

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

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-13251

**SLM Corporation**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**52-2013874**  
(I.R.S. Employer  
Identification No.)

**300 Continental Drive, Newark, Delaware**  
(Address of principal executive offices)

**19713**  
(Zip Code)

**(302) 283-8000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

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

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

Class  
Common Stock, \$0.20 par value

Outstanding at June 30, 2013  
436,188,852 shares

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**SLM CORPORATION**

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

**SLM CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In millions, except share and per share amounts)  
(Unaudited)

	June 30, 2013	December 31, 2012
<b>Assets</b>		
FFELP Loans (net of allowance for losses of \$133 and \$159, respectively)	\$ 108,491	\$ 125,612
Private Education Loans (net of allowance for losses of \$2,149 and \$2,171 respectively)	37,116	36,934
Investments		
Available-for-sale	72	72
Other	866	1,010
Total investments	938	1,082
Cash and cash equivalents	3,327	3,900
Restricted cash and investments	4,109	5,011
Goodwill and acquired intangible assets, net	440	448
Other assets	7,047	8,273
Total assets	<u>\$ 161,468</u>	<u>\$ 181,260</u>
<b>Liabilities</b>		
Short-term borrowings	\$ 16,558	\$ 19,856
Long-term borrowings	135,879	152,401
Other liabilities	3,597	3,937
Total liabilities	<u>156,034</u>	<u>176,194</u>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Preferred stock, par value \$0.20 per share, 20 million shares authorized		
Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of \$50 per share	165	165
Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share	400	400
Common stock, par value \$0.20 per share, 1.125 billion shares authorized: 544 million and 536 million shares issued, respectively	109	107
Additional paid-in capital	4,355	4,237
Accumulated other comprehensive income (loss) (net of tax (expense) benefit of \$(5) and \$3, respectively)	9	(6)
Retained earnings	2,195	1,451
Total SLM Corporation stockholders' equity before treasury stock	7,233	6,354
Less: Common stock held in treasury at cost: 108 million and 83 million shares, respectively	(1,804)	(1,294)
Total SLM Corporation stockholders' equity	5,429	5,060
Noncontrolling interest	5	6
Total equity	<u>5,434</u>	<u>5,066</u>
Total liabilities and equity	<u>\$ 161,468</u>	<u>\$ 181,260</u>

**Supplemental information — assets and liabilities of consolidated variable interest entities:**

	June 30, 2013	December 31, 2012
FFELP Loans	\$ 103,662	\$ 121,059
Private Education Loans	26,084	26,072
Restricted cash and investments	3,698	4,826
Other assets	1,841	2,312
Short-term borrowings	6,524	9,551
Long-term borrowings	116,504	131,518
Net assets of consolidated variable interest entities	<u>\$ 12,257</u>	<u>\$ 13,200</u>

See accompanying notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>Interest income:</b>				
FFELP Loans	\$ 703	\$ 777	\$ 1,439	\$ 1,619
Private Education Loans	627	616	1,249	1,241
Other loans	3	4	6	9
Cash and investments	4	6	8	8
Total interest income	1,337	1,403	2,702	2,877
Total interest expense	553	656	1,123	1,322
Net interest income	784	747	1,579	1,555
Less: provisions for loan losses	201	243	442	496
Net interest income after provisions for loan losses	583	504	1,137	1,059
<b>Other income (loss):</b>				
Gains on sales of loans and investments	251	—	307	—
Gains (losses) on derivative and hedging activities, net	18	6	(13)	(366)
Servicing revenue	89	88	178	178
Contingency revenue	109	87	208	176
Gains on debt repurchases	19	20	42	58
Other	24	(2)	58	38
Total other income	510	199	780	84
<b>Expenses:</b>				
Salaries and benefits	134	117	265	242
Other operating expenses	124	114	243	240
Total operating expenses	258	231	508	482
Goodwill and acquired intangible asset impairment and amortization expense	4	5	7	9
Restructuring and other reorganization expenses	24	3	35	7
Total expenses	286	239	550	498
Income from continuing operations, before income tax expense	807	464	1,367	645
Income tax expense	300	169	512	237
Net income from continuing operations	507	295	855	408
Income (loss) from discontinued operations, net of tax expense (benefit)	35	(4)	33	(6)
<b>Net income</b>	542	291	888	402
Less: net loss attributable to noncontrolling interest	(1)	(1)	(1)	(1)
Net income attributable to SLM Corporation	543	292	889	403
Preferred stock dividends	5	5	10	10
Net income attributable to SLM Corporation common stock	\$ 538	\$ 287	\$ 879	\$ 393
<b>Basic earnings (loss) per common share attributable to SLM Corporation:</b>				
Continuing operations	\$ 1.14	\$ .60	\$ 1.90	\$ .81
Discontinued operations	.08	(.01)	.07	(.01)
Total	\$ 1.22	\$ .59	\$ 1.97	\$ .80
Average common shares outstanding	440	482	445	493
<b>Diluted earnings (loss) per common share attributable to SLM Corporation:</b>				
Continuing operations	\$ 1.12	\$ .60	\$ 1.87	\$ .80
Discontinued operations	.08	(.01)	.07	(.01)
Total	\$ 1.20	\$ .59	\$ 1.94	\$ .79
Average common and common equivalent shares outstanding	448	488	453	499
Dividends per common share attributable to SLM Corporation	\$ .15	\$ .125	\$ .30	\$ .25

See accompanying notes to consolidated financial statements.

**SLM CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(In millions)**  
**(Unaudited)**

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 542	\$ 291	\$ 888	\$ 402
Other comprehensive income (loss):				
Unrealized gains (losses) on derivatives:				
Unrealized hedging gains (losses) on derivatives	22	(10)	23	(11)
Reclassification adjustments for derivative losses included in net income (interest expense)	<u>2</u>	<u>8</u>	<u>5</u>	<u>17</u>
Total unrealized gains (losses) on derivatives	24	(2)	28	6
Unrealized losses on investments	(3)	—	(4)	—
Income tax (expense) benefit	<u>(8)</u>	<u>1</u>	<u>(9)</u>	<u>(2)</u>
Other comprehensive income (loss), net of tax	<u>13</u>	<u>(1)</u>	<u>15</u>	<u>4</u>
Comprehensive income	555	290	903	406
Less: comprehensive loss attributable to noncontrolling interest	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
Total comprehensive income attributable to SLM Corporation	<u>\$ 556</u>	<u>\$ 291</u>	<u>\$ 904</u>	<u>\$ 407</u>

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
		Issued	Treasury	Outstanding									
<b>Balance at March 31, 2012</b>	7,300,000	532,246,806	(39,084,156)	493,162,650	\$ 565	\$ 106	\$ 4,182	\$ (9)	\$ 814	\$ (620)	\$ 5,038	\$ 8	\$ 5,046
Comprehensive income:													
Net income (loss)	—	—	—	—	—	—	—	—	292	—	292	(1)	291
Other comprehensive income, net of tax	—	—	—	—	—	—	—	(1)	—	—	(1)	—	(1)
<b>Total comprehensive income</b>	—	—	—	—	—	—	—	—	—	—	291	(1)	290
Cash dividends:													
Common stock (\$ .125 per share)	—	—	—	—	—	—	—	—	(61)	—	(61)	—	(61)
Preferred stock, series A (\$ .87 per share)	—	—	—	—	—	—	—	—	(3)	—	(3)	—	(3)
Preferred stock, series B (\$ .56 per share)	—	—	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	—	426,168	—	426,168	—	1	4	—	—	—	5	—	5
Stock-based compensation expense	—	—	—	—	—	—	10	—	—	—	10	—	10
Common stock repurchased	—	—	(23,836,964)	(23,836,964)	—	—	—	—	—	(341)	(341)	—	(341)
Shares repurchased related to employee stock-based compensation plans	—	—	(349,655)	(349,655)	—	—	—	—	—	(6)	(6)	—	(6)
<b>Balance at June 30, 2012</b>	<u>7,300,000</u>	<u>532,672,974</u>	<u>(63,270,775)</u>	<u>469,402,199</u>	<u>\$ 565</u>	<u>\$ 107</u>	<u>\$ 4,196</u>	<u>\$ (10)</u>	<u>\$ 1,040</u>	<u>\$ (967)</u>	<u>\$ 4,931</u>	<u>\$ 7</u>	<u>\$ 4,938</u>
<b>Balance at March 31, 2013</b>	7,300,000	539,665,760	(95,455,400)	444,210,360	\$ 565	\$ 108	\$ 4,291	\$ (4)	\$ 1,723	\$ (1,535)	\$ 5,148	\$ 6	\$ 5,154
Comprehensive income:													
Net income (loss)	—	—	—	—	—	—	—	—	543	—	543	(1)	542
Other comprehensive income, net of tax	—	—	—	—	—	—	—	13	—	—	13	—	13
<b>Total comprehensive income</b>	—	—	—	—	—	—	—	—	—	—	556	(1)	555
Cash dividends:													
Common stock (\$ .15 per share)	—	—	—	—	—	—	—	—	(66)	—	(66)	—	(66)
Preferred stock, series A (\$ .87 per share)	—	—	—	—	—	—	—	—	(3)	—	(3)	—	(3)
Preferred stock, series B (\$ .52 per share)	—	—	—	—	—	—	—	—	(2)	—	(2)	—	(2)
Issuance of common shares	—	4,115,424	—	4,115,424	—	1	50	—	—	—	51	—	51
Tax benefit related to employee stock-based compensation plans	—	—	—	—	—	—	4	—	—	—	4	—	4
Stock-based compensation expense	—	—	—	—	—	—	10	—	—	—	10	—	10
Common stock repurchased	—	—	(9,096,144)	(9,096,144)	—	—	—	—	—	(201)	(201)	—	(201)
Shares repurchased related to employee stock-based compensation plans	—	—	(3,040,788)	(3,040,788)	—	—	—	—	—	(68)	(68)	—	(68)
<b>Balance at June 30, 2013</b>	<u>7,300,000</u>	<u>543,781,184</u>	<u>(107,592,332)</u>	<u>436,188,852</u>	<u>\$ 565</u>	<u>\$ 109</u>	<u>\$ 4,355</u>	<u>\$ 9</u>	<u>\$ 2,195</u>	<u>\$ (1,804)</u>	<u>\$ 5,429</u>	<u>\$ 5</u>	<u>\$ 5,434</u>

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
		Issued	Treasury	Outstanding									
<b>Balance at December 31, 2011</b>	7,300,000	529,075,322	(20,323,997)	508,751,325	\$ 565	\$ 106	\$ 4,136	\$ (14)	\$ 770	\$ (320)	\$ 5,243	\$ 8	\$ 5,251
Comprehensive income:													
Net income (loss)	—	—	—	—	—	—	—	—	403	—	403	(1)	402
Other comprehensive income, net of tax	—	—	—	—	—	—	—	4	—	—	4	—	4
<b>Total comprehensive income</b>	—	—	—	—	—	—	—	—	—	—	407	(1)	406
Cash dividends:													
Common stock (\$ .25 per share)	—	—	—	—	—	—	—	—	(123)	—	(123)	—	(123)
Preferred stock, series A (\$1.74 per share)	—	—	—	—	—	—	—	—	(6)	—	(6)	—	(6)
Preferred stock, series B (\$1.13 per share)	—	—	—	—	—	—	—	—	(4)	—	(4)	—	(4)
Issuance of common shares	—	3,597,652	—	3,597,652	—	1	31	—	—	—	32	—	32
Tax benefit related to employee stock- based compensation plans	—	—	—	—	—	—	(3)	—	—	—	(3)	—	(3)
Stock-based compensation expense	—	—	—	—	—	—	32	—	—	—	32	—	32
Common stock repurchased	—	—	(40,540,146)	(40,540,146)	—	—	—	—	—	(609)	(609)	—	(609)
Shares repurchased related to employee stock- based compensation plans	—	—	(2,406,632)	(2,406,632)	—	—	—	—	—	(38)	(38)	—	(38)
<b>Balance at June 30, 2012</b>	<u>7,300,000</u>	<u>532,672,974</u>	<u>(63,270,775)</u>	<u>469,402,199</u>	<u>\$ 565</u>	<u>\$ 107</u>	<u>\$ 4,196</u>	<u>\$ (10)</u>	<u>\$ 1,040</u>	<u>\$ (967)</u>	<u>\$ 4,931</u>	<u>\$ 7</u>	<u>\$ 4,938</u>
<b>Balance at December 31, 2012</b>	7,300,000	535,507,965	(82,910,021)	452,597,944	\$ 565	\$ 107	\$ 4,237	\$ (6)	\$ 1,451	\$ (1,294)	\$ 5,060	\$ 6	\$ 5,066
Comprehensive income:													
Net income (loss)	—	—	—	—	—	—	—	—	889	—	889	(1)	888
Other comprehensive income, net of tax	—	—	—	—	—	—	—	15	—	—	15	—	15
<b>Total comprehensive income</b>	—	—	—	—	—	—	—	—	—	—	904	(1)	903
Cash dividends:													
Common stock (\$ .30 per share)	—	—	—	—	—	—	—	—	(134)	—	(134)	—	(134)
Preferred stock, series A (\$1.74 per share)	—	—	—	—	—	—	—	—	(6)	—	(6)	—	(6)
Preferred stock, series B (\$1.01 per share)	—	—	—	—	—	—	—	—	(4)	—	(4)	—	(4)
Dividend equivalent units related to employee stock- based compensation plans	—	—	—	—	—	—	—	—	(1)	—	(1)	—	(1)
Issuance of common shares	—	8,273,219	—	8,273,219	—	2	84	—	—	—	86	—	86



Tax benefit related to employee stock-based compensation plans	—	—	—	—	—	—	5	—	—	—	5	—	5
Stock-based compensation expense	—	—	—	—	—	—	29	—	—	—	29	—	29
Common stock repurchased	—	—	(19,316,948)	(19,316,948)	—	—	—	—	—	(400)	(400)	—	(400)
Shares repurchased related to employee stock-based compensation plans	—	—	(5,365,363)	(5,365,363)	—	—	—	—	—	(110)	(110)	—	(110)
<b>Balance at June 30, 2013</b>	<u>7,300,000</u>	<u>543,781,184</u>	<u>(107,592,332)</u>	<u>436,188,852</u>	<u>\$ 565</u>	<u>\$ 109</u>	<u>\$ 4,355</u>	<u>\$ 9</u>	<u>\$ 2,195</u>	<u>\$ (1,804)</u>	<u>\$ 5,429</u>	<u>\$ 5</u>	<u>\$ 5,434</u>

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2013	2012
<b>Operating activities</b>		
Net income	\$ 888	\$ 402
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations, net of tax	(33)	6
Gains on sales of loans and investments	(307)	—
Gains on debt repurchases	(42)	(58)
Goodwill and acquired intangible asset impairment and amortization expense	7	9
Stock-based compensation expense	29	32
Unrealized (gains) losses on derivative and hedging activities	(330)	(1)
Provisions for loan losses	442	496
(Increase) decrease in restricted cash — other	(6)	1
(Increase) decrease in accrued interest receivable	(42)	104
Increase in accrued interest payable	6	29
Decrease in other assets	504	32
(Decrease) increase in other liabilities	(200)	92
Cash provided by operating activities – continuing operations	916	1,144
Cash provided by (used in) operating activities – discontinued operations	38	(6)
Total net cash provided by operating activities	954	1,138
<b>Investing activities</b>		
Student loans acquired and originated	(2,078)	(3,826)
Reduction of student loans:		
Installment payments, claims and other	6,265	8,479
Proceeds from sales of student loans	707	284
Other investing activities, net	115	—
Purchases of available-for-sale securities	(24)	(22)
Proceeds from maturities of available-for-sale securities	20	44
Purchases of other securities	(144)	(148)
Proceeds from maturities of other securities	133	128
Decrease (increase) in restricted cash – variable interest entities	611	(994)
Total net cash provided by investing activities	5,605	3,945
<b>Financing activities</b>		
Borrowings collateralized by loans in trust — issued	6,187	6,894
Borrowings collateralized by loans in trust — repaid	(6,439)	(6,849)
Asset-backed commercial paper conduits, net	4,349	1,233
ED Conduit Program facility, net	(9,551)	(5,835)
Other short-term borrowings issued	—	23
Other short-term borrowings repaid	(893)	(64)
Other long-term borrowings issued	1,489	1,927
Other long-term borrowings repaid	(1,403)	(1,782)
Other financing activities, net	(766)	94
Retail and other deposits, net	439	244
Common stock repurchased	(400)	(609)
Common stock dividends paid	(134)	(123)
Preferred stock dividends paid	(10)	(10)
Net cash used in financing activities	(7,132)	(4,857)
Net (decrease) increase in cash and cash equivalents	(573)	226
Cash and cash equivalents at beginning of period	3,900	2,794
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,327</b>	<b>\$ 3,020</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash disbursements made (refunds received) for:		
Interest	\$ 1,121	\$ 1,276
Income taxes paid	\$ 282	\$ 310
Income taxes received	\$ (18)	\$ (5)
Noncash activity:		
Investing activity — Student loans and other assets acquired	\$ —	\$ 402
Student loans and other assets removed related to sale of Residual Interest in securitization	\$ (11,802)	\$ —
Financing activity — Borrowings assumed in acquisition of student loans and other assets	\$ —	\$ 425
Borrowings removed related to sale of Residual Interest in securitization	\$ (12,084)	\$ —

See accompanying notes to consolidated financial statements.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information at June 30, 2013 and for the three and six months ended**  
**June 30, 2013 and 2012 is unaudited)**

**1. Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements of SLM Corporation (“we,” “us,” “our,” or the “Company”) have been prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities (“VIEs”) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”). Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.

***Consolidation***

In first six months of 2013, we sold Residual Interests in FFELP Loan securitization trusts to third parties. We will continue to service the student loans in the trusts under existing agreements. Prior to the sale of the Residual Interests, we had consolidated the trusts as VIEs because we had met the two criteria for consolidation. We had determined we were the primary beneficiary because (1) as servicer to the trust we had the power to direct the activities of the VIE that most significantly affected its economic performance and (2) as the residual holder of the trust, we had an obligation to absorb losses or receive benefits of the trust that could potentially be significant. Upon the sale of the Residual Interests we are no longer the residual holder, thus we determined we no longer met criterion (2) above and deconsolidated the trusts. As a result of these transactions, we removed securitization trust assets of \$12.5 billion and the related liabilities of \$12.1 billion from the balance sheet and recorded a \$312 million gain as part of “gains on sales of loans and investments” for the six months ended June 30, 2013.

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

***Recently Adopted Accounting Standards***

***Accumulated Other Comprehensive Income***

On January 1, 2013, we adopted Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220), “Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income.” The objective of this new guidance is to improve the reporting of reclassifications out of accumulated other comprehensive income. The impact of adopting this new guidance was immaterial and there was no impact on our results of operations.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses**

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, net of expected recoveries, in the held-for-investment loan portfolios. The evaluation of the provisions for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. We segregate our Private Education Loan portfolio into two classes of loans — traditional and non-traditional. Non-traditional loans are loans to (i) customers attending for-profit schools with an original Fair Isaac and Company (“FICO”) score of less than 670 and (ii) customers attending not-for-profit schools with an original FICO score of less than 640. The FICO score used in determining whether a loan is non-traditional is the greater of the customer or cosigner FICO score at origination. Traditional loans are defined as all other Private Education Loans that are not classified as non-traditional.

*Allowance for Loan Losses Metrics*

(Dollars in millions)	Three Months Ended June 30, 2013			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 147	\$ 2,170	\$ 42	\$ 2,359
Total provision	14	187	—	201
Charge-offs <sup>(1)</sup>	(20)	(212)	(7)	(239)
Student loan sales	(8)	—	—	(8)
Reclassification of interest reserve <sup>(2)</sup>	—	4	—	4
Ending balance	\$ 133	\$ 2,149	\$ 35	\$ 2,317
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 1,181	\$ 26	\$ 1,207
Ending balance: collectively evaluated for impairment	\$ 133	\$ 968	\$ 9	\$ 1,110
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 8,416	\$ 57	\$ 8,473
Ending balance: collectively evaluated for impairment	\$ 107,538	\$ 31,601	\$ 96	\$ 139,235
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.69%	17.57%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.59%	17.57%	
Allowance as a percentage of the ending total loan balance	.12%	5.37%	22.93%	
Allowance as a percentage of the ending loans in repayment	.17%	6.80%	22.93%	
Allowance coverage of charge-offs (annualized)	1.7	2.5	1.2	
Ending total loans <sup>(3)</sup>	\$ 107,538	\$ 40,017	\$ 153	
Average loans in repayment	\$ 81,423	\$ 31,618	\$ 161	
Ending loans in repayment	\$ 77,063	\$ 31,627	\$ 153	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See “Receivable for Partially Charged-Off Private Education Loans” for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan’s principal balance.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Three Months Ended June 30, 2012			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 180	\$ 2,190	\$ 64	\$ 2,434
Total provision	18	225	—	243
Charge-offs <sup>(1)</sup>	(23)	(235)	(5)	(263)
Student loan sales	(2)	—	—	(2)
Reclassification of interest reserve <sup>(2)</sup>	—	6	—	6
Ending balance	\$ 173	\$ 2,186	\$ 59	\$ 2,418
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 921	\$ 45	\$ 966
Ending balance: collectively evaluated for impairment	\$ 173	\$ 1,265	\$ 14	\$ 1,452
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 6,569	\$ 84	\$ 6,653
Ending balance: collectively evaluated for impairment	\$ 131,512	\$ 32,905	\$ 152	\$164,569
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.09%	9.80%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.96%	9.80%	
Allowance as a percentage of the ending total loan balance	.13%	5.54%	24.85%	
Allowance as a percentage of the ending loans in repayment	.19%	7.11%	24.85%	
Allowance coverage of charge-offs (annualized)	1.8	2.3	2.5	
Ending total loans <sup>(3)</sup>	\$ 131,512	\$ 39,474	\$ 236	
Average loans in repayment	\$ 92,436	\$ 30,533	\$ 241	
Ending loans in repayment	\$ 91,998	\$ 30,731	\$ 236	

- (1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.
- (2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.
- (3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Six Months Ended June 30, 2013			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 159	\$ 2,171	\$ 47	\$ 2,377
Total provision	30	412	—	442
Charge-offs <sup>(1)</sup>	(42)	(444)	(12)	(498)
Student loan sales	(14)	—	—	(14)
Reclassification of interest reserve <sup>(2)</sup>	—	10	—	10
Ending balance	\$ 133	\$ 2,149	\$ 35	\$ 2,317
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 1,181	\$ 26	\$ 1,207
Ending balance: collectively evaluated for impairment	\$ 133	\$ 968	\$ 9	\$ 1,110
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 8,416	\$ 57	\$ 8,473
Ending balance: collectively evaluated for impairment	\$ 107,538	\$ 31,601	\$ 96	\$139,235
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.83%	14.11%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.09%	2.73%	14.11%	
Allowance as a percentage of the ending total loan balance	.12%	5.37%	22.93%	
Allowance as a percentage of the ending loans in repayment	.17%	6.80%	22.93%	
Allowance coverage of charge-offs (annualized)	1.6	2.4	1.5	
Ending total loans <sup>(3)</sup>	\$ 107,538	\$ 40,017	\$ 153	
Average loans in repayment	\$ 84,323	\$ 31,631	\$ 170	
Ending loans in repayment	\$ 77,063	\$ 31,627	\$ 153	

- (1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.
- (2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.
- (3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Six Months Ended June 30, 2012			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 187	\$ 2,171	\$ 69	\$ 2,427
Total provision	36	460	—	496
Charge-offs <sup>(1)</sup>	(46)	(459)	(10)	(515)
Student loan sales	(4)	—	—	(4)
Reclassification of interest reserve <sup>(2)</sup>	—	14	—	14
Ending balance	\$ 173	\$ 2,186	\$ 59	\$ 2,418
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 921	\$ 45	\$ 966
Ending balance: collectively evaluated for impairment	\$ 173	\$ 1,265	\$ 14	\$ 1,452
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$ —	\$ 6,569	\$ 84	\$ 6,653
Ending balance: collectively evaluated for impairment	\$ 131,512	\$ 32,905	\$ 152	\$164,569
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	3.03%	8.41%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.90%	8.41%	
Allowance as a percentage of the ending total loan balance	.13%	5.54%	24.85%	
Allowance as a percentage of the ending loans in repayment	.19%	7.11%	24.85%	
Allowance coverage of charge-offs (annualized)	1.9	2.4	2.8	
Ending total loans <sup>(3)</sup>	\$ 131,512	\$ 39,474	\$ 236	
Average loans in repayment	\$ 92,793	\$ 30,456	\$ 248	
Ending loans in repayment	\$ 91,998	\$ 30,731	\$ 236	

- (1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.
- (2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.
- (3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

**Key Credit Quality Indicators**

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default; therefore, the key credit quality indicator for this portfolio is loan status. The impact of changes in loan status is incorporated quarterly into the allowance for loan losses calculation.

For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

(Dollars in millions)	Private Education Loans Credit Quality Indicators			
	June 30, 2013		December 31, 2012	
	Balance <sup>(3)</sup>	% of Balance	Balance <sup>(3)</sup>	% of Balance
<b>Credit Quality Indicators</b>				
School Type/FICO Scores:				
Traditional	\$35,645	92%	\$35,347	92%
Non-Traditional <sup>(1)</sup>	3,038	8	3,207	8
<b>Total</b>	<b><u>\$38,683</u></b>	<b><u>100%</u></b>	<b><u>\$38,554</u></b>	<b><u>100%</u></b>
Cosigners:				
With cosigner	\$25,448	66%	\$24,907	65%
Without cosigner	13,235	34	13,647	35
<b>Total</b>	<b><u>\$38,683</u></b>	<b><u>100%</u></b>	<b><u>\$38,554</u></b>	<b><u>100%</u></b>
Seasoning <sup>(2)</sup> :				
1-12 payments	\$ 7,132	19%	\$ 7,371	19%
13-24 payments	5,681	15	6,137	16
25-36 payments	5,878	15	6,037	16
37-48 payments	4,822	12	4,780	12
More than 48 payments	9,274	24	8,325	22
Not yet in repayment	5,896	15	5,904	15
<b>Total</b>	<b><u>\$38,683</u></b>	<b><u>100%</u></b>	<b><u>\$38,554</u></b>	<b><u>100%</u></b>

(1) Defined as loans to customers attending for-profit schools (with a FICO score of less than 670 at origination) and customers attending not-for-profit schools (with a FICO score of less than 640 at origination).

(2) Number of months in active repayment for which a scheduled payment was due.

(3) Balance represents gross Private Education Loans.



**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

The following tables provide information regarding the loan status and aging of past due loans.

(Dollars in millions)	FFELP Loan Delinquencies			
	June 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 15,239		\$ 17,702	
Loans in forbearance <sup>(2)</sup>	15,236		15,902	
Loans in repayment and percentage of each status:				
Loans current	64,801	84.1%	75,499	83.2%
Loans delinquent 31-60 days <sup>(3)</sup>	3,750	4.9	4,710	5.2
Loans delinquent 61-90 days <sup>(3)</sup>	2,156	2.8	2,788	3.1
Loans delinquent greater than 90 days <sup>(3)</sup>	6,356	8.2	7,734	8.5
Total FFELP Loans in repayment	<u>77,063</u>	<u>100%</u>	<u>90,731</u>	<u>100%</u>
Total FFELP Loans, gross	107,538		124,335	
FFELP Loan unamortized premium	1,086		1,436	
Total FFELP Loans	108,624		125,771	
FFELP Loan allowance for losses	(133)		(159)	
FFELP Loans, net	<u>\$108,491</u>		<u>\$125,612</u>	
Percentage of FFELP Loans in repayment		<u>71.7%</u>		<u>73.0%</u>
Delinquencies as a percentage of FFELP Loans in repayment		<u>15.9%</u>		<u>16.8%</u>
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		<u>16.5%</u>		<u>14.9%</u>

(1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

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

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

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Private Education Traditional Loan Delinquencies			
	June 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 5,475		\$ 5,421	
Loans in forbearance <sup>(2)</sup>	1,015		996	
Loans in repayment and percentage of each status:				
Loans current	27,218	93.3%	26,597	91.9%
Loans delinquent 31-60 days <sup>(3)</sup>	650	2.2	837	2.9
Loans delinquent 61-90 days <sup>(3)</sup>	395	1.4	375	1.3
Loans delinquent greater than 90 days <sup>(3)</sup>	892	3.1	1,121	3.9
Total traditional loans in repayment	<u>29,155</u>	<u>100%</u>	<u>28,930</u>	<u>100%</u>
Total traditional loans, gross	35,645		35,347	
Traditional loans unamortized discount	(673)		(713)	
Total traditional loans	34,972		34,634	
Traditional loans receivable for partially charged-off loans	800		797	
Traditional loans allowance for losses	(1,629)		(1,637)	
Traditional loans, net	<u>\$34,143</u>		<u>\$33,794</u>	
Percentage of traditional loans in repayment		<u>81.8%</u>		<u>81.9%</u>
Delinquencies as a percentage of traditional loans in repayment		<u>6.6%</u>		<u>8.1%</u>
Loans in forbearance as a percentage of loans in repayment and forbearance		<u>3.4%</u>		<u>3.3%</u>

(1) Defemement includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Private Education Non-Traditional Loan Delinquencies			
	June 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 421		\$ 483	
Loans in forbearance <sup>(2)</sup>	145		140	
Loans in repayment and percentage of each status:				
Loans current	1,978	80.1%	1,978	76.5%
Loans delinquent 31-60 days <sup>(3)</sup>	142	5.7	175	6.8
Loans delinquent 61-90 days <sup>(3)</sup>	100	4.0	106	4.1
Loans delinquent greater than 90 days <sup>(3)</sup>	252	10.2	325	12.6
Total non-traditional loans in repayment	2,472	100%	2,584	100%
Total non-traditional loans, gross	3,038		3,207	
Non-traditional loans unamortized discount	(79)		(83)	
Total non-traditional loans	2,959		3,124	
Non-traditional loans receivable for partially charged-off loans	534		550	
Non-traditional loans allowance for losses	(520)		(534)	
Non-traditional loans, net	\$2,973		\$3,140	
Percentage of non-traditional loans in repayment		81.4%		80.6%
Delinquencies as a percentage of non-traditional loans in repayment		20.0%		23.4%
Loans in forbearance as a percentage of loans in repayment and forbearance		5.5%		5.1%

(1) Defemtent includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

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

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the “receivable for partially charged-off loans.” If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was \$217 million and \$141 million in allowance for Private Education Loan losses at June 30, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans.

The following table summarizes the activity in the receivable for partially charged-off Private Education Loans.

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Receivable at beginning of period	\$ 1,339	\$ 1,250	\$1,347	\$1,241
Expected future recoveries of current period defaults <sup>(1)</sup>	70	82	148	151
Recoveries <sup>(2)</sup>	(54)	(44)	(122)	(94)
Charge-offs <sup>(3)</sup>	(21)	(11)	(39)	(21)
Receivable at end of period	1,334	1,277	1,334	1,277
Allowance for estimated recovery shortfalls <sup>(4)</sup>	(217)	(141)	(217)	(141)
Net receivable at end of period	<u>\$ 1,117</u>	<u>\$ 1,136</u>	<u>\$1,117</u>	<u>\$1,136</u>

(1) Represents the difference between the loan balance and our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall — the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the “Allowance for Loan Losses Metrics” tables.

(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the \$2.1 billion and \$2.2 billion overall allowance for Private Education Loan losses as of June 30, 2013 and 2012, respectively.

***Troubled Debt Restructurings (“TDRs”)***

We modify the terms of loans for certain customers when we believe such modifications may increase the ability and willingness of a customer to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. For customers experiencing financial difficulty, certain Private Education Loans for which we have granted either cumulative forbearance of greater than three months, an interest rate reduction or

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

an extended repayment plan are classified as TDRs. Forbearance provides customers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. At June 30, 2013 and December 31, 2012, the percentage of loans granted forbearance that have migrated to a TDR classification due to the extension of the original forbearance period was 48 percent and 43 percent, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of June 30, 2013 and December 31, 2012 was \$1.5 billion and \$1.0 billion, respectively.

At June 30, 2013 and December 31, 2012, all of our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

(Dollars in millions)	TDR Loans		
	Recorded Investment <sup>(1)</sup>	Unpaid Principal Balance	Related Allowance
<b>June 30, 2013</b>			
Private Education Loans — Traditional	\$ 6,728	\$ 6,807	\$ 901
Private Education Loans — Non-Traditional	1,366	1,376	280
Total	\$ 8,094	\$ 8,183	\$ 1,181
<b>December 31, 2012</b>			
Private Education Loans — Traditional	\$ 5,999	\$ 6,074	\$ 844
Private Education Loans — Non-Traditional	1,295	1,303	282
Total	\$ 7,294	\$ 7,377	\$ 1,126

(1) The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs.

The following table provides the average recorded investment and interest income recognized for our TDR loans.

(Dollars in millions)	Three Months Ended June 30,			
	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans — Traditional	\$ 6,718	\$ 100	\$ 5,036	\$ 81
Private Education Loans — Non-Traditional	1,412	27	1,206	26
Total	\$ 8,130	\$ 127	\$ 6,242	\$ 107
(Dollars in millions)	Six Months Ended June 30,			
	2013		2012	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans — Traditional	\$ 6,524	\$ 196	\$ 4,772	\$ 154
Private Education Loans — Non-Traditional	1,391	54	1,158	51
Total	\$ 7,915	\$ 250	\$ 5,930	\$ 205

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

The following table provides information regarding the loan status and aging of TDR loans that are past due.

(Dollars in millions)	TDR Loan Delinquencies			
	June 30, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in deferment <sup>(1)</sup>	\$ 656		\$ 574	
Loans in forbearance <sup>(2)</sup>	649		544	
Loans in repayment and percentage of each status:				
Loans current	5,365	78.0%	4,619	73.8%
Loans delinquent 31-60 days <sup>(3)</sup>	450	6.5	478	7.6
Loans delinquent 61-90 days <sup>(3)</sup>	308	4.5	254	4.1
Loans delinquent greater than 90 days <sup>(3)</sup>	755	11.0	908	14.5
Total TDR loans in repayment	6,878	100%	6,259	100%
Total TDR loans, gross	\$8,183		\$7,377	

(1) Loans for customers who have requested and qualify for permitted program deferments such as military, unemployment, or economic hardships.

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

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

The following table provides the amount of modified loans that resulted in a TDR in the periods presented. Additionally, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the current period within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure. The majority of our loans that are considered TDRs involve a temporary forbearance of payments and do not change the contractual interest rate of the loan.

(Dollars in millions)	Three Months Ended June 30,					
	2013			2012		
	Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default	Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default
Private Education Loans — Traditional	\$ 491	\$ 84	\$ 159	\$ 554	\$ 82	\$ 376
Private Education Loans — Non-Traditional	75	31	45	104	33	124
Total	\$ 566	\$ 115	\$ 204	\$ 658	\$ 115	\$ 500

(Dollars in millions)	Six Months Ended June 30,					
	2013			2012		
	Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default	Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default
Private Education Loans — Traditional	\$ 1,036	\$ 181	\$ 375	\$ 1,210	\$ 148	\$ 780
Private Education Loans — Non-Traditional	165	65	101	245	62	252
Total	\$ 1,201	\$ 246	\$ 476	\$ 1,455	\$ 210	\$ 1,032

(1) Represents period ending balance of loans that have been modified during the period and resulted in a TDR.

(2) Represents loans that charged off that were classified as TDRs.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**2. Allowance for Loan Losses (continued)**

*Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

(Dollars in millions)	Accrued Interest Receivable		
	Total	Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
<b>June 30, 2013</b>			
Private Education Loans — Traditional	\$838	\$ 32	\$ 47
Private Education Loans — Non-Traditional	90	12	22
Total	\$928	\$ 44	\$ 69
<b>December 31, 2012</b>			
Private Education Loans — Traditional	\$798	\$ 39	\$ 45
Private Education Loans — Non-Traditional	106	16	22
Total	\$904	\$ 55	\$ 67

**3. Borrowings**

The following table summarizes our borrowings.

(Dollars in millions)	June 30, 2013			December 31, 2012		
	Short Term	Long Term	Total	Short Term	Long Term	Total
<i>Unsecured borrowings:</i>						
Senior unsecured debt	\$ 3,063	\$ 14,433	\$ 17,496	\$ 2,319	\$ 15,446	\$ 17,765
Brokered deposits	1,298	2,247	3,545	979	3,088	4,067
Retail and other deposits	3,686	—	3,686	3,247	—	3,247
Other <sup>(1)</sup>	825	—	825	1,609	—	1,609
Total unsecured borrowings	8,872	16,680	25,552	8,154	18,534	26,688
<i>Secured borrowings:</i>						
FFELP Loan securitizations	—	92,428	92,428	—	105,525	105,525
Private Education Loan securitizations	—	20,594	20,594	—	19,656	19,656
ED Conduit Program Facility	—	—	—	9,551	—	9,551
FFELP ABCP Facilities	6,524	2,816	9,340	—	4,154	4,154
Private Education Loan ABCP Facility	—	—	—	—	1,070	1,070
Acquisition financing <sup>(2)</sup>	—	505	505	—	673	673
FHLB-DM Facility	1,115	1,220	2,335	2,100	—	2,100
Total secured borrowings	7,639	117,563	125,202	11,651	131,078	142,729
Total before hedge accounting adjustments	16,511	134,243	150,754	19,805	149,612	169,417
Hedge accounting adjustments	47	1,636	1,683	51	2,789	2,840
Total	\$16,558	\$135,879	\$152,437	\$19,856	\$152,401	\$172,257

<sup>(1)</sup> "Other" primarily consists of the obligation to return cash collateral held related to derivative exposures.

<sup>(2)</sup> Relates to the acquisition of \$25 billion of student loans at the end of 2010.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (continued)**

*Secured Borrowings*

The tables below summarize all of our financing entities that are VIEs which we consolidate as a result of being the entities' primary beneficiary. As such, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs:

(Dollars in millions)	June 30, 2013						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings — VIEs:</b>							
FFELP Loan securitizations	\$ —	\$ 92,428	\$ 92,428	\$ 93,988	\$ 3,177	\$ 649	\$ 97,814
Private Education Loan securitizations	—	20,594	20,594	26,084	413	540	27,037
FFELP ABCP Facilities	6,524	2,816	9,340	9,674	108	176	9,958
Total before hedge accounting adjustments	6,524	115,838	122,362	129,746	3,698	1,365	134,809
Hedge accounting adjustments	—	666	666	—	—	476	476
<b>Total</b>	<b><u>\$ 6,524</u></b>	<b><u>\$ 116,504</u></b>	<b><u>\$ 123,028</u></b>	<b><u>\$ 129,746</u></b>	<b><u>\$ 3,698</u></b>	<b><u>\$ 1,841</u></b>	<b><u>\$ 135,285</u></b>

(Dollars in millions)	December 31, 2012						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings — VIEs:</b>							
FFELP Loan securitizations	\$ —	\$ 105,525	\$ 105,525	\$ 107,009	\$ 3,652	\$ 608	\$ 111,269
Private Education Loan securitizations	—	19,656	19,656	24,618	385	545	25,548
ED Conduit Program Facility	9,551	—	9,551	9,645	410	134	10,189
FFELP ABCP Facility	—	4,154	4,154	4,405	77	63	4,545
Private Education Loan ABCP Facility	—	1,070	1,070	1,454	302	33	1,789
Total before hedge accounting adjustments	9,551	130,405	139,956	147,131	4,826	1,383	153,340
Hedge accounting adjustments	—	1,113	1,113	—	—	929	929
<b>Total</b>	<b><u>\$ 9,551</u></b>	<b><u>\$ 131,518</u></b>	<b><u>\$ 141,069</u></b>	<b><u>\$ 147,131</u></b>	<b><u>\$ 4,826</u></b>	<b><u>\$ 2,312</u></b>	<b><u>\$ 154,269</u></b>



**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (continued)**

*Securitizations*

The following table summarizes the securitization transactions that occurred during the year ended December 31, 2012 and the six months ended June 30, 2013.

(Dollars in millions)

Issue	Date Issued	Total Issued	AAA-rated bonds	
			Weighted Average Interest Rate	Weighted Average Life
<b>FFELP:</b>				
2012-1	January 2012	\$ 765	1 month LIBOR plus 0.91%	4.6 years
2012-2	March 2012	824	1 month LIBOR plus 0.70%	4.7 years
2012-3	May 2012	1,252	1 month LIBOR plus 0.65%	4.6 years
2012-4	June 2012	1,491 <sup>(1)</sup>	1 month LIBOR plus 1.10%	8.2 years
2011-3	July 2012	24	N/A (Retained B Notes sold)	
2012-4	July 2012	45	N/A (Retained B Notes sold)	
2012-5	July 2012	1,252	1 month LIBOR plus 0.67%	4.5 years
2012-6	September 2012	1,249	1 month LIBOR plus 0.62%	4.6 years
2012-7	November 2012	1,251	1 month LIBOR plus 0.55%	4.5 years
2012-8	December 2012	1,527	1 month LIBOR plus 0.90%	7.8 years
Total bonds issued in 2012		<u>\$9,680</u>		
Total loan amount securitized in 2012		<u>\$9,565</u>		
2013-1	February 2013	\$1,249	1 month LIBOR plus 0.46%	4.3 years
2013-2	April 2013	1,246	1 month LIBOR plus 0.45%	4.4 years
2013-3	June 2013	1,246	1 month LIBOR plus 0.54%	4.5 years
Total bonds issued in six months ended June 30, 2013		<u>\$3,741</u>		
Total loan amount securitized in six months ended June 30, 2013		<u>\$3,748</u>		
<b>Private Education:</b>				
2012-A	February 2012	\$ 547	1 month LIBOR plus 2.17%	3.0 years
2012-B	April 2012	891	1 month LIBOR plus 2.12%	2.9 years
2012-C	May 2012	1,135	1 month LIBOR plus 1.77%	2.6 years
2012-D	July 2012	640	1 month LIBOR plus 1.69%	2.5 years
2012-E	October 2012	976	1 month LIBOR plus 1.22%	2.6 years
Total bonds issued in 2012		<u>\$4,189</u>		
Total loan amount securitized in 2012		<u>\$5,557</u>		
2013-R1	January 2013	\$ 254	1 month LIBOR plus 1.75%	6.3 years
2013-A	March 2013	1,108	1 month LIBOR plus 0.81%	2.6 years
2013-B	May 2013	1,135	1 month LIBOR plus 0.89%	2.7 years
Total bonds issued in six months ended June 30, 2013		<u>\$2,497</u>		
Total loan amount securitized in six months ended June 30, 2013		<u>\$2,613</u>		

<sup>(1)</sup> Total size excludes subordinated tranche that was retained at issuance totaling \$45 million.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (continued)**

*2013 Sales of FFELP Securitization Trust Residual Interests*

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of \$3.82 billion and related liabilities of \$3.68 billion from our balance sheet.

On April 11, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of \$2.03 billion and related liabilities of \$1.99 billion from our balance sheet.

On June 13, 2013, we sold the three Residual Interests in FFELP Loan securitization trusts to a third party. We will continue to service the student loans in the trusts under existing agreements. The sale removed securitization trust assets of \$6.60 billion and related liabilities of \$6.42 billion from our balance sheet.

***Additional, Recent Borrowing-Related Transactions***

*Senior Unsecured Debt*

On January 28, 2013, we issued \$1.5 billion of senior unsecured bonds.

*FFELP ABCP Facility*

On June 10, 2013, we closed on a new \$6.8 billion credit facility that matures in June 2014 to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the U.S. Department of Education's ("ED") Conduit Program. The facility cannot be used to borrow any additional amounts. As a result, we ended our participation in the ED Conduit Program prior to the January 19, 2014 maturity date.

The cost of borrowing under the facility is the yield rate (either 30-day LIBOR daily average or commercial paper issuance cost) plus 0.50 percent, excluding up-front-commitment fees. Failure to pay off the facility on the maturity date would result in a 90-day extension of the facility with the interest rate increasing from LIBOR plus 0.75 percent to LIBOR plus 1.50 percent over that period. If, at the end of that period the facility has not been repaid, a default rate of LIBOR plus 3.00 percent would be payable until either the notes are repaid in full or the collateral is foreclosed upon. This default rate would also be triggered by the occurrence of a termination event. The facility is subject to termination under certain circumstances. Our borrowings under the facility are non-recourse. As of June 30, 2013, there was \$6.5 billion outstanding in the facility. The book basis of the assets securing the facility as of June 30, 2013 was \$6.8 billion.

*Private Education Loan ABCP Facility*

On July 17, 2013, we closed on a \$1.1 billion ABCP borrowing facility that matures on August 15, 2015. The facility will be used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, anticipated to occur on August 15, 2013.

The cost of borrowing under the facility is commercial paper issuance cost plus 0.75 percent, excluding up-front commitment fees. If outstandings under the facility exceed \$825 million after July 15, 2014 and \$550 million after January 15, 2015, the cost increases to commercial paper issuance plus 1.50 percent. Failure to pay off the facility on the maturity date would result in the interest rate increasing to LIBOR plus 3.00 percent until the notes are repaid in full or the collateral is foreclosed upon. Our borrowings under the facility are non-recourse.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments**

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2012 Form 10-K. Please refer to “Note 7 — Derivative Financial Instruments” in our 2012 Form 10-K for a full discussion.

**Summary of Derivative Financial Statement Impact**

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2013 and December 31, 2012, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2013 and 2012.

*Impact of Derivatives on Consolidated Balance Sheet*

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value		Trading		Total	
		June 30, 2013	Dec. 31, 2012	June 30, 2013	Dec. 31, 2012	June 30, 2013	Dec. 31, 2012	June 30, 2013	Dec. 31, 2012
<b>Fair Values<sup>(1)</sup></b>									
<i>Derivative Assets:</i>									
Interest rate swaps	Interest rate	\$ 17	\$ —	\$ 924	\$1,396	\$ 84	\$ 150	\$ 1,025	\$ 1,546
Cross-currency interest rate swaps	Foreign currency & interest rate	—	—	785	1,165	—	70	785	1,235
Other <sup>(2)</sup>	Interest rate	—	—	—	—	2	4	2	4
Total derivative assets <sup>(3)</sup>		17	—	1,709	2,561	86	224	1,812	2,785
<i>Derivative Liabilities:</i>									
Interest rate swaps	Interest rate	—	(11)	(106)	(1)	(208)	(197)	(314)	(209)
Floor Income Contracts	Interest rate	—	—	—	—	(1,675)	(2,154)	(1,675)	(2,154)
Cross-currency interest rate swaps	Foreign currency & interest rate	—	—	(278)	(136)	(10)	—	(288)	(136)
Other <sup>(2)</sup>	Interest rate	—	—	—	—	(17)	—	(17)	—
Total derivative liabilities <sup>(3)</sup>		—	(11)	(384)	(137)	(1,910)	(2,351)	(2,294)	(2,499)
Net total derivatives		<u>\$ 17</u>	<u>\$ (11)</u>	<u>\$1,325</u>	<u>\$2,424</u>	<u>\$ (1,824)</u>	<u>\$ (2,127)</u>	<u>\$ (482)</u>	<u>\$ 286</u>

(1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net receivable or payable position.

(2) “Other” includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility and back-to-back private credit floors.

(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

(Dollar in millions)	Other Assets		Other Liabilities	
	June 30, 2013	December 31, 2012	June 30, 2013	December 31, 2012
Gross position	\$ 1,812	\$ 2,785	\$ (2,294)	\$ (2,499)
Impact of master netting agreements	(436)	(544)	436	544
Derivative values with impact of master netting agreements (as carried on balance sheet)	1,376	2,241	(1,858)	(1,955)
Cash collateral (held) pledged	(824)	(1,423)	828	973
Net position	<u>\$ 552</u>	<u>\$ 818</u>	<u>\$ (1,030)</u>	<u>\$ (982)</u>

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments (continued)**

The above fair values include adjustments for counterparty credit risk both for when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at June 30, 2013 and December 31, 2012 by \$87 million and \$111 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at June 30, 2013 and December 31, 2012 by \$97 million and \$107 million, respectively.

<b>(Dollars in billions)</b>	<u>Cash Flow</u>		<u>Fair Value</u>		<u>Trading</u>		<u>Total</u>	
	<u>June 30, 2013</u>	<u>Dec. 31, 2012</u>	<u>June 30, 2013</u>	<u>Dec. 31, 2012</u>	<u>June 30, 2013</u>	<u>Dec. 31, 2012</u>	<u>June 30, 2013</u>	<u>Dec. 31, 2012</u>
<b>Notional Values:</b>								
Interest rate swaps	\$ 0.5	\$ 0.7	\$ 15.4	\$ 15.8	\$ 54.7	\$ 56.9	\$ 70.6	\$ 73.4
Floor Income Contracts	—	—	—	—	31.8	51.6	31.8	51.6
Cross-currency interest rate swaps	—	—	11.8	13.7	0.3	0.3	12.1	14.0
Other <sup>(1)</sup>	—	—	—	—	2.9	1.4	2.9	1.4
<b>Total derivatives</b>	<u>\$ 0.5</u>	<u>\$ 0.7</u>	<u>\$ 27.2</u>	<u>\$ 29.5</u>	<u>\$ 89.7</u>	<u>\$ 110.2</u>	<u>\$ 117.4</u>	<u>\$ 140.4</u>

(1) "Other" includes embedded derivatives bifurcated from securitization debt, as well as derivatives related to our Total Return Swap Facility and back to back private credit floors.

*Impact of Derivatives on Consolidated Statements of Income*

<b>(Dollars in millions)</b>	<u>Three Months Ended June 30,</u>							
	<u>Unrealized Gain (Loss) on Derivatives<sup>(1)(2)</sup></u>		<u>Realized Gain (Loss) on Derivatives<sup>(3)</sup></u>		<u>Unrealized Gain (Loss) on Hedged Item<sup>(1)</sup></u>		<u>Total Gain (Loss)</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Fair Value Hedges:</b>								
Interest rate swaps	\$ (404)	\$ 193	\$ 104	\$ 115	\$ 443	\$ (220)	\$ 143	\$ 88
Cross-currency interest rate swaps	34	(654)	26	41	(80)	816	(20)	203
<b>Total fair value derivatives</b>	(370)	(461)	130	156	363	596	123	291
<b>Cash Flow Hedges:</b>								
Interest rate swaps	—	—	(2)	(8)	—	—	(2)	(8)
<b>Total cash flow derivatives</b>	—	—	(2)	(8)	—	—	(2)	(8)
<b>Trading:</b>								
Interest rate swaps	(58)	(10)	14	32	—	—	(44)	22
Floor Income Contracts	297	50	(198)	(222)	—	—	99	(172)
Cross-currency interest rate swaps	(32)	10	10	2	—	—	(22)	12
Other	(8)	9	—	—	—	—	(8)	9
<b>Total trading derivatives</b>	199	59	(174)	(188)	—	—	25	(129)
<b>Total</b>	(171)	(402)	(46)	(40)	363	596	146	154
Less: realized gains (losses) recorded in interest expense	—	—	128	148	—	—	128	148
<b>Gains (losses) on derivative and hedging activities, net</b>	<u>\$ (171)</u>	<u>\$ (402)</u>	<u>\$ (174)</u>	<u>\$ (188)</u>	<u>\$ 363</u>	<u>\$ 596</u>	<u>\$ 18</u>	<u>\$ 6</u>

(1) Recorded in "Gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments (continued)**

(Dollars in millions)	Six Months Ended June 30,							
	Unrealized Gain (Loss) on Derivatives <sup>(1)(2)</sup>		Realized Gain (Loss) on Derivatives <sup>(3)</sup>		Unrealized Gain (Loss) on Hedged Item <sup>(1)</sup>		Total Gain (Loss)	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Fair Value Hedges:</b>								
Interest rate swaps	\$ (576)	\$ 45	\$ 214	\$ 228	\$ 638	\$ (65)	\$276	\$ 208
Cross-currency interest rate swaps	(522)	(462)	46	102	473	364	(3)	4
Total fair value derivatives	(1,098)	(417)	260	330	1,111	299	273	212
<b>Cash Flow Hedges:</b>								
Interest rate swaps	—	—	(5)	(15)	—	—	(5)	(15)
Total cash flow derivatives	—	—	(5)	(15)	—	—	(5)	(15)
<b>Trading:</b>								
Interest rate swaps	(77)	(49)	37	67	—	—	(40)	18
Floor Income Contracts	486	186	(411)	(437)	—	—	75	(251)
Cross-currency interest rate swaps	(79)	(23)	31	3	—	—	(48)	(20)
Other	(13)	5	—	—	—	—	(13)	5
Total trading derivatives	317	119	(343)	(367)	—	—	(26)	(248)
Total	(781)	(298)	(88)	(52)	1,111	299	242	(51)
Less: realized gains (losses) recorded in interest expense	—	—	255	315	—	—	255	315
Gains (losses) on derivative and hedging activities, net	<u>\$ (781)</u>	<u>\$ (298)</u>	<u>\$ (343)</u>	<u>\$ (367)</u>	<u>\$1,111</u>	<u>\$299</u>	<u>\$ (13)</u>	<u>\$ (366)</u>

(1) Recorded in "Gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

(2) Represents ineffectiveness related to cash flow hedges.

(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in "Gains (losses) on derivative and hedging activities, net."

**Collateral**

Collateral held and pledged related to derivative exposures between us and our derivative counterparties are detailed in the following table:

(Dollars in millions)	June 30, 2013	December 31, 2012
<b>Collateral held:</b>		
Cash (obligation to return cash collateral is recorded in short-term borrowings) <sup>(1)</sup>	\$ 824	\$ 1,423
Securities at fair value — on-balance sheet securitization derivatives (not recorded in financial statements) <sup>(2)</sup>	483	613
Total collateral held	<u>\$1,307</u>	<u>\$ 2,036</u>
Derivative asset at fair value including accrued interest	<u>\$1,642</u>	<u>\$ 2,570</u>
<b>Collateral pledged to others:</b>		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 828	\$ 973
Total collateral pledged	<u>\$ 828</u>	<u>\$ 973</u>
Derivative liability at fair value including accrued interest and premium receivable	<u>\$1,154</u>	<u>\$ 1,204</u>

(1) At June 30, 2013 and December 31, 2012, \$0 and \$9 million, respectively, were held in restricted cash accounts.

(2) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of \$888 million with our counterparties. Further downgrades would not result in any additional

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**4. Derivative Financial Instruments (continued)**

collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of \$193 million and have posted \$183 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, we would be required to deliver additional assets of \$10 million to settle the contracts. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

**5. Other Assets**

The following table provides the detail of our other assets.

<u>(Dollars in millions)</u>	<u>June 30, 2013</u>		<u>December 31, 2012</u>	
	<u>Ending Balance</u>	<u>% of Balance</u>	<u>Ending Balance</u>	<u>% of Balance</u>
Accrued interest receivable, net	\$2,136	30%	\$2,147	26%
Derivatives at fair value	1,376	20	2,241	27
Income tax asset, net current and deferred	1,235	18	1,478	18
Accounts receivable	977	14	1,111	13
Benefit and insurance-related investments	474	7	474	6
Fixed assets, net	232	3	215	3
Other loans, net	117	2	137	2
Other	500	6	470	5
<b>Total</b>	<b>\$7,047</b>	<b>100%</b>	<b>\$8,273</b>	<b>100%</b>

The "Derivatives at fair value" line in the above table represents the fair value of our derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At June 30, 2013 and December 31, 2012, these balances included \$1.3 billion and \$2.4 billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of June 30, 2013 and December 31, 2012, the cumulative mark-to-market adjustment to the hedged debt was \$(1.7) billion and \$(2.8) billion, respectively.

**6. Stockholders' Equity**

The following table summarizes our common share repurchases and issuances.

	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Common shares repurchased <sup>(1)</sup>	9,096,144	23,836,964	19,316,948	40,540,146
Average purchase price per share <sup>(2)</sup>	\$ 22.12	\$ 14.34	\$ 20.72	\$ 15.04
Shares repurchased related to employee stock-based compensation plans <sup>(3)</sup>	3,040,788	349,655	5,365,363	2,406,632
Average purchase price per share	\$ 22.35	\$ 14.83	\$ 20.51	\$ 15.26
Common shares issued <sup>(4)</sup>	4,115,424	426,168	8,273,219	3,597,652

(1) Common shares purchased under our share repurchase program, of which \$0 million remained available as of June 30, 2013.

(2) Average purchase price per share includes purchase commission costs.

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

(4) Common shares issued under our various compensation and benefit plans.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**6. Stockholders' Equity (continued)**

The closing price of our common stock on June 28, 2013 was \$22.86.

***Dividend and Share Repurchase Program***

In the second quarter 2013, we paid a common stock dividend of \$0.15 per common share.

We repurchased 9 million shares of common stock for \$201 million in the second quarter of 2013, or an aggregate of 19 million shares for \$400 million in the first half of 2013, fully utilizing the Company's February 2013 share repurchase program authorization. In July 2013, the Company authorized \$400 million to be utilized in a new common share repurchase program that does not have an expiration date.

In 2012, we authorized the repurchase of up to \$900 million of outstanding common stock in open market transactions and we repurchased 58 million shares for an aggregate purchase price of \$900 million.

**7. Earnings per Common Share**

Basic earnings per common share ("EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

<u>(In millions, except per share data)</u>	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Numerator:</b>				
Net income attributable to SLM Corporation	\$ 543	\$ 292	\$ 889	\$ 403
Preferred stock dividends	5	5	10	10
Net income attributable to SLM Corporation common stock	<u>\$ 538</u>	<u>\$ 287</u>	<u>\$ 879</u>	<u>\$ 393</u>
<b>Denominator:</b>				
Weighted average shares used to compute basic EPS	440	482	445	493
Effect of dilutive securities:				
Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units and Employee Stock Purchase Plan ("ESPP") <sup>(1)</sup>	8	6	8	6
Dilutive potential common shares <sup>(2)</sup>	8	6	8	6
Weighted average shares used to compute diluted EPS	<u>448</u>	<u>488</u>	<u>453</u>	<u>499</u>
<b>Basic earnings (loss) per common share attributable to SLM Corporation:</b>				
Continuing operations	\$ 1.14	\$ .60	\$ 1.90	\$ .81
Discontinued operations	.08	(.01)	.07	(.01)
Total	<u>\$ 1.22</u>	<u>\$ .59</u>	<u>\$ 1.97</u>	<u>\$ .80</u>
<b>Diluted earnings (loss) per common share attributable to SLM Corporation:</b>				
Continuing operations	\$ 1.12	\$ .60	\$ 1.87	\$ .80
Discontinued operations	.08	(.01)	.07	(.01)
Total	<u>\$ 1.20</u>	<u>\$ .59</u>	<u>\$ 1.94</u>	<u>\$ .79</u>

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

(2) For the three months ended June 30, 2013 and 2012, securities covering approximately 4 million and 14 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the six months ended June 30, 2013 and 2012, securities covering approximately 5 million and 12 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements**

We use estimates of fair value in applying various accounting standards in our financial statements.

We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Please refer to “Note 13 — Fair Value Measurements” in our 2012 Form 10-K for a full discussion.

During the three and six months ended June 30, 2013, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments.

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	June 30, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Available-for-sale investments:								
Agency residential mortgage-backed securities	\$ —	\$ 64	\$ —	\$ 64	\$ —	\$ 63	\$ —	\$ 63
Guaranteed investment contracts	—	8	—	8	—	9	—	9
Other	—	8	—	8	—	9	—	9
<b>Total available-for-sale investments</b>	<b>—</b>	<b>80</b>	<b>—</b>	<b>80</b>	<b>—</b>	<b>81</b>	<b>—</b>	<b>81</b>
Derivative instruments: <sup>(1)</sup>								
Interest rate swaps	—	966	59	1,025	—	1,444	102	1,546
Cross-currency interest rate swaps	—	24	761	785	—	48	1,187	1,235
Other	—	—	2	2	—	—	4	4
<b>Total derivative assets<sup>(3)</sup></b>	<b>—</b>	<b>990</b>	<b>822</b>	<b>1,812</b>	<b>—</b>	<b>1,492</b>	<b>1,293</b>	<b>2,785</b>
<b>Total</b>	<b>\$ —</b>	<b>\$ 1,070</b>	<b>\$ 822</b>	<b>\$ 1,892</b>	<b>\$ —</b>	<b>\$ 1,573</b>	<b>\$ 1,293</b>	<b>\$ 2,866</b>
<b>Liabilities<sup>(2)</sup></b>								
Derivative instruments: <sup>(1)</sup>								
Interest rate swaps	\$ —	\$ (167)	\$(147)	\$ (314)	\$ —	\$ (34)	\$ (175)	\$ (209)
Floor Income Contracts	—	(1,675)	—	(1,675)	—	(2,154)	—	(2,154)
Cross-currency interest rate swaps	—	(13)	(275)	(288)	—	(2)	(134)	(136)
Other	—	—	(17)	(17)	—	—	—	—
<b>Total derivative liabilities<sup>(3)</sup></b>	<b>—</b>	<b>(1,855)</b>	<b>(439)</b>	<b>(2,294)</b>	<b>—</b>	<b>(2,190)</b>	<b>(309)</b>	<b>(2,499)</b>
<b>Total</b>	<b>\$ —</b>	<b>\$ (1,855)</b>	<b>\$ (439)</b>	<b>\$ (2,294)</b>	<b>\$ —</b>	<b>\$ (2,190)</b>	<b>\$ (309)</b>	<b>\$ (2,499)</b>

(1) Fair value of derivative instruments excludes accrued interest and the value of collateral.

(2) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

(3) See “Note 4 — Derivative Financial Instruments” for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.



**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (continued)**

The following tables summarize the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis.

(Dollars in millions)	Three Months Ended June 30,							
	2013				2012			
	Derivative instruments				Derivative instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (76)	\$ 470	\$ —	\$ 394	\$ (56)	\$ 1,145	\$ (4)	\$ 1,085
Total gains/(losses) (realized and unrealized):								
Included in earnings <sup>(1)</sup>	(10)	48	(8)	30	(18)	(494)	9	(503)
Included in other comprehensive income	—	—	—	—	—	—	—	—
Settlements	(2)	(32)	(7)	(41)	(9)	(31)	—	(40)
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
<b>Balance, end of period</b>	<u>\$ (88)</u>	<u>\$ 486</u>	<u>\$ (15)</u>	<u>\$ 383</u>	<u>\$ (83)</u>	<u>\$ 620</u>	<u>\$ 5</u>	<u>\$ 542</u>
Change in unrealized gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	<u>\$ (12)</u>	<u>\$ 61</u>	<u>\$ (10)</u>	<u>\$ 39</u>	<u>\$ (26)</u>	<u>\$ (525)</u>	<u>\$ 9</u>	<u>\$ (542)</u>

(Dollars in millions)	Six Months Ended June 30,							
	2013				2012			
	Derivative instruments				Derivative instruments			
	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments	Interest Rate Swaps	Cross Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (73)	\$ 1,053	\$ 4	\$ 984	\$ (40)	\$ 1,021	\$ 1	\$ 982
Total gains/(losses) (realized and unrealized):								
Included in earnings <sup>(1)</sup>	(4)	(499)	(13)	(516)	(23)	(323)	4	(342)
Included in other comprehensive income	—	—	—	—	—	—	—	—
Settlements	(11)	(68)	(6)	(85)	(20)	(78)	—	(98)
Transfers in and/or out of level 3	—	—	—	—	—	—	—	—
<b>Balance, end of period</b>	<u>\$ (88)</u>	<u>\$ 486</u>	<u>\$ (15)</u>	<u>\$ 383</u>	<u>\$ (83)</u>	<u>\$ 620</u>	<u>\$ 5</u>	<u>\$ 542</u>
Change in unrealized gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	<u>\$ (15)</u>	<u>\$ (430)</u>	<u>\$ (12)</u>	<u>\$ (457)</u>	<u>\$ (41)</u>	<u>\$ (402)</u>	<u>\$ 5</u>	<u>\$ (438)</u>

(1) "Included in earnings" is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Gains (losses) on derivative and hedging activities, net	\$ 9	\$ (533)	\$ (553)	\$ (417)
Interest expense	21	30	37	75
<b>Total</b>	<u>\$ 30</u>	<u>\$ (503)</u>	<u>\$ (516)</u>	<u>\$ (342)</u>

(2) Recorded in "gains (losses) on derivative and hedging activities, net" in the consolidated statements of income.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (continued)**

The following table presents the significant inputs that are unobservable or from inactive markets used in the recurring valuations of the level 3 financial instruments detailed above.

(Dollars in millions)	Fair Value at June 30, 2013	Valuation Technique	Input	Range (Weighted Average)
<b>Derivatives</b>				
Consumer Price Index/LIBOR basis swaps	\$ 52	Discounted cash flow	Bid/ask adjustment to discount rate	0.04% — 0.05% (0.05%)
Prime/LIBOR basis swaps	(140)	Discounted cash flow	Constant prepayment rate	4.3%
			Bid/ask adjustment to discount rate	0.08% — 0.08% (0.08%)
Cross-currency interest rate swaps	486	Discounted cash flow	Constant prepayment rate	2.6%
Other	(15)			
<b>Total</b>	<b>\$ 383</b>			

The significant inputs that are unobservable or from inactive markets related to our level 3 derivatives detailed in the table above would be expected to have the following impacts to the valuations:

- Consumer Price Index/LIBOR basis swaps — These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation.
- Prime/LIBOR basis swaps — These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation. In addition, the unobservable inputs include constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap which will increase the value for swaps in a gain position and decrease the value for swaps in a loss position, everything else equal. The opposite is true for an increase in the input.
- Cross-currency interest rate swaps — The unobservable inputs used in these valuations are constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (continued)**

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

(Dollars in millions)	June 30, 2013			December 31, 2012		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
<b>Earning assets</b>						
FFELP Loans	\$108,033	\$108,491	\$ (458)	\$125,042	\$125,612	\$ (570)
Private Education Loans	36,531	37,116	(585)	36,081	36,934	(853)
Cash and investments <sup>(1)</sup>	8,373	8,373	—	9,994	9,994	—
Total earning assets	<u>152,937</u>	<u>153,980</u>	<u>(1,043)</u>	<u>171,117</u>	<u>172,540</u>	<u>(1,423)</u>
<b>Interest-bearing liabilities</b>						
Short-term borrowings	16,563	16,558	(5)	19,861	19,856	(5)
Long-term borrowings	131,483	135,879	4,396	146,210	152,401	6,191
Total interest-bearing liabilities	<u>148,046</u>	<u>152,437</u>	<u>4,391</u>	<u>166,071</u>	<u>172,257</u>	<u>6,186</u>
<b>Derivative financial instruments</b>						
Floor Income Contracts	(1,675)	(1,675)	—	(2,154)	(2,154)	—
Interest rate swaps	711	711	—	1,337	1,337	—
Cross-currency interest rate swaps	497	497	—	1,099	1,099	—
Other	(15)	(15)	—	4	4	—
<b>Excess of net asset fair value over carrying value</b>			<u>\$ 3,348</u>			<u>\$ 4,763</u>

<sup>(1)</sup> "Cash and investments" includes available-for-sale investments that consist of investments that are primarily agency securities whose cost basis is \$81 million and \$78 million at June 30, 2013 and December 31, 2012, respectively, versus a fair value of \$80 million and \$81 million at June 30, 2013 and December 31, 2012, respectively.

The following includes a discussion of financial instruments whose fair value is included for disclosure purposes only in the table above along with their level in the fair value hierarchy.

**Student Loans**

*FFELP Loans*

Fair values for FFELP Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, cost of funds, capital levels, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

*Private Education Loans*

Fair values for Private Education Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (continued)**

prepayment speeds, default rates, recovery rates, cost of funds and capital levels. A number of significant inputs into the models are internally derived and not observable to market participants nor can the resulting fair values be validated against market transactions. As such, these are level 3 valuations.

***Cash and Investments (Including “Restricted Cash and Investments”)***

Cash and cash equivalents are carried at cost. Carrying value approximated fair value. These are level 2 valuations.

***Borrowings***

The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These fair value adjustments are based on inputs from inactive markets. As such, these are level 3 valuations.

**9. Commitments and Contingencies**

At the time of this filing, Sallie Mae Bank (the “Bank”) remains subject to a cease and desist order originally issued in August 2008 by the Federal Deposit Insurance Corporation (“FDIC”) and the Utah Department of Financial Institutions (“UDFI”). In July 2013, the FDIC notified the Bank that it plans to replace the existing cease and desist order with a new formal enforcement action that will more specifically address certain cited violations of Section 5 of the Federal Trade Commission Act, including with respect to the Servicemembers Civil Relief Act, and the Equal Credit Opportunity Act and its implementing regulation, Regulation B, which could include civil money penalties and restitution obligations. The Bank has not been notified by the UDFI that it intends to join the FDIC in issuing the new enforcement action. We have made and continue to make changes to the Bank’s oversight of significant activities performed outside the Bank by Company affiliates, including in connection with our pursuit of a strategic plan to separate our existing organization into two publicly traded companies. We could be required to, or otherwise determine to, make further changes to the business practices and products of the Bank and our other affiliates to respond to regulatory concerns. At this time, we do not believe it is possible to estimate a range of potential exposure, if any, to amounts that may be payable or costs that must be incurred to comply with the terms of any order.

In the ordinary course of business, we and our subsidiaries are defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities, employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against us and our subsidiaries.

In the ordinary course of business, we and our subsidiaries are subject to regulatory examinations, information gathering requests, inquiries and investigations. In connection with formal and informal inquiries in these cases, we and our subsidiaries receive numerous requests, subpoenas and orders for documents, testimony and information in connection with various aspects of our regulated activities.

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, we cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.

Based on current knowledge, reserves have been established for certain litigation or regulatory matters where the loss is both probable and estimable. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows.

## 10. Segment Reporting

### *Consumer Lending Segment*

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, primarily consisting of late fees.

The following table includes asset information for our Consumer Lending segment.

<u>(Dollars in millions)</u>	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Private Education Loans, net	\$37,116	\$ 36,934
Cash and investments <sup>(1)</sup>	3,032	2,731
Other	3,250	3,275
Total assets	<u>\$43,398</u>	<u>\$ 42,940</u>

<sup>(1)</sup> Includes restricted cash and investments.

### *Business Services Segment*

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED, as well as 529 college-savings plan program management services. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

At June 30, 2013 and December 31, 2012, the Business Services segment had total assets of \$1.1 billion and \$867 million, respectively.

### *FFELP Loans Segment*

Our FFELP Loans segment consists of our \$108.5 billion FFELP Loan portfolio at June 30, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

The following table includes asset information for our FFELP Loans segment.

<u>(Dollars in millions)</u>	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
FFELP Loans, net	\$108,491	\$ 125,612
Cash and investments <sup>(1)</sup>	4,680	5,766
Other	3,021	4,286
Total assets	<u>\$116,192</u>	<u>\$ 135,664</u>

(1) Includes restricted cash and investments.

**Other Segment**

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment

At June 30, 2013 and December 31, 2012, the Other segment had total assets of \$826 million and \$1.8 billion, respectively.

**Measure of Profitability**

The tables below include the condensed operating results for each of our reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that we refer to as “Core Earnings” performance measures for each operating segment. We use “Core Earnings” to manage each business segment because “Core Earnings” reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that “Core Earnings” provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items adjusted for in our “Core Earnings” presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The tables presented below reflect “Core Earnings” operating measures reviewed and utilized by management to manage the business. Reconciliation of the “Core Earnings” segment totals to our consolidated operating results in accordance with GAAP is also included in the tables below.

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

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

**Segment Results and Reconciliations to GAAP**

(Dollars in millions)	Quarter Ended June 30, 2013									
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total "Core Earnings"	Adjustments			Total GAAP
							Reclassifications	Additions/ (Subtractions)	Total Adjustments <sup>(2)</sup>	
<b>Interest income:</b>										
Student loans	\$ 627	\$ —	\$ 581	\$ —	\$ —	\$ 1,208	\$ 198	\$ (76)	\$ 122	\$ 1,330
Other loans	—	—	—	3	—	3	—	—	—	3
Cash and investments	1	1	2	1	(1)	4	—	—	—	4
<b>Total interest income</b>	<b>628</b>	<b>1</b>	<b>583</b>	<b>4</b>	<b>(1)</b>	<b>1,215</b>	<b>198</b>	<b>(76)</b>	<b>122</b>	<b>1,337</b>
Total interest expense	206	—	325	10	(1)	540	13	—	13	553
Net interest income (loss)	422	1	258	(6)	—	675	185	(76)	109	784
Less: provisions for loan losses	187	—	14	—	—	201	—	—	—	201
Net interest income (loss) after provisions for loan losses	235	1	244	(6)	—	474	185	(76)	109	583
<b>Other income (loss):</b>										
Gains on sales of loans and investments	—	—	257	(6)	—	251	—	—	—	251
Servicing revenue	10	200	16	—	(137)	89	—	—	—	89
Contingency revenue	—	109	—	—	—	109	—	—	—	109
Gains on debt repurchases	—	—	—	19	—	19	—	—	—	19
Other income	—	8	—	—	—	8	(185)	219 <sup>(4)</sup>	34	42
Total other income (loss)	10	317	273	13	(137)	476	(185)	219	34	510
<b>Expenses:</b>										
Direct operating expenses	76	113	144	3	(137)	199	—	—	—	199
Overhead expenses	—	—	—	59	—	59	—	—	—	59
Operating expenses	76	113	144	62	(137)	258	—	—	—	258
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	4	4	4
Restructuring and other reorganization expenses	2	1	—	21	—	24	—	—	—	24
Total expenses	78	114	144	83	(137)	282	—	4	4	286
Income (loss) from continuing operations, before income tax expense (benefit)	167	204	373	(76)	—	668	—	139	139	807
Income tax expense (benefit) <sup>(3)</sup>	60	74	136	(28)	—	242	—	58	58	300
Net income (loss) from continuing operations	107	130	237	(48)	—	426	—	81	81	507
Income from discontinued operations, net of tax expense	—	35	—	—	—	35	—	—	—	35
Net income (loss)	107	165	237	(48)	—	461	—	81	81	542
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	\$ 107	\$ 166	\$ 237	\$ (48)	\$ —	\$ 462	\$ —	\$ 81	\$ 81	\$ 543

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended June 30, 2013		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 109	\$ —	\$ 109
Total other income	34	—	34
Goodwill and acquired intangible asset impairment and amortization	—	4	4
"Core Earnings" adjustments to GAAP	\$ 143	\$ (4)	139
Income tax expense	—	—	58
Net income	—	—	\$ 81

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

(4) Represents the \$203 million of "unrealized gains on derivative and hedging activities, net" as well as the \$16 million of "other derivative accounting adjustments."

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

(Dollars in millions)	Quarter Ended June 30, 2012						Adjustments		Total Adjustments <sup>(2)</sup>	Total GAAP
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total "Core Earnings"	Reclassifications	Additions/ (Subtractions)		
Interest income:										
Student loans	\$ 616	\$ —	\$ 652	\$ —	\$ —	\$ 1,268	\$ 223	\$ (98)	\$ 125	\$1,393
Other loans	—	—	—	4	—	4	—	—	—	4
Cash and investments	2	2	3	—	(1)	6	—	—	—	6
Total interest income	618	2	655	4	(1)	1,278	223	(98)	125	1,403
Total interest expense	205	—	409	9	(1)	622	34	—	34	656
Net interest income (loss)	413	2	246	(5)	—	656	189	(98)	91	747
Less: provisions for loan losses	225	—	18	—	—	243	—	—	—	243
Net interest income (loss) after provisions for loan losses	188	2	228	(5)	—	413	189	(98)	91	504
Other income (loss):										
Gains on sales of loans and investments	—	—	—	—	—	—	—	—	—	—
Servicing revenue	11	227	22	—	(172)	88	—	—	—	88
Contingency revenue	—	87	—	—	—	87	—	—	—	87
Gains on debt repurchases	—	—	—	20	—	20	—	—	—	20
Other income (loss)	—	7	—	6	—	13	(189)	180 <sup>(4)</sup>	(9)	4
Total other income (loss)	11	321	22	26	(172)	208	(189)	180	(9)	199
Expenses:										
Direct operating expenses	63	101	181	4	(172)	177	—	—	—	177
Overhead expenses	—	—	—	54	—	54	—	—	—	54
Operating expenses	63	101	181	58	(172)	231	—	—	—	231
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	5	5	5
Restructuring and other reorganization expenses	1	2	—	—	—	3	—	—	—	3
Total expenses	64	103	181	58	(172)	234	—	5	5	239
Income (loss) from continuing operations, before income tax expense (benefit)	135	220	69	(37)	—	387	—	77	77	464
Income tax expense (benefit) <sup>(3)</sup>	49	81	25	(14)	—	141	—	28	28	169
Net income (loss) from continuing operations	86	139	44	(23)	—	246	—	49	49	295
Loss from discontinued operations, net of tax benefit	(1)	(3)	—	—	—	(4)	—	—	—	(4)
Net income (loss)	85	136	44	(23)	—	242	—	49	49	291
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	<u>\$ 85</u>	<u>\$ 137</u>	<u>\$ 44</u>	<u>\$ (23)</u>	<u>\$ —</u>	<u>\$ 243</u>	<u>\$ —</u>	<u>\$ 49</u>	<u>\$ 49</u>	<u>\$ 292</u>

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended June 30, 2012		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 91	\$ —	\$ 91
Total other loss	(9)	—	(9)
Goodwill and acquired intangible asset impairment and amortization	—	5	5
"Core Earnings" adjustments to GAAP	<u>\$ 82</u>	<u>\$ (5)</u>	77
Income tax expense	—	—	<u>28</u>
Net income	—	—	<u>\$ 49</u>

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

(4) Represents the \$194 million of "unrealized gains on derivative and hedging activities, net" as well as the (\$14) million of "other derivative accounting adjustments."



**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

(Dollars in millions)	Six Months Ended June 30, 2013						Adjustments		Total Adjustments <sup>(2)</sup>	Total GAAP
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total "Core Earnings"	Reclassifications	Additions/ (Subtractions)		
<b>Interest income:</b>										
Student loans	\$ 1,249	\$ —	\$ 1,181	\$ —	\$ —	\$ 2,430	\$ 410	\$ (152)	\$ 258	\$2,688
Other loans	—	—	—	6	—	6	—	—	—	6
Cash and investments	4	3	3	—	(2)	8	—	—	—	8
<b>Total interest income</b>	<b>1,253</b>	<b>3</b>	<b>1,184</b>	<b>6</b>	<b>(2)</b>	<b>2,444</b>	<b>410</b>	<b>(152)</b>	<b>258</b>	<b>2,702</b>
Total interest expense	410	—	665	20	(2)	1,093	31	(1) <sup>(4)</sup>	30	1,123
Net interest income (loss)	843	3	519	(14)	—	1,351	379	(151)	228	1,579
Less: provisions for loan losses	412	—	30	—	—	442	—	—	—	442
Net interest income (loss) after provisions for loan losses	431	3	489	(14)	—	909	379	(151)	228	1,137
<b>Other income (loss):</b>										
Gains on sales of loans and investments	—	—	312	(5)	—	307	—	—	—	307
Servicing revenue	21	405	39	—	(287)	178	—	—	—	178
Contingency revenue	—	208	—	—	—	208	—	—	—	208
Gains on debt repurchases	—	—	—	48	—	48	(6)	—	(6)	42
Other income	—	14	—	1	—	15	(373)	403 <sup>(5)</sup>	30	45
<b>Total other income (loss)</b>	<b>21</b>	<b>627</b>	<b>351</b>	<b>44</b>	<b>(287)</b>	<b>756</b>	<b>(379)</b>	<b>403</b>	<b>24</b>	<b>780</b>
<b>Expenses:</b>										
Direct operating expenses	143	222	301	7	(287)	386	—	—	—	386
Overhead expenses	—	—	—	122	—	122	—	—	—	122
Operating expenses	143	222	301	129	(287)	508	—	—	—	508
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	7	7	7
Restructuring and other reorganization expenses	2	2	—	31	—	35	—	—	—	35
<b>Total expenses</b>	<b>145</b>	<b>224</b>	<b>301</b>	<b>160</b>	<b>(287)</b>	<b>543</b>	<b>—</b>	<b>7</b>	<b>7</b>	<b>550</b>
Income (loss) from continuing operations, before income tax expense (benefit)	307	406	539	(130)	—	1,122	—	245	245	1,367
Income tax expense (benefit) <sup>(3)</sup>	113	149	198	(48)	—	412	—	100	100	512
Net income (loss) from continuing operations	194	257	341	(82)	—	710	—	145	145	855
Income (loss) from discontinued operations, net of tax expense (benefit)	(1)	34	—	—	—	33	—	—	—	33
Net income (loss)	193	291	341	(82)	—	743	—	145	145	888
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	<u>\$ 193</u>	<u>\$ 292</u>	<u>\$ 341</u>	<u>\$ (82)</u>	<u>\$ —</u>	<u>\$ 744</u>	<u>\$ —</u>	<u>\$ 145</u>	<u>\$ 145</u>	<u>\$ 889</u>

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Six Months Ended June 30, 2013		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 228	\$ —	\$ 228
Total other income	24	—	24
Goodwill and acquired intangible asset impairment and amortization	—	7	7
"Core Earnings" adjustments to GAAP	<u>\$ 252</u>	<u>\$ (7)</u>	<u>245</u>
Income tax expense	—	—	100
Net income	—	—	<u>\$ 145</u>

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

(4) Represents a portion of the \$44 million of "other derivative accounting adjustments."

(5) Represents the \$360 million of "unrealized gains on derivative and hedging activities, net" as well as the remaining portion of the \$44 million of "other derivative accounting adjustments."

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

Six Months Ended June 30, 2012

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total "Core Earnings"	Adjustments			Total GAAP
							Reclassifications	Additions/ (Subtractions)	Total Adjustments <sup>(2)</sup>	
<b>Interest income:</b>										
Student loans	\$ 1,241	\$ —	\$ 1,378	\$ —	\$ —	\$ 2,619	\$ 437	\$ (196)	\$ 241	\$2,860
Other loans	—	—	—	9	—	9	—	—	—	9
Cash and investments	3	4	5	—	(4)	8	—	—	—	8
<b>Total interest income</b>	<b>1,244</b>	<b>4</b>	<b>1,383</b>	<b>9</b>	<b>(4)</b>	<b>2,636</b>	<b>437</b>	<b>(196)</b>	<b>241</b>	<b>2,877</b>
Total interest expense	406	—	832	16	(4)	1,250	70	2 <sup>(4)</sup>	72	1,322
Net interest income (loss)	838	4	551	(7)	—	1,386	367	(198)	169	1,555
Less: provisions for loan losses	460	—	36	—	—	496	—	—	—	496
Net interest income (loss) after provisions for loan losses	378	4	515	(7)	—	890	367	(198)	169	1,059
<b>Other income (loss):</b>										
Gains on sales of loans and investments	—	—	—	—	—	—	—	—	—	—
Servicing revenue	23	456	47	—	(348)	178	—	—	—	178
Contingency revenue	—	176	—	—	—	176	—	—	—	176
Gains on debt repurchases	—	—	—	58	—	58	—	—	—	58
Other income	—	16	—	8	—	24	(367)	15 <sup>(5)</sup>	(352)	(328)
<b>Total other income (loss)</b>	<b>23</b>	<b>648</b>	<b>47</b>	<b>66</b>	<b>(348)</b>	<b>436</b>	<b>(367)</b>	<b>15</b>	<b>(352)</b>	<b>84</b>
<b>Expenses:</b>										
Direct operating expenses	131	211	366	6	(348)	366	—	—	—	366
Overhead expenses	—	—	—	116	—	116	—	—	—	116
Operating expenses	131	211	366	122	(348)	482	—	—	—	482
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	9	9	9
Restructuring and other reorganization expenses	2	2	—	3	—	7	—	—	—	7
<b>Total expenses</b>	<b>133</b>	<b>213</b>	<b>366</b>	<b>125</b>	<b>(348)</b>	<b>489</b>	<b>—</b>	<b>9</b>	<b>9</b>	<b>498</b>
Income (loss) from continuing operations, before income tax expense (benefit)	268	439	196	(66)	—	837	—	(192)	(192)	645
Income tax expense (benefit) <sup>(3)</sup>	98	160	72	(25)	—	305	—	(68)	(68)	237
Net income (loss) from continuing operations	170	279	124	(41)	—	532	—	(124)	(124)	408
Loss from discontinued operations, net of tax benefit	(1)	(5)	—	—	—	(6)	—	—	—	(6)
Net income (loss)	169	274	124	(41)	—	526	—	(124)	(124)	402
Less: loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
<b>Net income (loss)</b>	<b>\$ 169</b>	<b>\$ 275</b>	<b>\$ 124</b>	<b>\$ (41)</b>	<b>\$ —</b>	<b>\$ 527</b>	<b>\$ —</b>	<b>\$ (124)</b>	<b>\$ (124)</b>	<b>\$ 403</b>

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Six Months Ended June 30, 2012		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 169	\$ —	\$ 169
Total other loss	(352)	—	(352)
Goodwill and acquired intangible asset impairment and amortization	—	9	9
"Core Earnings" adjustments to GAAP	\$ (183)	\$ (9)	(192)
Income tax benefit	—	—	(68)
Net loss	—	—	<u>\$ (124)</u>

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

(4) Represents a portion of the \$12 million of "other derivative accounting adjustments."

(5) Represents the \$1 million of "unrealized gains on derivative and hedging activities, net" as well as the remaining portion of the \$12 million of "other derivative accounting adjustments."

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

*Summary of “Core Earnings” Adjustments to GAAP*

The two adjustments required to reconcile from our “Core Earnings” results to our GAAP results of operations relate to differing treatments for: (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The following table reflects aggregate adjustments associated with these areas.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>“Core Earnings” adjustments to GAAP:</b>				
Net impact of derivative accounting <sup>(1)</sup>	\$ 143	\$ 82	\$ 252	\$ (183)
Net impact of goodwill and acquired intangibles assets <sup>(2)</sup>	(4)	(5)	(7)	(9)
Net tax effect <sup>(3)</sup>	(58)	(28)	(100)	68
<b>Total “Core Earnings” adjustments to GAAP</b>	<b>\$ 81</b>	<b>\$ 49</b>	<b>\$ 145</b>	<b>\$ (124)</b>

- (1) **Derivative accounting:** “Core Earnings” exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item’s life.
- (2) **Goodwill and acquired intangible assets:** Our “Core Earnings” exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.
- (3) **Net tax effect:** Such tax effect is based upon our “Core Earnings” effective tax rate for the year.

**11. Discontinued Operations**

In the second quarter of 2013, we sold our Campus Solutions business and recorded an after-tax gain of \$38 million. This business provided processing capabilities to educational institutions. The Campus Solutions business comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the Company and we will have no continuing involvement. As a result, our Campus Solutions business is presented in discontinued operations for the current and prior periods.

The following table summarizes the discontinued operations.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Operations:</b>				
Income (loss) from discontinued operations before income taxes	\$ 29	\$ (5)	\$ 26	\$ (9)
Income tax expense (benefit)	(6)	(1)	(7)	(3)
Income (loss) from discontinued operations, net of taxes	<b>\$ 35</b>	<b>\$ (4)</b>	<b>\$ 33</b>	<b>\$ (6)</b>

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes thereto and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the 2012 Form 10-K.

This report contains “forward-looking” statements and information based on management’s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs, opinions, or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the risks and uncertainties set forth in Item 1A “Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q, our 2012 Form 10-K and subsequent filings with the Securities and Exchange Commission (“SEC”); increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which we are a party; credit risk associated with our exposure to third parties, including counterparties to our derivative transactions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). We could also be affected by, among other things: changes in our funding costs and availability; reductions to our credit ratings or the credit ratings of the United States of America; failures of our operating systems or infrastructure, including those of third-party vendors; damage to our reputation; failures to successfully implement cost-cutting initiatives and adverse effects of such initiatives on our business; risks associated with restructuring initiatives, including our recently announced strategic plan to separate our existing operations into two separate publically traded companies; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; increased competition from banks and other consumer lenders; the creditworthiness of our customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of our earning assets versus our funding arrangements; changes in general economic conditions; our ability to successfully effectuate any acquisitions and other strategic initiatives; and changes in the demand for debt management services. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. We do not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in our expectations.

Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

[Table of Contents](#)**Selected Financial Information and Ratios**

(In millions, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>GAAP Basis</b>				
Net income attributable to SLM Corporation	\$ 543	\$ 292	\$ 889	\$ 403
Diluted earnings per common share attributable to SLM Corporation	\$ 1.20	\$ .59	\$ 1.94	\$ .79
Weighted average shares used to compute diluted earnings per share	448	488	453	499
Return on assets	1.35%	.64%	1.08%	.44%
<b>“Core Earnings” Basis<sup>(1)</sup></b>				
“Core Earnings” attributable to SLM Corporation	\$ 462	\$ 243	\$ 744	\$ 527
“Core Earnings” diluted earnings per common share attributable to SLM Corporation	\$ 1.02	\$ .49	\$ 1.62	\$ 1.03
Weighted average shares used to compute diluted earnings per share	448	488	453	499
“Core Earnings” return on assets	1.15%	.53%	0.90%	.58%
<b>Other Operating Statistics</b>				
Ending FFELP Loans, net	\$108,491	\$132,833	\$108,491	\$132,833
Ending Private Education Loans, net	37,116	36,454	37,116	36,454
Ending total student loans, net	<u>\$145,607</u>	<u>\$169,287</u>	<u>\$145,607</u>	<u>\$169,287</u>
Average student loans	\$152,135	\$172,436	\$156,175	\$173,689

(1) “Core Earnings” are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of “Core Earnings,” see the section titled “Core Earnings’ — Definition and Limitations” and subsequent sections.

**Overview**

Our primary business is to originate, service and collect loans we make to students and their families to finance the cost of education. The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. We also provide servicing, loan default aversion and defaulted loan collection services for loans owned by other institutions, including ED, as well as 529 college-savings plan program management services and a consumer savings network.

In addition we are the largest holder, servicer and collector of loans made under FFELP, a program that was discontinued in 2010.

We monitor and assess our ongoing operations and results based on the following four reportable segments:

(1) Consumer Lending, (2) Business Services, (3) FFELP Loans and (4) Other.

**Consumer Lending Segment**

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers’ resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, primarily consisting of late fees.

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***Business Services Segment***

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED, as well as 529 college-savings plan program management services. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

***FFELP Loans Segment***

Our FFELP Loans segment consists of our \$108.5 billion FFELP Loan portfolio at June 30, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

***Other***

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment.

**Recent Developments**

*Strategic Plan to Create Separate Education Loan Management and Consumer Banking Companies*

On May 29, 2013, our Board of Directors authorized a plan to pursue the separation of the Company's existing businesses into two, separate, publicly traded entities—an education loan management business and a consumer banking business.

The separation transaction will be effected as a pro-rata dividend of shares of the education loan management business to our shareholders. Upon consummation of the separation, the education loan management business will become a separate public company and will trade under a new stock ticker symbol. The consumer banking business will retain the stock ticker symbol "SLM" and will operate under the Sallie Mae brand.

The completion of the separation will be subject to certain customary conditions, including final approval by the Company's Board of Directors, confirmation of the tax-free nature of the separation transaction and the effectiveness of a registration statement that will be filed with the SEC. The contemplated separation and distribution will not require a shareholder vote. Subject to the satisfaction of all necessary conditions, including the conditions described above, the separation is currently anticipated to occur in the first half of 2014; however, there can be no assurance that the separation and distribution will ultimately occur.

At the time of this filing, the Bank remains subject to a cease and desist order originally issued in August 2008 by the FDIC and the UDFI. In July 2013, the FDIC notified the Bank that it plans to replace the existing cease and desist order with a new formal enforcement action that will more specifically address certain cited violations of Section 5 of the Federal Trade Commission Act, including with respect to the Servicemembers Civil Relief Act, and the Equal Credit Opportunity Act and its implementing regulation, Regulation B, which could include civil money penalties and restitution obligations. The Bank has not been notified by the UDFI that it intends to join the FDIC in issuing the new enforcement action. We have made and continue to make changes to the Bank's oversight of significant activities performed outside the Bank by Company affiliates, including in connection with our pursuit of a strategic plan to separate our existing organization into two publicly traded companies. We could be required to, or otherwise determine to, make further changes to the business practices and products of the Bank and our other affiliates to respond to regulatory concerns.

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### *CFPB Oversight of Nonbank Student Loan Servicers*

Many aspects of our businesses are subject to federal and state regulation and administrative oversight, including by the Consumer Financial Protection Bureau (the “CFPB”). We expect the CFPB and other regulatory agencies will continue proposing new or additional regulatory requirements or oversight over our various businesses (most notably, private student lending and servicing, default aversion and debt collection), or, generally to large nonbank financial services companies. Additional information on supervision and regulation of our businesses can be found in Item 1, “Business — Supervision and Regulation” in our 2012 Form 10-K.

On March 14, 2013, the CFPB proposed a new rule allowing the CFPB to federally supervise certain nonbank student loan servicers for the first time. As proposed, the CFPB will have supervisory authority over any nonbank student loan servicer that services more than one million borrower accounts, including accounts for both Private Education Loans and federal student loans. We would be subject to this new oversight. Under the proposal, the CFPB’s supervision would include gathering reports, conducting examinations for compliance with federal consumer financial laws and taking enforcement actions as appropriate, similar to the CFPB’s current supervisory authority over large bank student loan servicers. The CFPB expects to issue a final rule by the end of this year.

### **Key Financial Measures**

Our operating results are primarily driven by net interest income from our student loan portfolios (which include financing costs), provision for loan losses, the revenues and expenses generated by our service businesses, and gains and losses on loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions for loan losses; charge-offs and delinquencies; servicing and contingency revenues; other income (loss); operating expenses; and “Core Earnings”) can be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2012 Form 10-K.

### **Second-Quarter 2013 Summary of Results**

We report financial results on a GAAP basis and also present certain “Core Earnings” performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these “Core Earnings” measures to monitor our business performance. See “Core Earnings’ — Definition and Limitations” for a further discussion and a complete reconciliation between GAAP net income and “Core Earnings.”

Second-quarter 2013 GAAP net income was \$543 million (\$1.20 diluted earnings per share), versus net income of \$292 million (\$0.59 diluted earnings per share) in the second-quarter 2012. The changes in GAAP net income are driven by the same types of “Core Earnings” items discussed below as well as changes in “mark-to-market” unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in “Core Earnings” results. Second-quarter 2013 results included \$143 million of gains from derivative accounting treatment that is excluded from “Core Earnings” results. In the year-ago period, these amounts were gains of \$82 million.

“Core Earnings” for the quarter were \$462 million (\$1.02 diluted earnings per share), compared with \$243 million (\$0.49 diluted earnings per share) in the year-ago period. The second-quarter 2013 “Core Earnings” diluted earnings per share increase includes a \$257 million gain from the sale of residual interests in FFELP Loan

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securitization trusts, a \$38 million after-tax gain from the sale of our Campus Solutions business, a \$42 million decline in the provision for loan losses, and an increase in net interest income before provision for loan losses of \$19 million which more than offset higher operating expenses of \$27 million and higher restructuring and other reorganization expenses of \$21 million.

During the first six months of 2013, we:

- issued \$3.7 billion of FFELP asset-backed securities (“ABS”), \$2.5 billion of Private Education Loan ABS and \$1.5 billion of unsecured bonds;
- closed on a new \$6.8 billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans;
- repurchased \$997 million of debt and realized “Core Earnings” gains of \$48 million, compared with \$290 million of debt repurchased and \$58 million of gains in the first six months of 2012;
- repurchased 19 million common shares for \$400 million on the open market, fully utilizing our February 2013 share repurchase program authorization; and
- sold Residual Interests in FFELP Loan securitization trusts to third parties. We will continue to service the student loans in the trusts under existing agreements. The sales removed securitization trust assets of \$12.5 billion and related liabilities of \$12.1 billion from our balance sheet.

### **2013 Management Objectives**

In 2013 we have set out five major goals to create shareholder value. They are: (1) prudently grow Consumer Lending segment assets and revenues; (2) maximize cash flows from FFELP Loans; (3) reduce operating expenses while improving efficiency and customer experience; (4) maintain our financial strength; and (5) expand the capabilities of the Bank. Here is how we plan to achieve these objectives and the progress we have made to date:

#### ***Prudently Grow Consumer Lending Segment Assets and Revenues***

We will continue to pursue managed growth in our Private Education Loan portfolio in 2013 by leveraging our Sallie Mae and Upromise brand while sustaining the credit quality of, and percentage of cosigners for, new originations. We are currently targeting at least \$4 billion in new loan originations for 2013, compared with \$3.3 billion in 2012. We will also continue to help our customers manage their borrowings and succeed in its payoff, which we expect will result in lower charge-offs and provision for loan losses. Originations were 15 percent higher in the second quarter of 2013 compared with the year-ago quarter. Charge-offs were 2.7 percent in the current quarter, down from 3.1 percent in the year-ago quarter. Provision for Private Education Loan losses decreased \$38 million from the year-ago quarter. Our delinquency and charge-off rates in the second-quarter of 2013 were the lowest since 2008.

#### ***Maximize Cash Flows from FFELP Loans***

In 2013, we will continue to purchase additional FFELP Loan portfolios. Through June 30, 2013, we sold our ownership interest in five of our FFELP Loan securitization trusts (\$12.5 billion of securitization trust assets and \$12.1 billion of related liabilities). We will continue to explore alternative transactions and structures that can increase our ability to maximize the value of our ownership interests in these trusts and allow us to diversify our holdings while maintaining servicing fee income. We must also continue to reduce operating and overhead costs attributable to the maintenance and management of this segment. During the first half of 2013, we purchased \$285 million of FFELP Loans.



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***Reduce Operating Expenses While Improving Efficiency and Customer Experience***

For 2013, we will reduce unit costs, and balance our Private Education Loan growth and the challenge of increased regulatory oversight. We also plan to improve efficiency and customer experience by replacing certain of our legacy systems and making enhancements to our self-service platform and call centers (including improved call segmentation that routes an in-bound customer call directly to the appropriate agent who can answer the customer's inquiry). Second-quarter 2013 operating expenses were \$258 million compared with \$231 million in the year-ago quarter. The increase is primarily the result of increases in our third-party servicing and collections activities, increased Private Education Loan marketing activities, as well as continued investments in technology.

***Maintain Our Financial Strength***

In February 2013, we announced an increase in our quarterly common stock dividend to \$0.15 per share and a new \$400 million common share repurchase program. It is management's objective for 2013 to provide these shareholder distributions while ending 2013 with capital and reserve positions as strong as those with which we ended 2012. We repurchased 9 million shares of common stock for \$201 million in the second quarter of 2013, or an aggregate of 19 million shares for \$400 million in the first half of 2013, fully utilizing our February 2013 share repurchase program authorization. On July 16, 2013, we authorized \$400 million to be utilized in a new common share repurchase program that does not have an expiration date. Additionally, on June 10, 2013, we closed on a new \$6.8 billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the ED Conduit Program. As a result, we ended our participation in the ED Conduit Program prior to the January 19, 2014 maturity date. On July 17, 2013, we closed on a \$1.1 billion ABCP borrowing facility that matures on August 15, 2015. The facility will be used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, anticipated to occur on August 15, 2013.

***Expand Bank Capabilities***

The Bank continues to fund our Private Education Loan originations in 2013. We are continuing to evolve the operational and enterprise risk oversight program at the Bank in preparation for expected growth and designation as a "large bank," which will entail enhanced regulatory scrutiny. In addition, we plan to voluntarily make similar changes at SLM Corporation. See the 2012 10-K, Item 1 "Business — Supervision and Regulation — Regulatory Outlook — Evolving Regulation of the Bank" for additional information about the Bank's regulatory environment once it becomes a "large bank."

**Results of Operations**

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four business segments: FFELP Loans, Consumer Lending, Business Services and Other. Since these segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures, these segments are presented on a "Core Earnings" basis (see "Core Earnings" — Definition and Limitations").

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**GAAP Statements of Income (Unaudited)**

(In millions, except per share data)	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)	
	2013	2012	\$	%	2013	2012	\$	%
<b>Interest income:</b>								
FFELP Loans	\$ 703	\$ 777	\$ (74)	(10)%	\$ 1,439	\$ 1,619	\$(180)	(11)%
Private Education Loans	627	616	11	2	1,249	1,241	8	1
Other loans	3	4	(1)	(25)	6	9	(3)	(33)
Cash and investments	4	6	(2)	(33)	8	8	—	—
Total interest income	1,337	1,403	(66)	(5)	2,702	2,877	(175)	(6)
Total interest expense	553	656	(103)	(16)	1,123	1,322	(199)	(15)
Net interest income	784	747	37	5	1,579	1,555	24	2
Less: provisions for loan losses	201	243	(42)	(17)	442	496	(54)	(11)
Net interest income after provisions for loan losses	583	504	79	16	1,137	1,059	78	7
<b>Other income (loss):</b>								
Gains on sales of loans and investments	251	—	251	100	307	—	307	100
Gains (losses) on derivative and hedging activities, net	18	6	12	200	(13)	(366)	353	(96)
Servicing revenue	89	88	1	1	178	178	—	—
Contingency revenue	109	87	22	25	208	176	32	18
Gains on debt repurchases	19	20	(1)	(5)	42	58	(16)	(28)
Other income (loss)	24	(2)	26	1,300	58	38	20	53
Total other income	510	199	311	156	780	84	696	829
<b>Expenses:</b>								
Operating expenses	258	231	27	12	508	482	26	5
Goodwill and acquired intangible asset impairment and amortization expense	4	5	(1)	(20)	7	9	(2)	(22)
Restructuring and other reorganization expenses	24	3	21	700	35	7	28	400
Total expenses	286	239	47	20	550	498	52	10
Income from continuing operations, before income tax expense	807	464	343	74	1,367	645	722	112
Income tax expense	300	169	131	78	512	237	275	116
Net income from continuing operations	507	295	212	72	855	408	447	110
Income (loss) from discontinued operations, net of tax expense (benefit)	35	(4)	39	975	33	(6)	39	650
<b>Net income</b>	542	291	251	86	888	402	486	121
Less: net loss attributable to noncontrolling interest	(1)	(1)	—	—	(1)	(1)	—	—
<b>Net income attributable to SLM Corporation</b>	543	292	251	86	889	403	486	121
Preferred stock dividends	5	5	—	—	10	10	—	—
Net income attributable to SLM Corporation common stock	<u>\$ 538</u>	<u>\$ 287</u>	<u>\$ 251</u>	<u>87%</u>	<u>\$ 879</u>	<u>\$ 393</u>	<u>\$ 486</u>	<u>124%</u>
<b>Basic earnings (loss) per common share attributable to SLM Corporation:</b>								
Continuing operations	\$ 1.14	\$ .60	\$ .54	90%	\$ 1.90	\$ .81	\$1.09	135%
Discontinued operations	.08	(.01)	.09	900	.07	(.01)	.08	800
Total	<u>\$ 1.22</u>	<u>\$ .59</u>	<u>\$ .63</u>	<u>107%</u>	<u>\$ 1.97</u>	<u>\$ .80</u>	<u>\$1.17</u>	<u>146%</u>
<b>Diluted earnings (loss) per common share attributable to SLM Corporation:</b>								
Continuing operations	\$ 1.12	\$ .60	\$ .52	87%	\$ 1.87	\$ .80	\$1.07	134%
Discontinued operations	.08	(.01)	.09	900	.07	(.01)	.08	800
Total	<u>\$ 1.20</u>	<u>\$ .59</u>	<u>\$ .61</u>	<u>103%</u>	<u>\$ 1.94</u>	<u>\$ .79</u>	<u>\$1.15</u>	<u>146%</u>
Dividends per common share attributable to SLM Corporation	<u>\$ .15</u>	<u>\$ .125</u>	<u>\$ .025</u>	<u>20%</u>	<u>\$ .30</u>	<u>\$ .25</u>	<u>\$ .05</u>	<u>20%</u>

**Consolidated Earnings Summary — GAAP-basis**

**Three Months Ended June 30, 2013 Compared with Three Months Ended June 30, 2012**

For the three months ended June 30, 2013, net income was \$543 million, or \$1.20 diluted earnings per common share, compared with net income of \$292 million, or \$0.59 diluted earnings per common share, for the three months ended June 30, 2012. The increase in net income was primarily due to a \$251 million increase in gains on sales of loans and investments, a \$39 million after-tax increase in income from discontinued operations, a \$42 million decline in the provision for loan losses, and a \$37 million increase in net interest income, which more than offset higher operating expenses of \$27 million and higher restructuring and other reorganization expenses of \$21 million.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

- Net interest income increased by \$37 million in the current quarter compared with the prior-year quarter primarily due to a \$50 million acceleration of non-cash premium expense recorded in second-quarter 2012 related to ED's consolidation of \$5.2 billion of loans under the Special Direct Consolidation Loan initiative ("SDCL") that ended June 30, 2012. Partially offsetting this increase was a reduction in net interest income from a \$20.9 billion decline in average FFELP Loans outstanding.
- Provisions for loan losses declined \$42 million compared with the year-ago quarter primarily as a result of the overall improvement in Private Education Loans' credit quality, delinquency and charge-off trends leading to decreases in expected future charge-offs.
- Gains on sales of loans and investments increased by \$251 million as a result of \$257 million in gains from sales of Residual Interests in FFELP Loan securitization trusts that occurred in second-quarter 2013. See "Business Segment Earnings Summary—'Core Earnings' Basis—FFELP Loans Segment" for further discussion.
- Contingency revenue increased \$22 million primarily from an increase in collection volumes in second-quarter 2013 compared with the prior-year quarter.
- Other income increased \$26 million primarily from an increase in foreign currency translation gains. The foreign currency translation gains relate to a portion of our foreign currency denominated debt that does not receive hedge accounting treatment. These gains were partially offset by losses on derivative and hedging activities related to the derivatives used to economically hedge these debt investments.
- Second-quarter 2013 operating expenses were \$258 million compared with \$231 million in the year-ago quarter. The increase in operating expenses is primarily the result of increases in our third-party servicing and collections activities, increased Private Education Loan marketing, as well as continued investments in technology.
- Restructuring and other reorganization expenses were \$24 million compared with \$3 million in the year-ago quarter. For 2013, these consisted of \$14 million related to severance and \$10 million related to the Company's previously announced plan to separate its existing organization into two publicly-traded companies. The \$3 million in 2012 relates to restructuring expenses.
- Income from discontinued operations increased \$39 million primarily as a result of the sale of our Campus Solutions business in the second quarter of 2013 which resulted in a \$38 million after-tax gain. See "Business Segment Earnings Summary—'Core Earnings' Basis—Business Services Segment" for additional discussion.

In addition, we repurchased 9 million shares of our common stock for \$201 million during the second-quarter 2013 as part of a common share repurchase program. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 40 million shares from the year-ago quarter.

### **Six Months Ended June 30, 2013 Compared with Six Months Ended June 30, 2012**

For the six months ended June 30, 2013, net income was \$889 million, or \$1.94 diluted earnings per common share, compared with net income of \$403 million, or \$0.79 diluted earnings per common share, for the six months ended June 30, 2012. The increase in net income was primarily due to a \$353 million decrease in net losses on derivative and hedging activities, a \$307 million increase in net gains on sales of loans and investments, a \$39 million after-tax increase in income from discontinued operations and a \$54 million decrease in provisions for loan losses, which were partially offset by higher operating expenses of \$26 million and higher restructuring and other reorganization expenses of \$28 million.

The primary contributors to each of the identified drivers of changes in net income for the current six-month period compared with the year-ago six-month period are as follows:

- Net interest income increased by \$24 million primarily due to a \$50 million acceleration of non-cash premium expense recorded in the first half of 2012 related to ED's consolidation of \$5.2 billion of loans under the SDCL initiative that ended June 30, 2012. Partially offsetting this increase was an \$18.1 billion decline in average FFELP Loans outstanding.
- Provisions for loan losses declined \$54 million compared with the year-ago period primarily as a result of the overall improvement in Private Education Loans' credit quality, delinquency and charge-off trends leading to decreases in expected future charge-offs.
- Gains on sales of loans and investments increased by \$307 million as a result of \$312 million in gains on the sales of the Residual Interests in FFELP Loan securitization trusts. See "Business Segment Earnings Summary—'Core Earnings' Basis—FFELP Loans Segment" for further discussion.
- Losses on derivative and hedging activities, net, resulted in a net loss of \$13 million in the current six-month period compared with a net loss of \$366 million in the year-ago period. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.
- Contingency revenue increased \$32 million primarily from an increase in collection volumes in the first half of 2013 compared with the prior-year period.
- First-half 2013 operating expenses were \$508 million compared with \$482 million in the first half of 2012. The increase in operating expenses is primarily the result of increases in our third-party servicing and collections activities, increased Private Education Loan marketing, as well as continued investments in technology.
- Restructuring and other reorganization expenses were \$35 million compared with \$7 million in the year-ago period. For 2013, these consisted of \$23 million related to severance and \$12 million related to the Company's previously announced plan to separate its existing organization into two publicly-traded companies. The \$7 million in 2012 relates to restructuring expenses.
- Income from discontinued operations increased \$39 million primarily as a result of the sale of our Campus Solutions business in the second quarter of 2013. See "Business Segment Earnings Summary—'Core Earnings' Basis—Business Services Segment" for additional discussion.

In addition, we repurchased 19 million shares of our common stock for \$400 million during the first half of 2013 as part of a common share repurchase program. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 46 million shares from the year-ago period.

### **“Core Earnings” — Definition and Limitations**

We prepare financial statements in accordance with GAAP. However, we also evaluate our business segments on a basis that differs from GAAP. We refer to this different basis of presentation as “Core Earnings.” We provide this “Core Earnings” basis of presentation on a consolidated basis for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our “Core Earnings” basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide “Core Earnings” disclosure in the notes to our consolidated financial statements for our business segments. For additional information, see “Note 10 — Segment Reporting.”

“Core Earnings” are not a substitute for reported results under GAAP. We use “Core Earnings” to manage each business segment because “Core Earnings” reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that “Core Earnings” provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items for which we adjust our “Core Earnings” presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our “Core Earnings” basis of presentation does not. “Core Earnings” are subject to certain general and specific limitations that investors should carefully consider. For example, there is no comprehensive, authoritative guidance for management reporting. Our “Core Earnings” are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Accordingly, our “Core Earnings” presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our performance with that of other financial services companies based upon “Core Earnings.” “Core Earnings” results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, our board of directors, rating agencies, lenders and investors to assess performance.

Specific adjustments that management makes to GAAP results to derive our “Core Earnings” basis of presentation are described in detail in the section titled “‘Core Earnings’ — Definition and Limitations — Differences between ‘Core Earnings’ and GAAP” of this Item 2.

The following tables show “Core Earnings” for each business segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in “Note 10 — Segment Reporting.”

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Quarter Ended June 30, 2013

(Dollars in millions)						Total	Adjustments		Total	Total
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	"Core Earnings"	Reclassifications	Additions/ (Subtractions)	Adjustments <sup>(2)</sup>	GAAP
Interest income:										
Student loans	\$ 627	\$ —	\$ 581	\$ —	\$ —	\$ 1,208	\$ 198	\$ (76)	\$ 122	\$1,330
Other loans	—	—	—	3	—	3	—	—	—	3
Cash and investments	1	1	2	1	(1)	4	—	—	—	4
Total interest income	628	1	583	4	(1)	1,215	198	(76)	122	1,337
Total interest expense	206	—	325	10	(1)	540	13	—	13	553
Net interest income (loss)	422	1	258	(6)	—	675	185	(76)	109	784
Less: provisions for loan losses	187	—	14	—	—	201	—	—	—	201
Net interest income (loss) after provisions for loan losses	235	1	244	(6)	—	474	185	(76)	109	583
Other income (loss):										
Gains on sales of loans and investments	—	—	257	(6)	—	251	—	—	—	251
Servicing revenue	10	200	16	—	(137)	89	—	—	—	89
Contingency revenue	—	109	—	—	—	109	—	—	—	109
Gains on debt repurchases	—	—	—	19	—	19	—	—	—	19
Other income	—	8	—	—	—	8	(185)	219 <sup>(4)</sup>	34	42
Total other income (loss)	10	317	273	13	(137)	476	(185)	219	34	510
Expenses:										
Direct operating expenses	76	113	144	3	(137)	199	—	—	—	199
Overhead expenses	—	—	—	59	—	59	—	—	—	59
Operating expenses	76	113	144	62	(137)	258	—	—	—	258
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	4	4	4
Restructuring and other reorganization expenses	2	1	—	21	—	24	—	—	—	24
Total expenses	78	114	144	83	(137)	282	—	4	4	286
Income (loss) from continuing operations, before income tax expense (benefit)	167	204	373	(76)	—	668	—	139	139	807
Income tax expense (benefit) <sup>(3)</sup>	60	74	136	(28)	—	242	—	58	58	300
Net income (loss) from continuing operations	107	130	237	(48)	—	426	—	81	81	507
Income from discontinued operations, net of tax expense	—	35	—	—	—	35	—	—	—	35
Net income (loss)	107	165	237	(48)	—	461	—	81	81	542
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	\$ 107	\$ 166	\$ 237	\$ (48)	\$ —	\$ 462	\$ —	\$ 81	\$ 81	\$ 543

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended June 30, 2013		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 109	\$ —	\$ 109
Total other income	34	—	34
Goodwill and acquired intangible asset impairment and amortization	—	4	4
"Core Earnings" adjustments to GAAP	\$ 143	\$ (4)	139
Income tax expense	—	—	58
Net income	—	—	\$ 81

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

(4) Represents the \$203 million of "unrealized gains on derivative and hedging activities, net" as well as the \$16 million of "other derivative accounting adjustments."

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Quarter Ended June 30, 2012

(Dollars in millions)						Total	Adjustments		Total	Total
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	"Core Earnings"	Reclassifications	Additions/ (Subtractions)	Adjustments <sup>(2)</sup>	GAAP
Interest income:										
Student loans	\$ 616	\$ —	\$ 652	\$ —	\$ —	\$ 1,268	\$ 223	\$ (98)	\$ 125	\$1,393
Other loans	—	—	—	4	—	4	—	—	—	4
Cash and investments	2	2	3	—	(1)	6	—	—	—	6
Total interest income	618	2	655	4	(1)	1,278	223	(98)	125	1,403
Total interest expense	205	—	409	9	(1)	622	34	—	34	656
Net interest income (loss)	413	2	246	(5)	—	656	189	(98)	91	747
Less: provisions for loan losses	225	—	18	—	—	243	—	—	—	243
Net interest income (loss) after provisions for loan losses	188	2	228	(5)	—	413	189	(98)	91	504
Other income (loss):										
Gains on sales of loans and investments	—	—	—	—	—	—	—	—	—	—
Servicing revenue	11	227	22	—	(172)	88	—	—	—	88
Contingency revenue	—	87	—	—	—	87	—	—	—	87
Gains on debt repurchases	—	—	—	20	—	20	—	—	—	20
Other income	—	7	—	6	—	13	(189)	180 <sup>(4)</sup>	(9)	4
Total other income (loss)	11	321	22	26	(172)	208	(189)	180	(9)	199
Expenses:										
Direct operating expenses	63	101	181	4	(172)	177	—	—	—	177
Overhead expenses	—	—	—	54	—	54	—	—	—	54
Operating expenses	63	101	181	58	(172)	231	—	—	—	231
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	5	5	5
Restructuring and other reorganization expenses	1	2	—	—	—	3	—	—	—	3
Total expenses	64	103	181	58	(172)	234	—	5	5	239
Income (loss) from continuing operations, before income tax expense (benefit)	135	220	69	(37)	—	387	—	77	77	464
Income tax expense (benefit) <sup>(3)</sup>	49	81	25	(14)	—	141	—	28	28	169
Net income (loss) from continuing operations	86	139	44	(23)	—	246	—	49	49	295
Loss from discontinued operations, net of tax benefit	(1)	(3)	—	—	—	(4)	—	—	—	(4)
Net income (loss)	85	136	44	(23)	—	242	—	49	49	291
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	\$ 85	\$ 137	\$ 44	\$ (23)	\$ —	\$ 243	\$ —	\$ 49	\$ 49	\$ 292

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Quarter Ended June 30, 2012		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 91	\$ —	\$ 91
Total other loss	(9)	—	(9)
Goodwill and acquired intangible asset impairment and amortization	—	5	5
"Core Earnings" adjustments to GAAP	\$ 82	\$ (5)	77
Income tax expense	—	—	28
Net income	—	—	\$ 49

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

(4) Represents the \$194 million of "unrealized gains on derivative and hedging activities, net" as well as the (\$14) million of "other derivative accounting adjustments."

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Six Months Ended June 30, 2013

(Dollars in millions)						Total	Adjustments		Total	Total
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	"Core Earnings"	Reclassifications	Additions/ (Subtractions)	Adjustments <sup>(2)</sup>	GAAP
Interest income:										
Student loans	\$ 1,249	\$ —	\$ 1,181	\$ —	\$ —	\$ 2,430	\$ 410	\$ (152)	\$ 258	\$2,688
Other loans	—	—	—	6	—	6	—	—	—	6
Cash and investments	4	3	3	—	(2)	8	—	—	—	8
Total interest income	1,253	3	1,184	6	(2)	2,444	410	(152)	258	2,702
Total interest expense	410	—	665	20	(2)	1,093	31	(1) <sup>(4)</sup>	30	1,123
Net interest income (loss)	843	3	519	(14)	—	1,351	379	(151)	228	1,579
Less: provisions for loan losses	412	—	30	—	—	442	—	—	—	442
Net interest income (loss) after provisions for loan losses	431	3	489	(14)	—	909	379	(151)	228	1,137
Other income (loss):										
Gains on sales of loans and investments	—	—	312	(5)	—	307	—	—	—	307
Servicing revenue	21	405	39	—	(287)	178	—	—	—	178
Contingency revenue	—	208	—	—	—	208	—	—	—	208
Gains on debt repurchases	—	—	—	48	—	48	(6)	—	(6)	42
Other income	—	14	—	1	—	15	(373)	403 <sup>(5)</sup>	30	45
Total other income (loss)	21	627	351	44	(287)	756	(379)	403	24	780
Expenses:										
Direct operating expenses	143	222	301	7	(287)	386	—	—	—	386
Overhead expenses	—	—	—	122	—	122	—	—	—	122
Operating expenses	143	222	301	129	(287)	508	—	—	—	508
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	7	7	7
Restructuring and other reorganization expenses	2	2	—	31	—	35	—	—	—	35
Total expenses	145	224	301	160	(287)	543	—	7	7	550
Income (loss) from continuing operations, before income tax expense (benefit)	307	406	539	(130)	—	1,122	—	245	245	1,367
Income tax expense (benefit) <sup>(3)</sup>	113	149	198	(48)	—	412	—	100	100	512
Net income (loss) from continuing operations	194	257	341	(82)	—	710	—	145	145	855
Income (loss) from discontinued operations, net of tax expense (benefit)	(1)	34	—	—	—	33	—	—	—	33
Net income (loss)	193	291	341	(82)	—	743	—	145	145	888
Less: net loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss) attributable to SLM Corporation	\$ 193	\$ 292	\$ 341	\$ (82)	\$ —	\$ 744	\$ —	\$ 145	\$ 145	\$ 889

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Six Months Ended June 30, 2013		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 228	\$ —	\$ 228
Total other income	24	—	24
Goodwill and acquired intangible asset impairment and amortization	—	7	7
"Core Earnings" adjustments to GAAP	\$ 252	\$ (7)	245
Income tax expense	—	—	100
Net income	—	—	\$ 145

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

(4) Represents a portion of the \$44 million of "other derivative accounting adjustments."

(5) Represents the \$360 million of "unrealized gains on derivative and hedging activities, net" as well as the remaining portion of the \$44 million of "other derivative accounting adjustments."



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Six Months Ended June 30, 2012

(Dollars in millions)	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total "Core Earnings"	Adjustments		Total Adjustments <sup>(2)</sup>	Total GAAP
							Reclassifications	Additions/ (Subtractions)		
Interest income:										
Student loans	\$ 1,241	\$ —	\$ 1,378	\$ —	\$ —	\$ 2,619	\$ 437	\$ (196)	\$ 241	\$2,860
Other loans	—	—	—	9	—	9	—	—	—	9
Cash and investments	3	4	5	—	(4)	8	—	—	—	8
Total interest income	1,244	4	1,383	9	(4)	2,636	437	(196)	241	2,877
Total interest expense	406	—	832	16	(4)	1,250	70	2 <sup>(4)</sup>	72	1,322
Net interest income (loss)	838	4	551	(7)	—	1,386	367	(198)	169	1,555
Less: provisions for loan losses	460	—	36	—	—	496	—	—	—	496
Net interest income (loss) after provisions for loan losses	378	4	515	(7)	—	890	367	(198)	169	1,059
Other income (loss):										
Gains on sales of loans and investments	—	—	—	—	—	—	—	—	—	—
Servicing revenue	23	456	47	—	(348)	178	—	—	—	178
Contingency revenue	—	176	—	—	—	176	—	—	—	176
Gains on debt repurchases	—	—	—	58	—	58	—	—	—	58
Other income	—	16	—	8	—	24	(367)	15 <sup>(5)</sup>	(352)	(328)
Total other income (loss)	23	648	47	66	(348)	436	(367)	15	(352)	84
Expenses:										
Direct operating expenses	131	211	366	6	(348)	366	—	—	—	366
Overhead expenses	—	—	—	116	—	116	—	—	—	116
Operating expenses	131	211	366	122	(348)	482	—	—	—	482
Goodwill and acquired intangible asset impairment and amortization	—	—	—	—	—	—	—	9	9	9
Restructuring and other reorganization expenses	2	2	—	3	—	7	—	—	—	7
Total expenses	133	213	366	125	(348)	489	—	9	9	498
Income (loss) from continuing operations, before income tax expense (benefit)	268	439	196	(66)	—	837	—	(192)	(192)	645
Income tax expense (benefit) <sup>(3)</sup>	98	160	72	(25)	—	305	—	(68)	(68)	237
Net income (loss) from continuing operations	170	279	124	(41)	—	532	—	(124)	(124)	408
Loss from discontinued operations, net of tax benefit	(1)	(5)	—	—	—	(6)	—	—	—	(6)
Net income (loss)	169	274	124	(41)	—	526	—	(124)	(124)	402
Less: loss attributable to noncontrolling interest	—	(1)	—	—	—	(1)	—	—	—	(1)
Net income (loss)	\$ 169	\$ 275	\$ 124	\$ (41)	\$ —	\$ 527	\$ —	\$ (124)	\$ (124)	\$ 403

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) "Core Earnings" adjustments to GAAP:

(Dollars in millions)	Six Months Ended June 30, 2012		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 169	\$ —	\$ 169
Total other loss	(352)	—	(352)
Goodwill and acquired intangible asset impairment and amortization	—	9	9
"Core Earnings" adjustments to GAAP	\$ (183)	\$ (9)	(192)
Income tax benefit	—	—	(68)
Net loss	—	—	\$ (124)

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

(4) Represents a portion of the \$12 million of "other derivative accounting adjustments."

(5) Represents the \$1 million of "unrealized gains on derivative and hedging activities, net" as well as the remaining portion of the \$12 million of "other derivative accounting adjustments."

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[Table of Contents](#)**Differences between “Core Earnings” and GAAP**

The two adjustments required to reconcile from our “Core Earnings” results to our GAAP results of operations relate to differing treatments for: (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The following table reflects aggregate adjustments associated with these areas.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>“Core Earnings” adjustments to GAAP:</b>				
Net impact of derivative accounting	\$ 143	\$ 82	\$ 252	\$ (183)
Net impact of goodwill and acquired intangible assets	(4)	(5)	(7)	(9)
Net income tax effect	(58)	(28)	(100)	68
<b>Total “Core Earnings” adjustments to GAAP</b>	<b>\$ 81</b>	<b>\$ 49</b>	<b>\$ 145</b>	<b>\$ (124)</b>

1) **Derivative Accounting:** “Core Earnings” exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our “Core Earnings” presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item’s life.

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

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Additionally, the term, the interest rate index, and the interest rate index reset frequency of the Floor Income Contract can be different than that of the student loans. Under derivative accounting treatment, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio earning Floor Income but that offsetting change in value is not recognized. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Therefore, for purposes of “Core Earnings,” we have removed the unrealized gains and losses related to these contracts and

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added back the amortization of the net premiums received on the Floor Income Contracts. The amortization of the net premiums received on the Floor Income Contracts for “Core Earnings” is reflected in student loan interest income. Under GAAP accounting, the premiums received on the Floor Income Contracts are recorded as revenue in the “losses on derivative and hedging activities, net” line item by the end of the contracts’ lives.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to hedge our student loan assets that are primarily indexed to LIBOR, Prime or Treasury bill index (for \$128 billion of our FFELP assets as of April 1, 2012, we elected to change the index from commercial paper to LIBOR). In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. The accounting for derivatives requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting between GAAP and “Core Earnings” net income.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>“Core Earnings” derivative adjustments:</b>				
Gains (losses) on derivative and hedging activities, net, included in other income	\$ 18	\$ 6	\$ (13)	\$ (366)
Plus: Realized losses on derivative and hedging activities, net <sup>(1)</sup>	185	188	373	367
Unrealized gains on derivative and hedging activities, net <sup>(2)</sup>	203	194	360	1
Amortization of net premiums on Floor Income Contracts in net interest income for “Core Earnings”	(76)	(98)	(152)	(196)
Other derivative accounting adjustments <sup>(3)</sup>	16	(14)	44	12
Total net impact of derivative accounting <sup>(4)</sup>	<u>\$ 143</u>	<u>\$ 82</u>	<u>\$ 252</u>	<u>\$ (183)</u>

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

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

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Floor Income Contracts	\$ 297	\$ 50	\$ 486	\$ 186
Basis swaps	(15)	(26)	(19)	(48)
Foreign currency hedges	(67)	172	(99)	(122)
Other	(12)	(2)	(8)	(15)
Total unrealized gains on derivative and hedging activities, net	<u>\$ 203</u>	<u>\$ 194</u>	<u>\$ 360</u>	<u>\$ 1</u>

(3) Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustment are reversed for “Core Earnings” and (2) certain terminated derivatives that did not receive hedge accounting treatment under GAAP but were economic hedges under “Core Earnings” and, as a result, such gains or losses amortized into “Core Earnings” over the life of the hedged item.

(4) Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income and positive amounts are added to “Core Earnings” net income to arrive at GAAP net income.

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

Derivative accounting requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as “realized gains (losses) on derivative and hedging activities”) that do not qualify as hedges to be recorded in a separate income statement line item below net interest income. Under our “Core Earnings” presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our “Core Earnings” net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a “Core Earnings” basis.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Reclassification of realized gains (losses) on derivative and hedging activities:</b>				
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$ (198)	\$ (223)	\$ (410)	\$ (437)
Net settlement income on interest rate swaps reclassified to net interest income	13	34	31	70
Foreign exchange derivatives gains reclassified to other income	—	1	—	—
Net realized gains on terminated derivative contracts reclassified to other income	—	—	6	—
Total reclassifications of realized losses on derivative and hedging activities	<u>\$ (185)</u>	<u>\$ (188)</u>	<u>\$ (373)</u>	<u>\$ (367)</u>

*Cumulative Impact of Derivative Accounting under GAAP compared to “Core Earnings”*

As of June 30, 2013, derivative accounting has reduced GAAP equity by approximately \$923 million as a result of cumulative net unrealized losses (after tax) recognized under GAAP, but not in “Core Earnings.” The following table rolls forward the cumulative impact to GAAP equity due to these unrealized after tax net losses related to derivative accounting.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Beginning impact of derivative accounting on GAAP equity	\$ (1,027)	\$ (1,149)	\$ (1,080)	\$ (977)
Net impact of net unrealized gains (losses) under derivative accounting <sup>(1)</sup>	104	51	157	(121)
Ending impact of derivative accounting on GAAP equity	<u>\$ (923)</u>	<u>\$ (1,098)</u>	<u>\$ (923)</u>	<u>\$ (1,098)</u>

(1) Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Total pre-tax net impact of derivative accounting recognized in net income <sup>(a)</sup>	\$ 143	\$ 82	\$ 252	\$ (183)
Tax impact of derivative accounting adjustments recognized in net income	(54)	(30)	(113)	58
Change in unrealized gain (losses) on derivatives, net of tax recognized in other comprehensive income	15	(1)	18	4
Net impact of net unrealized gains (losses) under derivative accounting	<u>\$ 104</u>	<u>\$ 51</u>	<u>\$ 157</u>	<u>\$ (121)</u>

(a) See “Core Earnings’ derivative adjustments” table above.

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Net Floor premiums received on Floor Income Contracts that have not been amortized into “Core Earnings” as of the respective year-ends are presented in the table below. These net premiums will be recognized in “Core Earnings” in future periods and are presented net of tax. As of June 30, 2013, the remaining amortization term of the net floor premiums was approximately 3.0 years for existing contracts. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

(Dollars in millions)	June 30,	
	2013	2012
Unamortized net Floor premiums (net of tax)	\$(452)	\$(650)

2) **Goodwill and Acquired Intangible Assets:** Our “Core Earnings” exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets. The following table summarizes the goodwill and acquired intangible asset adjustments.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
“Core Earnings” goodwill and acquired intangible asset adjustments <sup>(1)</sup>	\$ (4)	\$ (5)	\$ (7)	\$ (9)

(1) Negative amounts are subtracted from “Core Earnings” net income to arrive at GAAP net income.

## Business Segment Earnings Summary — “Core Earnings” Basis

### Consumer Lending Segment

The following table includes “Core Earnings” results for our Consumer Lending segment.

(Dollars in millions)	Three Months Ended June 30,		% Increase (Decrease) 2013 vs. 2012	Six Months Ended June 30,		% Increase (Decrease) 2013 vs. 2012
	2013	2012		2013	2012	
“Core Earnings” interest income:						
Private Education Loans	\$ 627	\$ 616	2%	\$1,249	\$1,241	1%
Cash and investments	1	2	(50)	4	3	33
Total “Core Earnings” interest income	628	618	2	1,253	1,244	1
Total “Core Earnings” interest expense	206	205	—	410	406	1
Net “Core Earnings” interest income	422	413	2	843	838	1
Less: provision for loan losses	187	225	(17)	412	460	(10)
Net “Core Earnings” interest income after provision for loan losses	235	188	25	431	378	14
Servicing revenue	10	11	(9)	21	23	(9)
Direct operating expenses	76	63	21	143	131	9
Restructuring and other reorganization expenses	2	1	100	2	2	—
Total expenses	78	64	22	145	133	9
Income from continuing operations, before income tax expense	167	135	24	307	268	15
Income tax expense	60	49	22	113	98	15
Net income from continuing operations	107	86	24	194	170	14
Loss from discontinued operations, net of tax benefit	—	(1)	(100)	(1)	(1)	—
“Core Earnings”	\$ 107	\$ 85	26%	\$ 193	\$ 169	14%

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Quarterly “Core Earnings” were \$107 million compared with \$85 million in the year-ago quarter. The increase is primarily the result of a \$38 million decrease in the provision for Private Education Loan losses.

Second-quarter 2013 private education loan portfolio results vs. second-quarter 2012 included:

- Loan originations of \$368 million, up 15 percent.
- Delinquencies of 90 days or more of 3.6 percent of loans in repayment, down from 4.5 percent.
- Loans in forbearance of 3.5 percent of loans in repayment and forbearance, down from 4.3 percent.
- Annualized charge-off rate of 2.7 percent of average loans in repayment, down from 3.1 percent.
- Provision for private education loan losses of \$187 million, down from \$225 million.
- “Core Earnings” net interest margin, before loan loss provision, of 4.12 percent, down from 4.14 percent.
- The portfolio balance, net of loan loss allowance, totaled \$37 billion, a \$662 million increase over the year-ago quarter.

**Consumer Lending Net Interest Margin**

The following table shows the “Core Earnings” basis Consumer Lending net interest margin along with reconciliation to the GAAP-basis Consumer Lending net interest margin before provision for loan losses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
“Core Earnings” basis Private Education Loan yield	6.37%	6.36%	6.36%	6.39%
Discount amortization	.22	.24	.22	.24
“Core Earnings” basis Private Education Loan net yield	6.59	6.60	6.58	6.63
“Core Earnings” basis Private Education Loan cost of funds	(2.04)	(2.05)	(2.02)	(2.03)
“Core Earnings” basis Private Education Loan spread	4.55	4.55	4.56	4.60
“Core Earnings” basis other interest-earning asset spread impact	(.43)	(.41)	(.43)	(.40)
“Core Earnings” basis Consumer Lending net interest margin <sup>(1)</sup>	<u>4.12%</u>	<u>4.14%</u>	<u>4.13%</u>	<u>4.20%</u>
“Core Earnings” basis Consumer Lending net interest margin <sup>(1)</sup>	4.12%	4.14%	4.13%	4.20%
Adjustment for GAAP accounting treatment <sup>(2)</sup>	(.04)	(.11)	(.03)	(.12)
GAAP basis Consumer Lending net interest margin <sup>(1)</sup>	<u>4.08%</u>	<u>4.03%</u>	<u>4.10%</u>	<u>4.08%</u>

(1) The average balances of our Consumer Lending “Core Earnings” basis interest-earning assets for the respective periods are:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Private Education Loans	\$ 38,154	\$ 37,543	\$38,279	\$ 37,646
Other interest-earning assets	2,937	2,544	2,800	2,436
Total Consumer Lending “Core Earnings” basis interest-earning assets	<u>\$ 41,091</u>	<u>\$ 40,087</u>	<u>\$41,079</u>	<u>\$ 40,082</u>

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income and other derivative accounting adjustments. For further discussion of these adjustments, see section titled “Core Earnings” — Definition and Limitations — Difference between “Core Earnings” and GAAP” above.

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**Private Education Loan Provision for Loan Losses and Charge-Offs**

The following table summarizes the total Private Education Loan provision for loan losses and charge-offs.

(Dollars in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Private Education Loan provision for loan losses	\$ 187	\$ 225	\$ 412	\$ 460
Private Education Loan charge-offs	212	235	444	459

In establishing the allowance for Private Education Loan losses as of June 30, 2013, we considered several factors with respect to our Private Education Loan portfolio. In particular, we continue to see improvement in credit quality and continuing positive delinquency, forbearance and charge-off trends in connection with this portfolio. Improving credit quality is seen in higher FICO scores and cosigner rates as well as a more seasoned portfolio. Total loans delinquent (as a percentage of loans in repayment) have decreased to 7.7 percent from 10.0 percent in the year-ago quarter. Loans greater than 90 days delinquent (as a percentage of loans in repayment) have decreased to 3.6 percent from 4.5 percent in the year-ago quarter. Loans in forbearance (as a percentage of loans in repayment and forbearance) have decreased to 3.5 percent from 4.3 percent in the year-ago quarter. The charge-off rate decreased to 2.7 percent from 3.1 percent in the year-ago quarter.

Additionally, Private Education Loans that have defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue to not do so. Our allowance for loan losses takes into account these potential recovery uncertainties.

The Private Education Loan provision for loan losses was \$187 million in the second quarter of 2013, down \$38 million from the second quarter of 2012, and \$412 million for the first six months of 2013, down \$48 million from the year-ago period. The decline in both periods was a result of the overall improvement in credit quality and performance trends discussed above, leading to decreases in expected future charge-offs.

For a more detailed discussion of our policy for determining the collectability of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies and Estimates — Allowance for Loan Losses” in the 2012 Form 10-K.

**Operating Expenses — Consumer Lending Segment**

Operating expenses for our Consumer Lending segment include costs incurred to originate Private Education Loans and to service and collect on our Private Education Loan portfolio. The increase in operating expenses in the quarter ended June 30, 2013 compared with the year-ago quarter was primarily the result of higher marketing and collection costs as well as continued investments in technology. Operating expenses were 80 basis points and 68 basis points of average Private Education Loans in the quarters ended June 30, 2013 and 2012, respectively, and 75 basis points and 70 basis points of average Private Education Loans in the six months ended June 30, 2013 and 2012, respectively.

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**Business Services Segment**

The following table includes “Core Earnings” results for our Business Services segment.

(Dollars in millions)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2013	2012	2013 vs. 2012	2013	2012	2013 vs. 2012
Net interest income	\$ 1	\$ 2	(50)%	\$ 3	\$ 4	(25)%
Servicing revenue:						
Intercompany loan servicing	137	172	(20)	287	348	(18)
Third-party loan servicing	33	26	27	61	48	27
Guarantor servicing	10	11	(9)	20	22	(9)
Other servicing	20	18	11	37	38	(3)
Total servicing revenue	200	227	(12)	405	456	(11)
Contingency revenue	109	87	25	208	176	18
Other Business Services revenue	8	7	14	14	16	(13)
Total other income	317	321	(1)	627	648	(3)
Direct operating expenses	113	101	12	222	211	5
Restructuring and other reorganization expenses	1	2	(50)	2	2	—
Total expenses	114	103	11	224	213	5
Income from continuing operations, before income tax expense	204	220	(7)	406	439	(8)
Income tax expense	74	81	(9)	149	160	(7)
Net income from continuing operations	130	139	(6)	257	279	(8)
Income (loss) from discontinued operations, net of tax expense (benefit)	35	(3)	1,267	34	(5)	780
“Core Earnings”	165	136	21	291	274	6
Less: net loss attributable to noncontrolling interest	(1)	(1)	—	(1)	(1)	—
“Core Earnings” attributable to SLM Corporation	\$ 166	\$ 137	21%	\$ 292	\$ 275	6%

“Core Earnings” were \$166 million in the second quarter of 2013, compared with \$137 million in the year-ago quarter. The increase was primarily due to the sale of our Campus Solutions business and the related \$38 million after-tax gain recognized.

Our Business Services segment includes intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was \$116 billion and \$133 billion for the quarters ended June 30, 2013 and 2012, respectively, and \$119 billion and \$134 billion for the six months ended June 30, 2013 and 2012, respectively. The decline in intercompany loan servicing revenue from the year-ago period is primarily the result of a lower outstanding principal balance in the underlying portfolio.

We are servicing approximately 5.2 million accounts under the ED Servicing Contract as of June 30, 2013, compared with 3.8 million accounts serviced at June 30, 2012. Third-party loan servicing fees in the quarters ended June 30, 2013 and 2012 included \$26 million and \$22 million, respectively, of servicing revenue related to the ED Servicing Contract. This increase in ED loan servicing fees for both the quarter and six-month periods were driven by the increase in the number of accounts serviced. The three and six months ended June 30, 2012 included \$3.1 million of additional servicing revenue related to the administration and servicing of the SDCL program.



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Third-party loan servicing income increased \$7 million from the year-ago quarter and \$13 million for the first six months compared with the prior-year period primarily due to the increase in ED servicing revenue (discussed above) as well as a result of the sale of Residual Interests in FFELP Loan securitization trusts in 2013. (See “FFELP Loans Segment” for further discussion.) When we sold the Residual Interests, we retained the right to service the trusts. As such, servicing income that had previously been recorded as intercompany loan servicing is now recognized as third-party loan servicing income.

At June 30, 2013, we serviced approximately \$283 billion principal balance of student loans compared with approximately \$252 billion serviced at December 31, 2012. The increase in the principal balance serviced in 2013 was primarily due to the growth in the ED serviced accounts discussed above.

Our contingency revenue consists of fees we receive for collections of delinquent debt on behalf of third-party clients performed on a contingent basis. Contingency revenue increased \$22 million in the current quarter compared with the year-ago quarter and \$32 million for the first six months of 2013 compared with the prior-year period as a result of the higher volume of collections.

The following table presents the outstanding inventory of contingent collections receivables that our Business Services segment will collect on behalf of others. We expect the inventory of contingent collections receivables to decline over time as a result of the elimination of FFELP.

<u>(Dollars in millions)</u>	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>	<u>June 30,</u> <u>2012</u>
Contingent collections receivables:			
Student loans	\$12,230	\$ 13,189	\$10,620
Other	2,377	2,139	1,864
Total	<u>\$14,607</u>	<u>\$ 15,328</u>	<u>\$12,484</u>

In the second quarter of 2013, we sold our Campus Solutions business and recorded an after-tax gain of \$38 million. The results related to this business for all periods presented have been reclassified as discontinued operations and are shown on an after-tax basis.

Revenues related to services performed on FFELP Loans accounted for 73 percent and 78 percent, respectively, of total segment revenues for the quarters ended June 30, 2013 and 2012 and 74 percent and 78 percent, respectively, of total segment revenues for the six months ended June 30, 2013 and 2012.

### ***Operating Expenses — Business Services Segment***

Operating expenses for our Business Services segment primarily include costs incurred to service our FFELP Loan portfolio, third-party servicing and collection costs, and other operating costs. The increase in operating expenses in the quarter ended June 30, 2013 compared with the year-ago quarter was primarily the result of an increase in our third-party servicing and collection activities as well as continued investments in technology.

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**FFELP Loans Segment**

The following table includes “Core Earnings” results for our FFELP Loans segment.

(Dollars in millions)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2013	2012	2013 vs. 2012	2013	2012	2013 vs. 2012
“Core Earnings” interest income:						
FFELP Loans	\$ 581	\$ 652	(11)%	\$1,181	\$1,378	(14)%
Cash and investments	2	3	(33)	3	5	(40)
Total “Core Earnings” interest income	583	655	(11)	1,184	1,383	(14)
Total “Core Earnings” interest expense	325	409	(21)	665	832	(20)
Net “Core Earnings” interest income	258	246	5	519	551	(6)
Less: provision for loan losses	14	18	(22)	30	36	(17)
Net “Core Earnings” interest income after provision for loan losses	244	228	7	489	515	(5)
Gains on sales of loans and investments	257	—	100	312	—	100
Servicing revenue	16	22	(27)	39	47	(17)
Total other income	273	22	1,141	351	47	647
Direct operating expenses	144	181	(20)	301	366	(18)
Restructuring and other reorganization expenses	—	—	—	—	—	—
Total expenses	144	181	(20)	301	366	(18)
Income from continuing operations, before income tax expense	373	69	441	539	196	175
Income tax expense	136	25	444	198	72	175
“Core Earnings”	\$ 237	\$ 44	439%	\$ 341	\$ 124	175%

“Core Earnings” from the FFELP Loans segment were \$237 million in the second quarter of 2013, compared with \$44 million in the year-ago quarter. The increase was primarily the result of a \$257 million gain from the sale of the Residual Interest in a FFELP Loan securitization trust. Key financial measures include:

- Net interest margin of .87 percent in the second quarter of 2013 compared with .70 percent in the year-ago quarter (see “FFELP Loan Net Interest Margin” for a further discussion of this increase).
- The provision for loan losses of \$14 million in the second quarter of 2013 decreased from \$18 million in the year-ago quarter.

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**FFELP Loan Net Interest Margin**

The following table includes the “Core Earnings” basis FFELP Loan net interest margin along with reconciliation to the GAAP-basis FFELP Loan net interest margin.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
“Core Earnings” basis FFELP Loan yield	2.60%	2.66%	2.61%	2.65%
Hedged Floor Income	.27	.29	.26	.29
Unhedged Floor Income	.10	.07	.08	.09
Consolidation Loan Rebate Fees	(.65)	(.67)	(.67)	(.66)
Repayment Borrower Benefits	(.11)	(.14)	(.11)	(.13)
Premium amortization	(.16)	(.27)	(.15)	(.20)
“Core Earnings” basis FFELP Loan net yield	2.05	1.94	2.02	2.04
“Core Earnings” basis FFELP Loan cost of funds	(1.08)	(1.14)	(1.07)	(1.16)
“Core Earnings” basis FFELP Loan spread	.97	.80	.95	.88
“Core Earnings” basis other interest-earning asset spread impact	(.10)	(.10)	(.10)	(.10)
“Core Earnings” basis FFELP Loan net interest margin <sup>(1)</sup>	<u>.87%</u>	<u>.70%</u>	<u>.85%</u>	<u>.78%</u>
“Core Earnings” basis FFELP Loan net interest margin <sup>(1)</sup>	.87%	.70%	.85%	.78%
Adjustment for GAAP accounting treatment <sup>(2)</sup>	.38	.30	.39	.28
GAAP-basis FFELP Loan net interest margin <sup>(1)</sup>	<u>1.25%</u>	<u>1.00%</u>	<u>1.24%</u>	<u>1.06%</u>

(1) The average balances of our FFELP “Core Earnings” basis interest-earning assets for the respective periods are:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
FFELP Loans	\$113,981	\$ 134,893	\$117,896	\$ 136,043
Other interest-earning assets	5,264	6,291	5,409	6,359
Total FFELP “Core Earnings” basis interest-earning assets	<u>\$ 119,245</u>	<u>\$ 141,184</u>	<u>\$123,305</u>	<u>\$ 142,402</u>

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income, the reversal of the amortization of premiums received on Floor Income Contracts, and other derivative accounting adjustments. For further discussion of these adjustments, see section titled “Core Earnings’ — Definition and Limitations — Difference between ‘Core Earnings’ and GAAP” above.

The increase in the “Core Earnings” basis FFELP Loan net interest margin of 17 basis points for the quarter ended June 30, 2013 compared with the quarter ended June 30, 2012, as well as the 7 basis points increase for the six months ended June 30, 2013 compared to the prior year, was primarily the result of a \$50 million acceleration of non-cash premium expense recorded in second quarter 2012 related to ED’s consolidation of \$5.2 billion of loans under the SDCL initiative that ended June 30, 2012. See Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Business Segment Earnings Summary – ‘Core Earnings’ Basis — FFELP Loans Segment” in our 2012 Form 10-K.

As of June 30, 2013, our FFELP Loan portfolio totaled approximately \$108.5 billion, comprised of \$41.9 billion of FFELP Stafford and \$66.6 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios is 4.9 years and 9.5 years, respectively, assuming a Constant Prepayment Rate (“CPR”) of 4 percent and 3 percent, respectively.

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**Floor Income**

The following table analyzes the ability of the FFELP Loans in our portfolio to earn Floor Income after June 30, 2013 and 2012, based on interest rates as of those dates.

(Dollars in billions)	June 30, 2013			June 30, 2012		
	Fixed Borrower Rate	Variable Borrower Rate	Total	Fixed Borrower Rate	Variable Borrower Rate	Total
Student loans eligible to earn Floor Income	\$ 93.0	\$ 14.1	\$107.1	\$ 114.5	\$ 16.4	\$130.9
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(47.0)	(1.0)	(48.0)	(61.0)	(1.1)	(62.1)
Less: economically hedged Floor Income Contracts	(31.7)	—	(31.7)	(35.2)	—	(35.2)
Student loans eligible to earn Floor Income	\$ 14.3	\$ 13.1	\$ 27.4	\$ 18.3	\$ 15.3	\$ 33.6
Student loans earning Floor Income	\$ 14.2	\$ 0.7	\$ 14.9	\$ 10.5	\$ 2.1	\$ 12.6

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

The following table presents a projection of the average balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has been economically hedged through Floor Income Contracts for the period July 1, 2013 to June 30, 2016. The hedges related to these loans do not qualify as accounting hedges.

(Dollars in billions)	July 1, 2013 to December 31, 2013	2014	2015	2016
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	\$ 31.7	\$28.3	\$27.2	\$10.4

**FFELP Loan Provision for Loan Losses and Charge-Offs**

The following table summarizes the total FFELP Loan provision for loan losses and charge-offs for the three and six months June 30, 2013 and 2012.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
FFELP Loan provision for loan losses	\$ 14	\$ 18	\$ 30	\$ 36
FFELP Loan charge-offs	20	23	42	46

**Gains on Sales of Loans and Investments**

The increase in gains on sales of loans and investments from the year-ago quarter was the result of \$257 million in gains from the sale of Residual Interests in FFELP Loan securitization trusts.

The increase in gains on sales of loans and investments from the first six months of 2012 was the result of \$312 million in gains from the sale of Residual Interests in FFELP Loan securitization trusts.

We will continue to service the student loans in the trusts that were sold under existing agreements. The sales removed securitization trust assets of \$12.5 billion and related liabilities of \$12.1 billion from the balance sheet during the six months ended June 30, 2013.

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**Operating Expenses — FFELP Loans**

Operating expenses for our FFELP Loans segment primarily include the contractual rates we pay to service loans in term asset-backed securitization trusts or a similar rate if a loan is not in a term financing facility (which is presented as an intercompany charge from the Business Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged by the Business Services segment and included in those amounts was \$137 million and \$172 million for the quarters ended June 30, 2013 and 2012, respectively, and \$287 million and \$348 million for the six months ended June 30, 2013 and 2012, respectively. These amounts exceed the actual cost of servicing the loans. Operating expenses were 51 basis points and 54 basis points of average FFELP Loans in the quarters ended June 30, 2013 and 2012, respectively, and 51 basis points and 54 basis points of average FFELP Loans in the six months ended June 30, 2013 and 2012, respectively. The decline in operating expenses from the prior-year quarter was primarily the result of the reduction in the average outstanding balance of our FFELP Loan portfolio.

**Other Segment**

The following table includes “Core Earnings” results of our Other segment.

(Dollars in millions)	Three Months Ended June 30,		% Increase (Decrease)	Six Months Ended June 30,		% Increase (Decrease)
	2013	2012	2013 vs. 2012	2013	2012	2013 vs. 2012
Net interest loss after provision for loan losses	\$ (6)	\$ (5)	20%	\$ (14)	\$ (7)	100%
Losses on sales of loans and investments	(6)	—	100	(5)	—	100
Gains on debt repurchases	19	20	(5)	48	58	(17)
Other	—	6	(100)	1	8	(88)
Total other income	13	26	(50)	44	66	(33)
Direct operating expenses	3	4	(25)	7	6	17
Overhead expenses:						
Corporate overhead	29	27	7	64	61	5
Unallocated information technology costs	30	27	11	58	55	5
Total overhead expenses	59	54	9	122	116	5
Total operating expenses	62	58	7	129	122	6
Restructuring and other reorganization expenses	21	—	100	31	3	933
Total expenses	83	58	43	160	125	28
Loss before income tax benefit	(76)	(37)	105	(130)	(66)	97
Income tax benefit	(28)	(14)	100	(48)	(25)	92
“Core Earnings” (loss)	\$ (48)	\$ (23)	109%	\$ (82)	\$ (41)	100%

**Net Interest Loss after Provision for Loan Losses**

Net interest loss after provision for loan losses includes net interest income related to our corporate liquidity portfolio as well as net interest income and provision expense related to our mortgage and consumer loan portfolios.

**Gains on Debt Repurchases**

We repurchased \$70 million and \$85 million face amount of our debt for the quarters ended June 30, 2013 and 2012, respectively and \$997 million and \$290 million face amount of our debt for the six months ended June 30, 2013 and 2012, respectively.

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**Overhead**

Corporate overhead is comprised of costs related to executive management, the board of directors, accounting, finance, legal, human resources and stock-based compensation expense. Unallocated information technology costs are related to infrastructure and operations. The increase in overhead for the six months ended June 30, 2013 compared with the year-ago period was primarily the result of a non-recurring \$10 million pension termination gain in the first six months of 2012, which was partially offset by a decrease in stock-based compensation expense in 2013 compared with 2012.

**Restructuring and Other Reorganization Expenses**

Restructuring and other reorganization expenses for the quarter ended June 30, 2013 were \$21 million compared with \$0 in the year-ago quarter. For the quarter ended June 30, 2013, these consisted of \$11 million related to severance and \$10 million related to the Company's previously announced plan to separate its existing organization into two publicly-traded companies.

For the six months ended June 30, 2013, restructuring and other reorganization expenses were \$31 million compared with \$3 million in the year-ago period. For the six months ended June 30, 2013, these consisted of \$19 million related to severance and \$12 million related to the Company's previously announced plan to separate its existing organization into two publicly-traded companies. The \$3 million in the six months ended June 30, 2012 was related to restructuring expenses.

**Financial Condition**

This section provides additional information regarding the changes in our loan portfolio assets and related liabilities as well as credit quality and performance indicators related to our loan portfolio.

**Average Balance Sheets — GAAP**

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

(Dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
<b>Average Assets</b>								
FFELP Loans	\$113,981	2.48%	\$134,893	2.32%	\$117,896	2.46%	\$136,043	2.39%
Private Education Loans	38,154	6.59	37,543	6.60	38,279	6.58	37,646	6.63
Other loans	123	9.64	179	9.31	128	9.50	183	9.50
Cash and investments	9,395	.17	10,233	.20	9,636	.17	9,715	.19
Total interest-earning assets	161,653	<u>3.32%</u>	182,848	<u>3.08%</u>	165,939	<u>3.28%</u>	183,587	<u>3.15%</u>
Non-interest-earning assets	4,287		4,794		4,426		4,781	
Total assets	<u>\$165,940</u>		<u>\$187,642</u>		<u>\$170,365</u>		<u>\$188,368</u>	
<b>Average Liabilities and Equity</b>								
Short-term borrowings	\$ 17,122	.98%	\$ 26,272	.88%	\$ 18,091	1.00%	\$ 27,654	.90%
Long-term borrowings	140,170	1.46	152,500	1.58	143,554	1.45	151,791	1.59
Total interest-bearing liabilities	157,292	<u>1.41%</u>	178,772	<u>1.48%</u>	161,645	<u>1.40%</u>	179,445	<u>1.48%</u>
Non-interest-bearing liabilities	3,390		3,845		3,531		3,874	
Equity	5,258		5,025		5,189		5,049	
Total liabilities and equity	<u>\$165,940</u>		<u>\$187,642</u>		<u>\$170,365</u>		<u>\$188,368</u>	
Net interest margin		<u>1.94%</u>		<u>1.64%</u>		<u>1.92%</u>		<u>1.71%</u>

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**Rate/Volume Analysis — GAAP**

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

(Dollars in millions)	Increase (Decrease)	Change Due To <sup>(1)</sup>	
		Rate	Volume
<b>Three Months Ended June 30, 2013 vs. 2012</b>			
Interest income	\$ (66)	\$101	\$(167)
Interest expense	(103)	(29)	(74)
Net interest income	<u>\$ 37</u>	<u>\$129</u>	<u>\$ (92)</u>
<b>Six Months Ended June 30, 2013 vs. 2012</b>			
Interest income	\$ (175)	\$116	\$(291)
Interest expense	(199)	(69)	(130)
Net interest income	<u>\$ 24</u>	<u>\$184</u>	<u>\$(160)</u>

(1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

**Summary of our Student Loan Portfolio**

*Ending Student Loan Balances, net*

(Dollars in millions)	June 30, 2013				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
<b>Total student loan portfolio:</b>					
In-school <sup>(1)</sup>	\$ 1,050	\$ —	\$ 1,050	\$ 2,132	\$ 3,182
Grace, repayment and other <sup>(2)</sup>	40,271	66,217	106,488	36,551	143,039
Total, gross	41,321	66,217	107,538	38,683	146,221
Unamortized premium/(discount)	641	445	1,086	(752)	334
Receivable for partially charged-off loans	—	—	—	1,334	1,334
Allowance for loan losses	(88)	(45)	(133)	(2,149)	(2,282)
Total student loan portfolio	<u>\$ 41,874</u>	<u>\$ 66,617</u>	<u>\$108,491</u>	<u>\$37,116</u>	<u>\$145,607</u>
% of total FFELP	39%	61%	100%		
% of total	29%	46%	75%	25%	100%
<b>December 31, 2012</b>					
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
<b>Total student loan portfolio:</b>					
In-school <sup>(1)</sup>	\$ 1,506	\$ —	\$ 1,506	\$ 2,194	\$ 3,700
Grace, repayment and other <sup>(2)</sup>	42,189	80,640	122,829	36,360	159,189
Total, gross	43,695	80,640	124,335	38,554	162,889
Unamortized premium/(discount)	691	745	1,436	(796)	640
Receivable for partially charged-off loans	—	—	—	1,347	1,347
Allowance for loan losses	(97)	(62)	(159)	(2,171)	(2,330)
Total student loan portfolio	<u>\$ 44,289</u>	<u>\$ 81,323</u>	<u>\$125,612</u>	<u>\$36,934</u>	<u>\$162,546</u>
% of total FFELP	35%	65%	100%		
% of total	27%	50%	77%	23%	100%

(1) Loans for customers still attending school and are not yet required to make payments on the loan.

(2) Includes loans in deferment or forbearance.

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

	Three Months Ended June 30, 2013				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	\$ 42,516	\$ 71,465	\$113,981	\$38,154	\$152,135
% of FFELP	37%	63%	100%		
% of total	28%	47%	75%	25%	100%

	Three Months Ended June 30, 2012				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	\$ 49,159	\$ 85,734	\$134,893	\$37,543	\$172,436
% of FFELP	36%	64%	100%		
% of total	28%	50%	78%	22%	100%

	Six Months Ended June 30, 2013				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	\$ 43,115	\$ 74,781	\$117,896	\$38,279	\$156,175
% of FFELP	37%	63%	100%		
% of total	27%	48%	75%	25%	100%

	Six Months Ended June 30, 2012				
(Dollars in millions)	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total	\$ 49,654	\$ 86,389	\$136,043	\$37,646	\$173,689
% of FFELP	36%	64%	100%		
% of total	28%	50%	78%	22%	100%



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*Student Loan Activity*

	<b>Three Months Ended June 30, 2013</b>				
<b>(Dollars in millions)</b>	<b>FFELP Stafford and Other</b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP Loans</b>	<b>Total Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 43,005	\$ 76,190	\$119,195	\$ 37,465	\$156,660
Acquisitions and originations	57	74	131	390	521
Capitalized interest and premium/discount amortization	285	272	557	210	767
Consolidations to third parties	(378)	(235)	(613)	(25)	(638)
Sales <sup>(1)</sup>	(30)	(8,398)	(8,428)	—	(8,428)
Repayments and other	(1,065)	(1,286)	(2,351)	(924)	(3,275)
Ending balance	<u>\$ 41,874</u>	<u>\$ 66,617</u>	<u>\$108,491</u>	<u>\$ 37,116</u>	<u>\$145,607</u>

	<b>Three Months Ended June 30, 2012</b>				
<b>(Dollars in millions)</b>	<b>FFELP Stafford and Other</b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP Loans</b>	<b>Total Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 49,508	\$ 86,426	\$135,934	\$ 36,732	\$172,666
Acquisitions and originations	1,331	495	1,826	341	2,167
Capitalized interest and premium/discount amortization	310	349	659	263	922
Consolidations to third parties	(1,711)	(1,035)	(2,746)	(19)	(2,765)
Sales	(149)	—	(149)	—	(149)
Repayments and other	(1,176)	(1,515)	(2,691)	(863)	(3,554)
Ending balance	<u>\$ 48,113</u>	<u>\$ 84,720</u>	<u>\$132,833</u>	<u>\$ 36,454</u>	<u>\$169,287</u>

	<b>Six Months Ended June 30, 2013</b>				
<b>(Dollars in millions)</b>	<b>FFELP Stafford and Other</b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP Loans</b>	<b>Total Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 44,289	\$ 81,323	\$125,612	\$ 36,934	\$162,546
Acquisitions and originations	158	127	285	1,795	2,080
Capitalized interest and premium/discount amortization	580	585	1,165	410	1,575
Consolidations to third parties	(823)	(510)	(1,333)	(49)	(1,382)
Sales <sup>(2)</sup>	(102)	(12,147)	(12,249)	—	(12,249)
Repayments and other	(2,228)	(2,761)	(4,989)	(1,974)	(6,963)
Ending balance	<u>\$ 41,874</u>	<u>\$ 66,617</u>	<u>\$108,491</u>	<u>\$ 37,116</u>	<u>\$145,607</u>

	<b>Six Months Ended June 30, 2012</b>				
<b>(Dollars in millions)</b>	<b>FFELP Stafford and Other</b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP Loans</b>	<b>Total Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 50,440	\$ 87,690	\$138,130	\$ 36,290	\$174,420
Acquisitions and originations	2,150	573	2,723	1,492	4,215
Capitalized interest and premium/discount amortization	645	747	1,392	508	1,900
Consolidations to third parties	(2,430)	(1,260)	(3,690)	(42)	(3,732)
Sales	(284)	—	(284)	—	(284)
Repayments and other	(2,408)	(3,030)	(5,438)	(1,794)	(7,232)
Ending balance	<u>\$ 48,113</u>	<u>\$ 84,720</u>	<u>\$132,833</u>	<u>\$ 36,454</u>	<u>\$169,287</u>

(1) Includes \$8.3 billion of student loans in connection with the sale of Residual Interests in FFELP Loan securitization trusts.

(2) Includes \$12.0 billion of student loans in connection with the sale of Residual Interests in FFELP Loan securitization trusts.

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*Student Loan Allowance for Loan Losses Activity*

<b>(Dollars in millions)</b>	<b>Three Months Ended June 30,</b>					
	<b>2013</b>			<b>2012</b>		
	<b>FFELP Loans</b>	<b>Private Education Loans</b>	<b>Total Portfolio</b>	<b>FFELP Loans</b>	<b>Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 147	\$ 2,170	\$2,317	\$ 180	\$ 2,190	\$2,370
Less:						
Charge-offs <sup>(1)</sup>	(20)	(212)	(232)	(23)	(235)	(258)
Student loan sales	(8)	—	(8)	(2)	—	(2)
Plus:						
Provision for loan losses	14	187	201	18	225	243
Reclassification of interest reserve <sup>(2)</sup>	—	4	4	—	6	6
Ending balance	<u>\$ 133</u>	<u>\$ 2,149</u>	<u>\$2,282</u>	<u>\$ 173</u>	<u>\$ 2,186</u>	<u>\$2,359</u>
Troubled debt restructuring <sup>(3)</sup>	\$ —	\$ 8,094	\$8,094	\$ —	\$ 6,413	\$6,413

<b>(Dollars in millions)</b>	<b>Six Months Ended June 30,</b>					
	<b>2013</b>			<b>2012</b>		
	<b>FFELP Loans</b>	<b>Private Education Loans</b>	<b>Total Portfolio</b>	<b>FFELP Loans</b>	<b>Private Education Loans</b>	<b>Total Portfolio</b>
Beginning balance	\$ 159	\$ 2,171	\$2,330	\$ 187	\$ 2,171	\$2,358
Less:						
Charge-offs <sup>(1)</sup>	(42)	(444)	(486)	(46)	(459)	(505)
Student loan sales	(14)	—	(14)	(4)	—	(4)
Plus:						
Provision for loan losses	30	412	442	36	460	496
Reclassification of interest reserve <sup>(2)</sup>	—	10	10	—	14	14
Ending balance	<u>\$ 133</u>	<u>\$ 2,149</u>	<u>\$2,282</u>	<u>\$ 173</u>	<u>\$ 2,186</u>	<u>\$2,359</u>
Troubled debt restructuring <sup>(3)</sup>	\$ —	\$ 8,094	\$8,094	\$ —	\$ 6,413	\$6,413

- (1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.
- (2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.
- (3) Represents the recorded investment of loans classified as troubled debt restructuring.

*Private Education Loan Originations*

The following table summarizes our Private Education Loan originations.

<b>(Dollars in millions)</b>	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	Smart Option — interest only <sup>(1)</sup>	\$ 85	\$ 100	\$ 450
Smart Option — fixed pay <sup>(1)</sup>	106	71	545	417
Smart Option — deferred <sup>(1)</sup>	145	122	735	553
Other	32	28	49	54
<b>Total Private Education Loan originations</b>	<u>\$ 368</u>	<u>\$ 321</u>	<u>\$1,779</u>	<u>\$1,482</u>

- (1) Interest only, fixed pay and deferred describe the payment option while in school or in grace period. See "Consumer Lending Portfolio Performance — Private Education Loan Repayment Options" for further discussion.

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**Consumer Lending Portfolio Performance**

*Private Education Loan Delinquencies and Forbearance*

The table below presents our Private Education Loan delinquency trends.

(Dollars in millions)	Private Education Loan Delinquencies			
	June 30,			
	2013		2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 5,896		\$ 6,098	
Loans in forbearance <sup>(2)</sup>	1,160		1,368	
Loans in repayment and percentage of each status:				
Loans current	29,196	92.3%	27,650	90.0%
Loans delinquent 31-60 days <sup>(3)</sup>	792	2.5	1,058	3.4
Loans delinquent 61-90 days <sup>(3)</sup>	495	1.6	643	2.1
Loans delinquent greater than 90 days <sup>(3)</sup>	1,144	3.6	1,380	4.5
Total Private Education Loans in repayment	31,627	100%	30,731	100%
Total Private Education Loans, gross	38,683		38,197	
Private Education Loan unamortized discount	(752)		(834)	
Total Private Education Loans	37,931		37,363	
Private Education Loan receivable for partially charged-off loans	1,334		1,277	
Private Education Loan allowance for losses	(2,149)		(2,186)	
Private Education Loans, net	\$37,116		\$36,454	
Percentage of Private Education Loans in repayment		81.8%		80.5%
Delinquencies as a percentage of Private Education Loans in repayment		7.7%		10.0%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.5%		4.3%
Loans in repayment greater than 12 months as a percentage of loans in repayment <sup>(4)</sup>		79.3%		74.3%

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not yet required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

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

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

(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.

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*Allowance for Private Education Loan Losses*

The following table summarizes changes in the allowance for Private Education Loan losses.

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Allowance at beginning of period	\$ 2,170	\$ 2,190	\$ 2,171	\$ 2,171
Provision for Private Education Loan losses	187	225	412	460
Charge-offs <sup>(1)</sup>	(212)	(235)	(444)	(459)
Reclassification of interest reserve <sup>(2)</sup>	4	6	10	14
Allowance at end of period	<u>\$ 2,149</u>	<u>\$ 2,186</u>	<u>\$ 2,149</u>	<u>\$ 2,186</u>
Charge-offs as a percentage of average loans in repayment (annualized)	2.7%	3.1%	2.8%	3.0%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	2.6%	3.0%	2.7%	2.9%
Allowance as a percentage of ending total loans	5.4%	5.5%	5.4%	5.5%
Allowance as a percentage of ending loans in repayment	6.8%	7.1%	6.8%	7.1%
Average coverage of charge-offs (annualized)	2.5	2.3	2.4	2.4
Ending total loans <sup>(3)</sup>	\$40,017	\$39,474	\$40,017	\$39,474
Average loans in repayment	\$31,618	\$30,533	\$31,631	\$30,456
Ending loans in repayment	\$31,627	\$30,731	\$31,627	\$30,731

(1) Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See "Receivable for Partially Charged-Off Private Education Loans" for further discussion.

(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan's principal balance.

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

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The following table provides the detail for our traditional and non-traditional Private Education Loans for the quarters ended.

(Dollars in millions)	June 30, 2013			June 30, 2012		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans <sup>(1)</sup>	\$ 36,445	\$ 3,572	\$40,017	\$ 35,529	\$ 3,945	\$39,474
Ending loans in repayment	29,155	2,472	31,627	28,075	2,656	30,731
Private Education Loan allowance for losses	1,629	520	2,149	1,589	597	2,186
Charge-offs as a percentage of average loans in repayment (annualized)	2.1%	9.1%	2.7%	2.5%	9.8%	3.1%
Allowance as a percentage of ending total loan balance	4.5%	14.6%	5.4%	4.5%	15.1%	5.5%
Allowance as a percentage of ending loans in repayment	5.6%	21.0%	6.8%	5.7%	22.5%	7.1%
Average coverage of charge-offs (annualized)	2.6	2.3	2.5	2.3	2.3	2.3
Delinquencies as a percentage of Private Education Loans in repayment	6.6%	20.0%	7.7%	8.6%	25.5%	10.0%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	3.1%	10.2%	3.6%	3.7%	12.6%	4.5%
Loans in forbearance as a percentage of loans in repayment and forbearance	3.4%	5.5%	3.5%	4.1%	6.4%	4.3%
Loans that entered repayment during the period <sup>(2)</sup>	\$ 481	\$ 24	\$ 505	\$ 674	\$ 57	\$ 731
Percentage of Private Education Loans with a cosigner	69%	30%	66%	66%	29%	63%
Average FICO at origination	728	624	721	727	624	718

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

(2) Includes loans that are required to make a payment for the first time.

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

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

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the “receivable for partially charged-off loans.” If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was \$217 million and \$141 million in allowance for Private Education Loan losses at June 30, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans (see “Consumer Lending Segment — Private Education Loan Provision for Loan Losses and Charge-Offs” for a further discussion).

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The following table summarizes the activity in the receivable for partially charged-off Private Education Loans.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Receivable at beginning of period	\$ 1,339	\$ 1,250	\$ 1,347	\$ 1,241
Expected future recoveries of current period defaults <sup>(1)</sup>	70	82	148	151
Recoveries <sup>(2)</sup>	(54)	(44)	(122)	(94)
Charge-offs <sup>(3)</sup>	(21)	(11)	(39)	(21)
Receivable at end of period	1,334	1,277	1,334	1,277
Allowance for estimated recovery shortfalls <sup>(4)</sup>	(217)	(141)	(217)	(141)
Net receivable at end of period	<u>\$ 1,117</u>	<u>\$ 1,136</u>	<u>\$ 1,117</u>	<u>\$ 1,136</u>

(1) Represents the difference between the defaulted loan balance and our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall — the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the “Allowance for Private Education Loan Losses” table.

(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the \$2.1 billion and \$2.2 billion overall allowance for Private Education Loan losses as of June 30, 2013 and 2012, respectively.

### Use of Forbearance as a Private Education Loan Collection Tool

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

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

Forbearance may also be granted to customers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the customer is returned to a current repayment status. In more limited instances, delinquent customers will also be granted additional forbearance time.

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 66 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 20 percent have defaulted. The default experience associated with

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loans which utilize forbearance is considered in our allowance for loan losses. The number of loans in a forbearance status as a percentage of loans in repayment and forbearance decreased to 3.5 percent in the second quarter of 2013 compared with 4.3 percent in the year-ago quarter. As of June 30, 2013, 1.7 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current as of June 30, 2013 (customers made payments on approximately 26 percent of these loans as a prerequisite to being granted forbearance).

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment —  
Portfolio data through June 30, 2013

	Status distribution 36 months after being granted forbearance for the first time	Status distribution 36 months after entering repayment (all loans)	Status distribution 36 months after entering repayment for loans never entering forbearance
In-school/grace/deferment	9.6%	9.1%	5.6%
Current	50.9	59.2	66.8
Delinquent 31-60 days	3.1	2.0	.4
Delinquent 61-90 days	1.9	1.2	.2
Delinquent greater than 90 days	4.7	2.7	.3
Forbearance	4.0	3.1	—
Defaulted	20.1	11.5	7.5
Paid	5.7	11.2	19.2
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At June 30, 2013, loans in forbearance status as a percentage of loans in repayment and forbearance were 6.1 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.4 percent for loans that have been in active repayment status for more than 48 months. Approximately 67 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.

<b>(Dollars in millions)</b> June 30, 2013	Monthly Scheduled Payments Due					Not Yet in Repayment	Total
	0 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 5,896	\$ 5,896
Loans in forbearance	584	192	162	96	126	—	1,160
Loans in repayment — current	5,671	4,996	5,303	4,455	8,771	—	29,196
Loans in repayment — delinquent 31-60 days	254	152	137	99	150	—	792
Loans in repayment — delinquent 61-90 days	181	95	86	54	79	—	495
Loans in repayment — delinquent greater than 90 days	442	246	190	118	148	—	1,144
<b>Total</b>	<b>\$7,132</b>	<b>\$5,681</b>	<b>\$5,878</b>	<b>\$4,822</b>	<b>\$ 9,274</b>	<b>\$ 5,896</b>	<b>38,683</b>
Unamortized discount							(752)
Receivable for partially charged-off loans							1,334
Allowance for loan losses							(2,149)
<b>Total Private Education Loans, net</b>							<b>\$37,116</b>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>8.2%</u>	<u>3.4%</u>	<u>2.8%</u>	<u>2.0%</u>	<u>1.4%</u>	<u>—%</u>	<u>3.5%</u>

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(Dollars in millions) June 30, 2012	Monthly Scheduled Payments Due					Not Yet in Repayment	Total
	1 to 12	13 to 24	25 to 36	37 to 48	More than 48		
Loans in-school/grace/deferment	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 6,098	\$ 6,098
Loans in forbearance	838	214	147	74	95	—	1,368
Loans in repayment — current	6,406	5,847	5,128	3,621	6,648	—	27,650
Loans in repayment — delinquent 31-60 days	478	207	164	87	122	—	1,058
Loans in repayment — delinquent 61-90 days	321	119	93	48	62	—	643
Loans in repayment — delinquent greater than 90 days	706	269	191	94	120	—	1,380
<b>Total</b>	<b>\$8,749</b>	<b>\$6,656</b>	<b>\$5,723</b>	<b>\$3,924</b>	<b>\$ 7,047</b>	<b>\$ 6,098</b>	<b>38,197</b>
Unamortized discount							(834)
Receivable for partially charged-off loans							1,277
Allowance for loan losses							(2,186)
<b>Total Private Education Loans, net</b>							<b>\$36,454</b>
Loans in forbearance as a percentage of loans in repayment and forbearance	<u>9.6%</u>	<u>3.2%</u>	<u>2.6%</u>	<u>1.9%</u>	<u>1.3%</u>	<u>—%</u>	<u>4.3%</u>

The table below stratifies the portfolio of Private Education Loans in forbearance by the cumulative number of months the customer has used forbearance as of the dates indicated. As detailed in the table below, 7 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

(Dollars in millions)	June 30, 2013		June 30, 2012	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total
<b>Cumulative number of months customer has used forbearance</b>				
Up to 12 months	\$ 883	76%	\$ 940	69%
13 to 24 months	197	17	356	26
More than 24 months	80	7	72	5
<b>Total</b>	<b>\$ 1,160</b>	<b>100%</b>	<b>\$ 1,368</b>	<b>100%</b>

### Private Education Loan Repayment Options

Certain loan programs allow customers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of June 30, 2013.

(Dollars in millions)	Loan Program			
	Signature and Other	Smart Option	Career Training	Total
\$ in repayment	\$23,724	\$6,551	\$ 1,352	\$31,627
\$ in total	28,442	8,841	1,400	38,683
Payment method by enrollment status:				
In-school/grace	Deferred <sup>(1)</sup>	Deferred <sup>(1)</sup> , interest-only or fixed \$25/month	Interest-only or fixed \$25/month	
Repayment	Level principal and interest or graduated	Level principal and interest	Level principal and interest	

<sup>(1)</sup> “Deferred” includes loans for which no payments are required and interest charges are capitalized into the loan balance.



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The graduated repayment program that is part of Signature and Other Loans includes an interest-only payment feature that may be selected at the option of the customer. Customers elect to participate in this program at the time they enter repayment following their grace period. This program is available to customers in repayment, after their grace period, who would like a temporary lower payment from the required principal and interest payment amount. Customers participating in this program pay monthly interest with no amortization of their principal balance for up to 48 payments after entering repayment (dependent on the loan product type). The maturity date of the loan is not extended when a customer participates in this program. As of June 30, 2013 and 2012, customers in repayment owing approximately \$5.9 billion (19 percent of loans in repayment) and \$7.0 billion (23 percent of loans in repayment), respectively, were enrolled in the interest-only program. Of these amounts, 10 percent and 11 percent were non-traditional loans as of June 30, 2013 and 2012, respectively.

*Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

<u>(Dollars in millions)</u>	<u>Accrued Interest Receivable</u>		
	<u>Total</u>	<u>Greater Than 90 Days Past Due</u>	<u>Allowance for Uncollectible Interest</u>
June 30, 2013	\$928	\$ 44	\$ 69
December 31, 2012	\$904	\$ 55	\$ 67
June 30, 2012	\$973	\$ 52	\$ 71

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**FFELP Loan Portfolio Performance**

*FFELP Loan Delinquencies and Forbearance*

The table below presents our FFELP Loan delinquency trends.

(Dollars in millions)	FFELP Loan Delinquencies			
	June 30,			
	2013		2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 15,239		\$ 21,157	
Loans in forbearance <sup>(2)</sup>	15,236		18,357	
Loans in repayment and percentage of each status:				
Loans current	64,801	84.1%	76,258	82.9%
Loans delinquent 31-60 days <sup>(3)</sup>	3,750	4.9	5,239	5.7
Loans delinquent 61-90 days <sup>(3)</sup>	2,156	2.8	2,816	3.1
Loans delinquent greater than 90 days <sup>(3)</sup>	6,356	8.2	7,685	8.3
Total FFELP Loans in repayment	77,063	100%	91,998	100%
Total FFELP Loans, gross	107,538		131,512	
FFELP Loan unamortized premium	1,086		1,494	
Total FFELP Loans	108,624		133,006	
FFELP Loan allowance for losses	(133)		(173)	
FFELP Loans, net	\$108,491		\$132,833	
Percentage of FFELP Loans in repayment		71.7%		70.0%
Delinquencies as a percentage of FFELP Loans in repayment		15.9%		17.1%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		16.5%		16.6%

(1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not yet required to make payments on the loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested extension of grace period during employment transition or who have temporarily ceased making payments due to hardship or other factors.

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

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

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### *Allowance for FFELP Loan Losses*

The following table summarizes changes in the allowance for FFELP Loan losses.

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Allowance at beginning of period	147	180	159	187
Provision for FFELP Loan losses	14	18	30	36
Charge-offs	(20)	(23)	(42)	(46)
Student loan sales	(8)	(2)	(14)	(4)
Allowance at end of period	<u>\$ 133</u>	<u>\$ 173</u>	<u>\$ 133</u>	<u>\$ 173</u>
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	.10%	.10%	.10%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	.08%	.09%	.08%
Allowance as a percentage of ending total loans, gross	.12%	.13%	.12%	.13%
Allowance as a percentage of ending loans in repayment	.17%	.19%	.17%	.19%
Allowance coverage of charge-offs (annualized)	1.7	1.8	1.6	1.9
Ending total loans, gross	\$107,538	\$131,512	\$107,538	\$131,512
Average loans in repayment	\$ 81,423	\$ 92,436	\$ 84,323	\$ 92,793
Ending loans in repayment	\$ 77,063	\$ 91,998	\$ 77,063	\$ 91,998

### **Liquidity and Capital Resources**

#### ***Funding and Liquidity Risk Management***

The following “Liquidity and Capital Resources” discussion concentrates on our Consumer Lending and FFELP Loans segments. Our Business Services and Other segments require minimal capital and funding.

We define liquidity risk as the potential inability to meet our obligations when they become due without incurring unacceptable losses, such as the ability to fund liability maturities and deposit withdrawals, or invest in future asset growth and business operations at reasonable market rates, as well as the potential inability to fund Private Education Loan originations. Our three primary liquidity needs include our ongoing ability to meet our funding needs for our businesses throughout market cycles, including during periods of financial stress and to avoid any mismatch between the maturity of assets and liabilities, our ongoing ability to fund originations of Private Education Loans and servicing our indebtedness and bank deposits. To achieve these objectives we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources including the issuance of unsecured debt, the issuance of secured debt primarily through asset-backed securitizations and/or other financing facilities and through deposits at the Bank.

We define liquidity as cash and high-quality liquid securities that we can use to meet our funding requirements. Our primary liquidity risk relates to our ability to fund new originations and raise replacement funding at a reasonable cost as our unsecured debt and bank deposits mature. In addition, we must continue to obtain funding at reasonable rates to meet our other business obligations and to continue to grow our business. Key risks associated with our liquidity relate to our ability to access the capital markets and bank deposits and access them at reasonable rates. This ability may be affected by our credit ratings, as well as the overall availability of funding sources in the marketplace. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter derivatives.

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change from time to time based on our financial performance, industry dynamics and other factors. Other factors that

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influence our credit ratings include the ratings agencies' assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it would raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions.

We expect to fund our ongoing liquidity needs, including the origination of new Private Education Loans and the repayment of \$3.1 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash and investment portfolio, the issuance of additional bank deposits and unsecured debt, the predictable operating cash flows provided by earnings, the repayment of principal on unencumbered student loan assets and the distributions from our securitization trusts (including servicing fees which are priority payments within the trusts). We may also draw down on our secured FFELP facilities.

Currently, new Private Education Loan originations are initially funded through deposits and subsequently securitized to term. We have \$1.6 billion of cash at the Bank as of June 30, 2013 available to fund future originations. We no longer originate FFELP Loans and therefore no longer have liquidity requirements for new FFELP Loan originations.

We will continue to opportunistically purchase FFELP Loan portfolios from others. On June 10, 2013, we closed on a new \$6.8 billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the ED Conduit Program. As a result, we ended our participation in the ED Conduit Program prior to the January 19, 2014 maturity date.

### **Sources of Liquidity and Available Capacity**

#### *Ending Balances*

<u>(Dollars in millions)</u>	<u>June 30, 2013</u>	<u>December 31, 2012</u>
<b>Sources of primary liquidity:</b>		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	\$ 1,805	\$ 2,376
Sallie Mae Bank <sup>(1)</sup>	1,595	1,598
<b>Total unrestricted cash and liquid investments</b>	<b>\$ 3,400</b>	<b>\$ 3,974</b>
Unencumbered FFELP Loans	\$ 2,064	\$ 1,656

#### *Average Balances*

<u>(Dollars in millions)</u>	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>	<u>June 30,</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
<b>Sources of primary liquidity:</b>				
Unrestricted cash and liquid investments:				
Holding Company and other non-bank subsidiaries	\$ 2,250	\$ 2,584	\$ 2,534	\$ 2,120
Sallie Mae Bank <sup>(1)</sup>	1,692	660	1,461	770
<b>Total unrestricted cash and liquid investments</b>	<b>\$ 3,942</b>	<b>\$ 3,244</b>	<b>\$ 3,995</b>	<b>\$ 2,890</b>
Unencumbered FFELP Loans	\$ 1,889	\$ 1,277	\$ 1,792	\$ 1,178

(1) This amount will be used primarily to originate or acquire student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends.

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Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP ABCP Facilities and FHLB-DM Facility will vary and be subject to each agreement's borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of June 30, 2013 and December 31, 2012, the maximum additional capacity under these facilities was \$11.9 billion and \$11.8 billion, respectively. For the three months ended June 30, 2013 and 2012, the average maximum additional capacity under these facilities was \$11.1 billion and \$10.7 billion, respectively. For the six months ended June 30, 2013 and 2012, the average maximum additional capacity under these facilities was \$10.9 billion and \$11.4 billion, respectively.

We also hold a number of other unencumbered assets, consisting primarily of Private Education Loans and other assets. Total unencumbered student loans, net, comprised \$12.7 billion of our unencumbered assets of which \$10.7 billion and \$2.0 billion related to Private Education Loans, net and FFELP Loans, net, respectively. At June 30, 2013, we had a total of \$21.0 billion of unencumbered assets inclusive of those described above as sources of primary liquidity and exclusive of goodwill and acquired intangible assets.

The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. While applicable Utah and FDIC regulations differ in approach as to determinations of impairment of capital and surplus, neither method of determination has historically required the Bank to obtain consent to the payment of dividends. The Bank paid no dividends for the three months ended June 30, 2013. For the three months ended June 30, 2012, the Bank paid dividends of \$220 million. For the six months ended June 30, 2013 and 2012, the Bank paid dividends of \$120 million and \$270 million, respectively.

For further discussion of our various sources of liquidity, such as the FFELP ABCP Facilities, the Bank, our continued access to the ABS market, our asset-backed financing facilities, the lending agreement we entered into with the FHLB-DM and our issuance of unsecured debt, see "Note 6 — Borrowings" in our 2012 Form 10-K.

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

<u>(Dollars in billions)</u>	<u>June 30,</u> <u>2013</u>	<u>December 31,</u> <u>2012</u>
Net assets of consolidated variable interest entities (encumbered assets) —		
FFELP Loans	\$ 5.8	\$ 6.6
Net assets of consolidated variable interest entities (encumbered assets) —		
Private Education Loans	6.5	6.6
Tangible unencumbered assets <sup>(1)</sup>	21.0	21.2
Unsecured debt	(25.5)	(26.7)
Mark-to-market on unsecured hedged debt <sup>(2)</sup>	(1.0)	(1.7)
Other liabilities, net	(1.8)	(1.4)
<b>Total tangible equity</b>	<b><u>\$ 5.0</u></b>	<b><u>\$ 4.6</u></b>

(1) Excludes goodwill and acquired intangible assets.

(2) At June 30, 2013 and December 31, 2012, there were \$1.0 billion and \$1.4 billion, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

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### *Transactions during the Six Months Ended June 30, 2013*

The following financing transactions have taken place in the first six months of 2013:

#### Unsecured Financings:

- January 28, 2013 — issued \$1.5 billion senior unsecured bonds.

#### FFELP Financings:

- February 14, 2013 — issued \$1.2 billion FFELP ABS.
- April 11, 2013 — issued \$1.2 billion FFELP ABS.
- June 20, 2013 — issued \$1.2 billion FFELP ABS.

#### Private Education Loan Financings:

- January 31, 2013 — issued \$0.3 billion Private Education Loan ABS funding a portfolio of previously issued auction rate securities that we had reacquired.
- March 7, 2013 — issued \$1.1 billion Private Education Loan ABS.
- May 2, 2013 — issued \$1.1 billion Private Education Loan ABS.

#### *FFELP ABCP Facility*

On June 10, 2013, we closed on a new \$6.8 billion credit facility that matures in June 2014 to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the ED Conduit Program. As a result, we ended our participation in the ED Conduit Program prior to the January 19, 2014 maturity date.

#### *Shareholder Distributions*

In second-quarter 2013, we paid a common stock dividend of \$0.15 per share.

We repurchased 9 million shares of common stock for \$201 million in the second quarter of 2013, or an aggregate of 19 million shares for \$400 million in the first half of 2013, fully utilizing our February 2013 share repurchase program authorization. In July 2013, we authorized \$400 million to be utilized in a new common share repurchase program that does not have an expiration date.

#### *2013 Sales of FFELP Loan Securitization Trust Residual Interests*

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of \$3.82 billion and related liabilities of \$3.68 billion from our balance sheet.

On April 11, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of \$2.03 billion and related liabilities of \$1.99 billion from our balance sheet.

On June 13, 2013, we sold the three Residual Interests in FFELP Loan securitization trusts to a third party. We will continue to service the student loans in the trusts under existing agreements. The sale removed securitization trust assets of \$6.60 billion and related liabilities of \$6.42 billion from our balance sheet.

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### *Recent Third-Quarter 2013 Transactions*

On July 17, we closed on a \$1.1 billion ABCP borrowing facility that matures on August 15, 2015. The facility will be used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, anticipated to occur on August 15, 2013.

### *Counterparty Exposure*

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us. Risks associated with our lending portfolio are discussed in Item 2 “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Financial Condition — Consumer Lending Portfolio Performance” and “— FFELP Loan Portfolio Performance.”

Our investment portfolio is composed of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure. Additionally, our investing activity is governed by Board approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. (“ISDA”) Credit Support Annexes (“CSAs”). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by SLM Corporation and the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our securitization trusts require collateral in all cases if the counterparty’s credit rating is withdrawn or downgraded below a certain level. Additionally, securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative, regardless of credit rating. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties’ credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties. If our credit ratings are downgraded from current levels, we may be required to segregate additional unrestricted cash collateral into restricted accounts.

The table below highlights exposure related to our derivative counterparties at June 30, 2013.

<u>(Dollars in millions)</u>	<u>SLM Corporation and Sallie Mae Bank Contracts</u>	<u>Securitization Trust Contracts</u>
Exposure, net of collateral <sup>(1)</sup>	\$ 114	\$ 610
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody’s Aa3	94%	31%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody’s A3	0%	0%

- (1) Recent turmoil in the European markets has led to increased disclosure of exposure to those markets. Our securitization trusts had total net exposure of \$533 million related to financial institutions located in France; of this amount, \$418 million carries a guaranty from the French government. The total exposure relates to \$5.7 billion notional amount of cross-currency interest rate swaps held in our securitization trusts, of which \$3.5 billion notional amount carries a guaranty from the French government. Counterparties to the cross currency interest rate swaps are required to post collateral when their credit rating is withdrawn or downgraded below a certain level. As of June 30, 2013, no collateral was required to be posted and we are not holding any collateral related to these contracts. Adjustments are made to our derivative valuations for counterparty credit risk. The adjustments made at June 30, 2013 related to derivatives with French financial institutions (including those that carry a guaranty from the French government) decreased the derivative asset value by \$72 million. Credit risks for all derivative counterparties are assessed internally on a continual basis.

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**“Core Earnings” Basis Borrowings**

The following tables present the ending balances of our “Core Earnings” basis borrowings at June 30, 2013 and December 31, 2012, and average balances and average interest rates of our “Core Earnings” basis borrowings for the three and six months ended June 30, 2013 and 2012. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See “‘Core Earnings’ — Definition and Limitations — Differences between ‘Core Earnings’ and GAAP — Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities” of this Item 2).

*Ending Balances*

<b>(Dollars in millions)</b>	<b>June 30, 2013</b>			<b>December 31, 2012</b>		
	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>	<b>Short Term</b>	<b>Long Term</b>	<b>Total</b>
<b>Unsecured borrowings:</b>						
Senior unsecured debt	\$ 3,063	\$ 14,433	\$ 17,496	\$ 2,319	\$ 15,446	\$ 17,765
Brokered deposits	1,298	2,247	3,545	979	3,088	4,067
Retail and other deposits	3,686	—	3,686	3,247	—	3,247
Other <sup>(1)</sup>	825	—	825	1,609	—	1,609
Total unsecured borrowings	<u>8,872</u>	<u>16,680</u>	<u>25,552</u>	<u>8,154</u>	<u>18,534</u>	<u>26,688</u>
<b>Secured borrowings:</b>						
FFELP Loan securitizations	—	92,428	92,428	—	105,525	105,525
Private Education Loan securitizations	—	20,594	20,594	—	19,656	19,656
ED Conduit Program Facility	—	—	—	9,551	—	9,551
FFELP ABCP Facilities	6,524	2,816	9,340	—	4,154	4,154
Private Education Loan ABCP Facility	—	—	—	—	1,070	1,070
Acquisition financing <sup>(2)</sup>	—	505	505	—	673	673
FHLB-DM Facility	1,115	1,220	2,335	2,100	—	2,100
Total secured borrowings	<u>7,639</u>	<u>117,563</u>	<u>125,202</u>	<u>11,651</u>	<u>131,078</u>	<u>142,729</u>
Total “Core Earnings” basis	16,511	134,243	150,754	19,805	149,612	169,417
Hedge accounting adjustments	47	1,636	1,683	51	2,789	2,840
Total GAAP basis	<u>\$16,558</u>	<u>\$135,879</u>	<u>\$152,437</u>	<u>\$19,856</u>	<u>\$152,401</u>	<u>\$172,257</u>

(1) “Other” primarily consists of the obligation to return cash collateral held related to derivative exposure.

(2) Relates to the acquisition of \$25 billion of student loans at the end of 2010.

Secured borrowings comprised 83 percent and 84 percent of our “Core Earnings” basis debt outstanding at June 30, 2013 and December 31, 2012, respectively.



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*Average Balances*

(Dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
<i>Unsecured borrowings:</i>								
Senior unsecured debt	\$ 17,848	3.22%	\$ 18,327	2.94%	\$ 18,085	3.19%	\$ 18,165	2.91%
Brokered deposits	3,784	1.51	2,934	1.93	3,897	1.53	3,224	2.01
Retail and other deposits	3,661	.78	2,307	.82	3,601	.81	2,295	.89
Other <sup>(1)</sup>	1,177	.13	1,367	.16	1,285	.18	1,384	.13
Total unsecured borrowings	<u>26,470</u>	<u>2.50</u>	<u>24,935</u>	<u>2.47</u>	<u>26,868</u>	<u>2.49</u>	<u>25,068</u>	<u>2.45</u>
<i>Secured borrowings:</i>								
FFELP Loan securitizations	96,656	.98	107,008	1.12	99,578	.97	107,119	1.13
Private Education Loan securitizations	20,600	2.05	19,212	2.11	20,159	2.06	18,895	2.10
ED Conduit Program Facility	5,734	.95	17,999	.82	7,083	.94	19,257	.81
FFELP ABCP Facilities	5,012	.96	5,364	.96	4,739	.98	4,691	1.06
Private Education Loan ABCP Facility	183	2.48	2,156	1.90	549	1.86	2,395	1.79
Acquisition financing <sup>(2)</sup>	524	4.79	824	4.83	563	4.79	848	4.84
FHLB-DM Facility	2,113	.25	1,274	.36	2,106	.28	1,172	.33
Total secured borrowings	<u>130,822</u>	<u>1.15</u>	<u>153,837</u>	<u>1.23</u>	<u>134,777</u>	<u>1.14</u>	<u>154,377</u>	<u>1.23</u>
Total	<u>\$157,292</u>	<u>1.38%</u>	<u>\$178,772</u>	<u>1.40%</u>	<u>\$161,645</u>	<u>1.37%</u>	<u>\$179,445</u>	<u>1.40%</u>
"Core Earnings" average balance and rate	\$157,292	1.38%	\$178,772	1.40%	\$161,645	1.37%	\$179,445	1.40%
Adjustment for GAAP accounting treatment	—	.03	—	.08	—	.03	—	.08
GAAP basis average balance and rate	<u>\$157,292</u>	<u>1.41%</u>	<u>\$178,772</u>	<u>1.48%</u>	<u>\$161,645</u>	<u>1.40%</u>	<u>\$179,445</u>	<u>1.48%</u>

(1) "Other" primarily consists of the obligation to return cash collateral held related to derivative exposure.

(2) Relates to the acquisition of \$25 billion of student loans at the end of 2010.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with GAAP. A discussion of our critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, transfers of financial assets and the VIE consolidation model, derivative accounting and goodwill and intangible assets can be found in our 2012 Form 10-K. There were no significant changes to these critical accounting policies during the first half of 2013.

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

**Interest Rate Sensitivity Analysis**

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at June 30, 2013 and December 31, 2012, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different than the asset index. The earnings sensitivity is applied only to financial assets and liabilities, including hedging instruments that existed at the balance sheet date and does not take into account new assets, liabilities or hedging instruments that may arise in 2013.

(Dollars in millions, except per share amounts)	As of June 30, 2013			As of June 30, 2012		
	Impact on Annual Earnings If:					
	Interest Rates		Funding Indices	Interest Rates		Funding Indices
	Increase 100 Basis Points	Increase 300 Basis Points	Increase 25 Basis Points <sup>(1)</sup>	Increase 100 Basis Points	Increase 300 Basis Points	Increase 25 Basis Points <sup>(1)</sup>
<b>Effect on Earnings:</b>						
Change in pre-tax net income before unrealized gains (losses) on derivative and hedging activities	\$ (53)	\$ (42)	\$ (246)	\$ (18)	\$ 24	\$ (334)
Unrealized gains (losses) on derivative and hedging activities	293	476	(1)	499	848	(9)
Increase in net income before taxes	\$ 240	\$ 434	\$ (247)	\$ 481	\$ 872	\$ (343)
Increase in diluted earnings per common share	\$ .53	\$ .96	\$ (.55)	\$ .96	\$ 1.75	\$ (.69)

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

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(Dollars in millions)	At June 30, 2013				
	Fair Value	Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
Effect on Fair Values:	\$	%	\$	%	
Assets					
FFELP Loans	\$108,033	\$(626)	(1)%	\$(1,255)	(1)%
Private Education Loans	36,531	—	—	—	—
Other earning assets	8,373	—	—	(1)	—
Other assets	7,487	(348)	(5)	(648)	(9)%
Total assets gain/(loss)	<u>\$160,424</u>	<u>\$(974)</u>	<u>(1)%</u>	<u>\$(1,904)</u>	<u>(1)%</u>
Liabilities					
Interest-bearing liabilities	\$148,046	\$(768)	(1)%	\$(2,133)	(1)%
Other liabilities	3,597	(95)	(3)	406	11
Total liabilities (gain)/loss	<u>\$151,643</u>	<u>\$(863)</u>	<u>(1)%</u>	<u>\$(1,727)</u>	<u>(1)%</u>

(Dollars in millions)	At December 31, 2012				
	Fair Value	Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
Effect on Fair Values:	\$	%	\$	%	
Assets					
FFELP Loans	\$125,042	\$(738)	(1)%	\$(1,438)	(1)%
Private Education Loans	36,081	—	—	—	—
Other earning assets	9,994	—	—	(1)	—
Other assets	8,721	(560)	(6)	(1,187)	(14)%
Total assets gain/(loss)	<u>\$179,838</u>	<u>\$(1,298)</u>	<u>(1)%</u>	<u>\$(2,626)</u>	<u>(1)%</u>
Liabilities					
Interest-bearing liabilities	\$166,071	\$(829)	—%	\$(2,298)	(1)%
Other liabilities	3,937	(422)	(11)	(274)	(7)
Total liabilities (gain)/loss	<u>\$170,008</u>	<u>\$(1,251)</u>	<u>(1)%</u>	<u>\$(2,572)</u>	<u>(2)%</u>

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, due to the ability of some FFELP loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

During the three months ended June 30, 2013 and 2012, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of Floor Income contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to

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the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed rate liabilities and equity. Item (i) will generally cause income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease.

Under the scenario in the tables above labeled “Impact on Annual Earnings If: Funding Indices Increase 25 Basis Points,” the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities in both the June 30, 2013 and June 30, 2012 analyses is the result of one-month LIBOR-indexed FFELP Loans (loans formerly indexed to commercial paper) being funded with three-month LIBOR and other non-discrete indexed liabilities. See “Asset and Liability Funding Gap” of this Item 7A for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivative and hedging activities as it relates to basis swaps that hedge the mismatch between the asset and funding indices.

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

### **Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of June 30, 2013. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the “gains (losses) on derivatives and hedging activities, net” line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

Management analyzes interest rate risk and in doing so includes all derivatives that are economically hedging our debt whether they qualify as effective hedges or not (“Core Earnings” basis). Accordingly, we are also presenting the asset and liability funding gap on a “Core Earnings” basis in the table that follows the GAAP presentation.

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GAAP-Basis

(Dollars in billions) Index	Frequency of Variable Resets	Assets <sup>(1)</sup>	Funding <sup>(2)</sup>	Funding Gap
3-month Treasury bill	weekly	\$ 5.7	\$ —	\$ 5.7
Prime	annual	0.6	—	0.6
Prime	quarterly	4.1	—	4.1
Prime	monthly	18.6	—	18.6
Prime	daily	—	1.2	(1.2)
PLUS Index	annual	0.4	—	0.4
3-month LIBOR	daily	—	—	—
3-month LIBOR	quarterly	—	89.7	(89.7)
1-month LIBOR	monthly	12.9	34.1	(21.2)
1-month LIBOR daily	daily	101.9	—	101.9
CMT/CPI Index	monthly/quarterly	—	1.3	(1.3)
Non-Discrete reset <sup>(3)</sup>	monthly	—	14.5	(14.5)
Non-Discrete reset <sup>(4)</sup>	daily/weekly	8.3	4.5	3.8
Fixed Rate <sup>(5)</sup>		9.0	16.2	(7.2)
<b>Total</b>		<u>\$161.5</u>	<u>\$ 161.5</u>	<u>\$ —</u>

(1) FFELP Loans of \$46.6 billion (\$43.2 billion LIBOR index and \$3.4 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding (by index) includes all derivatives that qualify as hedges.

(3) Funding consists of auction rate securities, the ABCP Facilities and the FHLB-DM Facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposures.

(5) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity (excluding series B Preferred Stock).

The "Funding Gaps" in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly reset three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges and as a result the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

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### “Core Earnings” Basis

(Dollars in billions) Index	Frequency of Variable Resets	Assets <sup>(1)</sup>	Funding <sup>(2)</sup>	Funding Gap
3-month Treasury bill	weekly	\$ 5.7	\$ —	\$ 5.7
Prime	annual	0.6	—	0.6
Prime	quarterly	4.1	—	4.1
Prime	monthly	18.6	4.5	14.1
Prime	daily	—	1.2	(1.2)
PLUS Index	annual	0.4	—	0.4
3-month LIBOR	daily	—	6.0	(6.0)
3-month LIBOR	quarterly	—	67.8	(67.8)
1-month LIBOR	monthly	12.9	44.1	(31.2)
1-month LIBOR	daily	101.9	5.0	96.9
Non-Discrete reset <sup>(3)</sup>	monthly	—	14.5	(14.5)
Non-Discrete reset <sup>(4)</sup>	daily/weekly	8.3	4.5	3.8
Fixed Rate <sup>(5)</sup>		7.0	11.9	(4.9)
Total		<u>\$159.5</u>	<u>\$ 159.5</u>	<u>\$ —</u>

(1) FFELP Loans of \$14.9 billion (\$14.6 billion LIBOR index and \$0.3 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

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

(3) Funding consists of auction rate securities, the ABCP Facilities and the FHLB-DM Facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposures.

(5) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity (excluding series B Preferred Stock).

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or, when economical, have interest rate characteristics that we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe this risk is low, as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in recent years) can lead to a temporary divergence between indices resulting in a negative impact to our earnings.

### Weighted Average Life

The following table reflects the weighted average life of our earning assets and liabilities at June 30, 2013.

(Averages in Years)	Weighted Average Life
<b>Earning assets</b>	
Student loans	7.6
Other loans	7.2
Cash and investments	0.1
Total earning assets	<u>7.2</u>
<b>Borrowings</b>	
Short-term borrowings	0.5
Long-term borrowings	6.6
Total borrowings	<u>5.9</u>

**Item 4. Controls and Procedures**

***Disclosure Controls and Procedures***

Our management, with the participation of our chief principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of June 30, 2013. Based on this evaluation, our chief principal executive and principal financial officers concluded that, as of June 30, 2013, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (b) accumulated and communicated to our management, including our chief principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.”

***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We and our subsidiaries and affiliates are subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of our reports to credit bureaus. In addition, our collections subsidiaries are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that those subsidiaries have violated a federal or state law in the process of collecting their accounts. We believe that these claims, lawsuits and other actions will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we and our subsidiaries and affiliates receive information and document requests from state attorneys general, legislative committees and administrative agencies concerning certain business practices. Our practice has been and continues to be to cooperate with these bodies and to be responsive to any such requests.

For a description of these items and other litigation to which we are a party, see our 2012 Form 10-K and subsequent filings with the SEC.

### Item 1A. Risk Factors

Readers should carefully consider the following risk factors, in addition to the risk factors disclosed in Item 1A, Risk Factors, of our 2012 Form 10-K.

***Our businesses are regulated by various state and federal laws and regulations, and our failure to comply with these laws and regulations may result in significant costs, sanctions, litigation or the loss of insurance and guarantees on affected FFELP Loans.***

The Bank is subject to state and FDIC regulation, oversight and regular examination, including by the CFPB. The FDIC and state regulators have the authority to impose fines, penalties or other limitations on the Bank's operations should they conclude that its operations are not compliant with applicable laws and regulations. At the time of this filing, the Bank is subject to a 2008 cease and desist order issued jointly by the FDIC and the UDFI for weaknesses in its compliance function. Many of these weaknesses have previously been attributed to the Bank's oversight of significant activities performed outside the Bank by Company affiliates.

In July 2013, the FDIC notified the Bank that it plans to replace the existing cease and desist order with a new formal enforcement action that will more specifically address certain cited violations of Section 5 of the Federal Trade Commission Act, including with respect to the Servicemembers Civil Relief Act, and the Equal Credit Opportunity Act and its implementing regulation, Regulation B, which could include civil money penalties and restitution obligations. The Bank has not been notified by the UDFI that it intends to join the FDIC in issuing the new enforcement action. We have made and continue to make changes to the Bank's oversight of significant activities performed outside the Bank by Company affiliates, including in connection with our pursuit of a strategic plan to separate our existing organization into two publicly traded companies. We could be required to, or otherwise determine to, make further changes to the business practices and products of the Bank and our other affiliates to respond to regulatory concerns. Such changes to the business practices and products of the Bank or our other affiliates in response to current or future regulatory concerns and enforcement, or other action by the above referenced or other regulators, which may include civil money penalties and require restitution to customers, could materially and adversely impact our business, financial condition and results of operations.

***The proposed separation of our current business into two, separate, publicly traded entities is contingent upon the satisfaction of a number of conditions, which may not be consummated on the terms or timeline currently contemplated or may not achieve the intended results. Though we are unaware of any applicable requirement***



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*that the FDIC or UDFI approve of the proposed separation, we can give no assurances that they or other consumer or financial regulators will not affect the timing, manner or terms of the separation.*

We are currently pursuing a strategic plan to separate our existing organization into two publicly traded companies, an education loan management company and a consumer banking company. It is expected the separation, if completed, will occur in the first half of 2014. Our ability to timely effect the separation is subject to several conditions, including, among others, the receipt of a favorable private letter ruling from the Internal Revenue Service and the SEC declaring effective a registration statement relating to the securities of the separated entity. We cannot assure that we will be able to complete the separation in a timely fashion, if at all. For these and other reasons, the separation may not be completed on the terms or timeline contemplated. Further, if the separation is completed, it may not achieve the intended results. Any such difficulties could adversely affect our business, results of operations or financial condition.

The Bank is subject to state and FDIC regulation, oversight and regular examination and it remains subject to a cease and desist order originally issued in 2008 citing weaknesses in its compliance function. Many of these weaknesses have previously been attributed to the Bank's oversight of significant activities performed outside the Bank by Company affiliates—a condition that we are seeking, in part, to eliminate through the separation of our current business into two companies. There can be no assurance the FDIC or UDFI will approve of our efforts to operationalize the Bank and minimize the number of activities performed by Company affiliates or acknowledge these efforts under the existing cease and desist order. Our failure to comply with various laws and regulations or with the terms of the cease and desist order, or any assertion of any such failure that is raised by any regulator could result in litigation expenses, restitution, fines, business sanctions, and limitations on our ability to fund Private Education Loans, which are currently funded by deposits raised by the Bank, or restrictions on the operations of the Bank. Furthermore, the FDIC or the UDFI could require us to undertake significant changes to the manner in which we currently provide services to the Bank through our affiliates. If we are unable to demonstrate to the FDIC and UDFI the benefits of the design and execution of the proposed separation, these changes could come at significant cost and impede or delay our ability to complete the separation of our business in the time or manner we currently estimate. The imposition of fines, penalties or other limitations on the Bank's business or our ability to complete the separation could materially and adversely impact our business, financial condition and results of operations.

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

### *Share Repurchases*

The following table provides information relating to our purchase of shares of our common stock in the three months ended June 30, 2013.

<u>(In millions, except per share data)</u>	<u>Total Number of Shares Purchased<sup>(1)</sup></u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs<sup>(2)</sup></u>	<u>Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs<sup>(2)</sup></u>
Period:				
April 1 — April 30, 2013	4.1	\$ 20.29	3.7	\$ 126
May 1 — May 31, 2013	.3	22.31	—	126
June 1 — June 30, 2013	7.7	23.18	5.4	—
<b>Total second-quarter 2013</b>	<b>12.1</b>	<b>\$ 22.17</b>	<b>9.1</b>	

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below, and (ii) shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

(2) In February 2013, our board of directors authorized us to purchase up to \$400 million of shares of our common stock. An additional \$400 million of purchases was authorized in July 2013.

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The closing price of our common stock on the NASDAQ Global Select Market on June 28, 2013 was \$22.86.

**Item 3. Defaults upon Senior Securities**

Nothing to report.

**Item 4. Mine Safety Disclosures**

Nothing to report.

**Item 5. Other Information**

Nothing to report.

**Item 6. Exhibits**

The following exhibits are furnished or filed, as applicable:

10.1	Agreement and Release, dated May 29, 2013, by and between SLM Corporation and Albert L. Lord†
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

† Management Contract or Compensatory Plan or Arrangement



**AGREEMENT AND RELEASE**

SLM Corporation and its subsidiaries, predecessors, affiliates and successors and entities that after the date hereof become former direct or indirect subsidiaries of SLM Corporation (collectively “**SLM**”) and I, Albert L. Lord, have reached the following understanding and agreement. In exchange for the Plan Benefits and other consideration listed below, I agree to comply fully with the terms of this Agreement and Release (“**Agreement and Release**”). In exchange for my agreements, SLM agrees to provide me with the Plan Benefits and other consideration listed below, to which I am not otherwise entitled. SLM Corporation represents and warrants that this Agreement and Release has received all necessary corporate approvals.

**(1) Plan Benefits and other consideration:**

(a) I shall cease to be an employee, officer and director of SLM as of May 29, 2013 (the “**Separation Date**”), and I hereby agree (i) to resign and relinquish, effective as of the Separation Date, all director and officer positions (or comparable positions) with or in connection with SLM; (ii) upon the request of SLM Corporation from time to time, to resign and relinquish my position or membership on behalf of SLM with or in connection with any trade or similar organization and take any action reasonably requested by the SLM Corporation to facilitate another employee of SLM succeeding to such position or membership; (iii) to complete any formalities by signing any required resignation letters or other similar documents that are reasonably requested by any SLM company in connection with such resignation; and (iv) to continue to comply with the provisions of this Agreement and Release.

(b) Unless I have revoked this Agreement and Release pursuant to Section (9) below, pursuant to Section 3.02(a)(III) of the SLM Corporation Executive Severance Plan for Senior Officers (the “**Severance Plan**”) as applied to my termination of employment hereunder, SLM will pay me severance in the following manner: (i) any compensation and benefits, including unused vacation, accrued through the Separation Date (“**Accrued Benefits**”); (ii) a total amount of \$6,757,354, less withholding taxes and other deductions required by law, payable in a lump sum in cash on the first business day on or immediately following the eighth calendar day after my signature on this Agreement and Release (the “**First Payment Date**”); and (iii) \$3,234,000, less withholding taxes and other deductions required by law, payable in a lump sum in cash when annual bonus payments are made to named executive officers of SLM Corporation but no later than February 28, 2014 (such payments set forth in sub-clauses (ii) and (iii), the “**Plan Benefits**”).

(c) Medical/Dental/Vision Continuation: My current medical, dental, and vision coverage will continue through the end of the month of my termination. Beginning on the first day of the month following my Separation Date, I will have the right to continue my current medical, dental, and vision coverage through the Consolidated Omnibus Budget Reconciliation Act (“**COBRA**”) for up to 24 months. Under the Severance Plan, if I properly elect COBRA continuation coverage, SLM will pay the employer portion of the total cost of my medical, dental and vision insurance premiums for the 24-month period of June 1, 2013 through May 31, 2015.

(d) Other Benefit Programs: I waive future coverage and benefits under all SLM disability programs, but this Agreement and Release does not affect my eligibility for other SLM medical, dental and vision insurance (as described above in Section (1)(c)), life insurance, retirement, and benefit plans. Whether I sign this Agreement and Release or not, I understand that my rights and continued participation in those plans will be governed by their terms, and that I generally will become ineligible for them shortly after my termination, after which I may be able to purchase continued coverage under certain of such plans. I understand that, except for the benefits that may be due under the 401(k) plans, deferred compensation, equity or pension plans to which I may be entitled under SLM’s standard employee benefit plans for similarly situated employees and executives, I will not receive any other wage, paid time off, or other similar payments from SLM or any of the entities discussed in Section (2) below.

(e) Equity Compensation Awards: SLM Corporation agrees that, on the First Payment Date, (i) all of my outstanding stock options, to the extent unvested, will become vested and exercisable and will remain exercisable until the first anniversary of the Separation Date; and (ii) my outstanding restricted stock units and performance stock units will continue to vest in accordance with their

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existing terms; *provided* that, in the event of the consummation of the separation of SLM Corporation's existing businesses into two separate, publicly traded entities, such performance stock units will be treated in the same manner as similar awards granted to the named executive officers of SLM Corporation. SLM Corporation agrees that, in the event that it is not reasonably practicable to treat such performance stock units in such manner, it will permit me to accelerate their vesting and settlement and, should such acceleration result in any taxes, interest or penalties under Section 409A (as defined below), it will indemnify me for any such actually imposed and paid taxes, interest and penalties under Section 409A not to exceed 20% of the value of such performance stock units at the effective time of acceleration (for the avoidance of doubt, without any gross-up).

(f) Expense Reimbursement: SLM Corporation agrees to reimburse me (i) as soon as reasonably practicable after the Separation Date, for reasonable out-of-pocket business expenses incurred by me in the ordinary course of business in connection with my employment by SLM in accordance with SLM Corporation's established travel and entertainment policies for similarly situated employees, subject to my provision of documentation of the incurred expenses reasonably satisfactory to SLM Corporation prior to or within 2 weeks following the Separation Date; (ii) for reasonable transition expenses incurred by me following my termination of employment ("**Transition Expenses**"), which Transition Expenses will (x) not exceed an aggregate amount of \$300,000 (the "**Transition Expenses Cap**"), (y) be subject to my provision of documentation of the incurred expenses reasonably satisfactory to SLM Corporation and (z) be limited to expenses relating to rent and furnishings for an office space in Washington, D.C. (excluding any offices of SLM), moving expenses for my business effects from Delaware and Virginia to Washington, D.C. and salary and benefits payable to my executive assistant and similar ancillary Transition Expenses; and (iii) for up to \$35,000 in legal fees and expenses reasonably incurred in connection with the negotiation and execution of this Agreement and Release, subject to my provision of non-privileged documentation of the incurred expenses reasonably satisfactory to SLM Corporation. Provision of documentation pursuant to this Section 1(f) will be made to the attention of Executive Vice President, Administration (currently, Joni Reich) at the physical address listed in Section (13) below and the electronic mail address of [joni.reich@salliemae.com](mailto:joni.reich@salliemae.com).

(2) **Release:** In consideration of the Plan Benefits and other consideration set forth in Section (1) above, I agree to release SLM, and all of its subsidiaries, affiliates, predecessors, successors, and all related companies, and all of the former and current officers, employees, directors, agents, representatives and employee benefit programs (and the trustees, administrators, fiduciaries, and insurers of such programs) of any of them (collectively, "**Released Parties**") from all actions, charges, claims, demands, damages or liabilities of any kind or character whatsoever, known or unknown, which I now have or may have had through the date I sign this Agreement and Release relating in any way to my employment or service as an officer, director or employee of SLM or the termination thereof, except claims that the law does not permit me to waive by signing this Agreement and Release. For example, I am releasing all common law contract, tort, or other claims I might have, as well as all claims I might have under the Age Discrimination in Employment Act ("**ADEA**"), the WARN Act, Title VII of the Civil Rights Act of 1964, Sections 1981 and 1983 of the Civil Rights Act of 1866, National Labor Relations Act ("**NLRA**"), the Americans with Disabilities Act ("**ADA**"), Family and Medical Leave Act, Genetic Information Nondiscrimination Act ("**GINA**") of 2008, the Employee Retirement Income Security Act of 1974 ("**ERISA**"), individual relief under the Sarbanes-Oxley Act of 2002, or individual relief under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, Delaware Fair Employment Practices Act, Delaware Equal Pay Law, Handicapped Persons Employment Protection Act, Delaware Discrimination in Employment Act or The American Recovery and Reinvestment Act of 2009, and any other federal, state or local laws. Further, except as specifically provided for in Section (1)(f)(iii) above, I waive any right to payment of attorneys' fees, which I may have incurred. It is understood and agreed that by entering into this Agreement and Release, SLM does not admit any violation of law, or any of my rights, and has entered into this Agreement and Release solely in the interest of resolving finally all claims and issues relating to my employment and separation.

SLM and I ("**Parties**") expressly agree, however, that nothing in this Agreement and Release shall preclude my participation as a member of a class in any suit or regulatory action brought against the

Released Parties (not initiated by me) arising out of or relating to any alleged securities violations or diminution in the value of SLM securities arising out of any facts, circumstances, actions or omissions arising or occurring after the Separation Date (“**Securities Class Actions**”). SLM agrees that the release under this Section (2) shall not cover, and I reserve and do not waive, my rights to seek further indemnification, advancement, and/or contribution under the By-Laws of SLM or any indemnification agreement or policy applicable to officers or directors of SLM Corporation or any subsidiary thereof (each, an “**Indemnification Agreement**”). SLM hereby reaffirms that I am entitled to indemnification and advancement after termination of my employment, for actions taken or omissions, in each case in my capacity as an officer or director of SLM Corporation or applicable subsidiary thereof under the bylaws of such applicable subsidiary or SLM and any applicable Indemnification Agreement (subject to the provisions of the By-Laws, any such Indemnification Agreement and Delaware law, which limit indemnity and/or advancement in certain circumstances). SLM further agrees that the release under this Section (2) shall not cover, and I reserve and do not waive, my rights to seek direct coverage under any applicable directors and officers liability or indemnity policy, errors and omissions policy or other liability or indemnity insurance policy of SLM (collectively, “**Liability Policies**”) for actions taken or omissions, in each case as an officer or director of SLM Corporation or any subsidiary thereof. To the extent (i) commercially reasonable and (ii) consistent with coverage obtained in the ordinary course for former officers and directors, SLM undertakes to continue to include me as an insured individual under SLM’s Liability Policies.

(3) **Covenant Not To Sue:** I agree not to sue the Released Parties with respect to any claims, demands, liabilities or obligations released by this Agreement and Release. The Parties agree, however, that nothing contained in this covenant not to sue or elsewhere in this Agreement and Release shall:

(a) prevent me from challenging, under the Older Workers Benefits Protection Act (29 U.S.C. § 626), the knowing and voluntary nature of my release of any age claims in this Agreement and Release before a court, the Equal Employment Opportunity Commission (“**EEOC**”), or any other federal, state, or local agency;

(b) prevent me from enforcing any future claims or rights that arise under the ADEA after I have signed this Agreement and Release; or

(c) prohibit or restrict me from: (i) making any disclosure of information required by law; (ii) filing a charge, initiating, making disclosures, testifying in, providing information to, or assisting in an investigation or proceeding brought by or to any governmental or regulatory body, or official, or in any judicial or administrative action; (iii) making disclosures that are required or protected under the Sarbanes-Oxley Act of 2002, the Securities Exchange Act of 1934, and any other law, rule or regulation, subject to the jurisdiction of the Securities and Exchange Commission; or (iv) from testifying, participating in or otherwise assisting in a proceeding relating to an alleged violation of any federal or state employment law or any federal law relating to fraud or any rule or regulation of the Securities and Exchange Commission (“**SEC**”) or any self-regulatory organization.

Notwithstanding anything to the contrary in this paragraph, and except for personal relief provided pursuant to Securities Class Actions not initiated by me, I hereby waive and release any right to receive any personal relief (for example, money) as a result of any investigation or proceeding of the U.S. Department of Labor, EEOC, U.S. Department of Education, OIG, SEC, Consumer Financial Protection Bureau, or any federal, state, or local government agency or court. Further, with my waiver and release of claims in this Agreement and Release, I specifically assign to the Released Parties my right to any recovery arising from any such investigation or proceeding.

(4) **Additional Representations and Promises:**

I further acknowledge and agree that:

(a) I will return all SLM and Released Parties’ property in my possession or control to them.

(b) Other than as previously disclosed to SLM’s General Counsel or SLM’s Board of Directors, I hereby represent and warrant that I have not reported any illegal or potentially illegal conduct or activities to any supervisor, manager, department head, human resources representative, director, officer, agent or any other representative of SLM, any member of the legal or compliance

departments, or to the Code of Business Conduct hotline and have no knowledge of any such illegal or potentially illegal conduct or activities. I have disclosed to SLM any information I have concerning any conduct involving SLM that I have reason to believe may be unlawful or that involves any false claims to the United States. I promise to cooperate fully in any investigation SLM undertakes into matters occurring during my employment with SLM. I understand that nothing in this Agreement and Release prevents me from cooperating with any U.S. government investigation. In addition, to the fullest extent permitted by law, I hereby irrevocably assign to the U.S. government any right I might have to any proceeds or awards in connection with any false claims proceedings against SLM.

(c) I agree that, for a period of 24 months following the Separation Date (the “**Standstill Period**”), I will not (alone or with any of my affiliates or with through anyone acting on my behalf or in concert with me), directly or indirectly, without the prior written consent of SLM Corporation, (i) enter, agree to enter, propose, seek or offer to enter into or facilitate any tender offer, merger, business combination, recapitalization, restructuring or other extraordinary transaction involving SLM Corporation or any of its subsidiaries, (ii) make, or in any way participate or engage in, any solicitation of proxies to vote, or seek to advise or influence any person with respect to the voting of, any voting securities of SLM Corporation; (iii) form, join or in any way participate in a “group” (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934) with respect to any voting securities of SLM Corporation; (iv) call, request the calling of, or otherwise seek or assist in the calling of a special meeting of the shareholders of SLM Corporation; (v) otherwise act, alone or in concert with others, to seek to control or influence the management or the policies of SLM; (vi) disclose any intention, plan or arrangement prohibited by, or inconsistent with, the foregoing; or (vii) advise, assist or encourage or enter into any discussions, negotiations, agreements or arrangements with any other persons in connection with the foregoing (collectively, “**Control Activities**”).

(d) If the Board of Directors of SLM Corporation, after reasonable notice to me of its intentions and after I have had a reasonable opportunity to communicate with the Board of Directors regarding the matter, reasonably and in good faith determines that I breached or affirmatively have threatened to breach any provisions of this Agreement and Release, and if after notice of such determination I have not promptly cured such breach (if such breach is capable of cure) or withdrawn such affirmative threat of breach, I agree that SLM may cease to provide any remaining payments of Plan Benefits; *it being understood* that, upon such notice by the Board of Directors of SLM Corporation, SLM will not be required to provide such remaining payments of Plan Benefits to me prior to the determination by the Board of Directors that there has been no breach or threatened breach (such determination not to be unreasonably delayed).

(e) I understand that SLM in the future may change employee benefits or pay. I understand that my job will be refilled.

(f) I have not suffered any job-related wrongs or injuries, such as any type of discrimination, for which I might still be entitled to compensation or relief in the future. I have properly reported all hours that I have worked and, except for Accrued Benefits, I have been paid all wages, overtime, commissions, compensation, benefits, and other amounts that SLM or any Released Party should have paid me in the past.

(g) I intentionally am releasing claims that I do not know I might have and that, with hindsight, I might regret having released. I have not assigned or given away any of the claims that I am releasing.

(h) If I initially did not think any representation I am making in this Agreement and Release was true, or if I initially was uncomfortable making it, I resolved all my concerns before signing this Agreement and Release. I have carefully read this Agreement and Release, I fully understand what it means, I am entering into it knowingly and voluntarily, and all my representations in it are true. SLM would not have signed this Agreement and Release but for my promises and representations.

**(5) Adjudication and Waiver of Jury Trial:**

(a) THIS AGREEMENT AND RELEASE WILL BE DEEMED TO BE MADE IN AND IN ALL RESPECTS WILL BE INTERPRETED, CONSTRUED AND GOVERNED BY AND IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE WITHOUT REGARD TO

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ANY OTHERWISE APPLICABLE CONFLICTS OF LAW PRINCIPLES, WHETHER OF THE STATE OF DELAWARE OR OTHERWISE. Each Party irrevocably and unconditionally submits to the exclusive jurisdiction of the Court of Chancery of the State of Delaware, or, if the Court of Chancery of the State of Delaware declines to accept jurisdiction over a particular matter, any federal court within the State of Delaware, or, if each of the Court of Chancery of the State of Delaware and the federal courts within the State of Delaware decline to accept jurisdiction over a particular matter, any other state court within the State of Delaware, and, in each case, any appellate court therefrom (together, the “**Chosen Courts**”), for the purposes of any dispute, suit, action or other proceeding arising under or out of or related to this Agreement and Release. Each Party hereto irrevocably and unconditionally waives (and agrees not to plead or claim) any objection to the laying of venue of any dispute, action, suit or proceeding arising out of this Agreement and Release in the Chosen Courts, or that any such dispute, action, suit or proceeding brought in any such court has been brought in an inconvenient forum.

(b) EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY DISPUTE OR CONTROVERSY WHICH MAY ARISE UNDER THIS AGREEMENT IS LIKELY TO INVOLVE COMPLICATED AND DIFFICULT ISSUES, AND, THEREFORE, EACH PARTY HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT THAT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY DISPUTE, ACTION, SUIT OR PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT AND RELEASE. EACH PARTY ACKNOWLEDGES AND AGREES THAT ANY DISPUTE, ACTION OR PROCEEDING WHATSOEVER BETWEEN THEM RELATING TO THIS AGREEMENT AND RELEASE WILL INSTEAD BE TRIED IN A CHOSEN COURT BY A JUDGE SITTING WITHOUT A JURY. EACH PARTY CERTIFIES AND ACKNOWLEDGES THAT (i) NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF SUCH DISPUTE, ACTION, SUIT OR PROCEEDING, SEEK TO ENFORCE THE FOREGOING WAIVER, (ii) EACH PARTY UNDERSTANDS AND HAS CONSIDERED THE IMPLICATIONS OF THIS WAIVER AND (iii) EACH PARTY MAKES THIS WAIVER VOLUNTARILY.

(c) Each Party hereby agrees to bear his or its own legal fees, costs and expenses in connection with any dispute, suit, action or other proceedings arising under or out of or related to this Agreement and Release, regardless of which Party prevails.

**(6) Confidentiality, Intellectual Property, Non-Competition, and Non-Solicitation:** Except as required or permitted by statute, regulation or court order, as reasonably necessary to defend my rights hereunder, or pursuant to written consent given by SLM’s General Counsel, I agree not to disclose to anyone else any of the information or materials which are proprietary or trade secrets of SLM or are otherwise confidential. In addition, in consideration of the Plan Benefits and other consideration set forth in Section (1) above, I hereby acknowledge that I previously signed an Agreement Regarding Confidentiality, Intellectual Property, and Non-Solicitation and that I continue to be bound by the terms of that agreement except as modified in this Section (6). Notwithstanding the foregoing, in consideration of the Plan Benefits and other consideration set forth in Section (1) above, I agree as follows: I shall not, directly or indirectly, compete with SLM for a period of 24 months after the Separation Date (“**Restricted Period**”). For the purposes of this Section (6), “compete” means owning an interest in, managing, operating, financing, working for, consulting, advising, representing, or providing services to with or without compensation in any capacity, to any entity or enterprise engaged in any similar business as conducted by SLM at the time of my termination; *provided, however*, that owning an interest of less than five percent (5%) of any class of security issued by a publicly-traded company that competes with SLM will not constitute competing with SLM.

In further consideration of the Plan Benefits and other consideration set forth in Section (1) above, I agree that for the Restricted Period that I shall not, directly or indirectly, solicit or encourage any officer of SLM to leave the employ of SLM, or, directly or indirectly, hire any such officer or officers; *provided* that the foregoing shall not be violated solely by general advertising not targeted at any such officer or officers. Further, for the Restricted Period, I shall not, directly or indirectly, contact, for the purpose of soliciting business, or accept business that SLM could otherwise perform from any of SLM’s customers or prospective customers with whom I communicated within the last two (2) years of my employment.



I expressly agree that the markets served by SLM extend nationally are not dependent on the geographic location of the personnel or the businesses by which they are employed and that the restrictions set forth in this Section (6) have been designed to be reasonable and are no greater than are required for the protection of SLM and do not prevent me from earning a livelihood by working in positions that do not compete with SLM. In the event that a court shall determine that any provision of the Agreement and Release is unenforceable, the Parties shall request that the court construe this Agreement and Release in such a fashion as to render it enforceable and to revise time, geographic and functional limits to those minimum limits that the court believes are reasonable to protect the interests of SLM. I acknowledge and agree that this covenant has unique, substantial and immeasurable value to SLM, that I have sufficient skills to provide a livelihood for me while this covenant remains in force, and that this covenant will not interfere with my ability to work consistent with my experience, training, and education. To enable SLM to monitor compliance with the obligations imposed by this Agreement and Release, I further agree to inform in writing Sallie Mae's Senior Vice President, Human Resources of the identity of my subsequent employer(s) and my prospective job title and responsibilities prior to beginning employment. I agree that this notice requirement shall remain in effect for twelve (12) months following the termination of my employment.

If (i) the Board of Directors of SLM Corporation, after reasonable notice to me of its intentions and after I have had a reasonable opportunity to communicate with the Board of Directors regarding the matter, reasonably and in good faith determines that I breached or affirmatively have threatened to breach any provisions of this Agreement and Release, and if after notice of such determination I have not promptly cured such breach (if such breach is capable of cure) or withdrawn such affirmative threat of breach, or (ii) a court at my request determines that all or a substantial part of such restrictions are held to be unenforceable or illegal, (x) I will return to SLM 50% (less withholdings previously withheld by law) of any previously paid Plan Benefits; (y) SLM Corporation will cancel 50% of all of my then-outstanding options whose vesting was accelerated pursuant to Section (1)(e) above ("**Accelerated Options**"), without any payment or consideration therefor; and (z) I will remit to SLM Corporation 50% of the after-tax value of any Accelerated Options (which after-tax value will equal 60% of the difference between the sale price of any shares received upon exercise of such Accelerated Options and the exercise price paid for such shares) realized on any sale by me of any shares acquired upon the exercise of such Accelerated Options, without any payment or consideration therefor. The illegality, unenforceability, or ineffectiveness of any provision of this Section (6) shall not affect the legality, enforceability, or effectiveness of any other provision of this Agreement and Release. Notwithstanding the confidentiality provisions identified in this Section (6), I may disclose my SLM restrictive covenants to prospective employers and agree that SLM may provide a copy of this Agreement and Release to my prospective or future employers.

(7) **Non-Disparagement:** I agree not to disparage SLM, its business practices, products and services, or any other entity or person covered by this Agreement and Release. SLM Corporation agrees to direct the members of the Board of Directors and the executive officers of SLM Corporation not to disparage me. Each Party understands and agrees that the immediately preceding sentences will not prevent the other Party (including, in the case of SLM, the members of the Board of Directors and the executive officers of SLM Corporation) from complying with applicable law or responding to informal or formal requests for information from governmental authorities or lawful process, from taking any action in defense of any litigation or arbitration or similar proceeding or from asserting any claim or defense in connection with any litigation arising with respect to this Agreement and Release. Further, each Party understands and agrees that the first two sentences of this Section (7) do not prevent any Party from (i) engaging in normal market promotion in support of competitive business activities after the expiration of the Restricted Period or (ii) engaging in Control Activities after the expiration of the Standstill Period.

(8) **Review Period:** I hereby acknowledge (a) that I initially received a copy of the original draft of this Agreement and Release on or before the Separation Date; (b) that I was offered a period of 21 calendar days to review and consider it; (c) that I understand I could use as much of the 21 calendar day period as I wish prior to signing; and (d) that I was strongly encouraged to consult and did consult with an attorney in writing before signing this Agreement and Release, and understood whether or not to do so was my decision. I waive any rights to further time to consider the Agreement and Release.

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(9) **Revocation of Claims:** I understand that I may revoke the waiver of the ADEA claims made in this Agreement and Release within seven (7) days of my signing. If I revoke, my waiver and release of claims under ADEA shall not be effective or enforceable and I will not receive 70% of the Plan Benefits. Revocation of claims can be made by delivering a written notice of revocation in accordance with Section (13).

(10) **Section 409A:** This Agreement and Release is intended to meet the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the regulations and interpretive guidance promulgated thereunder (collectively, "**Section 409A**"), with respect to amounts subject thereto, and will be interpreted and construed consistent with that intent. No expenses eligible for reimbursement, or in-kind benefits to be provided, during any calendar year will affect the amounts eligible for reimbursement in any other calendar year, to the extent subject to the requirements of Section 409A, and no such right to reimbursement or right to in-kind benefits will be subject to liquidation or exchange for any other benefit. For purposes of Section 409A, each payment in a series of installment payments provided under this Agreement and Release will be treated as a separate payment. Any payments to be made under this Agreement and Release upon a termination of employment will only be made upon a "separation from service" under Section 409A. SLM makes no representations that the payments provided under this Agreement and Release comply with Section 409A, and in no event will SLM be liable for any taxes, interest, penalties or other expenses that may be incurred by me on account of non-compliance with Section 409A, other than as specifically provided in Section (1)(e) above. Notwithstanding any other provision with respect to the timing of payments under this Agreement and Release, to the extent necessary to comply with the requirements of Section 409A, any payments to which I may become entitled under this Agreement and Release which are subject to Section 409A (and not otherwise exempt from its application) that are payable (i) in a lump sum within six months following the date of termination will be withheld until the first business day after the six-month anniversary of the date of termination, at which time I will be paid the amount of such lump sum payments in a lump sum and (ii) in installments within six months following the date of termination will be withheld until the first business day after the six-month anniversary of the date of termination, at which time I will be paid the aggregate amount of such installment payments in a lump sum, and after the first business day of the seventh month following the date of termination and continuing each month thereafter, I will be paid the regular payments otherwise due to me in accordance with the payment terms and schedule set forth herein.

(11) I acknowledge that I have read and understand all of the provisions of this Agreement and Release. This Agreement and Release represents the entire agreement between the Parties concerning the subject matter hereof and shall not be altered, amended, modified, or otherwise changed except by a writing executed by both Parties. I understand and agree that this Agreement and Release, if not timely revoked pursuant to Section (9) above, is final and binding when executed by me. I sign this document freely, knowingly and voluntarily. I acknowledge that I have not relied upon any representation or statement, written or oral, not set forth in this Agreement and Release. If any provision of this Agreement and Release is held by a court of competent jurisdiction to be unenforceable or contrary to law, the remainder of that provision and the remaining provisions of this Agreement and Release will remain in full force and effect to the maximum extent permitted by applicable law. If I challenge the validity of this Agreement and Release and this Agreement and Release is held to be unenforceable or contrary to law, I agree to repay the Plan Benefits I received.

(12) In addition, in consideration of the Plan Benefits and other consideration set forth in Section (1) above, I further agree to cooperate with SLM, its affiliates, and its legal counsel in any legal proceedings currently pending or brought in the future against SLM, including, but not limited to: (1) participation as a witness; (2) drafting, producing, and reviewing documents; (3) assisting with interviews, depositions, discovery, hearings, and trial; and (4) contacting SLM. In the event I am requested, with reasonable notice, to travel as part of this litigation cooperation, SLM agrees to pay my reasonable out of pocket expenses.

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(13) Your and SLM Corporation's respective addresses are set forth below. Any notice provided for or concerning the Agreement shall be in writing and shall be deemed sufficiently given when delivered by hand, sent by certified mail, return receipt requested, sent by courier service or sent by electronic mail to the respective address of the other party as set forth below, or to such other address as either party may supply to the other by way of a notice conforming with this provision.

If to SLM Corporation, to:

SLM Corporation  
300 Continental Drive  
Newark, DE 19713  
Attention: General Counsel  
*Email:* Laurent.Lutz@salliemae.com

If to Albert Lord, to:

Albert Lord  
1805 River Watch Lane  
Annapolis, MD 21401  
*Email:* ALord@crvslm.com

Notices shall be deemed delivered upon actual delivery to, or tender to and rejection by, the person to whom it is addressed.

(14) This Agreement and Release may be signed in counterpart (including by pdf or other electronic signature), each of which shall be considered an original but all of which taken together shall constitute only one instrument.

**Before you sign this Agreement and Release, please take it home, read through each section and carefully consider it. SLM recommends that you discuss it with your personal attorney. You have up to 21 calendar days to consider this Agreement and Release. You may not make any changes to the terms of this Agreement and Release. By signing this Agreement and Release, you will be waiving any claims whether known or unknown.**

/s/ Albert L. Lord  
Name: Albert L. Lord

5/29/2013  
Date

/s/ Laurent C. Lutz  
Name: Laurent C. Lutz  
Executive Vice President, General Counsel and Corporate Secretary

5/29/2013  
Date

**SLM CORPORATION**  
**COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**  
(Dollars in millions)

	Years Ended					Six Months Ended Jun 30,	
	2008	2009	2010	2011	2012	2012	2013
Income (loss) from continuing operations before income taxes	\$ (46)	\$ 799	\$1,084	\$ 934	\$1,446	\$ 645	\$ 1,367
Add: Fixed charges	<u>5,909</u>	<u>3,038</u>	<u>2,279</u>	<u>2,404</u>	<u>2,562</u>	<u>1,324</u>	<u>1,126</u>
Total earnings	<u>\$5,863</u>	<u>\$3,837</u>	<u>\$3,363</u>	<u>\$3,338</u>	<u>\$4,008</u>	<u>\$ 1,969</u>	<u>\$ 2,493</u>
Interest expense	\$5,905	\$3,036	\$2,275	\$2,401	\$2,559	\$ 1,322	\$ 1,123
Rental expense, net of income	4	2	4	3	3	2	3
Total fixed charges	5,909	3,038	2,279	2,404	2,562	1,324	1,126
Preferred stock dividends	<u>111</u>	<u>172</u>	<u>131</u>	<u>28</u>	<u>31</u>	<u>16</u>	<u>15</u>
Total fixed charges and preferred stock dividends	<u>\$6,020</u>	<u>\$3,210</u>	<u>\$2,410</u>	<u>\$2,432</u>	<u>\$2,593</u>	<u>\$ 1,340</u>	<u>\$ 1,141</u>
<b>Ratio of earnings to fixed charges<sup>(1)(2)</sup></b>	<u>—</u>	<u>1.26</u>	<u>1.48</u>	<u>1.39</u>	<u>1.56</u>	<u>1.49</u>	<u>2.21</u>
<b>Ratio of earnings to fixed charges and preferred stock dividends<sup>(1)(3)</sup></b>	<u>—</u>	<u>1.20</u>	<u>1.40</u>	<u>1.37</u>	<u>1.55</u>	<u>1.47</u>	<u>2.18</u>

- (1) For purposes of computing these ratios, earnings represent income (loss) from continuing operations before income tax expense plus fixed charges. Fixed charges represent interest expensed and capitalized plus one-third (the proportion deemed representative of the interest factor) of rents, net of income from subleases.
- (2) Due to a pre-tax loss from continuing operations of \$46 million for the year ended December 31, 2008, the ratio coverage was less than 1:1. We would have needed to generate \$46 million of additional earnings in the year ended December 31, 2008 for the ratio coverage to equal 1:1.
- (3) Due to a pre-tax loss from continuing operations of \$46 million for the year ended December 31, 2008, the ratio coverage was less than 1:1. We would have needed to generate \$157 million of additional earnings in the year ended December 31, 2008 for the ratio coverage to equal 1:1.

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

I, John F. Remondi, certify that:

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

/s/ JOHN F. REMONDI

John F. Remondi  
President and Chief Executive Officer  
(Principal Executive Officer)  
August 5, 2013

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

I, Joseph A. DePaulo, certify that:

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

/s/ JOSEPH A. DEPAULO

Joseph A. DePaulo  
Executive Vice President – Banking and Finance  
(Principal Financial and Accounting Officer)  
August 5, 2013

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

In connection with the Quarterly Report of SLM Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John F. Remondi, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

/s/ JOHN F. REMONDI

John F. Remondi  
President and Chief Executive Officer  
(Principal Executive Officer)  
August 5, 2013

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

In connection with the Quarterly Report of SLM Corporation (the "Company") on Form 10-Q for the quarter ended June 30, 2013 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Joseph A. DePaulo, Executive Vice President – Banking and Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

JOSEPH A. DEPAULO

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Joseph A. DePaulo

Executive Vice President – Banking and Finance  
(Principal Financial and Accounting Officer)

August 5, 2013



