in interest expense[2]	$ (2)	$ (6)	$ —	$ —	$ —	$ —	$ (2)	$ (6)
Gains (losses) on derivative and hedging activities — Realized[3]	—	—	—	—	(25)	(48)	(25)	(48)
Gains (losses) on derivative and hedging activities — Unrealized[4]	—	—	15	22	(347)	(61)	(332)	(39)
Total earnings impact	$ (2)	$ (6)	$ 15	$ 22	$ (372)	$ (109)	$ (359)	$ (93)

(1) The Company expects to amortize $.3 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of March 31, 2007.

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

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

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

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6. Stockholders' Equity

The following table summarizes the Company's common share repurchases, issuances and equity forward activity for the three months ended March 31, 2007 and 2006.

(Shares in millions)	Three Months Ended March 31, 2007	2006
Common shares repurchased:		
Equity forwards	—	2.5
Benefit plans(1)	.2	.8
Total shares repurchased	.2	3.3
Average purchase price per share	$ 45.87	$ 55.13
Common shares issued	1.5	2.9
Equity forward contracts:		
Outstanding at beginning of period	48.2	42.7
New contracts	—	2.5
Exercises	—	(2.5)
Outstanding at end of period	48.2	42.7
Authority remaining at end of period to repurchase or enter into equity forwards	15.7	16.2

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

As of March 31, 2007, the expiration dates and range and weighted average purchase prices for outstanding equity forward contracts were as follows:

Year of Maturity (Contracts in millions of shares)	Outstanding Contracts	Range of Purchase Prices	Weighted Average Purchase Price
2008	7.3	$43.50 - $44.00	$ 43.80
2009	14.7	46.00 - 54.74	53.66
2010	15.0	54.74	54.74
2011	9.1	49.75 - 53.76	51.91
2012	2.1	46.30 - 46.70	46.40
	48.2		$ 51.86

The closing price of the Company's common stock on March 30, 2007 was $40.90. Should the market value of the Company's stock fall below certain initial trigger prices, the counterparty to the contract has a right to terminate the contract and settle all or a portion at the original contract price. For equity forward contracts outstanding at March 31, 2007, these initial trigger prices range from $23.93 per share to $30.11 per share.

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6. Stockholders' Equity (Continued)

In February 2007, the Company made payments to certain counterparties to lower the notional amounts on some of its outstanding equity forward contracts. Also in February 2007, the Company agreed with a counterparty to amend the trigger prices on its outstanding equity forward contracts. In total, the Company amended the terms of the contracts covering 18.5 million shares. As a result of these transactions, the Company's aggregate position on equity forward contracts is 48.2 million shares at an average strike price of $51.86. The highest trigger price on all outstanding equity forward contracts is now $30.11, down from $35.58 before the amendments.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives qualifying as cash flow hedges, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of March 31, 2007, December 31, 2006 and March 31, 2006.

	March 31, 2007	December 31, 2006	March 31, 2006
Net unrealized gains (losses) on investments(1)	$ 292,175	$ 340,363	$ 337,365
Net unrealized gains (losses) on derivatives(2)	(7,087)	(7,570)	(7,029)
Defined benefit pension plans:			
Net prior service cost	(23)	(24)	—
Net gain	15,819	16,342	—
Total defined benefit pension plans(3)	15,796	16,318	—
Minimum pension liability adjustment(4)	—	—	(1,840)
Total accumulated other comprehensive income	$ 300,884	$ 349,111	$ 328,496

(1) Net of tax expense of $153,159, $179,244 and $179,281 as of March 31, 2007, December 31, 2006 and March 31, 2006, respectively.
(2) Net of tax benefit of $4,051, $4,347 and $4,007 as of March 31, 2007, December 31, 2006 and March 31, 2006, respectively.
(3) Net of tax expense of $9,309 and $8,787 as of March 31, 2007 and December 31, 2006, respectively.
(4) Net of tax benefit of $991 as of March 31, 2006.

7. Earnings per Common Share

Basic earnings 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 is as follows for the three months ended March 31, 2007 and 2006:

	Three Months Ended March 31,	
	2007	2006
Numerator:		
Net income attributable to common stock	$ 107,060	$ 143,300
Adjusted for debt expense of convertible debentures ("Co-Cos"), net of taxes[1]	—	—
Adjusted for non-taxable unrealized gains on equity forwards[2]	—	—
Net income attributable to common stock, adjusted	$ 107,060	$ 143,300
Denominator *(shares in thousands):*		
Weighted average shares used to compute basic EPS	411,040	412,675
Effect of dilutive securities:		
Dilutive effect of Co-Cos	—	—
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, Employee Stock Purchase Plan ("ESPP") and equity forwards[3][4]	7,409	10,299
Dilutive potential common shares[5]	7,409	10,299
Weighted average shares used to compute diluted EPS	418,449	422,974
Net earnings per share:		
Basic EPS	$ .26	$ .35
Dilutive effect of Co-Cos[1]	—	—
Dilutive effect of equity forwards[2][4]	—	—
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP[3]	—	(.01)
Diluted EPS	$ .26	$ .34

(1) Emerging Issues Task Force ("EITF") Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," requires the shares underlying Co-Cos to be included in diluted EPS computations regardless of whether the market price trigger or the conversion price has been met, using the "if-converted" method.

(2) SFAS No. 128, "Earnings per Share," and the additional guidance provided by EITF Topic No. D-72, "Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share," require both the denominator and the numerator to be adjusted in calculating the potential impact of the Company's equity forward contracts on diluted EPS. Under this guidance, when certain conditions are satisfied, the impact can be dilutive when: (1) the average share price during the period is lower than the respective strike prices on the Company's equity forward contracts, and (2) the Company recorded an unrealized gain or loss on derivative and hedging activities related to its equity forward contracts.

(3) Reflects the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(4) Reflects the potential dilutive effect of equity forward contracts, determined by the reverse treasury stock method.

(5) For the three months ended March 31, 2007 and 2006, stock options and equity forwards of approximately 65 million shares and 47 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

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8. Pension Plans

Components of Net Periodic Pension Cost

Net periodic pension cost included the following components:

	Three Months Ended March 31,	
	2007	2006
Service cost — benefits earned during the period	$ 1,775	$ 2,073
Interest cost on projected benefit obligations	3,084	2,862
Expected return on plan assets	(4,494)	(4,069)
Net amortization and deferral	(180)	122
Total net periodic pension cost	$ 185	$ 988

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it did not expect to contribute to its qualified pension plan (the "Qualified Plan") in 2007. As of March 31, 2007, the Company had made no contributions to its Qualified Plan.

9. Income Taxes

The following table summarizes the Company's unrecognized tax benefits:

	As of January 1, 2007
Gross amount of unrecognized tax benefits	$ 113,334
Total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	38,325
Total amount of interest and penalties recognized in the statement of operations and the statement of financial position	16,418

The Company adopted the provisions of the FASB's Financial Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes," on January 1, 2007. As a result of the implementation of FIN 48, 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. In addition, unrecognized tax benefits of $3 million are currently treated as a pending refund claim, reducing the above balance of total unrecognized tax benefits that if recognized would affect the effective tax rate.

In the first quarter of 2007, the Company adjusted its federal unrecognized tax benefits to reflect the expected outcome of several issues being negotiated with the IRS as a part of the current exam cycle, primarily regarding the timing of recognition of certain income and deduction items. Several other less significant amounts of uncertain tax benefits were also added during the first quarter. In total, as of March 31, the Company has gross unrecognized tax benefits of $166 million, as well as total interest and penalties recognized in the statement of operations of $22 million.

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9. Income Taxes (Continued)

Reasonably Possible Significant Increases/ Decreases within Twelve Months

1. U.S. Federal Tax Uncertainties

The current exam of the Company's 2003 and 2004 U.S. Federal tax return is scheduled to conclude in the second or third quarter of 2007, pending any appeals that may be filed by the Company on unagreed items. It is possible that additional government reviews of the exam results could extend the scheduled time period for conclusion of the exam. Multiple uncertainties are under review during the current exam. An estimate of the range of the possible change to the balance of the Company's unrecognized tax benefits that may result from conclusion of the exam cannot at this time be made, pending completion of the current exam.

In addition, it is expected that during the second half of 2007, the IRS will commence the examination of the Company's 2005 and 2006 federal income tax returns. It is reasonably possible that issues which arise during the exam may create the need for an increase in unrecognized tax benefits. Until the exam commences, an estimate of any such amounts cannot currently be made.

2. Other Tax Uncertainties

In the event that the Company is not contacted for exam by additional tax authorities by the end of 2007, it is reasonably possible that there will be a decrease in the Company's unrecognized tax position liability, due to the tolling of various statute of limitations periods. Such change could be approximately $3 million to $5 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 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
New York	2003
Texas	2004
Pennsylvania	2000
Florida	2000
Indiana	2000
California	2002
Missouri	2003

The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense, and penalties in operating expenses.

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10. Contingencies

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On April 14, 2007, the Company was served with a putative class action suit by several borrowers in federal court in California. The complaint alleges violations of California Business & Professions Code 17200, breach of contract, breach of covenant of good faith and fair dealing, violation of consumer legal remedies act and unjust enrichment. The complaint challenges the Company's FFELP billing practices as they relate to use of the simple daily interest method for calculating interest. The Company believes the complaint is without merit and it intends to vigorously defend this action.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of the Company's reports to credit bureaus. In addition, the collections subsidiaries in the Company's debt management operations group are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that the Company has violated a federal or state law in the process of collecting their account. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations. Finally, from time to time, the Company receives information and document requests from state attorneys general concerning certain of its business practices. The Company's practice has been and continues to be to cooperate with the state attorneys general and to be responsive to any such requests.

11. Segment Reporting

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

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

11. Segment Reporting (Continued)

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 three months ended March 31, 2007 and 2006. United Student Aid Funds, Inc. ("USA Funds") is the Company's largest customer in both the DMO and Corporate and Other segments. During the three months ending March 31, 2007 and 2006, it accounted for 25 percent and 38 percent, respectively, of the aggregate revenues generated by the Company's DMO 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 business segment, the Company originates and acquires both federally guaranteed student loans, which are administered by the U.S. Department of Education ("ED"), and Private Education Loans, which are not federally guaranteed. Private Education Loans are primarily used by borrowers to supplement FFELP loans to meet the rising cost of education. The Company manages student loans for nearly 10 million student and parent customers; its Managed student loan portfolio totaled $150.0 billion at March 31, 2007, of which $125.8 billion or 84 percent are federally insured. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. During the three months ended March 31, 2007, the Company originated $310 million in mortgage and consumer loans of which $226 million pertained to mortgages in the held for sale portfolio. The Company's mortgage and consumer loan portfolio totaled $597 million at March 31, 2007.

In addition to its federally insured FFELP products, the Company originates and acquires Private Education Loans which 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 who attend non-Title IV eligible institutions where FFELP loans are not available (such as career training, distance learning and lifelong learning programs). Most higher education Private Education Loans are made in conjunction with a FFELP Stafford 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 industry-tested loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

DMO

The Company's DMO 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, 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. The Company's DMO operating segment serves the student loan marketplace through a broad array of default management services

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11. Segment Reporting (Continued)

on a contingency fee or other pay-for-performance basis to 14 FFELP guarantors and for campus based programs.

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

Corporate and Other

The Company's Corporate and Other business segment includes the aggregate activity of its smaller operating segments primarily its Guarantor Servicing, student loan servicing operating segments, and its recently acquired 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 saving-for-college plans and also provides administration services for 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.

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 maker, 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 "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.

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11. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

(Dollars in millions)	Three Months Ended March 31, 2007					
	Lending	DMO	Corporate and Other	Total "Core Earnings"	Adjustments(3)	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 695	$ —	$ —	$ 695	$ (244)	$ 451
FFELP Consolidation Loans	1,331	—	—	1,331	(316)	1,015
Private Education Loans	658	—	—	658	(320)	338
Other loans	28	—	—	28	—	28
Cash and investments	162	—	2	164	(50)	114
Total interest income	2,874	—	2	2,876	(930)	1,946
Total interest expense	2,220	7	5	2,232	(700)	1,532
Net interest income	654	(7)	(3)	644	(230)	414
Less: provisions for losses	198	—	1	199	(49)	150
Net interest income after provisions for losses	456	(7)	(4)	445	(181)	264
Fee income	—	87	39	126	—	126
Collections revenue	—	65	—	65	1	66
Other income	44	—	52	96	231	327
Total other income	44	152	91	287	232	519
Operating expenses(1)	171	93	68	332	24	356
Income before income taxes and minority interest in net earnings of subsidiaries	329	52	19	400	27	427
Income tax expense(2)	122	19	7	148	162	310
Minority interest in net earnings of subsidiaries	—	1	—	1	—	1
Net income	$ 207	$ 32	$ 12	$ 251	$ (135)	$ 116

(1) Operating expenses for the Lending, DMO, and Corporate and Other business segments include $9 million, $3 million, and $4 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

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

(3) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Three Months Ended March 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	$ (216)	$ 25	$ (39)	$ —	$ (230)
Less: provisions for losses	(49)	—	—	—	(49)
Net interest income after provisions for losses	(167)	25	(39)	—	(181)
Fee income	—	—	—	—	—
Collections revenue	1	—	—	—	1
Other income	588	(357)	—	—	231
Total other income	589	(357)	—	—	232
Operating expenses	—	—	—	24	24
Total pre-tax "Core Earnings" adjustments to GAAP	$ 422	$ (332)	$ (39)	$ (24)	27
Income tax expense					162
Minority interest in net earnings of subsidiaries					—
Total "Core Earnings" adjustments to GAAP					$ (135)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2007 and for the three months ended
March 31, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

(Dollars in millions)	Three Months Ended March 31, 2006					
	Lending	DMO	Corporate and Other	Total "Core Earnings"	Adjustments(3)	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 650	$ —	$ —	$ 650	$ (351)	$ 299
FFELP Consolidation Loans	1,028	—	—	1,028	(207)	821
Private Education Loans	429	—	—	429	(188)	241
Other loans	23	—	—	23	—	23
Cash and investments	131	—	1	132	(36)	96
Total interest income	2,261	—	1	2,262	(782)	1,480
Total interest expense	1,660	5	1	1,666	(573)	1,093
Net interest income	601	(5)	—	596	(209)	387
Less: provisions for losses	75	—	—	75	(15)	60
Net interest income after provisions for losses	526	(5)	—	521	(194)	327
Fee income	—	92	27	119	—	119
Collections revenue	—	56	—	56	—	56
Other income	40	—	30	70	41	111
Total other income	40	148	57	245	41	286
Operating expenses(1)	161	89	59	309	14	323
Income before income taxes and minority interest in net earnings of subsidiaries	405	54	(2)	457	(167)	290
Income tax expense(2)	150	20	(1)	169	(32)	137
Minority interest in net earnings of subsidiaries	—	1	—	1	—	1
Net income	$ 255	$ 33	$ (1)	$ 287	$ (135)	$ 152

(1) Operating expenses for the Lending, DMO, and Corporate and Other business segments include $10 million, $3 million, and $5 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

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

(3) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Three Months Ended March 31, 2006				
	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income	$ (205)	$ 48	$ (52)	$ —	$ (209)
Less: provisions for losses	(15)	—	—	—	(15)
Net interest income after provisions for losses	(190)	48	(52)	—	(194)
Fee income	—	—	—	—	—
Collections revenue	—	—	—	—	—
Other income	128	(87)	—	—	41
Total other income	128	(87)	—	—	41
Operating expenses	—	—	—	14	14
Total pre-tax "Core Earnings" adjustments to GAAP	$ (62)	$ (39)	$ (52)	$ (14)	(167)
Income tax expense					(32)
Total "Core Earnings" adjustments to GAAP					$ (135)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2007 and for the three months ended
March 31, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. 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 related to the Company's student loans, and certain other items that management does not consider in evaluating the Company's operating results. The following table reflects aggregate adjustments associated with these areas for the three months ended March 31, 2007 and 2006.

(Dollars in millions)	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
"Core Earnings" adjustments to GAAP:		
Net impact of securitization accounting(1)	$ 422	$ (62)
Net impact of derivative accounting(2)	(332)	(39)
Net impact of Floor Income(3)	(39)	(52)
Net impact of acquired intangibles(4)	(24)	(14)
Net tax effect(5)	(162)	32
Total "Core Earnings" adjustments to GAAP	$ (135)	$ (135)

(1) **Securitization:** Under GAAP, certain securitization transactions in the Company's Lending operating segment are accounted for as sales of assets. Under the Company's "Core Earnings" presentation 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" net income and replaced by the interest income, provisions for loan losses, and interest expense as they are earned or incurred on the securitization loans. The Company also excludes transactions with its off-balance sheet trusts from "Core Earnings" net income as they are considered intercompany transactions on a "Core Earnings" basis.

(2) **Derivative accounting:** "Core Earnings" net income excludes periodic unrealized gains and losses arising primarily in the Company's Lending operating segment, and to a lesser degree in the Company's Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. Under 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. "Core Earnings" net income also excludes the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through GAAP net income.

(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 excludes such income from "Core Earnings" net income when it is not economically hedged. The Company employs derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed above in "Derivative Accounting," these derivatives do not qualify as effective accounting hedges and therefore, under GAAP, are marked-to-market through the "gains (losses) on derivative and hedging activities, net" line on the income statement with no offsetting gain or loss recorded for the economically hedged items. For "Core Earnings" net income, the Company reverses the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and includes the amortization of net premiums received (net of Eurodollar futures contracts' realized gains or losses) in 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 results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at March 31, 2007 and for the three months ended
March 31, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

12. Subsequent Event

On April 16, 2007, the Company announced that an investor group ("the Investor Group") led by J.C. Flowers & Co. ("J.C. Flowers") signed a definitive agreement to acquire the Company for approximately $25.2 billion or $60.00 per share of common stock. When the transaction is complete, J.C. Flowers and certain other private equity investors including Friedman Fleischer & Lowe; will invest approximately $4.4 billion and own 50.2 percent, and Bank of America (NYSE: BAC) and JPMorgan Chase (NYSE: JPM) each will invest approximately $2.2 billion and each will own 24.9 percent. The Company's independent board members unanimously approved the agreement and recommended that its shareholders approve the agreement. (See also the "Merger Agreement" filed with the Securities and Exchange Commission ("SEC") on the Company's Current Report on Form 8-K, dated April 18, 2007.)

The Investor Group has stated that it is committed to supporting the Company's focus on transparency among lenders, schools and students and on corporate responsibility. The Company will be subject to oversight by Congress and the Department of Education, and will continue to be subject to all applicable federal and state laws, including the Higher Education Act.

The transaction will require the approval of the Company's stockholders, is subject to required regulatory approvals and other closing conditions, and, under very limited circumstances, may be terminated by the Investor Group. The transaction is expected to close in late 2007. The consummation of the transaction is subject to regulatory review and the expiration of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company will not pay further dividends on its common stock prior to consummation of the proposed transaction.

In connection with negotiations to purchase the Company, the Company's preliminary financial results for the first quarter of 2007 were shared with representatives of the Investor Group.

Financing Considerations Related to the Transaction

Following the closing, the Company will continue to have publicly traded debt securities and as a result will continue comprehensive financial reporting about its business, financial condition and results of operations. Bank of America and JPMorgan Chase are committed to provide debt financing for the transaction and to provide additional liquidity to the Company prior to and after the closing date, subject to customary terms and conditions.

A portion of the Company's existing unsecured debt will remain outstanding, and such outstanding debt will not be equally and ratably secured with the new acquisition-related debt. The acquisition financing will be structured with the intent to accommodate the repayment of any outstanding debt as it matures. The Company expects this transaction to have no material impact on its outstanding asset-backed debt and to remain an active participant in the asset-backed securities market.

On April 16, 2007, after the Company announced the transaction, Moody's Investor Services, Standard & Poor's and Fitch Ratings placed the long and short-term ratings on the Company's senior unsecured debt under review for possible downgrade. In addition, following the announcement, secondary market credit spreads on the Company's outstanding senior unsecured bonds widened significantly, limiting access to new sources of senior unsecured funds at borrowing costs comparable to those available before the announcement.

On April 30, 2007, Bank of America and JPMorgan Chase provided the Company with a new, $30 billion asset-backed commercial paper conduit facility. This additional liquidity, combined with the Company's existing liquidity, is anticipated to be sufficient to meet the Company's cash needs beyond the expected closing

12. Subsequent Event (Continued)

date of the announced transaction, even if no additional securities are issued by the Company during that time. However, the Company does expect to resume issuance of the Company's traditional asset-backed securities within the next few months.

Accounting Considerations Related to the Transaction

Upon closing, the transaction will be accounted for using the purchase accounting method, and purchase accounting adjustments will be pushed down to the Company. Under purchase accounting, the total cost of the acquisition will be allocated to the Company's identifiable assets and liabilities based on their respective fair values. Thus, all the assets and liabilities will have a new basis of accounting and therefore previous unamortized premiums, discounts and reserves related to those assets and liabilities will be written-off once the transaction closes. The excess of the purchase price over the estimated fair value of the identifiable assets and liabilities will be recognized as goodwill. Since the Company is the acquired enterprise, expenses incurred in connection with the transaction will be expensed. Transaction fees that are contingent upon the closing will be recognized when the transaction closes. Transaction fees that are not contingent on the closing will be expensed as incurred. Vesting accelerates on all stock-based compensation awards, and as a result, all deferred compensation related to those awards will be expensed upon closing of the transaction.

At March 31, 2007, the Company had approximately $2 billion Contingently Convertible Debentures ("Co-Cos") outstanding. The Co-Cos are eligible to be called at par on or after July 25, 2007, under certain circumstances. At March 31, 2007, the Company classified its $2 billion outstanding Co-Cos as a long-term obligation because as of that date, the Company believed that a successful remarketing of the Co-Cos in July 2007 was probable. Upon announcement of the transaction on April 16, 2007, the Company deemed that a successful remarketing of the bonds in July 2007 was no longer probable. The Company expects to classify the Co-Cos as a short-term obligation at June 30, 2007 if at that time the Company believes that a successful remarketing of the bonds will not occur in July 2007, as the investors will have the option to put the bonds back to the Company at such time. Additionally, in the definitive agreement to acquire the Company signed on April 16, 2007, the Company agreed to redeem the Co-Cos on July 25, 2007 after receiving written notice from the Investor Group upon certain conditions.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three months ended March 31, 2007 and 2006
(Dollars in millions, except per share amounts, unless otherwise noted)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. When used in this report, the words "anticipate," "believe," "estimate," "intend" and "expect" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement (see "SUBSEQUENT EVENT" that describes the definitive agreement for an investor group to acquire the Company ("the Merger")); the outcome of any legal proceedings that may be instituted against us and others relating to the merger agreement; the inability to complete the Merger due to the failure to obtain shareholder approval or the failure to satisfy other conditions to completion of the Merger; the failure to obtain the necessary debt financing arrangements set forth in commitment letters received in connection with the Merger; the effect of the announcement of the Merger on our customer relationships, operating results and business generally; the amount of the costs, fees, expenses and charges related to the Merger and the actual terms of certain financings that will be obtained for the Merger; the impact of the substantial indebtedness incurred to finance the consummation of the Merger; changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations, which may reduce the volume, average term and yields on student loans under the Federal Family Education Loan Program ("FFELP") or 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 SLM Corporation, more commonly known as Sallie Mae, and its subsidiaries (collectively, "the Company"). In addition, a larger than expected increase in third party consolidations of our FFELP loans could materially adversely affect our results of operations. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; a significant decrease in our common stock price, which may result in counterparties terminating equity forward positions with us, which, in turn, could have a materially dilutive effect on our common stock; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; losses from loan defaults; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services.

OVERVIEW

We are the largest source of funding, delivery and servicing support for education loans in the United States. Our primary business is to originate, acquire and hold both federally guaranteed student loans and Private Education Loans, which are not federally guaranteed or privately insured. The primary source of our earnings is from net interest income earned on those student loans as well as gains on the sales of such loans in securitization transactions. We also earn fees for pre-default and post-default receivables management services on student loans, such that we are engaged in every phase of the student loan life cycle — from originating and servicing student loans to default prevention and ultimately the collection on defaulted student loans. Through recent acquisitions, we have expanded our receivables management services to a number of different asset classes outside of student loans. We also provide a wide range of other financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders,

students and their families, and guarantee agencies. SLM Corporation, more commonly known as Sallie Mae, is a holding company that operates through a number of subsidiaries. References in this report to the "Company" refer to SLM Corporation and its subsidiaries.

We have used both internal growth and strategic acquisitions to attain our leadership position in the education finance marketplace. Our sales force, which delivers our products on campuses across the country, is the largest in the student loan industry. The core of our marketing strategy is to promote our on-campus brands, which generate student loan originations through our Preferred Channel. Loans generated through our Preferred Channel are more profitable than loans acquired through other acquisition channels because we own them earlier in the student loan's life and generally incur lower costs to acquire such loans. We have built brand leadership through the Sallie Mae name, the brands of our subsidiaries and those of our lender partners. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry, providing an unmatched array of services to financial aid offices. In recent years, borrowers have been consolidating their FFELP Stafford loans into FFELP Consolidation Loans in much greater numbers such that FFELP Consolidation Loans now constitute 56 percent of our Managed loan portfolio. FFELP Consolidation Loans are marketed directly to consumers and we believe they will continue to be an important loan acquisition channel.

We have expanded into a number of fee-based businesses, most notably, our Debt Management Operations ("DMO") business. Our DMO business 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. We also purchase and manage portfolios of sub-performing and non-performing mortgage loans.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A discussion of the Company's critical accounting policies, which include premiums, discounts and Borrower Benefits, securitization accounting and Retained Interests, provisions for loan losses, derivative accounting and the effects of Consolidation Loan activity on estimates, can be found in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes to these policies during the first quarter of 2007.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three Months Ended March 31,		Increase (Decrease)	
	2007	2006	$	%
Net interest income	$ 414	$ 387	$ 27	7%
Less: provisions for losses	150	60	90	150
Net interest income after provisions for losses	264	327	(63)	(19)
Gains on student loan securitizations	367	30	337	1123
Servicing and securitization revenue	252	99	153	155
Losses on securities, net	(31)	—	(31)	(100)
Gains (losses) on derivative and hedging activities, net	(357)	(87)	(270)	(310)
Guarantor servicing fees	39	27	12	44
Debt management fees	87	92	(5)	(5)
Collections revenue	66	56	10	18
Other income	96	69	27	39
Operating expenses	356	323	33	10
Pre-tax income	427	290	137	47%
Income taxes	310	137	173	126
Minority interest in net earnings of subsidiaries	1	1	—	—
Net income	116	152	(36)	(24)
Preferred stock dividends	9	9	—	—
Net income attributable to common stock	$ 107	$ 143	$ (36)	(25)%
Basic earnings per common share	$ .26	$ .35	$ (.09)	(26)%
Diluted earnings per common share	$ .26	$ .34	$ (.08)	(24)%
Dividends per common share	$ .25	$ .22	$ .03	14%

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Condensed Balance Sheets

	March 31, 2007	December 31, 2006	Increase (Decrease) $	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 28,562	$ 24,841	$ 3,721	15%
FFELP Consolidation Loans, net	66,170	61,324	4,846	8
Private Education Loans, net	9,849	9,755	94	1
Other loans, net	1,351	1,309	42	3
Cash and investments	6,116	5,185	931	18
Restricted cash and investments	3,719	3,423	296	9
Retained Interest in off-balance sheet securitized loans	3,643	3,341	302	9
Goodwill and acquired intangible assets, net	1,364	1,372	(8)	(1)
Other assets	6,102	5,586	516	9
Total assets	$ 126,876	$ 116,136	$ 10,740	9%
Liabilities and Stockholders' Equity				
Short-term borrowings	$ 4,429	$ 3,528	$ 901	26%
Long-term borrowings	114,071	104,559	9,512	9
Other liabilities	3,991	3,680	311	8
Total liabilities	122,491	111,767	10,724	10
Minority interest in subsidiaries	9	9	—	—
Stockholders' equity before treasury stock	5,424	5,401	23	—
Common stock held in treasury	1,048	1,041	7	1
Total stockholders' equity	4,376	4,360	16	—
Total liabilities and stockholders' equity	$ 126,876	$ 116,136	$ 10,740	9%

RESULTS OF OPERATIONS

Consolidated Earnings Summary

Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

For the three months ended March 31, 2007, net income of $116 million ($.26 diluted earnings per share) was a decrease of 24 percent from net income of $152 million ($.34 diluted earnings per share) for the three months ended March 31, 2006. First quarter 2007 pre-tax income of $427 million was a 47 percent increase from $290 million earned in the first quarter of 2006. The decrease in current quarter over year-ago quarter, after-tax net income versus the increase in pre-tax net income is driven by fluctuations in the unrealized gains and losses on equity forward contracts as described above. Excluding the unrealized loss on equity forward contracts of $412 million in the first quarter of 2007 and $122 million in the first quarter of 2006, taxable income increased the effective tax rate from 47 percent in the first quarter of 2006 to 73 percent in the first quarter of 2007.

The increase in the pre-tax results of the first quarter of 2007 versus the year-ago quarter was primarily due to an increase in securitization gains of $337 million, partially offset by an increase in the net losses on derivative and hedging activities of $270 million. In the first quarter of 2007, we recognized a pre-tax securitization gain of $367 million from one Private Education Loan securitization compared to pre-tax securitization gains of $30 million in the first quarter of 2006, as the result of two FFELP Stafford securitizations and one FFELP Consolidation Loan securitization. The year-over-year increase in net losses on derivative and hedging activities is primarily due to the $290 million increase in the unrealized loss on equity

forward contracts as discussed above and to a decrease of $139 million in the unrealized gains on our Floor Income Contracts. The negative impact on pre-tax income from these items is partially offset by a positive impact from basis swaps which swung from an unrealized loss of $82 million in the first quarter of 2006 to an unrealized gain of $60 million in the first quarter of 2007.

Net interest income after provisions for loan losses decreased by $63 million versus the first quarter of 2006. The decrease is due to the year-over-year increase in the provision for Private Education Loan losses of $90 million, which offset the year-over-year $27 million increase in net interest income. The increase in the provisions for loan losses reflects a further seasoning of the portfolio and an increase in delinquencies and charge-offs related to lower collections caused by operational challenges encountered from the relocation of one of the Company's call centers. The $27 million, or 7 percent, year-over-year increase in net interest income is primarily due to a $19.8 billion increase in average interest earning assets, offset by a 22 basis point decrease in the net interest margin. The year-over-year decrease in the net interest margin is due to higher average interest rates which reduced Floor Income by $10 million, a higher provision for interest reserves as a result of the increase in delinquencies noted above, and an increase in the average balance of cash and investments.

In the first quarter of 2007, servicing and securitization income was $252 million, a $153 million increase over the year-ago quarter. This increase can primarily be attributed to a year-over-year decrease of $41 million in impairments to our Retained Interests. The prior year impairments were primarily caused by the effect of higher than expected FFELP Consolidation Loan activity on our off-balance sheet FFELP Stafford securitizations. The remaining increase in securitization revenue is due to the increase of higher yielding Private Education Loan Residual Interests, and the adoption of SFAS No. 155 "Accounting for Certain Hybrid Financial Instruments" in the first quarter of 2007. Under SFAS No. 155, the Company has elected to recognize the unrealized fair value adjustment to our Residual Interests in earnings. For securitizations closed prior to December 31, 2006, this adjustment was recorded in other comprehensive income.

In the first quarter of 2007, fee and other income and collections revenue totaled $289 million, an increase of 17 percent over the year-ago quarter. This increase was primarily driven by revenue from Upromise, acquired in August 2006 and to higher guarantor servicing fees.

Our Managed student loan portfolio grew by $23.1 billion (or 18 percent), from $126.9 billion at March 31, 2006 to $150.0 billion at March 31, 2007. In the first quarter of 2007, we acquired $12.5 billion of student loans, a 46 percent increase over the $8.6 billion acquired in the year-ago period. The first quarter 2007 acquisitions included $2.4 billion in Private Education Loans, a 24 percent increase over the $2.0 billion acquired in the year-ago period. In the quarter ended March 31, 2007, we originated $8.0 billion of student loans through our Preferred Channel, an increase of 5 percent over the $7.6 billion originated in the year-ago quarter.

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NET INTEREST INCOME

Average Balance Sheets

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the three months ended March 31, 2007 and 2006. This table reflects the net interest margin for the entire Company on a consolidated basis.

	Three Months Ended March 31,			
	2007		2006	
	Balance	Rate	Balance	Rate
Average Assets				
FFELP Stafford and Other Student Loans	$ 26,885	6.80%	$ 19,522	6.20%
FFELP Consolidation Loans	63,260	6.51	54,312	6.13
Private Education Loans	11,354	12.09	9,016	10.86
Other loans	1,365	8.31	1,172	8.14
Cash and investments	7,958	5.81	7,042	5.52
Total interest earning assets	110,822	7.12%	91,064	6.59%
Non-interest earning assets	9,095		7,963	
Total assets	$ 119,917		$ 99,027	
Average Liabilities and Stockholders' Equity				
Short-term borrowings	$ 3,220	5.89%	$ 4,174	4.78%
Long-term borrowings	107,950	5.58	87,327	4.85
Total interest bearing liabilities	111,170	5.59%	91,501	4.84%
Non-interest bearing liabilities	4,483		3,703	
Stockholders' equity	4,264		3,823	
Total liabilities and stockholders' equity	$ 119,917		$ 99,027	
Net interest margin		1.51%		1.73%

Rate/Volume Analysis

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

	Increase (Decrease)	Increase (Decrease) Attributable to Change in	
		Rate	Volume
Three months ended March 31, 2007 vs. three months ended March 31, 2006			
Interest income	$ 465	$ 138	$ 327
Interest expense	439	204	235
Net interest income	$ 26	$ (66)	$ 92

The decrease in the net interest margin for the three months ended March 31, 2007 versus the year-ago quarter, was primarily due to fluctuations in the student loan spread as discussed under "Student Loans — Student Loan Spread — *Student Loan Spread Analysis — On-Balance Sheet*."

Student Loans

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

Student Loan Spread

An important performance measure closely monitored by management is the student loan spread. The student loan spread is the difference between the income earned on the student loan assets and the interest paid on the debt funding those assets. A number of factors can affect the overall student loan spread such as:

- the mix of student loans in the portfolio, with FFELP Consolidation Loans having the lowest spread and Private Education Loans having the highest spread;
- the premiums paid, borrower fees charged and capitalized costs incurred to acquire student loans which impact the spread through subsequent amortization;
- the type and level of Borrower Benefits programs for which the student loans are eligible;
- the estimate of uncollectible accrued interest in the period provided through interest income;
- the level of Floor Income and, when considering the "Core Earnings" basis student loan spread, the amount of Floor Income-eligible loans that have been hedged through Floor Income Contracts; and
- funding and hedging costs.

Wholesale Consolidation Loans

During 2006, we implemented a new loan acquisition strategy under which we began purchasing FFELP Consolidation Loans outside of our normal origination channels, primarily via the spot market. We refer to this new loan acquisition strategy as our Wholesale Consolidation Channel. FFELP Consolidation Loans acquired through this channel are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our internal brand strategy. Wholesale Consolidation Loans generally command significantly higher premiums than our originated FFELP Consolidation Loans, and as a result, Wholesale Consolidation Loans have lower spreads. Since Wholesale Consolidation Loans are acquired outside of our core loan acquisition channels and have different yields and return expectations than the rest of our FFELP Consolidation Loan portfolio, we have excluded the impact of the Wholesale Consolidation Loan volume from the student loan spread analysis to provide more meaningful period-over-period comparisons on the performance of our student loan portfolio.

The average balance of our Wholesale Consolidation Loan portfolio was $4.6 billion for the first quarter of 2007. Had the impact of the Wholesale Consolidation Loan volume been included in the on-balance sheet student loan spread it would have reduced the spread by approximately 7 basis points for the first quarter of 2007. As of March 31, 2007, Wholesale Consolidation Loans totaled $6.7 billion, or 10 percent, of our total on-balance sheet FFELP Consolidation Loan portfolio.

The student loan spread is highly susceptible to liquidity, funding and interest rate risk. These risks are discussed separately in our 2006 Annual Report on Form 10-K at "LIQUIDITY AND CAPITAL RESOURCES" and in the "RISK FACTORS" discussion.

Student Loan Spread Analysis — On-Balance Sheet

The following table analyzes the reported earnings from student loans on-balance sheet. For an analysis of our student loan spread for the entire portfolio of Managed student loans on a similar basis to the on-balance sheet analysis, see “LENDING BUSINESS SEGMENT — Student Loan Spread Analysis — ‘Core Earnings’ Basis.”

	Three Months Ended March 31,	
	2007	2006
On-Balance Sheet		
Student loan yield, before Floor Income	8.17%	7.51%
Gross Floor Income	.02	.07
Consolidation Loan Rebate Fees	(.63)	(.68)
Borrower Benefits	(.13)	(.11)
Premium and discount amortization	(.15)	(.12)
Student loan net yield	7.28	6.67
Student loan cost of funds	(5.57)	(4.84)
Student loan spread(1)	1.71%	1.83%
Average Balances		
On-balance sheet student loans(1)	$ 96,866	$ 82,850

(1) Excludes the impact of the Wholesale Consolidation Loan portfolio on the student loan spread and average balances for the three months ended March 31, 2007.

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

In low interest rate environments, one of the primary drivers of fluctuations in our on-balance sheet student loan spread is the level of gross Floor Income (Floor Income earned before payments on Floor Income Contracts) earned in the period. Short-term interest rates have increased to a level that significantly reduced the level of gross Floor Income earned in the periods presented. We believe that we have economically hedged most of the Floor Income through the sale of Floor Income Contracts, under which we receive an upfront fee and agree to pay the counterparty the Floor Income earned on a notional amount of student loans. These contracts do not qualify for hedge accounting treatment and as a result the payments on the Floor Income Contracts are included on the income statement with “gains (losses) on derivative and hedging activities, net” rather than in student loan interest income.

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

Discussion of Student Loan Spread — Other Quarter-over-Quarter Fluctuations

We estimate the amount of Private Education Loan accrued interest in a period that is not reasonably expected to be collected in the future using a methodology consistent with the status-based migration analysis used for the allowance for Private Education Loans. We use this estimate to offset accrued interest in the current period through a charge to student loan interest income. As our provisions for loan losses increased significantly in the first quarter of 2007, we had a similar rise in the estimate of uncollectible accrued interest receivable which reduced the student loan spread by approximately 5 basis points as compared to the first quarter of 2006.

In the first quarter of 2006, we changed our policy related to Borrower Benefits qualification requirements and updated our assumptions to reflect this policy. These changes resulted in a reduction of our liability for Borrower Benefits of $10 million or 5 basis points.

FEDERAL AND STATE TAXES

The Company is subject to federal and state income taxes. Our effective tax rate for the three months ended March 31, 2007 was 73 percent versus 47 percent for the three months ended March 31, 2006. The effective tax rate reflects the permanent impact of the exclusion of the gains or losses on equity forward contracts recognized under SFAS No. 150.

BUSINESS SEGMENTS

The results of operations of the Company's Lending and Debt Management Operations ("DMO") operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," based on quantitative thresholds applied to the Company's financial statements. In addition, we provide other complementary products and services, including guarantor and student loan servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other 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 generally accepted accounting principles in the United States of America ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management, including the Company's chief operation decision maker, evaluates the performance of the Company's operating segments based on their profitability on a basis that, as allowed under SFAS No. 131, 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 is 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 operating segment 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 DMO operating segment reflects the fees earned and expenses incurred in providing accounts receivable management and collection services. Our Corporate and Other reportable segment includes our remaining fee businesses and other corporate expenses that do not pertain directly to the primary segments identified above.

	Three Months Ended March 31, 2007		
	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 695	$ —	$ —
FFELP Consolidation Loans	1,331	—	—
Private Education Loans	658	—	—
Other loans	28	—	—
Cash and investments	162	—	2
Total interest income	2,874	—	2
Total interest expense	2,220	7	5
Net interest income	654	(7)	(3)
Less: provisions for losses	198	—	1
Net interest income after provisions for losses	456	(7)	(4)
Fee income	—	87	39
Collections revenue	—	65	—
Other income	44	—	52
Total other income	44	152	91
Operating expenses(1)	171	93	68
Income before income taxes and minority interest in net earnings of subsidiaries	329	52	19
Income tax expense(2)	122	19	7
Minority interest in net earnings of subsidiaries	—	1	—
“Core Earnings” net income	$ 207	$ 32	$ 12

(1) Operating expenses for the Lending, DMO, and Corporate and Other business segments include $9 million, $3 million, and $4 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

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

	Three Months Ended March 31, 2006		
	Lending	DMO	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 650	$ —	$ —
FFELP Consolidation Loans	1,028	—	—
Private Education Loans	429	—	—
Other loans	23	—	—
Cash and investments	131	—	1
Total interest income	2,261	—	1
Total interest expense	1,660	5	1
Net interest income	601	(5)	—
Less: provisions for losses	75	—	—
Net interest income after provisions for losses	526	(5)	—
Fee income	—	92	27
Collections revenue	—	56	—
Other income	40	—	30
Total other income	40	148	57
Operating expenses(1)	161	89	59
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	405	54	(2)
Income tax expense (benefit)(2)	150	20	(1)
Minority interest in net earnings of subsidiaries	—	1	—
"Core Earnings" net income (loss)	$ 255	$ 33	$ (1)

(1) Operating expenses for the Lending, DMO, and Corporate and Other business segments include $10 million, $3 million, and $5 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

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

Limitations of "Core Earnings"

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

Other limitations arise from the specific adjustments that management makes to GAAP results to derive "Core Earnings" results. For example, in reversing the unrealized gains and losses that result from SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," on derivatives that do not

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

Pre-tax differences between “Core Earnings” and GAAP 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 maker. Our “Core Earnings” are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company’s core business activities. “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.

	Three Months Ended March 31,					
	2007			2006		
	Lending	DMO	Corporate and Other	Lending	DMO	Corporate and Other
“Core Earnings” adjustments to GAAP:						
Net impact of securitization accounting	$ 422	$ —	$ —	$ (62)	$ —	$ —
Net impact of derivative accounting	80	—	(412)	83	—	(122)
Net impact of Floor Income	(39)	—	—	(52)	—	—
Amortization of acquired intangibles	(14)	(5)	(5)	(9)	(4)	(1)
Total “Core Earnings” adjustments to GAAP	$ 449	$ (5)	$ (417)	$ (40)	$ (4)	$ (123)

1) **Securitization:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under the Company’s “Core Earnings” presentation 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” net income and replaced by the interest income, provisions for loan losses, and interest expense as they are earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from “Core Earnings” net income as they are considered intercompany transactions on a “Core Earnings” basis.

The following table summarizes the securitization adjustments in our Lending operating segment for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
"Core Earnings" securitization adjustments:		
Net interest income on securitized loans, after provisions for losses	$ (167)	$ (189)
Gains on student loan securitizations	367	30
Servicing and securitization revenue	252	99
Intercompany transactions with off-balance sheet trusts	(30)	(2)
Total "Core Earnings" securitization adjustments	$ 422	$ (62)

2) **Derivative Accounting:** "Core Earnings" net income excludes periodic unrealized gains and losses arising primarily in our Lending operating segment, and to a lesser degree in our Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for "hedge treatment" under GAAP. Under the Company's "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. "Core Earnings" also excludes the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that 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, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for "hedge treatment" as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. 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, changing credit spreads and changes in our stock price during the period as well as the volume and term of derivatives not receiving hedge treatment.

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

Basis swaps are used to convert floating rate debt from one interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our 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 ("CPI") to 3-month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash

flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk, however they do not meet this effectiveness test because our FFELP student loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected in the income statement.

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

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the three months ended March 31, 2007 and 2006 when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three Months Ended March 31,	
	2007	2006
"Core Earnings" derivative adjustments:		
Gains (losses) on derivative and hedging activities, net included in other income[(1)]	$ (357)	$ (87)
Less: Realized losses on derivative and hedging activities, net[(1)]	25	48
Unrealized gains (losses) on derivative and hedging activities, net[(1)]	(332)	(39)
Other pre-SFAS No. 133 accounting adjustments	—	—
Total net impact of SFAS No. 133 derivative accounting	$ (332)	$ (39)

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

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

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

	Three Months Ended March 31,	
	2007	2006
Reclassification of realized losses on derivative and hedging activities:		
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (7)	$ (21)
Net settlement expense on interest rate swaps reclassified to net interest income	(18)	(27)
Net realized losses on closed Eurodollar futures contracts and terminated derivative contracts reclassified to other income	—	—
Total reclassifications of realized losses on derivative and hedging activities	(25)	(48)
Add: Unrealized gains (losses) on derivative and hedging activities, net[(1)]	(332)	(39)
Gains (losses) on derivative and hedging activities, net	$ (357)	$ (87)

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

	Three Months Ended March 31,	
	2007	2006
Floor Income Contracts	$ 5	$ 144
Equity forward contracts	(412)	(122)
Basis swaps	60	(82)
Other	15	21
Total unrealized gains (losses) on derivative and hedging activities, net	$ (332)	$ (39)

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on Equity Forward Contracts fluctuate with changes in the Company's stock price. Unrealized gains and losses on basis swaps result from changes in the spread between indices, primarily as it relates to CPI swaps economically hedging debt issuances indexed to CPI.

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

The following table summarizes the Floor Income adjustments in our Lending operating segment for the three months ended March 31, 2007 and 2006.

	Three Month Ended March 31,	
	2007	2006
"Core Earnings" Floor Income adjustments:		
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ —	$ —
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(39)	(52)
Total "Core Earnings" Floor Income adjustments	$ (39)	$ (52)

4) **Acquired Intangibles:** We exclude goodwill and intangible impairment and amortization of acquired intangibles. These amounts totaled $24 million and $14 million, respectively, for the three months ended March 31, 2007 and 2006, respectively. In the first quarter of 2007, we recognized an intangible impairment of $9 million due to changes in projected interest rates and to changes that restrict the loans on which the Company is entitled to earn a 9.5 percent yield (Special Allowance Payment ("SAP") loans).

LENDING BUSINESS SEGMENT

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

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

	Three Months Ended March 31,		% Increase (Decrease)
	2007	2006	2007 vs. 2006
"Core Earnings" interest income:			
FFELP Stafford and Other Student Loans	$ 695	$ 650	7%
FFELP Consolidation Loans	1,331	1,028	29
Private Education Loans	658	429	53
Other loans	28	23	22
Cash and investments	162	131	24
Total "Core Earnings" interest income	2,874	2,261	27
Total "Core Earnings" interest expense	2,220	1,660	34
Net "Core Earnings" interest income	654	601	9
Less: provisions for losses	198	75	164
Net "Core Earnings" interest income after provisions for losses	456	526	(13)
Other income	44	40	10
Operating expenses[(1)]	171	161	6
Income before income taxes and minority interest in net earnings of subsidiaries	329	405	(19)
Income taxes	122	150	(19)
"Core Earnings" net income	$ 207	$ 255	(19)%

(1) The three months ended March 31, 2007 and 2006 operating expenses for the Lending segment include $9 million and $10 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

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Summary of our Managed Student Loan Portfolio

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

Ending Balances (net of allowance for loan losses):

	March 31, 2007				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 11,682	$ —	$ 11,682	$ 4,379	$ 16,061
Grace and repayment	16,201	64,994	81,195	6,202	87,397
Total on-balance sheet, gross	27,883	64,994	92,877	10,581	103,458
On-balance sheet unamortized premium/(discount)	689	1,188	1,877	(363)	1,514
On-balance sheet allowance for losses	(10)	(12)	(22)	(369)	(391)
Total on-balance sheet, net	28,562	66,170	94,732	9,849	104,581
Off-balance sheet:					
In-school	1,824	—	1,824	4,978	6,802
Grace and repayment	11,233	17,269	28,502	9,829	38,331
Total off-balance sheet, gross	13,057	17,269	30,326	14,807	45,133
Off-balance sheet unamortized premium/(discount)	221	492	713	(339)	374
Off-balance sheet allowance for losses	(8)	(3)	(11)	(116)	(127)
Total off-balance sheet, net	13,270	17,758	31,028	14,352	45,380
Total Managed	$ 41,832	$ 83,928	$ 125,760	$ 24,201	$ 149,961
% of on-balance sheet FFELP	30%	70%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	56%	84%	16%	100%

	December 31, 2006				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 9,745	$ —	$ 9,745	$ 4,353	$ 14,098
Grace and repayment	14,530	60,348	74,878	6,075	80,953
Total on-balance sheet, gross	24,275	60,348	84,623	10,428	95,051
On-balance sheet unamortized premium/(discount)	575	988	1,563	(365)	1,198
On-balance sheet allowance for losses	(9)	(12)	(21)	(308)	(329)
Total on-balance sheet, net	24,841	61,324	86,165	9,755	95,920
Off-balance sheet:					
In-school	2,047	—	2,047	3,892	5,939
Grace and repayment	12,747	17,817	30,564	9,330	39,894
Total off-balance sheet, gross	14,794	17,817	32,611	13,222	45,833
Off-balance sheet unamortized premium/(discount)	244	497	741	(303)	438
Off-balance sheet allowance for losses	(10)	(3)	(13)	(86)	(99)
Total off-balance sheet, net	15,028	18,311	33,339	12,833	46,172
Total Managed	$ 39,869	$ 79,635	$ 119,504	$ 22,588	$ 142,092
% of on-balance sheet FFELP	29%	71%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	56%	84%	16%	100%

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

Average Balances:

	Three months ended March 31, 2007				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 26,885	$ 63,260	$ 90,145	$ 11,354	$ 101,499
Off-balance sheet	13,920	18,022	31,942	12,721	44,663
Total Managed	$ 40,805	$ 81,282	$ 122,087	$ 24,075	$ 146,162
% of on-balance sheet FFELP	30%	70%	100%		
% of Managed FFELP	33%	67%	100%		
% of Total	28%	56%	84%	16%	100%

	Three months ended March 31, 2006				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 19,522	$ 54,312	$ 73,834	$ 9,016	$ 82,850
Off-balance sheet	21,784	11,636	33,420	8,649	42,069
Total Managed	$ 41,306	$ 65,948	$ 107,254	$ 17,665	$ 124,919
% of on-balance sheet FFELP	26%	74%	100%		
% of Managed FFELP	39%	61%	100%		
% of Total	33%	53%	86%	14%	100%

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

Student Loan Spread Analysis — "Core Earnings" Basis

The following table analyzes the earnings from our portfolio of Managed student loans on a "Core Earnings" basis (see "BUSINESS SEGMENTS — Pre-tax differences between 'Core Earnings' and GAAP by Business Segment"). The "Core Earnings" Basis Student Loan Spread Analysis presentation and certain components used in the calculation differ from the On-Balance Sheet Student Loan Spread Analysis presentation. The "Core Earnings" basis 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 Borrower Benefits yield adjustments;
- includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as SFAS No. 133 hedges are recorded as part of the gain (loss) on derivative and hedging activities, net for GAAP purposes are reclassified to the line item on the income statement that such derivative is economically hedging for the "Core Earnings" basis presentation. For our "Core Earnings" basis student loan spread, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;
- excludes unhedged Floor Income earned on the Managed student loan portfolio; and
- includes the amortization of upfront payments on Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

As discussed above, these differences result in the "Core Earnings" basis student loan spread not being a GAAP-basis presentation. Management relies on this measure to manage our Lending business segment.

Specifically, management uses the "Core Earnings" basis student loan spread to evaluate the overall economic effect that certain factors have on all student loans either on- or off-balance sheet. These factors include the overall mix of student loans in our portfolio, acquisition costs, Borrower Benefits program costs, Floor Income and funding and hedging costs. Management believes that it is important to evaluate all of these factors on a Managed Basis to gain additional information about the economic effect of these factors on all student loans under management. Management believes that this additional information assists us in making strategic decisions about the Company's business model for the Lending business segment, including among other factors, how we acquire or originate student loans, how we fund acquisitions and originations, what Borrower Benefits we offer and what type of loans we purchase or originate. While management believes that the "Core Earnings" basis student loan spread is an important tool for evaluating the Company's performance for the reasons described above, it is subject to certain general and specific limitations that investors should carefully consider. See "BUSINESS SEGMENTS — Limitations of 'Core Earnings.'" One specific limitation is that the "Core Earnings" basis student loan spread includes the spread on loans that we have sold to securitization trusts.

	Three Months Ended March 31,	
	2007	2006
"Core Earnings" basis student loan yield	8.33%	7.60%
Consolidation Loan Rebate Fees	(.56)	(.55)
Borrower Benefits	(.11)	(.07)
Premium and discount amortization	(.16)	(.14)
"Core Earnings" basis student loan net yield	7.50	6.84
"Core Earnings" basis student loan cost of funds	(5.68)	(4.97)
"Core Earnings" basis student loan spread(1)	1.82%	1.87%
Average Balances		
On-balance sheet student loans(1)	$ 96,866	$ 82,850
Off-balance sheet student loans	44,663	42,069
Managed student loans	$ 141,529	124,919

(1) Excludes the impact of the Wholesale Consolidation Loan portfolio on the student loan spread and average balance for the three months ended March 31, 2007.

Discussion of "Core Earnings" Basis Student Loan Spread — Quarter-over-Quarter Fluctuations

As discussed under "Student Loans — Student Loan Spread — *Wholesale Consolidation Loans*," the student loan spread analysis above also excludes the impact of our Wholesale Consolidation Loan portfolio whose average balance was $4.6 billion for the first quarter of 2007. Had the impact of the Wholesale Consolidation Loan volume been included in the "Core Earnings" Basis Student Loan Spread Analysis, it would have reduced the spread by approximately 5 basis points for the first quarter of 2007. As of March 31, 2007, Wholesale Consolidation Loans totaled $6.7 billion, or 8.0 percent, of our total Managed Consolidation Loan portfolio.

"Core Earnings" Basis Student Loan Spreads by Loan Type

The student loan spread continues to reflect the changing mix of loans in our portfolio, specifically the shift from FFELP Stafford loans to FFELP Consolidation Loans and the higher overall growth rate in Private Education Loans as a percentage of the total portfolio. (See "LENDING BUSINESS SEGMENT — Summary of our Managed Student Loan Portfolio — Average Balances.")

The following table reflects the "Core Earnings" basis student loan spreads by product, excluding the effect of non-recurring items, for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
FFELP Loan Spreads ("Core Earnings" Basis):		
Stafford	1.24%	1.41%
Consolidation	1.04	1.25
FFELP Loan Spread ("Core Earnings" Basis)	1.11	1.32
Private Education Loan Spreads ("Core Earnings" Basis):		
Before provision	5.28%	4.87%
After provision	2.10	3.32

The FFELP loan spreads will continue to decline on a year-over-year basis as the mix of the portfolios of both Stafford and Consolidation Loans shift away from older loans with higher SAP spreads to newer loans with reduced SAP spreads. Stafford loan spreads have also declined as a result of increased amortization expense associated with the cost of absorbing the origination fees and guarantor fees on behalf of borrowers. Additionally, FFELP Consolidation Loan spreads were negatively impacted year-over-year from the lower amortization associated with the maturing of existing Floor Income Contracts.

The increase in Private Education Loan spreads before provision from the first quarter of 2006 to the first quarter of 2007 was driven by widening margins associated with our various product offerings. The decrease in the spread after provision was due to the increase in the provision associated with our allowance for Private Education Loan losses as discussed in "Private Education Loans — *Activity in the Allowance for Private Education Loan Losses*."

Floor Income — Managed Basis

The following table analyzes the ability of the FFELP student loans in our Managed student loan portfolio to earn Floor Income after March 31, 2007 and 2006.

	March 31, 2007			March 31, 2006		
(Dollars in billions)	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	$ 72.4	$ 19.6	$ 92.0	$ 51.7	$ 14.9	$ 66.6
Off-balance sheet student loans	17.2	12.9	30.1	12.9	20.7	33.6
Managed student loans eligible to earn Floor Income	89.6	32.5	122.1	64.6	35.6	100.2
Less: notional amount of Floor Income Contracts	(16.3)	—	(16.3)	(25.1)	—	(25.1)
Net Managed student loans eligible to earn Floor Income	$ 73.3	$ 32.5	$ 105.8	$ 39.5	$ 35.6	$ 75.1
Net Managed student loans earning Floor Income	$ 2.0	$ .2	$ 2.2	$ .4	$ —	$ .4

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 its Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period April 1, 2007 to June 30, 2010. These loans are both on-balance sheet and off-balance sheet and the related hedges do not qualify under SFAS No. 133 accounting as effective hedges.

(Dollars in billions)	April 1, 2007 to December 31, 2007	2008	2009	2010
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged (Managed Basis)	$ 16	$ 15	$ 10	$ 2

Private Education Loans

All Private Education Loans are initially acquired on-balance sheet. In securitizations of Private Education Loans that are treated as sales, the loans are no longer owned by us, and they are accounted for off-balance sheet. For our Managed Basis presentation in the table below, when Private Education Loans are sold to securitization trusts, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then re-establish the allowance for these loans in the off-balance sheet section. The total allowance of both on-balance sheet and off-balance sheet loan losses results in the Managed Basis allowance for loan losses. The off-balance sheet allowance is lower than the on-balance sheet allowance when measured as a percentage of ending loans in repayment because of the different mix of loans on-balance sheet and off-balance sheet.

When Private Education Loans in our securitized trusts settling before September 30, 2005, become 180 days delinquent, we typically exercise our contingent call option to repurchase these loans at par value out of the trust and record a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. If these loans reach the 212-day delinquency, a charge-off for the remaining balance of the loan is triggered. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged off in the month in which the loan is 212 days delinquent. We do not hold the contingent call option for all trusts settled after September 30, 2005 and as such, the loans are charged off in these trusts.

Activity in the Allowance for Private Education Loan Losses

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

The following table summarizes changes in the allowance for Private Education Loan losses for the three months ended March 31, 2007 and 2006.

	Activity in Allowance for Private Education Loan Losses					
	On-Balance Sheet Three Months Ended		Off-Balance Sheet Three Months Ended		Managed Basis Three Months Ended	
	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006	March 31, 2007	March 31, 2006
Allowance at beginning of period	$ 308	$ 204	$ 86	$ 78	$ 394	$ 282
Provision for Private Education Loan losses	142	54	47	14	189	68
Charge-offs	(82)	(32)	(23)	(1)	(105)	(33)
Recoveries	7	6	—	—	7	6
Net charge-offs	(75)	(26)	(23)	(1)	(98)	(27)
Balance before securitization of Private Education Loans	375	232	110	91	485	323
Reduction for securitization of Private Education Loans	(6)	—	6	—	—	—
Allowance at end of period	$ 369	$ 232	$ 116	$ 91	$ 485	$ 323
Net charge-offs as a percentage of average loans in repayment (annualized)	6.27%	2.83%	1.35%	.01%	3.40%	1.27%
Allowance as a percentage of the ending total loan balance	3.61%	2.43%	.80%	1.06%	1.96%	1.78%
Allowance as a percentage of ending loans in repayment	7.58%	5.96%	1.70%	1.99%	4.14%	3.81%
Average coverage of net charge-offs (annualized)	1.21	2.17	1.25	326.22	1.22	3.02
Average total loans	$ 11,354	$ 9,016	$ 12,721	$ 8,649	$ 24,075	$ 17,665
Ending total loans	$ 10,218	$ 9,543	$ 14,468	$ 8,648	$ 24,686	$ 18,191
Average loans in repayment	$ 4,859	$ 3,780	$ 6,815	$ 4,624	$ 11,674	$ 8,404
Ending loans in repayment	$ 4,867	$ 3,898	$ 6,839	$ 4,596	$ 11,706	$ 8,494

Toward the end of 2006 and in early 2007, we experienced lower collections resulting in increased levels of charge-off activity in our Private Education Loan portfolio. As the portfolio seasons, we expect charge-off rates to increase from the historically low levels experienced in the prior periods. However, the large increase in the first quarter of 2007 is caused by factors beyond the portfolio seasoning. In the third and fourth quarters of 2006, we encountered a number of operational challenges at our DMO in performing pre-default collections on the Company's Private Education Loan portfolio that contributed to the increase in charge-offs in the first quarter of 2007. In August 2006, we announced that we intended to relocate responsibility for certain Private Education Loan collections from our Nevada call center to a new call center in Indiana. This transfer presented us with unexpected operational challenges that resulted in lower collections that have negatively impacted the Private Education Loan portfolio. Management has taken several remedial actions, including transferring experienced collection personnel to the new call center. In addition, the DMO also revised certain procedures, including its use of forbearance, to better optimize our long-term collection strategies. These developments resulted in increased later stage delinquency levels and associated higher charges-offs in the first quarter of 2007, and are expected to affect second quarter and to a lesser extent third quarter delinquency and charge-off levels as well.

Delinquencies

The tables below present our Private Education Loan delinquency trends as of March 31, 2007 and 2006. Delinquencies have the potential to adversely impact earnings through increased servicing and collection costs in the event the delinquent accounts charge off.

	On-Balance Sheet Private Education Loan Delinquencies			
	March 31, 2007		March 31, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 5,220		$ 5,573	
Loans in forbearance[2]	494		412	
Loans in repayment and percentage of each status:				
Loans current	4,260	87.5%	3,487	89.4%
Loans delinquent 31-60 days[3]	184	3.8	170	4.4
Loans delinquent 61-90 days[3]	131	2.7	106	2.7
Loans delinquent greater than 90 days[3]	292	6.0	135	3.5
Total Private Education Loans in repayment	4,867	100%	3,898	100%
Total Private Education Loans, gross	10,581		9,883	
Private Education Loan unamortized discount	(363)		(340)	
Total Private Education Loans	10,218		9,543	
Private Education Loan allowance for losses	(369)		(232)	
Private Education Loans, net	$ 9,849		$ 9,311	
Percentage of Private Education Loans in repayment	46.0%		39.4%	
Delinquencies as a percentage of Private Education Loans in repayment	12.5%		10.6%	

	Off-Balance Sheet Private Education Loan Delinquencies			
	March 31, 2007		March 31, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 6,821		$ 3,456	
Loans in forbearance[2]	1,147		784	
Loans in repayment and percentage of each status:				
Loans current	6,475	94.7%	4,389	95.5%
Loans delinquent 31-60 days[3]	145	2.1	106	2.3
Loans delinquent 61-90 days[3]	88	1.3	46	1.0
Loans delinquent greater than 90 days[3]	131	1.9	55	1.2
Total Private Education Loans in repayment	6,839	100%	4,596	100%
Total Private Education Loans, gross	14,807		8,836	
Private Education Loan unamortized discount	(339)		(188)	
Total Private Education Loans	14,468		8,648	
Private Education Loan allowance for losses	(116)		(91)	
Private Education Loans, net	$ 14,352		$ 8,557	
Percentage of Private Education Loans in repayment	46.2%		52.0%	
Delinquencies as a percentage of Private Education Loans in repayment	5.3%		4.5%	

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

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

	Managed Basis Private Education Loan Delinquencies			
	March 31, 2007		March 31, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	$ 12,041		$ 9,029	
Loans in forbearance(2)	1,641		1,196	
Loans in repayment and percentage of each status:				
Loans current	10,735	91.7%	7,876	92.7%
Loans delinquent 31-60 days(3)	329	2.8	276	3.3
Loans delinquent 61-90 days(3)	219	1.9	152	1.8
Loans delinquent greater than 90 days(3)	423	3.6	190	2.2
Total Private Education Loans in repayment	11,706	100%	8,494	100%
Total Private Education Loans, gross	25,388		18,719	
Private Education Loan unamortized discount	(702)		(528)	
Total Private Education Loans	24,686		18,191	
Private Education Loan allowance for losses	(485)		(323)	
Private Education Loans, net	$ 24,201		$ 17,868	
Percentage of Private Education Loans in repayment	46.1%		45.4%	
Delinquencies as a percentage of Private Education Loans in repayment	8.3%		7.3%	

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

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

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

Forbearance — Managed Basis Private Education Loans

Private Education Loans are made to parent and student borrowers in accordance with our underwriting policies. These loans generally supplement federally guaranteed student loans, which are subject to federal lending caps. Private Education Loans are not federally guaranteed nor insured against any loss of principal or interest. Traditional student borrowers use the proceeds of these loans to obtain higher education, which increases the likelihood of obtaining employment at higher income levels than would be available without the additional education. As a result, the borrowers' repayment capability improves between the time the loan is made and the time they enter the post-education work force. We generally allow the loan repayment period on traditional higher education Private Education Loans to begin six months after the borrower leaves school (consistent with our federally regulated FFELP loans). This provides the borrower time after graduation to obtain a job to service the debt. For borrowers that need more time or experience other hardships, we permit additional delays in payment or partial payments (both referred to as forbearances) when we believe additional time will improve the borrower's ability to repay the loan. Forbearance is also granted to borrowers who may experience temporary hardship after entering repayment, when we believe that it will increase the likelihood of ultimate collection of the loan. Such forbearance is granted within established policies that include limits on the number of forbearance months granted consecutively and limits on the total number of forbearance months granted over the life of the loan. In some instances of forbearance, we require good-faith payments or continuing partial payments. Exceptions to forbearance policies are permitted in limited circumstances and only when such exceptions are judged to increase the likelihood of ultimate collection of the loan.

Forbearance does not grant any reduction in the total repayment obligation (principal or interest) but does allow for the temporary cessation of borrower payments (on a prospective and/or retroactive basis) or a reduction in monthly payments for an agreed period of time. The forbearance period extends the original term of the loan. While the loan is in forbearance, interest continues to accrue and is capitalized as principal upon

the loan re-entering repayment status. Loans exiting forbearance into repayment status are considered current regardless of their previous delinquency status.

Forbearance is used most heavily immediately after the loan enters repayment. As a result, forbearance levels are impacted by the timing of loans entering repayment and are generally at higher levels in the first quarter. As indicated in the tables below that show the composition and status of the Managed Private Education Loan portfolio by number of months aged from the first date of repayment, the percentage of loans in forbearance decreases the longer the loans have been in repayment. At March 31, 2007, loans in forbearance as a percentage of loans in repayment and forbearance are 16.4 percent for loans that have been in repayment one to twenty-four months. The percentage drops to 3.8 percent for loans that have been in repayment more than 48 months. Approximately 80 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months. These borrowers are essentially extending their grace period as they transition to the workforce. Forbearance continues to be a positive collection tool for the Private Education Loans as we believe it can provide the borrower with sufficient time to obtain employment and income to support his or her obligation. We consider the potential impact of forbearance in the determination of the loan loss reserves.

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

	Months since entering repayment				
March 31, 2007	1 to 24 months	25 to 48 months	More than 48 months	After Mar. 31, 2007(1)	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$ 12,041	$ 12,041
Loans in forbearance	1,314	242	85	—	1,641
Loans in repayment — current	6,154	2,614	1,967	—	10,735
Loans in repayment — delinquent 31-60 days	193	81	55	—	329
Loans in repayment — delinquent 61-90 days	144	47	28	—	219
Loans in repayment — delinquent greater than 90 days	212	130	81	—	423
Total	$ 8,017	$ 3,114	$ 2,216	$ 12,041	$ 25,388
Unamortized discount					(702)
Allowance for loan losses					(485)
Total Managed Private Education Loans, net					$ 24,201
Loans in forbearance as a percentage of loans in repayment and forbearance	16.4%	7.8%	3.8%	—%	12.3%

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

	Months since entering repayment				
March 31, 2006	1 to 24 months	25 to 48 months	More than 48 months	After Mar. 31, 2006(1)	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$ 9,029	$ 9,029
Loans in forbearance	940	180	76	—	1,196
Loans in repayment — current	4,535	1,845	1,496	—	7,876
Loans in repayment — delinquent 31-60 days	153	70	53	—	276
Loans in repayment — delinquent 61-90 days	94	35	23	—	152
Loans in repayment — delinquent greater than 90 days	109	51	30	—	190
Total	$ 5,831	$ 2,181	$ 1,678	$ 9,029	$ 18,719
Unamortized discount					(528)
Allowance for loan losses					(323)
Total Managed Private Education Loans, net					$ 17,868
Loans in forbearance as a percentage of loans in repayment and forbearance	16.1%	8.3%	4.5%	—%	12.3%

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

There were $1.6 billion of loans in forbearance status at March 31, 2007, or 12.3 percent of loans in repayment and forbearance. This is consistent with our expectation of higher forbearances in the first quarter based on the large increase in the number of loans entering repayment in the fourth quarter. Student loan borrowers have typically used forbearance shortly after entering repayment to extend their grace periods as they establish themselves in the workforce.

The table below stratifies the portfolio of 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 deferred their loan repayment more than 24 months, which is 3 percent lower versus the year-ago quarter.

	March 31, 2007		March 31, 2006	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total
Cumulative number of months borrower has used forbearance				
Up to 12 months	$ 1,219	74%	$ 901	76%
13 to 24 months	374	23	220	18
25 to 36 months	37	2	51	4
More than 36 months	11	1	24	2
Total	$ 1,641	100%	$ 1,196	100%

Total Loan Net Charge-offs

The following tables summarize the net charge-offs for all loan types on both an on-balance sheet basis and a Managed Basis for the three months ended March 31, 2007 and 2006. Almost all Private Education Loan charge-offs occur on-balance sheet due to the contingent call feature in a majority of the off-balance sheet securitization trusts, which is discussed in more detail at "LENDING BUSINESS SEGMENT — Private Education Loans."

Total on-balance sheet loan net charge-offs

	Three Months Ended March 31,	
	2007	2006
Private Education Loans	$ 75	$ 26
FFELP Stafford and Other Student Loans	4	1
Mortgage and consumer loans	2	1
Total on-balance sheet loan net charge-offs	$ 81	$ 28

Total Managed loan net charge-offs

	Three Months Ended March 31,	
	2007	2006
Private Education Loans	$ 98	$ 27
FFELP Stafford and Other Student Loans	8	1
Mortgage and consumer loans	2	1
Total on-balance sheet loan net charge-offs	$ 108	$ 29

The increase in net charge-offs on FFELP Stafford and Other student loans from the year-ago quarter is the result of the legislative changes which lower the federal guaranty on claims filed after July 1, 2006 to

97 percent from 98 percent (or 99 percent from 100 percent for lenders and servicers with the Exceptional Performer designation). Additionally, first quarter net charge-offs on FFELP loans are historically higher than other periods as a result of the timing of the claim filing process, following the seasonal wave of borrowers entering repayment status. See "Private Education Loans — *Activity in the Allowance for Private Education Loan Losses*" for a discussion of net charge-offs related to our Private Education Loans.

Student Loan Premiums as a Percentage of Principal

The following table presents student loan premiums paid as a percentage of the principal balance of student loans acquired for the three months ended March 31, 2007 and 2006.

	March 31, 2007		March 31, 2006	
	Volume	Rate	Volume	Rate
Student loan premiums paid:				
Sallie Mae brands	$ 4,598	1.41%	$ 3,304	.50%
Lender partners	2,377	2.89	3,592	2.00
Total Preferred Channel	6,975	1.92	6,896	1.28
Other purchases(1)	3,874	5.46	175	1.97
Subtotal base purchases	10,849	3.18	7,071	1.30
Consolidations originations	702	2.28	897	1.98
Total	$ 11,551	3.13%	$ 7,968	1.37%

(1) Primarily includes spot purchases (including Wholesale Consolidation Loans), other commitment clients, and subsidiary acquisitions.

The increase in premiums paid as a percentage of principal balance for "Sallie Mae brands" over the prior year is primarily due to the increase in loans where we pay the origination fee and/or federal guaranty fee on behalf of borrowers, a practice we call zero-fee lending. Premiums paid on "Lender partners" volume were similarly impacted by zero-fee lending. The borrower origination fee will be gradually phased out by the Reconciliation Legislation from 2007 to 2010.

The "Other purchases" category includes the acquisition of Wholesale Consolidation Loans which totaled $3.1 billion at a rate of 6.28 percent for the quarter ended March 31, 2007. At March 31, 2007, the ending balance of Wholesale Consolidation Loans totaled $6.7 billion.

We include in consolidation originations premiums the 50 basis point consolidation origination fee paid on each FFELP Stafford loan that we consolidate, including loans that are already in our portfolio. The consolidation originations premium paid percentage is calculated on only consolidation volume that is incremental to our portfolio. This percentage is largely driven by the mix of FFELP Stafford loans consolidated in this quarter.

Student Loan Acquisitions

The following tables summarize the components of our student loan acquisition activity for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31, 2007		
	FFELP	Private	Total
Preferred Channel	$ 4,775	$ 2,200	$ 6,975
Wholesale Consolidations	3,076	—	3,076
Other commitment clients	49	3	52
Spot purchases	746	—	746
Consolidations from third parties	649	53	702
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	1,183	163	1,346
Capitalized interest, premiums and discounts	631	59	690
Total on-balance sheet student loan acquisitions	11,109	2,478	13,587
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(1,183)	(163)	(1,346)
Capitalized interest, premiums and discounts — off-balance sheet securitized trusts	153	125	278
Total Managed student loan acquisitions	$ 10,079	$ 2,440	$ 12,519

	Three Months Ended March 31, 2006		
	FFELP	Private	Total
Preferred Channel	$ 5,031	$ 1,865	$ 6,896
Other commitment clients	114	2	116
Spot purchases	59	—	59
Consolidations from third parties	896	1	897
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	1,329	—	1,329
Capitalized interest, premiums and discounts	346	23	369
Total on-balance sheet student loan acquisitions	7,775	1,891	9,666
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(1,329)	—	(1,329)
Capitalized interest, premiums and discounts — off-balance sheet securitized trusts	145	69	214
Total Managed student loan acquisitions	$ 6,591	$ 1,960	$ 8,551

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

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

	March 31, 2007	December 31, 2006
FFELP Stafford and Other Student Loans, net	$ 28,562	$ 24,841
FFELP Consolidation Loans, net	66,170	61,324
Private Education Loans, net	9,849	9,755
Other loans, net	1,351	1,309
Investments(1)	9,618	8,175
Retained Interest in off-balance sheet securitized loans	3,643	3,341
Other(2)	5,166	4,859
Total assets	$ 124,359	$ 113,604

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

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

Preferred Channel Originations

We originated $8.0 billion in student loan volume through our Preferred Channel in the quarter ended March 31, 2007 versus $7.6 billion in the quarter ended March 31, 2006.

For the quarter ended March 31, 2007, our internal lending brands grew 35 percent over the year-ago quarter, and comprised 60 percent of our Preferred Channel Originations, up from 47 percent in the year-ago quarter. Our internal lending brands combined with our other lender partners comprised 88 percent of our Preferred Channel Originations for the current quarter, versus 78 percent for the year-ago quarter; together these two segments of our Preferred Channel grew 19 percent over the year-ago quarter.

Our Managed loan acquisitions for the current quarter totaled $12.5 billion, an increase of 46 percent over the year-ago quarter. The following tables further break down our Preferred Channel Originations by type of loan and source.

	Three Months Ended March 31,	
	2007	2006
Preferred Channel Originations — Type of Loan		
Stafford	$ 4,601	$ 4,426
PLUS	920	1,002
GradPLUS	128	—
Total FFELP	5,649	5,428
Private Education Loans	2,362	2,185
Total	$ 8,011	$ 7,613

	Three Months Ended March 31,			
	2007 FFELP	2006 FFELP	Increase (Decrease) $	%
FFELP Preferred Channel Originations — Source				
Internal lending brands	$ 2,719	$ 1,955	$ 764	39%
Other lender partners	2,050	2,024	26	1
Total before JPMorgan Chase	4,769	3,979	790	20
JPMorgan Chase	880	1,449	(569)	(39)
Total	$ 5,649	$ 5,428	$ 221	4%

	Three Months Ended March 31,			
	2007 Private	2006 Private	Increase (Decrease) $	%
Private Preferred Channel Originations — Source				
Internal lending brands	$ 2,082	$ 1,600	$ 482	30%
Other lender partners	208	338	(130)	(38)
Total before JPMorgan Chase	2,290	1,938	352	18
JPMorgan Chase	72	247	(175)	(71)
Total	$ 2,362	$ 2,185	$ 177	8%

	Three Months Ended March 31,			
	2007 Total	2006 Total	Increase (Decrease) $	%
Total Preferred Channel Originations — Source				
Internal lending brands	$ 4,801	$ 3,555	$ 1,246	35%
Other lender partners	2,258	2,362	(104)	4
Total before JPMorgan Chase	7,059	5,917	1,142	19
JPMorgan Chase	952	1,696	(744)	(44)
Total	$ 8,011	$ 7,613	$ 398	5%

Student Loan Activity

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

	On-Balance Sheet Three months ended March 31, 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	—	649	649	53	702
Consolidations to third parties	(607)	(233)	(840)	(9)	(849)
Net consolidations	(607)	416	(191)	44	(147)
Acquisitions	5,783	3,494	9,277	2,262	11,539
Net acquisitions	5,176	3,910	9,086	2,306	11,392
Internal consolidations	(975)	1,755	780	149	929
Off-balance sheet securitizations	—	—	—	(1,871)	(1,871)
Repayments/claims/resales/other	(480)	(819)	(1,299)	(490)	(1,789)
Ending balance	$ 28,562	$ 66,170	$ 94,732	$ 9,849	$ 104,581

	Off-Balance Sheet Three months ended March 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	(373)	(71)	(444)	(19)	(463)
Net consolidations	(373)	(71)	(444)	(19)	(463)
Acquisitions	95	58	153	125	278
Net acquisitions	(278)	(13)	(291)	106	(185)
Internal consolidations(2)	(466)	(314)	(780)	(149)	(929)
Off-balance sheet securitizations	—	—	—	1,871	1,871
Repayments/claims/resales/other	(1,014)	(226)	(1,240)	(309)	(1,549)
Ending balance	$ 13,270	$ 17,758	$ 31,028	$ 14,352	$ 45,380

	Managed Portfolio Three months ended March 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	—	649	649	53	702
Consolidations to third parties	(980)	(304)	(1,284)	(28)	(1,312)
Net consolidations	(980)	345	(635)	25	(610)
Acquisitions	5,878	3,552	9,430	2,387	11,817
Net acquisitions	4,898	3,897	8,795	2,412	11,207
Internal consolidations(2)	(1,441)	1,441	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,494)	(1,045)	(2,539)	(799)	(3,338)
Ending balance	$ 41,832	$ 83,928	$ 125,760	$ 24,201	$ 149,961
Total Managed Acquisitions(3)	$ 5,878	$ 4,201	$ 10,079	$ 2,440	$ 12,519

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

(2) Represents FFELP/Stafford loans that we either own on-balance sheet or in our off-balance sheet securitization trusts that we consolidate.

(3) The purchases line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Three months ended March 31, 2006				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 19,988	$ 54,859	$ 74,847	$ 7,757	$ 82,604
Net consolidations:					
Incremental consolidations from third parties	—	896	896	1	897
Consolidations to third parties	(307)	(572)	(879)	(4)	(883)
Net consolidations	(307)	324	17	(3)	14
Acquisitions	5,274	275	5,549	1,892	7,441
Net acquisitions	4,967	599	5,566	1,889	7,455
Internal consolidations	(784)	1,623	839	—	839
Off-balance sheet securitizations	(5,034)	(3,039)	(8,073)	—	(8,073)
Repayments/claims/resales/other	(254)	(591)	(845)	(335)	(1,180)
Ending balance	$ 18,883	$ 53,451	$ 72,334	$ 9,311	$ 81,645

	Off-Balance Sheet Three months ended March 31, 2006				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 20,670	$ 10,575	$ 31,245	$ 8,680	$ 39,925
Net consolidations:					
Incremental consolidations from third parties	—	—	—	—	—
Consolidations to third parties	(428)	(178)	(606)	(5)	(611)
Net consolidations	(428)	(178)	(606)	(5)	(611)
Acquisitions	88	58	146	67	213
Net acquisitions	(340)	(120)	(460)	62	(398)
Internal consolidations(2)	(741)	(98)	(839)	—	(839)
Off-balance sheet securitizations	5,034	3,039	8,073	—	8,073
Repayments/claims/resales/other	(1,166)	(185)	(1,351)	(185)	(1,536)
Ending balance	$ 23,457	$ 13,211	$ 36,668	$ 8,557	$ 45,225

	Managed Portfolio Three months ended March 31, 2006				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 40,658	$ 65,434	$ 106,092	$ 16,437	$ 122,529
Net consolidations:					
Incremental consolidations from third parties	—	896	896	1	897
Consolidations to third parties	(735)	(750)	(1,485)	(9)	(1,494)
Net consolidations	(735)	146	(589)	(8)	(597)
Acquisitions	5,362	333	5,695	1,959	7,654
Net acquisitions	4,627	479	5,106	1,951	7,057
Internal consolidations(2)	(1,525)	1,525	—	—	—
Off-balance sheet securitizations	—	—	—	—	—
Repayments/claims/resales/other	(1,420)	(776)	(2,196)	(520)	(2,716)
Ending balance	$ 42,340	$ 66,662	$ 109,002	$ 17,868	$ 126,870
Total Managed Acquisitions(3)	$ 5,362	$ 1,229	$ 6,591	$ 1,960	$ 8,551

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

(2) Represents FFELP/Stafford loans that we either own on-balance sheet or in our off-balance sheet securitization trusts that we consolidate.

(3) The purchases line includes incremental consolidations from third parties and acquisitions.

During the first quarter of 2006, certain FFELP lenders engaged in a practice of reconsolidating FFELP Consolidation Loans using the Direct Loan program as a pass-through entity. This resulted in increased levels of FFELP Consolidation Loans consolidating away to third parties. This practice was restricted through legislation as of July 1, 2006 and has led to a reduction in the amount of FFELP Consolidation Loans that are lost to third parties. On the other hand, we experienced a higher level of consolidations to third parties from our FFELP Stafford portfolio for the quarter ended March 31, 2007 as compared to the year-ago quarter primarily as a result of the repeal of the single-holder rule which is effective for FFELP Consolidation Loan applications received on or after June 15, 2006. The single-holder rule had previously required that when a lender held all of the FFELP Stafford loans of a particular borrower whose loans were held by a single lender, in most cases that borrower could only obtain a FFELP Consolidation Loan from that lender.

During 2006, Private Education Loan consolidations were introduced as a separate product line. In the first quarter of 2007, we added $25 million of net incremental volume on a Managed Basis through this new product line. We expect this product line to grow in the future and will aggressively protect our portfolio against third-party consolidation of Private Education Loans.

Other Income — Lending Business Segment

The following table summarizes the components of other income, net, for our Lending business segment for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Late fees	$ 35	$ 25
Gains on sales of mortgages and other loan fees	3	3
Other	6	12
Total other income, net	$ 44	$ 40

The decrease in the “Other” category versus the prior year is due to the shift of origination volume to Sallie Mae Bank from third party lenders. Previously, we earned servicing fees for originating loans on behalf of these third party lenders in transactions where the loan was eventually sold to us. The reduction in this revenue stream has been more than offset by capturing the earning spread on the loans earlier.

Operating Expense — Lending Business Segment

The following table summarizes the components of operating expenses for our Lending business segment for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Sales and originations	$ 87	$ 84
Servicing and information technology	54	50
Corporate overhead	30	27
Total operating expenses	$ 171	$ 161

Operating expenses for our Lending business segment include costs incurred to service our Managed student loan portfolio and acquire student loans, as well as other general and administrative expenses. For the quarters ended March 31, 2007 and 2006, operating expenses for the Lending business segment also include $9 million and $10 million, respectively, of stock option compensation expense.

DEBT MANAGEMENT OPERATIONS ("DMO") BUSINESS SEGMENT

The following table includes the "Core Earnings" results of operations for our DMO business segment.

	Three Months Ended March 31,		% Increase (Decrease)
	2007	2006	2007 vs. 2006
Fee income	$ 87	$ 92	(5)%
Collections revenue	65	56	16
Total other income	152	148	3
Operating expenses	93	89	4
Net interest expense	7	5	40
Income before income taxes and minority interest in net earnings of subsidiaries	52	54	(4)
Income taxes	19	20	(5)
Income before minority interest in net earnings of subsidiaries	33	34	(3)
Minority interest in net earnings of subsidiaries	1	1	—
"Core Earnings" net income	$ 32	$ 33	(3)%

(1) For both the three months ended March 31, 2007 and 2006, operating expenses for the DMO segment include $3 million of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

DMO Revenue by Product

	Three Months Ended March 31,	
	2007	2006
Purchased paper collections revenue	$ 65	$ 56
Contingency:		
Student loans	68	70
Other	6	10
Total contingency	74	80
Other	13	12
Total	$ 152	$ 148
USA Funds[1]	$ 44	$ 46
% of total DMO revenue	29%	31%

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

The decrease in contingency fees versus the year-ago quarter is primarily due to the shift in collection strategy from loan consolidation to rehabilitating student loans. This shift was in response to a legislative change which reduced the rate earned from consolidating loans. To qualify for a rehabilitation, borrowers must make nine consecutive payments. The first quarter of 2007 was also negatively impacted by lower performance in default prevention which lowered the portfolio management fee. The increase in purchased paper collections revenue primarily reflects the increase in the carrying value of purchases.

Purchased Paper — Non-Mortgage

	Three Months Ended March 31,	
	2007	2006
Face value of purchases for the period	$ 1,076	$ 530
Purchase price for the period	102	34
% of face value purchased	9.5%	6.4%
Gross Cash Collections (“GCC”)	$ 115	$ 89
Collections revenue	56	49
% of GCC	48%	55%
Carrying value of purchases	$ 316	$ 146

The amount of face value of purchases in any quarter is a function of a combination of factors including the amount of receivables available for purchase in the marketplace, average age of each portfolio, the asset class of the receivables, and competition in the marketplace. As a result, the percentage of face value purchased will vary from quarter to quarter.

Purchased Paper — Mortgage/Properties

	Three Months Ended March 31,	
	2007	2006
Face value of purchases for the period	$ 239	$ 132
Collections revenue	10	8
Collateral value of purchases	248	151
Purchase price for the period	196	113
% of collateral value	79%	75%
Carrying value of purchases	$ 649	$ 355

The purchase price for sub-performing and non-performing mortgage loans is generally determined as a percentage of the underlying collateral, but we also consider a number of factors in pricing mortgage loan portfolios to attain a targeted yield. Therefore, the purchase price as a percentage of collateral value can fluctuate depending on the mix of sub-performing versus non-performing mortgages in the portfolio, the projected timeline to resolution of loans in the portfolio and the level of private mortgage insurance associated with particular assets. The increase in the collateral value of purchases and the carrying value of purchases reflects the increase in the amount of loans purchased in the quarter.

Contingency Inventory

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

	March 31, 2007	December 31, 2006
Contingency:		
Student loans	$ 8,083	$ 6,971
Other	1,529	1,667
Total	$ 9,612	$ 8,638

Operating Expenses — DMO Business Segment

For the three months ended March 31, 2007 and 2006, operating expenses for our DMO business segment totaled $93 million and $89 million, respectively. The increase in operating expenses of $4 million or 4 percent

versus the year-ago quarter was primarily due to increased expenses for outsourced collections and overall growth in the purchased paper business.

For both the three months ended March 31, 2007 and 2006, operating expenses for the DMO business segment also include $3 million of stock option compensation expense.

At March 31, 2007 and December 31, 2006, the DMO business segment had total assets of $1.8 billion and $1.5 billion, respectively.

CORPORATE AND OTHER BUSINESS SEGMENT

The following table includes “Core Earnings” results of operations for our Corporate and Other business segment.

	Three Months Ended March 31,		% Increase (Decrease)
	2007	2006	2007 vs. 2006
Total interest income	$ 2	$ 1	100%
Total interest expense	5	1	400
Net interest income (loss)	(3)	—	(100)
Less: provisions for losses	1	—	100
Net interest income (loss) after provisions for losses	(4)	—	(100)
Fee income	39	27	44
Other income	52	30	73
Total revenue	91	57	60
Operating expenses[1]	68	59	15
Income (loss) before income taxes	19	(2)	(1,050)
Income tax expense (benefit)	7	(1)	(800)
“Core Earnings” net income (loss)	$ 12	$ (1)	(1,300)%

(1) For the three months ended March 31, 2007 and 2006, operating expenses for the Corporate and Other Business segment include $4 million and $5 million, respectively, of stock option compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.

Fee and Other Income — Corporate and Other Business Segment

The following table summarizes the components of fee and other income for our Corporate and Other business segment for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Guarantor servicing fees	$ 39	$ 27
Loan servicing fees	7	8
Upromise	25	—
Other	20	22
Total fee and other income	$ 91	$ 57

The increase in guarantor servicing fees versus the prior year is due to a cap on the payment of account maintenance fees imposed by ED in the fourth quarter of 2005. In the second quarter of 2006 we negotiated a settlement with USA Funds such that USA Funds was able to cover the previous shortfall caused by the cap

on payments from ED to guarantors. This cap was removed by legislation reauthorizing the student loan programs of the Higher Education Act on October 1, 2006. Also, the first quarter of 2007 “Other” line item includes fees from Upromise, acquired in August 2006.

USA Funds, the nation’s largest guarantee agency, accounted for 87 percent and 87 percent, respectively, of guarantor servicing fees and 16 percent and 18 percent, respectively, of revenues associated with other products and services for the three months ended March 31, 2007 and 2006.

Operating Expenses — Corporate and Other Business Segment

The following table summarizes the components of operating expenses for our Corporate and Other Business segment for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Operating expenses	$ 29	$ 38
Upromise	21	—
Corporate overhead	18	21
Total operating expenses	$ 68	$ 59

Operating expenses for our Corporate and Other business segment include direct costs incurred to service loans for unrelated third parties and to perform guarantor servicing on behalf of guarantor agencies, as well as information technology expenses related to these functions. For the three months ended March 31, 2007 and 2006, operating expenses for our Corporate and Other business segment also include $4 million and $5 million, respectively, of stock option compensation expense. Also, the first quarter of 2007 reflects expenses of Upromise, acquired in August 2006.

At March 31, 2007 and December 31, 2006, the Corporate and Other business segment had total assets of $766 million and $999 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Except in the case of acquisitions, which are discussed separately, our DMO and Corporate and Other business segments are not capital intensive businesses, and as such, a minimal amount of debt and equity capital is allocated to these segments. Therefore, the following “LIQUIDITY AND CAPITAL RESOURCES” discussion is concentrated on our Lending business segment.

Our primary funding objective is to maintain cost-effective liquidity to fund the growth in the Managed portfolio of student loans, as well as to refinance previously securitized loans when borrowers choose to refinance their loans through a FFELP Consolidation Loan or a Private Education Consolidation Loan. Since the announcement of the proposed Merger (see “SUBSEQUENT EVENT”), credit spreads on our unsecured debt widened considerably, which significantly increased our cost of accessing the unsecured debt markets. As a result, in the near term, student loan securitizations will be the only source of cost effective financing. We have built a highly liquid and deep market for our securitizations, and in the first quarter of 2007, we securitized $13.0 billion in student loans in four transactions versus $8.0 billion in three transactions in the year-ago quarter. We believe the market for these securities will be available to meet our long-term funding needs for the foreseeable future. Securitizations comprised 68 percent of our Managed debt outstanding at March 31, 2007, unchanged from March 31, 2006.

We hedge the full fair value of certain fixed rate U.S. dollar denominated unsecured debt for SFAS No. 133 hedge accounting purposes. The widening of our credit spreads due to the Merger announcement resulted in certain hedge relationships no longer qualifying for hedge accounting as full fair value hedges. Those relationships which no longer qualify for hedge accounting as full fair value hedges will be terminated and re-designated as hedges of changes in fair value due to interest rates only.

Prior to the announcement of the Merger (see discussion above of the effect of the Merger on the unsecured debt markets), we issued $1.6 billion in SLM Corporation long-term, unsecured debt in the three months ended March 31, 2007. In total, at March 31, 2007, on-balance sheet debt, exclusive of on-balance sheet securitizations and secured indentured trusts, totaled $49.6 billion versus $41.6 billion at March 31, 2006.

Liquidity at SLM Corporation is important to enable us to effectively fund our student loan acquisitions, to meet maturing debt obligations, and to fund operations. The following table details our sources of liquidity and the available capacity at March 31, 2007 and December 31, 2006.

	March 31, 2007 Available Capacity	December 31, 2006 Available Capacity
Sources of primary liquidity:		
Unrestricted cash and liquid investments(1)	$ 5,480	$ 4,720
Unused commercial paper and bank lines of credit	6,500	6,500
ABCP borrowing capacity	1,752	1,047
Total sources of primary liquidity	13,732	12,267
Sources of stand-by liquidity:		
Unencumbered FFELP student loans	27,376	28,070
Total sources of primary and stand-by liquidity	$ 41,108	$ 40,337

(1) Excludes $542 million of investments pledged as collateral related to certain derivative positions and $95 million of other non-liquid investments classified at March 31, 2007 as cash and investments on our balance sheet in accordance with GAAP

We believe our unencumbered FFELP student loan portfolio provides an excellent source of potential or stand-by liquidity because of the well-developed market for government guaranteed student loan securitizations. There is also an active wholesale market for FFELP loan sales that provides an additional potential source of stand-by liquidity. In addition to unencumbered FFELP student loans, we hold on-balance sheet a number of unencumbered assets, consisting of Private Education Loans, cash and investments, Retained Interests and other assets. At March 31, 2007, we had a total of $53.8 billion of unencumbered assets, including goodwill and acquired intangibles.

In addition to liquidity, a major objective when financing our business is to minimize interest rate risk by matching the interest rate and reset characteristics of our Managed assets and liabilities, generally on a pooled basis, to the extent practicable. In this process we use derivative financial instruments extensively to reduce our interest rate and foreign currency exposure. This interest rate risk management helps us to stabilize our student loan spread in various and changing interest rate environments.

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Managed Borrowings

The following tables present the ending balances of our Managed borrowings at March 31, 2007 and 2006 and average balances and average interest rates of our Managed borrowings for the three months ended March 31, 2007 and 2006. The average interest rates include derivatives that are economically hedging the underlying debt, but do not qualify for hedge accounting treatment under SFAS No. 133. (See "BUSINESS SEGMENTS — Pre-tax differences Between 'Core Earnings' and GAAP by Business Segment — *Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities."*)

Ending Balances

	As of March 31,					
	2007 Ending Balance			2006 Ending Balance		
	Short Term	Long Term	Total Managed Basis	Short Term	Long Term	Total Managed Basis
Unsecured borrowings	$ 4,374	$ 45,253	$ 49,627	$ 3,285	$ 38,339	$ 41,624
Indentured trusts (on-balance sheet)	71	2,793	2,864	78	3,280	3,358
Securitizations (on-balance sheet)	—	64,670	64,670	—	46,193	46,193
Securitizations (off-balance sheet)	—	49,245	49,245	—	47,998	47,998
Total	$ 4,445	$ 161,961	$ 166,406	$ 3,363	$ 135,810	$ 139,173

Average Balances

	Three Months Ended March 31,			
	2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate
Unsecured borrowings	$ 48,658	5.64%	$ 41,571	5.05%
Indentured trusts (on-balance sheet)	2,908	4.69	3,380	4.20
Securitizations (on-balance sheet)	59,604	5.67	46,551	4.87
Securitizations (off-balance sheet)	48,206	5.79	44,887	5.00
Total	$ 159,376	5.68%	$ 136,389	4.95%

Unsecured On-Balance Sheet Financing Activities

The following table presents the senior unsecured credit ratings on our debt from major rating agencies as of March 31, 2007. (See "SUBSEQUENT EVENT — Financing Considerations Related to the Transaction.")

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

The table below presents our unsecured on-balance sheet term funding by funding source for the three months ended March 31, 2007 and 2006.

	Debt Issued for the Three Months Ended March 31,		Outstanding at March 31,	
	2007	2006	2007	2006
Convertible debentures	$ —	$ —	$ 1,998	$ 1,994
Retail notes	59	157	4,195	3,762
Foreign currency denominated notes(1)	161	423	12,798	9,206
Extendible notes	—	—	5,747	5,247
Global notes (Institutional)	1,348	1,074	22,476	19,613
Medium-term notes (Institutional)	—	—	1,796	1,801
Other	—	—	617	1
Total	$ 1,568	$ 1,654	$ 49,627	$ 41,624

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

In addition to the term issuances reflected in the table above, we also use our commercial paper program for short-term liquidity purposes. The average balance of commercial paper outstanding during the three months ended March 31, 2007 and 2006 was $0 and $331 million, respectively. The maximum daily amount outstanding for the three months ended March 31, 2007 and 2006 was $0 and $2.2 billion, respectively.

Securitization Activities

Securitization Program

The following table summarizes our securitization activity for the three months ended March 31, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended March 31,							
	2007				2006			
(Dollars in millions)	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
Securitization sales:								
FFELP Stafford/PLUS loans	—	$ —	$ —	—%	2	$ 5,004	$ 17	.3%
FFELP Consolidation Loans	—	—	—	—	1	3,002	13	.4
Private Education Loans	1	2,000	367	18.4	—	—	—	—
Total securitizations — sales	1	2,000	$ 367	18.4%	3	8,006	$ 30	.4%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)	2	7,004			—	—		
FFELP Consolidation Loans(1)	1	4,002			—	—		
Total securitizations — financings	3	11,006			—	—		
Total securitizations	4	$ 13,006			3	$ 8,006		

(1) Certain securitizations are structured to not qualify for sale treatment and accordingly, they are accounted for on-balance sheet as variable interest entities ("VIEs"). Terms that prevent sale treatment include: (1) allowing us 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 us to hold an unconditional call option related to a certain percentage of the securitized assets.

Our Private Education Loan gain on sale percentages are significantly higher than our FFELP gain on sale percentages primarily for two reasons: (1) significantly higher excess spread earned by the Residual Interest holder which is primarily due to the higher spreads to index the Company earns on the underlying Private Education Loans compared to FFELP loans (see "LENDING BUSINESS SEGMENT — 'Core Earnings' Basis Student Loan Spreads by Loan Type" for further discussion regarding average student loan spreads by loan type) and (2) the weighted average life of the Private Education Loan securitizations are longer. The weighted average life for the first quarter of 2007 Private Education Loan securitization was 9.4 years. The Constant Prepayment Rate ("CPR") assumption we use to determine the fair value of the Residual Interest impacts the weighted average life of the securitization. See the Company's 2006 Form 10-K, Note 9 to the consolidated financial statements, "Student Loan Securitization," for a sensitivity analysis of the significant assumptions used to determine the fair value of the Residual Interest.

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of March 31, 2007 and December 31, 2006.

	As of March 31, 2007			
	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 637	$ 671	$ 2,336	$ 3,644
Underlying securitized loan balance(3)	13,058	17,268	14,807	45,133
Weighted average life	2.8 yrs.	7.2 yrs.	7.4 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan — repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.07%	.06%	4.39%	
Residual cash flows discount rate	12.4%	10.5%	12.5%	

	As of December 31, 2006			
	FFELP Stafford and PLUS	Consolidation Loan Trusts(1)	Private Education Loan Trusts	Total
Fair value of Residual Interests(2)	$ 701	$ 676	$ 1,965	$ 3,342
Underlying securitized loan balance(3)	14,794	17,817	13,222	45,833
Weighted average life	2.9 yrs.	7.3 yrs.	7.2 yrs.	
Prepayment speed (annual rate)(4)				
Interim status	0%	N/A	0%	
Repayment status	0-43%	3-9%	4-7%	
Life of loan — repayment status	24%	6%	6%	
Expected credit losses (% of student loan principal)	.06%	.07%	4.36%	
Residual cash flows discount rate	12.6%	10.5%	12.6%	

(1) Includes $147 million and $151 million related to the fair value of the Embedded Floor Income as of March 31, 2007 and December 31, 2006, 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) At March 31, 2007 and December 31, 2006, we had unrealized gains (pre-tax) in accumulated other comprehensive income of $332 million and $389 million, respectively, that related to the Retained Interests.

(3) In addition to student loans in off-balance sheet trusts, we had $58.2 billion and $48.6 billion of securitized student loans outstanding (face amount) as of March 31, 2007 and December 31, 2006, respectively, in on-balance sheet securitization trusts.

(4) Effective December 31, 2006, the Company implemented 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. Previously, we applied a CPR that was based on a static life of loan assumption, and, in the case of FFELP Stafford and PLUS loans, we applied a vector approach, irrespective of 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.

During 2006, we, along with others in the industry, began consolidating Private Education Loans. This will increase the prepayment speeds in Private Education Loan trusts, and as a result, the Company increased its CPR assumption related to Private Education Loan trusts from 4 percent to 6 percent as of December 31, 2006.

Off-Balance Sheet Net Assets

The following table summarizes our off-balance sheet net assets at March 31, 2007 and December 31, 2006 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. This presentation is not, nor is it intended to be, a liquidation basis of accounting. (See also “LENDING BUSINESS SEGMENT — Summary of our Managed Loan Portfolio — *Ending Balances (net of allowance for loan losses)*” and “LIQUIDITY AND CAPITAL RESOURCES — Managed Borrowings — *Ending Balances*,” earlier in this section.)

	March 31, 2007	December 31, 2006
Off-Balance Sheet Assets:		
Total student loans, net	$ 45,380	$ 46,172
Restricted cash and investments	4,197	4,269
Accrued interest receivable	1,553	1,467
Total off-balance sheet assets	51,130	51,908
Off-Balance Sheet Liabilities:		
Debt, par value	49,372	50,058
Debt, unamortized discount and deferred issuance costs	(127)	(193)
Total debt	49,245	49,865
Accrued interest payable	372	405
Total off-balance sheet liabilities	49,617	50,270
Off-Balance Sheet Net Assets	$ 1,513	$ 1,638

Liquidity Risk and Funding — Long-Term

Since the announcement of the Merger (see “SUBSEQUENT EVENT”), the asset-backed capital markets have been the only source of cost effective financing and as a result we have significant long-term funding, credit spread and liquidity exposure to those markets. A major disruption in the fixed income asset-backed capital markets that limits our ability to raise funds or significantly increases the cost of those funds could have a material impact on our ability to acquire student loans, or on our results of operations. Additionally, if the Merger is not consummated, we can not predict the result on our ability to access the fixed income capital markets. Securitizations are, and will continue to be, the primary source of long-term financing and liquidity. Our securitizations are structured such that we are not obligated to provide any material level of financial, credit or liquidity support to any of the trusts, thus limiting our exposure to the recovery of the Retained Interest asset on the balance sheet for off-balance sheet securitizations or to the loss of the earnings spread for loans securitized on-balance sheet. While all of our Retained Interests are subject to some prepayment risk, Retained Interests from our FFELP Stafford securitizations have significant prepayment risk primarily arising from borrowers opting to consolidate their Stafford/PLUS loans. When consolidation activity is higher than projected, the increase in prepayment could materially impair the value of our Retained Interest. However, this negative effect on our Retained Interest is somewhat offset by the loans that consolidate back on our balance sheet, which we view as trading one interest bearing asset for another, whereas loans that consolidate with third parties represent a complete loss of future economics to the Company. We discuss our short-term liquidity risk, including a table of our sources of liquidity at the beginning of this “LIQUIDITY AND CAPITAL RESOURCES” section.

Servicing and Securitization Revenue

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

The following table summarizes the components of servicing and securitization revenue for the three months ended March 31, 2007 and 2006.

	Three Months Ended March 31,	
	2007	2006
Servicing revenue	$ 77	$ 79
Securitization revenue, before Embedded Floor Income and impairment	106	69
Servicing and securitization revenue, before Embedded Floor Income and impairment	183	148
Embedded Floor Income	2	7
Less: Floor Income previously recognized in gain calculation	(1)	(4)
Net Embedded Floor Income	1	3
Servicing and securitization revenue, before impairment and unrealized fair value adjustment	184	151
Unrealized fair value adjustment(1)	79	—
Retained Interest impairment	(11)	(52)
Total servicing and securitization revenue	$ 252	$ 99
Average off-balance sheet student loans	$ 44,663	$ 42,069
Average balance of Retained Interest	$ 3,442	$ 2,501
Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans (annualized)	2.29%	.95%

(1) The Company adopted SFAS No. 155 on January 1, 2007. SFAS No. 155 requires the Company to identify and bifurcate embedded derivatives from the Residual Interest. However, SFAS No. 155 does allow the Company to elect to carry the entire Residual Interest at fair value through earnings rather than bifurcate such embedded derivatives. For the Private Education Loan securitization which settled in the first quarter of 2007, the Company elected to carry the entire Residual Interest recorded in the quarter ended March 31, 2007 at fair value through earnings. As a result of this election, all changes in the fair value of that Residual Interest will be recorded through earnings. Management anticipates electing to carry future Residual Interests at fair value through earnings. For securitizations settling prior to January 1, 2007, changes in the fair value of Residual Interests were recorded in other comprehensive income.

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 on off-balance sheet student loans, Retained Interest impairments, 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 SFAS No. 155 as discussed in the above table.

Servicing and securitization revenue can be negatively impacted by impairments of the value of our Retained Interest, caused primarily by the effect of higher than expected consolidation activity on FFELP Stafford/PLUS student loan securitizations and the effect of market interest rates on the Embedded Floor Income included in the Retained Interest. The majority of the consolidations bring the loans back on-balance sheet, so for those loans, we retain the value of the asset on-balance sheet versus in the trust. For the three months ended March 31, 2007 and 2006, we recorded impairments to the Retained Interests of $11 million and $52 million, respectively. The impairment charges were primarily the result of FFELP loans prepaying faster than projected through loan consolidations ($11 million and $24 million for the three months ended March 31, 2007 and 2006, respectively). The impairment for the three months ended March 31, 2006 also

related to the Floor Income component of the Company's Retained Interest due to increases in interest rates during the period ($28 million). The unrealized fair value adjustment recorded relates to the difference between recording the Residual Interest at its allocated cost basis as part of the gain on sale calculation and the Residual Interest's fair value.

Interest Rate Risk Management

Asset and Liability Funding Gap

The tables below present our assets and liabilities (funding) arranged by underlying indices as of March 31, 2007. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective SFAS No. 133 hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the "gains/(losses) on derivatives and hedging activities, net" line on the income statement). 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 SFAS No. 133 or not. Accordingly, we are also presenting the asset and liability funding gap on a Managed basis in the table that follows the GAAP presentation.

GAAP Basis

Index (Dollars in billions)	Frequency of Variable Resets	Assets	Funding(1)	Funding Gap
3 month Commercial paper	daily	$ 84.0	$ —	$ 84.0
3 month Treasury bill	weekly	7.9	.3	7.6
Prime	annual	.6	—	.6
Prime	quarterly	1.3	—	1.3
Prime	monthly	8.2	—	8.2
PLUS Index	annual	1.9	.3	1.6
3-month LIBOR	daily	—	—	—
3-month LIBOR	quarterly	1.5	98.8	(97.3)
1-month LIBOR	monthly	.1	3.0	(2.9)
CMT/CPI index	monthly/quarterly	—	4.3	(4.3)
Non Discrete reset(2)	monthly	—	7.0	(7.0)
Non Discrete reset(3)	daily/weekly	8.2	.3	7.9
Fixed Rate(4)		13.2	12.9	.3
Total		$ 126.9	$ 126.9	$ —

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

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

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

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

The funding gaps in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that primarily convert quarterly 3-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges under SFAS No. 133 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	daily	$ 108.4	$ 12.2	$ 96.2
3 month Treasury bill	weekly	13.3	12.2	1.1
Prime	annual	1.1	—	1.1
Prime	quarterly	7.2	5.5	1.7
Prime	monthly	15.9	14.8	1.1
PLUS Index	annual	3.2	5.2	(2.0)
3-month LIBOR	daily	—	92.0	(92.0)
3-month LIBOR	quarterly	1.4	9.5	(8.1)
1-month LIBOR	monthly	.1	2.0	(1.9)
Non Discrete reset(2)	monthly	—	9.3	(9.3)
Non Discrete reset(3)	daily/weekly	12.4	.3	12.1
Fixed Rate(4)		10.3	10.3	—
Total		$ 173.3	$ 173.3	$ —

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

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

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

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

To the extent possible, we generally fund our assets with debt (in combination with derivatives) that has the same underlying index (index type and index reset frequency). When it is more economical, we also fund our assets with debt that has a different index and/or reset frequency than the asset, but only in instances where we believe there is a high degree of correlation between the interest rate movement of the two indices. For example, we use daily reset 3-month LIBOR to fund a large portion of our daily reset 3-month commercial paper indexed assets. In addition, we use quarterly reset 3-month LIBOR to fund a portion of our quarterly reset Prime rate indexed Private Education Loans. We also use our monthly Non Discrete reset funding (asset-backed commercial paper program and auction rate securities) 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. We believe that this risk is low as all of these indices are short-term with rate movements that are highly correlated over a long period of time. We use interest rate swaps and other derivatives to achieve our risk management objectives.

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

Weighted Average Life

The following table reflects the weighted average life for our Managed earning assets and liabilities at March 31, 2007.

(Averages in Years)	On-Balance Sheet	Off-Balance Sheet	Managed
Earning assets			
Student loans	9.6	5.9	9.5
Other loans	5.5	—	5.5
Cash and investments	.5	.1	.3
Total earning assets	8.8	5.4	8.7
Borrowings			
Short-term borrowings	.5	—	.5
Long-term borrowings	6.6	5.9	6.4
Total borrowings	6.4	5.9	6.3

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.

COMMON STOCK

The following table summarizes our common share repurchases, issuances and equity forward activity for the three months ended March 31, 2007 and 2006.

(Shares in millions)	Three Months Ended March 31, 2007	2006
Common shares repurchased:		
Equity forwards	—	2.5
Benefit plans(1)	.2	.8
Total shares repurchased	.2	3.3
Average purchase price per share	$ 45.87	$ 55.13
Common shares issued	1.5	2.9
Equity forward contracts:		
Outstanding at beginning of period	48.2	42.7
New contracts	—	2.5
Exercises	—	(2.5)
Outstanding at end of period	48.2	42.7
Authority remaining at end of period to repurchase or enter into equity forwards	15.7	16.2

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

As of March 31, 2007, the expiration dates and range and weighted average purchase prices for outstanding equity forward contracts were as follows:

Year of Maturity (Contracts in millions of shares)	Outstanding Contracts	Range of Purchase Prices	Weighted Average Purchase Price
2008	7.3	$43.50 - $44.00	$ 43.80
2009	14.7	46.00 - 54.74	53.66
2010	15.0	54.74	54.74
2011	9.1	49.75 - 53.76	51.91
2012	2.1	46.30 - 46.70	46.40
	48.2		$ 51.86

The closing price of the Company's common stock on March 30, 2007 was $40.90. Should the market value of our stock fall below certain initial trigger prices, the counterparty to the contract has a right to terminate the contract and settle all or a portion at the original contract price. For equity forward contracts outstanding at March 31, 2007, these initial trigger prices range from $23.93 per share to $30.11 per share.

In February 2007, the Company made payments to certain counterparties to lower the notional amounts on some of its outstanding equity forward contracts. Also in February 2007, the Company agreed with a counterparty to amend the trigger prices on its outstanding equity forward contracts. In total, the Company amended the terms of the contracts covering 18.5 million shares. As a result of these transactions, the Company's aggregate position on equity forward contracts is 48.2 million shares at an average strike price of $51.86. The highest trigger price on all outstanding equity forward contracts is now $30.11, down from $35.58 before the amendments.

SUBSEQUENT EVENT

On April 16, 2007, the Company announced that an investor group (the "Investor Group") led by J.C. Flowers & Co. ("J.C. Flowers") signed a definitive agreement to acquire the Company for approximately $25.2 billion or $60.00 per share of common stock. When the transaction is complete, J.C. Flowers and certain other private equity investors, including Friedman Fleischer & Lowe; will invest approximately $4.4 billion and own 50.2 percent, and Bank of America (NYSE: BAC) and JPMorgan Chase (NYSE: JPM) each will invest approximately $2.2 billion and each will own 24.9 percent. The Company's independent board members unanimously approved the agreement and recommended that its shareholders approve the agreement. (See also the "Merger Agreement" filed with the SEC on the Company's Current Report on Form 8-K, dated April 18, 2007.)

The Investor Group has stated that it is committed to supporting the Company's focus on transparency among lenders, schools and students and on corporate responsibility. The Company will be subject to oversight by Congress and ED, and will continue to be subject to all applicable federal and state laws, including the Higher Education Act.

The transaction will require the approval of the Company's stockholders, is subject to required regulatory approval and other closing conditions, and, under very limited circumstances, may be terminated by the Investor Group. The transaction is expected to close in late 2007. The consummation of the transaction is subject to regulatory review and the expiration of the waiting periods under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Company will not pay further dividends on its common stock prior to consummation of the proposed transaction.

In connection with negotiations to purchase the Company, the Company's preliminary financial results for the first quarter of 2007 were shared with representatives of the Investor Group.

Financing Considerations Related to the Transaction

Following the closing, the Company will continue to have publicly traded debt securities and as a result will continue comprehensive financial reporting about its business, financial condition and results of operations. Bank of America and JPMorgan Chase are committed to provide debt financing for the transaction and to provide additional liquidity to the Company prior to and after the closing date, subject to customary terms and conditions.

A portion of the Company's existing unsecured debt will remain outstanding, and such outstanding debt will not be equally and ratably secured with the new acquisition-related debt. The acquisition financing will be structured with the intent to accommodate the repayment of any outstanding debt as it matures. The Company expects this transaction to have no material impact on its outstanding asset-backed debt and to remain an active participant in the asset-backed securities market.

On April 16, 2007, after the Company announced the transaction, Moody's Investor Services, Standard & Poor's and Fitch Ratings placed the long and short-term ratings on the Company's senior unsecured debt under review for possible downgrade. In addition, following the announcement, secondary market credit spreads on the Company's outstanding senior unsecured bonds widened significantly, limiting access to new sources of senior unsecured funds at borrowing costs comparable to those available before the announcement.

On April 30, 2007, Bank of America and JPMorgan Chase provided the Company with a new, $30 billion asset-backed commercial paper conduit facility. This additional liquidity, combined with the Company's existing liquidity, is anticipated to be sufficient to meet the Company's cash needs beyond the expected closing date of the announced transaction, even if no additional securities are issued by the Company during that time. However, the Company does expect to resume issuance of the Company's traditional asset-backed securities within the next few months.

Accounting Considerations Related to the Transaction

Upon closing, the transaction will be accounted for under purchase accounting, which will be pushed down to the Company. Under purchase accounting, the total cost of the acquisition will be allocated to the Company's identifiable assets and liabilities based on their respective fair values. Thus, all the assets and liabilities will have a new basis of accounting and therefore previous unamortized premiums, discounts and reserves related to those assets and liabilities will be written-off once the transaction closes. The excess of the purchase price over the estimated fair value of the identifiable assets and liabilities will be recognized as goodwill. Since the Company is the acquired enterprise, expenses incurred in connection with the transaction will be expensed. Transaction fees that are contingent upon the closing will be recognized when the transaction closes. Transaction fees that are not contingent on the closing will be expensed as incurred. Vesting accelerates on all stock-based compensation awards, and as a result, all deferred compensation related to those awards will be expensed upon closing of the transaction.

At March 31, 2007, the Company had approximately $2 billion Contingently Convertible Debentures ("Co-Cos") outstanding. The Co-Cos are eligible to be called at par on or after July 25, 2007, under certain circumstances. At March 31, 2007, the Company classified its $2 billion outstanding Co-Cos as a long-term obligation because as of that date, the Company believed that a successful remarketing of the Co-Cos in July 2007 was probable. Upon announcement of the transaction on April 16, 2007, the Company deemed that a successful remarketing of the bonds in July 2007 was no longer probable. The Company expects to classify the Co-Cos as a short-term obligation at June 30, 2007 if at that time the Company believes that a successful remarketing of the bonds will not occur in July 2007, as the investors will have the option to put the bonds back to the Company at such time. Additionally, in the definitive agreement to acquire the Company signed on April 16, 2007, the Company agreed to redeem the Co-Cos on July 25, 2007 after receiving written notice from the Investor Group upon certain conditions.

RECENT DEVELOPMENTS

We are withdrawing our 2007 guidance as a result of our execution of the definitive agreement providing for the sale of the Company and described under "SUBSEQUENT EVENT" above, including the uncertain impact on future 2007 quarters, of the transactions contemplated by this agreement.

State Attorney General Investigations

On April 11, 2007, the Company entered into a settlement agreement with the Office of the Attorney General of the State of New York under which we agreed to adopt the New York Attorney General's Code of Conduct governing student lending and donate $2 million to a national fund devoted to educating college bound students about their loan options. Under the agreement, the Company did not admit, and expressly denied, that our conduct constituted any violation of law. The Code of Conduct, among other things, precludes the Company from providing anything more than nominal value to any employees of an institution of higher education and requires additional disclosures to borrowers and schools under certain circumstances. We cannot predict the effect that adopting the Code of Conduct will have on our future business prospects. Under the settlement agreement, we are required to certify implementation of its terms by August 15, 2007.

New York State SLATE Act

On May 7, 2007, the New York State legislature passed the Student Lending Accountability, Transparency and Enforcement Act, which seeks to codify the Code of Conduct that we agreed to adopt as part of the settlement agreement with the New York Attorney General described above. The new legislation would prohibit lenders from making gifts to universities or their employees in exchange for any advantage or consideration related to the lenders' education loan activities. The legislation also prohibits revenue sharing arrangements between lenders and schools and establishes standards for schools using preferred lender lists.

Separate from the settlement agreement with the Office of the Attorney General of the State of New York, the attorneys general of the States of Arizona, California, Missouri, New Jersey and Ohio and the Commonwealth of Massachusetts have served civil investigative demands or requests for documents on the Company seeking information concerning our relationships with schools.

NYSE, SEC, House and Senate

NYSE Regulation, Inc. and the Philadelphia office of the SEC both have notified the Company that they are conducting an inquiry into the trading of SLM stock and securities relating to the Company's announcement on April 16, 2007 that an investor group led by J.C. Flowers & Co. had signed a definitive agreement to purchase the Company. We are cooperating with NYSE Regulation, Inc. and the SEC in order to provide the requested information and documents.

The SEC is conducting an investigation into trading of SLM stock prior to the public release of the President's budget on February 5, 2007. We are cooperating with the SEC and have provided the requested information and documents. Before the SEC investigation commenced, U.S. Senator Edward Kennedy, chairman of the Senate Committee on Health, Education, Labor and Pensions, and U.S. Representatives George Miller and Barney Frank, chairmen of the House of Representatives Committee on Education and Labor and Committee on Financial Services, respectively, separately submitted requests for information regarding certain SLM stock sales by SLM's Chairman of the Board of Directors Albert L. Lord. We have cooperated with the Senate and House Committee counsel to provide the requested information.

The U.S. House of Representatives' Committee on Education and Labor submitted a request to the Company dated March 28, 2007 seeking information regarding our marketing practices in the student loan business. We are cooperating with committee counsel in order to provide the requested information.

The U.S. Senate Committee on Health, Education, Labor and Pensions submitted requests to the Company seeking information regarding our marketing practices in the student loan business and our collections practices on delinquent and defaulted FFELP student loans. We are cooperating with committee counsel in order to provide the requested information.

Concurrent Resolution on the Budget for 2008

On March 29, 2007, the House of Representatives passed H.Con.Res. 99, its plan for the Fiscal 2008 budget. The House-passed budget resolution included a single reconciliation instruction to the House Education and Labor Committee which would require it to report legislation that would cut entitlement spending in its jurisdiction by $75 million. Although the savings amount is minimal, it was widely reported that the language was included to facilitate passage of student loan reform legislation

Senator Kennedy Proposal for Title IV Programs

It has been widely reported that Senator Kennedy, Chairman of the Health, Education, Labor, and Pensions ("HELP") Committee has circulated his draft proposals for Title IV programs, including student loan programs and Pell Grants. The proposal, which has reportedly been provided to members of the HELP Committee, proposes to make several reductions in the student loan program: (1) reduce Special Allowance Payments on new loans by 0.60 percentage points; (2) reduce federal insurance on new loans to 85 percent and eliminate Exceptional Performer; (3) increase lender origination fee to 1 percent; (4) reduce guaranty agency collection fee to 16 percent; and (5) base the calculation of the guaranty agency account maintenance fee on number of borrowers rather than loan level.

The proposal would also change the delivery of PLUS loans to two different auction models: (1) a loan sale model, where the FDLP would originate the PLUS loans and then auction the loans when they entered repayment; and (2) a loan originations rights auction where the Department of Education would auction off the right to originate loans for each school that participated in the auction. The auction would be based on Special Allowance Payment rates.

The proposal would use the savings to pay for (1) a phased in increase in Pell Grants to $5,400 by fiscal 2010; (2) increase eligibility of families for maximum assistance; (3) phase in a reduction in the Stafford interest rate to 5.8 percent over five years; (4) introduce new type of income-contingent repayment plan, which would include FFELP borrowers; and (5) expand loan forgiveness in the FDLP.

Student Loan Accountability and Disclosure Reform Act

On May 2, 2007, Senator Michael Enzi, ranking Republican on the Senate Health, Education, Labor, and Pensions Committee, introduced S. 1262, the "Student Loan Accountability and Disclosure Reform Act." The proposed legislation would regulate gifts, travel, entertainment, and services provided to institutions of higher education by guarantors and lenders. The legislation would add additional disclosure requirements on lenders and would prohibit schools from designating preferred lender lists. Schools could keep standard lists of lenders but would be required to include any lender on the list that requested inclusion. Disclosure and prohibitions would apply to direct loan schools as well as FFELP schools. The legislation would eliminate school-as-lenders after June 30, 2008.

Student Loan Sunshine Act

On Wednesday, May 9, 2007, the House of Representatives passed H.R. 890, a bipartisan version of the "Student Loan Sunshine Act." The vote in the House was 414 to 3. The bill would establish greater disclosure requirements on schools and lenders for both FFELP loans and Private Education Loans. The legislation would require higher education institutions to establish "codes of conduct" that would include prohibition on many areas that have been cited as creating conflicts of interest. Areas specified by the legislation include gifts, consulting or other fees paid by lenders to financial aid officers and other school officials, fees or other material benefits, including profit or revenue sharing to institutions or their staff, staffing assistance, opportunity loans, and advisory councils. The legislation would require that schools include at least three unaffiliated lenders on any Preferred Lender List and disclose the rationale for recommending such lenders.

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See Note 1 to the consolidated financial statements, "Significant Accounting Policies — *Recently Issued Accounting Pronouncements*."

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Analysis

The effect of short-term movements in interest rates on our results of operations and financial position has been limited through our interest rate risk management. The following tables summarize the effect on earnings for the three months ended March 31, 2007 and 2006 and the effect on fair values at March 31, 2007 and December 31, 2006, 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. This analysis does not consider any potential impairment to our Residual Interests that may result from a higher discount rate that would be used to compute the present value of the cash flows if long-term interest rates increased. See the Company's 2006 Form 10-K, Footnote 9 to the consolidated financial statements, "Student Loan Securitization," which details the potential decrease to fair value that could occur.

	Three Months Ended March 31,							
	2007				2006			
	Interest Rates:				Interest Rates:			
	Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points		Change from Increase of 100 Basis Points		Change from Increase of 300 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	$ 3	—%	$ 4	1%	$ (4)	(1)%	$ (14)	(4)%
Unrealized gains (losses) on derivative and hedging activities	133	40	200	60	144	368	228	582
Increase in net income before taxes	$ 136	32%	$ 204	48%	$ 140	48%	$ 214	74%
Increase in diluted earnings per common share	$ .214	82%	$ .333	128%	$ .220	65%	$ .345	101%

(Dollars in millions)	At March 31, 2007				
		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 student loans	$ 96,437	$ (186)	—%	$ (315)	—%
Private Education Loans	12,675	—	—	—	—
Other earning assets	11,220	(33)	—	(96)	(1)
Other assets	11,110	(456)	(4)	(756)	(7)
Total assets	$ 131,442	$ (675)	(1)%	$ (1,167)	(1)%
Liabilities					
Interest bearing liabilities	$ 118,584	$ (1,362)	(1)%	$ (3,433)	(3)%
Other liabilities	3,991	803	20	2,464	62
Total liabilities	$ 122,575	$ (559)	—%	$ (969)	(1)%

(Dollars in millions)	At December 31, 2006				
		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 student loans	$ 87,797	$ (182)	—%	$ (313)	—%
Private Education Loans	12,063	—	—	—	—
Other earning assets	9,950	(38)	—	(109)	(1)
Other assets	10,299	(436)	(4)	(750)	(7)
Total assets	$ 120,109	$ (656)	(1)%	$ (1,172)	(1)%
Liabilities					
Interest bearing liabilities	$ 108,142	$ (1,427)	(1)%	$ (3,610)	(3)%
Other liabilities	3,680	877	24	2,613	71
Total liabilities	$ 111,822	$ (550)	—%	$ (997)	(1)%

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, we can have a fixed versus floating mismatch in funding if the student loan earns Floor Income at the fixed borrower rate and the funding remains floating.

During the three months ended March 31, 2007 and 2006, certain FFELP student loans were earning Floor Income and we locked in a portion of that Floor Income through the use of futures and Floor Income Contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the above table, under the scenario where interest rates increase 100 and 300 basis points, the changes in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to the impact of (i) our off-balance sheet hedged FFELP Consolidation Loan securitizations and the related Embedded Floor Income recognized as part of the gain on sale, which results in a decrease in payments on the written Floor contracts that more than offset impairment losses on the Embedded Floor Income in the Residual Interest; (ii) variable rate assets being funded with fixed rate debt and (iii) fixed rate assets being funded with variable debt. The first two items will generally cause income to increase when interest rates increase, whereas, the third item will generally offset this increase. In the 100 and 300 basis point scenarios for the three months ended March 31, 2007, items (i) and (ii) resulted in a gain. In the prior year period, item (iii) had a bigger impact than item (i) resulting in a net loss for both the 100 and 300 basis point scenarios.

In addition to interest rate risk addressed in the preceding tables, the Company is also exposed to risks related to foreign currency exchange rates and the equity price of its own stock. Foreign currency exchange risk is primarily the result of foreign 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 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 addition, the Company has foreign exchange risk as a result of international operations; however, the exposure is minimal at this time.

Equity price risk of the Company's own stock is due to equity forward contracts used in the Company's share repurchase program. A hypothetical decrease in the Company's stock price per share of $5.00 and $10.00 would result in a $241 million and $482 million unrealized loss on derivative and hedging, respectively. In addition to the net income impact, other liabilities would increase by the aforementioned amounts. Stock price decreases can also result in the counterparty exercising its right to demand early settlement on a portion of or the total contract depending on trigger prices set in each contract. The initial trigger prices as of March 31, 2007 range from approximately $23.93 to $30.11. At March 30, 2007, the closing price of the Company's stock was $40.90. With the $5.00 and $10.00 decrease in unit stock price above, none of these triggers would be met and no counterparty would have the right to early settlement.

Item 4. 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 March 31, 2007. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer, concluded that, as of March 31, 2007, 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 March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 14, 2007, the Company was served with a putative class action suit by several borrowers in federal court in California. The complaint alleges violations of California Business & Professions Code 17200, breach of contract, breach of covenant of good faith and fair dealing, violation of consumer legal remedies act and unjust enrichment. The complaint challenges the Company's FFELP billing practices as they relate to use of the simple daily interest method for calculating interest. The Company believes the complaint is without merit and it intends to vigorously defend this action.

On January 25, 2007, the Attorney General of Illinois filed a lawsuit against one of the Company's subsidiaries, Arrow Financial Services, LLC ("AFS"), in the Circuit Court of Cook County, Illinois alleging that AFS violated the Illinois Consumer Fraud and Deceptive Practices Act and the federal Fair Debt Collections Practices Act. The lawsuit seeks to enjoin AFS from violating the Illinois Consumer Fraud and Deceptive Practices Act and from engaging in debt management and collection services in or from the State of Illinois. The lawsuit also seeks to rescind certain agreements to pay back debt between AFS and Illinois consumers, to pay restitution to all consumers who have been harmed by AFS's alleged unlawful practices, to impose a statutory civil penalty of $50,000 and to impose a civil penalty of $50,000 per violation ($60,000 per violation if the consumer is 65 years of age or older). The lawsuit alleges that as of January 25, 2007, 660 complaints against Arrow Financial have been filed with the Office of the Illinois Attorney General since 1999 and over 800 complaints have been filed with the Better Business Bureau. As of December 29, 2006, the Company owns 88 percent of the membership interests in AFS Holdings, LLC, the parent company of AFS. Management cannot predict the outcome of this lawsuit or its effect on the Company's financial position or results of operations.

We are also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of our reports to credit bureaus. In addition, the collections subsidiaries in our debt management operations group 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 account. Management believes that these claims, lawsuits and other actions 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 concerning certain of our business practices. Our practice has been and continues to be to cooperate with the state attorneys general and to be responsive to any such requests.

Item 1A. Risk Factors

If the acquisition of the Company is not closed, our access to the credit markets and our liquidity could be materially adversely affected.

On April 16, 2007, the Company announced that an Investor Group led by J.C. Flowers & Co. signed a definitive agreement to acquire the Company for approximately $25.2 billion or $60.00 per share of common stock. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS — SUBSEQUENT EVENT" in this Form 10-Q. Following the Company's announcement, Moody's Investor Services, Standard & Poor's and Fitch Ratings placed the long and short-term ratings on our senior unsecured debt under review for possible downgrade. In addition, following the announcement, secondary market credit spreads on our outstanding senior unsecured bonds widened significantly. The transaction is subject to regulatory approvals and other closing conditions, and, under very limited circumstances, may be terminated by the Investor Group. While we expect to close the transaction in late 2007, if the transaction is terminated or otherwise does not close, our access to the credit markets and our liquidity could be materially adversely affected and new issuance of unsecured debt could be subject to much wider spreads and more restrictive terms than we have historically experienced. In addition, depending upon the circumstances under which the transaction is terminated, we will only have access to the interim

asset-backed financing facilities for a limited period. Moreover, the price of our stock could be materially adversely affected. In such circumstances, if the stock price were to fall below $30.11, we may be required to settle our equity forward contracts in a manner that could have a materially dilutive effect on our common stock, as more fully described within the Company's 2006 Annual Report on Form 10-K at "Item 1A. Risk Factors — LIQUIDITY AND CAPITAL RESOURCES."

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes the Company's common share repurchases during the first quarter of 2007 pursuant to the stock repurchase program (see Note 6, "Stockholders' Equity," to the consolidated financial statements) first authorized in September 1997 by the Board of Directors. Since the inception of the program, which has no expiration date, the Board of Directors has authorized the purchase of up to 317.5 million shares as of March 31, 2007.

(Common shares in millions)	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs(2)
Period:				
January 1 — January 31, 2007	.1	$ 47.41	—	15.7
February 1 — February 28, 2007	.1	42.85	—	15.7
March 1 — March 31, 2007	—	—	—	15.7
Total first quarter	.2	$ 45.87	—	

(1) The total number of shares purchased includes: i) shares purchased under the stock repurchase program discussed above, and ii) shares purchased in connection with the exercise of stock options and vesting of performance stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs (which combined totaled .2 million shares for the first quarter of 2007).

(2) Reduced by outstanding equity forward contracts.

Item 3. Defaults upon Senior Securities

Nothing to report.

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

Nothing to report.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits

The following exhibits are furnished or filed, as applicable:

3.2	By-Laws of SLM Corporation
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements 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.

SLM CORPORATION
(Registrant)

By: /s/ C.E. ANDREWS

C.E. Andrews
Executive Vice President and
Chief Financial Officer
(Principal Accounting Officer and
Duly Authorized Officer)

Date: May 10, 2007

Exhibit 3.2

Effective May 17, 2007

BY-LAWS
OF
SLM CORPORATION
(HEREINAFTER CALLED THE "CORPORATION")

ARTICLE I — OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Offices. The principal office of the Corporation shall be located in the city and jurisdiction as the Board of Directors may, from time to time, determine. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

ARTICLE II — MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place within the continental United States, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors or, in the case of a special meeting called pursuant to Section 3 of this Article at the request in writing of the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors, as shall be designated by such stockholders or their representative, and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting. Notice of the annual meeting, stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings of stockholders, for any purpose or purposes, shall be called by the Secretary (i) at the direction of either (x) the Chairman or (y) the Chief Executive Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the request in writing of either (x) a majority of the Board of Directors or (y) the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors. Any such request shall state the purpose or purposes of the proposed meeting. Notice

of a special meeting, stating the place, date and hour of the meeting and purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Certificate of Incorporation, at all meetings of the stockholders, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-Laws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder, provided, however, that at all elections of directors of the Corporation, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast as many votes, in person or by proxy, which (except for this provision) such holder would be entitled to cast for the election of directors with respect to its shares of stock multiplied by the number of directors to be elected at such election, and that such holder may cast all such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such holder sees fit. Such votes may be cast in person or by proxy, but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the principal office of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 8. Meeting Business. No business shall be brought before any meeting of stockholders unless it has been properly brought before the meeting in accordance with the procedures set forth in these By-Laws; provided, however, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before such meeting.

To be properly brought before an annual meeting, such business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise brought before the annual meeting by any stockholder of the Corporation who is a stockholder of record on the date of the giving of the notice provided for in Section 2 of this Article and on the record date for the determination of stockholders entitled to vote at the such annual meeting. To be properly brought before an annual meeting, such business also must be a proper subject for action by stockholders, provided that the law of Delaware shall govern whether such business is a proper subject for action by stockholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a stockholder’s notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a stockholder’s notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a stockholder’s notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address such stockholder, (c) the number of shares of the Corporation which are owned (beneficially or of record) by such stockholder, (d) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, and (e) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of the reports of officers and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless brought before the meeting in accordance with the procedures set forth in this Section.

The business conducted at any special meeting of stockholders shall be limited to the purposes stated in the notice of such special meeting.

The Chairman shall determine the order of business and the procedure at any stockholder meeting, including such regulation of the manner of voting and the conduct of discussion as seem to the Chairman in order and not inconsistent with these By-Laws. If the Chairman determines that business was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such business shall not be conducted.

Section 9. Board Nominations. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors at any annual meeting of stockholders. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any stockholder of the Corporation who is a stockholder of record on the date of the giving of the notice provided for in Section 2 of this Article II and on the record date for the determination of stockholders entitled to vote at such annual meeting.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a stockholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom such stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person and the purported basis for such person's eligibility to serve on the Board of Directors, if elected, (iii) the number of shares of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required by law to be disclosed in a proxy statement or in other filings required to be made in connection with solicitations of proxies for election of directors, including information required pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the number of shares of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required by law to be disclosed in a proxy statement or in other filings required to be made in connection with solicitations of proxies for election of

directors, including information required pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

If the Chairman determines that a nomination was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such defective nomination shall be disregarded.

ARTICLE III — DIRECTORS

Section 1. Number of Directors. Subject to the provisions of the Corporation's Certificate of Incorporation, the number of directors of the Corporation shall be fixed from time to time by a majority vote of the directors then in office.

Section 2. Election of Directors. Except as provided in Section 3 of this Article, each director shall be elected by the majority of the votes cast with respect to the nominee at any meeting of the election of directors at which a quorum is present, provided that if as of the record date for a meeting at which directors are to be elected the number of nominees exceeds the number of directors to be elected, the directors shall be elected by the vote of a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. For purposes of this Section, a majority of the votes cast means that the number of shares voted "for" a director must exceed the number of votes cast "against" that director, without regard to abstentions or votes cumulated for another nominee. For elections at which the majority vote standard applies, the Nominations and Governance Committee will establish procedures under which any currently serving director shall offer to tender his or her resignation which resignation shall be effective only if: 1) he or she is not re-elected, and 2) the resignation is accepted by the Board. The Nominations and Governance Committee will make a recommendation to the Board on whether to accept or reject any such resignation, or whether other action should be taken with respect to any such director who is not re-elected. The Board will act on the Committee's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date of the certification of the election results. Any director may resign at any time upon notice to the Corporation. Such resignation shall take effect at the time specified therein or, if the time be not specified, upon the receipt thereof and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Directors need not be stockholders of the Corporation.

Section 3. Vacancies. Any vacancy on the Board of Directors resulting from an increase in the number of directors or otherwise, may be filled by a majority vote of the directors then in office, even if the directors in office constitute fewer than a quorum.

Section 4. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 5. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors shall be called by the Secretary (i) at the direction of (x) the Chairman or (y) the Chief Executive Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the written request of a majority of the entire Board of Directors. Notice of a meeting of the Board of Directors, stating the place, date and hour of the meeting, shall be given to each director either by mail not less than forty-eight (48) hours before the date of such meeting, or by telephone, telegram, facsimile transmission or any other lawful means not less than twenty-four (24) hours before the date of such meeting. A waiver of such notice by any director or directors, in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent of such notice.

Section 6. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these By-Laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 7. Actions of Board. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all of the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings, setting forth the action so taken, are filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, members of the Board of Directors of the Corporation, or of any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 8 shall constitute presence in person at such meeting.

Section 9. Committees. The Board of Directors shall adopt resolutions establishing the following committees: (i) Executive, (ii) Audit, (iii) Nominations and Governance and (iv) Compensation and Personnel. In addition, the Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more additional committees. Each committee shall consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or

they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 10. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum or a fixed number of shares of the Corporation's stock or other compensation for attendance at each meeting of the Board of Directors and/or as compensation for service as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 11. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 12. Qualification of Directors. Notwithstanding any other provision of these By-Laws, (i) the Board of Directors shall consist of a majority of Independent directors, (ii) the Executive Committee of the Board of Directors shall consist of a majority of Independent directors, and (iii) the Audit, Nominations and Governance and Compensation and Personnel Committees of the Board of Directors shall consist solely of Independent directors. For purposes hereof, a director will not generally be considered Independent if he or she: (a) is currently an employee of the Corporation, or within the past three years has been an employee of the Corporation; (b) has a personal services contract with the Corporation, in any amount; (c) is an employee or owner of a firm that is one of the Corporation's paid advisors or consultants, regardless of the amount of such business relationship; (d) is a current partner or employee of a firm that is the Corporation's independent accountant or internal auditor; (e) has an immediate

family member who is a current partner of a firm that is the Corporation's independent accountant or internal auditor or is a current employee of the firm and participates in the firm's audit, assurance or tax compliance practice (but not tax planning); or (f) is employed by a business that directly competes against the Corporation. In addition to the standards above, a director will not be considered Independent if within the preceding three years: (a) the director or an immediate family member of the director has received more than $100,000 per year in direct compensation from the Corporation (other than director fees); (b) the director or an immediate family member was a partner or employee of the Corporation' independent accountant or internal auditor an personally worked on the Corporation audit within that time; (c) a current executive officer of the Corporation was on the compensation committee of a company during the same time the company employed the director or an immediate family member of the director as an officer; (d) another company that does business with the Corporation had annual revenues derived from that business relationship of more than (i) $1,000,000 or (ii) 2 percent of that company's annual revenues, whichever is greater, and the director is currently an employee of that company or the director's immediate family member is currently an executive officer of that company; (e) a charitable organization, foundation or university received in any one year from the Corporation, in the form of charitable contributions, grants or endowments, more than the greater of (i) $1,000,000 or (ii) 2 percent of the organization's total annual receipts and the director or his or her spouse currently serves as an employee of the organization. In addition, Audit Committee members may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation (other than director fees). For purposes of determining independence, an "immediate family member" is defined as a director's spouse, parents, children, sibling, mothers and fathers-in-law, sons and daughters-in-law, brother and sisters-in-law, and anyone (other than domestic employees) who share the director's home.

ARTICLE IV — OFFICERS

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a General Counsel, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a President and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these By-Laws. The officers of the Corporation need not be stockholders of the Corporation, need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. The Chief Executive Officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors; any other officer may be removed at any time by the Chief Executive Officer after consultation with the Board of Directors or any appropriate Committee thereof. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chief Executive Officer or the General Counsel or such other authorized officer of the Corporation, and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman of the Board of Directors. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 5. Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board of Directors and the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments necessary for the conduct of the business of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these By-Laws, the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chairman of the Board of Directors, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 6. President and Vice Presidents. At the request of the Chief Executive Officer or in his absence, or in the event of his inability or refusal to act, a President or a Vice President as designated by the Board of Directors shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer. Each President and Vice President shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer from time to time may prescribe.

Section 7. General Counsel. The General Counsel shall (a) be the principal consulting officer of the Corporation for all legal matters; (b) be responsible for and direct all counsel, attorneys, employees and agents in the performance of all legal duties and services for and on behalf of the Corporation; (c) perform such other duties and have such other powers as are ordinarily incident to the office of the General Counsel; and (d) perform such other duties as from time to time may be assigned to him by the Chief Executive Officer or by the Board of Directors.

Section 8. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties, when required, for the committees of the Board of Directors. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or Chief Executive Officer, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the Chief Executive Officer may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 10. Assistant Secretaries. Except as may be otherwise provided in these By-Laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 11. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in

such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

Section 13. Employee Conduct. No officer or employee shall engage, directly or indirectly, in any personal business transaction or private arrangement for personal profit which accrues from or is based upon his official position or authority or upon confidential information which he gains by reason of such position or authority, and each officer and employee shall reasonably restrict his personal business affairs so as to avoid conflicts of interest with his official duties. No officer or employee shall divulge confidential information to any unauthorized person, or release any such information in advance of authorization for its release, nor shall he accept, directly or indirectly, any valuable gift, favor or service from any person with whom he transacts business on behalf of the Corporation.

Section 14. Outside or Private Employment. No officer or employee shall have any outside or private employment or affiliation with any firm or organization incompatible with his concurrent employment by the Corporation, nor shall he accept or perform any outside or private employment which the Chief Executive Officer of the Corporation determines will interfere with the efficient performance of his official duties.

ARTICLE V – STOCK

Section 1. Form and Execution of Certificates. Certificates for the shares of stock of the Corporation shall be issued only to the extent as may be required by applicable law or as otherwise authorized by the Secretary or an Assistant Secretary, and if so issued shall be in such form as is consistent with the Certificate of Incorporation and applicable law. Otherwise, evidence of stock ownership shall be by electronic format. Any such certificate shall be signed by, or in the name of the Corporation by, the Chairman of the Board, or by the Chief Executive Officer, or by the President or any Vice President and by the Treasurer or Assistant Treasurer or the Secretary or an Assistant Secretary, certifying the number of shares owned by him or her in the Corporation. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent, or register before such certificate is issued, it may be issued with the same effect as if he or she were such officer, transfer agent, or registrar at the date of issue.

Section 2. Lost Certificates. The Board of Directors or the Secretary or an Assistant Secretary may direct a new certificate to be issued in place of any certificate theretofore issued by

the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors or the Secretary or an Assistant Secretary may, in its or their discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 3. Transfers. Transfers of record of shares of stock of the Corporation shall be made only upon its books by the holders thereof, in person or by attorney duly authorized, and with regard to certificated shares, upon the surrender of a certificate or certificates for a like number of shares, properly endorsed.

Section 4. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 5. Registered Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

ARTICLE VI — NOTICES

Section 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice may also be given personally or by facsimile, telegram, telex, cable, or any other lawful means.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or

stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

ARTICLE VII — GENERAL PROVISIONS

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Acquisition of Common Stock by the Corporation. Unless approved by holders of a majority of the outstanding capital stock of the Corporation then entitled to vote at an election of directors, the Corporation shall not take any action that would result in the acquisition by the Corporation, directly or indirectly, from any one person or "group" (as defined in Section 13(d) of the Securities Exchange Act of 1934) of one percent or more of the shares of Common Stock then outstanding, in one or a series of related transactions, at a price in excess of the prevailing market price of such stock, other than pursuant to a tender offer made to all holders of Common Stock or to all holders of less than 100 shares of Common Stock.

Section 3. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 4. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 5. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII — INDEMNIFICATION

Section 1. Power to Indemnify in Actions, Suits or Proceedings other than those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement

actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the

Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he has met the applicable standards of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding may be paid by the Corporation, upon the determination by the Board of Directors, in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII, provided the Corporation approves in advance counsel selected by the director or officer (which approval shall not be unreasonably withheld).

Section 7. Non-exclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Certificate of Incorporation or any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in

Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to “the Corporation” shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to “fines” shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to “serving at the request of the Corporation” shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner “not opposed to the best interests of the Corporation” as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by the Corporation pursuant to this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 hereof), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 12. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

ARTICLE IX — AMENDMENTS

Section 1. Amendments. These By-Laws of the Corporation may be altered, amended, changed, added to or repealed in whole or in part, or new By-Laws may be adopted, by the stockholders or the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws is provided before the date on which the meeting of stockholders at which such shall become effective or be voted on, as the case may be. For purposes of this Article IX, filing such alteration, amendment, repeal or new By-Laws with the Securities and Exchange Commission and/or the principal securities exchange on which the common stock of the Corporation is traded shall be deemed to provide notice thereof. All such amendments must be approved by either the holders of a majority of the outstanding capital stock of the Corporation entitled to vote thereon or by a majority of the entire Board of Directors.

Exhibit 31.1

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

I, Thomas J. Fitzpatrick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SLM Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ THOMAS J. FITZPATRICK

Thomas J. Fitzpatrick
Chief Executive Officer
May 10, 2007

Exhibit 31.2

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

I, C.E. Andrews, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SLM Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

/s/ C.E. ANDREWS

C.E. Andrews
Chief Financial Officer
May 10, 2007

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 Quarterly Report of SLM Corporation (the "Company") on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas J. Fitzpatrick, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ THOMAS J. FITZPATRICK
Thomas J. Fitzpatrick
Chief Executive Officer
May 10, 2007

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 Quarterly Report of SLM Corporation (the “Company”) on Form 10-Q for the period ended March 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, C.E. Andrews, Executive Vice President, Finance, Accounting and Risk Management of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ C.E. ANDREWS

C.E. Andrews
Chief Financial Officer
May 10, 2007