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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

Current Report Pursuant to Section 13 or 15(d) of
The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): July 15, 2004

SLM CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	**File No. 001-13251**	**52-2013874**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

11600 Sallie Mae Drive, Reston, Virginia	**20193**
(Address of principal executive offices)	(zip code)

Registrant's telephone number, including area code: **(703) 810-3000**

Not Applicable
(Former name or former address, if changed since last report)

Item 12. Results of Operations and Financial Condition

On July 15, 2004, SLM Corporation issued a press release with respect to its earnings for the fiscal quarter ended June 30, 2004, which is furnished as Exhibit 99.1 to this Current Report on Form 8-K. Additional information for the quarter, which is available on the Registrant's website at www.salliemae/investor/corpreports.html, is furnished as Exhibit 99.2.

SIGNATURES

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

SLM CORPORATION

By: /s/ C.E. ANDREWS

Name: C.E. Andrews
Title: Executive Vice President, Accounting and Risk Management

Dated: July 15, 2004

SLM CORPORATION

Form 8-K

CURRENT REPORT

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release dated July 15, 2004
99.2	Additional Information Available on the Registrant's Website

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Exhibit 99.1

SallieMae

NEWS RELEASE

FOR IMMEDIATE RELEASE

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SLM CORPORATION SECOND QUARTER LOAN ORIGINATIONS UP 24 PERCENT

Fee Income Businesses Grow 21 Percent

RESTON, Va., July 15, 2004—SLM Corporation (NYSE: SLM), commonly known as Sallie Mae, today reported second-quarter 2004 earnings and performance results that include $2.3 billion in preferred channel loan origination activity, a 24-percent increase from the prior year. Also included in the quarterly figures was a 32-percent jump in originations through Sallie Mae's owned brands, and a 21-percent increase in fee income, driven largely by the company's debt management operation.

Preferred channel loan originations consist of loans created by the company's owned or affiliated brands. These loans are a key measure of Sallie Mae's market share success and, as an indicator of future loan acquisition volume, drive the company's earnings growth. At quarter end, the company's total managed loan portfolio totaled $94.9 billion, a 14-percent increase from the same time last year.

In addition, the company reported that it is 98 percent complete in the wind down of its government-sponsored enterprise (GSE), with $2.2 billion in student loans remaining in the GSE, as compared to $16 billion at March 31, 2004. The company now expects to complete its full privatization in early 2005.

"We are pleased to be able to deliver this earnings growth while moving so near to full privatization," said Albert L. Lord, vice chairman and chief executive officer.

Sallie Mae reports financial results on a GAAP basis and also presents certain non-GAAP or "core cash" performance measures. The company's equity investors, credit rating agencies and debt capital providers request these "core cash" measures to monitor the company's business performance.

Sallie Mae reported second-quarter 2004 GAAP net income of $615 million, or $1.36 per diluted share, compared to $373 million, or $.80 per diluted share, in the year-ago period. GAAP net income for the first half of 2004 totaled $906 million compared to $789 million in 2003.

"Core cash" net income for the quarter was $237 million, up from $210 million in the year-ago period. On a diluted share basis, the company increased 18 percent in the quarter to $.52, compared to $.44 per diluted share in the 2003 second quarter. "Core cash" net interest income was $445 million for the quarter and $879 million for the first half of 2004, up from $393 million and $766 million for the same periods last year.

"Core cash" other income, which consists primarily of fees earned from guarantor servicing and debt management, was $166 million for the 2004 second quarter, down from $174 million for the prior quarter and up 21 percent from the year-ago quarter's $137 million. "Core cash" operating expenses were $199 million, down from $202 million in the prior quarter, and up from $183 million in the year-ago quarter.

A description of the "core cash" treatment and a full reconciliation to the GAAP income statement can be found at www.salliemae.com.

Total equity for the company at June 30, 2004, was $2.9 billion, an increase of $554 million from a year ago. Tangible capital stood at 1.93 percent of managed assets, as compared to 1.81 percent as of June 30, 2003.

The company will host its regular earnings conference call today at noon. Sallie Mae executives will be on hand to discuss various highlights of the quarter and to answer questions related to the company's performance. Individuals interested in participating should call the following number today, July 15, 2004, starting at 11:45 a.m. EDT: (877) 356-5689 (USA and Canada) or (706) 679-0623 (International). The conference call will be replayed continuously beginning Thursday, July 15, at 3:30 p.m. EDT and concluding at 11:59 p.m. EDT on Thursday, July 22. Please dial (800) 642-1687 (USA and Canada) or dial (706) 645-9291 (International) and use access code 7961444. In addition, there will be a live audio Web cast of the conference call, which may be accessed at *www.salliemae.com*. A replay will be available 30-45 minutes after the live broadcast.

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Statements in this release referring to expectations as to future market share, the successful consummation of any business acquisitions and other future developments are forward-looking statements, which involve risks, uncertainties and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations, and from changes in such laws and regulations, changes in the demand for educational financing or in financing preferences of educational institutions, students and their families, and changes in the general interest rate environment. For more information, see the company's filings with the Securities and Exchange Commission.

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SLM Corporation (NYSE: SLM), commonly known as Sallie Mae, is the nation's leading provider of education funding, managing nearly $95 billion in student loans for more than 7 million borrowers. The company primarily provides federally guaranteed student loans originated under the Federal Family Education Loan Program (FFELP), and offers comprehensive information and resources to guide students, parents and guidance professionals through the financial aid process. Sallie Mae was established in 1973 as a government-sponsored enterprise (GSE) called the Student Loan Marketing Association, and began the privatization process in 1997. Since then, the parent company name has changed, most recently to SLM Corporation. Through its specialized subsidiaries and divisions, Sallie Mae also provides an array of consumer credit loans, including those for lifelong learning and K-12 education, and business and technical products and services for colleges and universities. More information is available at *http://www.salliemae.com*. SLM Corporation and its subsidiaries, other than the Student Loan Marketing Association, are not sponsored by or agencies of the United States.

SLM CORPORATION
Supplemental Earnings Disclosure
June 30, 2004
(Dollars in millions, except earnings per share)

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
SELECTED FINANCIAL INFORMATION AND RATIOS — (GAAP Basis)					
Net income	$ 615	$ 291	$ 373	$ 906	$ 789
Diluted earnings per common share	$ 1.36	$ .64	$ .80	$ 2.00	$ 1.68
Return on assets	3.61%	1.86%	2.90%	2.77%	3.14%
NON-GAAP INFORMATION (See Explanation Below)					
"Core cash" net income	$ 237	$ 231	$ 210	$ 468	$ 413
"Core cash" diluted earnings per common share	$ .52	$ .51	$ .44	$ 1.03	$ .87
"Core cash" return on assets	.87%	.90%	.93%	.89%	.95%
OTHER OPERATING STATISTICS					
Average on-balance sheet student loans	$ 54,799	$ 52,892	$ 44,173	$ 53,846	$ 44,166
Average off-balance sheet student loans	39,318	37,786	37,811	38,552	36,527
Average Managed student loans	$ 94,117	$ 90,678	$ 81,984	$ 92,398	$ 80,693
Ending on-balance sheet student loans, net	$ 51,577	$ 54,414	$ 42,993		
Ending off-balance sheet student loans, net	43,324	37,735	40,121		
Ending Managed student loans, net	$ 94,901	$ 92,149	$ 83,114		
Ending Managed FFELP student loans, net	$ 85,015	$ 83,013	$ 76,093		
Ending Managed Private Credit Student Loans, net	9,886	9,136	7,021		
Ending Managed student loans, net	$ 94,901	$ 92,149	$ 83,114		

Non-GAAP "Core Cash" Earnings

In accordance with the Rules and Regulations of the SEC, we prepare financial statements in accordance with generally accepted accounting principles ("GAAP"). In addition to evaluating the Company's GAAP-based financial information, management, credit rating agencies, lenders and analysts also evaluate the Company on certain non-GAAP performance measures that we refer to as "core cash" measures. While "core cash" measures are not a substitute for reported results under GAAP, we rely on "core cash" measures in operating our business because we believe they provide additional information regarding the operational and performance indicators that are most closely assessed by management.

We report pro forma "core cash" measures, which are the financial performance measures used by management not only in developing our financial plans and tracking results, but also in establishing corporate performance targets and determining incentive compensation. Our "core cash" measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core cash" measures reflect only current period adjustments to GAAP earnings as described below. Accordingly, the Company's "core cash" measures presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and "core cash" measures follows.

1) **Securitization:** Under GAAP, certain securitization transactions are accounted for as sales of assets. Under "core cash," we present all securitization transactions as long-term non-recourse financings. The upfront "gains" on sale from securitization as well as ongoing "servicing and securitization revenue" presented in accordance with GAAP are excluded from "core cash" and replaced by the interest income, provision for loan losses, and interest expense as they are earned or incurred on the securitized loans.

2) **Derivative Accounting:** "Core cash" measures exclude the periodic unrealized gains and losses primarily caused by the one-sided mark-to-market derivative valuations prescribed by Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," and recognize the economic effect of these hedges, which results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life. We also exclude the gain or loss on our equity forward contracts that are required to be accounted for in accordance with SFAS No. 133 as derivatives and are marked to market through earnings.

3) **Floor Income:** The timing and amount (if any) of Floor Income earned is uncertain and in excess of expected spreads and, therefore, we exclude such income when it is not economically hedged from "core cash" measures. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed in more detail below, these derivatives do not qualify as effective accounting hedges and therefore are marked-to-market through the derivative market value adjustment. For "core cash" measures, we reverse the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received (net of Eurodollar futures contracts' realized gains or losses) in income.

4) **Other items:** We exclude certain transactions that are not considered part of our core business, including amortization of acquired intangibles, as well as gains and losses on certain sales of securities.

SLM CORPORATION
Consolidated Balance Sheets
(In thousands, except per share amounts)

	June 30, 2004	March 31, 2004	June 30, 2003
	(unaudited)	(unaudited)	(unaudited)
Assets			
Federally insured student loans (net of allowance for losses of $8,877; $20,592; and $55,800, respectively)	$ 16,729,709	$ 26,174,672	$ 34,422,041
Federally insured student loans in trust (net of allowance for losses of $33,364; $28,637; and $4,491, respectively)	31,104,748	24,062,169	4,258,526
Private Credit Student Loans (net of allowance for losses of $154,918; $154,222; and $160,350 respectively)	3,742,432	4,176,841	4,312,886
Academic facilities financings and other loans	928,209	1,104,226	1,177,178
Cash and investments	15,242,069	10,294,692	6,788,926
Restricted cash and investments	1,915,538	1,245,828	401,849
Retained Interest in securitized receivables	2,330,360	2,482,242	2,985,777
Goodwill and acquired intangible assets, net	618,930	589,078	583,676
Other assets	3,355,426	3,133,709	3,251,914
Total assets	$ 75,967,421	$ 73,263,457	$ 58,182,773
Liabilities			
Short-term borrowings	$ 8,063,041	$ 16,176,387	$ 24,619,758
Borrowings collateralized by loans in trust	31,958,701	24,595,289	4,243,000
Long-term notes	30,078,062	26,710,017	23,806,326
Other liabilities	2,946,951	3,044,113	3,147,517
Total liabilities	73,046,755	70,525,806	55,816,601
Commitments and contingencies*			
Stockholders' equity			
Preferred stock, par value $.20 per share, 20,000 shares authorized: 3,300; 3,300; and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000	165,000
Common stock, par value $.20 per share, 1,125,000 shares authorized: 478,722; 476,442; and 638,983 shares, respectively, issued	95,745	95,289	127,797
Additional paid-in capital	1,747,284	1,670,640	1,359,082
Accumulated other comprehensive income, net of tax	355,955	534,445	689,220
Retained earnings	1,683,563	1,153,100	3,386,218
Stockholders' equity before treasury stock	4,047,547	3,618,474	5,727,317
Common stock held in treasury at cost: 39,760; 33,533; and 188,491 shares, respectively	1,126,881	880,823	3,361,145
Total stockholders' equity	2,920,666	2,737,651	2,366,172
Total liabilities and stockholders' equity	$ 75,967,421	$ 73,263,457	$ 58,182,773

* Commitments to purchase loans, lines of credit and letters of credit were $34.6 billion, $1.0 billion and $.3 billion, respectively, at June 30, 2004.

SLM CORPORATION
Consolidated Statements of Income
(In thousands, except per share amounts)

	Quarters ended			Six months ended	
	June 30, 2004	**March 31, 2004**	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
	(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**	**(unaudited)**
Interest income:					
Federally insured student loans	$ 492,166	$ 468,967	$ 462,425	$ 961,133	$ 929,906
Private Credit Student Loans	76,613	76,589	87,892	153,202	175,464
Academic facilities financings and other loans	18,126	18,376	19,290	36,502	39,496
Investments	52,534	43,457	42,034	95,991	70,295
Total interest income	639,439	607,389	611,641	1,246,828	1,215,161
Interest expense	306,832	285,674	257,473	592,506	514,775
Net interest income	332,607	321,715	354,168	654,322	700,386
Less: provision for losses	28,344	39,818	36,449	68,162	78,994
Net interest income after provision for losses	304,263	281,897	317,719	586,160	621,392
Other income:					
Gains on student loan securitizations	197,840	113,954	314,220	311,794	620,023
Servicing and securitization revenue	124,037	136,658	200,207	260,695	388,819
Derivative market value adjustment	386,147	(116,743)	(205,295)	269,404	(324,358)
Guarantor servicing fees	23,249	34,971	25,259	58,220	60,453
Debt management fees	70,113	79,928	52,684	150,041	111,497
Other	68,115	58,955	59,083	127,070	108,657
Total other income	869,501	307,723	446,158	1,177,224	965,091
Operating expenses	206,051	208,877	189,867	414,928	369,232
Income before income taxes	967,713	380,743	574,010	1,348,456	1,217,251
Income taxes	352,787	89,278	201,316	442,065	428,008
Net income	614,926	291,465	372,694	906,391	789,243
Preferred stock dividends	2,864	2,886	2,875	5,750	5,750
Net income attributable to common stock	$ 612,062	$ 288,579	$ 369,819	$ 900,641	$ 783,493
Basic earnings per common share	$ 1.39	$ ..65	..82	$ 2.04	$ 1.72
Average common shares outstanding	439,901	442,664	452,174	441,283	454,365
Diluted earnings per common share	$ 1.36	$ ..64	$ ..80	$ 2.00	$ 1.68
Average common and common equivalent shares outstanding	448,184	451,747	465,132	449,966	467,402
Dividends per common share	$ ..19	$ ..17	$ ..17	$ ..36	$ ..25

SLM CORPORATION
Pro-Forma "Core Cash"
Consolidated Statements of Income
(In thousands, except per share amounts)

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Managed interest income:					
Managed federally insured student loans	$ 710,079	$ 687,222	$ 643,831	$ 1,397,301	$ 1,287,778
Managed Private Credit Student Loans	146,835	113,658	110,469	260,493	208,865
Academic facilities financings and other loans	18,126	18,376	19,290	36,502	39,496
Investments	56,026	47,936	43,892	103,962	73,135
Total Managed interest income	931,066	867,192	817,482	1,798,258	1,609,274
Managed interest expense	485,784	433,765	424,274	919,549	843,616
Net Managed interest income	445,282	433,427	393,208	878,709	765,658
Less: provision for losses	40,624	44,968	29,150	85,592	60,756
Net Managed interest income after provision for losses	404,658	388,459	364,058	793,117	704,902
Other income:					
Guarantor servicing fees	23,249	34,971	25,259	58,220	60,453
Debt management fees	70,113	79,928	52,684	150,041	111,497
Other	72,252	59,336	58,685	131,588	111,890
Total other income	165,614	174,235	136,628	339,849	283,840
Operating expenses	199,314	202,149	183,283	401,463	356,020
Income before income taxes	370,958	360,545	317,403	731,503	632,722
Income taxes	133,851	129,491	107,841	263,342	219,870
"Core cash" net income	237,107	231,054	209,562	468,161	412,852
Preferred stock dividends	2,864	2,886	2,875	5,750	5,750
"Core cash" net income attributable to common stock	$ 234,243	$ 228,168	$ 206,687	$ 462,411	$ 407,102
"Core cash" basic earnings per common share	$ ..53	$ ..52	$ ..46	$ 1.05	$ ..90
Average common shares outstanding	439,901	442,664	452,174	441,283	454,365
"Core cash" diluted earnings per common share	$ ..52	$ ..51	$ ..44	$ 1.03	$ ..87
Average common and common equivalent shares outstanding	448,184	451,747	465,132	449,966	467,402

SLM CORPORATION
Pro-Forma "Core Cash"
Reconciliation of GAAP Net Income to "Core Cash" Net Income
(In thousands)

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
GAAP net income	$ 614,926	$ 291,465	$ 372,694	$ 906,391	$ 789,243
"Core cash" adjustments:					
Net impact of securitization accounting	(70,822)	11,089	(247,986)	(59,733)	(513,264)
Net impact of derivative accounting	(561,534)	(99,490)	29,510	(661,024)	(85,301)
Net impact of Floor Income	24,327	60,780	(44,176)	85,107	(6,885)
Amortization of acquired intangibles and other	11,273	7,423	6,045	18,696	20,921
Total "core cash" adjustments before income taxes	(596,756)	(20,198)	(256,607)	(616,954)	(584,529)
Net tax effect (A)	218,937	(40,213)	93,475	178,724	208,138
Total "core cash" adjustments	(377,819)	(60,411)	(163,132)	(438,230)	(376,391)
"Core cash" net income	$ 237,107	$ 231,054	$ 209,562	$ 468,161	$ 412,852

(A) Such tax effect is based upon the Company's "core cash" effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

QuickLinks

Exhibit 99.2

SLM CORPORATION
SUPPLEMENTAL FINANCIAL INFORMATION
SECOND QUARTER 2004
(Dollars in millions, except per share amounts)

The following supplemental information should be read in connection with SLM Corporation's (the "Company") press release of second quarter 2004 earnings, dated July 15, 2004.

Statements in this Supplemental Financial Information release, which refer to expectations as to future developments, are forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements contemplate risks, uncertainties and other factors that may cause the actual results to differ materially from such forward-looking statements. Such factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations; changes in the demand for educational financing or in financing preferences of educational institutions, students and their families; and changes in the general interest rate environment. For more information, see our filings with the Securities and Exchange Commission ("SEC").

Definitions for capitalized terms in this document can be found in the Company's 2003 Form 10-K filed with the SEC on March 15, 2004.

RESULTS OF OPERATIONS

The following table presents the statements of income for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

Condensed Statements of Income

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Interest income:					
Federally insured student loans	$ 492	$ 469	$ 462	$ 961	$ 930
Private Credit Student Loans	77	77	88	153	176
Academic facilities financings and other loans	18	18	19	37	39
Investments	52	43	42	96	70
Total interest income	639	607	611	1,247	1,215
Interest expense	307	285	257	593	515
Net interest income	332	322	354	654	700
Less: provision for losses	28	40	36	68	79
Net interest income after provision for losses	304	282	318	586	621
Other income:					
Gains on student loan securitizations	198	114	314	312	620
Servicing and securitization revenue	124	137	200	261	389
Derivative market value adjustment	386	(117)	(205)	269	(324)
Guarantor servicing fees	23	35	25	58	60
Debt management fees	70	80	52	150	111
Other	69	59	60	127	109
Total other income	870	308	446	1,177	965
Operating expenses	206	209	190	415	369
Income before income taxes	968	381	574	1,348	1,217
Income taxes	353	90	201	442	428
Net income	615	291	373	906	789
Preferred stock dividends	3	3	3	6	6
Net income attributable to common stock	$ 612	$ 288	$ 370	$ 900	$ 783
Diluted earnings per common share	$ 1.36	$ .64	$ .80	$ 2.00	$ 1.68

Income tax expense includes the permanent tax impact of excluding gains and losses from equity forward contracts from taxable income.

Net Interest Income

Taxable Equivalent Net Interest Income

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

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Interest income					
Student loans	$ 569	$ 546	$ 550	$ 1,114	$ 1,106
Academic facilities financings and other loans	18	18	19	37	39
Investments	52	43	42	96	70
Taxable equivalent adjustment	1	3	5	5	8
Total taxable equivalent interest income	640	610	616	1,252	1,223
Interest expense	307	285	257	593	515
Taxable equivalent net interest income	$ 333	$ 325	$ 359	$ 659	$ 708

Average Balance Sheets

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the quarters ended June 30, 2004, March 31, 2004 and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended					
	June 30, 2004		March 31, 2004		June 30, 2003	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
Federally insured student loans	$ 50,424	3.93%	$ 47,746	3.95%	$ 38,835	4.78%
Private Credit Student Loans	4,375	7.04	5,146	5.99	5,338	6.60
Academic facilities financings and other loans	982	7.77	1,062	7.36	1,162	7.13
Cash and investments	12,729	1.67	9,025	2.04	6,241	2.93
Total interest earning assets	68,510	3.76%	62,979	3.90%	51,576	4.79%
Non-interest earning assets	6,983		6,046		5,656	
Total assets	$ 75,493		$ 69,025		$ 57,232	
Average Liabilities and Stockholders' Equity						
Six-month floating rate notes	$ 2,250	1.19%	$ 2,621	1.04%	$ 2,985	1.18%
Other short-term borrowings	11,993	1.77	16,208	1.93	21,573	1.69
Long-term notes	55,283	1.80	44,169	1.83	27,675	2.29
Total interest bearing liabilities	69,526	1.77%	62,998	1.82%	52,233	1.98%
Non-interest bearing liabilities	3,141		3,487		2,743	
Stockholders' equity	2,826		2,540		2,256	
Total liabilities and stockholders' equity	$ 75,493		$ 69,025		$ 57,232	
Net interest margin		1.96%		2.08%		2.79%

	Six months ended					
	June 30, 2004			June 30, 2003		
	Balance		Rate	Balance		Rate
Average Assets						
Federally insured student loans	$	49,085	3.94%	$	38,765	4.84%
Private Credit Student Loans		4,761	6.47		5,401	6.55
Academic facilities financings and other loans		1,022	7.56		1,163	7.36
Cash and investments		10,876	1.82		5,368	2.84
Total interest earning assets		65,744	3.83%		50,697	4.87%
Non-interest earning assets		6,515			5,309	
Total assets	$	72,259		$	56,006	
Average Liabilities and Stockholders' Equity						
Six-month floating rate notes	$	2,435	1.11%	$	2,937	1.23%
Other short-term borrowings		14,101	1.86		22,223	1.60
Long-term notes		49,726	1.81		25,888	2.50
Total interest bearing liabilities		66,262	1.80%		51,048	2.03%
Non-interest bearing liabilities		3,314			2,787	
Stockholders' equity		2,683			2,171	
Total liabilities and stockholders' equity	$	72,259		$	56,006	
Net interest margin			2.02%			2.82%

The decrease in the net interest margin from the second quarter of 2003 to the second quarter of 2004 was primarily due to the decrease in Floor Income and other student loan spread related items as discussed under "Student Loan Spread Analysis after Reclassification of Realized Derivative Transactions—Non-GAAP Presentation." The decrease in the net interest margin was also due to the increase in lower yielding short-term investments caused by the increase in non-GSE funding in connection with the GSE Wind-Down.

Reclassifications

Certain reclassifications have been made to the balances as of and for the quarter and six months ended June 30, 2003 to be consistent with classifications adopted for 2004.

Reclassification of Realized Derivative Transactions—Non-GAAP Presentation

The Financial Accounting Standards Board's Statement of Financial Accounting Standard ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires net settlement income/expense on derivatives and realized gains/losses on derivative dispositions ("realized derivative transactions") that do not qualify as accounting hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. In response to this interpretation, we believe that it is helpful to the understanding of our business to have two presentations of net interest income and net interest margin. The first is the presentation in accordance with generally accepted accounting principles in the United States of America ("GAAP") that includes realized derivative transactions in the derivative market value adjustment line on the income statement, thus excluding these transactions from the net interest income and margin. In the second presentation we reclassified these realized derivative transactions from the derivative market value adjustment to financial statement line item of the economically hedged item. We believe that this second presentation reflects how we manage interest rate risk through the match funding of interest sensitive assets and liabilities. The non-GAAP presentations of our taxable equivalent net interest income, average balance sheets and student loan spread analysis in the following tables will reflect these reclassifications. In addition we have included a reconciliation of our taxable equivalent net interest income from the GAAP presentation to the non-GAAP presentation.

The table below details the reclassification of the derivative net settlements and realized gains/losses related to derivative dispositions that is used in the following non-GAAP presentations as discussed above.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Reclassification of realized derivative transactions:					
Net settlement expense on Floor Income Contracts reclassified to student loan income	$ (102)	$ (109)	$ (97)	$ (211)	$ (215)
Net settlement expense on Floor Income Contracts reclassified to servicing and securitization revenue	(52)	(58)	(46)	(110)	(82)
Net settlement income on interest rate swaps reclassified to interest expense	3	12	9	15	22
Net settlement expense on interest rate swaps reclassified to servicing and securitization revenue	(22)	(13)	(16)	(35)	(32)
Realized gain/loss on closed Eurodollar futures contracts and terminated derivative contracts reclassified to other income	(8)	(48)	(25)	(56)	(102)
Total reclassifications	$ (181)	$ (216)	$ (175)	$ (397)	$ (409)

Taxable Equivalent Net Interest Income after Reclassification of Realized Derivative Transactions—Non-GAAP Presentation

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

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Interest income, non-GAAP					
Student loans	$ 467	$ 438	$ 453	$ 903	$ 890
Academic facilities financings and other loans	18	18	19	37	39
Investments	52	43	42	96	70
Taxable equivalent adjustment	1	3	5	5	8
Total taxable equivalent interest income, non-GAAP	538	502	519	1,041	1,007
Interest expense, non-GAAP	304	274	248	578	492
Taxable equivalent net interest income, non-GAAP	$ 234	$ 228	$ 271	$ 463	$ 515

Reconciliation of Taxable Equivalent Net Interest Income as presented in accordance with GAAP to the Non-GAAP Presentation for Realized Derivative Transactions

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Taxable equivalent net interest income, GAAP	$ 333	$ 325	$ 359	$ 659	$ 708
Settlements on Floor Income Contracts reclassified to student loan income	(102)	(109)	(97)	(211)	(215)
Net settlements on interest rate swaps reclassified to interest expense	3	12	9	15	22
Taxable equivalent net interest income, non-GAAP	$ 234	$ 228	$ 271	$ 463	$ 515

Average Balance Sheets after Reclassification of Realized Derivative Transactions—Non-GAAP

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the quarters ended June 30, 2004, March 31, 2004 and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended					
	June 30, 2004		March 31, 2004		June 30, 2003	
	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets						
Federally insured student loans	$ 50,424	3.12%	$ 47,746	3.04%	$ 38,835	3.76%
Private Credit Student Loans	4,375	7.04	5,146	5.99	5,338	6.60
Academic facilities financings and other loans	982	7.77	1,062	7.36	1,162	7.13
Cash and investments	12,729	1.67	9,025	2.04	6,241	2.93
Total interest earning assets	68,510	3.16%	62,979	3.21%	51,576	4.03%
Non-interest earning assets	6,983		6,046		5,656	
Total assets	$ 75,493		$ 69,025		$ 57,232	
Average Liabilities and Stockholders' Equity						
Six-month floating rate notes	$ 2,250	1.19%	$ 2,621	1.04%	$ 2,985	1.18%
Other short-term borrowings	11,993	1.71	16,208	1.78	21,573	1.71
Long-term notes	55,283	1.80	44,169	1.78	27,675	2.11
Total interest bearing liabilities	69,526	1.76%	62,998	1.75%	52,233	1.89%
Non-interest bearing liabilities	3,141		3,487		2,743	
Stockholders' equity	2,826		2,540		2,256	
Total liabilities and stockholders' equity	$ 75,493		$ 69,025		$ 57,232	
Net interest margin, non-GAAP		1.38%		1.46%		2.11%

	Six months ended			
	June 30, 2004		June 30, 2003	
	Balance	Rate	Balance	Rate
Average Assets				
Federally insured student loans	$ 49,085	3.08%	$ 38,765	3.71%
Private Credit Student Loans	4,761	6.47	5,401	6.55
Academic facilities financings and other loans	1,022	7.56	1,163	7.36
Cash and investments	10,876	1.82	5,368	2.84
Total interest earning assets	65,744	3.18%	50,697	4.00%
Non-interest earning assets	6,515		5,309	
Total assets	$ 72,259		$ 56,006	
Average Liabilities and Stockholders' Equity				
Six-month floating rate notes	$ 2,435	1.11%	$ 2,937	1.23%
Other short-term borrowings	14,101	1.75	22,223	1.61
Long-term notes	49,726	1.79	25,888	2.30
Total interest bearing liabilities	66,262	1.76%	51,048	1.94%
Non-interest bearing liabilities	3,314		2,787	
Stockholders' equity	2,683		2,171	
Total liabilities and stockholders' equity	$ 72,259		$ 56,006	
Net interest margin, non-GAAP		1.41%		2.05%

The 58 basis point difference between the second quarter of 2004 non-GAAP net interest margin of 1.38 percent versus the GAAP net interest margin of 1.96 percent is primarily due to the inclusion of payments on Floor Income Contracts in the non-GAAP presentation which reduced net interest income by 59 basis points. The 61 basis point difference between the six months ended June 30, 2004 non-GAAP net interest margin of 1.41 percent versus the GAAP net interest margin of 2.02 percent is also primarily due to the inclusion of payments on Floor Income Contracts in the non-GAAP presentation which reduced net interest income by 65 basis points. (See "Reclassification of Realized Derivative Transactions—Non-GAAP Presentation" above.) For a discussion of other fluctuations between the second quarter 2004 net interest margin versus the second quarter 2003 net interest margin, please see "Net Interest Income—Average Balance Sheets" above.

Student Loans

For both federally insured and Private Credit Student Loans, we account for premiums paid, discounts received and certain origination costs incurred on the acquisition of student loans in accordance with SFAS No. 91, "Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases." The unamortized portion of the premiums and discounts are included in the carrying value of the student loan on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield of the student loan after giving effect to the amortization of purchase premiums and the accretion of student loan discounts, as well as borrower benefit programs. Origination fees charged on Private Credit Student Loans are deferred and amortized to income over the lives of the student loans. In the "Student Loan Spread Analysis after Reclassification of Realized Derivative Transactions—Non-GAAP" tables below, this amortization of origination fees is netted with the amortization of the premiums.

Student Loan Spread Analysis after Reclassification of Realized Derivative Transactions—Non-GAAP Presentation (see "Reclassification of Realized Derivative Transactions—Non-GAAP Presentation")

The following table analyzes the reported earnings from student loans both on-balance sheet and those off-balance sheet in securitization trusts. For student loans off-balance sheet, we will continue to earn securitization and servicing fee revenues over the life of the securitized loan portfolios. The off-balance sheet information presented in "Securitization Program—Servicing and Securitization Revenue" analyzes the on-going servicing revenue and Residual Interest earned on the securitized portfolios of student loans. For an analysis of our student loan spread for the entire portfolio of Managed student loans on a similar basis to the on-balance sheet analysis, see " 'Core Cash' Student Loan Spread Analysis."

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
On-Balance Sheet					
Student loan yield, before Floor Income	4.27%	4.12%	4.36%	4.21%	4.41%
Floor Income	.04	.13	.42	.08	.36
Consolidation Loan Rebate Fees	(.54)	(.54)	(.46)	(.54)	(.48)
Offset Fees	(.05)	(.06)	(.08)	(.06)	(.08)
Borrower benefits	(.20)	(.14)	(.08)	(.17)	(.08)
Premium and origination fee amortization	(.10)	(.18)	(.06)	(.14)	(.08)
Student loan net yield	3.42	3.33	4.10	3.38	4.05
Student loan cost of funds	(1.73)	(1.60)	(1.69)	(1.67)	(1.72)
Student loan spread, non-GAAP	1.69%	1.73%	2.41%	1.71%	2.33%
Off-Balance Sheet					
Servicing and securitization revenue, before Floor Income	1.03%	1.12%	1.39%	1.08%	1.42%
Floor Income, net of Floor Income previously recognized in gain on sale calculation	.24	.33	.73	.28	.73
Servicing and securitization revenue	1.27%	1.45%	2.12%	1.36%	2.15%
Average Balances					
On-balance sheet student loans	$ 54,799	$ 52,892	$ 44,173	$ 53,846	$ 44,166
Off-balance sheet student loans	39,318	37,786	37,811	38,552	36,527
Managed student loans	$ 94,117	$ 90,678	$ 81,984	$ 92,398	$ 80,693

Discussion of On-Balance Sheet Student Loan Spread, Non-GAAP

The decrease in the second quarter of 2004 student loan spread versus the prior quarter is primarily due to lower Floor Income and higher borrower benefits, partially offset by lower premium amortization caused by fewer consolidations to third parties which resulted in less premium balance write-offs for the Company's FFELP Stafford loans.

When compared with the second quarter of 2003, the decrease in the student loan spread is primarily due to lower Floor Income, higher spreads on our debt funding student loans, the increase in the average balance of Consolidation Loans as a percentage of the on-balance sheet portfolio and higher premium amortization and borrower benefit expense. The increase in the spread to the index on our debt is due to the replacement of lower cost GSE funding with non-GSE funding in connection with the GSE Wind-Down. GSE debt generally has lower credit spreads than non-GSE funding sources and our non-GSE liabilities are significantly longer in duration than our GSE liabilities. Also, we use higher cost, longer-term debt to fund Consolidation Loans.

Consolidation Loans have lower spreads than other FFELP loans due to the 105 basis point Consolidation Loan Rebate Fee. The negative effect of this fee is partially offset by the absence of the 30 basis point Offset Fee on GSE student loans, higher SAP yield and lower student loan premium amortization discussed below. As long as interest rates remain at historically low levels and absent a program change in the next HEA reauthorization, we expect Consolidation Loans to be actively marketed by the student loan industry and remain an attractive refinancing option for borrowers, resulting in Consolidation Loans representing an increasing percentage of our federally guaranteed student loan portfolio.

The year-over-year increase in the premium amortization and borrower benefit expenses is primarily the result of revised life of loan estimates for higher consolidation activity in the fourth quarter of 2003.

On-Balance Sheet Floor Income

For on-balance sheet student loans, gross Floor Income is included in student loan income. The following table summarizes the components of Floor Income from on-balance sheet student loans, net of payments under Floor Income Contracts, for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended								
	June 30, 2004			March 31, 2004			June 30, 2003		
(Dollars in millions)	Fixed borrower rate	Variable borrower rate	Total	Fixed borrower rate	Variable borrower rate	Total	Fixed borrower rate	Variable borrower rate	Total
Floor Income:									
Gross Floor Income	$ 108	$ —	$ 108	$ 124	$ 2	$ 126	$ 127	$ 16	$ 143
Payments on Floor Income Contracts	(102)	—	(102)	(109)	—	(109)	(97)	—	(97)
Net Floor Income	$ 6	$ —	$ 6	$ 15	$ 2	$ 17	$ 30	$ 16	$ 46
Net Floor Income in basis points	4	—	4	11	2	13	27	15	42

	Six months ended					
	June 30, 2004			June 30, 2003		
(Dollars in millions)	Fixed borrower Rate	Variable borrower rate	Total	Fixed borrower Rate	Variable borrower rate	Total
Floor Income:						
Gross Floor Income	$ 232	$ 2	$ 234	$ 264	$ 29	$ 293
Payments on Floor Income Contracts	(211)	—	(211)	(215)	—	(215)
Net Floor Income	$ 21	$ 2	$ 23	$ 49	$ 29	$ 78
Net Floor Income in basis points	8	—	8	23	13	36

Securitization Program

Securitization Activity

The following table summarizes our securitization activity for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended											
	June 30, 2004				March 31, 2004				June 30, 2003			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford/PLUS loans	2	$ 5,502	$ 71	1.3%	—	$ —	$ —	—%	1	$ 1,005	$ 13	1.3%
Consolidation Loans	—	—	—	—	—	—	—	—	1	2,251	216	9.6%
Private Credit Student Loans	1	1,282	127	9.9	1	1,252	114	9.1	1	1,248	85	6.8%
Total securitizations - sales	3	6,784	$ 198	2.9%	1	1,252	$ 114	9.1%	3	4,504	$ 314	7.0%
Asset-backed commercial paper[1]	1	4,186			—	—			—	—		
Consolidation Loans[2]	1	2,446			3	8,023			1	2,256		
Total securitizations - financings	2	6,632			3	8,023			1	2,256		
Total securitizations	5	$ 13,416			4	$ 9,275			4	$ 6,760		

	Six months ended							
	June 30, 2004				June 30, 2003			
	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
FFELP Stafford/PLUS loans	2	$ 5,502	$ 71	1.3%	2	$ 2,261	$ 33	1.5%
Consolidation Loans	—	—	—	—	2	4,256	434	10.2%
Private Credit Student Loans	2	2,534	241	9.5	2	2,253	153	6.8%
Total securitizations — sales	4	8,036	$ 312	3.9%	6	8,770	$ 620	7.1%
Asset-backed commercial paper [1]	1	4,186			—	—		
Consolidation Loans[2]	4	10,469			2	4,312		
Total securitizations — financings	5	14,655			2	4,312		
Total securitizations	9	$ 22,691			8	$ 13,082		

(1) In the second quarter of 2004 the Company closed its first asset-backed commercial paper conduit. The conduit is a multi-seller conduit and allows the Company to borrow up to $5 billion. The conduit is a revolving 364-day facility with annual extensions. The Company may purchase loans out of this trust at its discretion. As a result, the trust did not qualify as a qualifying special purpose entity ("QSPE") and the securitization was accounted for on-balance sheet as a Variable Interest Entity ("VIE").

(2) In certain Consolidation Loan securitization structures, the Company holds certain rights that can affect the remarketing of certain bonds. These remarketing rights are not significantly limited in nature. Therefore, these securitizations did not qualify as QSPEs. Accordingly, they are accounted for on-balance sheet as VIEs with the securitized federally insured student loans reflected in the balance sheet as "federally insured student loans in trust."

The increase in the Private Credit securitization gain for the second quarter of 2004 is primarily due to the underlying student loans having higher spreads.

Servicing and Securitization Revenue

Servicing and securitization revenue, the ongoing revenue from securitized loan pools accounted for off-balance sheet as QSPEs, includes the interest earned on the Residual Interest asset, the revenue we receive for servicing the loans in the securitization trusts, and Embedded Floor Income on securitized student loans not previously included in the gain on sale calculation. Interest income recognized on the Residual Interest is based on our anticipated yield, determined by periodically estimating future cash flows.

The following table summarizes the components of servicing and securitization revenue for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Servicing revenue	$ 78	$ 76	$ 77	$ 154	$ 152
Securitization revenue, before Embedded Floor Income	23	30	54	53	104
Servicing and securitization revenue, before Embedded Floor Income	101	106	131	207	256
Embedded Floor Income	66	78	109	144	194
Less: Floor Income previously recognized in gain calculation	(43)	(47)	(40)	(90)	(61)
Net Embedded Floor Income	23	31	69	54	133
Total servicing and securitization revenue	$ 124	$ 137	$ 200	$ 261	$ 389
Average off-balance sheet student loans	$ 39,318	$ 37,786	$ 37,811	$ 38,552	$ 36,527
Average balance of Retained Interest	$ 2,468	$ 2,442	$ 2,695	$ 2,455	$ 2,446
Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans (annualized)	1.27%	1.45%	2.12%	1.36%	2.15%

The decrease in securitization revenue before Embedded Floor Income for the quarters ended June 30, 2004 and March 31, 2004, is generally due to the impact of Consolidation Loan activity, which resulted in impairment of the Residual Interest asset and negatively impacted yields used to recognize income. In addition, for the quarter ended June 30, 2004, as a result of the significant increase in interest rates, we experienced impairment related to the Floor Income component of our Residual Interest asset as future expected Floor Income has decreased. This impairment of our Residual Interest is offset by gains recognized through the derivative market value adjustment for Floor Income Contracts.

"CORE CASH" RESULTS OF OPERATIONS

Non-GAAP "Core Cash" Earnings

In accordance with the Rules and Regulations of the SEC, we prepare financial statements in accordance with GAAP. In addition to evaluating the Company's GAAP-based financial information, management, credit rating agencies, lenders and analysts also evaluate the Company on certain non-GAAP performance measures that we refer to as "core cash" measures. While "core cash" measures are not a substitute for reported results under GAAP, we rely on "core cash" measures in operating our business because we believe they provide additional information regarding the operational and performance indicators that are most closely assessed by management.

We report pro forma "core cash" measures, which are the financial performance measures used by management not only in developing our financial plans and tracking results, but also in establishing corporate performance targets and determining incentive compensation. Our "core cash" measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. "Core cash" measures reflect only current period adjustments to GAAP as described below. Accordingly, the Company's "core cash" measures presentation does not represent another comprehensive basis of accounting. A more detailed discussion of the differences between GAAP and "core cash" measures follows.

1) **Securitization:** Under GAAP, certain securitization transactions are accounted for as sales of assets. Under "core cash," we present all securitization transactions as long-term non-recourse financings. The upfront "gains" on sale from securitization as well as ongoing "servicing and securitization revenue" presented in accordance with GAAP are excluded from "core cash" and replaced by the interest income, provision for loan losses, and interest expense as they are earned or incurred on the securitized loans.

The following table summarizes the securitization adjustments for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
"Core cash" securitization adjustments:					
Net interest income on securitized loans, after provision for losses	$ 251	$ 262	$ 266	$ 513	$ 496
Gains on student loan securitizations	(198)	(114)	(314)	(312)	(620)
Servicing and securitization revenue	(124)	(137)	(200)	(261)	(389)
Total "core cash" securitization adjustments	$ (71)	$ 11	$ (248)	$ (60)	$ (513)

2) **Derivative Accounting:** SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges and they are a critical element of our interest rate risk management strategy. However, under SFAS No. 133, some of our derivatives, primarily Floor Income Contracts, Eurodollar futures contracts, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for "hedge 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. The derivative market value adjustment is primarily caused by interest rate volatility and changing credit spreads during the period and the volume and term of derivatives not receiving hedge accounting treatment. "Core cash" earnings exclude the periodic unrealized gains and losses primarily caused by the one-sided derivative valuations, and recognize the economic effect of these hedges, which results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life.

Our Floor Income Contracts are written options. SFAS No. 133's hedge criteria regarding effectiveness when using written options is more stringent than other hedging relationships. Because the paydown of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts, the written Floor Income Contracts do not qualify as effective hedges under SFAS No. 133. The Floor Income Contracts effectively fix the amount of Floor Income we will earn over the contract period, thus eliminating the timing and uncertainty associated with Floor Income for that period. Prior to SFAS No. 133, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts. Under SFAS No. 133, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and transferred to the counterparties to vary. The change in the market value of the Floor Income Contracts 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 under SFAS No. 133.

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

Generally, a decrease in current interest rates and the respective forward interest rate curves results in an unrealized loss related to our written Floor Income Contracts and Eurodollar futures contracts. We will experience unrealized gains/losses related to our basis swaps, if the two underlying indexes (and related forward curve) do not move in parallel.

Under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," equity forward contracts that allow a net settlement option either in cash or the Company's stock are required to be accounted for in accordance with SFAS No. 133 as derivatives. As a result, we now account for our equity forward contracts as derivatives in accordance with SFAS No. 133 and mark them to market through earnings.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003, and for the six months ended June 30, 2004 and 2003, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Quarters ended			Six months ended	
	June 30, 2004	**March 31, 2004**	**June 30, 2003**	**June 30, 2004**	**June 30, 2003**
SFAS No. 133 income statement items:					
Derivative market value adjustment	$ (386)	$ 117	$ 205	$ (269)	$ 324
Plus: Realized derivative transactions	(181)	(216)	(175)	(397)	(409)
Unrealized derivative market value adjustment	(567)	(99)	30	(666)	(85)
Other pre-SFAS No. 133 accounting adjustments	6	—	—	6	—
Total net impact of SFAS No. 133 derivative accounting	$ (561)	$ (99)	$ 30	$ (660)	$ (85)

3) **Floor Income:** The timing and amount (if any) of Floor Income earned is uncertain and in excess of expected spreads and, therefore, we exclude such income when it is not economically hedged from "core cash" measures. We employ derivatives, primarily Floor Income Contracts and futures, to economically hedge Floor Income. As discussed below under "Derivative Accounting," these derivatives do not qualify as effective accounting hedges and therefore are marked-to-market through the derivative market value adjustment. For "core cash" measures, we reverse the fair value adjustments on the Floor Income Contracts and futures economically hedging Floor Income and include the amortization of net premiums received (net of Eurodollar futures contracts' realized gains or losses) in income. The following table summarizes the Floor Income adjustments for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
"Core cash" Floor Income adjustments:					
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ (18)	$ (34)	$ (103)	$ (52)	$ (176)
Amortization of net premiums on Floor Income Contracts and futures in net interest income	42	45	36	87	74
Net losses related to closed Eurodollar futures contracts economically hedging Floor Income	—	50	3	50	4
Losses on sales of derivatives hedging Floor Income	—	—	20	—	91
Total "core cash" Floor Income adjustments	$ 24	$ 61	$ (44)	$ 85	$ (7)

4) **Other items:** We exclude certain transactions that are not considered part of our core business, including amortization of acquired intangibles, as well as gains and losses on certain sales of securities.

"Core Cash" Statements of Income

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Managed interest income:					
Managed federally insured student loans	$ 710	$ 687	$ 644	$ 1,397	$ 1,288
Managed Private Credit Student Loans	147	114	110	260	209
Academic facilities financings and other loans	18	18	19	37	39
Investments	56	48	44	104	73
Total Managed interest income	931	867	817	1,798	1,609
Managed interest expense	486	434	424	920	843
Net Managed interest income	445	433	393	878	766
Less: provision for losses	40	45	29	85	61
Net Managed interest income after provision for losses	405	388	364	793	705
Other income:					
Guarantor servicing fees	23	35	25	58	60
Debt management fees	70	80	52	150	111
Other	72	59	60	131	113
Total other income	165	174	137	339	284
Operating expenses	199	202	183	401	356
Income before income taxes	371	360	318	731	633
Income taxes	134	129	108	263	220
"Core cash" net income	237	231	210	468	413
Preferred stock dividends	3	3	3	6	6
"Core cash" net income attributable to common stock	$ 234	$ 228	$ 207	$ 462	$ 407
"Core cash" diluted earnings per common share	$ .52	$ .51	$ .44	$ 1.03	$ 0.87

Reconciliation of GAAP Net Income to "Core Cash" Net Income

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
GAAP net income	$ 615	$ 291	$ 373	$ 906	$ 789
"Core cash" adjustments:					
Net impact of securitization accounting	(71)	11	(248)	(60)	(513)
Net impact of derivative accounting	(561)	(99)	30	(660)	(85)
Net impact of Floor Income	24	61	(44)	85	(7)
Amortization of acquired intangibles and other	11	7	6	18	21
Total "core cash" adjustments before income taxes	(597)	(20)	(256)	(617)	(584)
Net tax effect (A)	219	(40)	93	179	208
Total "core cash" adjustments	(378)	(60)	(163)	(438)	(376)
"Core cash" net income	$ 237	$ 231	$ 210	$ 468	$ 413

(A) Such tax effect is based upon the Company's "core cash" effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

"Core Cash" Student Loan Spread Analysis

The following table analyzes the earnings from our portfolio of Managed student loans, which includes loans both on-balance sheet and off-balance sheet in securitization trusts and excludes Floor Income.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
"Core cash" student loan yields	4.31%	4.15%	4.31%	4.23%	4.37%
Consolidation Loan Rebate Fees	(.39)	(.40)	(.35)	(.40)	(.34)
Offset Fees	(.03)	(.03)	(.04)	(.03)	(.04)
Borrower benefits	(.10)	(.08)	(.12)	(.09)	(.11)
Premium and origination fee amortization	(.13)	(.09)	(.11)	(.11)	(.14)
"Core cash" student loan net yield	3.66	3.55	3.69	3.60	3.74
"Core cash" student loan cost of funds	(1.75)	(1.64)	(1.76)	(1.69)	(1.81)
"Core cash" student loan spread	1.91%	1.91%	1.93%	1.91%	1.93%
Average Balances					
On-balance sheet student loans	$ 54,799	$ 52,892	$ 44,173	$ 53,846	$ 44,166
Off-balance sheet student loans	39,318	37,786	37,811	38,552	36,527
Managed student loans	$ 94,117	$ 90,678	$ 81,984	$ 92,398	$ 80,693

Discussion of "Core Cash" Student Loan Spread

The second quarter of 2004 "core cash" student loan spread equaled the first quarter of 2004 student loan spread, however there were a number of items that impacted the quarter to quarter spread analysis. In the first quarter of 2004, we increased the term for amortizing premiums and discounts related to our Private Credit Student Loans and loans in our off-balance sheet trusts. This resulted in a net reduction of the premium balance of $16 million to reflect the longer term of the related loan portfolios from inception. This increase in premium expense versus the prior quarter was partially offset by lower premium balance write-offs from FFELP Stafford loan consolidations to third parties.

When compared with the second quarter of 2003, the decrease in the "core cash" student loan spread is primarily due to higher spreads on our debt funding student loans and the increase in the average balance of Consolidation Loans as a percentage of the Managed portfolio. The increase in the spread to the index on our debt is due to the replacement of lower cost GSE funding with non-GSE funding in connection with the GSE Wind-Down. GSE debt generally has lower credit spreads than non-GSE funding sources and our non-GSE liabilities are significantly longer in duration than our GSE liabilities. Also, we use higher cost, longer-term debt to fund Consolidation Loans.

Consolidation Loans have lower spreads than other FFELP loans due to the 105 basis point Consolidation Loan Rebate Fee. The negative effect of this fee is partially offset by the absence of the 30 basis point Offset Fee on GSE student loans, higher SAP yield and lower student loan premium amortization discussed below. As long as interest rates remain at historically low levels and absent a program change in the next HEA reauthorization, we expect Consolidation Loans to be actively marketed by the student loan industry and remain an attractive refinancing option for borrowers, resulting in Consolidation Loans representing an increasing percentage of our federally guaranteed student loan portfolio.

This year-over-year reduction in the student loan spread was offset by the increase in the average balance of Managed Private Credit Student Loans as a percentage of the average Managed student loan portfolio from 9 percent in the second quarter 2003 to 11 percent in the second quarter 2004, by higher amortization of upfront premiums received on Floor Income Contracts and by reduced borrower benefits expense. The lower borrower benefits in the second quarter of 2004 versus the prior year resulted from the reduction in our estimate of the number of borrowers who qualify for the benefit. Private Credit Student Loans are subject to credit risk and therefore earn higher spreads which averaged 4.72 percent in the second quarter of 2004 for the Managed Private Credit Student Loan portfolio versus a spread of 1.57 percent for the Managed guaranteed student loan portfolio.

Allowance for Private Credit Student Loan Losses—Managed Basis

The allowance for Private Credit Student Loan losses is an estimate of losses in the portfolio at the balance sheet date that will be charged off in subsequent periods. We estimate our losses using historical data from our Private Credit Student Loan portfolios, extrapolations of FFELP loan loss data, current trends and relevant industry information. As our Private Credit Student Loan portfolios continue to mature, more reliance is placed on our own historic Private Credit Student Loan charge-off and recovery data. We use this data in internally developed models to estimate the amount of losses, net of subsequent collections, projected to occur in the Private Credit Student Loan portfolios.

An analysis of our allowance for loan losses for Managed Private Credit Student Loans for the quarters ended June 30, 2004, March 31, 2004, and June 30, 2003 and for the six months ended June 30, 2004 and 2003 is presented in the following table.

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Managed Private Credit Student Loan allowance balance at beginning of period	$ 272	$ 259	$ 218	$ 259	$ 194
Provision for Managed Private Credit Student Loan losses	38	37	27	75	59
Other	—	—	—	—	7
Charge-offs:					
Managed Private Credit Student Loans	(26)	(26)	(19)	(52)	(36)
Managed Private Credit Student Loan recoveries	4	2	2	6	4
Total charge-offs, net of recoveries	(22)	(24)	(17)	(46)	(32)
Managed Private Credit Student Loan allowance balance at end of period	$ 288	$ 272	$ 228	$ 288	$ 228
Net Managed Private Credit Student Loan charge-offs as a percentage of average Managed Private Credit Student Loans (annualized)	.93%	1.03%	.95%	.98%	.95%
Net Managed Private Credit Student Loan charge-offs as a percentage of average Managed Private Credit Student Loans in repayment (annualized)	1.99%	2.16%	1.88%	2.04%	1.82%
Managed Private Credit Student Loan allowance as a percentage of average Managed Private Credit Student Loans	2.90%	2.98%	3.27%	3.02%	3.43%
Managed Private Credit Student Loan allowance as a percentage of the ending balance of Managed Private Credit Student Loans	2.83%	2.90%	3.15%	2.83%	3.15%
Managed Private Credit Student Loan allowance as a percentage of Managed Private Credit Student Loans in repayment	6.00%	6.16%	6.29%	6.00%	6.29%
Average balance of Managed Private Credit Student Loans	$ 9,909	$ 9,142	$ 6,982	$ 9,526	$ 6,654
Ending balance of Managed Private Credit Student Loans	$ 10,174	$ 9,408	$ 7,249	$ 10,174	$ 7,249
Average balance of Managed Private Credit Student Loans in repayment	$ 4,607	$ 4,376	$ 3,519	$ 4,560	$ 3,464
Ending balance of Managed Private Credit Student Loans in repayment	$ 4,792	$ 4,422	$ 3,629	$ 4,792	$ 3,629

The increase in the provision for Managed Private Credit Student Loan losses for the second quarter of 2004 versus the prior quarter is mainly due to seasonality. The second quarter of the year is traditionally the peak period for students graduating from college. The increase in the provision for Managed Private Credit Student Loan losses for the second quarter of 2004 versus the year-ago quarter is primarily attributed to the growth in the portfolio of Managed Private Credit Student Loans and to the revision of our default assumptions in the fourth quarter of 2003.

Delinquencies—Managed Basis

The table below shows our Private Credit Student Loan delinquency trends at June 30, 2004, March 31, 2004, and June 30, 2003 on a Managed Basis. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

Loans in forbearance status decreased from 11.9 percent of loans in repayment and forbearance status at March 31, 2004 to 10.8 percent of loans in repayment and forbearance status at June 30, 2004. The decrease of loans in forbearance status is primarily due to seasonality. The ratio at June 30, 2003 was 10.3 percent. The increase over the year-ago period is associated with several small Private Credit Student Loan programs. The forbearance ratios at June 30, 2004 for all of the primary programs (Signature, LAW, MBA, etc.) are the same or lower than the year-ago period.

	June 30, 2004		March 31, 2004		June 30, 2003	
	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 4,802		$ 4,386		$ 3,202	
Loans in forbearance[2]	580		600		418	
Loans in repayment and percentage of each status:						
Loans current	4,441	93%	4,090	92%	3,356	92%
Loans delinquent 30-59 days[3]	147	3	126	3	110	3
Loans delinquent 60-89 days	83	1	82	2	62	2
Loans delinquent 90 days or greater	121	3	124	3	101	3
Total Managed Private Credit Student Loans in repayment	4,792	100%	4,422	100%	3,629	100%
Total Managed Private Credit Student Loans	10,174		9,408		7,249	
Managed Private Credit Student Loan allowance for losses	(288)		(272)		(228)	
Managed Private Credit Student Loans, net	$ 9,886		$ 9,136		$ 7,021	
Percentage of Managed Private Credit Student Loans in repayment	47%		47%		50%	
Delinquencies as a percentage of Managed Private Credit Student Loans in repayment	7%		8%		8%	

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

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing procedures and policies. Additionally, the forbearance balance at June 30, 2004 and March 31, 2004 included $5 million and $7 million, respectively, of career training loans in "closed school" status.

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

"Core Cash" Other Income

When compared with GAAP other income, "core cash" other income excludes gains on student loan securitizations, servicing and securitization revenue, the derivative market value adjustment per SFAS No. 133 and certain gains and losses on sales of investment securities and student loans. The following table summarizes the components of "core cash" other income for the quarters ended June 30, 2004, March 31, 2004 and June 30, 2003 and for the six months ended June 30, 2004 and 2003.

Guarantor Servicing Fees, Debt Management Fees and Other Income

	Quarters ended			Six months ended	
	June 30, 2004	March 31, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Guarantor servicing and debt management fees:					
Guarantor servicing fees	$ 23	$ 35	$ 25	$ 58	$ 60
Debt management fees	70	80	52	150	111
Total guarantor servicing and debt management fees	$ 93	$ 115	$ 77	$ 208	$ 171
Other income:					
Late fees	$ 30	$ 21	$ 15	$ 51	$ 32
Third party servicing fees	12	13	13	25	28
Gains on sales of mortgages and other loan fees	6	5	15	11	21
Other	24	20	17	44	32
Total other income	$ 72	$ 59	$ 60	$ 131	$ 113

The $16 million and $37 million increase in guarantor servicing and debt management fees in the three and six months ended June 30, 2004, respectively, versus the year-ago periods is due to the growth in the debt management business. The $12 million and $18 million increase in other income for the three and six months ended June 30, 2004, respectively, versus the year-ago periods is mainly attributed to an accrual for late fees in the second quarter of 2004, partially offset by lower gains on sales of mortgage loans.

The $12 million decrease in guarantor servicing fees in the second quarter of 2004 versus the first quarter of 2004 is mainly due to the seasonal nature of the guarantor servicing business as certain fees are recognized upon loan disbursements. The $10 million decrease in debt management fees in the second quarter of 2004 versus the first quarter of 2004 is mainly due to the holding of Consolidation Loan disbursements, which delays the recognition of certain fee income earned when defaulted FFELP Stafford loans are consolidated. The $13 million increase in other income in the second quarter of 2004 versus the prior quarter is primarily due to the accrual for late fees.

"Core Cash" Operating Expenses

Second quarter operating expenses were $199 million versus $183 million in the year-ago quarter and $202 million in the first quarter of 2004. The increase in operating expenses versus the year-ago quarter can mainly be attributed to the acquisition of Academic Management Services Corp. in the fourth quarter of 2003, increased servicing and debt management expenses consistent with the growth in borrowers and the growth in the debt management business. Student loan servicing expenses as a percentage of the average balance of student loans serviced was .14 percent, .15 percent and

.16 percent for the quarters ended June 30, 2004, March 31, 2004 and June 30, 2003, respectively and .15 percent and .16 percent for the six months ended June 30, 2004 and 2003, respectively.

RECENT DEVELOPMENTS

On July 2, 2004, we announced that Bank One gave notice that they intend to terminate the marketing agreement between Bank One and our subsidiary, Education One Group, through which we market FFELP loans and other student loan products under the Bank One brand. Upon termination of the agreement, Bank One plans to bring the marketing of the Bank One brand for higher education lending in house. Management believes that Bank One is not permitted to terminate the marketing agreement and "in-source" the marketing function, while Bank One contends that its July 1, 2004 merger with JPMorgan Chase allows it to do so.

Under the marketing agreement, Bank One pays us marketing fees to market to schools the Bank One brand for both FFELP loans and Private Credit Student Loans. In instances where Bank One is a Sallie Mae Preferred Lender, and sells the loans to us, these marketing fees are capitalized as a reduction in student loan premiums paid to Bank One upon purchase of the loans. Otherwise, when Bank One sells loans originated under this agreement to third parties, we recognize the marketing fees currently. For the six months ended June 30, 2004, marketing fees received under this arrangement totaled $22 million, of which $9 million was capitalized and $13 million was recognized currently.

We also have two separate loan purchase agreements with Bank One, under which, we purchase Bank One branded FFELP loans and Private Credit Student Loans originated by Bank One using our origination platform. These loan purchase agreements are not subject to the termination notice and remain in place. For the six months ended June 30, 2004, Bank One originated $1.5 billion of FFELP loans and $405 million of Private Credit Student Loans under these loan purchase agreements. Our separate joint venture with JPMorgan Chase also remains in place. The Company is exploring with Bank One a mutually beneficial resolution of this matter.

PRIVATIZATION ACT—GSE WIND-DOWN UPDATE

Under the Privatization Act, the GSE must wind down its operations and dissolve on or before September 30, 2008. In June 2004, the Company announced that it is planning to dissolve the GSE in early 2005. The Company had previously announced a target Wind-Down date of June 30, 2006.

The Privatization Act provides generally that the GSE's non-GSE affiliates cannot purchase FFELP loans until the time that the GSE ceases acquiring such loans. As a part of the Wind-Down process, on July 1, 2004, the Company began purchasing FFELP loans through non-GSE affiliates and the GSE terminated all such activity.

In June 2004, the Company announced that the GSE will no longer issue short-term floating rate notes. The GSE will continue to issue other short-term debt, however, until all current GSE assets are refinanced.

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