
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒

**Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2002 or

☐

**Transition report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

For the transition period from _____ to _____.

(Amended by Exch Act Rel No. 312905, eff 4/26/93.)
Commission File Number: 001-13251

USA EDUCATION, INC.

(formerly SLM Holding 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.)

11600 Sallie Mae Drive, Reston, Virginia

(Address of principal executive offices)

20193

(Zip Code)

(703) 810-3000

(Registrant's telephone number, including area code)

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

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

Class	Outstanding at March 31, 2002
Common Stock, \$.20 par value	155,334,776 shares

USA EDUCATION, INC.

FORM 10-Q

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March 31, 2002

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

USA EDUCATION, INC. CONSOLIDATED BALANCE SHEETS (Dollars and shares in thousands, except per share amounts)

	March 31, 2002	December 31, 2001
	(Unaudited)	
Assets		
Student loans, net	\$ 40,962,044	\$ 41,000,870
Warehousing advances/academic facilities financings		
Bonds available-for-sale	379,838	396,895
Loans	1,300,785	1,371,252
	<hr/>	<hr/>
Total warehousing advances/academic facilities financings	1,680,623	1,768,147
Investments		
Trading	778	791
Available-for-sale	3,923,268	4,053,719
Held-to-maturity	1,005,325	1,017,642
	<hr/>	<hr/>
Total investments	4,929,371	5,072,152
Cash and cash equivalents	594,539	715,001
Residual interest and servicing assets	1,739,060	1,859,450
Other assets	2,538,798	2,458,339
	<hr/>	<hr/>
Total assets	\$ 52,444,435	\$ 52,873,959
	<hr/>	<hr/>
Liabilities		
Short-term borrowings	\$ 30,745,072	\$ 31,064,821
Long-term notes	17,411,673	17,285,350
Other liabilities	2,333,604	2,851,326
	<hr/>	<hr/>
Total liabilities	50,490,349	51,201,497
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity		
Preferred stock, Series A, par value \$.20 per share, 20,000 shares authorized: 3,300 and 3,300 shares issued, respectively, at stated value of \$50 per share	165,000	165,000
Common stock, par value \$.20 per share, 375,000 shares authorized: 204,357 and 202,736 shares issued, respectively	40,871	40,547
Additional paid-in capital	904,946	805,804
Unrealized gains on investments and derivatives (net of tax of \$301,618 and \$360,876, respectively)	560,148	670,199
Retained earnings	2,456,711	2,068,490
	<hr/>	<hr/>
Stockholders' equity before treasury stock	4,127,676	3,750,040
Common stock held in treasury at cost: 49,022 and 47,241 shares, respectively	2,173,590	2,077,578
	<hr/>	<hr/>
Total stockholders' equity	1,954,086	1,672,462
	<hr/>	<hr/>
Total liabilities and stockholders' equity	\$ 52,444,435	\$ 52,873,959
	<hr/>	<hr/>

See accompanying notes to consolidated financial statements.

USA EDUCATION, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars and shares in thousands, except per share amounts)

	Three months ended March 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Interest income:		
Student loans	\$ 534,251	\$ 713,033
Warehousing advances/academic facilities financings		
Taxable	14,219	22,620
Tax-exempt	4,696	6,167
Total warehousing advances/academic facilities financings	18,915	28,787
Investments	44,811	132,853
Total interest income	597,977	874,673
Interest expense:		
Short-term debt	177,049	510,670
Long-term debt	139,551	184,195
Total interest expense	316,600	694,865
Net interest income	281,377	179,808
Less: provision for losses	20,237	13,599
Net interest income after provision for losses	261,140	166,209
Other income:		
Gains on student loan securitizations	44,260	9,478
Servicing and securitization revenue	194,682	120,011
(Losses) on sales of securities	(89,107)	(31,335)
Guarantor servicing and collection fees	79,601	55,506
Derivative market value adjustment	288,351	(168,164)
Other	42,385	68,982
Total other income	560,172	54,478
Operating expenses:		
Salaries and benefits	94,103	92,567
Other	72,698	74,806
Total operating expenses	166,801	167,373
Income before income taxes and minority interest in net earnings of subsidiary	654,511	53,314
Income taxes:		
Current	171,921	39,137
Deferred	60,246	(18,298)
Total income taxes	232,167	20,839
Minority interest in net earnings of subsidiary	—	2,674
Net income	422,344	29,801
Preferred stock dividends	2,875	2,875
Net income attributable to common stock	\$ 419,469	\$ 26,926
Basic earnings per share	\$ 2.70	\$ 0.17
Average common shares outstanding	155,629	163,051
Diluted earnings per share	\$ 2.63	\$ 0.16
Average common and common equivalent shares outstanding	159,683	169,939

See accompanying notes to consolidated financial statements.

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USA EDUCATION, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except share and per share amounts)
(Unaudited)

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at December 31, 2000	3,300,000	190,851,936	(26,707,091)	164,144,845	\$ 165,000	\$ 38,170	\$ 225,211	\$ 311,301	\$ 1,810,902	\$ (1,135,248)	\$ 1,415,336
Comprehensive income:											
Net income									29,801		29,801
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								190,394			190,394
Change in unrealized gains (losses) on derivatives, net of tax								(61,467)			(61,467)
Comprehensive income											158,728
Cash dividends:											
Common stock (\$.18 per share)									(28,512)		(28,512)
Preferred stock (\$.87 per share)									(2,875)		(2,875)
Issuance of common shares		4,847,408		4,847,408		970	207,386				208,356
Premiums on equity forward purchase contracts							(8,054)				(8,054)
Repurchase of common shares			(6,023,484)	(6,023,484)						(322,801)	(322,801)
Balance at March 31, 2001	3,300,000	195,699,344	(32,730,575)	162,968,769	\$ 165,000	\$ 39,140	\$ 424,543	\$ 440,228	\$ 1,809,316	\$ (1,458,049)	\$ 1,420,178
Balance at December 31, 2001	3,300,000	202,736,386	(47,240,838)	155,495,548	\$ 165,000	\$ 40,547	\$ 805,804	\$ 670,199	\$ 2,068,490	\$ (2,077,578)	\$ 1,672,462
Comprehensive income:											
Net income									422,344		422,344
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(138,380)			(138,380)
Change in unrealized gains (losses) on derivatives, net of tax								28,329			28,329
Comprehensive income											312,293
Cash dividends:											
Common stock (\$.20 per share)									(31,248)		(31,248)
Preferred stock (\$.87 per share)									(2,875)		(2,875)
Issuance of common shares		1,620,637	229,602	1,850,239		324	89,392			19,301	109,017
Tax benefit related to employee stock option and purchase plan							20,870				20,870
Premiums on equity forward purchase contracts							(11,120)				(11,120)
Repurchase of common shares			(2,011,011)	(2,011,011)						(115,313)	(115,313)
Balance at March 31, 2002	3,300,000	204,357,023	(49,022,247)	155,334,776	\$ 165,000	\$ 40,871	\$ 904,946	\$ 560,148	\$ 2,456,711	\$ (2,173,590)	\$ 1,954,086

See accompanying notes to consolidated financial statements.

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USA EDUCATION, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Three months ended March 31,	
	2002	2001
	(Unaudited)	(Unaudited)
Operating activities		
Net income	\$ 422,344	\$ 29,801
Adjustments to reconcile net income to net cash provided by operating activities:		

(Gains) on student loan securitizations	(44,260)	(9,478)
Losses on sales of securities	89,107	31,335
(Increase) decrease in derivative market value adjustment	(288,351)	168,164
Provision for losses	20,237	13,599
(Increase) in accrued interest receivable	(62,417)	(114,030)
Increase (decrease) in accrued interest payable	10,993	(73,952)
(Increase) in other assets	(132,904)	(108,061)
(Decrease) in other liabilities	(117,450)	(31,256)
Total adjustments	(525,045)	(123,679)
Net cash (used in) operating activities	(102,701)	(93,878)
Investing activities		
Student loans purchased	(4,326,164)	(3,627,527)
Reduction of student loans:		
Installment payments	595,675	782,694
Claims and resales	182,201	139,332
Proceeds from securitization of student loans	3,585,713	1,815,320
Proceeds from sales of student loans	29,065	703
Warehousing advances/academic facilities financings made	(272,057)	(342,353)
Warehousing advances/academic facilities financings repayments	357,457	334,902
Investments purchased	(8,128,740)	(25,113,784)
Proceeds from sale or maturity of investments	8,232,175	24,617,108
Purchase of subsidiaries, net of cash acquired	(46,392)	—
Net cash provided by (used in) investing activities	208,933	(1,393,605)
Financing activities		
Short-term borrowings issued	118,102,346	330,815,625
Short-term borrowings repaid	(114,706,957)	(327,999,666)
Long-term notes issued	4,642,827	2,158,470
Long-term notes repaid	(8,234,241)	(3,011,600)
Equity forward contracts and stock issued	118,767	200,302
Common stock repurchased	(115,313)	(322,801)
Common dividends paid	(31,248)	(28,512)
Preferred dividends paid	(2,875)	(2,875)
Net cash (used in) provided by financing activities	(226,694)	1,808,943
Net (decrease) increase in cash and cash equivalents	(120,462)	321,460
Cash and cash equivalents at beginning of period	715,001	734,468
Cash and cash equivalents at end of period	\$ 594,539	\$ 1,055,928
Cash disbursements made for:		
Interest	\$ 474,560	\$ 673,393
Income taxes	\$ 331,500	\$ 84,400

See accompanying notes to consolidated financial statements.

USA EDUCATION, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at March 31, 2002 and for the three months ended
March 31, 2002 and 2001 is unaudited)
(Dollars and shares in thousands, except per share amounts)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of USA Education, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation 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 financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results for the year ending December 31, 2002.

2. New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," and Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets." SFAS 141 requires companies to use the purchase method of accounting for all business combinations initiated after June 30, 2001, and broadens the criteria for recording identifiable intangible assets separate from goodwill. SFAS 142 requires companies to cease systematically amortizing goodwill (and other intangible assets with indefinite lives), but rather perform an assessment for impairment by applying a fair-value-based test on an annual basis (or an interim basis if circumstances indicate a possible impairment). Future impairment losses are to be recorded as an operating expense, except at the transition date, when any impairment write-off of existing goodwill is to be recorded as a "cumulative effect of change in accounting principle." In accordance with SFAS 142, any goodwill and indefinite-life intangibles resulting from acquisitions completed after June 30, 2001 will not be amortized. Effective January 1, 2002, the Company ceased amortizing goodwill and indefinite-life intangibles in accordance with SFAS 142. In 2002, the Company will be required to test its goodwill for impairment, which could have an adverse effect on the Company's future results of operations if an impairment occurs. The Company is in the process of evaluating the financial statement impact of the adoption of SFAS 142.

3. Allowance for Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of student loans. The Company evaluates the adequacy of the provision for losses on its federally insured portfolio of student loans separately from its non-federally insured portfolio. For the federally insured portfolio, the Company primarily considers trends in student loan claims rejected for payment by guarantors due to servicing defects as well as overall default rates on those FFELP student loans subject to the two percent risk-sharing, i.e., those loans that are insured as to 98 percent of principal and accrued interest. Once a student loan is rejected for claim payment, the Company's policy is to continue to pursue the recovery of principal and interest. Due to the nature of FFELP loans and the extensive collection efforts in

which the Company engages, the Company currently writes off an unpaid claim once it has aged to two years.

For the non-federally insured portfolio of student loans, the Company primarily considers recent trends in delinquencies, charge-offs and recoveries, historical trends in loan volume by program, economic conditions and credit and underwriting policies. A large percentage of the Company's non-federally insured loans have not matured to a point at which predictable loan loss patterns have developed. Accordingly, the evaluation of the provision for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes.

The following table shows the loan delinquency trends for the three months ended March 31, 2002 and 2001, presented on the Company's non-federally insured student loan portfolio.

	Three months ended March 31,	
	2002	2001
(Dollars in millions)		
Loans in school/deferment	\$ 1,754	\$ 883
Loans in repayment		
Loans current	2,404	1,928
Loans in forbearance	335	290
Loans delinquent 30-59 days	110	88
Loans delinquent 60-89 days	46	48
Loans delinquent greater than 90 days	77	77
Total loans in repayment	2,972	2,431
Ending non-federally insured student loan portfolio	\$ 4,726	\$ 3,314

The following table summarizes changes in the allowance for student loan losses for the three months ended March 31, 2002 and 2001.

	Three months ended March 31,	
	2002	2001
Balance at beginning of period	\$ 265,140	\$ 227,406
Additions		
Provision for losses	20,093	13,260
Recoveries	1,487	1,215
Other	525	5,119
Deductions		

Reductions for student loan sales and securitizations	(2,466)	(3,671)
Charge-offs	(15,900)	(11,657)
Balance at end of period	\$ 268,879	\$ 231,672

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The provision for losses reflected in the Consolidated Statements of Income for the three months ended March 31, 2002 and 2001 also includes a minimal provision for the maintenance of certain reserves.

4. Student Loan Securitization

When the Company sells receivables in securitizations of student loans, it retains a residual interest and, in some cases, a cash reserve account, all of which are retained interests in the securitized receivables. At March 31, 2002 and 2001, the balance of these assets was \$1.7 billion and \$1.9 billion, respectively. Gain or loss on the sale of the receivables is based upon the previous carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the retained interests based on their relative fair values at the date of transfer. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for retained interests, so the Company estimates fair value, both initially and on a quarterly basis going forward, based on the present value of future expected cash flows estimated using management's best estimates of the key assumptions—credit losses, prepayment speeds and discount rates commensurate with the risks involved.

During the first quarter of 2002, the Company sold \$3.5 billion of student loans in two securitization transactions and securitized \$30 million through the recycling provisions of prior securitizations. The Company recorded a pre-tax securitization gain of \$44 million or 1.25 percent of the portfolios securitized in the first quarter of 2002. In the first quarter of 2001, the Company sold \$1.8 billion of student loans and recorded a pre-tax securitization gain of \$9 million or .53 percent of the portfolios securitized. At March 31, 2002 and December 31, 2001, securitized student loans outstanding totaled \$32.5 billion and \$30.7 billion, respectively.

In those securitizations, the Company, through Sallie Mae Servicing, LP, has servicing responsibilities for the loans and receives annual servicing fees of 0.9 percent per annum of the outstanding balance of student loans other than consolidation loans and 0.5 percent per annum of the outstanding balance of consolidation loans for the securitization transactions engaged in by its subsidiary, the Student Loan Marketing Association. The Company also receives rights to future cash flows arising after the investors in the trust have received the return for which they have contracted. Trust investors and the securitization trusts have no recourse to the Company's other assets. The Company's retained interests are subordinate to investors' interests. Their value is subject to credit, prepayment, and interest rate risks.

Key economic assumptions used in measuring the fair value of retained interests at the date of securitization resulting from the student loan securitization transactions completed during the first quarter of 2002 (weighted based on principal amounts securitized) were as follows:

Prepayment speed	7% per annum
Weighted-average life	5.1 years
Expected credit losses	0.6%
Residual cash flows discounted at	12%

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Expected credit losses resulting from loans securitized in the first quarter of 2002 are dependent on the portfolio's expected rate of defaulted loans, the level of insurance guarantee which ranges from 98 percent to 100 percent of the unpaid principal and interest of the defaulted loan, and the expected level of defaulted loans not eligible for insurance guarantee due to servicing deficiencies (approximately one percent of defaulted loans). The expected dollar amount of credit losses is divided by the portfolio's principal balance to arrive at the expected credit loss percentage. The following table summarizes the cash flows received from securitization trusts entered into during the first quarter of 2002 (Dollars in millions).

Proceeds from new securitizations	\$ 3,556
Servicing fees received	—
Cash flows received on interest-only strips	—

5. Common Stock

Basic earnings per common share ("Basic EPS") are calculated using the weighted average number of shares of common stock outstanding during each period. Diluted earnings per common share ("Diluted EPS") reflect the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, warrants, and deferred compensation, determined by the treasury stock method, and equity forwards, determined by the reverse treasury stock method, as follows:

	Net Income Attributable to Common Stock	Average Shares	Earnings per Share
Three months ended March 31, 2002			
Basic EPS	\$ 419,469	155,629	\$ 2.70
Dilutive effect of stock options, warrants, equity forwards and deferred compensation	—	4,054	(.07)
Diluted EPS	\$ 419,469	159,683	\$ 2.63

Three months ended March 31, 2001

Basic EPS	\$	26,926	163,051	\$.17
Dilutive effect of stock options, warrants, equity forwards and deferred compensation		—	6,888		(.01)
Diluted EPS	\$	26,926	169,939	\$.16

6. Derivative Financial Instruments***Risk Management Strategy***

The Company maintains an overall interest rate risk management strategy that incorporates the use of derivative instruments to minimize the economic effect of interest rate volatility. The Company's goal is to manage interest rate sensitivity by modifying the repricing or maturity characteristics of

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certain balance sheet assets and liabilities so that the net interest margin is not, on a material basis, adversely affected by movements in interest rates. Management believes certain derivative transactions are economically effective; however, those transactions may not qualify for hedge accounting under Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities" (as discussed below) and thus may adversely impact earnings. As a result of interest rate fluctuations, hedged assets and liabilities will appreciate or depreciate in market value. Income or loss on the derivative instruments that are linked to the hedged assets and liabilities will generally offset the effect of this unrealized appreciation or depreciation. The Company views this strategy as a prudent management of interest rate sensitivity.

By using derivative instruments, the Company is exposed to credit and market risk. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it has no credit risk. If the counterparty fails to perform, credit risk is equal to the extent of the fair value gain in a derivative. The Company minimizes the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by the Company's credit committee. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivative Association Master Agreement. Depending on the nature of the derivative transaction, bilateral collateral arrangements may be required as well. When the Company has more than one outstanding derivative transaction with a counterparty, and there exists legally enforceable netting provisions with the counterparty (i.e. a legal right of a setoff of receivable and payable derivative contracts), the "net" mark-to-market exposure represents the netting of the positive and negative exposures with the same counterparty. When there is a net negative exposure, the Company considers its exposure to the counterparty to be zero. The Company's policy is to use agreements containing netting provisions with all counterparties.

Market risk is the effect that a change in interest rates, or implied volatility rates, has on the value of a financial instrument. The Company manages the market risk associated with interest rates by establishing and monitoring limits as to the types and degree of risk.

The Company's Audit/Finance Committee of the Board of Directors, as part of its oversight of the Company's asset/liability and treasury functions, monitors the Company's derivative activities. The Company is responsible for implementing various hedging strategies. The resulting hedging strategies are then incorporated into the Company's overall interest rate risk management and trading strategies.

SFAS 133

Derivative instruments that are used as part of the Company's interest rate risk management strategy include interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities. On January 1, 2001, the Company adopted SFAS 133. SFAS 133 requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. Derivative instruments are classified and accounted for by the Company as either fair value, cash flow, or trading as defined by SFAS 133.

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Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. For hedges of fixed rate debt, the Company considers all components of the derivatives' gain and/or loss when assessing hedge effectiveness. For hedges of fixed rate assets, the Company considers only the changes due to interest rate movements when assessing effectiveness.

Cash Flow Hedges

Cash flow hedges are generally used by the Company to hedge the exposure of variability in cash flows of a forecasted transaction. The Company uses futures contracts to hedge its interest rate risk on its assets and liabilities. This strategy is used primarily to minimize the exposure to volatility in interest rates. Gains and losses on derivative contracts are accumulated in other comprehensive income and reclassified to current period earnings when the stated hedged transactions occur (in which case gains and losses are amortized over the life of the transaction) or are deemed unlikely to occur (in which case gains and losses are taken immediately). The Company expects to reclassify \$6 million of after-tax net losses during the next 12 months related to futures contracts closed as of March 31, 2002. In addition, the Company expects to reclassify as earnings portions of the accumulated deferred net losses related to open futures contracts during the next 12 months based on the anticipated issuance of debt. In assessing hedge effectiveness, all components of each derivative's gains or losses are included in the assessment.

The maximum term over which the Company is hedging its exposure to the variability of future cash flows (for all forecasted transactions, excluding interest payments on variable rate debt) is one year.

Trading Activities

When instruments do not qualify as hedges under SFAS 133, they are classified as trading. The Company purchases interest rate caps and futures contracts and sells interest rate floors, caps, and futures contracts to lock in reset rates on floating rate debt and interest rate swaps, and to partially offset the embedded floor options in student loan assets. These relationships do not satisfy hedging qualifications under SFAS 133, but are considered economic hedges for risk management purposes. The Company uses this strategy to minimize its exposure to floating rate volatility.

The Company also uses basis swaps to "lock-in" a desired spread between the Company's interest-earning assets and interest-bearing liabilities. These swaps usually possess a term of one to seven years with a pay rate indexed to Treasury bill, commercial paper, 52 week Treasury bill, or constant maturity Treasury rates. The specific terms and notional amounts of the swaps are determined based on management's review of its asset/liability structure, its assessment of future interest rate relationships, and on other factors such as short-term strategic initiatives. In addition, interest rate swaps and futures contracts which do not qualify as fair value or cash flow hedges are classified as trading.

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The Company also uses various purchased option-based products for overall asset/liability management purposes, including options on interest rate swaps, floor contracts, and cap contracts. These purchased products are not linked to specific assets and liabilities on the balance sheet and, therefore, do not qualify for hedge accounting treatment.

Summary of Derivative Financial Statement Impact

The following tables summarize the fair and notional value of all derivative instruments and their impact on other comprehensive income and earnings.

	March 31,					
	Cash Flow		Fair Value		Trading	
	2002	2001	2002	2001	2002	2001
Fair Values (Dollars in millions)						
Interest rate swaps	\$ —	\$ —	\$ (61)	\$ (67)	\$ (145)	\$ (42)
Floor/Cap contracts	—	—	—	—	(520)	(400)
Futures	(1)	(44)	—	—	11	—
Hedged item	—	—	340	413	—	—
Notional Values (Dollars in billions)						
Interest rate swaps	\$ —	\$ —	\$ 12.6	\$ 1.8	\$ 55.5	\$ 41.5
Floor/Cap contracts	—	—	—	—	21.9	16.2
Futures	33.5	27.4	—	—	51.9	—

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	Three months ended March 31,					
	Cash Flow		Fair Value		Trading	
	2002	2001	2002	2001	2002	2001

(Dollars in millions)

Changes to other comprehensive income, net of tax						
Other comprehensive income, net	\$ 27	\$ (22)	\$ —	\$ —	\$ 15	\$ (39) ⁵

Earnings Summary

Recognition of closed futures contracts' gains/losses into earnings ¹	\$ (38)	\$ (16)	\$ —	\$ —	\$ (53)	\$ (9)
Amortization of transition adjustment ²	—	—	—	—	(1)	13
Mark-to-market earnings ³	—	—	44	(9) ⁴	284	(159)
Total earnings impact	\$ (38)	\$ (16)	\$ 4	\$ (9)	\$ 230	\$ (155)

¹ Reported as interest expense (for hedges where the stated transaction occurred) or as gains and losses on sales of securities (for discontinued hedges and closed futures contracts classified as "trading") in the Consolidated Statements of Income.

² Reported as a component of other operating income in the Consolidated Statements of Income.

³ Reported as derivative market value adjustment in the Consolidated Statements of Income.

⁴ The mark-to-market earnings for fair value hedges represent amounts related to ineffectiveness.

5 Represents transition adjustment and related amortization out of other comprehensive income, net.

The following table shows the components of the change in accumulated other comprehensive income net, for derivatives.

	Three months ended March 31,	
	2002	2001
(Dollars in millions)		
Accumulated Other Comprehensive Income, Net		
Balance at beginning of period	\$ (50)	\$ —
Transition adjustment	—	(39)
Transition adjustment amortization	1	—
Additions due to changes in fair value of cash flow hedges	3	(33)
Amortizations	2	1
Discontinued hedges	22	10
Balance at end of period	\$ (22)	\$ (61)

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The table below reconciles the mark-to-market earnings to the change in fair values for the three months ended March 31, 2002 and 2001.

	Three months ended March 31,			
	Fair Value		Trading	
	2002	2001	2002	2001
(Dollars in millions)				
Change in value of hedged item	\$ 49	\$ 16	\$ —	\$ —
Change in value of derivatives	(45)	(25)	283	(205)
Premiums received from caps/floors	—	—	1	77
Extinguishment of floor contracts	—	—	—	(31)
Total mark-to-market earnings	\$ 4	\$ (9)	\$ 284	\$ (159)

7. Acquisitions

On January 2, 2002, the Company completed the acquisition of Pioneer Credit Recovery, Inc. ("Pioneer"), an Arcade, NY, based company that provides loan delinquency and default services on behalf of the U.S. Department of Education, the U.S. Department of Treasury, and hundreds of other clients. The acquisition price was \$38 million in cash. Based on a preliminary allocation of the purchase price, the Company recorded \$30 million in goodwill. Pioneer's results of operations for the year ended December 31, 2001 and for the three months ended March 31, 2002 were immaterial to the Company's financial position and its results of operations. The fair value of Pioneer's assets and liabilities at the date of acquisition are presented below (Dollars in millions):

Cash	\$ 2
Goodwill	30
Other assets	7
Other liabilities	(1)
Fair value of net assets acquired	\$ 38

On January 31, 2002, the Company completed the acquisition of General Revenue Corporation ("GRC"), a Cincinnati, OH, based company that is the nation's largest university-focused collection agency. The acquisition price was \$29 million in cash and stock. Based on a preliminary allocation of the purchase price, the Company recorded \$21 million in goodwill. GRC's results of operations for the year ended December 31, 2001 and for the three months ended March 31, 2002 were immaterial to the Company's financial position and its results of operations. The fair value of GRC's assets and liabilities at the date of acquisition are presented below (Dollars in millions):

Cash and investments	\$ 4
Goodwill	21
Other assets	6
Other liabilities	(2)
Fair value of net assets acquired	\$ 29

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Three months ended March 31, 2002 and 2001 (Dollars in millions, except per share amounts)

OVERVIEW

On August 7, 1997, in accordance with the Student Loan Marketing Association Reorganization Act of 1996 (the "Privatization Act") and approval by shareholders of an agreement and plan of reorganization, the Student Loan Marketing Association ("the GSE") was reorganized into a subsidiary of USA Education, Inc. (the "Reorganization"). USA Education, Inc. is a holding company that operates through a number of subsidiaries including the GSE. References herein to the "Company" refer to the GSE and its subsidiaries for periods prior to the Reorganization and to USA Education, Inc. and its subsidiaries for periods after the Reorganization. USA Education, Inc. will be renamed SLM Corporation effective May 17, 2002.

The Company is the largest private source of funding, delivery and servicing support for education loans in the United States, primarily through its participation in the Federal Family Education Loan Program ("FFELP"), formerly the Guaranteed Student Loan Program. The Company's products and services include student loan purchases and commitments to purchase student loans, student loan servicing and collections, as well as operational support to originators of student loans and to post-secondary education institutions, guarantors and other education-related financial services. The Company also originates, purchases, holds and services non-federally insured private loans.

The following Management's Discussion and Analysis contains forward-looking statements and information that are based on management's current expectations as of the date of this document. Discussions that utilize the words "intend," "anticipate," "believe," "estimate" and "expect" and similar expressions, as they relate to the Company's management, are intended to identify forward-looking statements. Such forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause the actual results of the Company to be materially different from those reflected in such forward-looking statements. Such factors include, among others, changes in the terms of educational loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in such laws and regulations; which may reduce the volume, average term and costs of yields on student loans under the FFELP or result in loans being originated or refinanced under non-FFELP programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could also be affected by changes in the demand for educational financing and consumer lending or in financing preferences of lenders, educational institutions, students and their families; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; losses from default; and changes in prepayment rates and credit spreads.

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SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three months ended March 31,		Increase (decrease)	
	2002	2001	\$	%
Net interest income	\$ 281	\$ 180	\$ 101	56%
Less: provision for losses	20	14	6	49
Net interest income after provision for losses	261	166	95	57
Gains on student loan securitizations	44	9	35	367
Servicing and securitization revenue	195	120	75	62
(Losses) on sales of securities	(89)	(31)	(58)	184
Guarantor servicing and collection fees	80	55	25	45
Derivative market value adjustment	288	(168)	456	(271)
Other income	42	70	(28)	(42)
Operating expenses	167	167	—	—
Income taxes	232	21	211	1,014
Minority interest in net earnings of subsidiary	—	3	(3)	(100)
Net income	422	30	392	1,317
Preferred stock dividends	3	3	—	—
Net income attributable to common stock	\$ 419	\$ 27	\$ 392	1,458%
Basic earnings per share	\$ 2.70	\$...17	\$ 2.53	1,533%
Diluted earnings per share	\$ 2.63	\$...16	\$ 2.47	1,558%
Dividends per common share	\$...20	\$...18	\$...02	14%

Condensed Balance Sheets

			Increase (decrease)	
	March 31, 2002	December 31, 2001	\$	%
Assets				
Student loans, net	\$ 40,962	\$ 41,001	\$ (39)	—%
Warehousing advances/academic facilities financings	1,680	1,768	(88)	(5)
Cash and investments	5,524	5,787	(263)	(5)
Other assets	4,278	4,318	(40)	(1)
Total assets	\$ 52,444	\$ 52,874	\$ (430)	(1)%
Liabilities and Stockholders' Equity				
Short-term borrowings	\$ 30,745	\$ 31,065	\$ (320)	(1)%
Long-term notes	17,412	17,285	127	1
Other liabilities	2,333	2,852	(519)	(18)
Total liabilities	50,490	51,202	(712)	(1)
Stockholders' equity before treasury stock	4,128	3,750	378	10
Common stock held in treasury at cost	2,174	2,078	96	5
Total stockholders' equity	1,954	1,672	282	17
Total liabilities and stockholders' equity	\$ 52,444	\$ 52,874	\$ (430)	(1)%

RESULTS OF OPERATIONS

EARNINGS SUMMARY

For the three months ended March 31, 2002, the Company's net income calculated in accordance with GAAP was \$422 million (\$2.63 diluted earnings per share), versus net income of \$30 million (\$.16 diluted earnings per share) in the first quarter of 2001. The increase in GAAP net income in the first quarter of 2002 versus the year-ago quarter was attributable to several significant factors. The Company increased the on-balance sheet average balance of student loans by \$3.6 billion, and the lower interest rate environment increased after-tax floor revenue by \$42 million in the first quarter of 2002 versus the year-ago quarter. The net impact of Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities," resulted in a net after-tax mark-to-market gain of \$187 million in the first quarter of 2002, compared to a net after-tax mark-to-market loss of \$109 million in the first quarter of 2001. The increase in GAAP net income in the first quarter 2002 versus the year-ago quarter was also due to an increase in after-tax servicing and securitization revenue of \$49 million, an increase in after-tax securitization gains of \$23 million, and an after-tax increase in guarantor servicing and collection fees of \$16 million, primarily attributable to the acquisitions of Pioneer and GRC (see Note 7 in the "Notes to the Consolidated Financial Statements"). These first quarter 2002 increases to net income were partially offset by additional after-tax losses on sales of securities of \$38 million over the year-ago quarter.

During the first quarter of 2002, the Company securitized \$3.5 billion of student loans in two transactions and recorded after-tax securitization gains of \$29 million. In comparison, during the first quarter of 2001, the Company securitized \$1.8 billion of student loans in one transaction and recorded after-tax securitization gains of \$6 million.

During the first quarter of 2002, the Company repurchased 1.5 million common shares through its open market purchases and equity forward settlements and issued a net 1.3 million shares as a result of benefit plans. Common shares outstanding at March 31, 2002 totaled 155 million shares.

Management believes that in addition to results of operations as reported in accordance with GAAP, another important measure is "core cash basis" results of operations under the assumptions that securitization transactions are treated as financings, not sales, and thereby gains on such sales and subsequent servicing and securitization revenues are eliminated from net income. In addition, the effects of SFAS 133 are excluded from "core cash basis" results and the economic hedge effects of derivative instruments are recognized. "Core cash basis" results also exclude the benefit of floor revenue, certain gains and losses on sales of investment securities and student loans, and the amortization of goodwill and acquired intangible assets. (See "Pro-forma Statements of Income" for a detailed discussion of "core cash basis" net income.)

The Company's "core cash basis" net income was \$170 million (\$1.05 diluted earnings per share) for the three months ended March 31, 2002 versus \$145 million (\$.84 diluted earnings per share) for the three months ended March 31, 2001. The increase in "core cash basis" net income in the first quarter of 2002 versus the first quarter of 2001 is mainly due to the \$4.0 billion increase in the average balance of the Company's managed portfolio of student loans, lower funding costs, an increase in guarantor servicing and collections fee income, and a decrease in operating expenses.

NET INTEREST INCOME

Net interest income is derived largely from the Company's portfolio of student loans that remain on-balance sheet. The "Taxable Equivalent Net Interest Income" analysis set forth below is designed to facilitate a comparison of non-taxable asset yields to taxable yields on a similar basis. Additional information regarding the return on the Company's student loan portfolio is set forth under "Student Loans—Student Loan Spread Analysis."

Taxable equivalent net interest income for the three months ended March 31, 2002 versus the three months ended March 31, 2001 increased by \$105 million while the net interest margin increased by 86 basis points. The increase in taxable equivalent net interest income for the three months ended March 31, 2002 was principally due to the \$3.6 billion increase in the average balance of student loans and the increase in floor income over the year-ago quarter. The increase in the net interest margin for the first quarter of 2002 versus the first quarter of 2001 was reflective of the higher average balance of student loans as a percentage of average total earning assets and the increase in floor income.

Taxable Equivalent Net Interest Income

The amounts in this 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.

	Three months ended March 31,		Increase (decrease)	
	2002	2001	\$	%
Interest income				
Student loans	\$ 534	\$ 713	\$ (179)	(25)%
Warehousing advances/academic facilities financings	19	29	(10)	(34)
Investments	45	133	(88)	(66)
Taxable equivalent adjustment	4	—	4	100
Total taxable equivalent interest income	602	875	(273)	(31)
Interest expense	317	695	(378)	(54)
Taxable equivalent net interest income	\$ 285	\$ 180	\$ 105	59%

Average Balance Sheets

The following table reflects the taxable equivalent rates earned on earning assets and paid on liabilities for the three months ended March 31, 2002 and 2001.

	Three months ended March 31,			
	2002		2001	
	Balance	Rate	Balance	Rate
Average Assets				
Student loans	\$ 42,357	5.12%	\$ 38,709	7.47%
Warehousing advances/academic facilities financings	1,716	5.07	1,836	7.09
Investments	5,372	3.47	8,625	6.09
Total interest earning assets	49,445	4.94%	49,170	7.21%
Non-interest earning assets	4,916		4,238	
Total assets	\$ 54,361		\$ 53,408	
Average Liabilities and Stockholders' Equity				
Six month floating rate notes	\$ 3,084	1.94%	\$ 4,797	5.54%
Other short-term borrowings	29,635	2.22	32,158	5.61
Long-term notes	17,294	3.27	13,008	5.74
Total interest bearing liabilities	50,013	2.57%	49,963	5.64%
Non-interest bearing liabilities	2,543		2,136	
Stockholders' equity	1,805		1,309	
Total liabilities and stockholders' equity	\$ 54,361		\$ 53,408	
Net interest margin		2.34%		1.48%

Rate/Volume Analysis

The Rate/Volume Analysis below shows the relative contribution of changes in interest rates and asset volumes. The amounts in this 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.

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in	
		Rate	Volume
Three months ended March 31, 2002 vs. three months ended March 31, 2001			
Taxable equivalent interest income	\$ (273)	\$ (290)	\$ 17
Interest expense	(378)	(391)	13
Taxable equivalent net interest income	\$ 105	\$ 101	\$ 4

Student Loans

Student Loan Spread Analysis

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, the Company will continue to earn servicing fee revenues over the life of the securitized student 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 the Company's student loan spread for the entire portfolio of managed student loans on a similar basis to the on-balance sheet analysis, see "'Core Cash Basis' Student Loan Spread and Net Interest Income."

	Three months ended March 31,	
	2002	2001
On-Balance Sheet		
Adjusted student loan yields	5.90%	8.18%
Consolidation loan rebate fees	(.35)	(.28)
Offset fees	(.11)	(.14)
Borrower benefits	(.07)	(.07)
Premium amortization	(.25)	(.22)
Student loan income	5.12	7.47
Student loan cost of funds	(2.54)	(5.81)
Student loan spread	2.58%	1.66%
Off-Balance Sheet		
Servicing and securitization revenue	2.60%	1.62%
Average Balances		
On-balance sheet student loans	\$ 42,357	\$ 38,709
Securitized student loans	30,391	30,028
Managed student loans	\$ 72,748	\$ 68,737

The Company's portfolio of student loans originated under the FFELP has a variety of unique interest rate characteristics. The Company generally earns interest at the greater of the borrower's rate

or a floating rate determined by reference to one of the applicable floating rates (91-day Treasury bill, commercial paper, 52-week Treasury bill, or the constant maturity Treasury rate) in a calendar quarter, plus a fixed spread which is dependent upon when the loan was originated. If the resulting floating rate exceeds the borrower rate, the Department of Education pays the difference directly to the Company. This payment is referred to as SAP. If the resulting floating rate is less than the rate the borrower is obligated to pay, the Company simply earns interest at the borrower rate. In all cases, the rate a borrower pays sets a minimum rate for determining the yield the Company earns on the loan. Borrowers' interest rates are either fixed to term or are reset annually on July 1 of each year depending on when the loan was originated.

The Company generally finances its student loan portfolio with floating rate debt tied to the 91-day Treasury bill auctions, the commercial paper index, the 52-week Treasury bill, or the constant maturity Treasury rate, either directly or through the use of derivative financial instruments intended to mimic the interest

rate characteristics of the student loans. Such borrowings in general, however, do not have minimum rates. As a result, in certain declining interest rate environments, the portfolio of managed student loans may be earning at the minimum borrower rate while the Company's funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short-term interest rates. For loans where the borrower's interest rate is fixed to term, lower interest rates may benefit the spread earned on student loans for extended periods of time. For loans where the borrower's interest rate is reset annually, any benefit of a low interest rate environment will only enhance student loan spreads through the next annual reset of the borrower's interest rates, which occurs on July 1 of each year. The effect of this enhanced spread is referred to as floor income.

Low average Treasury bill rates in the first quarter of 2002 benefited the Company's on-balance sheet student loan income, net of payments under floor revenue contracts (see "Student Loan Floor Revenue Contracts"), by \$76 million of which \$22 million was attributable to student loans with minimum borrower rates fixed to term and \$54 million was attributable to student loans with minimum borrower rates adjusting annually. Higher average Treasury bill rates in the first quarter of 2001 decreased the Company's benefit from student loans earning at the minimum borrower rate included in student loan income, net of payments under floor revenue contracts, to \$12 million, of which \$1 million was attributable to student loans with minimum borrower rates fixed to term and \$11 million was attributable to student loans with minimum borrower rates adjusted annually.

The 92 basis point increase in the student loan spread in the first quarter of 2002 versus the year-ago period is due primarily to the increase in floor income, attributable to lower short-term interest rates, and a decrease in the student loan cost of funds.

The following table analyzes the ability of the FFELP student loans in the Company's managed student loan portfolio to earn at the minimum borrower interest rate at March 31, 2002 and 2001, based on the last Treasury bill auctions applicable to those periods (1.85 percent and 4.31 percent,

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respectively). Commercial paper rate loans are based upon the last commercial paper rate applicable to those periods (1.83 percent and 4.68 percent, respectively).

(Dollars in billions)	March 31, 2002			March 31, 2001		
	Fixed Borrower Rate	Annually Reset Borrower Rate	Total	Fixed Borrower Rate	Annually Reset Borrower Rate	Total
Student loans eligible to earn at the minimum borrower rate	\$ 19.3	\$ 39.4	\$ 58.7	\$ 16.2	\$ 39.4	\$ 55.6
Less notional amount of floor interest contracts	(13.2)	(5.0)	(18.2)	(7.6)	—	(7.6)
Net student loans eligible to earn at the minimum borrower rate	\$ 6.1	\$ 34.4	\$ 40.5	\$ 8.6	\$ 39.4	\$ 48.0
Net student loans earning at the minimum borrower rate	\$ 6.1	\$ 34.4	\$ 40.5	\$ 7.7	\$ 39.3	\$ 47.0

Student Loan Floor Revenue Contracts

The Company has entered into contracts with third parties to monetize the value of the minimum borrower interest rate feature of its portfolio of FFELP student loans. Under these contracts, referred to as "floor revenue contracts," the Company receives an upfront payment and agrees to pay the difference between (1) the minimum borrower interest rate less the spread ("the strike rate") and (2) the average of the index over the period of the contract. If the strike rate is less than the average of the index, then no payment is required. Prior to the implementation of SFAS 133, these upfront payments were amortized over the average life of the contracts. With the adoption of SFAS 133 on January 1, 2001, the upfront premiums are no longer being amortized to student loan income but are reported as other liabilities as part of the derivative valuation.

Effective December 31, 2000, in anticipation of the adoption of SFAS 133, the floor revenue contracts were de-designated as effective hedges and marked-to-market. The net effect of the fair market value of these contracts and the unamortized upfront payment was a loss totaling \$104 million. This loss was reclassified to student loan premium and is being amortized over the average life of the student loan portfolio. At March 31, 2002, the unamortized balance related to the fair market value of these contracts in student loan premium totaled \$68 million. For the three months ended March 31, 2002 and 2001, the related amortization totaled \$3 million and \$4 million, respectively, and the premium write-off due to securitization totaled \$6 million and \$4 million, respectively.

Since these contracts are no longer considered effective hedges for GAAP, the Company marks to market the floor revenue contracts. For the three months ended March 31, 2002 and 2001, the Company recognized a \$226 million pre-tax mark-to-market gain and a \$115 million pre-tax mark-to-market loss, respectively, attributable to floor revenue contracts due to the implementation of SFAS 133. At March 31, 2002, the outstanding notional amount of floor revenue contracts totaled \$18.2 billion.

Activity in the Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of student loans. The Company evaluates the adequacy of the provision for losses on its federally insured portfolio of student loans separately from its non-federally insured portfolio. For the federally insured portfolio, the Company primarily considers trends in student loan claims rejected for payment by guarantors due to servicing defects as well as overall default rates on those FFELP student loans subject to the two-percent risk-

sharing, i.e., those loans that are insured as to 98 percent of principal and accrued interest. Once a student loan is rejected for claim payment, the Company's policy is to continue to pursue the recovery of principal and interest. Due to the nature of FFELP loans and the extensive collection efforts in which the Company engages, the Company currently writes off an unpaid claim once it has aged to two years.

For the non-federally insured portfolio of student loans, the Company primarily considers recent trends in delinquencies, charge-offs and recoveries, historical trends in loan volume by program, economic conditions and credit and underwriting policies. A large percentage of the Company's non-federally insured loans have not matured to a point at which predictable loan loss patterns have developed. Accordingly, the evaluation of the provision for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. Management believes that the provision for loan losses is adequate to cover anticipated losses in the student loan portfolio. An analysis of the Company's allowance for loan losses is presented in the following table.

	Three months ended March 31,	
	2002	2001
Balance at beginning of period	\$ 265	\$ 227
Provision for losses	20	13
Other	—	5
Charge-offs:		
Non-federally insured loans	(13)	(7)
Federally insured loans	(3)	(5)
Total charge-offs	(16)	(12)
Recoveries:		
Non-federally insured loans	1	1
Federally insured loans	1	1
Total recoveries	2	2
Net charge-offs	(14)	(10)
Reduction for sale of student loans	(2)	(3)
Balance at end of period	\$ 269	\$ 232
Allocation of the allowance for loan losses:		
Non-federally insured loans	\$ 206	\$ 182
Federally insured loans	63	50
Total	\$ 269	\$ 232
Net charge-offs as a percentage of average student loans	.14%	.11%
Total allowance as a percentage of average student loans	.63%	.60%
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	4.18%	5.20%
Average student loans	\$ 42,357	\$ 38,709
Ending student loans	\$ 40,962	\$ 38,525

The increase in the provision for loan losses for the three months ended March 31, 2002 versus March 31, 2001 of \$7 million is primarily attributable to the 43 percent increase in volume of non-federally insured student loans quarter over quarter. As the volume of non-federally insured loans increases and begins to age, the Company obtains more historical data on default rates for these loans. Based on management's assumptions and on actual loan performance, the Company re-evaluates the requirements for its provision for loan losses. In the first quarter 2002, non-federally insured loan write-

offs increased by \$6 million over the first quarter 2001 which is primarily attributable to the increased volume and aging of this portfolio.

On-Balance Sheet Funding Costs

The Company's borrowings are generally variable-rate indexed principally to the 91-day Treasury bill, commercial paper, 52-week Treasury bill, or the constant maturity Treasury rate. The following table summarizes the average balance of on-balance sheet debt (by index, after giving effect to the impact of interest rate swaps) for the three months ended March 31, 2002 and 2001.

Index	Three months ended March 31,			
	2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate
Treasury bill, principally 91-day	\$ 26,507	2.22%	\$ 31,957	5.53%
LIBOR	1,620	2.26	1,850	6.16
Discount notes	6,648	2.06	10,554	5.62
Fixed	6,746	5.07	3,226	6.24
Zero coupon	205	11.14	183	11.14

Commercial paper	6,667	1.76	921	5.76
Auction rate securities	1,101	1.90	1,101	4.85
Other	519	1.47	171	5.74
Total	\$ 50,013	2.57%	\$ 49,963	5.64%

Securitization Program

During the first quarter of 2002, the Company completed two securitization transactions in which a total of \$3.5 billion of student loans were sold to a special purpose finance subsidiary and by that subsidiary to a trust that issued asset-backed securities to fund the student loans to term. Also in the first quarter 2002, the Company sold \$30 million of student loans through the recycling provisions of prior securitizations. During the first quarter of 2001, the Company securitized \$1.8 billion in one transaction.

Gains on Student Loan Securitizations

For the three months ended March 31, 2002, the Company recorded pre-tax securitization gains of \$44 million, which was 1.25 percent of the portfolio securitized, versus \$9 million gains in the first quarter of 2001 or .53 percent of the portfolio securitized. Gains on future securitizations will continue to vary depending on the size and the loan characteristics of the loan portfolios securitized and the funding costs prevailing in the securitization debt markets at the time of the transaction.

Servicing and Securitization Revenue

Servicing and securitization revenue, the ongoing revenue from securitized loan pools, includes both the revenue the Company receives for servicing loans in the securitization trusts and the income

earned on the residual interest. The following table summarizes the components of servicing and securitization revenue:

	Three months ended March 31,	
	2002	2001
Servicing revenue less amortization of servicing asset	\$ 66	\$ 64
Securitization revenue	129	56
Total servicing and securitization revenue	\$ 195	\$ 120

In the first quarter of 2002, servicing and securitization revenue was 2.60 percent of average securitized loans versus 1.62 percent in the year-ago quarter. The increase in servicing and securitization revenue as a percentage of the average balance of securitized student loans in the first quarter of 2002 versus the first quarter of 2001 is principally due to the impact of the decline in Treasury bill and commercial paper rates during the first quarter of 2002, which increased the earnings from those student loans in the trusts that were earning the minimum borrower rate in a manner similar to on-balance sheet student loans.

OTHER INCOME

Other income, exclusive of gains on student loan securitizations, servicing and securitization revenue, the derivative market value adjustment, and gains and losses on sales of investment securities and student loans, totaled \$122 million for the three months ended March 31, 2002 versus \$125 million for the three months ended March 31, 2001. Other income mainly includes guarantor servicing and collection fees, late fees earned on student loans, revenue received from servicing third party portfolios of student loans, and commitment fees for letters of credit. Guarantor servicing and collection fees arise primarily from four categories of services that correspond to the student loan life cycle. They include fees from loan originations, the maintenance of loan guarantees, default prevention, and collections. Guarantor servicing and collection fees totaled \$80 million in the first quarter of 2002 versus \$55 million in the first quarter of 2001. Late fees totaled \$15 million in each of the first quarters of 2002 and 2001. Third party servicing fees totaled \$13 million in the first quarter of 2002 versus \$14 million in the first quarter of 2001. Commitment fees for letters of credit totaled \$3 million in each of the first quarters of 2002 and 2001.

The increase in guarantor servicing and collection fees in the first quarter of 2002 versus the first quarter of 2001 was principally due to the growth in the guarantor servicing and collections businesses, including \$12 million from the acquisitions of Pioneer and GRC in the first quarter of 2002 (see Note 7 in the "Notes to the Consolidated Financial Statements"). This increase was partially offset by lower fee income in the first quarter of 2002 due to the sale of the student information software business in the first quarter of 2002.

OPERATING EXPENSES

The following table summarizes the components of operating expenses:

	Three months ended March 31,	
	2002	2001
Servicing and acquisition expenses	\$ 117	\$ 91
General and administrative expenses	50	76

Total operating expenses	\$ 167	\$ 167
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Operating expenses include costs to service the Company's managed student loan portfolio, operational costs incurred in the process of acquiring student loan portfolios, general and administrative expenses, and operational costs associated with its guarantor servicing and collections operations. Operating expenses for each of the three months ended March 31, 2002 and 2001 were \$167 million. The increase in servicing and acquisition expenses for the first quarter of 2002 versus the first quarter of 2001 was principally the result of additional operating expenses associated with the acquisitions of Pioneer and GRC (see Note 7 in the "Notes to the Consolidated Financial Statements") and the growth in the guarantor servicing and collections businesses. These increases were offset by a decrease in general and administrative expenses principally due to a renewed focus on expense management, the sale of the student information software business, and seasonality.

STUDENT LOAN PURCHASES

The following table summarizes the components of the Company's student loan purchase activity:

	Three months ended March 31,	
	2002	2001
Preferred channel	\$ 3,288	\$ 2,827
Other commitment clients	174	209
Spot purchases	159	127
Consolidations	417	169
Other	288	296
Subtotal	4,326	3,628
Managed loans acquired	193	197
Total	\$ 4,519	\$ 3,825

The Company acquired \$4.5 billion of student loans in the first quarter of 2002 compared with \$3.8 billion in the year-ago quarter.

In the first quarter of 2002, the Company's preferred channel originations totaled \$3.8 billion versus \$3.1 billion in the year-ago quarter. The pipeline of loans currently serviced and committed for purchase by the Company was \$5.6 billion at March 31, 2002 versus \$5.8 billion at March 31, 2001.

The following table summarizes the activity in the Company's managed portfolio of student loans for the three months ended March 31, 2002 and 2001.

	Three months ended March 31,	
	2002	2001
Beginning balance	\$ 71,726	\$ 67,515
Purchases	4,069	3,385
Capitalized interest	450	440
Repayments, claims, other	(1,993)	(1,929)
Write-offs to reserves	(21)	(16)
Loans consolidated from USA Education, Inc.	(775)	(343)
Ending balance	\$ 73,456	\$ 69,052

LEVERAGED LEASES

The Company has investments in leveraged leases at March 31, 2002 totaling \$289 million, of which \$278 million represent general obligations of major U.S. commercial airlines. The airline industry

has been in a state of uncertainty since the events of September 11, 2001. All payment obligations remain current and the Company has not been notified of any counterparty's intention to default on any payment obligations. In the event of default, any potential loss would be partially mitigated by recoveries on the sale of the aircraft collateral and elimination of expected tax liabilities reflected in the balance sheet of \$249 million at March 31, 2002. Any potential loss would be increased by incremental tax obligations related to forgiveness of debt obligations or any taxable gain recognized on the sale of the aircraft.

PRO-FORMA STATEMENTS OF INCOME

Under GAAP, the Company's securitization transactions have been treated as sales. At the time of sale, the Company records a residual interest that equals the present value of the estimated future net cash flows from the portfolio of loans sold. In addition, the Company records a gain on student loan securitizations based on the approximate difference between the fair value and the carrying value of the assets sold. Fees earned for servicing the loan portfolios and interest

earned on the residual interest are recognized over the life of the securitization transaction as servicing and securitization revenue. Income recognition is effectively accelerated through the recognition of a gain at the time of sale while the ultimate realization of such income remains dependent on the actual performance, over time, of the loans that were securitized.

Most of the derivative contracts into which the Company enters are effective economic hedges for its interest rate risk management strategy but are not effective hedges under SFAS 133 because they do not typically extend to the full term of the hedged item. The majority of these hedges are treated as "trading" for GAAP purposes and therefore the resulting mark-to-market is taken into GAAP earnings. In addition, SFAS 133 requires that the Company mark-to-market its written options but none of its embedded options in its student loan assets. Effectively, in this case, SFAS 133 recognizes the liability, but not the corresponding asset.

Management believes that, in addition to results of operations as reported in accordance with GAAP, another important performance measure is pro-forma results of operations under the assumption that the securitization transactions are financings and that the securitized student loans were not sold. In addition, the effects of SFAS 133 are excluded from the pro-forma results of operations and the economic hedge effects of derivative instruments are recognized. The pro-forma results of operations also exclude the benefit of floor income, certain gains and losses on sales of investment securities and student loans, and the amortization and changes in market value of goodwill and acquired intangible assets. The following pro-forma statements of income present the Company's results of operations under these assumptions. Management refers to these pro-forma results as "core cash basis" statements of income. Management monitors the periodic "core cash basis" earnings of the Company's managed student loan portfolio and believes that they assist in a better understanding of the Company's student loan business.

The following tables present the "core cash basis" statements of income and reconciliations to GAAP net income as reflected in the Company's Consolidated Statements of Income.

	Three months ended March 31,	
	2002	2001
"Core Cash Basis" Statements of Income:		
Insured student loans	\$ 805	\$ 1,271
Advances/Facilities	19	29
Investments	46	139
Total interest income	870	1,439
Interest expense	(536)	(1,143)
Net interest income	334	296
Less: provision for losses	27	19
Net interest income after provision for losses	307	277
Other income:		
Guarantor servicing and collection fees	80	56
Other	41	56
Total other income	121	112
Total operating expenses	161	159
Income before taxes and minority interest in net earnings of subsidiary	267	230
Income taxes	97	82
Minority interest in net earnings of subsidiary	—	3
"Core cash basis" net income	170	145
Preferred stock dividends	3	3
"Core cash basis" net income attributable to common stock	\$ 167	\$ 142
"Core cash basis" diluted earnings per share	\$ 1.05	\$...84
Reconciliation of GAAP net income to "core cash basis" net income:		
GAAP net income	\$ 422	\$ 30
"Core cash basis" adjustments:		
Net interest income on securitized loans	207	147
Floor income on managed loans	(182)	(38)
Provision for losses on securitized loans	(7)	(6)
Gains on student loan securitizations	(44)	(9)
Servicing and securitization revenue	(195)	(120)

Losses on sales of securities	86	20
Goodwill and intangible amortization (A)	6	8
Net impact of derivative accounting	(259)	175
Total "core cash basis" adjustments	(388)	177
Net tax effect (B)	136	(62)
"Core cash basis" net income	\$ 170	\$ 145

(A) Goodwill amortized only prior to 2002.

(B) Such tax effect is based upon the Company's marginal tax rate for the respective period.

In the first quarter of 2002, the Company recognized \$259 million of net, pre-tax gains due to the net impact of derivative accounting versus \$175 million of net, pre-tax losses in the first quarter of 2001. The net impact of derivative accounting represents the reversal of SFAS 133 income statement items and "core cash basis" adjustments based upon guidance for derivative accounting prior to the implementation of SFAS 133. These are summarized as follows:

	Three months ended March 31,	
	2002	2001
Reversal of SFAS 133 income statement items:		
Net derivative mark-to-market income	\$ (288)	\$ 168
Amortization of derivative items included in other comprehensive income at transition	1	(13)
"Core cash basis" derivative adjustments:		
Amortization of premiums on floor and cap hedges	32	4
Reversal of amortization of floor revenue contracts de-designated as effective hedges on December 31, 2000	3	3
Reversal of net income impact of Eurodollar futures contracts	(7)	13
Total net impact of derivative accounting	\$ (259)	\$ 175

"Core Cash Basis" Student Loan Spread and Net Interest Income

The following table analyzes the reported earnings from the Company's portfolio of managed student loans, which includes loans both on-balance sheet and those off-balance sheet in securitization trusts.

	Three months ended March 31,	
	2002	2001
"Core cash basis" student loan yields	5.19%	8.13%
Consolidation loan rebate fees	(.24)	(.19)
Offset fees	(.07)	(.08)
Borrower benefits	(.12)	(.10)
Premium amortization	(.27)	(.26)
Student loan income	4.49	7.50
Student loan cost of funds	(2.62)	(5.77)
"Core cash basis" student loan spread	1.87%	1.73%
Average Balances		
Managed student loans	\$ 72,748	\$ 68,737

The Company generally earns interest at the greater of the borrower's rate or a floating rate determined by reference to the applicable floating rates (91-day Treasury bill, commercial paper, 52-week Treasury bill, or the constant maturity Treasury rate) in a calendar quarter, plus a fixed spread which is dependent upon when the loan was originated. In all cases, the rate the borrower pays sets a minimum rate for determining the yield the Company earns on the loan. The Company generally finances its student loan portfolio with floating rate debt tied to the average of the 91-day Treasury bill auctions, the commercial paper index, the 52-week Treasury bill, or the constant maturity Treasury rate, either directly or through the use of derivative financial instruments intended to mimic the interest rate characteristics of the student loans. Such borrowings in general, however, do not have minimum rates.

As a result, in certain declining interest rate environments, the portfolio of managed student loans may be earning at the minimum borrower rate while the Company's funding costs (exclusive of fluctuations in funding spreads) will generally decline along with short term interest rates. For loans where the borrower's interest rate is fixed to term, lower interest rates may benefit the spread earned on student loans for extended periods of time. For loans where the borrower's interest rate is reset annually, any benefit of a low interest rate environment will only enhance student loan spreads through the next annual reset of the borrower's interest rate, which occurs on July 1 of each year. Due to the low Treasury bill and commercial paper rates in the first quarter of 2002 compared to the minimum borrower rates on the reset dates, the Company realized \$129 million of floor revenue, which is net of \$53 million in hedge transaction losses, in the first quarter of 2002 versus \$32 million of floor revenue, net of \$6 million in hedge transaction losses, in the year-ago quarter. These earnings have been excluded from student loan income to calculate the "core cash basis" student loan spread and "core cash basis" net income. These losses have been excluded from "core cash basis" gains (losses) on sales of securities.

While floor revenue is excluded from "core cash basis" results, the amortization of the upfront payments received from the floor revenue contracts with fixed borrower rates is included as an addition to student loan income in the "core cash basis" results. For the three months ended March 31, 2002 and 2001, the amortization of the upfront payments received from the floor revenue contracts with fixed borrower rates was \$28 million and \$8 million, respectively.

The 14 basis point increase in the first quarter 2002 "core cash basis" student loan spread versus the year-ago quarter is due to higher yields on the student loan portfolio from the mix (private loans versus federal loans), a higher percentage of federal loans in repayment status, floor revenue locked in through term hedges, and better funding spreads.

The "core cash basis" net interest margin for the first quarters of 2002 and 2001 was 1.71 percent and 1.51 percent, respectively. The increase in the first quarter of 2002 "core cash basis" net interest margin versus the first quarter of 2001 is mainly due to an increase in the percentage of average managed student loans to average managed earning assets.

"Core Cash Basis" Provision and Allowance for Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the managed portfolio of student loans. The Company evaluates the adequacy of the provision for losses on its federally insured portfolio of managed student loans separately from its non-federally insured portfolio, and consistent with the manner utilized for the GAAP presentation (see "Activity in the Allowance for Loan Losses"). An analysis of the Company's allowance for loan losses is presented in the following table.

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"Core Cash Basis" Activity in the Allowance for Loan Losses

	Three months ended March 31,	
	2002	2001
Balance at beginning of period	\$ 397	\$ 335
Provisions for losses	27	19
Other	3	7
Charge-offs:		
Non-federally insured loans	(13)	(7)
Federally insured loans	(10)	(10)
Total charge-offs	(23)	(17)
Recoveries:		
Non-federally insured loans	1	1
Federally insured loans	1	1
Total recoveries	2	2
Net charge-offs	(21)	(15)
Balance at end of period	\$ 406	\$ 346
Allowance of the allowance for loan losses:		
Non-federally insured loans	\$ 206	\$ 182
Federally insured loans	200	164
Total	\$ 406	\$ 346
Net charge-offs as a percentage of average managed student loans	.12%	.09%
Total allowance as a percentage of average managed student loans	.56%	.50%
Non-federally insured allowance as a percentage of the ending balance of non-federally insured loans	4.18%	5.20%
Average managed student loans	\$ 72,748	\$ 68,737
Ending managed student loans	\$ 73,456	\$ 69,052

The first quarter 2002 "core cash basis" provision for loan losses includes \$14 million for potential loan losses on the non-federally insured student loans and \$13 million for potential loan losses due to risk-sharing and other claims on FFELP loans. The first quarter 2001 "core cash basis" provision for loan losses

includes \$6 million for potential loan losses on the non-federally insured student loans and \$13 million for potential loan losses due to risk-sharing and other claims on FFELP loans.

The provision and allowance for loan losses presented on a "core cash basis" are directly tied to the activity presented for the Company's on-balance sheet student loan portfolio. The increased volume and aging of the Company's non-federally insured student loans and management's estimates as to their effects on the allowance for loan losses were the primary causes for the increase in the provision for loan losses of \$8 million in the first quarter 2002 versus 2001. The increased volume and aging also contributed to the \$6 million increase in write-offs in the first quarter 2002 versus 2001.

"Core Cash Basis" Funding Costs

The Company's borrowings are generally variable-rate indexed principally to either the 91-day Treasury bill, commercial paper, 52-week Treasury bill, or the constant maturity Treasury rate. The

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following table summarizes the average balance of debt (by index, after giving effect to the impact of interest rate swaps) for the three months ended March 31, 2002 and 2001.

Index	Three months ended March 31,			
	2002		2001	
	Average Balance	Average Rate	Average Balance	Average Rate
Treasury bill, principally 91-day	\$ 50,541	2.41%	\$ 56,309	5.66%
LIBOR	2,007	2.25	4,462	6.16
Discount notes	6,648	2.06	10,554	5.62
Fixed	10,296	4.89	6,579	6.94
Zero coupon	205	11.14	183	11.14
Commercial paper	9,364	1.85	921	5.76
Auction rate securities	1,101	1.90	1,101	4.85
Other	109	1.77	88	5.79
Total	\$ 80,271	2.71%	\$ 80,197	5.78%

"Core Cash Basis" Other Income

"Core cash basis" other income excludes gains on student loan securitizations, servicing and securitization revenue, and certain gains and losses on sales of investment securities and student loans. In addition, the effects of SFAS 133 are excluded and the economic hedge effects of derivative instruments are recognized. "Core cash basis" other income totaled \$121 million for the first quarter 2002 versus \$112 million in the first quarter of 2001. "Core cash basis" other income mainly includes guarantor servicing and collection fees, late fees earned on student loans, fees received from servicing third party portfolios of student loans, and commitment fees for letters of credit. The increase in first quarter 2002 "core cash basis" other income versus the year-ago quarter is principally due to the growth in the guarantor servicing and collection businesses, including \$12 million generated from the acquisitions of Pioneer and GRC (see Note 7 in the "Notes to the Consolidated Financial Statements"). This increase was partially offset by lower fee income due to the sale of the student information software business in the first quarter of 2002.

FEDERAL AND STATE TAXES

The Company is subject to federal and state taxes, however, the GSE is exempt from all state, local, and District of Columbia income, franchise, sales and use, personal property and other taxes, except for real property taxes. This tax exemption applies only to the GSE and does not apply to USA Education, Inc. or its other operating subsidiaries. The Company's effective tax rate for the three months ended March 31, 2002 and 2001 was 35 percent and 39 percent, respectively. State taxes for the three months ended March 31, 2002 and 2001 increased the Company's effective tax rate by one percent and nine percent, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary requirements for capital are to fund the Company's operations, to purchase student loans and to repay its debt obligations while continuing to meet the GSE's statutory capital adequacy ratio test. The Company's primary sources of liquidity are through debt issuances by the GSE, off-balance sheet financings through securitizations, borrowings under the Company's commercial paper and medium term notes programs, other senior note issuances by the Company, and

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cash generated by its subsidiaries' operations and distributed through dividends to the Company. The Company's borrowings are broken down as follows:

Three months ended March 31,			
2002		2001	
Average	Average	Average	Average

	Balance	Rate	Balance	Rate
GSE	\$ 47,091	2.59%	\$ 48,609	5.63%
Non-GSE	2,922	2.27	1,354	6.16
Securitizations (off-balance sheet)	30,258	2.95	30,234	6.01
Total	\$ 80,271	2.71%	\$ 80,197	5.78%

The Company's unsecured financing requirements are driven by three principal factors: refinancing of existing liabilities as they mature; financing of student loan portfolio growth; and the Company's level of securitization activity.

In the first quarter of 2002, the Company completed two securitization transactions totaling \$3.5 billion in student loans and an additional \$30 million through the recycling provisions of prior securitizations. The Company manages the resulting off-balance sheet basis risk with on-balance sheet financing and derivative instruments, which principally consist of basis swaps and Eurodollar futures.

During the first quarter of 2002, the Company used the net proceeds from student loan securitizations of \$3.6 billion and repayments and claim payments on student loans of \$778 million to purchase student loans of \$4.3 billion and to repurchase \$115 million of the Company's common stock.

Operating activities used net cash of \$103 million in the first quarter of 2002, an increase of \$9 million from the net cash outflows of \$94 million in the year-ago quarter.

During the first quarter of 2002, the Company issued \$4.6 billion of long-term notes to refund maturing and repurchased obligations. At March 31, 2002, the Company had \$17.4 billion of outstanding long-term debt issues of which \$2.2 billion had stated maturities that could be accelerated through call provisions. The Company uses interest rate swaps (collateralized where appropriate), purchases of U.S. Treasury securities and other hedging techniques to reduce its exposure to interest rate fluctuations that arise from its financing activities and to match the variable interest rate characteristics of its earning assets. (See "Interest Rate Risk Management.")

At March 31, 2002, the GSE was in compliance with its regulatory capital requirements, and had a statutory capital adequacy ratio of 3.52 percent after the effect of the dividends to be paid in the second quarter of 2002.

Interest Rate Risk Management

Interest Rate Gap Analysis

The Company's principal objective in financing its operations is to minimize its sensitivity to changing interest rates by matching the interest rate characteristics of its borrowings to specific assets in order to lock in spreads. The Company funds its floating rate managed loan assets (most of which have weekly rate resets) with variable rate debt and fixed rate debt converted to variable rates with interest rate swaps. The Company also uses interest rate cap agreements, options on securities, and financial futures contracts to further reduce interest rate risk exposure on certain of its borrowings. Investments are funded on a "pooled" approach, i.e., the pool of liabilities that funds the investment portfolio has an average rate and maturity or reset date that corresponds to the average rate and maturity or reset date of the investments which they fund.

In addition to term match funding, \$12.4 billion of the Company's asset-backed securities match the interest rate characteristics of the majority of the student loans in the trusts by being indexed to the 91-day Treasury bill. At March 31, 2002, there were approximately \$3.8 billion of PLUS student loans outstanding in the trusts, which have interest rates that reset annually based on the final auction of 52-week Treasury bills before each July 1. In addition, at March 31, 2002, there were approximately \$22.3 billion of asset-backed securities indexed to LIBOR. In its securitization transactions, the Company retains the majority of this basis risk and manages it within the trusts through its on-balance sheet financing and hedging activities. The effect of this basis risk management is included in the following table as the impact of securitized student loans.

In the table below, the Company's variable rate assets and liabilities are categorized by reset date of the underlying index. Fixed rate assets and liabilities are categorized based on their maturity dates. An interest rate gap is the difference between volumes of assets and volumes of liabilities maturing or repricing during specific future time intervals. The following gap analysis reflects rate-sensitive positions at March 31, 2002 and is not necessarily reflective of positions that existed throughout the period.

	Interest Rate Sensitivity Period					
	3 months or less	3 months to 6 months	6 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years
Assets						
Student loans	\$ 37,942	\$ 2,327	\$ 693	\$ —	\$ —	\$ —
Warehousing advances/academic facilities financings	985	30	57	96	157	355
Cash and investments	3,790	59	115	10	254	1,296
Other assets	407	74	147	203	553	2,894
Total assets	43,124	2,490	1,012	309	964	4,545
Liabilities and Stockholders' Equity						
Short-term borrowings	19,792	5,093	5,860	—	—	—
Long-term notes	7,474	—	—	2,282	7,127	529
Other liabilities	778	—	—	—	—	1,555

Stockholders' equity	—	—	—	—	—	1,954
Total liabilities and stockholders' equity	28,044	5,093	5,860	2,282	7,127	4,038
Off-balance Sheet Financial Instruments						
Interest rate swaps	(7,810)	(731)	5,061	1,965	2,476	(961)
Impact of securitized loans	(3,768)	3,768	—	—	—	—
Total off-balance sheet financial instruments	(11,578)	3,037	5,061	1,965	2,476	(961)
Period gap	\$ 3,502	\$ 434	\$ 213	\$ (8)	\$ (3,687)	\$ (454)
Cumulative gap	\$ 3,502	\$ 3,936	\$ 4,149	\$ 4,141	\$ 454	\$ —
Ratio of interest-sensitive assets to interest-sensitive liabilities	156.7%	47.4%	14.8%	4.6%	5.8%	312.1%
Ratio of cumulative gap to total assets	(6.7)%	(7.5)%	(7.9)%	(7.9)%	(.9)%	—%

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Interest Rate Sensitivity Analysis

While the Company follows a policy to minimize its sensitivity to changing interest rates by generally funding its floating rate student loan portfolio with floating rate debt, in low interest rate environments, the student loan portfolio earns at a minimum fixed interest rate. During the three months ended March 31, 2002 and 2001, the Company was in a low interest environment where the student loans were earning at a fixed minimum rate, while the funding costs for these loans generally continued to decrease.

The Company chose to lock-in a portion of the income associated with this mismatch through the use of futures and swap contracts. The result of these hedging transactions was to convert a portion of floating rate debt into fixed rate debt, matching the fixed rate nature of the student loans during the low interest rate environment. Therefore, in certain low interest rate environments, the relative spread between the student loan asset rate and the converted fixed rate liability is fixed.

If interest rates rise dramatically, then rates earned on the student loan portfolio will reach a point where they will become floating again. For those student loans where the fixed loan rate (in low interest rate environments) was economically hedged by fixed rate funding (through the use of derivatives), a higher spread will be earned in a high interest rate environment. The impact of the dramatic increase in rates on the hedging positions described above resulted in an approximate \$68 million and \$53 million increase to pre-tax earnings in the scenario in which interest rates are increased by 300 basis points for the three months ended March 31, 2002 and 2001, respectively.

The effect of short-term movements in interest rates on the Company's results of operations and financial position has been limited through the Company's risk-management activities. The following table summarizes the effect on earnings for the three months ended March 31, 2002 and 2001, based upon a sensitivity analysis performed by the Company assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remained constant. The Company has chosen to show the effects of a hypothetical increase to interest rates, as an increase gives rise to a larger absolute value change to the financial statements. The effect on earnings was performed on the Company's variable rate assets, liabilities, and hedging instruments.

	Three months ended March 31,			
	2002		2001	
	Interest Rates:		Interest Rates:	
	Increase 100 Basis Points	Increase 300 Basis Points	Increase 100 Basis Points	Increase 300 Basis Points
Effect on Earnings				
Pre-tax net income before SFAS 133	\$ (30)	\$ 28	\$ (14)	\$ 38
SFAS 133 mark-to-market	336	787	239	511
Net income before taxes	\$ 306	\$ 815	\$ 225	\$ 549
Diluted earnings per share before SFAS 133	\$ (.122)	\$.115	\$ (.054)	\$.146
Diluted earnings per share with SFAS 133	\$ 1.245	\$ 3.317	\$.859	\$ 2.100

The Company also performed a sensitivity analysis on the fair values for its fixed rate assets, liabilities, and hedging instruments, assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remained constant. Based on this analysis, there has not been a material change in the fair values from December 31, 2001 as reported in the Company's Form 10-K.

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Average Terms to Maturity

The following table reflects the average terms to maturity for the Company's managed earning assets and liabilities at March 31, 2002 (in years):

	On-Balance Sheet	Off-Balance Sheet	Managed
Earning assets			
Student loans	7.1	4.2	5.8
Warehousing advances	5.1	—	5.1
Academic facilities financings	6.5	—	6.5
Cash and investments	4.4	—	4.4
Total earning assets	6.7	4.2	5.7
Borrowings			
Short-term borrowings	.4	—	.4
Long-term borrowings	3.4	4.2	3.9
Total borrowings	1.5	4.2	2.6

In the above table, Treasury receipts and variable rate asset-backed securities, although generally liquid in nature, extend the weighted average remaining term to maturity of cash and investments to 4.4 years. As student loans are securitized, the need for long-term on-balance sheet financing will decrease.

Common Stock

The Company repurchased 1.5 million shares during the first quarter of 2002 through open market purchases and equity forward settlements and issued a net 1.3 million shares as a result of benefit plans and the acquisition of GRC. At March 31, 2002, the total common shares that could potentially be acquired over the next three years under outstanding equity forward contracts was 9.7 million shares at an average price of \$75.54 per share. The Company has remaining authority to enter into additional share repurchases and equity forward contracts for 12.3 million shares.

The following table summarizes the Company's common share repurchase and equity forward activity for the three months ended March 31, 2002 and 2001. (Common shares in millions.)

	Three months ended March 31,	
	2002	2001
Common shares repurchased:		
Open market	—	2.7
Equity forwards	1.5	2.8
Total shares repurchased	1.5	5.5
Average purchase price per share	\$ 46.28	\$ 54.51
Equity forward contracts:		
Outstanding at beginning of year	11.2	18.2
New contracts	—	1.1
Exercises	(1.5)	(2.8)
Outstanding at end of period	9.7	16.5
Remaining repurchase authority at end of period	12.3	10.9

As of March 31, 2002, the expiration dates and range of purchase prices for outstanding equity forward contracts are as follows (Common shares in millions):

Year of Maturity	Outstanding Contracts	Range of Market Prices
2003	5.2	\$63.00 – \$80.97
2004	4.0	68.61 – 82.26
2005	.5	86.11
	9.7	

OTHER RELATED EVENTS AND INFORMATION

Other Developments

Effective on May 16, 2002, USA Education, Inc. has retained PricewaterhouseCoopers LLP as its independent public accountants. PricewaterhouseCoopers LLP replaces Arthur Andersen LLP.

USA Education, Inc. will change its name to SLM Corporation, effective on May 17, 2002.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

Nothing to report.

Item 2. Changes in Securities.

Nothing to report.

Item 3. Defaults Upon Senior Securities.

Nothing to report.

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

Nothing to report.

Item 5. Other Information.

Nothing to report.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

- Employment Agreement between the Registrant and Albert L. Lord, Vice Chairman of the Board of Directors and Chief Executive Officer, dated as of January 1, 2002; and
- Employment Agreement between the Registrant and Thomas J. Fitzpatrick, President and Chief Operating Officer, dated as of January 1, 2002.

(b) Reports on Form 8-K

The Company filed two Current Reports on Form 8-K with the Commission during the quarter ended March 31, 2002 or thereafter. They were filed on:

- February 19, 2002 in connection with the Company's press release announcing its earnings for the fourth quarter ended December 31, 2001 and its supplemental financial information for the same period.
- May 9, 2002 in connection with retaining PricewaterhouseCoopers LLP as its independent public accountants. PricewaterhouseCoopers LLP replaces Arthur Andersen LLP.

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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.

USA EDUCATION, INC.
(Registrant)

By: /s/ JOHN F. REMONDI

John F. Remondi
Executive Vice President and

Date: May 15, 2002

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into by and between Thomas J. Fitzpatrick, a resident of the State of New Jersey ("Executive"), and USA Education, Inc., a corporation organized and existing under the laws of the State of Delaware ("Company").

WHEREAS, in recognition of Mr. Fitzpatrick's contributions to Company's success and accomplishments during his tenure as an executive officer of Company, the Board of Directors of Company ("Board of Directors") wishes to retain Executive and obtain his commitment to continue to serve as President and Chief Operating Officer of Company on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. **Employment and Term.** Executive hereby agrees to continue to be employed as President and Chief Operating Officer of Company, and Company hereby agrees to retain Executive as President and Chief Operating Officer. To the extent required by law, Executive's employment under this Agreement shall be maintained through Sallie Mae, Inc. ("Sallie Mae") or another wholly owned subsidiary of Company used to employ Company executives, and in such case any reference in this Agreement to employment or termination of employment with Company shall be deemed to include employment or termination of employment with Sallie Mae or such other subsidiary. The term of Executive's employment as President and Chief Operating Officer under this Agreement (the "Term") shall be the period commencing on January 1, 2002 and ending on December 31, 2006.

2. **Duties.** During the Term, Executive will have the titles of President and Chief Operating Officer of Company and of Sallie Mae. Executive shall report to and receive instructions from Company's Chief Executive Officer and shall assume such duties and responsibilities as may be reasonably assigned to Executive from time to time by the Chief Executive Officer in consultation with the Board of Directors.

3. **Other Business Activities.** Executive shall serve Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his position as President and Chief Operating Officer. In furtherance of the foregoing, and not by way of limitation, for so long as he remains President and Chief Operating Officer of Company, Executive shall not directly or indirectly engage in any other business activities or pursuits, except for (a) those arising from positions held as of January 1, 2002 as a director or otherwise with charitable or business organizations, as identified by Executive to the Chief Executive Officer, and (b) with prior notice to the Chief Executive Officer, activities in connection with (i) service as a volunteer, officer or director or in a similar capacity of any charitable or civic organization, (ii) managing personal investments, and (iii) serving as a director, executor, trustee or in another similar fiduciary capacity for a non-commercial entity; provided, however, that any such activities do not materially interfere with Executive's performance of his responsibilities and obligations pursuant to this Agreement. Executive may engage in any other business activity or pursuit, directly or indirectly, including serving as a director for any commercial entity, with approval of the Chief Executive Officer in consultation with the Board of Directors.

4. **Base Salary.** The Company shall pay Executive a salary at the annual rate of \$550,000 (the "Base Salary"). The Base Salary shall be inclusive of all applicable income, Social Security and other taxes and charges which are required by law or requested to be withheld by Executive and which shall be withheld and paid in accordance with Company's normal payroll practice for its similarly situated executives as in effect from time to time. The Compensation and Personnel Committee of the Board of Directors (the "Compensation Committee"), in consultation with the Chief Executive Officer, in its

discretion may review Executive's Base Salary during the Term, but shall have no obligation to increase the amount of Executive's Base Salary based upon any such review.

5. **Annual Incentive Compensation.** Executive shall participate in Company's annual incentive compensation program(s) for executive officers as provided in the Management Incentive Plan, subject to the limitations and conditions set forth therein or in any successor plan.

6. **Stock Options.** Executive shall be granted stock options under which he may purchase up to a total of nine hundred thousand (900,000) shares of Company common stock (the "Stock Options") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of stock options provided generally to Company executive officers. The Stock Options shall not qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

6.1. **Grants of Stock Options.** Two-thirds of the Stock Options (that is, options for six hundred thousand (600,000) shares) (the "2002 Stock Options") shall be granted on January 24, 2002. The remainder of the Stock Options (that is, options for three hundred thousand (300,000) shares) (the "2003 Stock Options") shall be granted in January 2003, at the same time that the Compensation Committee makes executive officer and director stock option grants for such year, provided only that Executive remains employed by the Company pursuant to this Agreement at that time. The Stock Options shall have an exercise price equal to the fair market value of the Company's common stock as of their respective dates of grant (which was \$86.00 as to the 2002 Stock Options).

6.2. **Vesting.** The Stock Options shall be forfeited and shall immediately expire and terminate if and to the extent that they have not vested on or before the date Executive's employment is terminated. Subject to the preceding sentence, the Stock Options shall become vested (but shall not be exercisable except as provided in Section 6.3), as follows:

(a) With respect to the 2002 Stock Options, on the later of the date the Price Performance Goals (as defined in Section 8) are satisfied with respect to such Stock Options and May 31, 2005, but in any event the 2002 Stock Options shall become fully vested on December 31, 2006, provided in each case that Executive remains employed by the Company pursuant to this Agreement on such date.

(b) With respect to the 2003 Stock Options, on the later of the date the Price Performance Goals (as defined in Section 8) are satisfied with respect to such Stock Options and December 31, 2005, but in any event the 2003 Stock Options shall become fully vested on December 31, 2006, provided in each case that Executive remains employed by the Company pursuant to this Agreement on such date.

(c) Notwithstanding paragraphs (a) or (b) of this Section 6.2, the Stock Options shall earlier vest to the extent provided in Section 12.5(c) (i) (Termination due to Management Succession) or shall become 100% vested upon Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 12.

6.3. Option Exercisability and Expiration. To the extent that the Stock Options have not theretofore been forfeited, and regardless of whether Executive is then employed by Company, the Stock Options shall become exercisable only as follows:

(a) The vested 2002 Stock Options shall be exercisable on and after the later of the date the Price Performance Goals (as defined in Section 8) are satisfied with respect to the 2002 Stock Options and June 1, 2005.

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(b) The vested 2003 Stock Options shall be exercisable on and after the later of the date the Price Performance Goals are satisfied with respect to the 2003 Stock Options and January 1, 2006.

(c) If and to the extent that the Stock Options have not earlier become exercisable pursuant to paragraphs (a) or (b) of this Section 6.3: (i) the vested 2002 Stock Options shall become fully exercisable on January 1, 2010 and the vested 2003 Stock Options shall become fully exercisable on January 1, 2011, and (ii) the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable on Executive's termination of employment on account of death or Disability (as defined in Section 12.1), and (iii) the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable upon Executive's Termination Without Cause or Termination For Good Reason (as defined in Section 12.2) provided that if Executive's employment terminates on either such basis before January 1, 2005, the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable on January 1 of the year next following the date of such termination of employment, and (iv) the 2002 Stock Options and the 2003 Stock Options shall become fully exercisable upon a Change in Control.

(d) Notwithstanding paragraphs (a), (b) or (c) of this Section 6.3, the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the Treasurer, and the General Counsel of Company (any such person, an "Authorized Officer") each may provide at any time (including after a notice of exercise has been delivered) and from time to time that Executive's right to exercise any Stock Options may be suspended pending a determination by the Compensation Committee as to whether Executive has committed an act of Misconduct (as defined in Section 12.4(a)). Notwithstanding anything to the contrary in this Section 6.3, Executive shall forfeit and not be entitled to exercise any Stock Option granted to Executive pursuant to this Agreement if the Board of Directors determines that Executive has committed an act of Misconduct or if Executive's employment is terminated for Cause (as defined in Section 12.4).

(e) In the event of Executive's termination of employment during the Term of this Agreement for any reason other than a termination for Cause, the Stock Options that are vested and exercisable on the date of such termination of employment shall expire on the first anniversary of the later of (i) the date of such termination of employment, and (ii) the date the Stock Options are first exercisable. To the extent that the 2002 Stock Options have not expired or been forfeited or exercised prior to January 1, 2010 and the 2003 Stock Options have not been forfeited or exercised prior to January 1, 2011, the Stock Options shall expire on the tenth anniversary of their respective grant dates.

6.4. Replacement Options. Executive shall not be entitled to receive replacement options upon exercising any of the Stock Options granted pursuant to this Section 6.

7. Restricted Stock Units. Executive shall be granted restricted stock units representing the right to acquire up to a total of one hundred fifty thousand (150,000) shares of Company common stock (the "Stock Units") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of restricted stock units provided generally to Company executive officers. The Stock Units represent an unfunded and unsecured obligation of the Company and shall not be transferable and shall not be pledged, assigned or otherwise alienated.

7.1. Grants of Stock Units. One-third of the Stock Units (that is, stock units representing fifty thousand (50,000) shares) (the "2002 Stock Units") shall be granted on January 24, 2002. One-third of the Stock Units (that is, stock units representing fifty thousand (50,000) shares) shall be granted in January 2003, at the same time that the Compensation Committee makes executive

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officer and director stock option grants for such year, so long as Executive is employed by the Company at that time. The remaining Stock Units (that is, stock units representing fifty thousand (50,000) shares) (the "2004 Stock Units") shall be granted in January 2004, at the same time that the Compensation Committee makes executive officer and director stock option grants for such year, so long as Executive is employed by the Company at that time.

7.2. Vesting. The Stock Units shall be forfeited and shall immediately expire and terminate if they have not vested on or before the date Executive's employment is terminated. Subject to the preceding sentence, the Stock Units shall become vested (but shall not be converted to common stock and shall not be distributed to Executive except as provided in Section 7.3), to the extent provided in Section 12.5(d) or upon the earlier of (a) December 31, 2006, or (b) Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 12.

7.3. Distribution of Vested Stock Units. To the extent that the Stock Units have not theretofore been forfeited, the vested Stock Units shall be converted to shares of Common Stock and shall be delivered to Executive, free of any restriction on transfer or alienation, on January 1 of the first year following the year in which Executive ceases to serve as an executive officer of Company.

8. Stock Price Performance and Other Terms of Stock-Based Compensation.

8.1. Price Performance Goals. The term "Price Performance Goals" in reference to the Stock Options shall mean:

(a) with respect to one-third of the shares of common stock subject to the 2002 Stock Options (that is, options for 200,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$107.50 per share); with respect to an additional one-third of the shares subject to the 2002 Stock Options (that is, options for 200,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$114.38 per share); with respect to an additional one-third of the shares subject to the 2002 Stock Options (that is, options for 200,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$129.00 per share); and

(b) with respect to one-third of the shares of common stock subject to the 2003 Stock Options (that is, options for 100,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options; with respect to an additional one-third of the shares subject to the 2003 Stock Options (that is, options for 100,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options; with respect to an additional one-third of the shares subject to the 2003 Stock Options (that is, options for 100,000 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options.

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(c) For purposes of this Agreement, the "fair market value" of Company's common stock shall be the closing sales price of the stock on that day.

8.2 Anti-Dilution Adjustments. The number of shares subject to the Stock Options and the Stock Units, the exercise price of the Stock Options and the stock prices set forth as the Price Performance Goals shall be appropriately and proportionately adjusted by the Compensation Committee if the class of securities which are subject to the Stock Options and the Stock Units are (i) exchanged for or converted into cash, property or a different number or kind of shares or securities as a result of a reorganization, merger, consolidation, recapitalization, restructuring or reclassification, or (ii) if the number of securities of the class of securities then subject to the Stock Options and the Stock Units are increased or decreased or if cash, property or shares or securities are distributed in respect of such subject securities as a result of a dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like.

8.3 Tax Withholding. Executive shall pay in cash or make other arrangements satisfactory to the Compensation Committee for the satisfaction of any withholding tax obligations that arise by reason of exercise of the Stock Options or conversion of the Stock Units. Company shall not be required to issue shares of common stock or to recognize the disposition of such shares until such obligations are satisfied.

9. Other Benefits.

(a) Pension Plans. Executive shall be entitled to participate in all tax-qualified and non-tax-qualified pension plans maintained or contributed to by Company or for the benefit of its executives, including without limitation, the Sallie Mae Cash Account Retirement Plan and the Sallie Mae Supplemental Cash Account Retirement Plan (collectively, the "Company Pension Plans"), in accordance with the terms of such Company Pension Plans as they may be amended from time to time in the discretion of the Company; provided however, that upon Executive's termination of employment for any reason other than termination by Company for Cause as defined in Section 12.4, Executive shall be entitled to the supplemental retirement benefit equal to the amount, if any, by which (i) the Target Benefit Amount (as such term is defined below), exceeds (ii) the actuarial equivalent life annuity benefit, if any, that would be payable following such termination event under the Company Pension Plans, determined in accordance with the actuarial assumptions then used on such termination event under the Company Pension Plans to calculate the equivalent life annuity and assuming that Executive commenced benefit distributions under the Company Pension Plans at the same date. For purposes of this Agreement, the "Target Benefit Amount" equals a single life annuity of \$250,000 payable to Executive at age 60 following continuous service with the Company from the date of this Agreement through age 60, except that if Executive's employment terminates Without Cause or For Good Reason (as defined in Section 12.2) the Target Benefit Amount shall be as provided in Section 12.2(c) or, if such termination occurs during the Term of this Agreement but within 24 months following a Change in Control, as provided in Section 12.3(c), or if Executive's employment otherwise terminates before or after age 60, the Target Benefit Amount shall be adjusted as provided for in the schedule attached hereto as Schedule A. The Target Benefit Amount is payable at the same time and in the same manner as Executive elects under the Sallie Mae Supplemental Cash Account Retirement Plan.

(b) Medical Insurance. During the Term of this Agreement and for as long as Executive remains President and Chief Operating Officer of Company, Executive shall be entitled to participate in any medical and dental insurance plans generally available to the senior management of Company, as such plans may be in effect from time to time. For thirty-six (36) months after termination of Executive's employment with Company, other than on account of termination by Company for Cause or by Executive Without Good Reason (as such

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terms are defined in Section 12.4), Executive and his eligible dependents or survivors shall be entitled to continue to participate in such plans on the terms generally applied to actively employed senior management of Company, including any employee cost-sharing provisions. To the extent the terms and conditions of the aforesaid plans do not permit participation by Executive, his dependents, or his survivors, Company shall arrange to provide Executive, his dependents, or his survivors with the after-tax economic equivalent of such continued coverage. After the termination of his employment with Company, Executive shall cease to be covered under the foregoing medical and/or dental insurance plans if he obtains coverage under other medical and/or dental insurance plans; provided, however, that if the coverage under the new medical and/or dental insurance plans is less than under the foregoing plans, Company shall provide Executive with a cash payment in an amount necessary for Executive to obtain coverage comparable to that provided under the foregoing plans.

(c) Other Benefit Plans. Executive shall be entitled to receive or participate in such further savings, deferred compensation, health or welfare benefit plans offered to Company's senior management generally, in accordance with the terms of such plans as they may be amended from time to time in the discretion of the Company.

(d) Perquisites; Expenses. The Company agrees to reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive in performing his duties pursuant to this Agreement, in accordance with Company's reimbursement policies generally applicable to management personnel. During the Term of this Agreement, Company agrees to provide Executive with use of a personal vehicle selected by Company, access to the corporate jet, and such perquisites as are generally made available to management personnel from time to time, including the perquisites provided as of the date the Board of Directors approves this Agreement.

10. Nondisclosure of Confidential Information.

(a) Executive and Company acknowledge that Executive will, in the course of his employment, come into possession of confidential, proprietary business and technical information, and trade secrets of Company and its Affiliates, as defined in Section 11(b) (the "Proprietary Information"). Proprietary Information includes, but is not limited to, the following:

- Business procedures. All information concerning or relating to the way Company and its Affiliates conduct their business, which is not generally known to the public or within the industry or trade in which Company or its Affiliates compete (such as Company contracts, internal business procedures, controls, plans, licensing techniques and practices, supplier, subcontractor and prime contractor names and contacts and other vendor information, computer system passwords and other computer security controls, financial information, distributor information, and employee data) and the physical embodiments of such information (such as check lists, samples, service and operational manuals, contracts, proposals, printouts, correspondence, forms, listings, ledgers, financial statements, financial reports, financial and operational analyses, financial and operational studies, management reports of every kind, databases, employment or personnel records, and any other written or machine-readable expression of such information as are filed in any tangible media).
- Marketing Plans and Customer Lists. All information not generally known to the public or within the industry or trade in which Company or its Affiliates compete pertaining to Company's and its Affiliates' marketing plans and strategies; forecasts and projections; marketing practices, procedures and policies; goals and objectives; quoting practices, procedures and policies; and customer data including the customer list,

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contracts, representatives, requirements and needs, specifications, data provided by or about prospective customers, and the physical embodiments of such information.

- Business Ventures: All information not generally known to the public or within the industry or trade in which Company or its Affiliates operate concerning new product development, negotiations for new business ventures, future business plans, and similar information and the physical embodiments of such information.
- Software. All information relating to Company's and its Affiliates' software or hardware in operation or various stages of research and development, which are not generally known to the public or within the industry or trade in which Company or its Affiliates compete and the physical embodiments of such information.
- Litigation. Information which is not a public record and is not generally known to the public or within the industry or trade in which Company or its Affiliates compete regarding litigation and potential litigation matters and the physical embodiments of such information.
- Policy Information. Information not of a public nature regarding the policies and positions that have been or will be advocated by Company and its Affiliates with government officials, the views of government officials toward such policies and positions, and the status of any communications that Company or its Affiliates may have with any government officials.
- Information Not Generally Known. Any information which (a) is not generally known to the public or within the industry or trade in which Company or its Affiliates compete, (b) gives Company or its Affiliates a significant advantage over its or their competitors, or (c) has significant economic value or potentially significant economic value to Company or its Affiliates, including the physical embodiments of such information.

(b) Executive acknowledges that the Proprietary Information is a valuable and unique asset of Company and its Affiliates. Executive agrees that he will not, at any time during his employment or after the termination of his employment with Company, without the prior written consent of Company or its Affiliates, as applicable, either directly or indirectly divulge any Proprietary Information for his own benefit or for any purpose other than the exclusive benefit of Company and/or its Affiliates.

11. Agreement Not to Compete.

(a) Executive agrees that he shall not compete with Company or its Affiliates for the Restricted Period, which is defined as the longer of two years after the termination of Executive's employment with Company for any reason, or six months after he no longer holds any unexercised Stock Options (whether or not then vested or exercisable).

(b) For the purposes of this Section 11, "compete" shall mean directly or indirectly through one or more intermediaries (i) working or serving as a director, officer, employee, consultant, agent, representative, or in any other capacity, with or without compensation, on behalf of one or more entities engaged in the Company's Business (as defined below) in the United States, Canada, or any other country where Company (including any Affiliate) either engages in the Company's Business at the time of Executive's termination or where Company, at the time of Executive's termination, has developed a business plan or taken affirmative steps to engage in the Company's Business; (ii) soliciting any employees, customers, or business partners of Company, inducing any customer or business partner of the Company to breach a contract with the Company or any principal for whom the Company acts as agent to

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terminate such agency relationship; and/or (iii) making statements about Company or its management reasonably determined by the Board of Directors to be disparaging. For purposes of this provision, the term "the Company's Business" shall mean any business activity or line of business similar to the type of business conducted by Company, Sallie Mae, and/or their Affiliates at the time of Executive's termination of employment or which Company, Sallie Mae and/or their Affiliates at the time of Executive's termination of employment or within one year prior thereto have planned to enter into or conduct. Executive expressly agrees that the markets served by Company, Sallie Mae and their Affiliates extend nationally and to Canada and are not dependent on the geographic location of the executive personnel or the businesses by which they are employed and that the restrictions set forth in this Section 11 are reasonable and are no greater than are required for the protection of Company, Sallie Mae, and its Affiliates. For purposes of this Agreement, the term "Affiliate" shall be deemed to refer to Company, and any entity (whether or not existing on the date hereof) controlling, controlled by or under common control with Company.

(c) In the event the Board of Directors reasonably determines that Executive has violated any provision of this Section 11, and Executive has not cured such violation within five (5) days of the date of receipt of written notice thereof by Executive, Executive shall (i) forfeit the Stock Options granted under this Agreement, regardless of whether then vested, unvested, exercisable or unexercisable, and (ii) repay to Company any gross profits realized from the exercise of the Stock Options since the earlier of one year prior to the date of such violation and the termination of Executive's employment with Company (whichever date occurred the longest period of time before the date of any such option exercise).

12. Termination. Executive's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 12. Upon termination, Executive shall be entitled only to such compensation and benefits as described in this Section 12.

12.1. Disability and Death.

(a) Disability. If Executive becomes physically or mentally disabled to such an extent that he is not able to perform the duties set forth in Section 2 of this Agreement, with or without a reasonable accommodation, for a period of more than 180 days, either consecutively or within any 365-day period ("Disability"), Company may terminate Executive's employment hereunder. The determination of whether the Executive has a Disability under this Agreement shall be made by the Compensation Committee, which shall consider the information presented by Executive's personal physician and by any other advisors, including any other physician, which the Compensation Committee determines appropriate. The determination of the Compensation Committee shall be final and binding, unless it is determined to have been arbitrary and capricious. If the employment of Executive terminates during the Term due to the Disability of Executive, Company shall provide to Executive (i) whatever benefits are available to him under any disability benefit plan(s) applicable to him at the time of such termination to the extent Executive satisfies the requirements of such plan(s), and (ii) the payments set forth in Section 12.1(c).

(b) Death. If Executive dies during the Term, Company shall pay to Executive's executors, legal representatives or administrators the payments set forth in Section 12.1(c). Except as specifically set forth in this Section 12.1 or under applicable laws, Company shall have no liability or obligation hereunder to Executive's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Executive's death, except that Executive's executors, legal representatives or administrators will be entitled to receive any death benefit payable to them as beneficiaries under any insurance policy or other benefits plans in which Executive participates as an employee of Company and to exercise any rights afforded them under any benefit plan then in effect.

(c) Payment Upon Disability or Death. Upon termination of the employment of Executive due to death or Disability during the Term, Company shall pay an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation (as defined in Section 12.2(d) below) pro-rated for the year through the date of termination. In addition, upon such termination of employment, the Stock Options shall fully vest and become exercisable in accordance with Section 6.2(c) and 6.3(c) (ii) and shall expire on the first anniversary of such termination of employment, the Stock Units shall fully vest and thereafter shall be distributed as provided in Section 7.2(b) and 7.3, and Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b) and to the supplemental retirement benefit described in Section 9(a) accrued as of the date of termination and payable immediately.

12.2. Termination By Company Without Cause; Termination By Executive For Good Reason.

(a) Termination By Company Without Cause. The Company may terminate Executive's employment hereunder at any time for any reason other than Cause upon written notice to Executive ("Termination Without Cause").

(b) Termination By Executive For Good Reason. Executive may terminate his employment hereunder at any time For Good Reason ("Termination For Good Reason"). For purposes of this Agreement, Good Reason shall mean (i) a material reduction in the position or responsibilities of Executive, provided that neither the occurrence of the events described in Section 12.5(a)(i) and (ii) nor a Change in Control (including the fact that the Company's stock is not publicly held or is held or controlled by a single stockholder as a result of a Change in Control) shall of itself be deemed a material reduction in the position or responsibilities of Executive; (ii) a reduction in Executive's Base Salary or a material reduction in Executive's compensation arrangements or benefits; (iii) a substantial failure of Company to perform any material provision of this Agreement; or (iv) a relocation of Company's executive offices to a distance of more than seventy-five (75) miles from its location as of the date of this Agreement, unless such relocation results in Company's executive offices being closer to Executive's then primary residence or does not substantially increase the average commuting time of Executive. For purposes of this Agreement, Good Reason shall not include notice to Executive that Executive's employment will terminate upon expiration of the Term of this Agreement.

(c) In the event of a Termination Without Cause or a Termination For Good Reason, Company shall pay to Executive within forty-five (45) days after termination an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation pro-rated for the year through the date of termination, plus the Multiplier times the Compensation Amount (as such terms are defined in Section 12.2(d) below). In addition, upon Executive's Termination Without Cause or Termination For Good Reason, (i) the Stock Options shall fully vest in accordance with Section 6.2(c) and thereafter (to the extent they have not theretofore otherwise become exercisable) the vested Stock Options shall become fully exercisable upon the date of such termination of employment, provided that if Executive's employment terminates on either such basis before January 1, 2005, the vested Stock Options shall become fully exercisable on January 1 of the year next following the date of such termination of employment; and (ii) the Stock Units shall fully vest and thereafter shall be

distributed as provided in Section 7.2(b) and 7.3. Further, upon and following Executive's Termination Without Cause or Termination For Good Reason, Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b) and to the supplemental retirement benefit described in Section 9(a), provided that for purposes of calculating the

supplemental retirement benefit the Target Benefit Amount shall be no less than the Target Benefit Amount that otherwise would have accrued upon December 31, 2006 (\$173,000, expressed as a single life annuity).

(d) The Multiplier is defined as the lesser of (i) three, or (ii) the number obtained by dividing by twelve the number of full months between the date of Executive's termination of employment and December 31, 2006. The Average Annual Incentive Compensation shall be a cash payment equal to the value of the average annual incentive compensation earned by Executive in each of the three full calendar years prior to the date of termination. For purposes of determining the average annual incentive compensation earned by Executive in any past year, any non-cash compensation awarded to Executive shall be included as annual incentive compensation only if specifically designated as such by the Compensation Committee, and such non-cash compensation shall be valued by such method as the Compensation Committee in its discretion shall determine, which may be the manner in which such compensation is valued for proxy reporting purposes. The Compensation Amount is defined as the sum of (i) the annual Base Salary of Executive as in effect immediately prior to Executive's termination of employment, and (ii) the Average Annual Incentive Compensation.

12.3 Change in Control.

(a) For purposes of this Agreement, "Change in Control" shall mean an occurrence of one or more of the following events:

- (i) an acquisition (other than directly from Company) of any voting securities of Company (the "Voting Securities") by any "person" or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) other than an employee benefit plan of Company, immediately after which such person or group has "Beneficial Ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of more than fifty percent (50%) of the combined voting power of Company's then outstanding Voting Securities; or
- (ii) within any 12-month period, the individuals who were directors of the Company as of the date the Board of Directors approved this Agreement (the "Incumbent Directors") ceasing for any reason other than death, disability or retirement to constitute at least a majority of the Board of Directors, provided that any director who was not a director as of the date the Board of Directors approved this Agreement shall be deemed to be an Incumbent Director if such director was appointed or nominated for election to the Board of Directors by, or on the recommendation or approval of, at least a majority of directors who then qualified as Incumbent Directors, provided further that any director appointed or nominated to the Board of Directors to avoid or settle a threatened or actual proxy contest shall in no event be deemed to be an Incumbent Director; or
- (iii) satisfaction of all conditions to a merger, consolidation, or reorganization involving Company that results in the stockholders of Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, less than fifty percent (50%) of the combined voting power of the corporation which survives such transaction as the ultimate parent entity, unless either (A) such merger, consolidation or reorganization is not thereafter consummated, or (B) the Chief Executive Officer immediately prior to such transaction remains Chief Executive Officer or becomes co-Chief Executive Officer or Chairman of the corporation which survives such transaction as the ultimate, parent entity and prior to the satisfaction of all such conditions, the Board of Directors determines that such transaction shall not constitute a Change in Control; or

(iv) a sale of all or substantially all of the assets of Company.

(b) Upon a Change in Control, all of the Stock Options granted under this Agreement shall immediately fully vest and become exercisable and all of the Stock Units granted under this Agreement shall immediately fully vest and thereafter shall be distributed as provided in Section 7.3.

(c) In the event a Termination Without Cause (as defined in Section 12.2(a)) or a Termination For Good Reason (as defined in Section 12.2(b)) occurs during the Term of this Agreement but within 24 months following a Change in Control, Executive shall be entitled to receive within forty-five (45) days after termination an amount equal to three times the Compensation Amount, as such term is defined in Section 12.2(d). In addition, upon Executive's Termination Without Cause or Termination For Good Reason, the Stock Units shall be distributed as provided in Section 7.3, and upon and following such termination of employment Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b) and to the supplemental retirement benefit described in Section 9(a), provided that for purposes of calculating the supplemental retirement benefit the Target Benefit Amount shall be no less than the Target Benefit Amount that otherwise would have accrued at age 60 (\$250,000, expressed as a single life annuity).

(d) If, as a result of payments provided for under or pursuant to this Agreement together with all other payments in the nature of compensation provided to or for the benefit of Executive under any other agreement in connection with a Change in Control, Executive becomes subject to taxes of any state, local or federal taxing authority that would not have been imposed on such payments but for the occurrence of a Change in Control, including any excise tax under Section 4999 of the Code and any successor or comparable provision, then, in addition to any other benefits provided under or pursuant to this Agreement or otherwise, Company (including any successor to Company) shall pay to Executive at the time any such payments are made under or pursuant to this or the other agreements, an amount equal to the amount of any such taxes imposed or to be imposed on Executive (the amount of any such payment, the "Parachute Tax Reimbursement"). In addition, Company (including any successor to Company) shall "gross up" such Parachute Tax Reimbursement by paying to Executive at the same time an additional amount equal to the aggregate amount of any additional taxes (whether income taxes, excise taxes, special taxes, employment taxes or otherwise) that are or will be payable by Executive as a result of the Parachute Tax Reimbursement being paid or payable to Executive and/or as a result of the additional amounts paid or payable to Executive pursuant to this sentence, such that after payment of such additional taxes Executive shall have

been paid on a net after-tax basis an amount equal to the Parachute Tax Reimbursement. The amount of any Parachute Tax Reimbursement and of any such gross-up amounts shall be determined by Company's independent auditing firm, whose determination, absent manifest error, shall be treated as conclusive and binding absent a binding determination by a governmental taxing authority that a greater amount of taxes is payable by Executive.

12.4 Termination For Cause; Termination By Executive Without Good Reason.

(a) Termination for Cause. The Company may terminate the employment of Executive for Cause at any time during the Term. For purposes of this Agreement, Cause shall mean a determination by the Board of Directors that there has been a willful and continuing failure of Executive to perform substantially his obligations under this Agreement (other than as a result of Executive's death or Disability) and, if in the judgment of the Board of Directors such willful and continuing failure may be cured by Executive, that such failure has not been cured

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by Executive within ten (10) business days after written notice of such was given to Executive by the Board of Directors, or that Executive has committed an act of Misconduct (as defined below). For purposes of this Agreement, "Misconduct" shall mean: (i) embezzlement, fraud, commission of a felony, breach of fiduciary duty or deliberate disregard of material Company rules; (ii) personal dishonesty of Executive materially injurious to Company; (iii) an unauthorized disclosure of any Proprietary Information; or (iv) competing with the Company while employed by the Company or during the Restricted Period, in contravention of Section 11.

(b) Termination By Executive Without Good Reason. Executive may terminate his employment hereunder at any time without Good Reason (as defined in Section 12.2(b)) ("Termination Without Good Reason").

(c) In the event Executive's employment with Company is terminated by Company for Cause or by Executive Without Good Reason, Executive shall receive all accrued but unpaid Base Salary, and benefits as of the effective date of termination. If Executive's employment is terminated by Company for Cause, Executive shall forfeit the supplemental retirement benefit described in Section 9(a). If Executive terminates his employment Without Good Reason, Executive shall be entitled to receive the supplemental retirement benefit described in Section 9(a) accrued as of the date of termination. In the event Executive's employment with Company is terminated by Company for Cause, Executive shall forfeit and not be entitled to exercise any Stock Option granted to Executive pursuant to this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement. In the event Executive's employment with Company is terminated by Executive during the Term of this Agreement Without Good Reason, Executive shall forfeit all unvested Stock Options granted under this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement.

12.5 Termination By Executive Following Management Succession.

(a) Executive may terminate employment with the Company due to Management Succession by delivering written notice thereof if (i) Albert Lord ceases to serve as Chief Executive Officer of Company during the Term, (ii) the Board names a person other than Executive to serve as Chief Executive Officer of Company other than on an acting or interim basis, and (iii) Executive remains employed with Company pursuant to this Agreement until the earlier of (A) the date that is 6 months after the date a person other than Executive commences to serve as Chief Executive Officer of Company other than on an acting or interim basis, and (B) the date that is 9 months after the date Albert Lord ceases to serve as Chief Executive Officer of Company.

(b) In the event Executive terminates employment with Company due to Management Succession, Company shall pay to Executive within forty-five (45) days after termination an amount equal to (i) all accrued but unpaid Base Salary through the date of termination of employment, plus (ii) a portion of the Average Annual Incentive Compensation (as defined in Section 12.2(d)) pro-rated for the year through the date of termination, plus (iii) an amount equal to the Compensation Amount (as defined in Section 12.2(d)) times the lesser of (A) three, or (B) a fraction (which may be greater than 1), the numerator of which is the sum of the number of full months between the date during the Term on which Albert Lord ceased to serve as Chief Executive Officer of Company and the date a person other than Executive commenced to serve as Chief Executive Officer of Company other than on an acting or interim basis plus the number of full months between the date of Executive's termination and December 31, 2006, and the denominator of which is twelve.

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(c) In addition, upon Executive's termination of employment due to Management Succession, (i) if the Stock Options are not vested at the time of such termination of employment, then if and to the extent the Price Performance Goals are satisfied on the date of such termination of employment, the Stock Options shall vest to an extent determined by multiplying the total number of shares then subject to each Stock Option as to which the Price Performance Goals are then satisfied by a fraction, the numerator of which is the number of full months between January 1 of the year such Stock Options were granted and the date (which shall be at least 6 months after the date a person other than Executive commences to serve as Chief Executive Officer of Company other than on an acting or interim basis) of such termination of employment, and the denominator of which is the number of full months between January 1 of the year such Stock Options were granted and in the case of the 2002 Stock Options, May 31, 2005, and in the case of the 2003 Stock Options, December 31, 2005 (that is, 41 and 36, respectively), (ii) the vested Stock Options (to the extent they have not theretofore otherwise become exercisable) shall become exercisable upon the date of such termination of employment, provided that if Executive's employment terminates before January 1, 2005, the vested Stock Options shall become exercisable on January 1 of the year next following the date of such termination of employment, and (iii) the vested Stock Options shall expire on the first anniversary of the later of (A) the date of such termination of employment, and (B) the date the Stock Options are first exercisable. Except as provided in this Section 12.5(c), upon such termination of employment, all unvested Stock Options shall be forfeited.

(d) In addition, upon Executive's termination of employment due to Management Succession, the 2002 Stock Units, 2003 Stock Units and 2004 Stock Units, if granted as of the date of such termination, shall vest to an extent determined by multiplying the number of shares represented by each such grant of Stock Units (50,000, subject to adjustment under Section 8.2) by a fraction the numerator of which is the number of full months between January 1 of the year such Stock Units were granted and the date (which shall be at least 6 months after the date a person other than Executive commences to serve as Chief Executive Officer of Company other than on an acting or interim basis) of such termination of

employment, and the denominator of which is the number of full months between January 1 of the year such Stock Units were granted and December 31, 2006 (that is, 60, 48 and 36, respectively) and thereafter shall be distributed as provided in Section 7.3. Except as provided in this Section 12.5(d), upon such termination of employment, all unvested Stock Units shall be forfeited.

(e) Further, upon and following Executive's termination of employment due to Management Succession, Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b) and to the supplemental retirement benefit described in Section 9(a) accrued as of the date of termination.

13. Other Agreements. Executive represents and warrants to Company that:

(a) There are no restrictions, agreements or understandings whatsoever to which Executive is a party or by which he is bound that would prevent or make unlawful Executive's execution of this Agreement or Executive's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Executive's employment hereunder, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(b) Executive shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer by whom Executive may be employed during the Term

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(which employment is not hereby authorized) or during the Restricted Period as defined in the Agreement Not to Compete by and between Executive and Company set forth in Section 11 hereof.

14. Survival of Provisions. The provisions of this Agreement, including without limitation those set forth in Sections 9, 10, 11, 13, 14, 15, 18, 25 and 26 hereof, shall survive the termination of Executive's employment hereunder and the payment of all amounts payable and delivery of all post-termination compensation and benefits pursuant to this Agreement incident to any such termination of employment.

15. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon Company and its successors or permitted assigns and Executive and his executors, administrators or heirs. The Company shall require any successor or successors expressly to assume the obligations of Company under this Agreement. For purposes of this Agreement, the term "successor" shall include the ultimate parent corporation of any corporation involved in a merger, consolidation, or reorganization with or including the Company that results in the stockholders of Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, securities of another corporation, regardless of whether any such merger, consolidation or reorganization is deemed to constitute a Change in Control for purposes of this Agreement. Executive may not assign any obligations or responsibilities under this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of Company. At any time prior to a Change in Control, Company may provide, without the prior written consent of Executive, that Executive shall be employed pursuant to this Agreement by any of its Affiliates instead of or in addition to Sallie Mae or Company, and in such case all references herein to the "Company" shall be deemed to include any such entity, provided that (i) such action shall not relieve Company of its obligation to make or cause an Affiliate to make or provide for any payment to or on behalf of Executive pursuant to this Agreement, and (ii) Executive's duties and responsibilities shall not be significantly diminished as a result thereof. The Board of Directors may assign any or all of its responsibilities hereunder to any committee of the Board of Directors, in which case references to Board of Directors shall be deemed to refer to such committee.

16. Executive Benefits. This Agreement shall not be construed to be in lieu of or to the exclusion of any other rights, benefits and privileges to which Executive may be entitled as an executive of Company under any retirement, pension, profit-sharing, insurance, hospitalization or other plans or benefits which may now be in effect or which may hereafter be adopted.

17. Board of Directors Service. Subject to re-election by a vote of stockholders, Executive shall continue to serve on the Board of Directors through the Term and shall offer to tender his resignation from the Board of Directors upon expiration of the Term, or upon any earlier termination of his employment, which resignation may or may not be accepted.

18. Notices. All notices required to be given to any of the parties of this Agreement shall be in writing and shall be deemed to have been sufficiently given, subject to the further provisions of this Section 18, for all purposes when presented personally to such party, or sent by facsimile transmission, any national overnight delivery service, or certified or registered mail, to such party at its address set forth below:

(a) If to Executive:

Thomas J. Fitzpatrick
8 Turnbridge Wells Court
Medford, NJ 08055

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(b) If to Company:

USA Education, Inc.
Sallie Mae, Inc.
11600 Sallie Mae Drive
Reston, VA 20193
Attention: General Counsel
Fax No. (703) 810-7695

Such notice shall be deemed to be received when delivered if delivered personally, upon electronic or other confirmation of receipt if delivered by facsimile transmission, the next business day after the date sent if sent by a national overnight delivery service, or three (3) business days after the date mailed if mailed by

certified or registered mail. Any notice of any change in such address shall also be given in the manner set forth above. Whenever the giving of notice is required, the giving of such notice may be waived in writing by the party entitled to receive such notice.

19. Entire Agreement; Amendments. This Agreement and any other documents, instruments or other writings delivered or to be delivered in connection with this Agreement as specified herein constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede all prior and contemporaneous agreements, understandings, and negotiations, whether written or oral, with respect to the terms of Executive's employment by Company, including the agreement dated September 30, 1998. This Agreement may be amended or modified only by a written instrument signed by all parties hereto.

20. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

21. Governing Law. This Agreement shall be governed and construed as to its validity, interpretation and effect by the laws of the Commonwealth of Virginia.

22. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or such provisions, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

23. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

24. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

25. Specific Enforcement; Extension of Period. Executive acknowledges that the restrictions contained in Sections 10 and 11 hereof are reasonable and necessary to protect the legitimate interests of Company and its Affiliates and that Company would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by him of Sections 10 or 11 hereof will cause continuing and irreparable injury to Company for which monetary damages would not be an adequate remedy. Executive shall not, in any action or proceeding by Company to enforce Sections 10 or 11 of this Agreement, assert the claim or defense that an adequate remedy at law exists. In the event of such breach by Executive, Company shall have the right to enforce the provisions of Sections 10 and 11 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies at law or in equity otherwise available to Company. In the event that the provisions of Sections 10 or 11 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such

provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

26. Arbitration. Any dispute or claim, other than those referred to in Section 25, arising out of or relating to this Agreement or otherwise relating to the employment relationship between Executive and Company (including but not limited to any claims under Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act; the Age Discrimination in Employment Act; the Family Medical Leave Act; and the Employee Income Retirement Security Act) shall be submitted to Arbitration, in Fairfax County, Virginia, and except as otherwise provided in this Agreement shall be conducted in accordance with the rules of, but not under the auspices of, the American Arbitration Association. The arbitration shall be conducted before an arbitration tribunal comprised of three individuals, one selected by Company, one selected by Executive, and the third selected by the first two. The parties and the arbitrators selected by them shall use their best efforts to reach agreement on the identity of the tribunal within ten (10) business days of either party to this Agreement submitting to the other party a written demand for arbitration. The proceedings before the tribunal shall take place within twenty (20) business days of the selection thereof. Executive and Company agree that such arbitration will be confidential and no details, descriptions, settlements or other facts concerning such arbitration shall be disclosed or released to any third party without the specific written consent of the other party, unless required by law or court order or in connection with enforcement of any decision in such arbitration. Any damages awarded in such arbitration shall be limited to the contract measure of damages, and shall not include punitive damages. The parties shall equally divide the costs of the arbitrators, and each party shall bear his or its attorneys' fees and other costs, except that the arbitrators may specifically direct one party to bear the entire cost of the arbitration, including all attorneys' fees, if the arbitrators determine that such party acted in bad faith.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

USA Education, Inc.

By: _____

Title: _____

Thomas J. Fitzpatrick

Schedule A		
Target Benefit Amount		
Date	Age	Life Annuity
09/30/2001	53	\$44,000

12/31/2002	54	\$66,000
12/31/2003	55	\$88,000
12/31/2004	56	\$112,000
12/31/2005	57	\$141,000
12/31/2006	58	\$173,000
12/31/2007	59	\$209,000
12/31/2008	60	\$250,000
12/31/2009	61	\$297,000
12/31/2010	62	\$352,000

Mr. Fitzpatrick's Target Benefit Amount will accrue during a year on a straight-line basis, upon the last day worked in each month. As an example, on May 31, 2003, Mr. Fitzpatrick's accrued benefit will equal \$75,167 ($\$22,000 \times \frac{5}{12} + \$66,000$).

QuickLinks

[Exhibit 99.1](#)

[EMPLOYMENT AGREEMENT](#)

[Schedule A](#)

[Target Benefit Amount](#)

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement") is entered into by and between Albert L. Lord, a resident of the Commonwealth of Virginia ("Executive"), and USA Education, Inc., a corporation organized and existing under the laws of the State of Delaware ("Company").

WHEREAS, in recognition of Mr. Lord's contributions to Company's success and accomplishments during his tenure as Chief Executive Officer of Company, the Board of Directors of Company ("Board of Directors") wishes to retain Executive and obtain his commitment to continue to serve as Chief Executive Officer of Company on the terms set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and obligations contained herein, and intending to be legally bound, the parties, subject to the terms and conditions set forth herein, agree as follows:

1. **Employment and Term.** Executive hereby agrees to continue to be employed as Chief Executive Officer of Company, and Company hereby agrees to retain Executive as Chief Executive Officer. To the extent required by law, Executive's employment under this Agreement shall be maintained through Sallie Mae, Inc. ("Sallie Mae") or another wholly owned subsidiary of Company used to employ Company executives, and in such case any reference in this Agreement to employment or termination of employment with Company shall be deemed to include employment or termination of employment with Sallie Mae or such other subsidiary. The term of Executive's employment as Chief Executive Officer under this Agreement (the "Term") shall be the period commencing on January 1, 2002 and ending on December 31, 2004, provided that the Term shall be extended for an additional one-year period (that is, through December 31, 2005) unless not later than June 30, 2004 either Executive or the Board of Directors delivers written notice to the other party of his or its election that the Term not be extended.

2. **Duties.** During the Term, Executive will have the titles of Chief Executive Officer of Company and Chief Executive Officer of Sallie Mae. Executive agrees to assume such duties and responsibilities as may be reasonably assigned to Executive from time to time by the Board of Directors, including as Chief Executive Officer of other Company subsidiaries.

3. **Other Business Activities.** Executive shall serve Company faithfully and to the best of his ability and shall devote his full time, attention, skill and efforts to the performance of the duties required by or appropriate for his position as Chief Executive Officer. In furtherance of the foregoing, and not by way of limitation, for so long as he remains Chief Executive Officer of Company, Executive shall not directly or indirectly engage in any other business activities or pursuits, except for (a) those arising from positions held as of January 1, 2002 as a director or otherwise with charitable or business organizations, as identified by Executive to the Board of Directors, and (b) with prior notice to the Chairman of the Board of Directors (or, in the case Executive then serves as Chairman, to the Executive Committee of the Board of Directors), activities in connection with (i) service as a volunteer, officer or director or in a similar capacity of any charitable or civic organization, (ii) managing personal investments, and (iii) serving as a director, executor, trustee or in another similar fiduciary capacity for a non-commercial entity; provided, however, that any such activities do not materially interfere with Executive's performance of his responsibilities and obligations pursuant to this Agreement. Executive may engage in any other business activity or pursuit, directly or indirectly, including serving as a director for any commercial entity, with approval of the Board of Directors.

4. **Base Salary.** The Company shall pay Executive a salary at the annual rate of \$750,000 (the "Base Salary"). The Base Salary shall be inclusive of all applicable income, Social Security and other taxes and charges which are required by law or requested to be withheld by Executive and which shall be withheld and paid in accordance with Company's normal payroll practice for its similarly situated

executives as in effect from time to time. The Compensation and Personnel Committee of the Board of Directors (the "Compensation Committee") in its discretion may review Executive's Base Salary during the Term, but shall have no obligation to increase the amount of Executive's Base Salary based upon any such review.

5. **Annual Incentive Compensation.** Executive shall participate in Company's annual incentive compensation program(s) for executive officers as provided in the Management Incentive Plan, subject to the limitations and conditions set forth therein or in any successor plan.

6. **Stock Options.** Executive shall be granted stock options under which he may purchase up to a total of one million five hundred thousand (1,500,000) shares of Company common stock (the "Stock Options") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of stock options provided generally to Company executive officers. The Stock Options shall not qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code").

6.1. **Grants of Stock Options.** Two-thirds of the Stock Options (that is, options for one million (1,000,000) shares) (the "2002 Stock Options") shall be granted on January 24, 2002. The remainder of the Stock Options (that is, options for five hundred thousand (500,000) shares) (the "2003 Stock Options") shall be granted in January 2003, at the same time that the Compensation Committee makes executive officer and director stock option grants for such year, provided only that Executive remains employed by the Company pursuant to this Agreement at that time. The Stock Options shall have an exercise price equal to the fair market value of the Company's common stock as of their respective dates of grant (which was \$86.00 as to the 2002 Stock Options).

6.2. **Vesting.** The Stock Options shall be forfeited and shall immediately expire and terminate if and to the extent that they have not vested on or before the date Executive's employment is terminated. Subject to the preceding sentence, the Stock Options shall become vested (but shall not be exercisable except as provided in Section 6.3), as follows:

(a) With respect to the 2002 Stock Options, on the later of the date the Price Performance Goals (as defined in Section 8) are satisfied with respect to such Stock Options and May 31, 2005, but in any event the 2002 Stock Options shall become fully vested on December 31, 2005,

provided in each case that Executive remains employed by the Company pursuant to this Agreement through December 31, 2004.

(b) With respect to the 2003 Stock Options, on December 31, 2005, provided that Executive remains employed by the Company pursuant to this Agreement through December 31, 2004.

(c) Notwithstanding paragraphs (a) or (b) of this Section 6.2, the Stock Options shall earlier become 100% vested upon Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 12.

6.3. Option Exercisability and Expiration. To the extent that the Stock Options have not theretofore been forfeited, and regardless of whether Executive is then employed by Company, the Stock Options shall become exercisable only as follows:

(a) The vested 2002 Stock Options shall be exercisable on and after the later of the date the Price Performance Goals (as defined in Section 8) are satisfied with respect to the 2002 Stock Options and June 1, 2005.

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(b) The vested 2003 Stock Options shall be exercisable on and after the later of the date the Price Performance Goals are satisfied with respect to the 2003 Stock Options and January 1, 2006.

(c) If and to the extent that the Stock Options have not earlier become exercisable pursuant to paragraphs (a) or (b) of this Section 6.3: (i) the vested 2002 Stock Options shall become fully exercisable on January 1, 2010 and the vested 2003 Stock Options shall become fully exercisable on January 1, 2011, and (ii) the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable on Executive's termination of employment on account of death or Disability (as defined in Section 12.1), and (iii) the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable upon Executive's Termination Without Cause or Termination For Good Reason (as defined in Section 12.2) provided that if Executive's employment terminates on either such basis before January 1, 2005, the vested 2002 Stock Options and the vested 2003 Stock Options shall become fully exercisable on January 1 of the year next following the date of such termination of employment, and (iv) the 2002 Stock Options and the 2003 Stock Options shall become fully exercisable upon a Change in Control.

(d) Notwithstanding paragraphs (a), (b) or (c) of this Section 6.3, the Chairman of the Board of Directors (or, in the case Executive then serves as Chairman, the Executive Committee of the Board of Directors), the President, the Chief Financial Officer, the Treasurer, and the General Counsel of Company (any such person, an "Authorized Officer") each may provide at any time (including after a notice of exercise has been delivered) and from time to time that Executive's right to exercise any Stock Options may be suspended pending a determination by the Compensation Committee as to whether Executive has committed an act of Misconduct (as defined in Section 12.4(a)). Notwithstanding anything to the contrary in this Section 6.3, Executive shall forfeit and not be entitled to exercise any Stock Option granted to Executive pursuant to this Agreement if the Board of Directors determines that Executive has committed an act of Misconduct or if Executive's employment is terminated for Cause (as defined in Section 12.4).

(e) To the extent that the Stock Options have not been forfeited or exercised prior to January 1, 2010, the Stock Options shall expire on the earlier of the tenth anniversary of the date of their grant or the first anniversary of Executive's termination of employment on account of death or Disability (as defined in Section 12.1).

6.4. Replacement Options. Executive shall not be entitled to receive replacement options upon exercising any of the Stock Options granted pursuant to this Section 6.

7. Restricted Stock Units. Executive shall be granted restricted stock units representing the right to acquire up to a total of one hundred thousand (100,000) shares of Company common stock (the "Stock Units") subject to the terms and conditions set forth in this Agreement and, to the extent not inconsistent with this Agreement, to the terms and conditions of restricted stock units provided generally to Company executive officers. The Stock Units represent an unfunded and unsecured obligation of the Company and shall not be transferable and shall not be pledged, assigned or otherwise alienated.

7.1. Grants of Stock Units. One half of the Stock Units (that is, stock units representing fifty thousand (50,000) shares) (the "2002 Stock Units") shall be granted on January 24, 2002. The remainder of the Stock Units (the "2003 Stock Units") shall be granted in January 2003, at the same time that the Compensation Committee makes executive officer and director stock option grants for such year, so long as Executive is employed by the Company at that time.

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7.2. Vesting. The Stock Units shall be forfeited and shall immediately expire and terminate if they have not vested on or before the date Executive's employment is terminated. Subject to the preceding sentence, the Stock Units shall become vested (but shall not be converted to common stock and shall not be distributed to Executive except as provided in Section 7.3), upon the earlier of (a) December 31, 2004, or (b) Executive's termination of employment on account of death or Disability, termination of employment by Company Without Cause, termination of employment by Executive For Good Reason, or upon a Change in Control, as each such term is defined in Section 12.

7.3. Distribution of Vested Stock Units. To the extent that the Stock Units have not theretofore been forfeited, the vested Stock Units shall be converted to shares of Common Stock and shall be delivered to Executive, free of any restriction on transfer or alienation, on January 1 of the first year following the year in which Executive ceases to serve as an executive officer of Company.

8. Stock Price Performance and Other Terms of Stock-Based Compensation.

8.1. Price Performance Goals. The term "Price Performance Goals" in reference to the Stock Options shall mean:

(a) with respect to one-third of the shares of common stock subject to the 2002 Stock Options (that is, options for 333,333 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$107.50 per

share); with respect to an additional one-third of the shares subject to the 2002 Stock Options (that is, options for 333,333 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$114.38 per share); with respect to an additional one-third of the shares subject to the 2002 Stock Options (that is, options for 333,334 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the fair market value of the common stock on the grant date of the 2002 Stock Options (i.e., that is equal or greater than \$129.00 per share); and

(b) with respect to one-third of the shares of common stock subject to the 2003 Stock Options (that is, options for 166,667 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least twenty-five percent (25%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options; with respect to an additional one-third of the shares subject to the 2003 Stock Options (that is, options for 166,667 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least thirty-three percent (33%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options; with respect to an additional one-third of the shares subject to the 2003 Stock Options (that is, options for 166,666 shares), the Company's stock price reaching a closing price for five consecutive trading days after the grant date that is at least fifty percent (50%) higher than the fair market value of the common stock on the grant date of the 2003 Stock Options.

(c) For purposes of this Agreement, the "fair market value" of Company's common stock shall be the closing sales price of the stock on that day.

8.2 Anti-Dilution Adjustments. The number of shares subject to the Stock Options and the Stock Units, the exercise price of the Stock Options and the stock prices set forth as the Price

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Performance Goals shall be appropriately and proportionately adjusted by the Compensation Committee if the class of securities which are subject to the Stock Options and the Stock Units are (i) exchanged for or converted into cash, property or a different number or kind of shares or securities as a result of a reorganization, merger, consolidation, recapitalization, restructuring or reclassification, or (ii) if the number of securities of the class of securities then subject to the Stock Options and the Stock Units are increased or decreased or if cash, property or shares or securities are distributed in respect of such subject securities as a result of a dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like.

8.3 Tax Withholding. Executive shall pay in cash or make other arrangements satisfactory to the Compensation Committee for the satisfaction of any withholding tax obligations that arise by reason of exercise of the Stock Options or conversion of the Stock Units. Company shall not be required to issue shares of common stock or to recognize the disposition of such shares until such obligations are satisfied.

9. Other Benefits.

(a) Pension Plans. Executive shall be entitled to participate in all tax-qualified and non-tax-qualified pension plans maintained or contributed to by Company or for the benefit of its executives, including without limitation, the Sallie Mae Cash Account Retirement Plan and the Sallie Mae Supplemental Cash Account Retirement Plan (collectively, the "Company Pension Plans"), in accordance with the terms of such Company Pension Plans as they may be amended from time to time in the discretion of the Company.

(b) Medical Insurance. During the Term of this Agreement and for as long as Executive remains Chief Executive Officer of Company, Executive shall be entitled to participate in any medical and dental insurance plans generally available to the senior management of Company, as such plans may be in effect from time to time. For thirty-six (36) months after termination of Executive's employment with Company, other than on account of termination by Company for Cause or by Executive Without Good Reason (as such terms are defined in Section 12.4), Executive and his eligible dependents or survivors shall be entitled to continue to participate in such plans on the terms generally applied to actively employed senior management of Company, including any employee cost-sharing provisions. To the extent the terms and conditions of the aforesaid plans do not permit participation by Executive, his dependents, or his survivors, Company shall arrange to provide Executive, his dependents, or his survivors with the after-tax economic equivalent of such continued coverage. After the termination of his employment with Company, Executive shall cease to be covered under the foregoing medical and/or dental insurance plans if he obtains coverage under other medical and/or dental insurance plans; provided, however, that if the coverage under the new medical and/or dental insurance plans is less than under the foregoing plans, Company shall provide Executive with a cash payment in an amount necessary for Executive to obtain coverage comparable to that provided under the foregoing plans.

(c) Other Benefit Plans. Executive shall be entitled to receive or participate in such further savings, deferred compensation, health or welfare benefit plans offered to Company's senior management generally, in accordance with the terms of such plans as they may be amended from time to time in the discretion of the Company.

(d) Perquisites; Expenses. The Company agrees to reimburse Executive for all reasonable, ordinary and necessary business expenses incurred by Executive in performing his duties pursuant to this Agreement, in accordance with Company's reimbursement policies generally applicable to management personnel. The Company agrees to provide Executive with such perquisites as are generally made available to management personnel from time to time, including the perquisites provided as of the date the Board of Directors approves this

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Agreement, consisting of (i) the right to participate at the director level in Company's matching contribution program for one year after termination of Executive's employment hereunder, unless Executive's employment is terminated by Company for Cause or by Executive Without Good Reason, and (ii) during the Term of this Agreement, use of a personal vehicle selected by Company and access to the Company's corporate jet.

10. Nondisclosure of Confidential Information.

(a) Executive and Company acknowledge that Executive will, in the course of his employment, come into possession of confidential, proprietary business and technical information, and trade secrets of Company and its Affiliates, as defined in Section 11(b) (the "Proprietary Information"). Proprietary Information includes, but is not limited to, the following:

- Business procedures. All information concerning or relating to the way Company and its Affiliates conduct their business, which is not generally known to the public or within the industry or trade in which Company or its Affiliates compete (such as Company contracts, internal business procedures, controls, plans, licensing techniques and practices, supplier, subcontractor and prime contractor names and contacts and other vendor information, computer system passwords and other computer security controls, financial information, distributor information, and employee data) and the physical embodiments of such information (such as check lists, samples, service and operational manuals, contracts, proposals, printouts, correspondence, forms, listings, ledgers, financial statements, financial reports, financial and operational analyses, financial and operational studies, management reports of every kind, databases, employment or personnel records, and any other written or machine-readable expression of such information as are filed in any tangible media).
- Marketing Plans and Customer Lists. All information not generally known to the public or within the industry or trade in which Company or its Affiliates compete pertaining to Company's and its Affiliates' marketing plans and strategies; forecasts and projections; marketing practices, procedures and policies; goals and objectives; quoting practices, procedures and policies; and customer data including the customer list, contracts, representatives, requirements and needs, specifications, data provided by or about prospective customers, and the physical embodiments of such information.
- Business Ventures. All information not generally known to the public or within the industry or trade in which Company or its Affiliates operate concerning new product development, negotiations for new business ventures, future business plans, and similar information and the physical embodiments of such information.
- Software. All information relating to Company's and its Affiliates' software or hardware in operation or various stages of research and development, which are not generally known to the public or within the industry or trade in which Company or its Affiliates compete and the physical embodiments of such information.
- Litigation. Information which is not a public record and is not generally known to the public or within the industry or trade in which Company or its Affiliates compete regarding litigation and potential litigation matters and the physical embodiments of such information.
- Policy Information. Information not of a public nature regarding the policies and positions that have been or will be advocated by Company and its Affiliates with government officials, the views of government officials toward such policies and

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positions, and the status of any communications that Company or its Affiliates may have with any government officials.

- Information Not Generally Known. Any information which (a) is not generally known to the public or within the industry or trade in which Company or its Affiliates compete, (b) gives Company or its Affiliates a significant advantage over its or their competitors, or (c) has significant economic value or potentially significant economic value to Company or its Affiliates, including the physical embodiments of such information.

(b) Executive acknowledges that the Proprietary Information is a valuable and unique asset of Company and its Affiliates. Executive agrees that he will not, at any time during his employment or after the termination of his employment with Company, without the prior written consent of Company or its Affiliates, as applicable, either directly or indirectly divulge any Proprietary Information for his own benefit or for any purpose other than the exclusive benefit of Company and/or its Affiliates.

11. Agreement Not to Compete.

(a) Executive agrees that he shall not compete with Company or its Affiliates for the Restricted Period, which is defined as the longer of two years after the termination of Executive's employment with Company for any reason, or six months after he no longer holds any unexercised Stock Options (whether or not then vested or exercisable).

(b) For the purposes of this Section 11, "compete" shall mean directly or indirectly through one or more intermediaries (i) working or serving as a director, officer, employee, consultant, agent, representative, or in any other capacity, with or without compensation, on behalf of one or more entities engaged in the Company's Business (as defined below) in the United States, Canada, or any other country where Company (including any Affiliate) either engages in the Company's Business at the time of Executive's termination or where Company, at the time of Executive's termination, has developed a business plan or taken affirmative steps to engage in the Company's Business; (ii) soliciting any employees, customers, or business partners of Company, inducing any customer or business partner of the Company to breach a contract with the Company or any principal for whom the Company acts as agent to terminate such agency relationship; and/or (iii) making statements about Company or its management reasonably determined by the Board of Directors to be disparaging. For purposes of this provision, the term "the Company's Business" shall mean any business activity or line of business similar to the type of business conducted by Company, Sallie Mae, and/or their Affiliates at the time of Executive's termination of employment or which Company, Sallie Mae and/or their Affiliates at the time of Executive's termination of employment or within one year prior thereto have planned to enter into or conduct. Executive expressly agrees that the markets served by Company, Sallie Mae and their Affiliates extend nationally and to Canada and are not dependent on the geographic location of the executive personnel or the businesses by which they are employed and that the restrictions set forth in this Section 11 are reasonable and are no greater than are required for the protection of Company, Sallie Mae, and its Affiliates. For purposes of this Agreement, the term "Affiliate" shall be deemed to refer to Company, and any entity (whether or not existing on the date hereof) controlling, controlled by or under common control with Company.

(c) In the event the Board of Directors reasonably determines that Executive has violated any provision of this Section 11, Executive shall (i) forfeit the Stock Options granted under this Agreement, regardless of whether then vested, unvested, exercisable or unexercisable, and (ii) repay to Company any gross profits realized from the exercise of the Stock Options since the earlier of one year prior to the date of such violation and the

termination of Executive's employment with Company (whichever date occurred the longest period of time before the date of any such option exercise).

12. Termination. Executive's employment hereunder may be terminated during the Term upon the occurrence of any one of the events described in this Section 12. Upon termination, Executive shall be entitled only to such compensation and benefits as described in this Section 12.

12.1. Disability and Death.

(a) Disability. If Executive becomes physically or mentally disabled to such an extent that he is not able to perform the duties set forth in Section 2 of this Agreement, with or without a reasonable accommodation, for a period of more than 180 days, either consecutively or within any 365-day period ("Disability"), Company may terminate Executive's employment hereunder. The determination of whether the Executive has a Disability under this Agreement shall be made by the Compensation Committee, which shall consider the information presented by Executive's personal physician and by any other advisors, including any other physician, which the Compensation Committee determines appropriate. The determination of the Compensation Committee shall be final and binding, unless it is determined to have been arbitrary and capricious. If the employment of Executive terminates during the Term due to the Disability of Executive, Company shall provide to Executive (i) whatever benefits are available to him under any disability benefit plan(s) applicable to him at the time of such termination to the extent Executive satisfies the requirements of such plan(s), and (ii) the payments set forth in Section 12.1(c).

(b) Death. If Executive dies during the Term, Company shall pay to Executive's executors, legal representatives or administrators the payments set forth in Section 12.1(c). Except as specifically set forth in this Section 12.1 or under applicable laws, Company shall have no liability or obligation hereunder to Executive's executors, legal representatives, administrators, heirs or assigns or any other person claiming under or through him by reason of Executive's death, except that Executive's executors, legal representatives or administrators will be entitled to receive any death benefit payable to them as beneficiaries under any insurance policy or other benefits plans in which Executive participates as an employee of Company and to exercise any rights afforded them under any benefit plan then in effect.

(c) Payment Upon Disability or Death. Upon termination of the employment of Executive due to death or Disability during the Term, Company shall pay an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation (as defined in Section 12.2(d) below) pro-rated for the year through the date of termination. In addition, upon such termination of employment, the Stock Options shall fully vest and become exercisable in accordance with Section 6.2(c) and 6.3(c) (ii) and shall expire on the first anniversary of such termination of employment, the Stock Units shall fully vest and thereafter shall be distributed as provided in Section 7.2(b) and 7.3, and Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b).

12.2. Termination By Company Without Cause; Termination By Executive For Good Reason.

(a) Termination By Company Without Cause. The Company may terminate Executive's employment hereunder at any time for any reason other than Cause upon written notice to Executive ("Termination Without Cause").

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(b) Termination By Executive For Good Reason. Executive may terminate his employment hereunder at any time For Good Reason ("Termination For Good Reason"). For purposes of this Agreement, Good Reason shall mean (i) a material reduction in the position or responsibilities of Executive, provided that a Change in Control (including the fact that the Company's stock is not publicly held or is held or controlled by a single stockholder as a result of a Change in Control) shall not of itself be deemed a material reduction in the position or responsibilities of Executive; (ii) a reduction in Executive's Base Salary or a material reduction in Executive's compensation arrangements or benefits; (iii) a substantial failure of Company to perform any material provision of this Agreement; or (iv) a relocation of Company's executive offices to a distance of more than seventy-five (75) miles from its location as of the date of this Agreement, unless such relocation results in Company's executive offices being closer to Executive's then primary residence or does not substantially increase the average commuting time of Executive. For purposes of this Agreement, Good Reason shall not include notice to Executive under Section 1 of this Agreement that the Term will not be extended beyond the third anniversary of this Agreement.

(c) In the event of a Termination Without Cause or a Termination For Good Reason, Company shall pay to Executive within forty-five (45) days after termination an amount equal to all accrued but unpaid Base Salary through the date of termination of employment, plus a portion of the Average Annual Incentive Compensation pro-rated for the year through the date of termination, plus the Multiplier times the Compensation Amount (as such terms are defined in Section 12.2(d) below). In addition, upon Executive's Termination Without Cause or Termination For Good Reason, (i) the Stock Options shall fully vest in accordance with Section 6.2(c) and thereafter (to the extent they have not theretofore otherwise become exercisable) the vested Stock Options shall become fully exercisable upon the date of such termination of employment, provided that if Executive's employment terminates on either such basis before January 1, 2005, the vested Stock Options shall become fully exercisable on January 1 of the year next following the date of such termination of employment; and (ii) the Stock Units shall fully vest and thereafter shall be distributed as provided in Section 7.2(b) and 7.3. Further, upon and following Executive's Termination Without Cause or Termination For Good Reason, Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b).

(d) The Multiplier is defined as the lesser of (i) three, or (ii) the number obtained by dividing by twelve the number of full months between the date of Executive's termination of employment and either December 31, 2005 or, if Executive has tendered notice under Section 1 of this Agreement that the Term will not be extended, December 31, 2004. The Average Annual Incentive Compensation shall be a cash payment equal to the value of the average annual incentive compensation earned by Executive in each of the three full calendar years prior to the date of termination. For purposes of determining the average annual incentive compensation earned by Executive in any past year, any non-cash compensation awarded to Executive shall be included as annual incentive compensation only if specifically designated as such by the Compensation Committee, and such non-cash compensation shall be valued by such method as the Compensation Committee in its discretion shall determine, which may be the manner in which such compensation is valued for proxy reporting purposes. Without limiting the foregoing, the 25,000 Restricted Stock Units granted to Executive as part of his 2000 compensation shall be included as annual incentive compensation for such

12.3 Change in Control.

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(a) For purposes of this Agreement, "Change in Control" shall mean an occurrence of one or more of the following events:

- (i) an acquisition (other than directly from Company) of any voting securities of Company (the "Voting Securities") by any "person" or "group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934) other than an employee benefit plan of Company, immediately after which such person or group has "Beneficial Ownership" (within the meaning of Rule 13d-3 under the Exchange Act) of more than fifty percent (50%) of the combined voting power of Company's then outstanding Voting Securities; or
- (ii) within any 12-month period, the individuals who were directors of the Company as of the date the Board of Directors approved this Agreement (the "Incumbent Directors") ceasing for any reason other than death, disability or retirement to constitute at least a majority of the Board of Directors, provided that any director who was not a director as of the date the Board of Directors approved this Agreement shall be deemed to be an Incumbent Director if such director was appointed or nominated for election to the Board of Directors by, or on the recommendation or approval of, at least a majority of directors who then qualified as Incumbent Directors, provided further that any director appointed or nominated to the Board of Directors to avoid or settle a threatened or actual proxy contest shall in no event be deemed to be an Incumbent Director; or
- (iii) satisfaction of all conditions to a merger, consolidation, or reorganization involving Company that results in the stockholders of Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, less than fifty percent (50%) of the combined voting power of the corporation which survives such transaction as the ultimate parent entity, unless either (A) such merger, consolidation or reorganization is not thereafter consummated, or (B) Executive remains Chief Executive Officer, co-Chief Executive Officer, or Chairman of the corporation which survives such transaction as the ultimate, parent entity and prior to the satisfaction of all such conditions, the Board of Directors determines that such transaction shall not constitute a Change in Control; or
- (iv) a sale of all or substantially all of the assets of Company.

(b) Upon a Change in Control, all of the Stock Options granted under this Agreement shall immediately fully vest and become exercisable and all of the Stock Units granted under this Agreement shall immediately fully vest and thereafter shall be distributed as provided in Section 7.3.

(c) In the event a Termination Without Cause (as defined in Section 12.2(a)) or a Termination For Good Reason (as defined in Section 12.2(b)) occurs during the Term of this Agreement but within 24 months following a Change in Control, Executive shall be entitled to receive within forty-five (45) days after termination an amount equal to three times the Compensation Amount, as such term is defined in Section 12.2(d). In addition, upon Executive's Termination Without Cause or Termination For Good Reason, the Stock Units shall be distributed as provided in Section 7.3, and upon and following such termination of employment Executive and Executive's eligible dependents or survivors shall be entitled to medical and dental insurance benefits as provided in Section 9(b).

(d) If, as a result of payments provided for under or pursuant to this Agreement together with all other payments in the nature of compensation provided to or for the benefit of Executive under any other agreement in connection with a Change in Control, Executive becomes subject to taxes of any state, local or federal taxing authority that would not have

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been imposed on such payments but for the occurrence of a Change in Control, including any excise tax under Section 4999 of the Code and any successor or comparable provision, then, in addition to any other benefits provided under or pursuant to this Agreement or otherwise, Company (including any successor to Company) shall pay to Executive at the time any such payments are made under or pursuant to this or the other agreements, an amount equal to the amount of any such taxes imposed or to be imposed on Executive (the amount of any such payment, the "Parachute Tax Reimbursement"). In addition, Company (including any successor to Company) shall "gross up" such Parachute Tax Reimbursement by paying to Executive at the same time an additional amount equal to the aggregate amount of any additional taxes (whether income taxes, excise taxes, special taxes, employment taxes or otherwise) that are or will be payable by Executive as a result of the Parachute Tax Reimbursement being paid or payable to Executive and/or as a result of the additional amounts paid or payable to Executive pursuant to this sentence, such that after payment of such additional taxes Executive shall have been paid on a net after-tax basis an amount equal to the Parachute Tax Reimbursement. The amount of any Parachute Tax Reimbursement and of any such gross-up amounts shall be determined by Company's independent auditing firm, whose determination, absent manifest error, shall be treated as conclusive and binding absent a binding determination by a governmental taxing authority that a greater amount of taxes is payable by Executive.

12.4 Termination For Cause; Termination By Executive Without Good Reason.

(a) Termination for Cause. The Company may terminate the employment of Executive for Cause at any time during the Term. For purposes of this Agreement, Cause shall mean a determination by the Board of Directors that there has been a willful and continuing failure of Executive to perform substantially his obligations under this Agreement (other than as a result of Executive's death or Disability) and, if in the judgment of the Board of Directors such willful and continuing failure may be cured by Executive, that such failure has not been cured by Executive within ten (10) business days after written notice of such was given to Executive by the Board of Directors, or that Executive has committed an act of Misconduct (as defined below). For purposes of this Agreement, "Misconduct" shall mean: (i) embezzlement, fraud, commission of a felony, breach of fiduciary duty or deliberate disregard of material Company rules; (ii) personal dishonesty of Executive materially injurious to Company;

(iii) an unauthorized disclosure of any Proprietary Information; or (iv) competing with the Company while employed by the Company or during the Restricted Period, in contravention of Section 11.

(b) Termination By Executive Without Good Reason. Executive may terminate his employment hereunder at any time without Good Reason (as defined in Section 12.2(b)) ("Termination Without Good Reason").

(c) In the event Executive's employment with Company is terminated by Company for Cause or by Executive Without Good Reason, Executive shall receive all accrued but unpaid Base Salary, and benefits as of the effective date of termination as provided in Section 9. In the event Executive's employment with Company is terminated by Company for Cause, Executive shall forfeit and not be entitled to exercise any Stock Option granted to Executive pursuant to this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement. In the event Executive's employment with Company is terminated by Executive during the Term of this Agreement Without Good Reason, Executive shall forfeit all unvested Stock Options granted under this Agreement and shall lose the right to convert any and all restricted stock units granted under this Agreement.

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13. Other Agreements. Executive represents and warrants to Company that:

(a) There are no restrictions, agreements or understandings whatsoever to which Executive is a party or by which he is bound that would prevent or make unlawful Executive's execution of this Agreement or Executive's employment hereunder, or which are or would be inconsistent or in conflict with this Agreement or Executive's employment hereunder, or which would prevent, limit or impair in any way the performance by Executive of his obligations hereunder.

(b) Executive shall disclose the existence and terms of the restrictive covenants set forth in this Agreement to any employer by whom Executive may be employed during the Term (which employment is not hereby authorized) or during the Restricted Period as defined in the Agreement Not to Compete by and between Executive and Company set forth in Section 11 hereof.

14. Survival of Provisions. The provisions of this Agreement, including without limitation those set forth in Sections 9, 10, 11, 13, 14, 15, 18, 25 and 26 hereof, shall survive the termination of Executive's employment hereunder and the payment of all amounts payable and delivery of all post-termination compensation and benefits pursuant to this Agreement incident to any such termination of employment.

15. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon Company and its successors or permitted assigns and Executive and his executors, administrators or heirs. The Company shall require any successor or successors expressly to assume the obligations of Company under this Agreement. For purposes of this Agreement, the term "successor" shall include the ultimate parent corporation of any corporation involved in a merger, consolidation, or reorganization with or including the Company that results in the stockholders of Company immediately before such merger, consolidation or reorganization owning, directly or indirectly, immediately following such merger, consolidation or reorganization, securities of another corporation, regardless of whether any such merger, consolidation or reorganization is deemed to constitute a Change in Control for purposes of this Agreement. Executive may not assign any obligations or responsibilities under this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of Company. At any time prior to a Change in Control, Company may provide, without the prior written consent of Executive, that Executive shall be employed pursuant to this Agreement by any of its Affiliates instead of or in addition to Sallie Mae or Company, and in such case all references herein to the "Company" shall be deemed to include any such entity, provided that (i) such action shall not relieve Company of its obligation to make or cause an Affiliate to make or provide for any payment to or on behalf of Executive pursuant to this Agreement, and (ii) Executive's duties and responsibilities shall not be significantly diminished as a result thereof. The Board of Directors may assign any or all of its responsibilities hereunder to any committee of the Board of Directors, in which case references to Board of Directors shall be deemed to refer to such committee.

16. Executive Benefits. This Agreement shall not be construed to be in lieu of or to the exclusion of any other rights, benefits and privileges to which Executive may be entitled as an executive of Company under any retirement, pension, profit-sharing, insurance, hospitalization or other plans or benefits which may now be in effect or which may hereafter be adopted.

17. Board of Directors Service. Subject to re-election by a vote of stockholders, Executive shall continue to serve on the Board of Directors through the Term and shall offer to tender his resignation from the Board of Directors upon expiration of the Term, or upon any earlier termination of his employment, which resignation may or may not be accepted.

18. Notices. All notices required to be given to any of the parties of this Agreement shall be in writing and shall be deemed to have been sufficiently given, subject to the further provisions of this

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Section 18, for all purposes when presented personally to such party, or sent by facsimile transmission, any national overnight delivery service, or certified or registered mail, to such party at its address set forth below:

(a) If to Executive:

Albert L. Lord

(b) If to Company:

USA Education, Inc.
Sallie Mae, Inc.
11600 Sallie Mae Drive

Such notice shall be deemed to be received when delivered if delivered personally, upon electronic or other confirmation of receipt if delivered by facsimile transmission, the next business day after the date sent if sent by a national overnight delivery service, or three (3) business days after the date mailed if mailed by certified or registered mail. Any notice of any change in such address shall also be given in the manner set forth above. Whenever the giving of notice is required, the giving of such notice may be waived in writing by the party entitled to receive such notice.

19. Entire Agreement; Amendments. This Agreement and any other documents, instruments or other writings delivered or to be delivered in connection with this Agreement as specified herein constitute the entire agreement among the parties with respect to the subject matter of this Agreement and supersede all prior and contemporaneous agreements, understandings, and negotiations, whether written or oral, with respect to the terms of Executive's employment by Company. This Agreement may be amended or modified only by a written instrument signed by all parties hereto.

20. Waiver. The waiver of the breach of any term or provision of this Agreement shall not operate as or be construed to be a waiver of any other or subsequent breach of this Agreement.

21. Governing Law. This Agreement shall be governed and construed as to its validity, interpretation and effect by the laws of the Commonwealth of Virginia.

22. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions of this Agreement or such provisions, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

23. Section Headings. The section headings in this Agreement are for convenience only; they form no part of this Agreement and shall not affect its interpretation.

24. Counterparts. This Agreement may be executed in any number of counterparts, and each such counterpart shall be deemed to be an original instrument, but all such counterparts together shall constitute one and the same instrument.

25. Specific Enforcement; Extension of Period. Executive acknowledges that the restrictions contained in Sections 10 and 11 hereof are reasonable and necessary to protect the legitimate interests of Company and its Affiliates and that Company would not have entered into this Agreement in the absence of such restrictions. Executive also acknowledges that any breach by him of Sections 10 or 11 hereof will cause continuing and irreparable injury to Company for which monetary damages would not be an adequate remedy. Executive shall not, in any action or proceeding by Company to enforce Sections 10 or 11 of this Agreement, assert the claim or defense that an adequate remedy at law exists.

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In the event of such breach by Executive, Company shall have the right to enforce the provisions of Sections 10 and 11 of this Agreement by seeking injunctive or other relief in any court, and this Agreement shall not in any way limit remedies at law or in equity otherwise available to Company. In the event that the provisions of Sections 10 or 11 hereof should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable law.

26. Arbitration. Any dispute or claim, other than those referred to in Section 25, arising out of or relating to this Agreement or otherwise relating to the employment relationship between Executive and Company (including but not limited to any claims under Title VII of the Civil Rights Act of 1964, as amended; the Americans with Disabilities Act; the Age Discrimination in Employment Act; the Family Medical Leave Act; and the Employee Income Retirement Security Act) shall be submitted to Arbitration, in Fairfax County, Virginia, and except as otherwise provided in this Agreement shall be conducted in accordance with the rules of, but not under the auspices of, the American Arbitration Association. The arbitration shall be conducted before an arbitration tribunal comprised of three individuals, one selected by Company, one selected by Executive, and the third selected by the first two. The parties and the arbitrators selected by them shall use their best efforts to reach agreement on the identity of the tribunal within ten (10) business days of either party to this Agreement submitting to the other party a written demand for arbitration. The proceedings before the tribunal shall take place within twenty (20) business days of the selection thereof. Executive and Company agree that such arbitration will be confidential and no details, descriptions, settlements or other facts concerning such arbitration shall be disclosed or released to any third party without the specific written consent of the other party, unless required by law or court order or in connection with enforcement of any decision in such arbitration. Any damages awarded in such arbitration shall be limited to the contract measure of damages, and shall not include punitive damages. The parties shall equally divide the costs of the arbitrators, and each party shall bear his or its attorneys' fees and other costs, except that the arbitrators may specifically direct one party to bear the entire cost of the arbitration, including all attorneys' fees, if the arbitrators determine that such party acted in bad faith.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed the day and year first written above.

USA Education, Inc.

By:

Title:

Albert L. Lord

QuickLinks

[Exhibit 99.2](#)

[EMPLOYMENT AGREEMENT](#)