AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 5, 1997
REGISTRATION NO. 333-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

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

DELAWARE
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

6199
(PRIMARY STANDARD INDUSTRIAL
CLASSIFICATION CODE NUMBER)

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

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

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

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

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED(1)	PROPOSED MAXIMUM OFFERING PRICE PER UNIT(2)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE(2)	AMOUNT OF REGISTRATION FEE
Common Stock, par value $.20 per share.....	54,600,000	$107.50	$5,869,500,000.00	$1,778,636.36

(1) Assumes that 54,600,000 shares of common stock (the "Sallie Mae Common Stock") of the Student Loan Marketing Association ("Sallie Mae") are converted into shares of the registrant common stock (the "Holding Company Common Stock") at the exchange ratio of one share of Holding Company Common Stock for each share of Sallie Mae Common Stock pursuant to the Agreement and Plan of Reorganization to which this registration statement relates. This number is based upon the number of shares of Sallie Mae Common Stock expected to be issued and outstanding on May 16, 1997 and shares of Sallie Mae Common Stock expected to be issuable pursuant to stock option and other benefit plans on or prior to May 16, 1997.

(2) Estimated solely for purposes of calculating the registration fee and computed pursuant to Rules 457(c) and 457(f)(1) under the Securities Act of 1933, as amended, based on $107.50, which is the average of the high and low prices per share as reported on the New York Stock Exchange Composite Tape for the Sallie Mae Common Stock on January 29, 1997.

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

MAY DETERMINE.

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

ITEM NO.	DESCRIPTION	CAPTION IN PROSPECTUS
Item 1	Forepart of Registration Statement and Outside Front Cover Page of Prospectus.....	Cover of Registration Statement; Outside Front Cover Page of Prospectus; Cross Reference Sheet
Item 2	Inside Front and Outside Back Cover Pages of Prospectus.....	Available Information; Table of Contents
Item 3	Risk Factors, Ratio of Earnings to Fixed Charges and Other Information.....	Summary
Item 4	Terms of the Transaction.....	Summary; The Reorganization; Terms of the Reorganization; Comparison of Stockholder Rights; Appendix A: Agreement and Plan of Reorganization; Appendix B: The Student Loan Marketing Association Reorganization Act of 1996
Item 5	Pro Forma Financial Information.....	Summary; Capitalization
Item 6	Material Contacts With the Company Being Acquired.....	Summary; The Reorganization; Terms of the Reorganization; Appendix A: Agreement and Plan of Reorganization
Item 7	Additional Information required for Reoffering by Persons and Parties Deemed to be Underwriters.....	*
Item 8	Interests of Named Experts and Counsel.....	Legal Matters; Experts
Item 9	Disclosure of Commission Position on Indemnification for Securities Act Liabilities.....	*
Item 10	Information With Respect to S-3 Registrants.....	*
Item 11	Incorporation of Certain Information by Reference.....	*
Item 12	Information With Respect to S-2 or S-3 Registrants.....	*
Item 13	Incorporation of Certain Information by Reference.....	*
Item 14	Information With Respect to Registrants Other Than S-2 or S-3 Registrants.....	Summary; The Reorganization; Terms of the Reorganization; Business; Regulation
Item 15	Information With Respect to S-3 Companies....	*
Item 16	Information With Respect to S-2 or S-3 Companies.....	*

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

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* Omitted because inapplicable or answer is negative.

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

, 1997

Dear Sallie Mae Shareholder:

The Board of Directors of the Student Loan Marketing Association ("Sallie Mae") invites you to attend a Special Meeting of Shareholders (the "Special Meeting") to be held on Thursday, May 15, 1997, at 10:00 a.m., local time, at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102. At the Special Meeting, Sallie Mae shareholders will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a subsidiary of a new holding company named SLM Holding Corporation (the "Holding Company"). If the Reorganization is approved, each outstanding share of common stock, par value $.20 per share, of Sallie Mae shall be converted into one share of common stock, par value $.20 per share, of the Holding Company. The Reorganization is described in the attached Proxy Statement/Prospectus. For information concerning the Board of Directors of the Holding Company, see the section entitled "MANAGEMENT" in the attached Proxy Statement/Prospectus.

The Reorganization, which has been authorized by legislation described herein, would effectively "privatize" Sallie Mae by phasing out its federal sponsorship and transferring control over its charter and business directions to Sallie Mae shareholders. This is a unique and important opportunity for Sallie Mae and its shareholders.

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

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

Sincerely,

William Arceneaux
Chairman of the Board

STUDENT LOAN MARKETING ASSOCIATION

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

Consistent with the By-Laws of the Student Loan Marketing Association ("Sallie Mae"), notice is hereby given on behalf of the Board of Directors that a Special Meeting of Shareholders of Sallie Mae (the "Special Meeting") will be held on Thursday, May 15, 1997, at 10:00 a.m., local time at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102.

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

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

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

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

By Order of the Board of Directors

Ann Marie Plubell
Vice President, Associate General
Counsel and
Secretary

, 1997
Washington, D.C.

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

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

SUBJECT TO COMPLETION, DATED FEBRUARY 5, 1997

PROXY STATEMENT OF STUDENT LOAN MARKETING ASSOCIATION

PROSPECTUS OF SLM HOLDING CORPORATION

This Proxy Statement/Prospectus is being furnished to holders of record on March 17, 1997 (the "Record Date") of the common stock, par value $.20 per share (the "Sallie Mae Common Stock"), of the Student Loan Marketing Association, a federally-chartered government-sponsored enterprise ("Sallie Mae"), in connection with the solicitation of proxies by the Sallie Mae Board of Directors (the "Sallie Mae Board") for use at the Special Meeting of Sallie Mae shareholders (the "Special Meeting") to be held on Thursday, May 15, 1997 at 10:00 a.m. at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102 and at any adjournments or postponements thereof.

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

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

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

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

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

THE DATE OF THIS PROXY STATEMENT/PROSPECTUS IS 1997.

AVAILABLE INFORMATION

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

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

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

FORWARD-LOOKING INFORMATION

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

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SUMMARY

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

SALLIE MAE AND THE HOLDING COMPANY

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

The Privatization Act (as defined below) authorized the creation of SLM Holding Corporation, a recently formed Delaware corporation (the "Holding Company"), which will become the holding company of Sallie Mae if the Reorganization is approved. AS USED HEREIN, THE "COMPANY" REFERS TO SALLIE MAE PRIOR TO THE REORGANIZATION AND TO THE HOLDING COMPANY AS A CONSOLIDATED ENTITY FROM AND AFTER THE EFFECTIVE TIME (AS DEFINED BELOW) OF THE REORGANIZATION.

THE SPECIAL MEETING

The Special Meeting of Sallie Mae shareholders (the "Special Meeting") will be held on Thursday, May 15, 1997 at 10:00 a.m., at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102. At the Special Meeting, Sallie Mae shareholders will be asked to consider and vote upon the approval and adoption of an Agreement and Plan of Reorganization (the "Reorganization Agreement") providing for the reorganization (the "Reorganization") of Sallie Mae into a wholly-owned subsidiary of the Holding Company pursuant to the merger (the "Merger") of a newly-formed subsidiary of the Holding Company ("MergerCo") with and into Sallie Mae, with Sallie Mae as the surviving corporation. If the Reorganization is consummated, each outstanding share of common stock, par value $.20 per share, of Sallie Mae ("Sallie Mae Common Stock") would be converted into one share of common stock, par value $.20 per share, of the Holding Company ("Holding Company Common Stock").

Under the Privatization Act and Delaware law, the Reorganization requires approval by the affirmative vote of the holders of a majority of the outstanding shares of Sallie Mae Common Stock. This document and the enclosed form of proxy are being furnished to you in connection with the solicitation by Sallie Mae's Board of Directors (the "Sallie Mae Board") of proxies in the enclosed form for use at the Special Meeting. Only holders of record of Sallie Mae Common Stock as of the close of business on March 17, 1997 will be entitled to notice of and to vote at the Special Meeting or any adjournments or postponements thereof. If a reorganization pursuant to the Privatization Act does not occur on or before March 31, 1998, certain "charter sunset" provisions become applicable which will result in the dissolution of the GSE by July 1, 2013.

THE REORGANIZATION

BACKGROUND

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

REASONS FOR THE REORGANIZATION; RECOMMENDATIONS OF THE BOARD OF DIRECTORS

The Sallie Mae Board has determined that the Reorganization, upon the terms and conditions set forth in the Privatization Act and the Reorganization Agreement, is in the best interests of Sallie Mae and its shareholders. ACCORDINGLY, THE SALLIE MAE BOARD HAS APPROVED THE REORGANIZATION AGREEMENT AND RECOMMENDS THAT THE HOLDERS OF THE OUTSTANDING SHARES OF SALLIE MAE COMMON STOCK VOTE FOR APPROVAL OF THE REORGANIZATION AT THE SPECIAL MEETING. THE REORGANIZATION WAS APPROVED BY THE SALLIE MAE BOARD BY A VOTE OF 13 MEMBERS IN FAVOR OF THE REORGANIZATION AND 8 MEMBERS AGAINST THE REORGANIZATION. FOR A SUMMARY OF THE SALLIE MAE BOARD DELIBERATIONS, SEE "THE REORGANIZATION."

CORPORATE STRUCTURE BEFORE AND AFTER THE REORGANIZATION

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

TERMS OF THE REORGANIZATION

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

The Reorganization will not result in any change to the GSE's outstanding class of preferred stock or to its outstanding debt obligations and all of the outstanding securities of Sallie Mae (other than the Sallie Mae

Common Stock and common stock equivalents) will remain outstanding as securities of the GSE immediately after the Reorganization. The Privatization Act requires that the GSE's preferred stock be repurchased or redeemed on or prior to the GSE's dissolution, no later than September 30, 2008. The Privatization Act provides that the Reorganization will not modify the attributes accorded to the debt obligations of Sallie Mae by the Sallie Mae Charter.

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

THE PRIVATIZATION ACT

The Privatization Act provides the framework for effecting the Reorganization and imposes certain restrictions on the operations of the Holding Company and its subsidiaries after the Reorganization is consummated. See "THE PRIVATIZATION ACT" and "REGULATION."

SUBSIDIARY STOCK AND ASSET TRANSFERS

The Privatization Act requires that at the Effective Time, or as soon as practicable thereafter, Sallie Mae shall transfer to the Holding Company or one or more of its non-GSE subsidiaries, certain assets, including all of the capital stock of which the GSE is the beneficial owner in certain subsidiaries (the "Transferred Subsidiaries"). It is anticipated that net asset transfers (including the transfer of the Transferred Subsidiaries) occurring in the first year after the Reorganization will aggregate $100 million or less and that certain fixed assets will be transferred within approximately three years of the Reorganization.

EMPLOYEE AND BENEFIT TRANSFERS

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

WIND-DOWN PERIOD

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

The Privatization Act imposes certain "execution" or "transaction" costs on the Company, including the payment of $5 million to the District of Columbia Financial Responsibility and Management Assistance Authority (the "D.C. Financial Control Board") for the restricted use of the "Sallie Mae" name. Also, pursuant to the requirements of the Privatization Act, the Holding Company will issue warrants to purchase 555,015 shares of Holding Company Common Stock to the D.C. Financial Control Board, exercisable at any time before September 30, 2008, at $72.43 per share.

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

In addition, the business activities of the Holding Company and its non-GSE subsidiaries are also subject to certain limitations, including a de facto limitation against purchases of FFELP loans for so long as the GSE continues this type of activity. Subject to the foregoing, the Holding Company could elect at any time to commence FFELP student loan purchases through its non-GSE subsidiaries.

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

A law enacted at the same time as the Privatization Act contains amendments to the Federal Deposit Insurance Act and the Federal Credit Union Act that prohibit all government-sponsored enterprises from directly or indirectly sponsoring or providing non-routine financial support to certain credit unions and depository institutions. Depository institutions are also prohibited from being affiliates of government-sponsored enterprises.

CHARTER SUNSET IF REORGANIZATION DOES NOT OCCUR

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

OTHER PROVISIONS OF THE REORGANIZATION

NO DISSENTERS' APPRAISAL RIGHTS

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

DIVIDEND POLICY

It is anticipated that the Holding Company will initially pay dividends on Holding Company Common Stock at the rate most recently paid, and on approximately the same schedule, as dividends have been paid on Sallie Mae Common Stock. No assurance, however, can be given as to the amount of future dividends, which will necessarily be dependent on future earnings and the financial requirements of the Holding Company and its subsidiaries, including the GSE, after the Reorganization. The Holding Company's principal source of funds is expected to be funds from dividends on the stock of its subsidiaries and proceeds from any issuances of the Holding Company's equity or debt securities. The ability of the GSE to pay dividends is generally

subject to the capital requirements included in Sallie Mae's federal charter set forth in Section 439, Part B, Title VI of the Higher Education Act of 1965, as amended, codified at 20 U.S.C. sec.1087-2, (the "Sallie Mae Charter"), and to the priority of dividends on the preferred stock.

STOCK EXCHANGE LISTING

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

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

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

REGULATION

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

COMPARISON OF STOCKHOLDER RIGHTS

There are certain differences between the present rights of holders of Sallie Mae Common Stock and the rights of holders of Holding Company Common Stock after the Reorganization, including those concerning cumulative voting, a classified Board of Directors, Presidential appointment of members of the Board of Directors and requirements that members of the Board of Directors be affiliated with certain types of institutions. For a comparison of the relative rights of holders of Sallie Mae Common Stock and holders of Holding Company Common Stock, see "COMPARISON OF STOCKHOLDER RIGHTS."

HOLDING COMPANY BOARD OF DIRECTORS

Sallie Mae, as the sole stockholder of the Holding Company prior to the Reorganization, will appoint the members of the Holding Company Board to serve until their successors are duly elected. The directors that Sallie Mae intends to appoint are identified elsewhere in this Proxy Statement/Prospectus. See "MANAGEMENT -- Holding Company Board of Directors."

SUMMARY SELECTED FINANCIAL DATA

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

	YEARS ENDED DECEMBER 31,				
	1996	1995(1)	1994(1)	1993(1)	1992(1)
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)					
OPERATING DATA:					
Net interest income(2)	$ 859	$ 893	$ 940	$ 938	$ 834
Net income	419	496	403	430	394
Earnings per common share	7.32	7.20	4.91	4.83	4.21
Dividends per common share	1.64	1.51	1.42	1.25	1.05
Return on common stockholders' equity	50.13%(4)	39.85%(4)	29.06%(4)	40.26%	40.22%
BALANCE SHEET DATA:					
Student loans purchased	$32,308	$34,336	$30,370	$26,804	$24,173
Student loan participations	1,446	-	-	-	-
Warehousing advances	2,789	3,865	7,032	7,034	8,085
Academic facilities financings	1,473	1,312	1,548	1,359	1,189
Total assets	47,630	50,002	52,961	46,509	46,621
Long-term notes	22,606	30,083	34,319	30,925	30,724
Total borrowings	44,763	47,530	50,335	44,544	44,440
Stockholders' equity	1,048(4)	1,081(4)	1,471(4)	1,280	1,220
Book value per common share	15.53	15.03	17.10	12.69	11.25
OTHER DATA:					
Securitized student loans outstanding	$ 6,263	$ 954	$ -	$ -	$ -
Core earnings(3)	391	491	338	385	394
Core earnings per common share(3)	6.82	7.12	4.11	4.31	4.21
Net interest margin(2)	1.89%	1.82%	2.06%	2.23%	1.98%
Core net interest margin(3)	1.80	1.80	1.86	2.05	1.98

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

(2) For the years ended December 31, 1996, 1995, 1994, 1993 and 1992, premiums on debt extinguished totaled $7 million, $8 million, $14 million, $211 million and $141 million, respectively. Such amounts are disclosed separately, net of tax, in the Consolidated Statements of Income. Net interest income is adjusted to include premiums on debt extinguished. Net interest margin is determined based upon taxable equivalent net interest income adjusted to include premiums on debt extinguished.

(3) Core earnings are net earnings before the impact of net floor revenue.

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

MARKET DATA

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

	HIGH	LOW	DIVIDEND
1994			
First Quarter	49 7/8	42 7/8	.35
Second Quarter	44 1/8	35 3/4	.35
Third Quarter	39 1/8	32	.35
Fourth Quarter	35	31 1/4	.37
1995			
First Quarter	39	32 7/8	.37
Second Quarter	48 3/8	34 1/2	.37
Third Quarter	55 3/4	47	.37
Fourth Quarter	70 7/8	54	.40
1996			
First Quarter	86 1/8	63 1/4	.40
Second Quarter	83 1/2	66	.40
Third Quarter	77	69 1/4	.40
Fourth Quarter	98 1/4	77 1/4	.44
1997			
First Quarter (through January 31, 1997)	110	89	.44

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

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

At December 31, 1996, 53,690,595 shares of Sallie Mae Common Stock were outstanding, representing approximately 20,345 holders of shares of Sallie Mae Common Stock.

At March 17, 1997, the Record Date shares of Sallie Mae Common Stock were outstanding and eligible to be voted, representing approximately holders of shares of Sallie Mae Common Stock.

INFORMATION REGARDING THE SPECIAL MEETING

PURPOSE

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

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

This Proxy Statement/Prospectus is also furnished to Sallie Mae shareholders as the prospectus of the Holding Company relating to the shares of Holding Company Common Stock issuable in connection with the Reorganization.

PLACE, TIME AND DATE OF MEETING

The Special Meeting will be held on Thursday, May 15, 1997 at the Ritz-Carlton, Tysons Corner, 1700 Tysons Blvd., McLean, VA 22102, beginning at 10:00 a.m., local time, and at any adjournments or postponements thereof.

RECORD DATE; SHARES ENTITLED TO VOTE

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

QUORUM; VOTES REQUIRED

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

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

COMMON STOCK INFORMATION

At December 31, 1996, 53,690,595 shares of Sallie Mae Common Stock were outstanding representing approximately 20,345 holders of shares of Sallie Mae Common Stock. As of the Record Date, there were outstanding and eligible to be voted shares of Sallie Mae Common Stock representing approximately holders of shares of Sallie Mae Common Stock. As of the Record Date, Sallie Mae's directors, executive officers beneficially owned shares of Sallie Mae Common Stock, or approximately . % of the shares of Sallie Mae Common Stock outstanding as of such date. The Sallie Mae Common Stock is listed on the New York Stock Exchange ("NYSE") under the symbol "SLM."

VOTING AND REVOCATION OF PROXIES

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

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

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

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

SOLICITATION OF PROXIES

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

NO DISSENTERS' APPRAISAL RIGHTS

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

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

THE REORGANIZATION

BACKGROUND

The Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") was the result of a multi-year effort on the part of Sallie Mae to win executive branch and Congressional support for privatization. As a government-sponsored enterprise Sallie Mae has access to the "government agency" debt market, exemptions from state taxes and certain securities laws, and lower capital requirements. However, Sallie Mae's business activities are subject to restrictions and burdens contained in Sallie Mae's federal charter, which is set forth at Section 439, Part B, Title IV of the Higher Education Act of 1965, as amended, codified at 20 U.S.C. sec. 1087-2 (the "Sallie Mae Charter"). The Sallie Mae Charter may be changed by Congress, subject only to constitutional limitations, without approval from Sallie Mae directors or shareholders. Sallie Mae sought privatization to protect the value of its franchise from the political risks of its government-sponsored enterprise status and the new Federal Direct Student Loan Program (the "FDSLP"). In addition, Sallie Mae recognized that changes in the student loan market, including the advent of student loan securitization, had reduced the comparative advantages of government-sponsored enterprise funding and capital levels. After passage of the 1993 Omnibus Budget Reconciliation Act ("OBRA"), which imposed new fees on Sallie Mae and created the FDSLP, Sallie Mae worked with the executive branch to produce a study on the "future of Sallie Mae" and put forward a specific legislative framework to effect privatization through a transitional holding company arrangement. During 1995 and 1996, Sallie Mae negotiated with Congress and the executive branch to arrive at legislation intended to provide a fair outcome for the government, GSE noteholders and GSE shareholders. The Privatization Act, which was enacted on September 30, 1996, will allow Sallie Mae to transition from a limited purpose government-sponsored enterprise to a general purpose corporation that will independently determine which new business opportunities to pursue.

The Privatization Act authorized the Sallie Mae Board of Directors (the "Sallie Mae Board") to adopt a plan of reorganization pursuant to which Sallie Mae would become a wholly-owned subsidiary of a holding company.

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

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

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

At the meetings of December 17, 1996 and January 16 and 23, 1997, the Committee also discussed guidelines for the qualifications of Holding Company Directors, as individuals and as members of a cohesive body.

At the meetings of January 16 and January 23, 1997, Mr. Brandon, moved that the 14 members of the Sallie Mae Board who were elected by shareholders in 1996 be nominated as a body to constitute the entire Holding Company Board. The motion was defeated, with Messrs. Jacobsen, Durmer, Spiegel and Thayer voting against because the action would have given effective control at the Holding Company to a minority of the present Sallie Mae Board and would not provide the diversity desired for the Holding Company Board.

At the meeting of January 16, 1997, Mr. Brandon moved that the Company separate the vote on the initial election of the Holding Company Board members from the vote on the plan of reorganization. The motion was defeated, with Messrs. Jacobsen, Durmer, Spiegel and Thayer voting against because the action would have left in doubt an essential component of the plan of reorganization, namely the identity of the Board which would guide the new Holding Company through privatization.

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

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

The Finance Committee met on December 19, 1996 and considered a number of financial and operational issues related to the plan of reorganization. These included the structure of the transaction to effect the new entity, the structure of the new entity after reorganization, the transfer of employees and assets and the capital structure of the new entity. On January 23, 1997, the Operations and Finance Committees held a joint meeting to consider the correctness of the privatization path and to consider the expression of the financial and operational matters contained in this Proxy Statement/Prospectus. The Company's outside legal and financial advisors were available to answer questions at both the January 23, 1997 Committee meeting and the January 24, 1997 Board meeting discussed below. Members of management made presentations concerning terms and financial aspects of the proposal at each of the Committee's meetings.

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

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

Mr. Hunt further stated that he was willing to serve on the slate and pledged that, if he were to engage in any active solicitation of shareholder opposition to the reorganization plan, then he would withdraw from the slate.

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

The Sallie Mae Board then voted to approve the recommendations of the Nominations and Board Affairs Committee as set out above. The recommendations were approved with Messrs. Arceneaux, Berger, Daberko, Durmer, Jacobsen, Moore, Rohr, Spiegel, Thayer, Vitale and Mmes. Gilleland, Montoya and Natividad

voting for and Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield voting against such recommendations.

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

On January 31, 1997, Mr. Hunt advised the Chairman of the Sallie Mae Board that, after evaluating his fiduciary duties, he was unable at that date to provide the Sallie Mae Board with the confirmation it sought. On the same date, Mr. Lord advised the Sallie Mae Board that his position on the plan of reorganization and the opposition to the persons named to serve on the Holding Company Board had not changed. These responses are currently being considered by the Sallie Mae Board.

On February 5, 1997, a written statement was delivered to the Company on behalf of Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield (collectively, the "Dissenting Directors") stating their reasons for their votes, including certain of the reasons noted above. The Dissenting Directors' statement has been included in this Proxy Statement/Prospectus at their request and is set forth in Appendix D.

REASONS FOR THE REORGANIZATION; RECOMMENDATION OF THE BOARD OF DIRECTORS

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

In reaching its determination, the Sallie Mae Board considered a number of factors, including the following material factors:

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

b. The expectation that the Reorganization will provide a mechanism for expansion of the business, new sources of revenue and, over time, business diversification.

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

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

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

f. The belief of a majority of the Board is that the Company will be strengthened through the retention of the management responsible for performance which has led to significant results and increases in the price of Sallie Mae Common Stock over the past year.

g. The expectation that the Reorganization will reduce the level of political risk to which Sallie Mae is subject.

h. The terms and conditions of the Privatization Act and the Reorganization Agreement which the Sallie Mae Board, based on presentations by management developed in consultation with the Company's outside legal and financial advisors, has deemed to be generally favorable to Sallie Mae. See "THE PRIVATIZATION ACT" and "TERMS OF THE REORGANIZATION."

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

j. The determination that the dissolution of Sallie Mae pursuant to the "charter sunset" provisions of the Privatization Act is not in the best interests of Sallie Mae and its shareholders.

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

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

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

CORPORATE STRUCTURE BEFORE AND AFTER THE REORGANIZATION

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

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

The Reorganization would be effected pursuant to the Reorganization Agreement by merging MergerCo with and into Sallie Mae, with Sallie Mae as the surviving corporation, resulting in Sallie Mae becoming a wholly-owned subsidiary of the Holding Company. In addition, upon consummation of the Reorganization, or as soon as practicable thereafter, the stock of certain of Sallie Mae's subsidiaries, including Sallie Mae

Servicing Corporation (collectively, the "Transferred Subsidiaries") would be transferred to the Holding Company or one of its non-GSE subsidiaries.

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

DIAGRAMS OF CURRENT AND PROPOSED CORPORATE STRUCTURES

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

Graphic: Current Corporate Structure
Box: with words "Student Loan Marketing Association (GSE)" connected by vertical line to box: with words "Sallie Mae Servicing Corporation"

Graphic: Proposed Structure Following the Reorganization
Box: with words "SLM Holding Corporation" connected by vertical lines to boxes: with words "Student Loan Marketing Association (GSE)"; "Sallie Mae Servicing Corporation" and "Sallie Mae, Inc.", respectively.

EXCHANGE OF STOCK CERTIFICATES

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

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

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

TREATMENT OF PREFERRED STOCK

The proposed Reorganization will not result in any change in Sallie Mae's outstanding class of preferred stock. However, if the Reorganization is approved, the Privatization Act requires that prior to the dissolution of Sallie Mae on or before September 30, 2008, Sallie Mae shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding preferred stock. Sallie Mae's preferred stock will continue to rank senior to Sallie Mae Common Stock (all of which, after the Reorganization, will be held by the Holding Company) as to dividends and as to the distribution of assets of Sallie Mae in the event of the liquidation of Sallie Mae.

EFFECT ON STOCK OPTIONS AND EMPLOYEE BENEFITS

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

DIVIDEND POLICY

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

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

The ability of Sallie Mae to pay dividends on its capital stock is generally subject to the capital requirements set forth in the Sallie Mae Charter, see "REGULATION -- Current Regulation," and to the

priority of dividends on outstanding Sallie Mae preferred stock. See "THE REORGANIZATION -- Treatment of Preferred Stock."

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

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

STOCK EXCHANGE LISTING

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

TERMS OF THE REORGANIZATION

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

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

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

THE PRIVATIZATION ACT

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

REORGANIZATION

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

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

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

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

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

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

If the Reorganization is consummated, the Holding Company must issue to the D.C. Financial Control Board warrants to purchase 555,015 shares of Holding Company Common Stock. These warrants are transferable and are exercisable at any time prior to September 30, 2008 at $72.43. Within 60 days after the Effective Time, Sallie Mae is also required to pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. Beginning in fiscal 1997, and until the GSE is dissolved, Sallie Mae also must reimburse the Secretary of the Treasury up to $800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act.

OVERSIGHT AUTHORITY

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

RESTRICTIONS ON INTERCOMPANY RELATIONS

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

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

LIMITATIONS ON HOLDING COMPANY ACTIVITIES

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

The Holding Company generally may begin to purchase FFELP student loans only after the GSE discontinues such activity. Subject to the foregoing, the Holding Company could elect, at any time, to transfer new student loan purchase activity from the GSE to one of its non-GSE subsidiaries. Under OBRA, loans acquired after August 10, 1993 and held by the GSE are subject to a 30 basis point per annum "offset fee." Sallie Mae has challenged the offset fee's constitutionality and the Secretary of Education's statutory authority to apply the fee on loans securitized by the GSE. See "BUSINESS -- Legal Proceedings." The offset fee does not apply to loans held or securitized by the Holding Company or non-GSE subsidiaries of the Holding Company.

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

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

GSE DISSOLUTION AFTER REORGANIZATION

If shareholders of Sallie Mae approve the Reorganization, the Privatization Act provides that the wind-down period will terminate and Sallie Mae will liquidate and dissolve on September 30, 2008, unless an earlier dissolution is requested by Sallie Mae and the Secretary of Education makes no finding that Sallie Mae continues to be needed as a lender of last resort under the Sallie Mae Charter or to purchase loans under certain agreements with the Secretary of Education. In connection with such dissolution, Sallie Mae must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the Secretary of the Treasury, to pay the principal and interest on the deposited obligations. At December 31, 1996, Sallie Mae had $372 million in current carrying value of debt obligations outstanding with maturities after September 30, 2008. If Sallie Mae has insufficient assets to fully fund such GSE debt, the Holding Company must transfer sufficient assets to the trust to account for this shortfall. Prior to dissolution, proper provision must also be made for the redemption or repurchase of outstanding shares of Sallie Mae preferred stock. Upon dissolution, the Sallie Mae Charter will terminate, and any assets that Sallie Mae continues to hold after establishment of the trust or which remain in the trust after full payment of the remaining obligations of Sallie Mae assumed by the trust, will be transferred to the Holding Company or its affiliates, as determined by the Holding Company Board of Directors.

CHARTER SUNSET IF REORGANIZATION DOES NOT OCCUR

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

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

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

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

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

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

The obligation of Sallie Mae to consummate the Reorganization is conditioned upon the receipt by Sallie Mae of an opinion of Skadden, Arps, Slate, Meagher & Flom LLP in form and substance reasonably satisfactory to Sallie Mae, dated as of the Effective Time, substantially to the effect that, on the basis of facts, representations and assumptions set forth in such opinion and set forth in certificates of officers of the Holding Company, Sallie Mae and others, as well as representation letters of certain holders of Sallie Mae Common Stock, all of which are consistent with the state of facts existing at the Effective Time, the Merger will be treated for U.S. federal income tax purposes as a nonrecognition transfer of shares of Sallie Mae Common Stock by the holders thereof to the Holding Company for shares of Holding Company Common Stock. Opinions of counsel are not binding on the IRS.

If, in accordance with the opinion referred to above, the Merger will be treated as a nonrecognition transaction under the Code, then, in the opinion of Skadden, Arps, Slate, Meagher & Flom LLP, the following is a fair and accurate summary of the general U.S. federal income tax consequences of the Merger to the Holding Company, Sallie Mae, MergerCo and holders of shares of Sallie Mae Common Stock that are converted in the Merger to Holding Company Common Stock:

TREATMENT OF HOLDING COMPANY, SALLIE MAE AND MERGERCO

No gain or loss will be recognized by Holding Company, Sallie Mae or MergerCo as a result of the Merger.

CONVERSION OF SALLIE MAE COMMON STOCK INTO HOLDING COMPANY COMMON STOCK

A holder of Sallie Mae Common Stock whose shares of Sallie Mae Common Stock are converted in the Merger into Holding Company Common Stock will not recognize gain or loss upon such conversion. The aggregate tax basis of the Holding Company Common Stock received by such holder will be equal to the aggregate tax basis of the Sallie Mae Common Stock so converted, and the holding period of the Holding Company Common Stock will include the holding period of the Sallie Mae Common Stock so converted.

REPORTING REQUIREMENT

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

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

BUSINESS

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

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

GENERAL

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

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

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

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

Privatization is expected to enable the Company to compete more effectively in the student loan business and to pursue new business opportunities that leverage its servicing resources, consumer database and higher education expertise and relationships. Immediately following the Reorganization, the principal business of the Company will continue to be the acquisition, financing and servicing of student loans, as previously conducted by the GSE. Although the GSE's activities will be phased out over time as described in "REGULATION" and the student loan business will eventually be conducted through the Company's non-GSE units, it is expected that student loan acquisitions will continue to be effected through the GSE exclusively (pursuant to the terms of the Privatization Act) for so long as it is advantageous to do so.

INDUSTRY OVERVIEW

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

the Company as a for-profit, stockholder-owned national secondary market for student loans. The FFELP industry currently includes a network of approximately 5,300 originators, 6,300 educational institutions and an estimated 14.4 million graduate and undergraduate students, excluding those attending proprietary schools. Also, 39 state-sponsored or non-profit guarantee agencies collectively guarantee and administer the FFELP under contract with the Department of Education. In addition to the Company, a number of non-profit entities, banks and other financial intermediaries operate as secondary markets. The Company believes that lender participation in the program is relatively concentrated, with an estimated 90% of outstanding loans held by the top 100 participants, including approximately one-third owned by the Company as of September 30, 1994. The FFELP is reauthorized by the Congress about every five years. The next reauthorization is required in 1998. The provisions of the FFELP are also subject to revision from time to time by the Congress. For an overview of the FFELP and other federally sponsored student loan programs, see Appendix C "The Federal Family Education Loan Program."

The demand for student loans has risen substantially over the last several years. Higher education tuition cost and fee increases continue to exceed the inflation rate. Over half of all full-time college students today depend on some form of borrowing, compared to just over 35% in 1985. Federal legislation enacted in late 1992 expanded loan limits and borrower eligibility that, in part, resulted in an increase of over 50% in annual loan volume of federally-guaranteed student loans ($21 billion in 1994 from $14 billion in 1992). Estimated future increases in tuition costs and college enrollments are expected to prompt further growth in the student loan market.

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

BUSINESS STRATEGY

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

Competition in the student loan industry has intensified both among the participants in the FFELP, and, with the expansion of the FDSLP, between private industry participants and the government's direct student loan program. Sallie Mae has responded by developing a school-based strategy that brings value more directly to the higher education customer, generating loan product flows at the source for Sallie Mae's network of affiliated lenders. This school-based strategy has resulted in substantial volume growth over the past five years, notwithstanding increased competition. The expansion of Sallie Mae's customer focus to include colleges and universities, in addition to lenders, is based on the increasingly active role played by college administrators in the referral of loan providers to their students.

As the cost of education continues to rise, schools are looking for the least expensive, most efficient source of student loan credit. To meet customer needs and differentiate its lender partners, the Company has developed a "branded" family of products and services. These include borrower benefits, which reward on-time repayment by reducing total loan cost; flexible repayment options; and specialized software and electronic

communications systems. Products such as LineSS(R) (school loan processing software) and ExportSS(R) (a loan origination and administration outsourcing service) demonstrate Sallie Mae's expertise in providing technology and operational support to help schools and lenders manage student loan-related costs. The recently formed relationship with PeopleSoft to develop a student information system and financial aid software and the acquisition of Kaludis Consulting Group, a higher education strategic consulting firm, are expected to enhance the Company's capabilities in this regard. Management believes that privatization will further allow the Company to develop new products for certain segments of the education market.

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

The Company's valuable network of lender clients is an established and reliable nationwide source of loan originations. The Company plans to continue to support and expand its network of lending partners. Leveraging their relationship with the Company, many of these lenders have developed a reputation for service to schools and strong name recognition with students, both of which are critical to being selected as the lender. Although the Company is well known on campuses as the industry's leading servicer of student loans, it is less well known among families who are in need of college loans. The Company plans to heighten its visibility with consumers to favorably position itself for future new product offerings. It also plans to continue to build strong relationships with colleges and families by providing state-of-the-art loan origination capabilities, best-in-class loan servicing and preferred loan programs. The Company expects to pursue its historic emphasis on product and distribution innovation as it periodically assesses the course to best maximize shareholder value.

Privatization is expected to give the Company enhanced flexibility to explore and undertake new ventures consistent with the foregoing strategy to expand its higher education franchise. In addition, privatization will permit the Company to pursue opportunities outside of higher education. In pursuing such opportunities, the Company expects to (i) leverage its servicing and technology expertise in the non-student loan market, (ii) capitalize on its unique consumer database, and (iii) build upon its existing school and lender relationships.

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

PRODUCTS AND SERVICES

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

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

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

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

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

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

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

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

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

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

reduce interest costs for use of automatic debit accounts. The Company also provides financial aid administrators at colleges and universities with innovative products and services that simplify the lending process, including electronic funds transfer services and loan information and management software that enables college application data to be transferred electronically between program participants.

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

SERVICING

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

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

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

Management believes that a long-term commitment to developing loan servicing expertise and efficiency has created new opportunities for the Company. The Company is beginning to bid on federal and state government contracts to provide various services including loan collection, claims processing, and administration of prepaid tuition plan records. It is expected that privatization will allow for new opportunities for government contracting and third-party servicing activities for the Company. The Company plans to continue to implement strategies intended to increase awareness of its servicing capability among potential customers and highlight the earnings capacity of the servicing operations for investors.

SPECIALIZED FINANCIAL SERVICES

The Company has engaged in a number of specialty financial services related to higher education credit, including collateralized financing of FFELP and other education loan portfolios (warehousing advances), credit support for student loan revenue bonds, portfolio investments of student loan revenue and facilities bonds, underwritings of academic facilities bonds and surety bond support for non-federally insured student loans.

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

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

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

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

FINANCING/SECURITIZATION

The Company obtains funds for its GSE operations primarily from the sale of GSE debt securities in the domestic and overseas capital markets, through public offerings and private placements of U.S. dollar and foreign currency denominated debt of varying maturities and interest rate characteristics. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS." Sallie Mae debt securities are currently rated at the highest credit rating level by Moody's Investor Services and Standard & Poors, in part due to Sallie Mae's current status as a GSE. The GSE is expected to retain its credit ratings after the Reorganization.

The GSE uses interest rate and currency exchange agreements (collateralized where appropriate), U.S. Treasury securities, interest rate futures contracts and other hedging techniques to reduce the exposure to interest rate and currency fluctuations arising out of its financing activities and to match the characteristics of its assets and liabilities. The GSE has also issued preferred stock to obtain funds. The Reorganization provides for access to GSE debt to fund student loans and other permitted asset acquisitions with maturity dates through September 30, 2008. In connection with such dissolution, Sallie Mae must transfer any remaining GSE obligations into a defeasance trust for the benefit of the holders of such obligations with cash or full faith and credit obligations of the United States, or an agency thereof, in amounts sufficient, as determined by the

Secretary of the Treasury, to pay the principal and interest on the deposited obligations. If Sallie Mae has insufficient assets to fully fund such GSE debt, the Holding Company must transfer sufficient assets to the trust to account for this shortfall. The Privatization Act requires that prior to the dissolution of Sallie Mae on or before September 30, 2008, Sallie Mae shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding preferred stock.

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

Management believes that the initial financing requirements of the Holding Company will be minimal and can be accommodated through a number of alternative sources, including public and private debt placement, bank borrowings and dividends from subsidiaries. Securitization is expected to provide the principal funding source for the anticipated student loan purchases of the Holding Company. However, there will be a need for on-balance sheet financing for such activities during the period prior to securitization. Such financings may require the Holding Company to obtain a bond rating. Ratings for Holding Company debt will not be known until specific debt is issued. It is expected that these ratings will be below the GSE's current credit rating levels.

OPERATIONS FOLLOWING THE REORGANIZATION

Privatization will enable the Company to commence new business activities without regard to the GSE's charter restrictions immediately after the Effective Time. The Privatization Act also provides for a wind-down of the GSE's business operations by September 30, 2007. At the time of the Reorganization or as soon as practicable thereafter, the GSE will transfer personnel and certain assets to the Holding Company or other non-GSE affiliates. Student loans, warehousing advances and other program-related or financial assets (such as portfolio investments, letters of credit, swap agreements and forward purchase commitments) are generally not expected to be transferred. During the wind-down period following the Reorganization, the GSE generally will be prohibited from conducting new business except in connection with student loan purchases through September 30, 2007 or with other outstanding contractual commitments and from issuing new debt obligations which mature beyond September 30, 2008. However, neither the Holding Company nor any of its non-GSE affiliates may purchase FFELP loans for so long as the GSE remains an active purchaser in this secondary market. See "REGULATION -- Operating Restrictions Following Reorganization." During the wind-down period, GSE operations will be managed pursuant to arms-length service agreements between the GSE and one or more of its non-GSE affiliates. The Privatization Act also provides certain restrictions on intercompany relations between the GSE and its affiliates during the wind-down period. See "PRIVATIZATION ACT -- Separate Operation of Corporations."

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

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

In exchange for the payment of $5 million to the D.C. Financial Control Board the non-GSE subsidiaries may continue to use the "Sallie Mae" name, but not the name "Student Loan Marketing Association," with certain interim disclosure requirements in connection with advertising and promotional materials.

COMPETITION

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

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

The Company also faces competition from the FDSLP, both for new and existing loan volume. Based upon current Department of Education projections, the Company estimates that total student loan origination for the academic years 1994-95, 1995-96 and 1996-97 were $22.3 billion, $24.3 billion and $26.0 billion, respectively, of which FDSLP originations represented approximately 7%, 31% and 36%, respectively. Loans made under the direct loan program are not available for purchase by the Company. The Department of Education has also begun to offer FFELP borrowers the opportunity to refinance or consolidate FFELP loans into FDSLP loans upon certification that the holder of their FFELP loans does not offer a satisfactory income-sensitive payment plan. Approximately $320 million of the GSE's FFELP loans have been consolidated into the FDSLP. In early 1995, the GSE began offering an income-sensitive plan to compete with FDSLP refinancing. However, the FDSLP also provides an income contingent option not available under the FFELP program pursuant to which the government will ultimately forgive student loan debt after 25 years. At this time it is not certain what action, if any, the Congress will take with regard to the FDSLP in connection with the reauthorization of the Higher Education Act.

PROPERTIES

The Company's principal offices are located at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007 and at a 31-acre site in Reston, Virginia owned by the Company.

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

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

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

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

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

EMPLOYEES

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

LEGAL PROCEEDINGS

OBRA included a provision which applied a 30 basis point per annum fee to student loans held by Sallie Mae. The Secretary of Education interpreted the provisions of OBRA in such a manner as to apply that fee not only to loans held by Sallie Mae but also to loans sold by Sallie Mae to securitization trusts. In April 1995, the Company filed suit in the U.S. District Court for the District of Columbia to challenge the constitutionality of the 30 basis point fee and the application of the fee to loans securitized by the Company. On November 16, 1995, the District Court ruled that the fee is constitutional, but that, contrary to the Secretary of Education's interpretation, the fee does not apply to securitized loans. Both Sallie Mae and the United States appealed. On January 10, 1997, the U.S. Court of Appeals for the District of Columbia issued a decision affirming the District Court's ruling as to the constitutionality of the fee, and striking down the interpretation of OBRA by which the Secretary of Education had sought to apply the fee to securitized loans. Under the Court of Appeals' decision, however, the case was remanded to the District Court for remand to the Secretary of Education. At this time, it is uncertain whether the Secretary of Education will seek to develop a new interpretation of OBRA in a further attempt to apply the fee to securitized loans, and whether any such interpretation could withstand legal challenge.

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

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

REGULATION

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

CURRENT REGULATION

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

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

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

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

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

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

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

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

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

Like other participants in the insured student loan programs, Sallie Mae is subject, from time to time, to review of its student lending operations by the General Accounting Office, the Department of Education and certain guarantee agencies. In addition, as a servicer of student loans, Sallie Mae is subject to certain U.S. Department of Education regulations regarding financial responsibility and administrative capability that govern all third party servicers of insured student loans. Except for certain charter amendments effected by the

Privatization Act and described below under "Operating Restrictions Following Reorganization," these restrictions and exemptions remain unchanged for GSE operations following the Reorganization.

OPERATING RESTRICTIONS FOLLOWING REORGANIZATION

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

NON-DISCRIMINATION AND LIMITATIONS ON AFFILIATION WITH DEPOSITORY INSTITUTIONS

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

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

CAPITALIZATION

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

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

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

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

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

SELECTED FINANCIAL DATA

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

	YEARS ENDED DECEMBER 31,				
(DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS)	1996	1995(1)	1994(1)	1993(1)	1992(1)
OPERATING DATA:					
Net interest income(2)	$ 859	$ 893	$ 940	$ 938	$ 834
Net income	419	496	403	430	394
Earnings per common share	7.32	7.20	4.91	4.83	4.21
Dividends per common share	1.64	1.51	1.42	1.25	1.05
Return on common stockholders' equity	50.13%(4)	39.85%(4)	29.06%(4)	40.26%	40.22%
BALANCE SHEET DATA:					
Student loans purchased	$32,308	$34,336	$30,370	$26,804	$24,173
Student loan participations	1,446	-	-	-	-
Warehousing advances	2,789	3,865	7,032	7,034	8,085
Academic facilities financings	1,473	1,312	1,548	1,359	1,189
Total assets	47,630	50,002	52,961	46,509	46,621
Long-term notes	22,606	30,083	34,319	30,925	30,724
Total borrowings	44,763	47,530	50,335	44,544	44,440
Stockholders' equity	1,048(4)	1,081(4)	1,471(4)	1,280	1,220
Book value per common share	15.53	15.03	17.10	12.69	11.25
OTHER DATA:					
Securitized student loans outstanding	$ 6,263	$ 954	$ -	$ -	$ -
Core earnings(3)	391	491	338	385	394
Core earnings per common share(3)	6.82	7.12	4.11	4.31	4.21
Net interest margin(2)	1.89%	1.82%	2.06%	2.23%	1.98%
Core net interest margin(3)	1.80	1.80	1.86	2.05	1.98

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

(2) For the years ended December 31, 1996, 1995, 1994, 1993 and 1992, premiums on debt extinguished totaled $7 million, $8 million, $14 million, $211 million and $141 million, respectively. Such amounts are disclosed separately, net of tax, in the Consolidated Statements of Income. Net interest income is adjusted to include premiums on debt extinguished. Net interest margin is determined based upon taxable equivalent net interest income adjusted to include premiums on debt extinguished.

(3) Core earnings are net earnings before the impact of net floor revenue.

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

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

FORWARD-LOOKING INFORMATION

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

OVERVIEW

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

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

Sallie Mae's net income was $419 million ($7.32 per common share) in 1996 compared to $366 million ($5.27 per common share) in 1995, before the cumulative effect of an accounting change. Sallie Mae's core earnings (i.e., before the impact of net floor revenue) were $391 million ($6.82 per common share) in 1996, an 8 percent increase from $361 million ($5.19 per common share) in 1995.

The net income increase of $53 million (15 percent) in 1996 was primarily a result of continued growth in managed student loan assets, the acceleration of income recognition with the securitization of student loans, lower short-term U.S. Treasury rates which resulted in higher floor revenues, lower operating and servicing expenses and a one-time gain resulting from the successful outcome of a lawsuit against the federal government regarding special allowance payments ("SAP") on certain loans. These positive factors were somewhat offset by the increasing percentage of owned student loans subject to the annual 30 basis point offset fee (unique to Sallie Mae), risk sharing on defaulted loans (applicable to loans originated on or after October 1, 1993), loan origination fees and rebates to the Department of Education on consolidation loans, increased leverage and additions to loss reserves. Earnings per common share were further enhanced by repurchases of 4.6 million shares of common stock in 1996.

Student loans added to the ExportSS(R) ("ExportSS") pipeline, which represents loan volume serviced by and committed for sale to Sallie Mae, totaled $4.2 billion during 1996, compared to $4.7 billion in the prior year. The decrease occurred as a result of the substantial growth in direct lending by the federal government.

The outstanding portfolio of loans serviced for ExportSS lenders totaled $4.0 billion at December 31, 1996, down 11 percent from $4.5 billion at December 31, 1995. In addition to the ExportSS pipeline, at December 31, 1996 Sallie Mae was servicing for a fee $590 million of loans that will eventually be sold to the Chase Joint Venture. Sallie Mae will effectively obtain a one-half ownership interest in these loans upon their sale to the Chase Joint Venture.

In 1996, loan purchases totaled $9.9 billion, up 5 percent over $9.4 billion in 1995. The 1996 loan purchases include $1.5 billion of student loan participation purchases from the Chase Joint Venture. Approximately two-thirds of the non-joint venture purchase volume in 1996 was derived from Sallie Mae's base of commitment clients, particularly those who used the ExportSS loan origination service.

Total operating expenses decreased from $439 million in 1995 to $406 million in 1996. The decrease was due principally to the divestiture of a majority interest in the CyberMark subsidiary in the second quarter of 1996, which reduced year over year operating expenses by $20 million, lower salaries related to reduced corporate staffing, lower professional fees and servicing efficiencies which were offset by expenses associated with growth in student loan servicing volume. (See "Operating Expenses" for further discussion.)

The 1992 legislated expansion of student eligibility and increases in loan limits resulted in higher average student loan balances which generally command a higher price in the secondary market and contribute to lower servicing costs as a percent of the average balance of managed student loans. During 1996, servicing costs decreased to 55 basis points of average managed student loans compared with 62 basis points in 1995 due principally to increased average student loan balances and to servicing efficiencies realized through the consolidation of servicing operations and recent technology investments.

During 1996, Sallie Mae repurchased 4.6 million shares of its common stock, leaving 53.7 million shares outstanding at December 31, 1996. As of December 31, 1996 Sallie Mae had repurchased nearly all of the 20 million shares which, in May 1995, it announced it would repurchase over a two year period. The funds necessary to complete the repurchase in that relatively short timeframe came from the combination of current earnings, increased leverage, and reduced asset balances. As of December 31, 1996, the Company had authority to repurchase up to an additional 5 million shares, pursuant to a May 1996 resolution of the Board.

During 1996, Sallie Mae issued $8.3 billion of long-term notes to refund maturing and repurchased debt obligations. In addition, during 1996, Sallie Mae completed four securitization transactions in which it sold a total of $6.0 billion of student loans to trusts which issued non-GSE securities backed by these loans. Access to the market for asset-backed securities has enabled Sallie Mae to diversify its funding sources and will continue to be an important source of funding in the future. The Company currently anticipates securitizing between $7 billion and $9 billion of loans in 1997.

SELECTED FINANCIAL DATA
CONDENSED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,			INCREASE (DECREASE) 1996 VS. 1995		INCREASE (DECREASE) 1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Net interest income	$ 866	$ 901	$ 981	$ (35)	(4)%	$(80)	(8)%
Other operating income	147	50	14	97	191	36	265
Operating expenses	406	439	390	(33)	(8)	49	13
Federal income taxes	183	141	176	42	30	(35)	(20)
Income before premiums on debt extinguished	424	371	429	53	14	(58)	(14)
Premiums on debt extinguished, net of tax	(5)	(5)	(9)	-	2	4	47
NET INCOME	419	366	420	53	15	(54)	(13)
Preferred stock dividend	11	11	11	-	-	-	-
Net income attributable to common stock	$ 408	$ 355	$ 409	$ 53	15%	$(54)	(13)%
EARNINGS PER COMMON SHARE	$7.32	$5.27	$5.13	$2.05	39%	$.14	3%
Dividends per common share	$1.64	$1.51	$1.42	$ .13	9%	$.09	6%
CORE EARNINGS	$ 391	$ 361	$ 356	$ 30	8%	$ 5	1%
CORE EARNINGS PER COMMON SHARE	$6.82	$5.19	$4.32	$1.63	31%	$.87	20%

CONDENSED BALANCE SHEETS

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

RESULTS OF OPERATIONS

Sallie Mae's net income was $419 million ($7.32 per common share) for 1996 compared to $366 million ($5.27 per common share) in 1995 before the cumulative effect of an accounting change. Sallie Mae's core earnings (i.e., before the impact of net floor revenue) were $391 million ($6.82 per common share) in 1996, an 8 percent increase from $361 million ($5.19 per common share) in 1995.

The net income increase of $53 million (15 percent) in 1996 was primarily a result of continued growth in managed student loan assets, the acceleration of income recognition associated with the securitization of student loans, lower short-term U.S. Treasury rates which resulted in higher floor revenues, lower operating and servicing expenses and a one-time gain resulting from the successful outcome of a lawsuit against the federal government regarding SAP on certain student loans. These positive factors were somewhat offset by the increasing percentage of owned student loans subject to the 30 basis point offset fee (unique to Sallie Mae), risk sharing on defaulted loans (applicable to loans originated on or after October 1, 1993), loan origination fees and rebates to the Department of Education on consolidation loans, increased leverage and additions to loss reserves. Earnings per common share were further enhanced by repurchases of 4.6 million shares of common stock in 1996.

OBRA imposed legislative fees and risk-sharing on Sallie Mae and other participants in the Federal Family Education Loan Program ("FFELP") including an offset fee applicable only to Sallie Mae, consolidation loan rebate fees, and risk-sharing on defaulted loans applicable to all FFELP participants. These fees and reserves for risk-sharing on Sallie Mae's on-balance sheet portfolio of student loans reduced net income by $62 million ($1.11 per common share), $37 million ($.55 per common share) and $17 million ($.21 per common share) in 1996, 1995 and 1994, respectively. In addition to these fees, OBRA also imposed other yield reductions on all FFELP participants. Sallie Mae effectively shares the costs of these reductions through pricing on its secondary market purchases. Management believes the spreads earned on Sallie Mae's portfolio of student loans will continue to be adversely affected as a result of these changes to the FFELP program for the next several years as older loans in its portfolio, which were not affected by OBRA, amortize and are replaced by more recently originated loans which are affected by OBRA.

The following table analyzes the earning spreads on student loans for 1996, 1995 and 1994. Adjusted student loan yields reflect contractual yields adjusted for premiums paid to purchase loan portfolios and the estimated costs of borrower benefits.

STUDENT LOAN SPREAD ANALYSIS

	YEARS ENDED DECEMBER 31,		
	1996	1995	1994
ON-BALANCE SHEET			
Adjusted student loan yields	7.92%	8.40%	7.29%
Amortization of floor swap payments	.07	-	-
Floor income	.13	.04	.44
Direct OBRA costs	(.29)	(.17)	(.09)
Student loan income	7.83	8.27	7.64
Cost of funds	(5.49)	(5.95)	(4.69)
Student loan spread	2.34%	2.32%	2.95%
Core student loan spread	2.21%	2.28%	2.51%
OFF-BALANCE SHEET			
Gain on securitization	1.22%	-%	-%
Servicing and securitization revenue	1.43%	.80%	-%
AVERAGE BALANCES (IN MILLIONS OF DOLLARS)			
Student loans, including participations	$33,273	$32,758	$28,642
Securitized loans	4,020	177	-
Managed student loans	$37,293	$32,935	$28,642

The decrease in the core student loan spread in 1996 was due principally to higher OBRA fees, the effect of lower yielding student loan participations and increased reserves offset by the impact of the monetization of student loan floors and a one time gain from the successful outcome of the special allowance litigation.

Student loan floor revenues

Holders of FFELP loans qualify for the federal government's SAP. Depending on the loan's status and when it was originated, the SAP increases the yield on loans to a variable 91-day Treasury bill-based rate plus 2.50 percent, 3.10 percent, 3.25 percent or 3.50 percent, if that yield exceeds the borrower's fixed or annually reset stated interest rate. Thus the rate earned by holders of student loans varies with the 91-day Treasury bill rate except in low interest rate environments when the stated interest rate on the borrower's loan exceeds the variable 91-day Treasury bill rate plus the SAP spread and becomes, in effect, a floor rate. The floor effect enables Sallie Mae to earn wider spreads on these student loans since Sallie Mae's cost of funds, which is indexed to the Treasury bill rate, reflects lower variable market rates. The floor generally becomes a factor when the Treasury bill rate is less than 5.90 percent. For loans which have fixed borrower rates, the floor remains a factor until Treasury bill rates rise. For loans with annually reset borrower rates, the floor is a factor until either Treasury bill rates rise or the rate is reset which occurs on July 1 of each year.

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

Securitization

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

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

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

In the following tables, taxable equivalent net interest income and net interest margins are adjusted to include premiums on debt extinguished (such amounts are disclosed separately, net of tax, in the Consolidated Statements of Income). The taxable equivalent adjustment reflects the impact of certain tax-exempt and tax-advantaged investments.

NET INTEREST INCOME

	YEARS ENDED DECEMBER 31,			INCREASE (DECREASE) 1996 VS. 1995		INCREASE (DECREASE) 1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Interest income							
Student loans	$2,607	$2,708	$2,189	$(101)	(4)%	$519	24%
Warehousing advances	194	408	334	(214)	(53)	74	22
Academic facilities financings	100	108	102	(8)	(7)	6	6
Investments	542	697	499	(155)	(22)	198	40
Taxable equivalent adjustment	36	52	54	(16)	(30)	(2)	(5)
Total taxable equivalent interest income	3,479	3,973	3,178	(494)	(12)	795	25
Interest expense	2,577	3,020	2,143	(443)	(15)	877	41
Premiums on debt extinguished	7	8	14	(1)	(2)	(6)	(47)
Taxable equivalent net interest income	$ 895	$ 945	$1,021	$ (50)	(5)%	$(76)	(8)%

The decrease in taxable equivalent net interest income in 1996 was primarily a result of the increasing percentage of owned student loans subject to the 30 basis point offset fee (unique to Sallie Mae) and risk sharing on defaulted loans (applicable to loans originated on or after October 1, 1993), loan origination fees and rebates to the Department of Education on consolidation loans, additions to loss reserves and lower average earning assets. The impact of the fees paid directly by Sallie Mae and reserves for risk-sharing on defaulted loans relating to OBRA reduced taxable equivalent net interest income and net interest margin by $96 million and .20 percent, respectively, in 1996 as compared to $57 million and .11 percent, respectively, in 1995 and $26 million and .05 percent in 1994, respectively. These negative factors were somewhat offset by the continued growth in managed student loan assets, lower short-term Treasury rates which result in higher floor revenue and the successful outcome of the SAP litigation.

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

AVERAGE BALANCE SHEETS

	YEARS ENDED DECEMBER 31,					
	1996		1995		1994	
	BALANCE	RATE	BALANCE	RATE	BALANCE	RATE
AVERAGE ASSETS						
Student loans	$33,273	7.83%	$32,758	8.27%	$28,642	7.64%
Warehousing advances	3,206	6.04	6,342	6.43	6,981	4.82
Academic facilities financings	1,500	8.43	1,527	8.92	1,489	8.63
Investments	9,444	5.85	11,154	6.46	11,283	4.64
Total interest earning assets	47,423	7.34%	51,781	7.67%	48,395	6.57%
Non-interest earning assets	1,858		1,673		1,240	
Total assets	$49,281		$53,454		$49,635	
AVERAGE LIABILITIES AND STOCKHOLDERS' EQUITY						
Six month floating rate notes	$ 2,485	5.42%	$ 3,609	5.86%	$ 3,410	4.52%
Other short-term borrowings	18,366	5.43	11,802	5.88	13,167	4.43
Long-term notes	26,024	5.58	35,373	6.00	30,397	4.67
Total interest bearing liabilities	46,875	5.51%	50,784	5.96%	46,974	4.59%
Non-interest bearing liabilities	1,377		1,237		977	
Stockholders' equity	1,029		1,433		1,684	
Total liabilities and stockholders' equity	$49,281		$53,454		$49,635	
Net interest margin		1.89%		1.82%		2.11%
Core net interest margin		1.80%		1.80%		1.91%
Managed net interest margin		1.95%		1.82%		2.11%
Managed core net interest margin		1.86%		1.79%		1.91%

The following table summarizes the average balance of debt (by index after giving effect to the impact of interest rate swaps) for the years ended December 31, 1996, 1995 and 1994 (dollars in millions). The average rates of total notes were adjusted to include premiums on debt extinguished.

	YEARS ENDED DECEMBER 31,					
	1996		1995		1994	
INDEX	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE	AVERAGE BALANCE	AVERAGE RATE
Treasury bill, principally 91-day	$35,375	5.48%	$34,039	5.93%	$31,204	4.70%
LIBOR	7,797	5.38	14,290	5.87	11,888	4.03
Discount notes	2,694	5.35	1,209	5.85	2,718	4.48
Fixed	720	6.81	811	6.68	792	6.60
Zero coupon	123	11.12	123	11.06	111	11.06
Other	166	4.93	312	6.11	261	5.71
Total	$46,875	5.51%	$50,784	5.96%	$46,974	4.59%

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

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

RATE/VOLUME ANALYSIS

	TAXABLE EQUIVALENT INCREASE (DECREASE)	INCREASE (DECREASE) ATTRIBUTABLE TO CHANGE IN	
		RATE	VOLUME
1996 VS. 1995			
Taxable equivalent interest income	$ (494)	$(202)	(292)
Interest expense and premiums on debt extinguished	(444)	(176)	(268)
Taxable equivalent net interest income	$ (50)	$ (26)	(24)
1995 VS. 1994			
Taxable equivalent interest income	$ 795	$ 540	$255
Interest expense and premiums on debt extinguished	871	644	227
Taxable equivalent net interest income	$ (76)	$(104)	$ 28

The $26 million decrease in taxable equivalent net interest income attributable to change in rates in 1996 was principally due to increased OBRA costs, an increase in student loan reserves and an increased leverage offset by $43 million in pre-tax floor revenues versus $14 million in 1995, revenue from the amortization of student loan floors of $22 million, the successful outcome of the SAP litigation, and a higher percentage of student loans relative to average earning assets. The $24 million decrease in volume is due to the decrease in warehousing advances and investments.

The $104 million decrease attributable to the change in rates in 1995 was due to $99 million of pre-tax student loan net floor revenue in 1994 versus $14 million of pre-tax floor revenue in 1995 and declining core spreads on student loans. Core student loan spreads declined due principally to the growth in the proportion of student loans subject to the fees and risk-sharing resulting from OBRA. Also contributing to the decline were the relatively lower spreads earned on student loans acquired in recent years due to increased competition. These factors were somewhat offset by increased investment spreads and a higher percentage of student loans relative to average earning assets.

OPERATING EXPENSES

Operating expenses include general and administrative costs, costs incurred to service Sallie Mae's managed student loan portfolio and operational costs incurred in the process of acquiring student loan portfolios. Operating expenses are summarized in the following table:

	YEARS ENDED DECEMBER 31,								
	1996			1995			1994		
	CORPORATE	SERVICING AND ACQUISITION	TOTAL	CORPORATE	SERVICING AND ACQUISITION	TOTAL	CORPORATE	SERVICING AND ACQUISITION	TOTAL
Salaries and employee benefits	$ 68	$138	$206	$ 75	$138	$213	$ 68	$128	$196
Occupancy and equipment	24	60	84	25	49	74	21	37	58
Professional fees	22	8	30	40	11	51	22	9	31
Office operations	8	32	40	9	35	44	9	34	43
Other	9	2	11	12	1	13	10	2	12
Total internal operating expenses	131	240	371	161	234	395	130	210	340
Third party servicing costs	-	35	35	-	44	44	-	50	50
Total operating expenses	$131	$275	$406	$161	$278	$439	$130	$260	$390
Employees at end of the year	781	4,011	4,792	875	3,866	4,741	876	4,121	4,997

	YEARS ENDED DECEMBER 31,			INCREASE/(DECREASE)			
				1996 VS. 1995		1995 VS. 1994	
	1996	1995	1994	$	%	$	%
Servicing costs	$203	$205	$190	$(2)	(1)%	$15	8%
Acquisition costs	72	73	70	(1)	(2)	3	5
Total acquisition and servicing expenses	$275	$278	$260	$(3)	(1)%	$18	7%

Total operating expenses as a percentage of average managed student loans totaled 109 basis points, 133 basis points and 136 basis points for the years ended December 31, 1996, 1995 and 1994, respectively.

The decrease of $30 million in corporate operating expenses in 1996 versus 1995 was due principally to the divestiture of a majority interest in CyberMark, a wholly-owned subsidiary, during the second quarter of 1996, and lower salaries and professional fees.

Servicing costs include all operations and systems costs incurred to service Sallie Mae's portfolio of managed student loans, including fees paid to third party servicers. When expressed as a percentage of the managed student loan portfolio, servicing costs were 55 basis points, 62 basis points and 66 basis points on average for the years ended December 31, 1996, 1995 and 1994, respectively. Loan acquisition costs are principally costs incurred under the ExportSS loan origination and administration service, the costs of converting newly acquired portfolios onto Sallie Mae's servicing platform or those of third party servicers and costs of loan consolidation activities. The ExportSS service provides back-office support to clients by performing loan origination and servicing prior to the sale of portfolios to Sallie Mae.

FEDERAL AND STATE TAXES

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

business activities will relate to the GSE. As increasing business activities occur outside of the GSE, the effects of state and local taxes are expected to increase accordingly.

LIQUIDITY AND CAPITAL RESOURCES

Sallie Mae secures financing to fund the purchase of insured student loans, warehousing advances and its operations. To meet these financing needs, Sallie Mae sells debt securities in the domestic and overseas capital markets, through public offerings and private placements of U.S. dollar and foreign currency denominated debt of varying maturities and interest rate characteristics. Sallie Mae's debt securities are currently rated at the highest credit rating level by Moody's Investor Services and Standard & Poors. The GSE is expected to retain its credit ratings after the Reorganization.

Sallie Mae uses interest rate and foreign currency swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce the exposure to interest rate and currency fluctuations that arise from its financing activities and to match the characteristics of its variable interest rate earning assets (See "Interest Rate Risk Management"). During 1996, Sallie Mae issued $8.3 billion of long-term notes to refund maturing and repurchased obligations. Sallie Mae has also issued adjustable rate cumulative preferred stock, common stock, common stock warrants and puts, and subordinated debentures convertible to common stock, to diversify its funding sources.

Management believes that the initial financing requirements of the Holding Company will be minimal and can be accommodated through a number of alternative sources, including public and private debt placement, bank borrowings and dividends from subsidiaries. Securitization is expected to provide the principal funding source for the anticipated student loan purchase activities of the Holding Company. However, there will be a need for on-balance sheet financing for such activities during the period prior to securitization. Such financings may require the Holding Company to obtain a bond rating. Ratings for Holding Company debt will not be known until specific debt is issued. It is expected that these ratings will be below the GSE's current credit rating levels.

Financing and Securitization

Sallie Mae's unsecured borrowings typically have terms to maturity which are of a shorter duration than the student loans. In addition, Sallie Mae is assessed a 30 basis point annual offset fee on student loans that it holds, which effectively raises the cost of funding such assets on balance sheet. Since 1995, Sallie Mae has further diversified its funding sources independent of its GSE borrower status by securitizing a portion of its student loan assets. A securitization involves the sale of student loans by Sallie Mae to a special purpose finance subsidiary and by the subsidiary to a trust. The trust funds the student loans to term through the public issuance of student loan asset-backed securities ("ABS securities"). As student loans are securitized, Sallie Mae's on-balance sheet funding needs are reduced. During 1996, Sallie Mae completed four transactions in which it sold a total of $6.0 billion of student loans to trusts which issued securities backed by the loans.

While ABS securities generally have a higher cost of funds than Sallie Mae's traditional on-balance sheet financing (due principally to term match-funding and the fact that ABS securities do not benefit from Sallie Mae's government-sponsored enterprise status), management believes that securitization is an efficient use of capital. See "Results of Operations -- Securitizations" for discussion of the offset fee litigation. Management believes that securitization will grow in importance as a source of funding for the Company.

Statutory Capital Adequacy Ratio

The Sallie Mae Charter, as most recently amended, by The Student Loan Marketing Association Reorganization Act of 1996 ("The Privatization Act") effectively requires that Sallie Mae maintain a minimum statutory capital adequacy ratio (the ratio of stockholders' equity to total assets plus 50 percent of the credit equivalent amount of certain off-balance sheet items) of at least 2 percent until January 1, 2000 and 2.25 percent thereafter or be subject to certain "safety and soundness" regulations designed to restore such

statutory ratio. At December 31, 1996, Sallie Mae's statutory capital adequacy ratio was 2.11 percent. Additionally, the Privatization Act now requires management, prior to the payment of dividends by Sallie Mae, to certify to the Secretary of the Treasury, that after giving effect to the payment of dividends, the statutory capital ratio test would have been met at the time the dividend was declared.

Interest Rate Risk Management

Sallie Mae's principal objective in financing its loan assets is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of borrowings to specific assets in order to lock in spreads. Sallie Mae funds its floating rate loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. To achieve a more precise match of interest rate characteristics between loan assets and their related liabilities, Sallie Mae has effectively converted some of its variable rate debt to a different variable rate index with interest rate swaps. At December 31, 1996, $18.0 billion of fixed rate debt and $4.6 billion of variable rate debt were matched with interest rate swaps. Fixed rate debt at December 31, 1996 also funded fixed rate warehousing advances and academic facilities financings. Investments were funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

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

An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during specific future time intervals. The following gap analysis reflects rate-sensitive positions at December 31, 1996 and is not necessarily reflective of positions that existed throughout the period.

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

In low interest rate environments, floor revenues on student loans cause the margins on these loans to widen beyond the locked-in spreads (See "Results of Operations -- Student Loan Floor Revenues" discus-

sion). Such loans continue to be classified in the three months or less category in the table above, reflecting the fact that as interest rates rise these assets will resume their weekly rate reset.

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

AVERAGE TERMS TO MATURITY
(IN YEARS)

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

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

PREFERRED STOCK

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

TRENDS AND UNCERTAINTIES

Privatization

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

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

Sallie Mae operations will be managed by Sallie Mae's non-GSE affiliates. In addition, the Holding Company will remain a passive entity which supports the operations of the GSE and its other subsidiaries, and all business activities would be conducted through the GSE and by such other subsidiaries.

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

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

The Privatization Act imposes certain "execution" or "transaction" costs. Within 60 days after the Merger date, Sallie Mae is required to pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. The Holding Company must issue to the D.C. Financial Control Board 555,015 common stock warrants. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share.

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

Direct Loan Program and 1993 FFELP Changes

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

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

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

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

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

In recent years as the FDSLP has grown, the volume of loans originated by banks and other participants under the FFELP has been adversely impacted. Historically, Sallie Mae has purchased the majority of its student loans as they near the repayment phase which commences after a borrower leaves school. On average there is a two to three year lag between the date a loan is originated and the date it enters repayment. This lag has delayed the adverse affect of FDSLP originations on Sallie Mae's purchases of student loans. As the volume of FDSLP loans reaching the repayment phase increases, Sallie Mae's percentage share of the overall student loan market will decline. In 1994, the Department of Education began to offer existing FFELP borrowers the opportunity to refinance FFELP loans into FDSLP loans. As of December 31, 1996, approximately $346 million of FFELP loans owned by Sallie Mae have been accepted for refinancing into FDSLP loans. Approximately $320 million have been refinanced into FDSLP loans with the remainder awaiting disbursement by the federal government.

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

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

Legislated expansion of student eligibility as well as increases in student and parent loan limits have increased the volume of national loan originations. FFELP originations rose nearly 30 percent year-to-year to about $23 billion for the 1994 federal fiscal year ended September 30, 1994. During the 1995 federal fiscal year, FFELP originations declined to $21 billion due to FDSLP originations totaling $5 billion. Management expects FFELP originations to have declined a similar amount in the 1996 federal fiscal year and to be flat in

1997. In the meantime, however, the competition for FFELP loans has intensified at both the originating and secondary market levels due mainly to the reduced volume and to securitization of student loans, which has developed into a significant funding alternative for FFELP lenders.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

OTHER RELATED EVENTS

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

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

In September 1996, Sallie Mae obtained a declaratory judgment against the Secretary of Education in the U.S. District Court for the District of Columbia. The Court found that the Secretary acted erroneously in refusing to allow Sallie Mae to claim adjustments to SAP on certain FFELP loans which were required to be converted from a fixed rate to a variable rate. As a result, Sallie Mae has recognized a receivable of $9 million for special allowance payments. The Secretary has filed a notice of appeal of the District Court's decision.

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

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

DESCRIPTION OF HOLDING COMPANY CAPITAL STOCK

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

GENERAL

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

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

COMMON STOCK

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

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

PREFERRED STOCK

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

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

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

WARRANTS

Pursuant to the Privatization Act, the Holding Company will issue warrants to purchase 555,015 shares of Holding Company Common Stock to the D.C. Financial Control Board, exercisable at any time prior to September 30, 2008, at $72.43 per share. Such warrants are transferrable.

COMPARISON OF STOCKHOLDER RIGHTS

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

GENERAL

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

BOARD OF DIRECTORS

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

The Holding Company Charter provides that the Holding Company Board shall consist of between 9 and 19 members, with the members to be divided into three classes as described below. The initial number of directors has been established at 18 and may be set, from time to time, by resolution of the Holding Company Board of Directors. The President will not have authority to appoint the members of the Holding Company Board of Directors or to designate the Chairman of the Board. Under the Privatization Act, Sallie Mae directors appointed by the President may not serve on the Holding Company Board. There are no affiliation requirements for Holding Company directors.

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

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

As permitted under the DGCL, the Holding Company Charter provides that the Holding Company Board shall be divided into three classes, with the term of the first class expiring at the annual meeting next ensuing, of the second class one year thereafter, of the third class two years thereafter. At each annual meeting thereafter, directors shall be chosen for a full term, as the case may be, to succeed those whose terms expire.

CUMULATIVE VOTING. The Sallie Mae Charter provides for cumulative voting in the election of directors. Under cumulative voting, each share of stock entitled to vote in an election of directors has such number of

votes as is equal to the number of directors to be elected. A shareholder may then cast all of his or her votes for a single candidate or may allocate them among as many candidates as the shareholder may choose.

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

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

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

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

The DGCL and the Holding Company By-Laws provide that vacancies may be filled by vote of the majority of the remaining directors.

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

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

CAPITALIZATION

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

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

PURPOSE

Under the Sallie Mae Charter, Sallie Mae's corporate purposes generally are to be a private corporation financed by private capital and serving as a secondary market and warehousing facility for student loans, including insured loans, to provide liquidity for student loan investments in order to facilitate secured transactions involving student loans, to assure nationwide the establishment of adequate loan insurance programs for students, and to provide for an additional program of loan insurance to be covered by agreements with the Secretary of Education.

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

DIVIDENDS

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

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

EXEMPTION FROM CERTAIN LAWS

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

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

LIMITATIONS ON DIRECTOR LIABILITY

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

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

INDEMNIFICATION

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

The Holding Company By-Laws contain provisions that provide for indemnity of the Holding Company's officers and directors to the fullest extent permitted under Delaware law. Under Delaware law, a corporation is permitted to indemnify its officers, directors and certain others against any liability incurred in any civil, criminal, administrative or investigative proceeding if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the company, and, with respect to any criminal

proceeding, had no reasonable cause to believe their conduct was unlawful. In addition, under Delaware law, to the extent that a director, officer, employee or agent of a company has been successful on the merits or otherwise in defense of any proceeding referred to above or in defense of any claim, issue or matter therein, he must be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SPECIAL MEETINGS OF STOCKHOLDERS

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

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

AMENDMENT OF GOVERNING DOCUMENTS

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

Under the DGCL, except for certain specified matters requiring only the approval of the board of directors, an amendment or change to the Holding Company Charter must be authorized by the Holding Company Board, followed generally by a vote of the majority of all outstanding shares entitled to vote thereon at a meeting of shareholders. As permitted by the DGCL, the Holding Company Charter provides that amendments thereto relating to the Holding Company Board of Directors must be approved by the affirmative vote of at least 80% of the then outstanding shares of capital stock entitled to vote at an election of directors. In addition, certain specified amendments affecting the rights of holders of a class of securities must be approved by vote of the majority of all outstanding shares of such class entitled to vote thereon, even though they ordinarily would not have voting rights.

BY-LAWS. The Sallie Mae By-Laws may be amended, consistent with the Sallie Mae Charter, by the majority vote of the Sallie Mae Board.

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

UNITED STATES AND DELAWARE LAW

-- ANTI-TAKEOVER LAWS

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

DELAWARE. Section 203 of the DGCL generally prohibits a publicly held Delaware company from engaging in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) prior to the date of the business combination, the transaction is approved by the board of directors of the company, (ii) upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the

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

In addition, certain provisions of the Holding Company Charter may be characterized as anti-takeover in nature. For instance, the Holding Company Charter provides for a classified board which restricts the election of new members of the Holding Company Board constituting a majority of such Board in a single election. In addition, the Holding Company Charter provides for the issuance of preferred stock with such designations, rights and preferences as the Holding Company Board may authorize. Such a provision provides the Holding Company Board with greater flexibility for future financings but may also be viewed as a means to restrict takeover bids. Finally, the Holding Company Charter requires that certain amendments thereto relating to the Board of Directors of the Holding Company be approved by the affirmative vote of at least 80% of the then outstanding shares of capital stock entitled to vote at an election of directors.

-- MERGERS

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

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

-- DISSENTERS' RIGHTS

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

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

MANAGEMENT

HOLDING COMPANY BOARD OF DIRECTORS

Prior to the Effective Time, Sallie Mae, as sole stockholder of the Holding Company, expects to appoint the following persons, each of whom has consented to serve as a member of the Holding Company Board. It is anticipated that prior to completion of this Proxy Statement/Prospectus, Sallie Mae, as sole stockholder, will assign such directors to classes for purposes of term of office based upon the recommendation of the Nominations and Board Affairs Committee of the Sallie Mae Board.

WILLIAM ARCENEAUX*..... Age 55	President, Louisiana Association of Independent Colleges and Universities, Baton Rouge, LA (1987- present). Mr. Arceneaux also is Chairman of CSLA, Inc. and Foundation CODOFIL.
DOLORES E. CROSS**..... Age 58	President, Chicago State University (1990-present), Chicago, Illinois. She is a Director of Northern Trust Company where she serves on the Business Risk and Strategic Planning Committees. Dr. Cross served as a member the Sallie Mae Board of Directors (1992-1995). Dr. Cross also serves as a Trustee of the College Board, New York, New York; as a Director of Campus Compact and of the Association of Black Women in Higher Education. Dr. Cross previously served as Secretary to the Board, American Council on Education. Dr. Cross is Chairman-elect of the American Association of Higher Education.
DAVID A. DABERKO*..... Age 51	Chairman and Chief Executive Officer of National City Corporation (July 1995-present). Mr. Daberko previously served as President and Chief Operating Officer (1993-July 1995) and as Deputy Chairman at National City Corporation (1987-1993), as well as Chairman, National City Bank, both located in Cleveland, OH. He also serves as a director of National City Bank, Cleveland; National City Bank, Columbus; National City Bank, Indiana. He is also on the Boards of Case-Western Reserve University, and the Ohio Foundation of Independent Colleges.
LAWRENCE A. HOUGH..... Age 52	President and Chief Executive Officer of Sallie Mae (July 1990-present). Mr. Hough is a trustee of The George Washington University and the Massachusetts Institute of Technology.
RONALD F. HUNT, ESQ.*..... Age 53	Attorney in New Bern, NC (1990-present). Since 1987 he has served as Corporate Secretary of the College Construction Loan Insurance Association and as a director and Corporate Secretary of Connie Lee Insurance Company and of Connie Lee Management Services Corporation.
THOMAS H. JACOBSEN*..... Age 57	Chairman, President, and Chief Executive Officer of Mercantile Bancorporation Inc., St. Louis, MO (1989-present). Mr. Jacobsen presently serves as director of Trans World Airlines, Inc. and Union Electric Company.

BOBBIE GAUNT..... Age 49	General Marketing Manager, Ford Division, Ford Motor Company, Detroit, MI (1996-present). She previously served as General Sales Manager, Lincoln- Mercury Division, Ford Motor Co. (1993-95) and Director, Marketing Research and Strategies, North American Automotive Operations, Ford Motor Co. (1991-92).
ALBERT L. LORD*..... Age 51	President, LCL, Ltd., Washington D.C. (1994-present). Previously, Mr. Lord served as Executive Vice President and Chief Operating Officer of Sallie Mae (1990-1994). Mr. Lord is a director of Princeton Bank, Princeton, MN (1995-present).
ANN REESE..... Age 42	Executive Vice President and Chief Financial Officer, ITT Corporation (1995-present). Ms. Reese served in various positions of increasing responsibility at ITT Corporation (1987-1995).
LAWRENCE RICCIARDI..... Age 56	Senior Vice President and General Counsel, International Business Machines (1995-present). Previously, Mr. Ricciardi served as President (1993-95), Co-Chairman and Chief Executive Officer (1993) and Executive Vice President & General Counsel (1989-93) of RJR Nabisco Holdings Corporation.
JAMES E. ROHR*..... Age 48	President and Director of PNC Bank Corp., and President and Chief Executive Officer, PNC Bank, N.A., Pittsburgh, PA (1992-present). Mr. Rohr served previously as Vice Chairman of PNC Bank Corp. (1989-1992). Mr. Rohr serves on the boards of Allegheny Corporation, Telephone/Equitable Resources, Inc. and Carnegie-Mellon University.
ROGER SANT..... Age 60	Chairman and Chief Executive Officer, The AES Corporation (1981-present). Mr. Sant is a member of the Board of Marriot International, Inc.
VINCENT SARNI..... Age 68	Chairman and CEO, PPG Industries (1989-1993). Mr. Sarni is a member of the Board of Directors, PPG Industries, Hershey Foods Corporation, LTV Corporation, and PNC Bank Corporation. He also serves as a Trustee Carnegie-Mellon University.
KENNETH A. SHAW**..... Age 57	Chancellor and President, Syracuse University (1991-present), Syracuse, New York. Dr. Shaw is a Director of Unity Mutual Life Insurance Co., Syracuse, New York. Dr. Shaw also served as a member of the Sallie Mae Board of Directors (1993-1995).
WILLIAM EDWARD SIMMS..... Age 52	President (Risk Management Products Services) Reinsurance Division, Transamerica Occidental Life Insurance Company. Mr. Simms also serves on the board of directors of NationsBank, N.A., and is a Partner in the Carolina Panthers football club. Mr. Simms is a member of the board of Trustees, National Urban League.

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

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 * Currently a member of the Sallie Mae Board of Directors.
** Currently a member of the Sallie Mae Board of Directors Advisory Council and formerly a member of the Sallie Mae Board of Directors.

SALLIE MAE BOARD OF DIRECTORS

STATUTORY REQUIREMENTS

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

SHAREHOLDER-ELECTED DIRECTORS:

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
WILLIAM ARCENEAUX(3)(4)(5)..... Director since 5/17/79 Age 55	See "-- Holding Company Board of Directors"
JAMES E. BRANDON, ESQ.(1)..... Director since 7/5/95 Age 70	Attorney and Certified Public Accountant, Amarillo, TX. Mr. Brandon is President and director of National Cattle Co., Inc., Automated Electronics Corp., Park- Princess, Inc., Kirby Royalties, Inc., El Paso Venezuela Company, Oldham Ranches, Inc., Grain Properties, Inc., and investments in real estate. Mr. Brandon is a trustee of Eureka College in Illinois. Mr. Brandon previously served as a director of Sallie Mae from 1982 to 1991.
DAVID A. DABERKO(3)(4)..... Director since 5/20/87 Age 51	See "-- Holding Company Board of Directors"
CHARLES L. DALEY(2)..... Director since 7/5/95 Age 64	Director, Executive Vice President and Secretary of TEB Associates, Inc., Voorhees, NJ, a real estate finance company (1992-Present). Previously, Mr. Daley was Executive Vice President and Chief Operating Officer of First Peoples Financial Corporation (1987-1992) and Executive Vice President and Chief Operating Officer of First Peoples Bank of New Jersey (1984-1992.)
RONALD F. HUNT, ESQ.(2)(4)..... Director since 7/5/95 Age 53	See "-- Holding Company Board of Directors"
THOMAS H. JACOBSEN(3)..... Director since 1/20/87 Age 57	See "-- Holding Company Board of Directors"
BENJAMIN J. LAMBERT, III(3)..... Director since 7/5/95 Age 57	Virginia State Senator and optometrist, Richmond, VA (1962-Present). Mr. Lambert is currently a director of Consolidated Bank & Trust Company, Virginia Power and Dominion Resources. Mr. Lambert is also Secretary of the Board of Trustees of Virginia Union University.
ALBERT L. LORD(2)(4)..... Director since 7/5/95 Age 51	See "-- Holding Company Board of Directors"
A. ALEXANDER PORTER, JR.(1)..... Director since 7/5/95 Age 57	President, Porter, Felleman, Inc., New York, NY (1983-Present). Mr. Porter is a trustee of Davidson College in North Carolina.
JAMES E. ROHR(3)..... Director since 5/27/93 Age 58	See "-- Holding Company Board of Directors"

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
STEVEN L. SHAPIRO(3)..... Director since 7/5/95 Age 56	Chairman of Alloy, Silverstein, Shapiro, Adams, Mulford & Co., Certified Public Accountants, Cherry Hill, NJ (1960-Present). Mr. Shapiro is Commissioner of the New Jersey Casino Reinvestment Development Authority and Trustee of the West Jersey Hospital Foundation. Mr. Shapiro is also a member of the Executive Advisory Council of Rutgers University and serves on the board of Carnegie Bancorp, Princeton, NJ.
JOHN W. SPIEGEL(3)..... Director since 5/27/93 Age 55	See "-- Holding Company Board of Directors"
DAVID J. VITALE(2)(4)..... Director since 5/19/77 Age 50	Vice Chairman of First Chicago NBD Corporation and President of First National Bank of Chicago, Chicago, IL (1995-Present). In 1995, Mr. Vitale served as Senior Risk Management Officer. He previously served as Vice Chairman (1993-1995) of the First National Bank of Chicago and First Chicago Corporation, Chicago, IL and as Executive Vice President of First Chicago Corporation (1986-1993). Mr. Vitale is a director of First Chicago Investment Management Company, Chicago, IL.
RANDOLPH H. WATERFIELD, JR.(1)..... Director since 7/5/95 Age 65	Certified Public Accountant and Accounting Consultant, Barnegat Light, NJ (1990-Present). Mr. Waterfield currently serves as a trustee of Drexel University.

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(1) Affiliated with eligible institutions.

(2) Affiliated with eligible lenders.

(3) Affiliated with eligible institutions and eligible lenders.

(4) Member of the Executive Committee.

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

PRESIDENTIAL APPOINTEES:

THE FOLLOWING DIRECTORS, APPOINTED BY THE PRESIDENT OF THE UNITED STATES PURSUANT TO SECTION 439(C)(1)(A) OF THE SALLIE MAE CHARTER, SERVE AT THE PLEASURE OF THE PRESIDENT OF THE UNITED STATES AND ARE NOT ELECTED BY SHAREHOLDERS.

NAME AND AGE AT DECEMBER 31, 1996	PRIMARY EMPLOYMENT DURING THE PAST FIVE YEARS AND DIRECTORSHIPS AT DECEMBER 31, 1996
MITCHELL W. BERGER, ESQ.(4)..... Director since 3/25/94 Age 40	President and Founder of the Fort Lauderdale, FL law of Berger & Davis, P.A. (1985-Present). Mr. Berger currently serves on the Board of Governors of the Nova University School of Business and is a Commissioner on The Florida Environmental Regulation Commission (1991-Present). In 1994, Mr. Berger served as Co-Chair of the Community Relations Committee for the Summit of the Americas in Miami, FL. Mr. Berger was recently appointed by the Governor of Florida to serve on the Board of the South Florida Water Management District.
KRIS E. DURMER, ESQ. ..... Director since 3/25/94 Age 47	Attorney, Kris E. Durmer Law Office, Nashua, NH (1994-Present). Prior to his current position, Mr. Durmer was director of the law firm Currier, Zall, Durmer, Shepard & Barry, P.A. (1988-1993).
DIANE S. GILLELAND..... Director since 3/25/94 Age 50	Senior Fellow, American Council on Education (as of January 1, 1997) and Director, Arkansas Department of Higher Education, Little Rock, AR (1990-Present). She currently serves on the boards of several organizations including the Board of the Arkansas School of Mathematics and Science.
REGINA T. MONTOYA, ESQ.(4)..... Director since 3/25/94 Age 43	President of WorkRules Company, a consulting firm and Visiting Professor at the University of Texas at Dallas since September 1995. Ms. Montoya was elected national president of Girls Incorporated in April 1996. Ms. Montoya has also been a political analyst for KDFW-TV since August 1995. Previously, Ms. Montoya served as President of Jayhawk, Inc. and Vice President for Special Projects and Special Advisor to the Chairman of the Board of Westcott Communications, Inc. Dallas, TX (1994-1995). In 1993, Ms. Montoya served as Assistant to President Clinton and Director of the Office of Intergovernmental Affairs. Ms. Montoya previously worked with the Texas law firm of Godwin & Carlton from September 1990 to January 1993. Ms. Montoya has also served as a member of the Board of Directors of Jayhawk Acceptance Corporation since February 1994, and as a member of the Board of Directors of Trammell Crow Company since December 1993. Ms. Montoya also serves on the Board of Trustees of Wellesley College and is Vice President and member of the Board of Directors of the Harvard Alumni Association.

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

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(1) Affiliated with eligible institutions

(2) Affiliated with eligible lenders

(3) Affiliated with eligible institutions and eligible lenders

(4) Member of the Executive Committee.

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

MEETINGS OF THE BOARD

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

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

The Sallie Mae Board uses a number of committees to assist it in the performance of its duties. Meetings of the committees of the Sallie Mae Board are generally held on the day prior to the regular meetings of the Sallie Mae Board and on such other dates as may be necessary between regular meetings. The present

standing committees are the Audit Committee, the Compensation and Personnel Committee, the Executive Committee, the External Concerns Committee, the Finance Committee, the Nominations and Board Affairs Committee, the Operations Committee, and the Strategic Planning Committee. The purposes of the Audit, Compensation and Personnel, and Nominations and Board Affairs Committees, the identity of their current members, and the number of meetings held during 1996 are set forth below.

AUDIT COMMITTEE. The Audit Committee is empowered to: (1) make recommendations to the Board on the selection of independent auditors; (2) review with independent auditors the scope of their examination and the proposed fee; (3) review with independent auditors the results of the examination; (4) review with management the nature and extent of all non-audit-related services provided to Sallie Mae by the independent auditor; (5) review the management, scope, and results of the internal audit program; and (6) review the Employee Standards of Conduct and the Board of Directors Code of Conduct and employee and director compliance with each.

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

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

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

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

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

DIRECTOR COMPENSATION

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

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

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

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

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

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

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

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

EXECUTIVE OFFICERS OF THE COMPANY

NAMES AND TITLES

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

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

PREVIOUS EXPERIENCE

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

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

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

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

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

EXECUTIVE COMPENSATION

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

REPORT OF THE COMPENSATION AND PERSONNEL COMMITTEE

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compensation and Personnel Committee

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

The individuals listed above constitute the current membership of the Sallie Mae Compensation and Personnel Committee. Messrs. Daley and Shapiro dissented from this Report of the Compensation and Personnel Committee.

COMPENSATION TABLES

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

SUMMARY COMPENSATION TABLE

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

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

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

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

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

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

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

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

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

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

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

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

1996 OPTION GRANTS TABLE

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

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

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

1996 OPTION EXERCISES AND YEAR-END VALUE TABLE

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

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

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

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

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

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

DESCRIPTION OF BENEFIT PLANS

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

PENSION PLANS

PENSION PLAN TABLE
ANNUAL NORMAL RETIREMENT BENEFIT(1)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PERFORMANCE GRAPH

STUDENT LOAN MARKETING ASSOCIATION
FIVE-YEAR CUMULATIVE TOTAL RETURN

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

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

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

(2) Source: Bloomberg Comparative Return Table

TRANSACTIONS WITH AFFILIATED INSTITUTIONS

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

BOARD AND MANAGEMENT OWNERSHIP OF THE COMPANY

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

HOLDING COMPANY

	OWNED(1)	CREDITED TO BENEFIT PLAN ACCOUNT(2)	TOTAL SHARES OWNED AND CREDITED TO BENEFIT PLAN ACCOUNT(3)	MAY BE ACQUIRED WITHIN 60 DAYS(4)
HOLDING COMPANY DIRECTORS				
William Arceneaux	1,475	2,408	3,883	3,000
Dolores E. Cross	150	0	150	0
David A. Daberko	805	3,593	4,398	3,000
Lawrence A. Hough	137,736	6,178	143,914	178,250
Ronald F. Hunt, Esq.	2,731	879	3,610	3,000
Thomas H. Jacobsen	1,625	670	2,295	3,000
Bobbie Gaunt	0	0	0	0
Albert L. Lord	35,300	379	35,679	3,000
Ann Reese	0	0	0	0
Lawrence Ricciardi	0	0	0	0
James E. Rohr	625	362	987	3,000
Roger Sant	0	0	0	0
Vincent Sarni	0	0	0	0
Kenneth A. Shaw	125	831	956	0
William Edward Simms	0	0	0	0
John W. Spiegel	325	268	593	3,000
Peter Ueberroth	0	0	0	0
David J. Vitale	625	12,124	12,749	3,000
HOLDING COMPANY NAMED EXECUTIVE OFFICERS (OTHER THAN HOLDING COMPANY DIRECTORS)				
Robert D. Friedhoff	8,288	206	8,494	65,000
Timothy G. Greene	6,340	2,663	9,003	58,920
Lydia M. Marshall	10,823	1,476	12,299	38,800
Denise B. McGlone	6,502	1,592	8,094	32,500
HOLDING COMPANY DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP	213,475	33,629	247,104	397,470

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

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

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

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

	OWNED(1)	CREDITED TO BENEFIT PLAN ACCOUNT(2)	TOTAL SHARES OWNED AND CREDITED TO BENEFIT PLAN ACCOUNT(3)	MAY BE ACQUIRED WITHIN 60 DAYS(4)
SALLIE MAE DIRECTORS				
William Arceneaux	1,475	2,408	3,883	3,000
Mitchell W. Berger	300	296	596	3,000
James E. Brandon	1,475	683	2,158	3,000
David A. Daberko	805	3,593	4,398	3,000
Charles L. Daley	1,200	190	1,390	3,000
Kris E. Durmer	618	278	896	3,000
Diane S. Gilleland	300	639	939	3,000
Ronald F. Hunt, Esq.	2,731	879	3,610	3,000
Thomas H. Jacobsen	1,625	670	2,295	3,000
Benjamin J. Lambert	200	361	561	3,000
Albert L. Lord	35,300	379	35,679	3,000
Regina T. Montoya	300	278	578	3,000
James E. Moore	800	887	1,687	3,000
Irene Natividad	300	268	568	3,000
A. Alexander Porter, Jr.	21,200	190	21,390	3,000
James E. Rohr	625	362	987	3,000
Steven L. Shapiro	1,200	493	1,693	3,000
John W. Spiegel	325	268	593	3,000
Ronald J. Thayer	300	268	568	3,000
David J. Vitale	625	12,124	12,749	3,000
Randolph H. Waterfield, Jr.	400	485	885	3,000
SALLIE MAE NAMED EXECUTIVE OFFICERS				
Robert D. Friedhoff	8,288	206	8,494	65,000
Timothy G. Greene	6,340	2,663	9,003	58,920
Lawrence A. Hough	137,736	6,178	143,914	178,250
Lydia M. Marshall	10,823	1,476	12,299	38,800
Denise B. McGlone	6,502	1,592	8,094	32,500
SALLIE MAE DIRECTORS AND EXECUTIVE OFFICERS AS A GROUP	241,793	38,114	279,907	436,470

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

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

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

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

PRINCIPAL HOLDERS

Sallie Mae believes the following institutions were beneficial owners of 5% or more of the outstanding shares of Sallie Mae Common Stock at September 30, 1996 based upon information from such institutions and Sallie Mae's records.

PRINCIPAL HOLDERS	SHARES	OWNERSHIP PERCENT AT SEPTEMBER 30, 1996 (UNLESS OTHERWISE NOTED)
FMR Corporation	6,524,690	11.8%
The Capital Group Companies, Inc.(1)	5,315,200	9.76%
Chancellor Capital	4,459,225	8.19%
Scudder Stevens & Clark	3,210,885	5.9%

(1) Certain operating subsidiaries of the Capital Group Companies, Inc. exercised investment discretion over various institutional accounts which held, as of September 30, 1996, 5,315,200 shares of the issue (9.76% of the outstanding shares of the class). Capital Guardian Trust Company, a bank, and one of such operating companies, exercised investment discretion over 1,585,200 of said shares. Capital Research and Management Company, a registered investment adviser had investment discretion with respect to 3,730,000 shares of the above shares.

LEGAL MATTERS

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

EXPERTS

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

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

SALLIE MAE ANNUAL MEETING SHAREHOLDER PROPOSALS

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

By Order of the Board of Directors

Ann Marie Plubell
Vice President, Associate General
Counsel and
Secretary

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors
SLM Holding Corporation

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

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

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

Washington D.C.
February 3, 1997

Ernst & Young LLP

SLM HOLDING CORPORATION
BALANCE SHEET

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

See accompanying notes to balance sheet.

SLM HOLDING CORPORATION

NOTES TO BALANCE SHEET

1. ORGANIZATION AND PRIVATIZATION

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

Privatization

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

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

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

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

SLM HOLDING CORPORATION

NOTES TO BALANCE SHEET -- (CONTINUED)

1. ORGANIZATION AND PRIVATIZATION -- (CONTINUED)

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

The Privatization Act imposes certain "execution" or "transaction" costs. Within 60 days after the merger, Sallie Mae is required to pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. In addition, the Holding Company must issue to the D.C. Financial Control Board 555,015 common stock warrants. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. Beginning in fiscal 1997, and until the GSE is dissolved, Sallie Mae also must reimburse the U.S. Treasury Department up to $800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act.

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

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

2. RISKS AND UNCERTAINTIES

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

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Student Loan Marketing Association

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

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

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

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

Washington, D.C.
January 13, 1997

Ernst & Young LLP

STUDENT LOAN MARKETING ASSOCIATION

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

	DECEMBER 31,	
	1996	1995
ASSETS		
Insured student loans purchased	$32,307,930	$34,336,211
Student loan participations	1,445,596	-
Insured student loans	33,753,526	34,336,211
Warehousing advances	2,789,485	3,865,093
Academic facilities financings	1,473,331	1,312,234
Cash and investments	7,706,469	8,866,975
Other assets, principally accrued interest receivable	1,907,079	1,621,222
Total assets	$47,629,890	$50,001,735
LIABILITIES		
Short-term borrowings	$22,156,548	$17,447,000
Long-term notes	22,606,226	30,082,615
Other liabilities, principally accrued interest payable	1,819,286	1,390,915
Total liabilities	46,582,060	48,920,530
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Preferred stock, par value $50.00 per share, 5,000,000 shares authorized and issued, 4,277,650 outstanding	213,883	213,883
Common stock, par value $.20 per share, 250,000,000 shares authorized: 65,695,571 and 124,121,770 shares issued, respectively	13,139	24,824
Additional paid-in capital	-	537,818
Unrealized gains on investments (net of tax of $188,050 and $199,686, respectively)	349,235	370,846
Retained earnings	1,008,737	2,728,383
Stockholders' equity before treasury stock	1,584,994	3,875,754
Common stock held in treasury at cost: 12,004,976 and 66,415,524 shares, respectively	537,164	2,794,549
Total stockholders' equity	1,047,830	1,081,205
Total liabilities and stockholders' equity	$47,629,890	$50,001,735

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

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

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

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

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

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

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

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

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION

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

1. ORGANIZATION AND PRIVATIZATION

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

Privatization

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

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

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

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

1. ORGANIZATION AND PRIVATIZATION -- (CONTINUED)

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

The Privatization Act imposes certain "execution" or "transaction" costs. Within 60 days after the merger, Sallie Mae is required to pay $5 million to the D.C. Financial Control Board for use of the "Sallie Mae" name. In addition, the Holding Company must issue to the D.C. Financial Control Board 555,015 common stock warrants. These warrants are transferable and exercisable at any time prior to September 30, 2008 at $72.43 per share. Beginning in fiscal 1997, and until the GSE is dissolved, Sallie Mae also must reimburse the U.S. Treasury Department up to $800,000 annually (subject to adjustment based on the Consumer Price Index) for its reasonable costs and expenses of carrying out its supervisory duties under the Privatization Act.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

Loans

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

Investments

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

Student loan income

Student loan servicing costs are generally incurred in a fixed amount per borrower and thus increase in proportion to principal balances outstanding as loans are repaid. Prior to 1995, to achieve a level yield to maturity, interest income was deferred during the early years of the loans, then recognized during the later years to offset the aforementioned proportional servicing cost increases. Changes in the estimates of future

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

loan servicing costs were reflected in student loan income over the estimated remaining terms of the loans. In 1995, Sallie Mae discontinued its accounting method of deferring income on student loans. Effective January 1, 1995, Sallie Mae commenced recognizing student loan income as earned. Sallie Mae believes this method of accounting is preferable based on industry practices used for recognition of interest income and servicing costs. Interest income earned on student loan participations is recognized in accordance with the terms of the joint venture agreement with The Chase Manhattan Bank which effectively reflects the underlying interest income earned on the student loans less servicing costs and the general and administrative expenses of the joint venture.

Change in method of accounting for student loan income

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

Securitizations

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

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

Interest expense

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

Federal income taxes

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

Earnings per common share

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

2. SIGNIFICANT ACCOUNTING POLICIES -- (CONTINUED)

Consolidation

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

Reclassification

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

Use of estimates

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

Recently issued accounting pronouncements

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

3. STUDENT LOANS

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

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

The Omnibus Budget Reconciliation Act of 1993 ("OBRA"), enacted on August 10, 1993, made significant changes to the student loan delivery system and created a program of direct lending to students by the federal government. The direct lending program replaced approximately 7 percent of the FFELP originations in the 1994-1995 academic year and under OBRA this is scheduled to increase up to 60 percent in the 1998-1999 academic year. Management believes these changes to the student loan delivery system along

3. STUDENT LOANS -- (CONTINUED)

with direct lending, which reduce the pool of loans originated by the bank-based FFELP, will have an increasing material adverse effect on Sallie Mae's long-term earning prospects as a higher percentage of loans subject to OBRA will be available to Sallie Mae and the full effects of direct lending originations are factored in.

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

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

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

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

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

3. STUDENT LOANS -- (CONTINUED)

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

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

4. WAREHOUSING ADVANCES

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

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

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

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

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

5. ACADEMIC FACILITIES FINANCINGS

Academic facilities financings are comprised of $539 million of loans to and $934 million of bonds issued by educational institutions to finance their physical plant and equipment. A summary of academic facilities financings follows:

	DECEMBER 31,	
	1996	1995
Fixed rate	$1,325,186	$1,103,256
Variable rate	148,145	208,978
	$1,473,331	$1,312,234

The average remaining term to maturity of academic facilities financings was 8.0 years as of December 31, 1996. The maturities of the academic facilities financing loans were: 1997 -- $8,325; 1998 -- $14,065; 1999 -- $45,115; 2000 -- $17,368; 2001 -- $22,673; 2002-2006 -- $104,872; after 2006 -- $326,432. The stated maturities and maturities if accelerated to the put or call date for academic facilities bonds that are classified as available-for-sale are shown in the following table:

	AVAILABLE-FOR-SALE	
YEAR OF MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE
1997	$ 44,078	$ 97,657
1998	77,409	127,774
1999	43,638	57,366
2000	78,588	98,515
2001	87,197	107,464
2002-2006	486,168	410,945
after 2006	117,403	34,760
	$934,481	$ 934,481

In December 1995, pursuant to FAS No. 115, academic facilities bonds were transferred from held-to-maturity to available-for-sale securities. At December 31, 1996 and December 31, 1995 fair market value of these bonds was approximately $934 million and $710 million with an amortized cost of $916 million and $690 million, respectively.

6. CASH AND INVESTMENTS

A summary of cash and investments at carrying value and market value, where different, follows:

	DECEMBER 31,			
	1996		1995	
	CARRYING VALUE	MARKET VALUE	CARRYING VALUE	MARKET VALUE
Cash	$ 51,387		$ 32,420	
Federal funds and bank deposits	219,500		1,220,500	
Total cash and cash equivalents	270,887		1,252,920	
Asset backed securities	4,649,625		4,305,973	
U.S. Treasury securities	1,317,881		1,268,500	
Variable corporate bonds	635,414		611,654	
Student loan revenue bonds	206,380		280,662	
Commercial paper	24,395		121,410	
Federal funds and bank deposits	-		400,000	
Other	601,887	$601,745	625,856	$626,687
Total investments	7,435,582		7,614,055	
Total cash and investments	$7,706,469		$8,866,975	

At December 31, 1996 and 1995, all investments with the exception of other investments are classified as available-for-sale securities under FAS No. 115 and carried at fair market values which approximate amortized costs, except for U.S. Treasury securities which have an amortized cost of $809 million. The fair market value of U.S. Treasury securities is adjusted for unrealized gains and losses on interest rate swaps, which are held to reduce interest rate risk related to these securities. During 1995, pursuant to FAS No. 115, asset-backed securities, variable corporate bonds, federal funds and bank deposits, student loan revenue bonds and commercial paper were transferred from held-to-maturity securities to available-for-sale securities at fair market values which approximated amortized cost. Sallie Mae sold available-for-sale securities with a carrying value of $4.6 billion, $6.6 billion and none for the years ended December 31, 1996, 1995 and 1994, respectively.

Cash and cash equivalents excludes term federal funds and bank deposits with terms to maturity exceeding three months. As of December 31, 1996, stated maturities and maturities if accelerated to the put or call date for investments, are shown in the following table.

	HELD-TO-MATURITY	AVAILABLE-FOR-SALE	
YEAR OF MATURITY	STATED MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE
1997	$106,823	$ 216,807	$ 225,955
1998	12,493	278,153	328,528
1999	9,229	532,975	488,182
2000	102,879	142,401	150,981
2001	4,721	1,059,148	1,073,776
2002-2006	46,058	2,534,058	2,514,787
After 2006	319,684	2,070,153	2,051,486
	$601,887	$6,833,695	$ 6,833,695

7. BORROWINGS

The following table summarizes outstanding notes, and their related average balances and interest rates, which include the effects of related off-balance sheet financial instruments (see Note 9). Short-term borrowings have an original or remaining term to maturity of one year or less. The average rates of total long-term floating rate notes, total long-term fixed-rate notes, total long-term notes and total notes were adjusted to include premiums on debt extinguished.

	YEARS ENDED DECEMBER 31,					
	1996			1995		
	ENDING BALANCE	AVERAGE BALANCE	AVERAGE RATE	ENDING BALANCE	AVERAGE BALANCE	AVERAGE RATE
SHORT-TERM NOTES						
Six month floating rate notes	$ 2,699,477	$ 2,485,322	5.42%	$ 2,699,595	$ 3,608,930	5.86%
Other floating rate notes	1,827,643	1,960,926	5.39	1,942,360	1,221,480	5.78
Discount notes	2,377,976	3,072,019	5.36	1,074,257	1,427,363	5.86
Fixed rate notes	3,964,777	1,211,197	5.53	350,000	903,670	5.82
Securities sold not yet purchased and repurchase agreements	-	165,792	4.93	131,112	311,797	6.10
Short-term portion of long-term notes	11,286,675	11,956,008	5.45	11,249,676	7,937,658	5.90
Total short-term notes	22,156,548	20,851,264	5.43	17,447,000	15,410,898	5.88
LONG-TERM NOTES						
Floating rate notes:						
U.S. dollar denominated:						
Interest bearing, due 1998-2003	8,844,825	12,740,190	5.46	16,995,853	21,998,541	5.95
Fixed rate notes:						
U.S. dollar denominated:						
Interest bearing, due 1998-2018	12,928,983	11,971,640	5.59	11,430,127	12,035,074	5.99
Zero coupon, due 1998-2022	326,875	304,990	7.68	400,023	283,282	7.99
Dual currency, due 1998	248,443	245,569	6.65	242,775	240,182	7.02
Foreign currency:						
Interest bearing, due 1998-2000	257,100	577,592	5.31	767,100	627,900	5.78
Zero coupon, due 1997	-	183,647	5.42	246,737	188,399	5.85
Total fixed rate notes	13,761,401	13,283,438	5.70	13,086,762	13,374,837	6.08
Total long-term notes	22,606,226	26,023,628	5.58	30,082,615	35,373,378	6.00
Total notes	$44,762,774	$46,874,892	5.51%	$47,529,615	$50,784,276	5.96%

To match the interest rate characteristics on its fixed rate and floating rate borrowings with the rate characteristics of its assets, Sallie Mae enters into interest rate exchange agreements with independent parties. Under these agreements, Sallie Mae makes periodic payments, indexed to the related asset rates, in exchange for periodic payments which generally match Sallie Mae's interest obligations on fixed or variable rate borrowings.

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

	DECEMBER 31,					
	1996			1995		
	SHORT TERM	LONG TERM	TOTAL	SHORT TERM	LONG TERM	TOTAL
Fixed rate debt	$5.0	13.0	$18.0	$1.4	$12.0	$13.4
Floating rate debt	3.2	1.4	4.6	6.1	3.9	10.0
Total	$8.2	$14.4	$22.6	$7.5	$15.9	$23.4

7. BORROWINGS -- (CONTINUED)

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

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

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

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

Sallie Mae issues debt with interest and/or principal payment characteristics tied to foreign currency indices to attempt to minimize its cost of funds. At December 31, 1996 and 1995, Sallie Mae had outstanding fixed rate notes repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates, foreign currency notes which require the payment of principal and interest in foreign currencies, and dual currency notes which require the payment of interest in foreign currencies. To eliminate the corporation's exposure to the effect of currency fluctuations on these contractual obligations, Sallie Mae has entered into various foreign currency agreements with independent parties (see Note 9). Short-term notes having these characteristics are included in the short-term portion of long-term notes.

8. STUDENT LOAN SECURITIZATION

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

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

8. STUDENT LOAN SECURITIZATION -- (CONTINUED)

in the trust. These earnings are recorded as servicing and securitization revenue in the Consolidated Statements of Income.

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

9. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative Financial Instruments Held or Issued for Purposes Other than Trading

Sallie Mae enters into various financial instruments with off-balance sheet risk in the normal course of business primarily to reduce interest rate risk and foreign currency exposure on certain borrowings. These financial instruments include interest rate swaps, interest rate cap and collar agreements, foreign currency swaps, forward currency exchange agreements, options on currency exchange agreements, options on securities and financial futures contracts. Sallie Mae manages the credit risk associated with these instruments by performing credit reviews of counterparties and monitoring market conditions to establish counterparty, sovereign and instrument-type credit limits and, when appropriate, requiring collateral.

9. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

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

	NOTIONAL PRINCIPAL		
	INTEREST RATE SWAPS	FOREIGN CURRENCY AGREEMENTS	FUTURES CONTRACT AMOUNTS
Balance, December 31, 1993	$ 23,253	$1,500	$ 1,805
Issuances/Opens	15,402	510	4,437
Maturities/Expirations	(9,518)	(575)	(3,088)
Terminations/Closes	(99)	(37)	(2,598)
Balance, December 31, 1994	29,038	1,398	556
Issuances/Opens	19,549	466	2,370
Maturities/Expirations	(10,634)	(380)	(535)
Terminations/Closes	(1,773)	-	(2,211)
Balance, December 31, 1995	36,180	1,484	180
Issuances/Opens	28,063	14	2,631
Maturities/Expirations	(13,369)	(310)	(708)
Terminations/Closes	(300)	-	(1,925)
Balance, December 31, 1996	$ 50,574	$1,188	$ 178

Interest Rate Swaps

Sallie Mae enters into four general types of interest rate swaps under which it pays the following: 1) a floating rate in exchange for a fixed rate (standard swaps); 2) a fixed rate in exchange for a floating rate (reverse swaps); 3) a floating rate in exchange for another floating rate, based upon different market indices (basis/reverse basis swaps); and 4) student loan floor agreements. At December 31, 1996, Sallie Mae had outstanding $18.2 billion, $1.1 billion, $17.8 billion and $13.5 billion of notional principal in standard swaps, reverse swaps, basis/reverse basis swaps and student loan floor agreements, respectively. Net payments related to the debt-related swaps are recorded in interest expense. The related net receivable or payable from counterparties is included in other assets or other liabilities. For the years ended December 31, 1996, 1995 and 1994, Sallie Mae received net payments on all debt-related swaps reducing interest expense by $165 million, $94 million and $262 million, respectively.

In 1996, Sallie Mae entered into swap contracts with third parties having notional principal of $13.5 billion and, in exchange for upfront payments of $128 million, agreed to pay them the future student loan floor revenues received. The upfront payments, which are recorded in other liabilities are being amortized over the average remaining life of these swaps, which is approximately 2 years. For the year ended December 31, 1996, the amortization of the upfront payments, increased student loan income by $23 million. For the year ended December 31, 1996, payments under the contracts totaled $12 million.

9. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

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

YEAR OF MATURITY	STATED MATURITY	MATURITY TO PUT OR CALL DATE
1997	$ 14,006	$21,568
1998	9,152	9,051
1999	12,150	9,534
2000	8,717	6,052
2001	4,919	3,034
2002-2008	1,630	1,335
	$ 50,574	$50,574

Foreign Currency Agreements

At December 31, 1996 and 1995, Sallie Mae had borrowings repayable in U.S. dollars, with principal repayment obligations tied to foreign currency exchange rates of $80 million and $235 million, respectively, and borrowings with principal repayable in foreign currencies of $1.0 billion and $1.0 billion, respectively. Such debt issuances were hedged by forward currency exchange agreements, foreign currency swaps, and options on currency exchange agreements. Such agreements typically mature concurrently with the maturities of the debt. At December 31, 1996, Sallie Mae also had outstanding $80 million, $1.0 billion and $80 million of notional principal in foreign currency exchange agreements, foreign currency swaps and foreign currency options, respectively. The following table summarizes the outstanding amount of these borrowings and their currency translation values at December 31, 1996 and 1995, using spot rates at the respective dates (dollars in millions).

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

Financial Futures Contracts

Sallie Mae enters into financial futures contracts to hedge the risk of future interest rate changes. Interest-rate forward and futures contracts are commitments to either purchase or sell a financial instrument at a specific future date for a specified price and may be settled in cash or through the delivery of financial instruments. Futures contracts purchased by Sallie Mae typically mature in one year or less. Sallie Mae maintains certain cash margins to meet the dealers' criteria for financial futures.

The gains or losses related to financial futures contracts entered into as hedges are deferred and included in other assets. Amortization of such gains or losses over the life of the futures contract is included in either investment income or debt expense depending on whether the risk that the derivative is hedging relates to investments or debt.

9. DERIVATIVE FINANCIAL INSTRUMENTS -- (CONTINUED)

Derivative Financial Instruments Held or Issued for Trading Purposes

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

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

Student Loans

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

Warehousing Advances and Academic Facilities Financings

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

Cash and Investments

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

Short-term Borrowings and Long-term Notes

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

Off-balance Sheet Financial Instruments

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

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

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

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

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

11. COMMITMENTS AND CONTINGENCIES

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

Commitments outstanding are summarized below:

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

11. COMMITMENTS AND CONTINGENCIES -- (CONTINUED)

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

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

Litigation

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

12. PREFERRED STOCK

Sallie Mae's 4.3 million outstanding shares of non-voting adjustable rate cumulative preferred stock, par value $50.00 per share, pay cumulative quarterly dividends at a per annum rate of 4.5 percentage points below the highest yield of certain United States Treasury obligations. However, the dividend rate for any dividend period will not be less than 5 percent per annum nor greater than 14 percent per annum. The dividend rate was 5 percent for the years ended December 31, 1996, 1995 and 1994. The stock is redeemable, at the option of Sallie Mae, in whole or in part, at $50.00 per share plus accrued dividends. If Reorganization is approved, Sallie Mae would be required to repurchase or redeem all outstanding preferred stock on or before September 30, 2008.

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

13. COMMON STOCK

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

Sallie Mae has engaged in repurchases of its common stock since 1986. In December 1996, Sallie Mae retired 59 million shares of common stock held as treasury stock at an average price of $44.36. As a result, treasury stock decreased by $2.6 billion with a corresponding decrease of $12 million to common stock, par;

13. COMMON STOCK -- (CONTINUED)

$568 million to additional paid-in capital; and $2.0 billion to retained earnings. As of December 31, 1996, Sallie Mae held as treasury stock 12 million common shares purchased at an average price of $44.75.

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

14. STOCK OPTION PLANS

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

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

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

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

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

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

14. STOCK OPTION PLANS -- (CONTINUED)

The following table summarizes pro forma disclosures for the years ended December 31, 1996 and 1995, as if Sallie Mae had accounted for employee and Board of Directors stock options granted subsequent to December 31, 1994 under the fair market value method as set forth in FAS No. 123, "Accounting for Stock-Based Compensation". The fair value for these options was estimated at the date of grant using the Extended Binomial Options Pricing Model, a variation of the Black-Sholes option pricing model, with the following weighted average assumptions for 1996 and 1995, respectively: risk-free interest rate of 5.9 percent and 7.9 percent, volatility factor of the expected market price of Sallie Mae common stock of 29.4 percent and 28.7 percent; dividend growth rate of 8.0 percent; vesting period of one year from date of grant; and time of exercise-expiration date.

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

15. BENEFIT PLANS

Pension Plans

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

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

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

15. BENEFIT PLANS -- (CONTINUED)

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

Net periodic pension cost included the following components:

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

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

Thrift and Savings Plans

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

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

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

16. FEDERAL INCOME TAXES

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

16. FEDERAL INCOME TAXES -- (CONTINUED)

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

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

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

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

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

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

17. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

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

	1995			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
Net interest income	$221,147	$222,694	$227,952	$228,948
Other operating income	321	7,883	8,971	33,238
Operating expenses	101,768	111,368	118,325	107,240
Federal income taxes	30,906	31,187	32,031	47,139
Income before premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	88,794	88,022	86,567	107,807
Premiums on debt extinguished, net of tax	-	-	-	(4,911)
Income before cumulative effect of the change in method of accounting for student loan income	88,794	88,022	86,567	102,896
Cumulative effect of the change in method of accounting for student loan income, net of tax (through December 31, 1994)	130,148	-	-	-
Net income	$218,942	$ 88,022	$ 86,567	$102,896
Earnings per common share before premiums on debt extinguished and cumulative effect of the change in method of accounting for student loan income	$ 1.17	$ 1.20	$ 1.28	$ 1.76
Earnings per common share before cumulative effect of the change in method of accounting for student loan income	$ 1.17	$ 1.20	$ 1.28	$ 1.67
Earnings per common share	$ 2.95	$ 1.20	$ 1.28	$ 1.67

18. COLLEGE CONSTRUCTION LOAN INSURANCE ASSOCIATION

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

APPENDIX A

AGREEMENT AND PLAN OF REORGANIZATION

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

WHEREAS, Sallie Mae has an authorized capitalization consisting of:

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

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

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

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

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

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

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

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

ARTICLE I
THE REORGANIZATION

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

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

ARTICLE II
TERMS OF CONVERSION OF SHARES

At the Effective Time:

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

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

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

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

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

ARTICLE III
CHARTER AND BYLAWS

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

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

ARTICLE IV
STOCK CERTIFICATES

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

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

ARTICLE V
CONDITIONS OF THE REORGANIZATION

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

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

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

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

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

ARTICLE VI
AMENDMENT AND WAIVER

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

ARTICLE VII
MISCELLANEOUS

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

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

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

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

STUDENT LOAN MARKETING ASSOCIATION

By:

Name:

Title:

SALLIE MAE MERGER COMPANY

By:

Name:

Title:

SLM HOLDING CORPORATION

By:

Name:

Title:

APPENDIX B

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

TITLE VI -- REORGANIZATION AND PRIVATIZATION OF SALLIE MAE

SEC.601. SHORT TITLE.

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

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

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

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

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

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

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

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

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

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

"(2) TRANSFER OF CERTAIN PROPERTY. --

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

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

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

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

"(iv) any other property of the Association.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

"(C) SEPARATE OPERATION OF CORPORATIONS. --

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

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

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

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

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

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

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

"(viii) AMOUNTS COLLECTED. -- Any amounts collected on behalf of the Association by the Holding Company or any subsidiary of the Holding Company with respect to the assets of the Association, pursuant to a servicing contract or other arrangement between the Association and the Holding Company or any subsidiary of the Holding Company, shall be collected solely for the benefit of the Association and shall be immediately deposited by the Holding Company or such subsidiary to an account under the sole control of the Association.

"(D) ENCUMBRANCE OF ASSETS. -- Notwithstanding any federal or State law, rule, or regulation, or legal or equitable principle, doctrine, or theory to the contrary, under no circumstances shall the assets of the Association be available or used to pay claims or debts of or incurred by the Holding Company. Nothing in this subparagraph shall be construed to limit the right of the Association to pay dividends not otherwise prohibited under this subparagraph or to limit any liability of the Holding Company explicitly provided for in this section.

"(E) HOLDING COMPANY ACTIVITIES. -- After the reorganization effective date and prior to the dissolution date, all business activities of the Holding Company shall be conducted through subsidiaries of the Holding Company.

"(F) CONFIDENTIALITY. -- Any information provided by the Association pursuant to this section shall be subject to the same confidentiality obligations contained in section 439(r)(12).

"(G) DEFINITION. -- For purposes of this paragraph, the term 'associated person' means any person, other than a natural person, who is directly or indirectly controlling, controlled by, or under common control with, the Association.

"(9) ISSUANCE OF STOCK WARRANTS. --

"(A) IN GENERAL. -- On the reorganization effective date, the Holding Company shall issue to the District of Columbia Financial Responsibility and Management Assistance Authority a number of stock warrants that is equal to one percent of the outstanding shares of the Association, determined as of the last day of the fiscal quarter preceding the date of enactment of this section, with each stock warrant entitling the holder of the stock warrant to purchase from the Holding Company one share of the registered common stock of the Holding Company or the Holding Company's successors or assigns, at any time on or before September 30, 2008. The exercise price for such warrants shall be an amount equal to the average closing price of the common stock of the Association for the 20 business days prior to the date of enactment of this section on the exchange or market which is then the primary exchange or market for the common stock of the Association. The number of shares of Holding Company common stock subject to each stock warrant and the exercise price of each stock warrant shall be adjusted as necessary to reflect --

"(i) the conversion of Association common stock into Holding Company common stock as part of the plan of reorganization approved by the Association's shareholders; and

"(ii) any issuance or sale of stock (including issuance or sale of treasury stock), stock split, recapitalization, reorganization, or other corporate event, if agreed to by the Secretary of the Treasury and the Association.

"(B) AUTHORITY TO SELL OR EXERCISE STOCK WARRANTS; DEPOSIT OF PROCEEDS. -- The District of Columbia Financial Responsibility and Management Assistance Authority is authorized to sell or exercise the stock warrants described in subparagraph (A). The District of Columbia Financial Responsibility and Management Assistance Authority shall deposit into the account established under section 3(e) of the Student Loan Marketing Association Reorganization Act of 1996 amounts collected from the sale and proceeds resulting from the exercise of the stock warrants pursuant to this subparagraph.

"(10) RESTRICTIONS ON TRANSFER OF ASSOCIATION SHARES AND BANKRUPTCY OF ASSOCIATION. -- After the reorganization effective date, the Holding Company shall not sell, pledge, or otherwise transfer the outstanding shares of the Association, or agree to or cause the liquidation of the Association or cause the Association to file a petition for bankruptcy under title 11, United States Code, without prior approval of the Secretary of the Treasury and the Secretary of Education.

"(d) TERMINATION OF THE ASSOCIATION. -- In the event the shareholders of the Association approve a plan of reorganization under subsection (b), the Association shall dissolve, and the Association's separate existence shall terminate on September 30, 2008, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days after receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last resort pursuant to section 439(q) or continues to be needed to purchase loans under an

agreement with the Secretary described in subsection (c)(6). On the dissolution date, the Association shall take the following actions:

"(1) ESTABLISHMENT OF A TRUST. -- The Association shall, under the terms of an irrevocable trust agreement that is in form and substance satisfactory to the Secretary of the Treasury, the Association and the appointed trustee, irrevocably transfer all remaining obligations of the Association to the trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the remaining obligations, money or direct noncallable obligations of the United States or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the remaining obligations in accordance with their terms. To the extent the Association cannot provide money or qualifying obligations in the amount required, the Holding Company shall be required to transfer money or qualifying obligations to the trust in the amount necessary to prevent any deficiency.

"(2) USE OF TRUST ASSETS. -- All money, obligations, or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the remaining obligations assumed by the trust.

"(3) OBLIGATIONS NOT TRANSFERRED TO THE TRUST. -- The Association shall make proper provision for all other obligations of the Association not transferred to the trust, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association outstanding. Any obligations of the Association which cannot be fully satisfied shall become liabilities of the Holding Company as of the date of dissolution.

"(4) TRANSFER OF REMAINING ASSETS. -- After compliance with paragraphs (1) and (3), any remaining assets of the trust shall be transferred to the Holding Company or any subsidiary of the Holding Company, as directed by the Holding Company.

"(e) OPERATION OF THE HOLDING COMPANY. -- In the event the shareholders of the Association approve the plan of reorganization under subsection (b), the following provisions shall apply beginning on the reorganization effective date:

"(1) HOLDING COMPANY BOARD OF DIRECTORS. -- The number of members and composition of the Board of Directors of the Holding Company shall be determined as set forth in the Holding Company's charter or like instrument (as amended from time to time) or bylaws (as amended from time to time) and as permitted under the laws of the jurisdiction of the Holding Company's incorporation.

"(2) HOLDING COMPANY NAME. -- The names of the Holding Company and any subsidiary of the Holding Company (other than the Association) --

"(A) may not contain the name 'Student Loan Marketing Association'; and

"(B) may contain, to the extent permitted by applicable State or District of Columbia law, 'Sallie Mae' or variations thereof, or such other names as the Board of Directors of the Association or the Holding Company deems appropriate.

"(3) USE OF SALLIE MAE NAME. -- Subject to paragraph (2), the Association may assign to the Holding Company, or any subsidiary of the Holding Company, the 'Sallie Mae' name as a trademark or service mark, except that neither the Holding Company nor any subsidiary of the Holding Company (other than the Association or any subsidiary of the Association) may use the 'Sallie Mae' name on, or to identify the issuer of, any debt obligation or other security offered or sold by the Holding Company or any subsidiary of the Holding Company (other than a debt obligation or other security issued to and held by the Holding Company or any subsidiary of the Holding

Company). The Association shall remit to the account established under section 3(e) of the Student Loan Marketing Association Reorganization Act of 1996, $5,000,000 within 60 days of the reorganization effective date as compensation for the right to assign the 'Sallie Mae' name as a trademark or service mark.

"(4) DISCLOSURE REQUIRED. -- Until 3 years after the dissolution date, the Holding Company, and any subsidiary of the Holding Company (other than the Association), shall prominently display --

"(A) in any document offering the Holding Company's securities, a statement that the obligations of the Holding Company and any subsidiary of the Holding Company are not guaranteed by the full faith and credit of the United States; and

"(B) in any advertisement or promotional materials which use the 'Sallie Mae' name or mark, a statement that neither the Holding Company nor any subsidiary of the Holding Company is a government-sponsored enterprise or instrumentality of the United States.

"(f) STRICT CONSTRUCTION. -- Except as specifically set forth in this section, nothing in this section shall be construed to limit the authority of the Association as a federally chartered corporation, or of the Holding Company as a State or District of Columbia chartered corporation.

"(g) RIGHT TO ENFORCE. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this section, or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with this section.

"(h) DEADLINE FOR REORGANIZATION EFFECTIVE DATE. -- This section shall be of no further force and effect in the event that the reorganization effective date does not occur on or before 18 months after the date of enactment of this section.

"(i) DEFINITIONS. -- For purposes of this section:

"(1) ASSOCIATION. -- The term 'Association' means the Student Loan Marketing Association.

"(2) DISSOLUTION DATE. -- The term 'dissolution date' means September 30, 2008, or such earlier date as the Secretary of Education permits the transfer of remaining obligations in accordance with subsection (d).

"(3) HOLDING COMPANY. -- The term 'Holding Company' means the new business corporation established pursuant to this section by the Association under the laws of any State of the United States or the District of Columbia for the purposes of the reorganization and restructuring described in subsection (a).

"(4) REMAINING OBLIGATIONS. -- The term 'remaining obligations' means the debt obligations of the Association outstanding as of the dissolution date.

"(5) REMAINING PROPERTY. -- The term 'remaining property' means the following assets and liabilities of the Association which are outstanding as of the reorganization effective date:

"(A) Debt obligations issued by the Association.

"(B) Contracts relating to interest rate, currency, or commodity positions or protections.

"(C) Investment securities owned by the Association.

"(D) Any instruments, assets, or agreements described in section 439(d) (including, without limitation, all student loans and agreements relating to the purchase and sale of student loans, forward purchase and lending commitments, warehousing advances, academic facilities

obligations, letters of credit, standby bond purchase agreements, liquidity agreements, and student loan revenue bonds or other loans).

"(E) Except as specifically prohibited by this section or section 439, any other nonmaterial assets or liabilities of the Association which the Association's Board of Directors determines to be necessary or appropriate to the Association's operations.

"(6) REORGANIZATION. -- The term 'reorganization' means the restructuring event or events (including any merger event) giving effect to the Holding Company structure described in subsection (a).

"(7) REORGANIZATION EFFECTIVE DATE. -- The term 'reorganization effective date' means the effective date of the reorganization as determined by the Board of Directors of the Association, which shall not be earlier than the date that shareholder approval is obtained pursuant to subsection (b) and shall not be later than the date that is 18 months after the date of enactment of this section.

"(8) SUBSIDIARY. -- The term 'subsidiary' means one or more direct or indirect subsidiaries."

Sec. 602(b) TECHNICAL AMENDMENTS. --

(1) ELIGIBLE LENDER. --

(A) AMENDMENTS TO THE HIGHER EDUCATION ACT. --

(i) DEFINITION OF ELIGIBLE LENDER. -- Section 435(d)(1)(F) of the Higher Education Act of 1965 (20 U.S.C. 1085(d)(1)(F)) is amended by inserting after "Student Loan Marketing Association" the following: "or the Holding Company of the Student Loan Marketing Association, including any subsidiary of the Holding Company, created pursuant to section 440,".

(ii) DEFINITION OF ELIGIBLE LENDER AND FEDERAL CONSOLIDATION LOANS. -- Sections 435(d)(1)(G) and 428C(a)(1)(A) of such Act (20 U.S.C. 1085(d)(1)(G) and 1078-3(a)(1)(A)) are each amended by inserting after "Student Loan Marketing Association" the following: "or the Holding Company of the Student Loan Marketing Association, including any subsidiary of the Holding Company, created pursuant to section 440".

(B) EFFECTIVE DATE. -- The amendments made by this paragraph shall take effect on the reorganization effective date as defined in section 440(h) of the Higher Education Act of 1965 (as added by subsection (a)).

(2) ENFORCEMENT OF SAFETY AND SOUNDNESS REQUIREMENTS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C. 1087-2(r)) is amended --

(A) in the first sentence of paragraph (12), by inserting "or the Association's associated persons" after "by the Association";

(B) by redesignating paragraph (13) as paragraph (15); and

(C) by inserting after paragraph (12) the following new paragraph:

"(13) ENFORCEMENT OF SAFETY AND SOUNDNESS REQUIREMENTS. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of this section, or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with this section.".

(3) FINANCIAL SAFETY AND SOUNDNESS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C.1087-2(r)) is further amended --

(A) in paragraph (1) --

(i) by striking "and" at the end of subparagraph (A);

(ii) by striking the period at the end of subparagraph (B) and inserting "; and" and

(iii) by adding at the end the following new subparagraph:

"(C)(i) financial statements of the Association within 45 days of the end of each fiscal quarter; and

"(ii) reports setting forth the calculation of the capital ratio of the Association, within 45 days of the end of each fiscal quarter.";

(B) in paragraph (2) --

(i) by striking clauses (i) and (ii) of subparagraph (A) and inserting the following:

"(i) appoint auditors or examiners to conduct audits of the Association from time to time to determine the condition of the Association for the purpose of assessing the Association's financial safety and soundness and to determine whether the requirements of this section and section 440 are being met; and

"(ii) obtain the services of such experts as the Secretary of the Treasury determines necessary and appropriate, as authorized by section 3109 of title 5, United States Code, to assist in determining the condition of the Association for the purpose of assessing the Association's financial safety and soundness, and to determine whether the requirements of this section and section 440 are being met."; and

(ii) by adding at the end of the following new subparagraph:"

(D) ANNUAL ASSESSMENT. --

"(i) IN GENERAL. -- For each fiscal year beginning on or after October 1, 1996, the Secretary of the Treasury may establish and collect from the Association an assessment (or assessments) in amounts sufficient to provide for reasonable costs and expenses of carrying out the duties of the Secretary of the Treasury under this section and section 440 during such fiscal year. In no event may the total amount so assessed exceed, for any fiscal year, $800,000 adjusted for each fiscal year ending after September 30, 1997, by the ratio of the Consumer Price Index for All Urban Consumers (issued by the Bureau of Labor Statistics) for the final month of the fiscal year preceding the fiscal year for which the assessment is made to the Consumer Price Index for All Urban Consumers for September 1997.

"(ii) DEPOSIT. -- Amounts collected from assessments under this subparagraph shall be deposited in an account within the Treasury of the United States as designated by the Secretary of the Treasury for that purpose. The Secretary of the Treasury is authorized and directed to pay out of any funds available in such account the reasonable costs and expenses of carrying out the duties of the Secretary of the Treasury under this section and section 440. None of the funds deposited into such account shall be available for any purpose other than making payments for such costs and expenses."; and

(C) by inserting after paragraph (13) (as added by paragraph (2)(C)) the following new paragraph:"

(14) ACTIONS BY SECRETARY. --

"(A) IN GENERAL. -- For any fiscal quarter ended after January 1, 2000, the Association shall have a capital ratio of at least 2.25 percent. The Secretary of the Treasury may, whenever such capital ratio is not met, take any one or more of the actions described in paragraph (7), except that --

"(i) the capital ratio to be restored pursuant to paragraph (7)(D) shall be 2.25 percent; and

"(ii) if the relevant capital ratio is in excess of or equal to 2 percent for such quarter, the Secretary of the Treasury shall defer taking any of the actions set forth in paragraph (7) until the next succeeding quarter and may then proceed with any such action only if the capital ratio of the Association remains below 2.25 percent.

"(B) APPLICABILITY. -- The provisions of paragraphs (4), (5), (6), (8), (9), (10), and (11) shall be of no further application to the Association for any period after January 1, 2000."

(4) INFORMATION REQUIRED; DIVIDENDS. -- Section 439(r) of the Higher Education Act of 1965 (20 U.S.C. 1087-2(r)) is further amended --

(A) by adding at the end of paragraph (2) (amended in paragraph (3)(B)(ii)) the following new subparagraph:

"(E) OBLIGATION TO OBTAIN, MAINTAIN, AND REPORT INFORMATION. --

"(i) IN GENERAL. -- The Association shall obtain such information and make and keep such records as the Secretary of the Treasury may from time to time prescribe concerning --

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

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

"(ii) SUMMARY REPORTS. -- The Secretary of the Treasury may require summary reports of such information to be filed no more frequently than quarterly. If, as a result of adverse market conditions or based on reports provided pursuant to this subparagraph or other available information, the Secretary of the Treasury has concerns regarding the financial or operational condition of the Association, the Secretary of the Treasury may, notwithstanding the preceding sentence and clause (i), require the Association to make reports concerning the activities of any associated person, whose business activities are reasonably likely to have a material impact on the financial or operational condition of the Association.

"(iii) DEFINITION. -- For purposes of this subparagraph, the term 'associated person' means any person, other than a natural person, directly or indirectly controlling, controlled by, or under common control with the Association."; and

(B) by adding at the end the following new paragraphs:

(16) DIVIDENDS. -- The Association may pay dividends in the form of cash or noncash distributions so long as at the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of such declaration by the Board of Directors of the Association, the Association's capital would be in compliance with the capital standards set forth in this section.

"(17) CERTIFICATION PRIOR TO PAYMENT OF DIVIDEND. -- Prior to the payment of any dividend under paragraph (16), the Association shall certify to the Secretary of the Treasury that the payment of the dividend will be made in paragraph (16) and shall provide copies of all calculations needed to make such certification."

"Sec. 602(c) SUNSET OF THE ASSOCIATION'S CHARTER IF NO REORGANIZATION PLAN OCCURS. -- Section 439 of the Higher Education Act of 1965 (20 U.S.C. 1087-2) is amended by adding at the end the following new subsection:

"(s) CHARTER SUNSET. --

"(1) APPLICATION OF PROVISIONS. -- This subsection applies beginning 18 months and one day after the date of enactment of this subsection if no reorganization of the Association occurs in accordance with the provisions of section 440.

"(2) SUNSET PLAN. --

"(A) PLAN SUBMISSION BY THE ASSOCIATION. -- Not later than July 1, 2007, the Association shall submit to the Secretary of the Treasury and to the Chairman and Ranking Member of the Committee on Labor and Human Resources of the Senate and the Chairman and Ranking Member of the Committee on Economic and Educational Opportunities of the House of Representatives, a detailed plan for the orderly winding up, by July 1, 2013, of business activities conducted pursuant to the charter set forth in this section. Such plan shall --

"(i) ensure that the Association will have adequate assets to transfer to a trust, as provided in this subsection, to ensure full payment of remaining obligations of the Association in accordance with the terms of such obligations;

"(ii) provide that all assets not used to pay liabilities shall be distributed to shareholders as provided in this subsection; and

"(iii) provide that the operations of the Association shall remain separate and distinct from that of any entity to which the assets of the Association are transferred;

"(B) AMENDMENT OF THE PLAN BY THE ASSOCIATION. -- The Association shall from time to time amend such plan to reflect changed circumstances, and submit such amendments to the Secretary of the Treasury and to the Chairman and Ranking Minority Member of the Committee on Labor and Human Resources of the Senate and Chairman and Ranking Minority Member of the Committee on Economic and Educational Opportunities of the House of Representatives. In no case may any amendment extend the date for full implementation of the plan beyond the dissolution date provided in paragraph (3).

"(C) PLAN MONITORING. -- The Secretary of the Treasury shall monitor the Association's compliance with the plan and shall continue to review the plan (including any amendments thereto).

"(D) AMENDMENT OF THE PLAN BY THE SECRETARY OF THE TREASURY. -- The Secretary of the Treasury may require the Association to amend the plan (including any amendments to the plan), if the Secretary of the Treasury deems such amendments are necessary to ensure full payment of all obligations of the Association.

"(E) IMPLEMENTATION BY THE ASSOCIATION. -- The Association shall promptly implement the plan (including any amendments to the plan, whether such amendments are made by the Association or are required to be made by the Secretary of the Treasury).

"(3) DISSOLUTION OF THE ASSOCIATION. -- The Association shall dissolve and the Association's separate existence shall terminate on July 1, 2013, after discharge of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days of receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last resort pursuant to subsection (q) or continues to be needed to purchase loans under an agreement with the Secretary described in paragraph (4)(A). On the dissolution date, the Association shall take the following actions:

"(A) ESTABLISHMENT OF A TRUST. -- The Association shall, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Secretary of the Treasury, the Association, and the appointed trustee, irrevocably transfer all remaining obligations of the Association to a trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the remaining obligations, money or direct noncallable obligations of the United States or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the remaining obligations in accordance with their terms.

"(B) USE OF TRUST ASSETS. -- All money, obligations, or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the remaining obligations assumed by the trust. Upon the fulfillment of the trustee's duties under the trust, any remaining assets of the trust shall be transferred to the persons who, at the time of the dissolution, were the shareholders of the Association, or to the legal successors or assigns of such persons.

"(C) OBLIGATIONS NOT TRANSFERRED TO THE TRUST. -- The Association shall make proper provision for all other obligations of the Association, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association outstanding.

"(D) TRANSFER OF REMAINING ASSETS. -- After compliance with subparagraphs (A) and (C), the Association shall transfer to the shareholders of the Association any remaining assets of the Association.

(4) RESTRICTIONS RELATING TO WINDING UP. --

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

"(i) IN GENERAL. -- Beginning on July 1, 2009, the Association shall not engage in any new business activities or acquire any additional program assets (including acquiring assets pursuant to contractual commitments) described in subsection (d) other than in connection with the Association --

"(I) serving as a lender of last resort pursuant to subsection (q); and

"(II) purchasing loans insured under this part, if the Secretary, with the approval of the Secretary of the Treasury, enters into an agreement with the Association for the continuation or resumption of the Association's secondary market

purchase program because the Secretary determines there is inadequate liquidity for loans made under this part.

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

"(B) ISSUANCE OF DEBT OBLIGATIONS DURING THE WIND UP PERIOD; ATTRIBUTES OF DEBT OBLIGATIONS. -- The Association shall not issue debt obligations which mature later than July 1, 2013, except in connection with serving as a lender of last resort pursuant to subsection (q) or with purchasing loans under an agreement with the Secretary as described in subparagraph (A). Nothing in this subsection shall modify the attributes accorded the debt obligations of the Association by this section, regardless of whether such debt obligations are transferred to a trust in accordance with paragraph (3).

"(C) USE OF ASSOCIATION NAME. -- The Association may not transfer or permit the use of the name 'Student Loan Marketing Association', 'Sallie Mae', or any variation thereof, to or by any entity other than a subsidiary of the Association."

Sec. 602(d) REPEALS. --

(1) IN GENERAL. -- Sections 439 of the Higher Education Act of 1965 (20 U.S.C.1087-2) and 440 of such Act (as added by subsection (a) of this section) are repealed.

(2) EFFECTIVE DATE. -- The repeals made by paragraph (1) shall be effective one year after --

(A) the date on which all of the obligations of the trust established under section 440(d)(1) of the Higher Education Act of 1965 (as added by subsection (a)) have been extinguished, if a reorganization occurs in accordance with section 440 of such Act; or

(B) the date on which all of the obligations of the trust established under subsection 439(s)(3)(A) of such Act (as added by subsection (c)) have been extinguished, if a reorganization does not occur in accordance with section 440 of such Act.

Sec. 602(e) ASSOCIATION NAMES. -- Upon dissolution in accordance with section 439(s) of the Higher Education Act of 1965 (20 U.S.C. 1087-2), the names "Student Loan Marketing Association", "Sallie Mae", and any variations thereof may not be used by any entity engaged in any business similar to the business conducted pursuant to section 439 of such Act (as such section was in effect on the date of enactment of this Act) without the approval of the Secretary of the Treasury.

Sec. 602(f) RIGHT TO ENFORCE. -- The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provision of subsection (e), or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with subsection (e).

APPENDIX C

THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

GENERAL

The Federal Family Education Loan Program ("FFELP") (formerly the Guaranteed Student Loan Program ("GSLP")) under Title IV of the Higher Education Act (the "Act") provides for loans to be made to students or parents of dependent students enrolled in eligible institutions to finance a portion of the costs of attending school. If a borrower defaults on a student loan, becomes totally or permanently disabled, dies, files for bankruptcy or attends a school that closes prior to the student earning a degree, or if the applicable education institution falsely certifies the borrower's eligibility for a Student Loan (collectively "insurance triggers"), the holder of the loan (which must be an eligible lender) may file a claim with the applicable Guarantee Agency. Provided that the loan has been properly originated and serviced, the Guarantee Agency pays the holder all or a portion of the unpaid principal balance on the loan as well as accrued interest. Origination and servicing requirements, as well as procedures to cure deficiencies, are established by the U.S. Department of Education (the "Department") and the various Guarantee Agencies.

Under the FFELP, payment of principal and interest with respect to the student loans is guaranteed against default, death, bankruptcy or disability of the applicable borrower by the applicable Guarantee Agency. As described herein, the guarantee agencies are entitled, subject to certain conditions, to be reimbursed for all or a portion of Guarantee Payments they make by the Department pursuant to a program of federal reinsurance under the Act. See "Guarantee Agencies".

Guarantee Agencies enter into reinsurance agreements with the Secretary of Education pursuant to which the Secretary agrees to reimburse the Guarantee Agency for all or a portion of the amount expended by the Guarantee Agency in discharge of its guarantee obligation with respect to default claims provided the loans have been properly originated and serviced. Except for claims resulting from death, disability or bankruptcy of a borrower, in which case the Secretary pays the full amount of the claim, the amount of reinsurance depends on the default experience of the Guarantee Agency. See " -- Federal Insurance and Reinsurance of Guarantee Agencies".

In the event of a shortfall between the amounts of claims paid to holders of defaulted loans and reinsurance payments from the federal government, Guarantee Agencies pay the claims from their reserves. These reserves come from four principal sources: insurance premiums they charge on student loans (currently up to 1 percent of loan principal), administrative cost allowances from the Department (payment of which is currently discretionary on the part of the Department)(1), debt collection activities (generally, the Guarantee Agency may retain 27 percent of its collections on defaulted student loans), and investment income from reserve funds. Claims which a Guarantee Agency is financially unable to pay will be paid by the Secretary or transferred to a financially sound Guarantee Agency, if the Secretary makes the necessary determination that the guarantor is financially unable to pay.

Several types of guaranteed student loans are currently authorized under the Act: (i) loans to students who pass certain financial need tests ("Subsidized Stafford Loans"); (ii) loans to students who do not pass the Stafford need tests or who need additional loans to supplement their Subsidized Stafford Loans ("Unsubsidized Stafford Loans"); (iii) loans to parents of students ("PLUS Loans") who are dependents and whose need exceed the financing available from Subsidized Stafford Loans and/or Unsubsidized Stafford Loans; and (iv) loans to consolidate the borrower's obligations under various federally authorized student loan programs into a single loan ("Consolidation Loans"). Prior to July 1, 1994 the Act also permitted loans to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent

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(1) The Fiscal Year 1996 Omnibus Appropriations Act provided that for the 1995 and 1996 federal fiscal years, the Secretary must pay an administrative cost allowance to guaranty agencies equal to .085 percent of each agency's loan originations.

undergraduate students who needed additional loans to supplement their Subsidized Stafford Loans ("Supplemental Loans to Students" or "SLS Loans").

The FFELP is subject to statutory and regulatory revision from time to time. The most recent significant revisions are contained in the Higher Education Amendments of 1992 ("the 1992 Amendments"), the Omnibus Budget Reconciliation Act of 1993 ("the 1993 Act") and the "Higher Education Technical Amendments of 1993" (the "Technical Amendments"). As part of the 1992 Amendments the name of the Guaranteed Student Loan Program was changed to the FFELP. The 1993 Act contains significant changes to the FFELP and creates a direct loan program funded directly by the U.S. Department of Treasury (each loan under such program, a "Federal Direct Student Loan").

Following enactment of the 1992 Amendments, Subsidized Stafford Loans, Unsubsidized Stafford Loans, PLUS Loans and Consolidation Loans are officially referred to as "Federal Stafford Loans," "Federal Unsubsidized Stafford Loans," "Federal PLUS Loans" and "Federal Consolidation Loans," respectively.

The description and summaries of the Act, the FFELP, the Guarantee Agreements and the other statutes and regulations referred to in this Proxy Statement/Prospectus do not purport to be comprehensive, and are qualified in their entirety by reference to each such statute or regulation. The Act is codified at 20 U.S.C. (LOGO) 1071 et seq., and the regulations promulgated thereunder can be found at 34 C.F.R. Part 682. There can be no assurance that future amendments or modifications will not materially change any of the terms or provisions of the programs described in this Proxy Statement/Prospectus or of the statutes and regulations implementing these programs.

LEGISLATIVE AND ADMINISTRATIVE MATTERS

The Act was amended by enactment of the 1992 Amendments, the general provisions of which became effective on July 23, 1992 and which extend the principal provisions of the FFELP to September 30, 1998 (or in the case of borrowers who have received loans prior to that date, September 30, 2002, except that authority to make Consolidation Loans expires on September 30, 1998). The Technical Amendments became effective on December 20, 1993.

The 1993 Act, effective on August 10, 1993, implements a number of changes to the federal guaranteed student loan programs, including imposing on lenders or holders of guaranteed student loans certain fees, providing for 2 percent lender risk sharing, reducing interest rates and Special Allowance Payments for certain loans, effectively reducing the interest payable to holders of Consolidation Loans and affecting the Department's financial assistance to Guarantee Agencies, including by reducing the percentage of claims the Department will reimburse Guarantee Agencies and reducing more substantially the premiums and default collections that Guarantee Agencies are entitled to receive and/or retain. In addition, such legislation also contemplates replacement of at least 60 percent of the federal guaranteed student loan programs with direct lending by the Department by the 1998-99 academic year.

ELIGIBLE LENDERS, STUDENTS AND INSTITUTIONS

Lenders eligible to make and/or hold loans under the FFELP generally include banks, savings and loan associations, credit unions, pension funds, insurance companies and, under certain conditions, schools and guarantee agencies. Sallie Mae is an eligible lender for making Consolidation Loans and as a lender of last resort and for holding FFELP loans.

A FFELP loan may be made only to qualified borrowers. Generally a qualified borrower is an individual or parent of an individual who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) is carrying or will carry at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (c) has agreed to notify promptly the holder of the loan of any address change and (d) meets the applicable "need" requirements for the particular loan program. Each loan is to be evidenced by an unsecured promissory note signed by the qualified borrower.

Eligible institutions are post-secondary schools which meet the requirements set forth in the Act. They include institutions of higher education, proprietary institutions of higher education and post-secondary vocational institutions. With specified exceptions, institutions are excluded from consideration as eligible institutions if the institution (i) offers more than 50 percent of its courses by correspondence; (ii) enrolls 50 percent or more of its students in correspondence courses; (iii) has a student enrollment in which more than 25 percent of the students are incarcerated; or (iv) has a student enrollment in which more than 50 percent of the students are admitted without a high school diploma or its equivalent on the basis of their ability to benefit from the education provided (as defined by statute and regulation). Further, schools are specifically excluded from participation if (i) the institution has filed for bankruptcy or (ii) the institution, the owner or its chief executive officer, has been convicted or pleaded nolo contendere or guilty to a crime involving the acquisition, use or expenditure of federal student aid funds, or has been judicially determined to have committed fraud involving funds under the student aid program. In order to participate in the program, the eligibility of a school must be approved by the Department under standards established by regulation.

FINANCIAL NEED ANALYSIS

Student loans may generally be made in amounts, subject to certain limits and conditions, to cover the student's estimated costs of attendance, including tuition and fees, books, supplies, room and board, transportation and miscellaneous personal expenses (as determined by the institution). Each borrower must undergo a need analysis, which requires the borrower to submit a need analysis form which is forwarded to the federal central processor. The central processor evaluates the parents' and student's financial condition under federal guidelines and calculates the amount that the student and/or the family is expected to contribute towards the student's cost of education (the "family contribution"). After receiving information on the family contribution, the institution then subtracts the family contribution from its cost of attendance to determine the student's eligibility for grants, Subsidized Stafford Loans and work assistance. The difference between (a) the sum of the (i) amount of grants, (ii) the amount earned through work assistance and (iii) the amount of Subsidized Stafford Loans for which the borrower is eligible and (b) the student's estimated cost of attendance (the "Unmet Need") may be borrowed through Unsubsidized Stafford Loans. Parents may finance the family contribution amount through their own resources or through PLUS Loans.

SPECIAL ALLOWANCE PAYMENTS

The Act provides for quarterly special allowance payments ("Special Allowance Payments") to be made by the Department to holders of student loans to the extent necessary to ensure that such holder receives at least a specified market interest rate of return on such loans. The rates for Special Allowance Payments are based on formulas that differ according to the type of loan and the date the loan was originally made or insured. A Special Allowance Payment is made for each of the 3-month periods ending March 31, June 30, September 30, and December 31. The Special Allowance Payments equal the average unpaid principal balance (including interest permitted to be capitalized) of all eligible loans held by such holder during such period multiplied by the special allowance percentage. The special allowance percentage shall be computed by (i) determining the average of the bond equivalent rates of 91-day Treasury bills auctioned for such 3-month period, (ii) subtracting the applicable borrower interest rate on such loans from such average, (iii) adding the applicable Special Allowance Margin (defined below) to the resultant percentage, and (iv) dividing the resultant percentage by 4.

DATE OF DISBURSEMENT	SPECIAL ALLOWANCE MARGIN
Prior to 10/17/86	3.50%
10/17/86-9/30/92	3.25%
10/01/92-6/30/95	3.10%
7/1/95-6/30/98	2.50% (Subsidized and Unsubsidized Stafford Loans, in school, grace or deferment) 3.10% (Subsidized and Unsubsidized Stafford Loans, in repayment and all other loans)

Special Allowance Payments are available on variable rate PLUS Loans and SLS Loans as described below under "PLUS and SLS Loan Programs" only to cover any amount by which the variable rate, which is reset annually based on the 52-week Treasury Bill, would exceed the applicable maximum rate.

As part of the amendments made to the Act by the Omnibus Budget Reconciliation Act of 1993, the method for calculating borrower interest and special allowance payment is scheduled to be altered for loans made on or after July 1, 1998. As of that date, the borrower interest rate on Stafford Loans and Unsubsidized Stafford Loans will be established annually at the "bond equivalent rate of the securities with the comparable maturity", as determined by the Secretary of Education, plus 1.0 percent. This rate will apply for loans both during the in-school and repayment periods. For PLUS loans, the rate will be the same, except that 2.10 percent will be added to the rate basis. Special allowance payments on these loans will be paid at the "bond equivalent rate of the securities with comparable maturities" plus 1.0 percent and reset at intervals established by the Secretary of Education. The Secretary of Education has yet to issue formal guidance on the rate basis or on the method or timing of special allowance payments for these loans.

ORIGINATION FEES

The eligible lender charges borrowers an origination fee, which in turn is passed on to the federal government, on Subsidized and Unsubsidized Stafford Loans and PLUS Loans equal to 3 percent of the principal balance of each loan. The amount of the origination fee may be deducted from each disbursement pursuant to a loan on a pro rata basis. No origination fee is paid on Consolidation Loans.

Lenders must refund all origination fees attributable to a disbursement that was returned to the lender by the school or repaid or not delivered within 120 days of the disbursement. Such origination fees must be refunded by crediting the borrower's loan balance with the applicable lender.

STAFFORD LOANS

The Act provides for (i) federal insurance or reinsurance of Subsidized Stafford Loans made by eligible lenders to qualified students, (ii) federal interest subsidy payments on certain eligible Subsidized Stafford Loans to be paid by the Department to holders of the loans in lieu of the borrower making interest payments ("Interest Subsidy Payments"), and (iii) Special Allowance Payments representing an additional subsidy paid by the Department to the holders of eligible Subsidized Stafford Loans (collectively referred to herein as "Federal Assistance").

Subsidized Stafford Loans are loans under the FFELP that may be made, based on need, only to post-secondary students accepted or enrolled in good standing at an eligible institution who are carrying at least one-half the normal full-time course load at that institution. The Act limits the amount a student can borrow in any academic year and the amount he or she can have outstanding in the aggregate. The following chart sets forth the historic loan limits.

MAXIMUM LOAN AMOUNTS
FEDERAL STAFFORD LOAN PROGRAM

BORROWER'S ACADEMIC LEVEL	ALL STUDENTS(1)			INDEPENDENT STUDENTS(3)	
			BASE AMOUNT		
	SUBSIDIZED PRE-1/1/87	SUBSIDIZED ON OR AFTER 1/1/87	SUBSIDIZED AND UNSUBSIDIZED ON OR AFTER 7/7/93(2)	ADDITIONAL UNSUBSIDIZED ONLY ON OR AFTER 7/1/94	TOTAL AMOUNT
Undergraduate (per year)					
1st year	$ 2,500	$ 2,625	$ 2,625	$ 4,000	$ 6,625
2nd year	$ 2,500	$ 2,625	$ 3,500	$ 4,000	$ 7,500
3rd year & above	$ 2,500	$ 4,000	$ 5,500	$ 5,000	$ 10,500
Graduate (per year)	$ 5,000	$ 7,500	$ 8,500	$ 10,000	$ 18,500
Aggregate Limit					
Undergraduate	$ 12,500	$17,250	$23,000	$ 23,000	$ 46,000
Graduate (including undergraduate)	$ 25,000	$54,750	$65,500	$ 73,000	$138,500

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(1) The loan limits are inclusive of both Federal Stafford Loans and Federal Direct Student Loans.

(2) These amounts represent the combined maximum loan amount per year for Subsidized and Unsubsidized Stafford Loans. Accordingly, the maximum amount that a student may borrow under an Unsubsidized Loan is the difference between the combined maximum loan amount and the amount the student received in the form of a Subsidized Loan.

(3) Independent undergraduate students, graduate students or professional students may borrow these additional amounts. In addition, dependent undergraduate students may also receive these additional loan amounts if the parents of such students are unable to provide the family contribution amount and it is unlikely that the student's parents will qualify for a Federal PLUS Loan.

(4) Some graduate health profession students otherwise eligible to borrow under HEAL may be entitled to increase unsubsidized loan limits not to exceed HEAL statutory limits for each course of study per academic year.

The interest rate paid by borrowers on a Subsidized Stafford Loan is dependent on the date of the loan except for loans made prior to October 1, 1992, whose interest rate depends on any outstanding borrowings of that borrower as of such date. The rate for variable rate Subsidized Stafford Loans applicable for any 12-month period beginning on July 1 and ending on June 30, is determined on the preceding June 1 and is equal to the lesser of (a) the applicable Maximum Rate or, (b) the sum of (i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the applicable Interest Rate Margin.

SUBSIDIZED STAFFORD LOANS

DATE OF DISBURSEMENT	BORROWER RATE	MAXIMUM RATE	INTEREST RATE MARGIN
09/13/83-06/30/88.....	8%	8.00%	
07/01/88-09/30/92.....	8% for 48 months; thereafter, 91-Day Treasury + Interest Rate Margin	8.00% for 48 months, then 10%	3.25%
10/01/92-06/30/94.....	91-Day Treasury + Interest Rate Margin	9.00%	3.10%
07/01/94-06/30/95.....	91-Day Treasury + Interest Rate Margin	8.25%	3.10%
07/01/95-06/30/98.....	91-Day Treasury + Interest Rate Margin	8.25%	2.50% (in school, grace, or deferment) 3.10% (in repayment)
After 07/01/98.....	The bond equivalent rate of the securities with a comparable maturity as established by the Secretary + Interest Rate Margin	8.25%	1.0%

The Technical Amendments provide that, for fixed rate loans made on or after July 23, 1992 and for certain loans made to new borrowers on or after July 1, 1988, the lender must convert the loan to a variable rate loan capped at the interest rate existing prior to the conversion. This conversion must have been completed by January 1, 1995.

Holders of Subsidized Stafford Loans are eligible to receive Special Allowance Payments. The Department is responsible for paying interest on Subsidized Stafford Loans while the borrower is a qualified student, during a grace period or during certain deferment periods. The Department makes quarterly Interest Subsidy Payments to the owner of Subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any deferment periods. The Act provides that the owner of an eligible Subsidized Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments (and Special Allowance Payments) in accordance with its provisions. Receipt of Interest Subsidy Payments and Special Allowance Payments is conditioned on compliance with the requirements of the Act and continued eligibility of such loan for federal reinsurance.

Interest Subsidy Payments and Special Allowance Payments are generally received within 45 days to 60 days after the end of any given calendar quarter (provided that the applicable claim form is properly filed with the Department), although there can be no assurance that such payments will in fact be received from the Department within that period.

Repayment of principal on a Subsidized or Unsubsidized Stafford Loan typically does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable grace period, as described below. Any borrower may voluntarily prepay without premium or penalty any loan and in connection therewith may waive any grace period or deferment period. In general, each loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Act currently requires minimum annual payments of $600 including principal and interest, unless the borrower and the lender agree to lesser payments. As of July 1, 1995, lenders are required to offer borrowers a choice among standard, graduated and income-sensitive repayment schedules. These repayment options must be offered to all new borrowers who enter repayment on or after July 1, 1995. If a borrower fails to elect a

particular repayment schedule or fails to submit the documentation necessary for the option the borrower chooses, the standard repayment schedule is used.

Repayment of principal on a Subsidized Stafford Loan must generally commence following a period of (a) not less than 9 months or more than 12 months (with respect to loans for which the applicable interest rate is 7 percent per annum) and (b) not more than 6 months (with respect to loans for which the applicable interest rate is 9 percent per annum or 8 percent per annum and for loans to first time borrowers on or after July 1, 1988) after the borrower ceases to pursue at least a half-time course of study (a "Grace Period"). However, during certain other periods (each a "Deferment Period") and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution on a full-time (or in certain cases half time) basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily or totally disabled, or periods during which the borrower may defer principal payments because of temporary financial hardship. For new borrowers to whom loans are first disbursed on or after July 1, 1993, payment of principal may be deferred only while the borrower is at least a half-time student or is in an approved graduate fellowship program or is enrolled in a rehabilitation program, or when the borrower is seeking but unable to find full-time employment, or when for any reason the lender determines that payment of principal will cause the borrower economic hardship; in the case of unemployment or economic hardship the deferment is subject to a maximum deferment period of three years. The 1992 Amendments also require forbearance of loans in certain circumstances and permit forbearance of loans in certain other circumstances (each such period, a "Forbearance Period").

The Unsubsidized Stafford Loan program created under the 1992 Amendments is designed for students who do not qualify for Subsidized Stafford Loans and for independent graduate and professional students whose Unmet Need exceeds what they can borrow under the Subsidized Stafford Loan Program. The basic requirements for Unsubsidized Stafford Loans are essentially the same as those for the Subsidized Stafford Loans, including with respect to provisions governing the interest rate, the annual loan limits and the Special Allowance Payments. The terms of the Unsubsidized Stafford Loans, however, differ in some respects. The federal government does not make Interest Subsidy Payments on Unsubsidized Stafford Loans. The borrower must either pay interest on a periodic basis beginning 60 days after the time the loan is disbursed or capitalize the interest that accrues until repayment begins. Effective July 1, 1994, the maximum insurance premium was set at 1 percent. Subject to the same loan limits established for Subsidized Stafford Loans, the student may borrow up to the amount of such student's Unmet Need. Lenders are authorized to make Unsubsidized Stafford Loans applicable for periods of enrollment beginning on or after October 1, 1992.

PLUS AND SLS LOAN PROGRAMS

The Act also provides for the PLUS Program. The Act authorizes PLUS Loans to be made to parents of eligible dependent students. The 1993 Act eliminated the SLS Program after July 1, 1994.

The PLUS program permits parents of dependent students to borrow an amount equal to each student's Unmet Need. Under the former SLS program, independent graduate or professional school students and certain dependent undergraduate students were permitted to borrow subject to the same loan limitations.

The first payment of principal and interest is due within 60 days of full disbursement of the loan except for borrowers eligible for deferment who may defer principal and interest payments while eligible for deferment; deferred interest is then capitalized periodically or at the end of the deferment period under specific arrangements with the borrower. The maximum repayment term is 10 years. PLUS and SLS loans carry no in-school interest subsidy.

The interest rate determination for a PLUS or SLS loan is dependent on when the loan was originally made or disbursed. Some PLUS or SLS loans carry a variable rate. The rate varies annually for each 12-month period beginning on July 1 and ending on June 30. The variable rate is determined on the preceding June 1 and is equal to the lesser of (a) the applicable Maximum Rate or (b) the sum of (i) the bond

equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the applicable Interest Rate Margin as set forth below.

PLUS/SLS LOANS

DATE OF DISBURSEMENT	BORROWER RATE	MAXIMUM RATE	INTEREST RATE MARGIN
Prior to 10/01/81	9%	9%	
10/01/81-10/31/82	14%	14%	
11/01/82-06/30/87	12%	12%	
07/01/87-09/30/92	52-Week Treasury + Interest Rate Margin	12%	3.25%
10/01/92-06/30/94	52-Week Treasury + Interest Rate Margin	PLUS 10% SLS 11%	3.10%
After 06/30/94 (SLS repealed 07/01/94)	52-Week Treasury + Interest Rate Margin	9%	3.10%

A holder of a PLUS or SLS loan is eligible to receive Special Allowance Payments during any such 12-month period if (a) the sum of (i) the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to such June 1, and (ii) the Interest Rate Margin, exceeds (b) the Maximum Rate.

THE CONSOLIDATION LOAN PROGRAM

The Act authorizes a program under which certain borrowers may consolidate their various student loans into Consolidation Loans which will be insured and reinsured to the same extent as other loans made under the FFELP. Under this program, a lender may make a Consolidation Loan only if (a) such lender holds one of the borrower's outstanding student loans that is selected for consolidation, or (b) the borrower has unsuccessfully sought a Consolidation Loan from the holders of the Student Loans selected for consolidation.

Consolidation Loans are made in an amount sufficient to pay outstanding principal and accrued unpaid interest and late charges on all FFELP loans, as well as loans made pursuant to various other federal student loan programs, which were selected by the borrower for consolidation. The unpaid principal balance of a Consolidation Loan made prior to July 1, 1994 bears interest at a rate not less than 9 percent. The interest rate on a Consolidation Loan made on or after July 1, 1994 is equal to the weighted average of the interest rates on the loans selected for consolidation, rounded upward to the nearest whole percent. The holder of a Consolidation Loan made on or after October 1, 1993 must pay the Secretary a monthly rebate fee calculated on an annual basis equal to 1.05 percent of the principal plus accrued unpaid interest on any such loan.

The repayment term under a Consolidation Loan varies depending upon the aggregate amount of the loans being consolidated. In no case may the repayment term exceed 30 years. A Consolidation Loan is evidenced by an unsecured promissory note and entitles the borrower to prepay the loan, in whole or in part, without penalty.

GUARANTEE AGENCIES

The Act authorizes Guarantee Agencies to support education financing and credit needs of students at post-secondary schools. Under various programs throughout the United States, Guarantee Agencies insure student loans. The Guarantee Agencies are reinsured by the federal government for 80 percent to 100 percent of claims paid, depending on their claims experience for loans disbursed prior to October 1, 1993 and for 78 percent to 98 percent of claims paid for loans disbursed on or after October 1, 1993.

Guarantee Agencies collect a one-time insurance fee of up to 1 percent of the principal amount of each loan, other than Consolidation Loans, that the agency guarantees.

The Guarantee Agencies generally guarantee loans for students attending institutions in their particular state or region or for residents of their particular state or region attending schools in another state. Certain Guarantee Agencies have been designated as the Guarantee Agency for more than one state. Some Guarantee Agencies contract with other entities to administer their guarantee agency programs.

FEDERAL INSURANCE AND REINSURANCE OF GUARANTEE AGENCIES

A student loan is considered to be in default for purposes of the Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 180 days in the case of a loan repayable in monthly installments or for 240 days in the case of a loan repayable in less frequent installments.

If the loan is guaranteed by a Guarantee Agency, the eligible lender is reimbursed by the Guarantee Agency for 100 percent (98 percent for loans disbursed on or after October 1, 1993) of the unpaid principal balance of the loan plus accrued interest on any loan defaulted so long as the eligible lender has properly originated and serviced such loan. Under certain circumstances a loan deemed ineligible for reimbursement may be restored to eligibility.

Under the Act, the Department enters into a reinsurance agreement with each Guarantee Agency, which provides for federal reinsurance of amounts paid to eligible lenders by the Guarantee Agency. Pursuant to such agreements, the Department agrees to reimburse a Guarantee Agency for 100 percent of the amounts expended in connection with a claim resulting from the death, bankruptcy, or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986 and who are unable to complete the programs in which they are enrolled due to school closure, or borrowers whose borrowing eligibility was falsely certified by the eligible institution; such claims are not included in calculating a Guaranty Agency's claims experience for federal reinsurance purposes, as set forth below. The Department is also required to repay the unpaid balance of any loan if collection is stayed under the Bankruptcy Code, and is authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Department.

With respect to FFELP loans in default, the Department is required to pay the applicable Guarantee Agency a certain percentage ("Reinsurance Rate") of the amount such agency paid pursuant to default claims filed by the lender on a reinsured loan. The amount of such Reinsurance Rate is subject to specified reductions when the total reinsurance claims paid by the Department to a Guarantee Agency during a fiscal year equals or exceeds 5 percent of the aggregate original principal amount of FFELP loans guaranteed by such agency that are in repayment on the last day of the prior fiscal year. Accordingly, the amount of the reinsurance payment received by the Guarantee Agency may vary. The Reinsurance Rates are set forth in the following table.

GUARANTEE AGENCY'S CLAIMS EXPERIENCE	APPLICABLE REINSURANCE RATE
0% up to 5%	98% (100% for loans disbursed before Oct. 1, 1993)
5% up to 9%	88% (90% for loans disbursed before Oct. 1, 1993)
9% and over	78% (80% for loans disbursed before Oct. 1, 1993)

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The claims experience is not cumulative. Rather, the claims experience for any given Guarantee Agency is determined solely on the basis of claims for any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

The 1992 Amendments addressed industry concerns regarding the Department's commitment to providing support in the event of Guarantee Agency failures. Pursuant to the 1992 Amendments, Guarantee Agencies are required to maintain specified reserve fund levels. Such levels are defined as 0.5 percent of the total attributable amount of all outstanding loans guaranteed by the agency for the fiscal year of the agency that begins in 1993, 0.7 percent for the agency's fiscal year beginning in 1994, 0.9 percent for the agency's fiscal year beginning in 1995, and 1.1 percent for the agency's fiscal year beginning on or after January 1, 1996.

If (i) the Guarantee Agency fails to achieve the minimum reserve level in any two consecutive years, (ii) the Guarantee Agency's federal reimbursements are reduced to 80 percent (or 78 percent after October 1, 1993) or (iii) the Department determines the Guarantee Agency's administrative or financial condition jeopardizes its continued ability to perform its responsibilities, the Department must require the Guarantee Agency to submit and implement a management plan to address the deficiencies. The Department may terminate the Guarantee Agency's agreements with the Department if the Guarantee Agency fails to submit the required plan, or fails to improve its administrative or financial condition substantially, or if the Department determines the Guarantee Agency is in danger of financial collapse. In such event, the Department is authorized to undertake specified actions to assure the continued payment of claims, including making advances to guarantee agencies to cover immediate cash needs, transferring of guarantees to another Guarantee Agency, or transfer of guarantees to the Department itself.

The Act provides that, subject to compliance with the Act, the full faith and credit of the United States is pledged to the payment of federal reinsurance claims. It further provides that Guarantee Agencies are deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, the 1992 Amendments provide that if the Department determines that a Guarantee Agency is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Department until such time as the obligations are transferred to a new Guarantee Agency capable of meeting such obligations or until a successor Guarantee Agency assumes such obligations. There can be no assurance that the Department would under any given circumstances assume such obligation to assure satisfaction of a guarantee obligation by exercising its right to terminate a reimbursement agreement with a Guarantee Agency or by making a determination that such Guarantee Agency is unable to meet its guarantee obligations.

Lastly, the 1993 Act provides the Secretary of Education with broad authority to manage the finances and affairs of Guarantee Agencies. In general, the Act provides that agency reserve funds are federal property and may be taken by the Secretary if he determines such action is in the best interests of the loan program. Also, the Secretary has broad authority to terminate a Guarantee Agency's reinsurance agreement with the Department.

Within each fiscal year, the applicable Reinsurance Rate steps down incrementally with respect to claims made only after the claims experience thresholds are reached.

APPENDIX D

STATEMENT OF DISSENTING DIRECTORS

The following statement has been included at the written request of the directors listed below and represents solely their views.

STATEMENT OF MESSRS. BRANDON, DALEY, HUNT, LAMBERT, LORD, PORTER, SHAPIRO AND WATERFIELD FOR INCLUSION IN THE FORM S-4

Messrs. Brandon, Daley, Hunt, Lambert, Lord, Porter, Shapiro and Waterfield (the "Majority of Elected Directors") voted against the Reorganization and the other items that were submitted to a single vote by the Board of Directors. The determination of the Majority of Elected Directors to vote against the Reorganization was based on their belief that (i) management has not presented a concrete business plan for the Holding Company, and (ii) the Reorganization unnecessarily impairs stockholders' control over the corporation in both the near- and long-term. In reaching this determination, the Majority of Elected Directors considered the following material factors:

1. The belief that management has not presented a credible business plan, or otherwise demonstrated the ability, to leverage Sallie Mae's strengths in order to increase profit margins after privatization, as exhibited by management's concessions when renegotiating the Company's business relationship with The Chase Manhattan Bank.

2. The failure of management to present specific new substantive business ventures for the Holding Company following privatization.

3. The fact that the Reorganization alters the composition of the board of directors without allowing a stockholder vote on the Holding Company board. A proposal presented by Mr. Brandon to have a separate vote of stockholders on the election of the initial board of directors of the Holding Company was not included on the agenda for the Special Meeting of Stockholders.

4. The fact that the Nominations Committee of the Sallie Mae Board of Directors (with Messrs. Brandon and Lambert dissenting) voted against a proposal that the initial Holding Company board of directors consist of the current fourteen stockholder-elected directors of Sallie Mae until stockholders are provided the opportunity to vote on their successors. In addition, the Majority of Elected Directors were effectively prevented from evaluating the merit of seven individuals who were first proposed to the Nominations Committee as potential directors of the Holding Company on the day before the Board of Directors voted on the Reorganization.

5. The determination that the Reorganization will insulate the Holding Company board of directors from accountability to stockholders by providing for a classified board under which only one-third of the directors will be subject to election in any one year, whereas currently two-thirds of Sallie Mae's directors are subject to annual election, and by failing to provide for a stockholder vote on the Holding Company board of directors in 1997.

6. The determination that the Certificate of Incorporation and Bylaws of the Holding Company contain provisions that can entrench and insulate management and omit other provisions that would protect stockholders' rights, such as a provision proposed by Mr. Brandon that would restrict the Holding Company's ability to adopt a stockholders rights plan ("poison pill") without a stockholder vote.

7. The determination that there is sufficient time for an alternative plan of reorganization containing provisions enhancing management and board accountability to stockholders to be presented to stockholders for a vote well in advance of the time that the "sunset" provisions of the Privatization Act are triggered.

In voting against the Reorganization on the bases set forth above, the Majority of Elected Directors have not determined that privatization is undesirable, but instead believe that privatization on the terms contained in the terms of the Reorganization advocated by management is not in the best interests of Sallie Mae's stockholders.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 20. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Article IX of the Registrant's By-Laws provides for indemnification of the officers and directors of SLM Holding Corporation to the fullest extent permitted by applicable law. Section 145 of the Delaware General Corporation Law provides, in relevant part, that a corporation organized under the laws of Delaware shall have the power, and in certain cases the obligation, to indemnify any person who was or is a party or is threatened to be made a party to any suit or proceeding because such person is or was a director, officer, employee or agent of the corporation or is or was serving, at the request of the corporation, as a director, officer, employee or agent of another corporation, against all costs actually and reasonably incurred by him in connection with such suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation and, with respect to any criminal proceeding, he had no reason to believe his conduct was unlawful. Similar indemnity is permitted to be provided to such persons in connection with an action or suit by or in right of the corporation, provided such person acted in good faith and in a manner he believed to be in or not opposed to the best interests of the corporation, and provided further (unless a court of competent jurisdiction otherwise determines) that such person shall not have been adjudged liable to the corporation.

The directors and officers of the Registrant and its subsidiaries will be covered by a policy of insurance under which they will be insured, within limits and subject to certain limitations, against certain expenses in connection with the defense of actions, suits or proceedings, and certain liabilities that might be imposed as a result of such actions, suits or proceedings in which they are parties by reason of being or having been directors or officers.

ITEM 21. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) The following exhibits are filed as part of this Registration Statement.

EXHIBIT NO.	DESCRIPTION OF DOCUMENT
2	-- Agreement and Plan of Reorganization dated as of , 1997, by and among the Student Loan Marketing Association ("Sallie Mae"), SLM Holding Corporation ("Registrant"), and [Sallie Mae Merger Company] ("MergerCo") (Appendix A to the Proxy Statement/Prospectus contained in this Registration Statement)
3.1	-- Form of Amended and Restated Certificate of Incorporation of Registrant
3.2	-- By-Laws of Registrant
4	-- Reference is made to Article Fourth of the Form of Amended and Restated Certificate of Incorporation of Registrant (Exhibit 3.1 herein)
*5	-- Opinion of Timothy G. Greene, Executive Vice President and General Counsel, as to the legality of the securities being registered
*8	-- Opinion of Skadden, Arps, Slate, Meagher & Flom LLP as to certain tax matters
*10	-- Benefit Plans of SLM Holding Corporation
*21	-- Subsidiaries of the Registrant
23.1	-- Consent of Ernst & Young LLP
*23.2	-- Consents of Persons Who Have Agreed to Serve as Directors of the Holding Company Board
*24	-- Power of Attorney contained in the signature page of the registration statement
27	-- Financial Data Schedule
99.1	-- Charter of Sallie Mae
99.2	-- By-Laws of Sallie Mae

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* To be filed by an amendment to this Registration Statement.

(b) Financial statement schedules required by Regulation S-X and Item 14(e), Item 17(a) or Item 17(b)(9) of S-4 -- None

ITEM 22. UNDERTAKINGS.

The undersigned Registrant hereby undertakes as follows:

(1) That prior to any public reoffering of the securities registered hereunder through use of a prospectus which is a part of this registration statement, by any person or party who is deemed to be an underwriter within the meaning of Rule 145(c), the issuer undertakes that such reoffering prospectus will contain the information called for by the applicable registration form with respect to reofferings by persons who may be deemed underwriters, in addition to the information called for by the other items of the applicable form.

(2) That every prospectus (i) that is filed pursuant to paragraph (1) immediately preceding, or (ii) that purports to meet the requirements of Section 10(a)(3) of the Securities Act of 1933, as amended, and is used in connection with an offering of securities subject to Rule 415, will be filed as a part of an amendment to the registration statement and will not be used until such amendment is effective, and that, for purposes of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(4) To supply by means of a post-effective amendment all information concerning a transaction, and the company being acquired involved therein, that was not the subject of and included in the registration statement when it became effective.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Washington, District of Columbia, on February 5, 1997.

SLM Holding Corporation

By: /s/ LAWRENCE A. HOUGH

Lawrence A. Hough
President and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

/s/ LAWRENCE A. HOUGH
- ---
Lawrence A. Hough
President and Chief Executive Officer and Director
(Principal Executive Officer)

/s/ DENISE B. MCGLONE
- ---
Denise B. McGlone
Chief Financial Officer
(Principal Financial Officer)

/s/ MARK G. OVEREND
- ---
Mark G. Overend
Controller
(Principal Accounting Officer)

EXHIBIT INDEX

EXHIBIT NO.			PAGE IN SEQUENTIAL NUMBERING SYSTEM
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*27	--	Financial Data Schedule.....	
99.1	--	Charter of Sallie Mae.....	
99.2	--	By-Laws of Sallie Mae.....	

* To be filed by an amendment to this Registration Statement.

EXHIBIT 3.1

CERTIFICATE OF INCORPORATION

OF

SLM HOLDING CORPORATION

FIRST: The name of the Corporation is SLM Holding Corporation (hereinafter the "Corporation").

SECOND: The address of the registered office of the Corporation in the State of Delaware is 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at that address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which a corporation may be organized under the General Corporation Law of the State of Delaware as set forth in Title 8 of the Delaware Code (the "GCL").

FOURTH: The total number of shares of stock which the Corporation shall have authority to issue is [_____] shares of capital stock, consisting of (i) [_____] shares of common stock, par value $.20 per share (the "Common Stock"), and (ii) [_____] shares of preferred stock (the "Preferred Stock").

a. Common Stock. The powers, preferences and rights, and the qualifications, limitations and restrictions, of the Common Stock are as follows:

(1) Voting. Except as otherwise expressly required by law or provided in this Certificate of Incorporation, and subject to any voting rights provided to holders of Preferred Stock at any time outstanding, at each annual or special meeting of stockholders, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast one vote in person or by proxy for each share of the Common Stock standing in such holder's name on the stock transfer records of the Corporation.

(2) Dividends. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Certificate of Incorporation, as it may be amended from time to time, holders of shares of Common Stock shall be

entitled to receive such dividends and other distributions in cash, stock or property of the Corporation when, as and if declared thereon by the Board of Directors from time to time out of assets or funds of the Corporation legally available therefor.

(3) Liquidation, Dissolution, etc. In the event of any liquidation, dissolution or winding up (either voluntary or involuntary) of the Corporation, the holders of shares of Common Stock shall be entitled to receive the assets and funds of the Corporation available for distribution after payments to creditors and to the holders of any Preferred Stock of the Corporation that may at the time be outstanding, in proportion to the number of shares held by them.

(4) No Preemptive or Subscription Rights. No holder of shares of Common Stock shall be entitled to preemptive or subscription rights.

b. Preferred Stock. The Board of Directors is hereby expressly authorized to provide for the issuance of all or any shares of the Preferred Stock in one or more classes or series, and to fix for each such class or series such voting powers, full or limited, or no voting powers, and such designations, preferences and relative, participating, optional or other special rights and such qualifications, limitations or restrictions thereof, as shall be stated and expressed in the resolution or resolutions adopted by the Board of Directors providing for the issuance of such class or series, including, without limitation, the authority to provide that any such class or series may be (i) subject to redemption at such time or times and at such price or prices; (ii) entitled to receive dividends (which may be cumulative or non-cumulative) at such rates, on such conditions, and at such times, and payable in preference to, or in such relation to, the dividends payable on any other class or classes or any other series; (iii) entitled to such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation; or (iv) convertible into, or exchangeable for, shares of any other class or classes of stock, or of any other series of the same or any other class or classes of stock, of the Corporation at such price or prices or at such rates of exchange and with such adjustments; all as may be stated in such resolution or resolutions.

c. Power to Sell and Purchase Shares. Subject to the requirements of applicable law, the Corporation shall have the power to issue and sell all or any part of any shares of any class of stock herein or hereafter authorized to such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not greater consideration could be received upon the issue or sale of the same number of shares of another class, and as otherwise permitted by law. Subject to the requirements of applicable law, the

Corporation shall have the power to purchase any shares of any class of stock herein or hereafter authorized from such persons, and for such consideration, as the Board of Directors shall from time to time, in its discretion, determine, whether or not less consideration could be paid upon the purchase of the same number of shares of another class, and as otherwise permitted by law.

FIFTH: The name and mailing address of the Sole Incorporator is as follows:

Name	Address
Timothy G. Greene	1050 Thomas Jefferson St., N.W. Washington, D.C. 20007

SIXTH: The following provisions are inserted for the management of the business and the conduct of the affairs of the Corporation, and for further definition, limitation and regulation of the powers of the Corporation and of its directors and stockholders:

(1) The business and affairs of the Corporation shall be managed by or under the direction of the Board of Directors.

(2) The directors shall have concurrent power with the stockholders to make, alter, amend, change, add to or repeal the By-Laws of the Corporation.

(3) (a) The number of directors of the Corporation shall initially be [ ], and thereafter shall be such number as from time to time is fixed by resolution of the Board of Directors, provided that the fixed number of directors shall not be fewer than 9 nor more than [19]. Election of directors need not be by written ballot unless the By-Laws so provide. The directors shall be divided into three classes, designated Class I, Class II and Class III. Each class shall consist, as nearly as may be possible, of one-third of the total number of directors constituting the entire Board of Directors. The initial division of the Board of Directors into classes shall be made by the decision of the affirmative vote of the holders of a majority of the issued and outstanding shares of Common Stock. Subject to the provisions of this Article SIXTH (b), the term of the initial Class I directors shall terminate on the date of the 1998 annual meeting; the term of the initial Class II directors shall terminate on the date of the 1999 annual meeting; and the term of the initial Class III directors shall terminate on the date of the 2000 annual meeting. Subject to the provisions of this Article SIXTH (b), at each succeeding annual meet-

ing of stockholders beginning in 1998, successors to the class of directors whose term expires at that annual meeting shall be elected for a three-year term. If the number of directors is changed, any increase or decrease shall be apportioned among the classes so as to maintain the number of directors in each class as nearly equal as possible, but in no case will a decrease in the number of directors shorten the term of any incumbent director.

(b) A director shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

(c) Subject to the terms of any one or more classes or series of Preferred Stock, any vacancy on the Board of Directors that results from an increase in the number of directors may not be filled by stockholders of the Corporation but may be filled by a majority of the Board of Directors then in office, provided that a quorum is present, and any other vacancy occurring on the Board of Directors may not be filled by stockholders of the Corporation but may be filled by a majority of the Board of Directors then in office, even if less than a quorum, or by a sole remaining director. Any additional director elected to fill a vacancy resulting from an increase in the number of directors of such class shall hold office for a term that shall coincide with the remaining term of that class. If the number of directors is increased, any such increase shall be apportioned among the classes of directors so as to maintain the number of directors in each class as nearly equal as possible, provided that, to the extent not otherwise inconsistent with any applicable rules of any exchange on which securities of the Corporation are then listed, in the event that any such increase cannot be apportioned equally among the classes of directors, the Board of Directors shall apportion the additional directors among the classes in such a way so that the class of directors that is apportioned the greatest number of additional directors is the class of directors whose term is next scheduled to expire. Any director elected to fill a vacancy not resulting from an increase in the number of directors shall have the same remaining term as that of his predecessor. Subject to the rights, if any, of the holders of shares of Preferred Stock then outstanding, any or all of the directors of the Corporation may be removed from office at any time, but only for cause and only by the affirmative vote of the holders of at least a majority of the voting power of the Corporation's then outstanding capital stock entitled to vote at an election of directors. Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of stockholders, the election, term of

office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation applicable thereto, and such directors so elected shall not be divided into classes pursuant to this Article SIXTH unless expressly provided by such terms.

(4) No director shall be personally liable to the Corporation or any of its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) pursuant to Section 174 of the GCL or (iv) for any transaction from which the director derived an improper personal benefit. Any repeal or modification of this Article SIXTH by the stockholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

(5) In addition to the powers and authority hereinbefore or by statute expressly conferred upon them, the directors are hereby empowered to exercise all such powers and do all such acts and things as may be exercised or done by the Corporation, subject, nevertheless, to the provisions of the GCL, this Certificate of Incorporation, and any By-Laws adopted by the stockholders; provided, however, that no By-Laws hereafter adopted by the stockholders shall invalidate any prior act of the directors which would have been valid if such By-Laws had not been adopted.

(d) Notwithstanding any other provision of this Certificate of Incorporation (and in addition to any other vote that may be required by law), the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the shares entitled to vote at an election of directors shall be required to amend, alter, change or repeal, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of this Article SIXTH.

SEVENTH: Meetings of stockholders may be held within or without the State of Delaware, as the By-Laws may provide. The books of the Corporation may be kept (subject to any provision contained in the GCL) outside the State of Delaware at such place or places as may be designated from time to time by the Board of Directors or in the By-Laws of the Corporation.

EIGHTH: No action by shareholders shall be valid unless taken at a duly constituted meeting pursuant to the terms of the By-Laws of the Corporation and no action may be taken by stockholders by written consent without a meeting.

NINTH: The Corporation reserves the right to amend, alter, change or repeal any provision contained in this Certificate of Incorporation, in the manner now or hereafter prescribed by statute, and all rights conferred upon stockholders herein are granted subject to this reservation; provided, however, that notwithstanding any other provision of this Certificate of Incorporation (and in addition to any other vote that may be required by law), the affirmative vote of the holders of at least eighty percent (80%) of the voting power of the shares entitled to vote at an election of directors shall be required to amend, alter, change or repeal, or to adopt any provision as part of this Certificate of Incorporation inconsistent with the purpose and intent of Article SIXTH of this Certificate of Incorporation. In furtherance and not in limitation of the powers conferred upon it by the laws of the State of Delaware, the Board of Directors shall have the power to adopt, amend, alter or repeal the Corporation's By-Laws. The affirmative vote of at least a majority of the entire Board of Directors shall be required to adopt, amend, alter or repeal the Corporation's By-Laws.

EXHIBIT 3.2

BY-LAWS

OF

SLM HOLDING 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, either within or without the State of Delaware, as shall be designated from time to

time by the Board of Directors 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.
Written 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 President, if the President 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 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. Written 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 not less than ten nor more

than sixty days before the date of the meeting to each stockholder entitled to vote at such meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Certificate of Incorporation, 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 at all meetings of the stockholders 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. 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 place where the meeting is to be held. 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 shareholders 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 shareholder 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 shareholder of the Corporation who is a shareholder 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 shareholders 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

shareholders, provided that the law of Delaware shall govern whether such business is a proper subject for action by shareholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) 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 shareholder 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 such notice of the date of such annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder 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 of

such shareholder, (c) the number of shares of the Corporation which are owned (beneficially or of record) by such shareholder, (d) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business, and (e) a representation that such shareholder 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 shareholders shall be limited to the purposes stated in the notice of a special meeting.

The Chairman shall determine the order of business and the procedure at any shareholder 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.

No action by shareholders shall be valid unless taken at a duly constituted meeting pursuant to Section 2 or Section 3 of this Article II.

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 shareholders. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any shareholder of the Corporation who is a shareholder 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 shareholders entitled to vote at such annual meeting.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than sixty (60) 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 shareholder 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 such notice of the date of such annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth (a) as to each person whom such shareholder 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 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 shareholder giving the notice (i) the name and record address of such shareholder, (ii) the number of shares of the Corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder 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 shareholder, (iv) a representation that such shareholder 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 shareholder that would be required by law to be disclosed in a proxy statement or 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. Election of Directors. Except as provided in Section 2 of this Article, directors shall be elected by a plurality of the votes cast at Annual Meetings of Stockholders, and each director so elected shall hold office until the Annual Meeting for the year in which his term expires and until his successor is duly elected and qualified, or until his earlier resignation or removal. 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.

Section 2. Vacancies. Vacancies and newly created directorships resulting from any increase in the authorized number of directors shall be filled in accordance with the provisions of the Corporation's Certificate of Incorporation.

Section 3. 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 4. 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 President, if the President 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, by telephone or telegram or facsimile transmission not less than twenty-four (24) hours before the date of such meeting, or on such shorter notice as the person or persons calling such meeting may deem necessary or appropriate under the circumstances.

Section 5. 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 6. 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 7. 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 any committee designated by the Board of Directors, 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 7 shall constitute presence in person at such meeting.

Section 8. Committees. The Board of Directors shall adopt resolutions establishing the following committees: (i) Executive, (ii) Audit, (iii) Nominations and Board Affairs 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 9. 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 for attendance at each meeting of the Board of Directors or a stated salary 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 10. 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 11. 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 Board Affairs and Compensation and Personnel Committees of the Board of Directors shall consist entirely of Independent directors. For purposes hereof, a director will not generally be considered Independent if he or she: (a) has been employed by the Corporation or one of its affiliates in an executive capacity; (b) is an employee or owner of a firm that is one of the Corporation's or its affiliate's paid advisers or consultants; (c) is employed by a significant customer or supplier; (d) has a personal services contract with the Corporation or one of its affiliates; (e) is employed by a foundation or university that receives significant grants or endowments from the Corporation or one of its affiliates; (f) is a relative of an executive of the Corporation or one of its affiliates; (g) is part of an interlocking directorate in which an executive officer of the Corporation serves on the board of another corporation that employs the director.

ARTICLE IV

OFFICERS

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chairman of the Board (who must be a director), a President, a General Counsel, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose 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 nor, except in the case of the Chairman of the Board of Directors, 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. Any 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 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 President 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 power 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. President. The President 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 be the Chief Executive Officer of the Corporation and shall execute all bonds, mortgages, contracts and other instruments of the Corporation requiring a seal, under the seal 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 President. In the absence or disability of the Chairman of the Board of Directors, the President shall preside at all meetings of the stockholders and the Board of Directors. The President 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. Vice Presidents. At the request of the President or in his absence or in the event of his inability or refusal to act, the Vice President or the Vice Presidents if there is more than one (in the order designated by the Board of Directors) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Each Vice President shall perform such other duties and have such other powers as the Board

of Directors from time to time may prescribe. If there be no Vice President, the Board of Directors shall designate the officer of the Corporation who, in the absence of the President or in the event of the inability or refusal of the President to act, shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President.

Section 7. The 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 President 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 for the standing committees when required. 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 President, 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 President 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 President 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 President and 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 President and 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 he 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, and he shall not accept or perform any outside or private employment which the President of the Corporation determines will interfere with the efficient performance of his official duties.

ARTICLE V

STOCK

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the President or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Section 2. Signatures. Any or all of the signatures on a 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 registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors 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 may, in its 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 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be cancelled before a new certificate shall be issued.

Section 5. 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 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 6. Beneficial 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. Written notice may also be given personally or by telegram, telex or cable.

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, of 5% 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 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, or his or her heirs, executors or personal or legal representatives) or advance expenses granted 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 may be altered, amended or repealed, in whole or in part, or new By-Laws may be adopted by the stockholders or by the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws be contained in the notice of such meeting of stockholders or Board of Directors as the case may be. All such

amendments must be approved by either the holders of a majority of the outstanding capital stock entitled to vote thereon or by a majority of the entire Board of Directors.

Section 2. Entire Board of Directors. As used in this Article IX and in these By-Laws generally, the term "entire Board of Directors" means the total number of directors which the Corporation would have if there were no vacancies.

EXHIBIT 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the reference to our firm under the caption "Experts" in the Registration Statement (Form S-4 No. 333-) and related Prospectus of SLM Holding Corporation for the registration of 54,600,000 shares of its common stock and to the use of our report dated February 3, 1997, with respect to the balance sheet as of February 3, 1997 of SLM Holding Corporation and our report dated January 13, 1997 with respect to the consolidated financial statements of the Student Loan Marketing Association for the year ended December 31, 1996 included in the Prospectus and Registration Statement filed with the Securities and Exchange Commission.

/s/ Ernst & Young LLP

Washington, D.C.
February 5, 1997

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1,000

YEAR	
	DEC-31-1996
	JAN-01-1996
	DEC-31-1996
	270,887
	7,435,582
	37,932,279
	84,063
	0
	0
	410,480
	(168,723)
	47,629,890
	0
	44,762,774
	0
	213,883
	13,139
	820,808
47,629,890	
	0
3,590,124	
	0
	0
405,652	
	0
2,576,772	
607,700	
	183,498
424,202	
	0
(4,792)	
	0
	419,410
	7.32
	7.32

HIGHER EDUCATION ACT OF 1965
TITLE IV, PART B
SECTION 439
20 U.S.C. SECTION 1087-2
(AS AMENDED BY THE STUDENT LOAN MARKETING
ASSOCIATION REORGANIZATION ACT OF 1996 PUB. L. 104-208)

STUDENT LOAN MARKETING ASSOCIATION

SEC. 439

(a)Purpose.The Congress hereby declares that it is the purpose of this section (1) to establish a private corporation which will be financed by private capital and which will serve as a secondary market and warehousing facility for student loans, including loans which are insured by the Secretary under this part or by a guaranty agency, and which will provide liquidity for student loan investments; (2) in order to facilitate secured transactions involving student loans, to provide for perfection of security interests in student loans either through the taking of possession or by notice filing; and (3) to assure nationwide the establishment of adequate loan insurance programs for students, to provide for an additional program of loan insurance to be covered by agreements with the Secretary. (b)Establishment.

(1) In General. There is hereby created a body corporate to be known as the Student Loan Marketing Association (hereinafter referred to as the "Association"). The Association shall have succession until dissolved. It shall maintain its principal office in the District of Columbia and shall be deemed, for purposes of venue and jurisdiction in civil actions, to be a resident and citizen thereof. Offices may be established by the Association in such other place or places as it may deem necessary or appropriate for the conduct of its business.

(2) Exemption from State and Local Taxes. The Association, including its franchise, capital, reserves, surplus, mortgages, or other security holdings, and income shall be exempt from all taxation now or hereafter imposed by any State, territory, possession, Commonwealth, or dependency of United States, or by the District of Columbia, or by any county, municipality, or local taxing authority, except that any real property of the Association shall be subject to State, territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

(3) Appropriations Authorized for Establishment. There is hereby authorized to be appropriated to the Secretary $5,000,000 for making advances for the purpose of helping to establish the Association. Such advances shall be repaid within such period as the Secretary may deem to be appropriate in light of the maturity and solvency of the Association. Such advances shall bear interest at a rate not less than (A) a rate determined by the Secretary of the Treasury taking into consideration the current average market yield on outstanding marketable obligations of the United States with remaining period to maturity comparable to the maturity of such advances, adjusted to the nearest one-eighth of 1 percent, plus (B) an allowance adequate in the judgment of the Secretary to cover administrative costs and probable losses. Repayments of such advances shall be deposited into miscellaneous receipts of the Treasury. (c)Board Of Directors.

(1) Composition Of Board; Chairman.

(A) The Association shall have a Board of Directors which shall consist of 21 persons, 7 of whom shall be appointed by the President and shall be representative of the general public. The remaining 14 directors shall be elected by the common stockholders of the Association entitled to vote pursuant to subsection (f). Commencing with the annual shareholders meeting to be held in 1993

(i) 7 of the elected directors shall be affiliated with an eligible institution; and

(ii) 7 of the elected directors shall be affiliated with an eligible lender.

(B) The President shall designate 1 of the directors to serve as Chairman.

(2) Terms Of Appointed And Elected Members. The directors appointed by the President shall serve at the pleasure of the President and until their successors have been appointed and have qualified. The remaining directors shall each be elected for a term ending on the date of the next annual meeting of the common stockholders of the Association, and shall serve until their successors have been elected and have qualified. Any appointive seat on the Board which becomes vacant shall be filled by appointment of the President. Any elective seat on the Board which becomes vacant after the annual election of the directors shall be filled by the Board, but only for the unexpired portion of the term.

(3) Affiliated Members. For the purpose of this subsection, the references to a director "affiliated with the eligible institution" or a director "affiliated with an eligible lender" means an individual who is, or within 5 years of election to the Board has been, an employee, officer, director, or similar official of

(A) an eligible institution or an eligible lender;

(B) an association whose members consist primarily of eligible institutions or eligible lenders; or

(C) a State agency, authority, instrumentality, commission, or similar institution, the primary purpose of which relates to educational matters or banking matters.

(4) Meetings and Functions of the Board. The Board of Directors shall meet at the call of its Chairman, but at least semiannually. The Board shall determine the general policies which shall govern the operations of the Association. The Chairman of the Board shall, with the approval of the Board, select, appoint, and compensate qualified persons to fill the offices as may be provided for in the bylaws, with such functions, powers, and duties as may be prescribed by the bylaws or by the Board of Directors, and such persons shall be the officers of the Association and shall discharge all such functions, powers, and duties. (d)Authority Of Association.

(1) In General. The Association is authorized, subject to the provisions of this section

(A) pursuant to commitments or otherwise to make advances on the security of, purchase, or repurchase, service, sell or resell, offer participations, or pooled interests or otherwise deal in, at prices and on terms and conditions determined by the Association, student loans which are insured by the Secretary under this part or by a guaranty agency;

(B) to buy, sell, hold, underwrite, and otherwise deal in obligations, if such obligations are issued, for the purpose of making or purchasing insured loans, by a guaranty agency or by an eligible lender in a State described in section 435(d)(1)(D) or (F);

(C) to buy, sell, hold, insure, underwrite, and otherwise deal in obligations issued for the purpose of financing or refinancing the construction, reconstruction, renovation, improvement, or purchase at institutions of higher education of any of the following facilities (including the underlying property) and materials (including related equipment, instrumentation and furnishings) at an eligible institution of higher education:

(i) educational and training facilities;

(ii) housing for students and faculties, facilities generally open for promoting fitness and health for students, faculty and staff or for physical education courses, dining halls, and student unions; and

(iii) library facilities, including the acquisition of library materials at institutions of higher education; except that not more than 30 percent of the value of transactions entered into under this subparagraph shall involve transactions of the types described in clause (ii);

(D) to undertake a program of loan insurance pursuant to agreements with the Secretary under section 428, and except with respect to loans under subsection (o) of this section or under section 428C, the Secretary may enter into an agreement with the Association for such purpose only if the Secretary determines that (i) eligible borrowers are seeking and unable to obtain loans under this part, and (ii) no guaranty agency is capable of or willing to provide a program of loan insurance for such borrowers; and

(E) to undertake any other activity which the Board of Directors of the Association determines to be in furtherance of the programs of insured student loans authorized under this part or will otherwise support the credit needs of students, except that

(i) in carrying out all such activities the purpose shall always be to provide secondary market and other support for lending programs offered by other organizations and not to replace or compete with such other programs;

(ii) nothing in this subparagraph (E) shall be deemed to authorize the Association to acquire, own, operate, or control any bank, savings and loan association, savings bank or credit union; and

(iii) not later than 30 days prior to the initial implementation of a program undertaken pursuant to this subparagraph (E), the Association shall advise the Chairman and the Ranking Member on the Committee on Labor and Human Resources of the Senate and the Chairman and the Ranking Member of the Committee on Education and Labor of the House of Representatives in writing of its plans to offer such program and shall provide information relating to the general terms and conditions of such program.

The Association is further authorized to undertake any activity with regard to student loans which are not insured or guaranteed as provided for in this subsection as it may undertake with regard to insured or guaranteed student loans. Any warehousing advance made on the security of such loans shall be subject to the provisions of paragraph (3) of this subsection to the same extent as a warehousing advance made on the security of insured loans.

(2) Warehousing Advances. Any warehousing advance made under paragraph (1)(A) of this subsection shall be made on the security of (A) insured loans, (B) marketable obligations and securities issued, guaranteed, or insured by, the United States, or for which the full faith and credit of the United States is pledged for the repayment of principal and interest thereof, or (C) marketable obligations issued, guaranteed, or insured by any agency, instrumentality, or corporation of the United States for which the credit of such agency, instrumentality, or corporation is pledged for the repayment of principal and interest thereof, in an amount equal to the amount of such advance. The proceeds of any such advance secured by insured loans shall either be invested in additional insured loans or the lender shall provide assurances to the Association that during the period of the borrowing it will maintain a level of insured loans in its portfolio not less than the aggregate outstanding balance of such loans held at the time of the borrowing. The proceeds from any such advance secured by collateral described in clauses (B) and (C) shall be invested in additional insured student loans.

(3) Perfection of Security Interests in Student Loans. Notwithstanding the provisions of any State law to the contrary, including the Uniform Commercial Code as in effect in any State, a security interest in insured student loans created on behalf of the Association or any eligible lender as defined in section 435(a) may be perfected either through the taking of possession of such loans or by the filing of notice of such security interest in such loans in the manner provided by such State law for perfection of security interests in accounts.

(4) Forms of Securities. Securities issued pursuant to the offering of participations or pooled interests under paragraph (1) of this subsection may be in the form of debt obligations, or trust certificates of beneficial ownership, or both. Student loans set aside pursuant to the offering of participations or pooled interests shall at all times be adequate to ensure the timely principal and interest payments on such securities.

(5) Restrictions on Facilities and Housing Activities. Not less than 75 percent of the aggregate dollar amount of obligations bought, sold, held, insured, underwritten, and otherwise supported in accordance with the authority

contained in paragraph (1)(C) shall be obligations which are listed by a nationally recognized statistical rating organization at a rating below the second highest rating of such organization. (e)Advances To Lenders That Do Not Discriminate.The Association, pursuant to such criteria as the Board of Directors may prescribe, shall make advances on security or purchase student loans pursuant to subsection (d) only after the Association is assured that the lender (1) does not discriminate by pattern or practice against any particular class or category of students by requiring that, as a condition to the receipt of a loan, the student or his family maintain a business relationship with the lender, except that this clause shall not apply in the case of a loan made by a credit union, savings and loan association, mutual savings bank, institution of higher education, or any other lender with less than $75,000,000 in deposits, and (2) does not discriminate on the basis of race, sex, color, creed, or national origin. (f)Stock Of The Association.

(1) Voting Common Stock. The Association shall have voting common stock having such par value as may be fixed by its Board of Directors from time to time. Each share of voting common stock shall be entitled to one vote with rights of cumulative voting at all elections of directors.

(2) Number of Shares; Transferability. The maximum number of shares of voting common stock that the Association may issue and have outstanding at any one time shall be fixed by the Board of Directors from time to time. Any voting common stock issued shall be fully transferable, except that, as to the Association, it shall be transferred only on the books of the Association.

(3) Dividends. To the extent that net income is earned and realized, subject to subsection (g)(2), dividends may be declared on voting common stock by the Board of Directors. Such dividends as may be declared by the Board of Directors shall be paid to the holders of outstanding shares of voting common stock, except that no such dividends shall be payable with respect to any share which has been called for redemption past the effective date of such call.

(4) Single Class of Voting Common Stock. As of the effective date of the Higher Education Amendments of 1992, all of the previously authorized shares of voting common stock and nonvoting common stock of the Association shall be converted to shares of a single class of voting common stock on a share-for-share basis, without any further action on the part of the Association or any holder. Each outstanding certificate for voting or nonvoting common stock shall evidence ownership of the same number of shares of voting stock into which it is converted. All preexisting rights and obligations with respect to any class of common stock of the Association shall be deemed to be rights and obligations with respect to such converted shares. (g)Preferred Stock.

(1) Authority of Board. The Association is authorized to issue nonvoting preferred stock having such par value as may be fixed by its Board of Directors from time to time. Any preferred share issued shall be freely transferable, except that, as to the Association, it shall be transferred only on the books of the Association.

(2) Rights of Preferred Stock. The holders of the preferred shares shall be entitled to such rate of cumulative dividends and such shares shall be subject to such redemption or other conversion provisions as may be provided for at the time of issuance. No dividends shall be payable on any share of common stock at any time when any dividend is due on any share of preferred stock and has not been paid.

(3) Preference on Termination of Business. In the event of any liquidation, dissolution, or winding up of the Association's business, the holders of the preferred shares shall be paid in full at par value thereof, plus all accrued dividends, before the holders of the common shares receive any payments. (h)Debt Obligations.

(1) Approval by Secretaries of Education and the Treasury. The Association is authorized with the approval of the Secretary of Education and the Secretary of the Treasury to issue and have outstanding obligations having such maturities and bearing such rate or rates of interest as may be determined by the Association. The authority of the Secretary of Education to approve the issuance of such obligations is limited to obligations issued by the Association and guaranteed by the Secretary pursuant to paragraph (2) of this subsection. Such obligations may be redeemable at the option of the Association before maturity in such manner as may be stipulated therein. The Secretary of the Treasury may not direct as a condition of his approval that any such issuance of obligations by the Association be made or sold to the Federal Financing Bank. To the extent that the average outstanding amount of

the obligations owned by the Association pursuant to the authority contained in subsection (d)(1)(B) and (C) of this section and as to which the income is exempt from taxation under the Internal Revenue Code of 1986 does not exceed the average stockholders' equity of the Association, the interest on obligations issued under this paragraph shall not be deemed to be interest on indebtedness incurred or continued to purchase or carry obligations for the purpose of section 265 of the Internal Revenue Code of 1986.

(2) Guarantee of Debt. The Secretary is authorized, prior to October 1, 1984, to guarantee payment when due of principal and interest on obligations issued by the Association in an aggregate amount determined by the Secretary in consultation with the Secretary of the Treasury. Nothing in this section shall be construed so as to authorize the Secretary of Education or the Secretary of the Treasury to limit, control, or constrain programs of the Association or support of the Guaranteed Student Loan Program by the Association.

(3) Borrowing Authority to Meet Guarantee Obligations. To enable the Secretary to discharge his responsibilities under guarantees issued by him, he is authorized to issue to the Secretary of the Treasury notes or other obligations in such forms and denominations, bearing such maturities, and subject to such terms and conditions, as may be prescribed by the Secretary with the approval of the Secretary of the Treasury. Such notes or other obligations shall bear interest at a rate determined by the Secretary of the Treasury, taking into consideration the current average market yield on outstanding marketable obligations of the United States of comparable maturities during the months preceding the issuance of the notes or other obligations. The Secretary of the Treasury is authorized and directed to purchase any notes and other obligations issued hereunder and for that purpose he is authorized to use as a public debt transaction the proceeds from the sale of any securities issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act, as amended, are extended to include any purchase of such notes and obligations. The Secretary of the Treasury may at any time sell any of the notes or other obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such notes or other obligations shall be treated as public debt transactions of the United States. There is authorized to be appropriated to the Secretary such sums as may be necessary to pay the principal and interest on the notes or obligations issued by him to the Secretary of the Treasury.

(4) Action On Request For Guarantees. Upon receipt of a request from the Association under this subsection requiring approvals by the Secretary of Education or the Secretary of the Treasury, the Secretary of Education or the Secretary of the Treasury shall act promptly either to grant approval or to advise the Association of the reasons for withholding approval. In no case shall such an approval be withheld for a period longer than 60 days unless, prior to the end of such period, the Secretary of Education and the Secretary of the Treasury submit to the Congress a detailed explanation of reasons for doing so.

(5) Authority of Treasury to Purchase Debt. The Secretary of the Treasury is authorized to purchase any obligations issued by the Association pursuant to this subsection as now or hereafter in force, and for such purpose the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds of the sale of any securities hereafter issued under the Second Liberty Bond Act, as now or hereafter in force, and the purposes for which securities may be issued under the Second Liberty Bond Act, as now or hereafter in force are extended to include such purchases. The Secretary of the Treasury shall not at any time purchase any obligations under this subsection if such purchase would increase the aggregate principal amount of his then outstanding holdings of such obligations under this subsection to an amount greater than $1,000,000,000. Each purchase of obligations by the Secretary of the Treasury under this subsection shall be upon such terms and conditions as to yield a return at a rate determined by the Secretary of the Treasury, taking into consideration the current average rate on outstanding marketable obligations of the United States of comparable maturities as of the last day of the month preceding the making of such purchase. The Secretary of the Treasury may, at any time, sell, upon such terms and conditions and at such price or prices as he shall determine, any of the obligations acquired by him under this subsection. All redemptions, purchases, and sales by the Secretary of the Treasury of such obligations under this subsection shall be treated as public debt transactions of the United States.

(6) Sale of Debt to Federal Financing Bank. Notwithstanding any other provision of law the Association is authorized to sell or issue obligations on the security of student loans, the payment of interest or principal of which has at any time been guaranteed under section 428 or 429 of this part, to the Federal Financing Bank.

(7) Offset Fee.

(A) The Association shall pay to the Secretary, on a monthly basis, an offset fee calculated on an annual basis in an amount equal to 0.30 percent of the principal amount of each loan made, insured, or guaranteed under this part that the Association holds (except for loans made pursuant to sections 428C, 439(o), or 439(q)) and that was acquired on or after the date of enactment of this paragraph.

(B) If the Secretary determines that the Association has substantially failed to comply with subsection (q), subparagraph (A) shall be applied by substituting "1.0 percent" for ".30 percent".

(C) The Secretary shall deposit all fees collected pursuant to this paragraph into the insurance fund established in section 431.
(i)General Corporate Powers.The Association shall have power

(1) to sue and be sued, complain and defend, in its corporate name and through its own counsel;

(2) to adopt, alter, and use the corporate seal, which shall be judicially noticed;

(3) to adopt, amend, and repeal by its Board of Directors, bylaws, rules, and regulations as may be necessary for the conduct of its business;

(4) to conduct its business, carry on its operations, and have officers and exercise the power granted by this section in any State without regard to any qualification or similar statute in any State;

(5) to lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, or mixed, or any interest therein, wherever situated;

(6) to accept gifts or donations of services, or of property, real, personal, or mixed, tangible or intangible, in aid of any of the purposes of the Association;

(7) to sell, convey, mortgage, pledge, lease, exchange, and otherwise dispose of its property and assets;

(8) to appoint such officers, attorneys, employees, and agents as may be required, to determine their qualifications, to define their duties, to fix their salaries, require bonds for them, and fix the penalty thereof; and

(9) to enter into contracts, to execute instruments, to incur liabilities, and to do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.
(j)Accounting, Auditing, And Reporting.The accounts of the Association shall be audited annually. Such audits shall be conducted in accordance with generally accepted auditing standards by independent certified public accountants or by independent licensed public accountants, licensed on or before December 31, 1970, who are certified or licensed by a regulatory authority of a State or other political subdivision of the United States, except that independent public accountants licensed to practice by such regulatory authority after December 31, 1970, and persons who, although not so certified or licensed, meet, in the opinion of the Secretary, standards of education and experience representative of the highest standards prescribed by the licensing authorities of the several States which provide for the continuing licensing of public accounts and which are prescribed by the Secretary in appropriate regulations may perform such audits until December 31, 1975. A report of each such audit shall be furnished to the Secretary of the Treasury. The audit shall be conducted at the place or places where the accounts are normally kept. The representatives of the Secretary shall have access to all books, accounts, financial records, reports, files, and all other papers, things, or property belonging to or in use by the Association and necessary to facilitate the audit, and they shall be afforded full facilities for verifying transactions with the balances or securities held by depositories, fiscal agents, and custodians.
(k)Report On Audits By Treasury.A report of each such audit for a fiscal year shall be made by the Secretary of the Treasury to the President and to the Congress not later than 6 months following the close of such fiscal year. The report shall set forth the scope of the audit and shall include a statement (showing intercorporate relations) of assets and liabilities, capital and surplus or deficit; a statement of surplus or deficit

analysis; a statement of income and expense; a statement of sources and application of funds; and such comments and information as may be deemed necessary to keep the President and the Congress informed of the operations and financial condition of the Association, together with such recommendations with respect thereto as the Secretary may deem advisable, including a report of any impairment of capital or lack of sufficient capital noted in the audit. A copy of each report shall be furnished to the Secretary, and to the Association. (l)Lawful Investment Instruments; Effect Of And Exemptions From Other Laws.All obligations issued by the Association including those made under subsection (d)(4) shall be lawful investments, and may be accepted as security for all fiduciary, trust, and public funds, the investment or deposit of which shall be under authority or control of the United States or of any officer or officers thereof. All stock and obligations issued by the Association pursuant to this section shall be deemed to be exempt securities within the meaning of laws administered by the Securities and Exchange Commission, to the same extent as securities which are direct obligations of, or obligations guaranteed as to principal or interest by, the United States. The Association shall, for the purposes of section 14(b)(2) of the Federal Reserve Act, be deemed to be an agency of the United States. The obligations of the association shall be deemed to be obligations of the United States for the purpose of section 3124 of title 31, United States Code. For the purpose of the distribution of its property pursuant to section 726 of title 11, United States Code, the Association shall be deemed a person within the meaning of such title. The priority established in favor of the United States by section 3713 of title 31, United States Code, shall not establish a priority over the indebtedness of the Association issued or incurred on before September 30, 1992. The Federal Reserve Banks are authorized to act as depositories, custodians, or fiscal agents, or a combination thereof, for the Association in the general performance of its powers under this section. (m)Preparation Of Obligations.In order to furnish obligations for delivery by the Association, the Secretary of the Treasury is authorized to prepare such obligations in such form as the Board of Directors may approve, such obligations when prepared to be held in the Treasury subject to delivery upon order by the Association. The engraved plates, dies, bed pieces, and so forth, executed in connection therewith shall remain in the custody of the Secretary of the Treasury. The Association shall reimburse the Secretary of the Treasury for any expenditures made in the preparation, custody, and delivery of such obligations. The Secretary of the Treasury is authorized to promulgate regulations on behalf of the Association so that the Association may utilize the book-entry system of the Federal Reserve Banks. (n)Report On Operations And Activities.The Association shall, as soon as practicable after the end of each fiscal year, transmit to the President and the Congress a report of the Association's operations and activities, including a report with respect to all facilities transactions, during each year. (o)Loan Consolidations.

(1) In General. The Association or its designated agent may, upon request of a borrower, consolidate loans received under this title in accordance with section 428C.

(2) Use of Existing Agencies as Agent. The Association in making loans pursuant to this subsection in any State served by a guaranty agency or an eligible lender in a State described in section 435(d)(1) (D) or (F) may designate as its agent such agency or lender to perform such functions as the Association determines appropriate. Any agreements made pursuant to this subparagraph shall be on such terms and conditions as agreed upon by the Association and such agency or lender.

(p)Advances For Direct Loans By Guaranty Agencies.

(1) In General. The Association shall make advances in each fiscal year from amounts available to it to each guaranty agency and eligible lender described in subsection 428(h)(1) which has an agreement with the Association which sets forth that advances are necessary to enable such agency or lender to make student loans in accordance with section 428(h) and that such advances will be repaid to the Association in accordance with such terms and conditions as may be set forth in the agreement and agreed to by the Association and such agency or lender. Advances made under this subsection shall not be subject to subsection (d)(2) of this section.

(2) Limitation. No advance may be made under this subsection unless the guaranty agency or lender makes an application to the Association, which shall be accompanied by such information as the Association determines to be reasonably necessary. (q)Lender Of Last Resort.

(1) Action at Request of Secretary.

(A) Whenever the Secretary determines that eligible borrowers are seeking and are unable to obtain loans under this part, the Association or its designated agent shall, not later than 90 days after the date of enactment of the Student Loan Reform Act of 1993, begin making loans to such eligible borrowers in accordance with this subsection at the request of the Secretary. The Secretary may request that the Association make loans to borrowers within a geographic area or for the benefit of students attending institutions of higher education that certify, in accordance with standards established by the Secretary, that their students are seeking and unable to obtain loans.

(B) Loans made pursuant to this subsection shall be insurable by the Secretary under section 429 with a certificate of comprehensive insurance coverage provided for under section 429(b)(1) or by a guaranty agency under paragraph (2)(A) of this subsection.

(2) Issuance and Coverage of Loans.

(A) Whenever the Secretary, after consultation with, and with agreement of, representatives of the guaranty agency in a State, or an eligible lender in a State described in section 435(d)(1)(D), determines that a substantial portion of eligible borrowers in such State or within an area of such State are seeking and are unable to obtain loans under this part, the Association or its designated agent shall begin making such loans to borrowers in such State or within an area of such State in accordance with this subsection at the request of the Secretary.

(B) Loans made pursuant to this subsection shall be insurable by the agency identified in subparagraph (A) having an agreement pursuant to section 428(b). For loans insured by such agency, the agency shall provide the Association with a certificate of comprehensive insurance coverage, if the Association and the agency have mutually agreed upon a means to determine that the agency has not already guaranteed a loan under this part to a student which would cause a subsequent loan made by the Association to be in violation of any provision under this part.

(3) Termination of Lending. The Association or its designated agent shall cease making loans under this subsection at such time as the Secretary determines that the conditions which caused the implementation of this subsection have ceased to exist.

(r)Safety And Soundness Of Association.

(1) Reports by the Association. The Association shall promptly furnish to the Secretary of Education and Secretary of the Treasury copies of all

(A) periodic financial reports publicly distributed by the Association;

(B) reports concerning the Association that are received by the Association and prepared by nationally recognized statistical rating organizations; and

(C)(i) financial statements of the Association within 45 days of the end of each fiscal quarter; and

(ii) reports setting forth the calculation of the capital ratio of the Association, within 45 days of the end of each fiscal quarter.

(2) Audit by Secretary of the Treasury

(A) The Secretary of the Treasury may

(i) appoint auditors or examiners to conduct audits of the Association from time to time to determine the condition of the Association for the purpose of assessing the Association's financial safety and soundness and to determine whether the requirements of this section and section 440 are being met; and

(ii) obtain the services of such experts as the Secretary of the Treasury determines necessary and appropriate, as authorized by section 3109 of title 5, United States Code, to assist in determining the condition of the Association for the purpose of assessing the Association's financial safety and soundness, and to determine whether the requirements of this section and section 440 are being met.

(B) Each auditor appointed under this paragraph shall conduct an audit of the Association to the extent requested by the Secretary of the Treasury and shall prepare and submit a report to the Secretary of the Treasury concerning the results of such audit. A copy of such report shall be furnished to the association and the Secretary of Education on the date on which it is delivered to the Secretary of the Treasury.

(C) The Association shall provide full and prompt access to the Secretary of the Treasury to its books and records and other information requested by the Secretary of the Treasury.

(D) Annual Assessment.

(i) In General. For each fiscal year beginning on or after October 1, 1996, the Secretary of the Treasury may establish and collect from the Association an assessment (or assessments) in amounts sufficient to provide for reasonable costs and expenses of carrying out the duties of the Secretary of the Treasury under this section and section 440 during such fiscal year. In no event may the total amount so assessed exceed, for any fiscal year, $800,000 adjusted for each fiscal year ending after September 30, 1997 by the ratio of the Consumer Price Index for All Urban Consumers (issued by the Bureau of Labor Statistics) for the final month of the fiscal year preceding the fiscal year for which the assessment is made to the Consumer Price Index for All Urban Consumers for September 1997.

(ii) Deposit. Amounts collected from assessments under this subparagraph shall be deposited in an account within the Treasury of the United States as designated by the Secretary of the Treasury for that purpose. The Secretary of the Treasury is authorized and directed to pay out of any funds available in such account the reasonable costs and expenses of carrying out the duties of the

Secretary of the Treasury under this section and section 440. None of the funds deposited into such account shall be available for any purpose other than making payments for such costs and expenses.

(E) Obligation to Obtain, Maintain, and Report Information.

(i) In General. The Association shall obtain such information and make and keep such records as the Secretary of the Treasury may from time to time prescribe concerning

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

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

(ii) Summary Reports. The Secretary of the Treasury may require summary reports of such information to be filed no more frequently than quarterly. If, as a result of adverse market conditions or based on reports provided pursuant to this subparagraph or other available information, the Secretary of the Treasury has concerns regarding the financial or operational condition of the Association, the Secretary of the Treasury may, notwithstanding the preceding sentence and clause (i), require the Association to make reports concerning the activities of any associated person, whose business activities are reasonably likely to have a material impact on the financial or operational condition of the Association.

(iii) Definition. For purposes of this subparagraph, the term "associated person" means any person, other than a natural person, directly or indirectly controlling, controlled by, or under common control with the Association.

(3) Monitoring of Safety and Soundness. The Secretary of the Treasury shall conduct such studies as may be necessary to monitor the financial safety and soundness of the Association. In the event that the Secretary of the Treasury determines that the financial safety and soundness of the Association is at risk, the Secretary of the Treasury shall inform the Chairman and ranking minority member of the Committee on Labor and Human Resources of the Senate, the Chairman and ranking minority member of the Committee on Education and Labor of the House of Representatives, and the Secretary of Education of such determination and identify any corrective actions that should be taken to ensure the safety and soundness of the Association.

(4) Capital Standard. If the capital ratio is less than 2 percent and is greater than or equal to 1.75 percent at the end of the Association's most recent calendar quarter the Association shall, within 60 days of such occurrence, submit to the Secretary of the Treasury a capital restoration plan, in reasonable detail, that the Association believes is adequate to cause the capital ratio to equal or exceed 2 percent within 36 months.

(5) Capital Restoration Plan.

(A) Submission, Approval, And Implementation. The Secretary of the Treasury and the Association shall consult with respect to any capital restoration plan submitted pursuant to paragraph (4) and the Secretary of the Treasury shall approve such plan (or a modification thereof accepted by the Association) or disapprove such plan within 30 days after such plan is first submitted to the Secretary of the Treasury by the Association, unless the Association and Secretary of the Treasury mutually agree to a longer consideration period. If the Secretary of the Treasury approves a capital restoration plan (including a modification of a plan accepted by the Association), the Association shall forthwith proceed with diligence to implement such plan to the best of its ability.

(B) Disapproval. If the Secretary of the Treasury does not approve a capital restoration plan as provided in subparagraph (A), then not later than the earlier of the date the Secretary of the Treasury disapproves of such plan by written notice to the Association or the expiration of the 30- day consideration period referred to in subparagraph (A) (as such period may have been extended by mutual agreement), the Secretary of the Treasury shall submit the Association's capital restoration plan, in the form most recently proposed to the Secretary of the Treasury by the Association, together with a report on the Secretary of the Treasury's reasons for disapproval of such plan and an alternative capital restoration plan, to the Chairman and ranking minority member of the Senate Committee on Labor and Human Resources and to the Chairman and ranking minority member of the House Committee on Education and Labor. A copy of such submission simultaneously shall be sent to the Association and the Secretary of Education by the Secretary of the Treasury.

(C) Association Implementation and Response. Upon receipt of the submission by the Association, the Association shall forthwith proceed with diligence to implement the most recently proposed capital restoration plan of the Association. The Association, within 30 days after receipt from the Secretary of the Treasury of such submission, shall submit to such Chairmen and ranking minority members a written response to such submission, setting out fully the nature and extent of the Association's agreement or disagreement with the Secretary of the Treasury with respect to the capital restoration plan submitted to the Secretary of the Treasury and any findings of the Secretary of the Treasury.

(6) Substantial Capital Ratio Reduction.

(A) Additional Plan Required. If the capital ratio is less than 1.75 percent and is greater than or equal to 1 percent at the end of the Association's most recent calendar quarter, the Association shall submit to the Secretary of the Treasury within 60 days after such occurrence a capital restoration plan (or an appropriate modification of any plan previously submitted or approved under paragraph (4)) to increase promptly its capital ratio to equal or exceed 1.75 percent. The Secretary of the Treasury and the Association shall consult with respect to any plan or modified plan submitted pursuant to this paragraph. The Secretary of the Treasury shall approve such plan or modified plan (or a modification thereof accepted by the Association) or disapprove such plan or modified plan within 30 days after such plan or modified plan is first submitted to the Secretary of the Treasury by the Association, unless the Association and Secretary of the Treasury mutually agree to a longer consideration period. If the Secretary of the Treasury approves a plan or modified plan (including a modification of a plan accepted by the Association), the Association shall forthwith proceed with diligence to implement such plan or modified plan to the best of the Association's ability.

(B) Disapproval. If the Secretary of the Treasury disapproves a capital restoration plan or modified plan submitted pursuant to subparagraph (A), then, not later than the earlier of the date the Secretary of the Treasury disapproves of such plan or modified plan (by written notice to the Association) or the expiration of the 30-day consideration period described in subparagraph (A) (as such period may have been extended by mutual agreement), the Secretary of the Treasury shall prepare and submit an alternative capital restoration plan, together with a report on his reasons for disapproval of the Association's plan or modified plan, to the Chairman and ranking minority member of the Committee on Labor and Human Resources of the Senate and to the Chairman and ranking minority member of the Committee on Education and Labor of the House of Representatives. A copy of such submission simultaneously shall be sent to the Association and the Secretary of Education by the Secretary of the Treasury. The Association, within 5 days after receipt from the Secretary of the Treasury of such submission, shall submit to the Chairmen and ranking minority members of such Committees, and the Secretary of the Treasury, a written response to such submission, setting out fully the nature and extent of the Association's agreement or disagreement with the Secretary of the Treasury with respect to the disapproved plan and the alternative plan of the Secretary of the Treasury and any findings of the Secretary of the Treasury.

(C) Review by Congress; Association Implementation. Congress shall have 60 legislative days after the date on which Congress receives the alternative plan under subparagraph (B) from the Secretary of the

Treasury to review such plan. If Congress does not take statutory action with respect to any such plan within such 60-day period, the Association shall immediately proceed with diligence to implement the alternative capital restoration plan of the Secretary of the Treasury under subparagraph (B). If Congress is out of session when any such alternative plan is received, such 60-day period shall begin on the first day of the next session of Congress.

(7) Actions by Secretary of the Treasury. If the capital ratio of the Association does not equal or exceed 1.75 percent at the end of the Association's most recent calendar quarter, the Secretary of the Treasury may, until the capital ratio equals or exceeds 1.75 percent, take any one or more of the following actions:

(A) Limit Increase In Liabilities. Limit any increase in, or order the reduction of, any liabilities of the Association, except as necessary to fund student loan purchases and warehousing advances.

(B) Restrict Growth. Restrict or eliminate growth of the Association's assets, other than student loans purchases and warehousing advances.

(C) Restrict Distributions. Restrict the Association from making any capital distribution.

(D) Require Issuance of New Capital. Require the Association to issue new capital in any form and in any amount sufficient to restore at least a 1.75 percent capital ratio.

(E) Limit Executive Compensation. Prohibit the Association from increasing for any executive officer any compensation including bonuses at a rate exceeding that officer's average rate of compensation during the previous 12 calendar months and prohibiting the Board from adopting any new employment severance contracts.

(8) Critical Capital Standard.

(A) If the capital ratio is less than 1 percent at the end of the Association's most recent calendar quarter and the Association has already submitted a capital restoration plan to the Secretary of the Treasury pursuant to paragraph (4) or (6)(A), the Association shall forthwith proceed with diligence to implement the most recently proposed plan with such modifications as the Secretary of the Treasury determines are necessary to cause the capital ratio to equal or exceed 2 percent within 60 months.

(B) If the capital ratio is less than 1 percent at the end of the Association's most recent calendar quarter and the Association has not submitted a capital restoration plan to the Secretary of the Treasury pursuant to paragraph (4) or (6)(A), the Association shall

(i) within 14 days of such occurrence submit a capital restoration plan to the Secretary of the Treasury which the Association believes is adequate to cause the capital ratio to equal or exceed 2 percent within 60 months; and

(ii) forthwith proceed with diligence to implement such plan with such modifications as the Secretary of the Treasury determines are necessary to cause the capital ratio to equal or exceed 2 percent within 60 months.

(C) Immediately upon a determination under subparagraph (A) or (B) to implement a capital restoration plan, the Secretary of the Treasury shall submit the capital restoration plan to be implemented to the Chairman and ranking minority member of the Committee on Labor and Human Resources of the Senate, the Chairman and ranking minority member of the Committee on Education and Labor of the House of Representatives, and the Secretary of Education.

(9) Additional Reports To Committees. The Association shall submit a copy of its capital restoration plan, modifications proposed to the Secretary of the Treasury, and proposed modifications received from the Secretary of

the Treasury to the Congressional Budget Office and General Accounting Office upon their submission to the Secretary of the Treasury or receipt from the Secretary of the Treasury. Notwithstanding any other provision of law, the Congressional Budget Office and General Accounting Office shall maintain the confidentiality of information received pursuant to the previous sentence. In the event that the Secretary of the Treasury does not approve a capital restoration plan as provided in paragraph (5)(A) or (6)(A), or in the event that a capital restoration plan is modified by the Secretary of the Treasury pursuant to paragraph (6)(B) or (8), the Congressional Budget Office and General Accounting Office shall each submit a report within 30 days of the Secretary of the Treasury's submission to the Chairmen and ranking minority members as required in paragraphs (5)(B), (6)(B), and(8)(C) to such Chairmen and ranking members

(A) analyzing the financial condition of the Association;

(B) analyzing the capital restoration plan and reasons for disapproval of the plan contained in the Secretary of the Treasury's submission made pursuant to paragraph (5)(B), or the capital restoration plan proposed by the Association and the modifications made by the Secretary of the Treasury pursuant to paragraph (6)(B) or (8);

(C) analyzing the impact of the capital restoration plan and reasons for disapproval of the plan contained in the Secretary of the Treasury's submission made pursuant to paragraph (5)(B), or the impact of the capital restoration plan proposed by the Association and the modifications made by the Secretary of the Treasury pursuant to paragraph (6)(B) or (8), and analyzing the impact of the recommendations made pursuant to subparagraph (D) of this paragraph, on

(i) the ability of the Association to fulfill its purpose and authorized activities as provided in this section, and

(ii) the operation of the student loan programs; and

(D) recommending steps which the Association should take to increase its capital ratio without impairing its ability to perform its purpose and authorized activities as provided in this section.

(10) Review by Secretary of Education. The Secretary of Education shall review the Secretary of the Treasury's submission required pursuant to paragraph (5)(B), (6)(B), or (8) and shall submit a report within 30 days to the Chairman and ranking minority member of the Senate Committee on Labor and Human Resources and to the Chairman and ranking minority member of the House Committee on Education and Labor

(A) describing any administrative or legislative provisions governing the student loan programs which contributed to the decline in the Association's capital ratio; and

(B) recommending administrative and legislative changes in the student loan programs to maintain the orderly operation of such programs and to enable the Association to fulfill its purpose and authorized activities consistent with the capital ratio specified in paragraph (4).

(11) Safe Harbor. The Association shall be deemed in compliance with the capital ratios described in paragraphs (4) and (6)(A) if the Association is rated in 1 of the 2 highest full rating categories (such categories to be determined without regard to designations within categories) by 2 nationally recognized statistical rating organizations, determined without regard to the Association's status as a federally chartered corporation.

(12) Treatment of Confidential Information. Notwithstanding any other provision of law, the Secretary of the Treasury, the Secretary of Education, the Congressional Budget Office, and the General Accounting Office shall not disclose any information treated as confidential by the Association or the Association's associated persons and obtained pursuant to this subsection. Nothing in this paragraph shall authorize the Secretary of the Treasury, the Secretary of Education, the Congressional Budget Office, and the General Accounting Office to withhold information from Congress, or prevent the Secretary of Education, the Congressional Budget Office, and the

General Accounting Office from complying with a request for information from any other Federal department or agency requesting the information for purposes within the scope of its jurisdiction, or complying with an order of a court of the United States in an action brought by the United States. For purposes of section 552 of title 5, United States Code, this paragraph shall be considered a statute described in subsection (b)(3) of such section 552.

(13) Enforcement of Safety and Soundness Requirements. The Secretary of Education or the Secretary of the Treasury, as appropriate, may request that the Attorney General bring an action in the United States District Court for the District of Columbia for the enforcement of any provisions of this section, or may, under the direction or control of the Attorney General, bring such an action. Such court shall have jurisdiction and power to order and require compliance with this section.

(14) Actions By Secretary.

(A) In General. For any fiscal quarter ended after January 1, 2000, the Association shall have a capital ratio of at least 2.25 percent. The Secretary of the Treasury may, whenever such capital ratio is not met, take any one or more of the actions described in paragraph (7), except that

(i) the capital ratio to be restored pursuant to paragraph (7)(D) shall be 2.25 percent; and

(ii) if the relevant capital ratio is in excess of or equal to 2 percent for such quarter, the Secretary of the Treasury shall defer taking any of the actions set forth in paragraph (7) until the next succeeding quarter and may then proceed with any such action only if the capital ratio of the Association remains below 2.25 percent.

(B) Applicability. The provisions of paragraphs (4), (5), (6), (8), (9), (10), and (11) shall be of no further application to the Association for any period after January 1, 2000.

(15) Definitions. As used in this subsection:

(A) The term "nationally recognized statistical rating organization" means any entity recognized as such by the Securities and Exchange Commission.

(B) The term "capital ratio" means the ratio of total stockholders' equity, as shown on the Association's most recent quarterly consolidated balance sheet prepared in the ordinary course of its business, to the sum of

(i) the total assets of the Association, as shown on the balance sheet prepared in the ordinary course of its business; and

(ii) 50 percent of the credit equivalent amount of the following off-balance sheet items of the Association as of the date of such balance sheet

(I) all financial standby letters of credit and other irrevocable guarantees of the repayment of financial obligations of others; and

(II) all interest rate contracts and exchange rate contracts, including interest exchange agreements, floor, cap, and collar agreements and similar arrangements.

For purposes of this subparagraph, the calculation of the credit equivalent amount of the items set forth in clause (ii) of this subparagraph, the netting of such items and elimination for the purpose of avoidance of double-counting of such items shall be made in accordance with the measures for computing credit conversion factors for off-balance sheet items for capital maintenance purposes established for commercial banks from time to time by the Federal Reserve Board, but without regard to any risk weighing provisions in such measures.

(C) The term "legislative days" means only days on which either House of Congress is in session.

(16) Dividends. The Association may pay dividends in the form of cash or noncash distributions so long as the time of the declaration of such dividends, after giving effect to the payment of such dividends as of the date of such declaration by the Board of Directors of the Association, the Association's capital would be in compliance with the capital standards set forth in this section.

(17) Certification Prior to Payment of Dividend. Prior to the payment of any dividend under paragraph (16), the Association shall certify to the Secretary of the Treasury that the payment of the dividend will be made in compliance with paragraph (16) and shall provide copies of all calculations needed to make such certification. (s)Charter Sunset.

(1) Application of Provisions. This subsection applies beginning 18 months and one day after the date of enactment of this subsection if no reorganization of the Association occurs in accordance with the provisions of section 440.

(2) Sunset Plan.

(A) Plan Submission by the Association. Not later than July 1, 2007, the Association shall submit to the Secretary of the Treasury and to the Chairman and Ranking Member of the Committee on Labor and Human Resources of the Senate and the Chairman and Ranking Member of the Committee on Economic and Educational Opportunities of the House of Representatives, a detailed plan for the orderly winding up, by July 1, 2013, of business activities conducted pursuant to the charter set forth in this section. Such plan shall

(i) ensure that the Association will have adequate assets to transfer to a trust, as provided in this subsection, to ensure full payment of remaining obligations of the Association in accordance with the terms of such obligations;

(ii) provide that all assets not used to pay liabilities shall be distributed to shareholders as provided in this subsection; and

(iii) provide that the operations of the Association shall remain separate and distinct from that of any entity to which the assets of the Association are transferred;

(B) Amendment of the Plan by the Association. The Association shall from time to time amend such plan to reelect changed circumstances, and submit such amendments to the Secretary of the Treasury and to the Chairman and Ranking Minority Member of the Committee on Labor and Human Resources of the Senate and Chairman and Ranking Minority Member of the Committee on Economic and Educational Opportunities of the House of Representatives. In no case may any amendment extend the date for full implementation of the plan beyond the dissolution date provided in paragraph (3).

(C) Plan Monitoring. The Secretary of the Treasury shall monitor the Association's compliance with the plan and shall continue to review the plan (including any amendments thereto).

(D) Amendment of the Plan by the Secretary of the Treasury. The Secretary of the Treasury may require the Association to amend the plan (including any amendments to the plan), if the Secretary of the Treasury deems such amendments are necessary so as to ensure full payment of all obligations of the Association.

(E) Implementation by the Association. The Association shall promptly implement the plan (including any amendments to the plan, whether such amendments are made by the Association or are required to be made by the Secretary of the Treasury).

(3) Dissolution of the Association. The Association shall dissolve and the Association's separate existence shall terminate on July 1, 2013, after discharging of all outstanding debt obligations and liquidation pursuant to this subsection. The Association may dissolve pursuant to this subsection prior to such date by notifying the Secretary of Education and the Secretary of the Treasury of the Association's intention to dissolve, unless within 60 days of receipt of such notice the Secretary of Education notifies the Association that the Association continues to be needed to serve as a lender of last resort pursuant to subsection (q) or continues to be needed to purchase loans under an agreement with the Secretary described in paragraph (4)(A). On dissolution date, the Association shall take the following actions:

(A) Establishment of a Trust. The Association shall, under the terms of an irrevocable trust agreement in form and substance satisfactory to the Secretary of the Treasury, the Association, and the appointed trustee, irrevocably transfer all remaining obligations of the Association to a trust and irrevocably deposit or cause to be deposited into such trust, to be held as trust funds solely for the benefit of holders of the remaining obligations, money or direct noncallable obligations of the United States or any agency thereof for which payment the full faith and credit of the United States is pledged, maturing as to principal and interest in such amounts and at such times as are determined by the Secretary of the Treasury to be sufficient, without consideration of any significant reinvestment of such interest, to pay the principal of, and interest on, the remaining obligations in accordance with their terms.

(B) Use of Trust Assets. All money, obligations or financial assets deposited into the trust pursuant to this subsection shall be applied by the trustee to the payment of the remaining obligations assumed by the trust. Upon the fulfillment of the trustee's duties under the trust, any remaining assets of the trust shall be transferred to the persons who, at the time of the dissolution, were the shareholders of the Association, or to the legal successors or assigns of such persons.

(C) Obligations Not Transferred to the Trust. The Association shall make proper provision for all other obligations of the Association, including the repurchase or redemption, or the making of proper provision for the repurchase or redemption, of any preferred stock of the Association outstanding.

(D) Transfer of Remaining Assets. After compliance with subparagraphs (A) and (C), the Association shall transfer to the shareholders of the Association any remaining assets of the Association.

(4) Restrictions Relating to Winding Up.

(A) Restrictions on New Business Activity or Acquisition of Assets by the Association.

(i) In General. Beginning on July 1, 2009, the Association shall not engage in any new business activities or acquire any additional program assets (including acquiring assets pursuant to contractual commitments) described in subsection (d) other than in connection with the Association

(I) serving as a lender of last resort pursuant to subsection (q); and

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

(ii) Agreement. The Secretary is authorized to enter into an agreement described in subclause (II) of clause (i) with the Association covering such secondary market activities. Any agreement entered into under such subclause shall cover a period of 12 months, but may be renewed if the Secretary determines that liquidity remains inadequate. The fee provided under subsection (h)(7) shall not apply to loans acquired under any such agreement with the Secretary.

(B) Issuance of Debt Obligations During the Winding Up Period; Attributes Of Debt Obligations. The Association shall not issue debt obligations which mature later than July 1, 2013, except in connection with serving as a lender of last resort pursuant to subsection (q) or with purchasing loans under an agreement with the Secretary as described in subparagraph (A). Nothing in this subsection shall modify the attributes accorded the debt obligations of the Association by this section, regardless of whether such debt obligations are transferred to a trust in accordance with paragraph (3).

(C) Use of Association Name. (i) The Association may not transfer or permit the use of the name "Student Loan Marketing Association", "Sallie Mae", or any other variation thereof, to or by any other entity other than a subsidiary of the Association.

EXHIBIT 99.2

BY-LAWS
OF
STUDENT LOAN MARKETING ASSOCIATION

EFFECTIVE JANUARY 26, 1996

[SALLIE MAE LOGO]

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ARTICLE I

NAME, LOCATION OF OFFICES, AND SERVICE OF PROCESS

SECTION 1. Name

The Corporation shall do business as Student Loan Marketing Association.

SECTION 2. Location of Offices

The principal office of the Corporation shall be located in Washington, D.C. The Corporation may establish other offices in such other places, within or without the District of Columbia, as the Board of Directors shall from time to time deem useful for the conduct of the Corporation's business.

SECTION 3. Service of Process

The General Counsel, or the Corporate Secretary or any Assistant Secretary of the Corporation shall be agents of the Corporation upon whom any process, notice or demand required or permitted by law to be served upon the Corporation may be served.

ARTICLE II

PURPOSES

SECTION 1. Statutory Purposes

The Corporation is organized pursuant to the governing statute, Section 439 of the Higher Education Act of 1965, as amended, to serve as a secondary market and warehousing facility for student loans and to undertake such other activities authorized by said Act or the Public Health Service Act as may be necessary and appropriate to further the availability of funds for postsecondary education and education facilities.

SECTION 2. Ancillary Purposes

The Corporation is further organized to engage in such other related activities as are not prohibited and as the Board of Directors shall from time to time determine to be in furtherance of its statutory purpose.

ARTICLE III

BOARD OF DIRECTORS

SECTION 1. Powers

Except as otherwise provided in these By-laws, the powers of the Corporation shall be exercised by the Board of Directors. Pursuant to the governing statute, and in furtherance of the purposes expressed therein, the Corporation by the Board of Directors shall have all powers granted to it by its governing statute, as it may be amended from time to time, and such other powers including but not limited to the power:

A. To have perpetual succession by its corporate name until dissolved;

B. To sue and be sued, complain and defend, in its corporate name and through its own counsel;

C. To adopt, alter and use the corporate seal, which shall be circular in form and shall have inscribed thereon the name of the Corporation, the year and fact of its creation by Act of Congress and the words "Corporate Seal";

D. To lease, purchase, or otherwise acquire, own, hold, improve, use, or otherwise deal in and with any property, real, personal, mixed, or any interest therein, wherever situated;

E. To sell, convey, mortgage, pledge, lease, exchange and otherwise dispose of its property and assets;

F. To enter into contracts, to execute instruments and to incur liabilities, including but not limited to, obligations guaranteed by the Secretary of Education or issued with the approval of the Secretary of the Treasury, having such maturities and bearing such rate

or rates of interest as may be determined by the Board of Directors or such committee of the Board of Directors, officer or officers as the Board of Directors may by resolution stipulate, such obligations being redeemable at the option of either the noteholder or the Corporation before maturity as the Board of Directors may stipulate therein;

G. To lend money, to enter into purchase and lending commitments including letters of credit, and to service, purchase or repurchase, sell or resell, offer participations or pooled interests in, insure or otherwise deal in, student loans, either insured or uninsured, or other obligations issued for the purpose of financing or refinancing the construction, reconstruction, renovation or purchase of educational and training facilities and related equipment, instrumentation and furnishings at prices and on terms and conditions determined by the Board of Directors or such committee of the Board of Directors, officer or officers as the Board of Directors may by resolution stipulate;

H. To conduct its business, carry on its operations, and have officers and exercise the power granted by the governing statute in any State without regard to any qualification or similar statute in any such State;

I. To appoint such officers, attorneys, employees, special consultants, advisors and agents as may be required, to determine their qualifications, to define their duties, fix their compensation, require bonds and fix the penalty thereof in the same manner;

J. To accept gifts or donations of services, or of property, real, personal or mixed, tangible or intangible;

K. To pay pensions and establish pension plans, pension trusts and profit sharing plans for any or all of its directors, officers and employees; and

L. To do all things as are necessary or incidental to the proper management of its affairs and the proper conduct of its business.

SECTION 2. Number and Type of Directors

The Board of Directors shall consist of those directors appointed or elected as provided in Section 439 of Part B of Title IV of the Higher Education Act of 1965, as amended. Each director shall hold office for the term for which he is elected or appointed and until his successor is elected or appointed and shall qualify.

SECTION 3. Vacancies

Any vacancy occurring in the Board of Directors resulting from the death, resignation, removal or disqualification of any elected director may be filled by the affirmative vote of a majority of the remaining directors though they may constitute less than a quorum of the Board of Directors.

Any vacancy occurring in the Board of Directors resulting from the death, resignation, removal or disqualification of any appointed director may be filled by appointment by the President of the United States.

SECTION 4. Removal

Any elected director may be removed for cause by a vote of two-thirds of the remaining directors in office and qualified, providing that at least a majority of the elected directors shall consent to such removal.

SECTION 5. Resignation

Any director may resign at any time upon written notice to the President and Secretary of the Corporation. Any such resignation shall take effect at the time specified therein or, if the time be not specified, upon receipt thereof, and the acceptance of such resignation, unless required by the terms thereof, shall not be necessary to make such resignation effective.

SECTION 6. Regular Meeting

A regular meeting of the Board of Directors shall be held, without other notice than these By-laws, immediately after, and at the same place as, the annual meeting of the shareholders. All or any one or more of the directors may participate in a meeting of the Board of

Directors by means of a conference telephone or similar communications equipment by means of which all persons participating in such meeting can hear each other. Participation in a meeting pursuant to such communications shall constitute presence in person at such meeting. The minutes of any meeting of the Board of Directors held by conference telephone or similar communications equipment shall be prepared in the same manner as a meeting of the Board of Directors held in person.

SECTION 7. Other Meetings

At least one other meeting of the Board of Directors, but more if deemed appropriate, shall be held annually either within or without the District of Columbia, at the call of the Chairman of the Board of Directors, or upon his request, or upon the written request of a majority of the directors. Meetings may be held by attendance in person at a place prescribed or by use of a conference telephone or similar communications equipment as provided in Section 6 of this Article. Notice shall be given to all directors as to the time and manner of the meeting by the Secretary or by a person calling the meeting by mail, postage prepaid, not later than the fifth day before the meeting, or personally or by telecopy, telegraph or telephone not later than the day before the meeting. If in writing and mailed, such notice shall be deemed delivered when deposited in the United States mail, properly addressed, with postage thereon prepaid. If notice be in writing and by telegram, such notice shall be deemed to be delivered when the telegram is delivered to the carrier. In all other cases such notice shall be deemed given when actually received at the office or residence of the recipient.

SECTION 8. Waiver of Notice

The presence of a director at a meeting shall constitute a waiver of notice of such meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. A director may execute a written waiver of notice either before or after a meeting. Neither the business to be transacted at, nor the purpose of, any regular or other meeting of the Board of Directors need be specified in the notice or waiver of notice of the meeting.

SECTION 9. Quorum

A majority of the directors authorized by the governing statute serving at the time of a meeting shall constitute a quorum for the transaction of business, but if less than such majority are present at any meeting of the Board of Directors, a majority of the directors present may adjourn the meeting from time to time without further notice.

SECTION 10. Majority Vote

Except as otherwise provided in these By-laws, the act of a majority of directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

SECTION 11. Assumption of Assent

Any director of the Corporation who is present at a meeting of the Board of Directors at which any corporate action is taken shall be presumed to have assented to the taking of such action unless his dissent shall be entered in the minutes of the meeting, or unless he shall file his written dissent to such action with a person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation within ten days after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 12. Action Without a Meeting

Any action required to be taken by the Board of Directors at a meeting, or by a committee of the Board of Directors at a meeting, may be taken without a meeting, if a consent in writing, setting forth the action so taken, is signed by a majority of the directors, or a majority of the members of the committee, as the case may be. Such consent shall have the same effect as a majority vote of the Board of Directors or committee, as the case may be. Written notice of any action taken pursuant to this section by a majority of the directors, or members of a committee, as the case may be, shall, within ten days of such action, be given to all directors or members of a committee not signing such action by written consent.

SECTION 13. Executive, Other Committees and Directors' Advisory Council

The Chairman of the Board, with the approval of a majority of the Board of Directors may designate from among the members of the Board of Directors an Executive Committee as provided in these By-laws, and one or more other committees, each of which, to the extent provided in any resolution designating such membership and in these By-laws shall have and may exercise all the authority of the Board of Directors. No such committee shall have the authority of the Board of Directors in reference to any powers reserved to the full Board of Directors by the resolution or these By-laws. Unless otherwise provided by the Board of Directors, a majority of any such committee (or the member thereof, if only one) shall constitute a quorum for the transaction of business, and the vote of a majority of the members of such committee present at a meeting at which a quorum is present shall be the act of such committee. Each committee shall keep a record of its acts and proceedings and shall report thereon to the Board of Directors whenever requested so to do. Any or all members of any such committee may be removed, with or without cause, by resolution of the Board of Directors, passed by a majority of the whole Board. All notice provisions and provisions regarding telephonic meetings with respect to the Executive Committee set forth in these By-laws shall apply equally to such other committees of the Board.

In addition, the Board of Directors may appoint a Directors' Advisory Council to consist of such persons as the Board of Directors may select, who shall not be, and shall not be deemed to be, directors, officers or employees of the Corporation and whose functions shall not include participation in the policy making or operating management of the Corporation. The members of the Directors' Advisory Council shall meet individually or as a body at such place and at such times as the Board of Directors or the Chairman of the Board of Directors may from time to time determine. The members of the Directors' Advisory Council shall be entitled to such compensation as shall be fixed by resolution of the Board of Directors. The Directors' Advisory Council shall consider, advise upon and make recommendations to the Board of Directors and to the Chairman of the Board of Directors with respect to matters relating to the general conduct of the business of the

Corporation and with respect to such questions relating thereto as may be submitted to it by the Board of Directors, the Executive Committee or the Chairman of the Board of Directors. The members of the Directors' Advisory Council shall be appointed annually at the regular meeting of the Board of Directors held pursuant to Article Vl, Section 1 hereof and serve at the pleasure of the Chairman of the Board of Directors. Additional members may be appointed at any regular or special meeting of the Board of Directors to fill vacancies which may arise from time to time.

SECTION 14. Conflicts of Interest

No contract or other transaction between the Corporation and one or more of its directors or any other corporation, firm, association or entity in which one or more of its directors are directors or officers, or financially interested, shall be either void or voidable because of such relationship or interest, or because such director or directors are present at the meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such contract or transaction or because his or their votes are counted for such purpose if:

A. The fact of such relationship or interest is disclosed or known to the Board of Directors or committee which in good faith authorizes, approves or ratifies the contract or transaction by a vote or consent sufficient for the purpose without counting the votes or consents of such interested directors; or

B. The fact of such relationship or interest is disclosed or known to the shareholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by the affirmative vote of the holders of a majority of shares; or

C. The contract or transaction is fair and reasonable to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee or the shareholders.

Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee thereof which authorizes, approves or ratifies such contract or transaction.

SECTION 15. Compensation

Each director shall be paid such compensation as may be fixed from time to time by resolution of the Board of Directors, and each director shall also be reimbursed for his travel and subsistence expenses incurred while attending meetings of the Board of Directors or committees thereof.

SECTION 16. Chairman and Vice Chairmen

The President of the United States shall appoint one director to be Chairman of the Board of Directors, and the Board of Directors shall meet at his call at such time and place as may be designated by him. The Chairman shall preside over meetings of the Board of Directors.

The Chairman of the Board with the approval of a majority of the Board of Directors shall appoint two Vice Chairmen, who shall be representatives of the two classes of directors of which the Chairman is not a representative, and who shall serve at the pleasure of the Board of Directors until the next regular annual meeting of the Board of Directors described in Section 6 of this Article following his appointment and until his successor has been elected and qualified or until his successor has been appointed and qualified. Either Vice Chairman of the Board of Directors shall act as Chairman in the latter's absence and at any time when there is no incumbent Chairman. If both Vice Chairmen are present, they shall act as Chairman by order of their seniority on the Board of Directors.

ARTICLE IV

EXECUTIVE COMMITTEE

SECTION 1. Appointment

The Chairman of the Board with the approval of a majority of the Board of Directors, may designate five or more of the members of the Board of Directors, one of whom shall be the Chairman of the Board of Directors, to constitute an Executive Committee. Each of the three groups of directors shall be represented on the Executive Committee. The designation of any such Commit-

tee and the delegation thereto of authority shall not operate to relieve the Board of Directors or any member thereof of any responsibility imposed by law.

SECTION 2. Powers

The Executive Committee, when the Board of Directors is not in session, shall have and may exercise all of the authority of the Board of Directors except to the extent, if any, that such authority shall be limited by the resolution appointing the Executive Committee, and except also that the Executive Committee shall not have the authority of the Board of Directors to submit to shareholders any action requiring shareholders' authorizations; remove any director; fill vacancies on the Board of Directors or the Executive Committee; fix the compensation of directors for serving on the Board of Directors or on the Executive Committee; amend or repeal these By-laws or adopt new By-laws; declare dividends (unless specifically authorized by resolution of this Board of Directors to do so); and amend or repeal any resolution of the Board of Directors which by its terms are not amendable or repealable by the Executive Committee.

SECTION 3. Tenure and Qualification

Each director who is designated by the Board of Directors to become a member of the Executive Committee shall serve at the pleasure of the Board of Directors and shall hold office until the next regular annual meeting of the Board of Directors described in Article III, Section 6 hereof, following his designation and until his successors are elected and qualified or until his successors have been appointed and qualified.

SECTION 4. Meetings

Regular meetings of the Executive Committee may be held without notice and at such time and places as the Executive Committee may fix from time to time by resolution. All or any one or more of the members of the Executive Committee may participate in a meeting of the Executive Committee by means of a conference telephone or similar communications equipment, by means of which all persons participating in such meeting can hear each other. Participation in a meeting pursuant to such communications shall constitute presence in person

at such meeting. The minutes of any meeting of the Executive Committee held by a conference telephone or similar communications equipment shall be prepared in the same manner as a meeting of the Executive Committee held in person. Special meetings of the Executive Committee may be called by the Chairman of the Board of Directors or by a majority of the members of the Executive Committee upon oral or written notice, including by telecopy, before such meeting, stating the place, date and hour of the meeting. If in writing and mailed, notice shall be deemed to be delivered when deposited in the United States mail with first-class postage thereon prepaid, addressed to the member of the Executive Committee at his business address. If in writing and by telegram, notice shall be deemed delivered when the telegram is delivered to the carrier.

Any member of the Executive Committee may waive notice of any meeting and no notice of any meeting need be given to any member thereof who attends in person or by use of a conference telephone or similar communications equipment. The notice of a meeting of the Executive Committee need not state the purpose of, or business proposed to be transacted at, the meeting.

SECTION 5. Quorum

A majority of the members of the Executive Committee then qualified shall constitute a quorum for the transaction of business at any meeting thereof.

SECTION 6. Majority Voting

Except as otherwise specified in the resolution establishing the Executive Committee, the action of a majority of the members present at a meeting at which a quorum is present shall be the act of the Executive Committee.

SECTION 7. Vacancies

Any vacancy in the Executive Committee may be filled by the Chairman of the Board with the approval of a majority of the Board of Directors.

SECTION 8. Resignations and Removal

Any member of the Executive Committee may be removed at any time with or without cause by resolution adopted by a majority of the Board of Directors. Any member of the Executive Committee may resign from the Executive Committee at any time by giving written notice to the Chairman of the Board, President or Secretary of the Corporation, and acceptance of such resignation shall not be necessary to make it effective.

SECTION 9. Procedure

The Chairman of the Board of Directors shall be Chairman of the Executive Committee, and the Committee shall fix its own rules of procedure, which shall not be inconsistent with these By-laws. It shall keep regular minutes of the proceedings and report the same to the Board of Directors for its information.

SECTION 10. Compensation

Each member of the Executive Committee shall be paid a fee, to be fixed from time to time by resolution of the Board of Directors, for attending each meeting of the Committee which is not held on the same day and in the same city as a meeting of the Board of Directors, and each member of the Committee shall also be reimbursed for his travel and subsistence expenses while attending any such meeting.

ARTICLE V

OFFICERS AND EMPLOYEES

SECTION 1. Number and Type

The officers of the Corporation shall be a President, one or more Vice Presidents (the number thereof to be determined by the Board of Directors), a General Counsel, a Secretary, and a Treasurer, each of whom shall be appointed by the Chairman of the Board of Directors subject to confirmation by resolution of the Board of Directors. Such other officers and assistant officers as may be deemed necessary may be appointed by the Chairman subject to confirmation by resolution of the Board of

Directors. Any of the above offices may be held by the same person, except the offices of President and Secretary.

SECTION 2. Appointment and Confirmation

The Board of Directors may provide for the election or appointment of officers in such manner as the Board of Directors may determine or delegate. The officers shall be appointed and confirmed annually at the first meeting of the Board of Directors held after each annual meeting of the shareholders. Each officer shall hold office until his successor shall have been duly appointed and confirmed or until his death or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3. Removal

Any officer may be removed, with or without cause, by the Chairman of the Board of Directors, subject to the approval of the Board of Directors. Appointment or confirmation of an officer shall not create contract rights.

SECTION 4. Vacancies

A vacancy in an office because of death, resignation, removal, disqualification or otherwise, may be filled by the Chairman of the Board of Directors, subject to confirmation by the Board of Directors at the meeting next following the appointment, for the unexpired portion of the term.

SECTION 5. The President

The President shall be the principal executive officer of the Corporation and, subject to the control of the Board of Directors, shall, in general, supervise and control all of the business and affairs of the Corporation. He may sign, singly or with the Secretary or any other proper officer of the Corporation authorized by the Board of Directors, certificates for shares of the Corporation, any deeds, mortgages, bonds, contracts, or other instruments which the Board of Directors has authorized to be executed, except where the signing and execution thereof shall be expressly delegated by the Board of

Directors to some other officer or agent of the Corporation, or shall be required to be otherwise signed or executed, and, in general, shall perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

SECTION 6. The Executive Vice President

In the absence of the President or in the event of his death, inability, or refusal to act, the Executive Vice President (or in the event there be more than one Executive Vice President, the Executive Vice Presidents in the order designated at the time of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. Any Executive Vice President may sign, with the Secretary or Assistant Secretary, certificates for shares of the Corporation, and shall perform such other duties as from time to time may be assigned to him by the President or by the Board of Directors.

SECTION 7. The Secretary

The Secretary shall (a) keep the minutes of the shareholders' and the Board of Directors' meetings in one or more books provided for that purpose; (b) see that all notices are duly given in accordance with the provisions of these By-laws; (c) be the custodian of the corporate records and of the seal of the Corporation and see that the seal of the Corporation is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized; (d) keep a register of the post office address of each registered shareholder which shall be furnished to the Secretary by such shareholder; (e) sign with the President, or an Executive Vice President, certificates for shares of the Corporation, the issuance of which shall have been authorized by resolution of the Board of Directors; (f) have general control of the stock transfer books of the Corporation; and (g) in general, perform all duties incident to the office of Secretary and such other duties as from time to time may be assigned to him by the President or by the Board of Directors, and shall be authorized to designate such assistants from among the officers or employees of the Corporation to assist in the performance of any such duties.

SECTION 8. The Treasurer

The Treasurer shall (a) have charge and custody of and be responsible for all funds and securities of the Corporation, receive and give receipts for monies due and to be payable to the Corporation from any source whatsoever, and deposit all such monies in the name of the Corporation in such banks, trust companies or other depositories as shall be selected in accordance with a resolution of the Board of Directors; and (b) in general, perform all of the duties incident to the office of the Treasurer and such other duties as from time to time may be assigned to him by the President or by the Board of Directors, and shall be authorized to designate such assistants from among the officers or employees of the Corporation to assist in the performance of any such duties.

SECTION 9. The 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 President or by the Board of Directors.

SECTION 10. Assistant Treasurers

In the absence or inability to act of the Treasurer, any Assistant Treasurer may perform all the duties and exercise all the powers of the Treasurer. The performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Treasurer shall also perform such other duties as the Treasurer or the Board of Directors may assign to him or her.

SECTION 11. Assistant Secretaries

In the absence or inability to act of the Secretary, any Assistant Secretary may perform all the duties and exercise all the powers of the Secretary. The

performance of any such duty shall, in respect of any other person dealing with the Corporation, be conclusive evidence of his or her power to act. An Assistant Secretary shall also perform such other duties as the Secretary or the Board of Directors may assign to him or her.

SECTION 12. Compensation

The compensation of the officers shall be fixed from time to time by the Board of Directors and no officer shall be prevented from receiving such compensation by reason that he is also a director of the Corporation.

SECTION 13. Bonds

If required by the Board of Directors, the Treasurer and any other officer or employee specified by the Board of Directors shall give a bond for the faithful discharge of his duties in such sum and with such surety or sureties as the Board of Directors shall by resolution require.

SECTION 14. 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 he 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 15. 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, and he shall not accept or perform any outside or private employment which the President

of the Corporation determines will interfere with the efficient performance of his official duties. Any officer who intends to perform services for compensation or to engage in any business shall report the intention to do so to the President and to the General Counsel of the Corporation prior to such acceptance or performance. Any employee who intends to perform such services or engage in any business shall report the intention to do so to the General Counsel or the General Counsel's designee.

ARTICLE VI

SHAREHOLDERS

SECTION 1. Annual Meeting

An annual meeting of shareholders entitled to vote, for the purpose of selecting directors and transacting such other business as may properly be brought before the meeting, shall be held either (a) on the third Thursday in May of each year, unless such day is not a business day, in which event the meeting shall be held on the next business day or (b) at such other time and date, not more than thirteen months after the last preceding annual meeting, as the Board of Directors shall designate. The annual meeting shall be held at such time and place within or without the District of Columbia as shall be fixed by the Board of Directors and as shall be designated in the notice of such meeting. If the Board of Directors shall fail to designate a place for the holding of the annual meeting, the place of the meeting shall be the principal office of the Corporation. At such meeting, the shareholders, to the extent they are entitled by the Higher Education Act of 1965, as amended, and these By-laws to do so, may elect directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2. Special Meetings

Special meetings of the shareholders shall be held upon the call of either the Chairman or a majority of the directors of the Corporation, and shall be called by the Chairman upon the written request of holders of at least one-third of the shares of the Corporation having voting power. A special meeting may be called for any purpose or purposes for which shareholders may legally

meet, and shall be held, within or without the District of Columbia, at such place as may be determined by the Chairman or a majority of the directors of the Corporation, whichever shall call the meeting.

SECTION 3. Meeting Business

No business shall be brought before any meeting of shareholders 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 shareholder 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 shareholder of the Corporation who is a shareholder of record on the date of the giving of the notice provided for in Section 5 and on the record date for the determination of shareholders 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 shareholders, provided that the law of Delaware (assuming for purposes of this determination that the Corporation would be subject to the laws of Delaware) shall govern whether such business is a proper subject for action by shareholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 nor more than 90 days prior to the date of such annual meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the annual meeting is given or made to shareholders, notice by the shareholder 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 such notice of the date of such annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth as to each matter such shareholder 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 of such shareholder, (c) the number of shares of the Corporation which are owned (beneficially or of record) by such shareholder, (d) a description of all arrangements or understandings between such shareholder and any other person or persons (including their names) in connection with the proposal of such business by such shareholder and any material interest of such shareholder in such business, and (e) a representation that such shareholder 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 shareholders shall be limited to the purposes stated in the notice of a special meeting.

The Chairman shall determine the order of business and the procedure at any shareholder 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.

Any shareholder of the Corporation who desires to present a proposal in the Corporation's proxy statement and form of proxy relating to the solicitation

of votes at an annual meeting of shareholders must follow the procedures (including without limitation the 120 day prior notice requirement) set forth in Rule 14a-8 adopted by the Securities and Exchange Commission (SEC) pursuant to Section 14(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), as modified by the statement of the General Counsel dated June 1, 1995 (and any subsequent modifications or replacements thereof), a copy of which shall be available to any shareholder of record by contacting the Secretary of the Corporation at the principal executive offices of the Corporation. All references to the Exchange Act and any rules promulgated thereunder shall mean such statute or such rules as amended and in effect from time to time, including any successor statute or rules.

No action by shareholders shall be valid unless taken at a duly constituted meeting pursuant to Section 1 or Section 2 of this Article VI.

SECTION 4. Board of Directors Nominations

Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors at any annual meeting of shareholders. Nominations of persons for election to the Board of Directors may be made at any annual meeting of shareholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any shareholder of the Corporation who is a shareholder of record on the date of the giving of the notice provided for in Section 5 and on the record date for the determination of shareholders entitled to vote at such annual meeting; provided, however, that all nominees must meet the qualifications set forth in Section 439 of the Higher Education Act of 1965, as amended.

In addition to any other applicable requirements, for a nomination to be made by a shareholder, the shareholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a shareholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 nor more than 90 days prior to the date of such annual meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the annual meeting

is given or made to shareholders, notice by the shareholder 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 such notice of the date of such annual meeting was mailed or such public disclosure of the date of the annual meeting was made, whichever first occurs. When a date is set for the determination of the timeliness of a shareholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a shareholder's notice to the Secretary must set forth (a) as to each person whom such shareholder 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 to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (b) as to the shareholder giving the notice (i) the name and record address of such shareholder, (ii) the number of shares of the Corporation which are owned beneficially or of record by such shareholder, (iii) a description of all arrangements or understandings between such shareholder 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 shareholder, (iv) a representation that such shareholder 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 shareholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors 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 accor-

dance with these By-laws, the Chairman shall so declare and such defective nomination shall be disregarded.

SECTION 5. Notice

Written or printed notice stating the place, day and hour of any meeting and, in the case of a special meeting, the purpose for which the meeting is called, shall be delivered not less than 10 nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the President, or the Secretary, or the officer or persons calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail with postage there on prepaid, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation or such other address as the shareholder has in writing instructed the Secretary.

SECTION 6. Waiver of Notice

Attendance by a shareholder at a meeting of shareholders, whether in person or by proxy, without objection to the notice or lack thereof, shall constitute a waiver of notice of the meeting. Any shareholder may either before or after the time of the meeting execute a waiver of notice of such meeting.

SECTION 7. Record Date

For the purpose of determining shareholders entitled to notice or to vote at any meeting of shareholders or any adjournment thereof, or shareholders entitled to receive payment of any dividend, or in order to make a determination of shareholders for any other proper purpose, the Board of Directors shall fix in advance a date as the record date for any such determination of shareholders, such date in any case to be not more than 60 days and in case of a meeting of shareholders not less than 10 days prior to the date on which the particular action requiring such determination of shareholders is to be taken. If the Board of Directors fails to designate such a date, the date on which notice of the meeting is mailed or the date on which the resolution of the Board of Directors declaring such dividends is adopted, as the case may be, shall be the record date for such determination of share-

holders. When a date is set for the determination of shareholders entitled to vote at any meeting of shareholders, such determination shall apply to any adjournment thereof.

SECTION 8. Voting Lists

The officer or agent having charge of the stock transfer books for shares of the Corporation shall make a complete record of the shareholders entitled to vote at each meeting of the shareholders or any adjournment thereof, arranged in alphabetical order, with the address and the number of shares held by each. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to inspection by any shareholder during the whole time of the meeting for the purposes thereof.

SECTION 9. Quorum

A majority of the outstanding shares of the Corporation entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a majority of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn a meeting from time to time without further notice. 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 notified. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum. Shares of its own stock belonging to the Corporation shall not be counted in determining the total number of outstanding shares at any given time.

SECTION 10. Proxies

At all meetings of shareholders, a shareholder entitled to vote may vote by proxy executed in writing by a shareholder or by its duly authorized attorney-in-fact. Shares standing in the name of another corporation may be voted by such officer, agent or proxy as the by-laws of such corporation may prescribe, or, in the absence of such provision, as the board of directors of such corporation may determine. All proxies shall be filed

with the Secretary of the Corporation before or at the time of the meeting, and shall be revocable, if such revocation be in writing, until exercised. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

The Board of Directors may solicit proxies from shareholders to be voted by such person or persons as shall be designated by resolution of the Board of Directors. The Corporation shall assume the expense of solicitations undertaken by the Board of Directors.

Any solicitation of proxies by the Corporation shall contain the names of all persons the Corporation proposes to nominate for directorships to be filled at the next meeting, their business addresses, and a brief summary of their business experience during the last five years. Each proxy solicitation shall be accompanied or preceded by a copy of the most recent annual report of the Corporation, which report, to the satisfaction of the Board of Directors, shall reasonably represent the financial situation of the Corporation as of the time of its preparation.

If a shareholder seeks to solicit proxies from any other shareholder, the soliciting shareholder shall first notify the Corporation in writing of the intent to make such solicitation and provide the Corporation with a copy of the material to be sent to other shareholders.

If any shareholder entitled to vote at a meeting of shareholders shall seek a list of shareholders for the purpose of soliciting proxies from any other shareholders, the Corporation may at its option, either (a) provide the soliciting shareholder with a complete and current list containing the names of all shareholders of the Corporation entitled to vote at such meeting and their addresses as they appear on the transfer books of the Corporation or (b) mail such proxy solicitations on behalf of the soliciting shareholders, upon being furnished the material to be mailed and the reasonable cost of the mailing.

SECTION 11. Organization

Meetings of the shareholders shall be presided over by the Chairman of the Board of Directors, or if he is not present, by such of the Vice Chairmen as provided in Section 15 of Article III of these By-laws, or if neither the Chairman nor any of the Vice Chairmen is present, by a Chairman to be chosen by holders of a majority of the shares entitled to vote who are present in person or by proxy at the meeting. The Secretary of the Corporation shall act as secretary of every meeting, and if the Secretary is not present, the Chairman shall choose any person present to act as secretary of the meeting.

SECTION 12. Voting of Shares

Except as provided in this Section, at every meeting of the shareholders, every holder of common stock entitled to vote on a matter coming before such meeting shall be entitled to one vote for each share of common stock registered in its name on the stock transfer books of the Corporation at the close of the record date.

At each election of directors, the Chairman of the meeting shall inform the shareholders present of the persons appointed by the President of the United States to be the appointed directors of the Corporation.

Every holder of common stock entitled to vote for the election of directors shall have the right to cast the number of votes that is equal to the product of the number of shares owned by it multiplied by the number of directors to be elected, and it may cast all such votes for one person or may distribute them evenly or unevenly among any number of persons not greater than the number of such directors to be elected, at its option. Shares of its own stock belonging to the Corporation shall not be eligible to vote on any matter.

Whenever directors are to be elected at a shareholders meeting, they shall be elected by a plurality of the votes cast at the meeting by the shareholders entitled to vote. Whenever any corporate action, other than the election of directors, is to be taken by vote of shareholders at a meeting, it shall, except as otherwise required by law (including without limitation Section 439 of the Higher Education Act of 1965, as amended) or by these By-laws, be authorized by a majority of the votes

cast at the meeting by the shareholders entitled to vote thereon.

SECTION 13. Inspectors of Votes

The Board of Directors, in advance of any meeting of shareholders, may appoint one or more Inspectors of Votes to act at the meeting or any adjournment thereof. In case any person so appointed resigns or fails to act, the vacancy may be filled by appointment by the Chairman of the meeting. The Inspectors of Votes shall determine all questions concerning the qualification of voters, the validity of proxies, and the acceptance or rejection of votes and, with respect to each vote by ballot, shall collect and count the ballots and report in writing to the secretary of the meeting the result of the vote. The Inspectors of Votes need not be shareholders of the Corporation. No person who is an officer or director of the Corporation, or who is a candidate for election as a director, shall be eligible to be an Inspector of Votes.

ARTICLE VII

SHARES OF STOCK

SECTION 1. Issuance and Conditions

The Board of Directors shall have power in accordance with the provisions of the governing statute to authorize the issuance of voting common, non-voting common, and preferred shares of stock. The Board of Directors may by resolution impose a stock purchase requirement as a prerequisite to participation in any program of the Corporation. Any stock purchase requirement shall not apply to any participant who is prohibited by law from acquiring stock of the Corporation, provided such participant undertakes to make such purchase when such legal restrictions are alleviated, or to such otherwise eligible participants as the Board of Directors may by resolution provide.

SECTION 2. Common Stock

The Corporation shall have voting common stock having such par value as may be fixed by the Board of Directors. Each share of common stock shall be entitled

to one vote, with rights of cumulative voting at all elections of directors.

Except as otherwise provided in these By-laws, the powers, preferences and relative and other special rights and the qualifications, limitations and restrictions applicable to all shares of common stock shall be identical in every respect.

Except as provided in this Section, the common stock shall be fully transferable, except that, as to the Corporation, it shall be transferred only on the books of the Corporation.

SECTION 3. Reports of Beneficial Ownership

Any beneficial owner (as such term is defined in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act") of the outstanding voting common stock shall furnish the Secretary of the Corporation such statements of beneficial ownership of the voting common stock, and amendments thereto, on such forms, in such time periods and in such manner as would be required by Sections 13(d) and 13(g) of the Exchange Act and rules thereunder if the voting common stock were an equity security of a class registered under Section 12 of the Exchange Act. All references to the Exchange Act and any rules promulgated thereunder shall mean such statute or such rules as amended and in effect from time to time, including any successor statute or rules.

Statements of beneficial ownership furnished to the Corporation under this Section 3 shall be available to registered holders of voting common stock upon written request and payment of any costs therefor, and the Corporation shall assume no liability for the contents of such documents.

Each certificate representing shares of voting common stock issued after July 23, 1992 shall bear a legend to the effect that ownership of the voting common stock is subject to the reporting requirements of Article VII, Section 3 of these By-laws.

SECTION 4. Dividends on Common Stock

To the extent that income is earned and realized, the Board of Directors may from time to time declare, and the Corporation shall pay, dividends on the common stock. No dividend shall be declared or paid on any share of common stock at any time when any dividend is due on the shares of preferred stock and has not been paid.

SECTION 5. Preferred Stock

The Corporation may issue shares of preferred stock having such par value, and such other powers, preferences and relative and other special rights, and qualifications, limitations and restrictions applicable thereto, as may be fixed by the Board of Directors. Such shares shall be freely transferable, except that, as to the Corporation, such shares shall be transferred only on the books of the Corporation.

SECTION 6. Dividends, Redemption, Conversion of Preferred Shares

The holders of the preferred shares shall be entitled to such rate of dividends and such shares shall be subject to such redemption or conversion provisions as may be provided for at the time of issuance. Such dividends shall be paid out of the net income of the Corporation, to the extent earned and realized.

SECTION 7. Preference on Liquidation

In the event of any liquidation, dissolution, or winding up of the Corporation's business, the holders of shares of preferred stock shall be paid in full at par value thereof, plus all accrued dividends, before the holders of the common stock receive any payment.

SECTION 8. Purchase of Own Shares

The Corporation shall have the right, pursuant to resolution by the Board of Directors, to purchase, take, receive or otherwise acquire its own shares, but purchases, whether direct or indirect, shall be made only to the extent of unreserved and unrestricted earned or capital surplus available therefor.

SECTION 9. Rights and Options to Acquire Shares

The Corporation may create and issue, pursuant to resolution by the Board of Directors, rights or options entitling the holders thereof to purchase from the Corporation shares of any class or classes of shares. Such rights or options shall be evidenced in such manner as the Board of Directors shall stipulate and shall be issued and become exercisable upon such terms and conditions, for such duration and at such prices, subject to the provisions of these By-laws governing consideration, as the resolution shall provide.

SECTION 10. Consideration for Shares

The Corporation shall issue shares of stock for such consideration, expressed in dollars, but not less than the par value thereof, as shall be fixed from time to time by the Board of Directors. That part of the surplus of the Corporation which is transferred to stated capital upon issuance of shares as a share dividend shall be deemed to be the consideration for the shares so issued.

The consideration for the issuance of shares may be paid, in whole or in part, in cash or other property acceptable to the Board of Directors, except that a promissory note shall not constitute payment or partial payment for the issuance of shares of the Corporation.

SECTION 11. Stated Capital

The consideration received upon the issuance of any share of stock shall constitute stated capital to the extent of the par value of such shares, and the excess, if any, of such consideration shall constitute capital surplus. The stated capital of the Corporation may be increased from time to time by resolution of the Board of Directors directing that all or a part of the surplus of the Corporation be transferred to stated capital. The Board of Directors may direct that the amount of the surplus so transferred shall be deemed to be stated capital in respect of any designated class of shares.

The Board of Directors may by resolution from time to time reduce the stated capital of the Corporation but only in the amount of the aggregate par value of any shares of the Corporation which shall have been reacquired and cancelled or to the extent of any reduction in the par value of outstanding shares in accordance with

these By-laws. Any surplus created by virtue of a reduction of stated capital shall be deemed to be capital surplus.

SECTION 12. No Preemptive Rights

No holder of the shares of the Corporation of any class, now or hereafter authorized, shall as such holder have any preemptive or preferential right to subscribe to, purchase, or receive any shares of the Corporation of any class, now or hereafter authorized, or any rights or options for any such shares or any rights or options to subscribe to or purchase any such shares or other securities convertible into or exchangeable for or carrying rights or options to purchase shares of any class or other securities, which may at any time be issued, sold, or offered for sale by the Corporation or subjected to the rights or options to purchase granted by the Corporation.

SECTION 13. Liability of Shareholders

A holder of shares of the Corporation shall be under no obligation to the Corporation with respect to such shares other than the obligation to pay to the Corporation the full consideration for which such shares were or are to be issued.

Any person becoming a transferee of shares in good faith and without notice or knowledge that the full consideration thereof had not been paid shall not be personally liable to the Corporation for any unpaid portion of such consideration.

ARTICLE VIII

CERTIFICATES FOR SHARES AND THEIR TRANSFER

SECTION 1. Certificates

The interest of each shareholder of the Corporation shall be evidenced by certificates representing shares of stock of the Corporation, certifying the number of shares represented thereby, and shall be in such form not inconsistent with the governing statute of the Corporation as the Board of Directors may from time to time prescribe.

The certificates of stock shall be signed by the President or an Executive Vice President and by the Secretary or Assistant Secretary and sealed with the corporate seal or an engraved or printed facsimile thereof. The signatures of such officers upon a certificate may be facsimile if the certificate is manually signed on behalf of a transfer agent or a registrar other than the Corporation itself or one of its employees. In the event that any officer who has signed or whose facsimile signature has been placed upon such certificate shall have ceased to be such before such certificate is issued, it may be issued by the Corporation with the same effect as if such officer had not ceased to be such at the time of the issue.

Each certificate or share shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be cancelled, and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and cancelled, except that in the case of a lost, destroyed or mutilated certificate, a new certificate may be issued upon such terms and with such indemnity to the Corporation as the Board of Directors may prescribe.

SECTION 2. Contents

Each certificate representing shares shall state the following:

A. That the Corporation is organized pursuant to an Act of Congress;

B. The name of the person to whom issued;

C. The number and class of shares, and the designation of the series, if any, which such certificate represents;

D. The par value of each share represented by such certificate;

E. The provisions by which such shares may be redeemed; and

F. That the shares represented shall not have any preemptive rights to purchase unissued or treasury shares of the Corporation.

Each certificate representing shares of preferred stock shall state upon the face thereof the annual dividend rate for such shares, and shall state upon the reverse side thereof the powers, preferences and relative and other special rights, and the qualifications, limitations and restrictions applicable to such shares of preferred stock.

No certificate shall be issued for any share until such share is fully paid.

SECTION 3. Transfer

Transfer of shares of the Corporation shall be made only on the stock transfer books of the Corporation by the holder of record thereof or by his legal representative, who shall furnish proper evidence of the authority to transfer, or by his attorney thereto authorized by power of attorney duly executed and filed with the Secretary of the Corporation, and on surrender for cancellation of the certificate for such shares.

The person in whose name shares stand in the books of the Corporation shall be deemed by the Corporation to be the owner thereof for all purposes.

SECTION 4. Lost, Stolen or Destroyed Certificates

The Corporation may issue a new stock certificate in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the Corporation may require the owner of the lost, stolen or destroyed certificate or his or her legal representative to give the Corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of any such new certificate. The Board of Directors may require such owner to satisfy other reasonable requirements.

SECTION 5. Records

Except as otherwise provided by Article VI, Section 10 of these Bylaws, any shareholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating with reasonable particularity the purpose thereof, have the right during the Corporation's usual hours for business to inspect for any proper purpose the Corporation's stock ledger, a list of its shareholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a shareholder and the records requested shall be directly connected with such shareholder's stated purpose. For purposes of determining whether a shareholder has demonstrated a proper purpose, the law of Delaware (assuming for purposes of this determination that the Corporation is subject to the laws of Delaware) shall govern. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power or attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the shareholder. The demand under oath shall be directed to the Secretary of the Corporation at its principal executive offices and shall be received by the Secretary at least five business days prior to the date such inspection is requested.

ARTICLE IX

INDEMNIFICATION AND LIABILITY

SECTION 1. Indemnification in Third Party Actions

The Corporation shall indemnify, to the extent permitted by the Delaware General Corporation Law (as the same exists or may hereinafter be amended) for a corporation subject to such law, 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, officer, or employee of the Corporation, or is or was serving at the request of the Corporation as a member of the Directors' Advisory Council, the Shareholder Advisory Council, or as a director or officer of another corpora-

tion, partnership, joint venture, trust 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. Indemnification in Actions By or in the Right of the Corporation

The Corporation shall indemnify, to the extent permitted by the Delaware General Corporation Law (as the same exists or may hereinafter be amended) for a corporation subject to such law, 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, officer, or employee of the Corporation, or is or was serving at the request of the Corporation as a member of the Directors' Advisory Council, the Shareholder Advisory Council, or as a director or officer of another corporation, partnership, joint venture, trust 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 and 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 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 such court shall deem proper.

SECTION 3. Indemnification in Cases of Successful Defense

To the extent that a director, officer, employee, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Sections 1 and 2 of this Article, 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.

SECTION 4. Procedure

Any indemnification under Sections 1 and 2 of this Article (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon determination that indemnification of the director, officer, employee, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 1 and 2 of this Article. Such determination shall be made (a) by the Board of Directors, or a duly designated committee thereof, by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (b) if such a quorum is not obtainable or, even if obtainable a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (c) by the shareholders at the next meeting of shareholders. In making a determination under this Article, the Board of Directors or shareholders may rely, as to all questions of law, on the advice of independent legal counsel.

SECTION 5. Advance Payments

Expenses (including attorneys' fees) incurred by an officer, director, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding, provided the Corporation

approves in advance counsel selected by the director, officer, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council (which approval shall not be unreasonably withheld), and upon receipt of an undertaking by or on behalf of such director, officer, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council 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. Such expenses (including attorneys' fees) incurred by other employees of the Corporation may also be paid upon such terms and conditions, if any, as the Corporation deems appropriate.

SECTION 6. Other Rights to Indemnification

The indemnification and advancement of expenses provided by or granted pursuant to the other sections of this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any by-law, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, but no person shall be entitled to indemnification by the Corporation to the extent he is indemnified by any other party (other than a wholly-owned subsidiary of the Corporation), including an insurer.

SECTION 7. Insurance

The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, or employee of the Corporation, or is or was serving at the request of the Corporation as a member of the Directors' Advisory Council, the Shareholder Advisory Council, or as a director or officer of another corporation, partnership, joint venture, trust 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 to indemnify him against such liability under this Article.

SECTION 8. Indemnification After Merger or Consolidation

For purposes of this Article, 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 with the Corporation which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, employees, members of the Directors' Advisory Council, or members of the Shareholder Advisory Council, so that any person who is or was a director, officer, or employee of such constituent corporation, or is or was serving at the request of such constituent corporation as a member of a Directors' Advisory Council, as a member of the Shareholder Advisory Council, or as a director or officer of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under this Article with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

SECTION 9. Indemnification under Employee Benefit Plans

For purposes of this Article, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director or officer of the corporation which imposes duties on, or involves services by, such director, officer, member of the Directors' Advisory Council, or member of the Shareholder Advisory Council 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.

SECTION 10. Heirs, Executors and Administrators

The indemnification and advancement of expenses provided by, or granted pursuant to, this Article shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, member of the Directors'

Advisory Council, or member of the Shareholder Advisory Council and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 11. Limitation of Liability

Directors, officers, members of the Directors' Advisory Council, and members of the Shareholder Advisory Council of the Corporation shall not be personally liable to the Corporation or to shareholders for monetary damages for breach of fiduciary duty acting in their respective capacities, provided, however, such limitation of liability shall not apply to (a) any breach of the party's duty of loyalty to the Corporation or its shareholders, (b) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, or (c) any transaction from which the party derived an improper personal benefit. This provision shall not limit the liability of any party for any act or omission occurring prior to September 18, 1992.

ARTICLE X

FISCAL YEAR

The fiscal year of the Corporation shall begin on the first day of January and end on the thirty-first day of December in each year.

ARTICLE XI

CONTRACTS, LOANS, CHECKS AND DEPOSITS

SECTION 1. Contracts

The Board of Directors may authorize any officer or officers, agent or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

SECTION 2. Loans

No loans shall be contracted on behalf of the Corporation and no evidences of indebtedness shall be issued in its name unless authorized by a resolution of

the Board of Directors. Such authority may be general or confined to specific instances.

SECTION 3. Checks, Drafts, etc.

All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officer or officers, agent or agents, of the Corporation and in such manner as shall from time to time be determined by resolution of the Board of Directors.

SECTION 4. Deposits

All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may select.

ARTICLE XII

FACSIMILE SIGNATURES

The Board of Directors may by resolution authorize the use of facsimile signatures in lieu of manual signatures.

ARTICLE XIII

AMENDMENTS

These By-laws may be altered, amended or repealed and new By-laws, consistent with the governing statute, may be adopted by the majority vote of the Board of Directors.