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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 September 30, 2004 or

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

For the transition period from ______________ to ______________.

Commission File Number: 001-13251

SLM CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**52-2013874** (I.R.S. Employer Identification No.)
12061 Bluemont Way, Reston, Virginia (Address of principal executive offices)	**20190** (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

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 October 31, 2004
Common Stock, $.20 par value	429,829,137 shares

GLOSSARY

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

Consolidation Loans—Under the FFELP, borrowers with eligible student loans may consolidate them into one note with one lender and convert the variable interest rates on the loans being consolidated into a fixed rate for the life of the loan. The new note is considered a Consolidation Loan. Typically a borrower can consolidate their student loans only once unless the borrower has another eligible loan with which to consolidate with the existing Consolidation Loan. The borrower rate on a Consolidation Loan is fixed for the term of the loan and is set by the weighted-average interest rate of the loans being consolidated, rounded up to the nearest 1/8th of a percent, not to exceed 8.25 percent. In low interest rate environments, Consolidation Loans provide an attractive refinancing opportunity because they allow borrowers to consolidate variable rate loans into a long-term fixed rate loan. Holders of Consolidation Loans are eligible to earn interest under the Special Allowance Payment ("SAP") formula (see definition below).

Consolidation Loan Rebate Fee—All holders of Consolidation Loans are required to pay to the U.S. Department of Education an annual 105 basis point Consolidation Loan Rebate Fee on all outstanding principal and accrued interest balances of Consolidation Loans purchased or originated after October 1, 1993, except for loans for which consolidation applications were received between October 1, 1998 and January 31, 1999, where the Consolidation Loan Rebate Fee is 62 basis points.

Constant Prepayment Rate ("CPR")—A variable in life of loan estimates that measures the rate at which loans in the portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio.

DOE—The U.S. Department of Education.

Direct Loans—Student loans originated directly by the DOE under the William D. Ford Federal Direct Student Loan Program.

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

Exceptional Performer Designation ("EP")—The EP designation is determined by the DOE in recognition of meeting certain performance standards set by the DOE in servicing FFELP loans. Upon receiving the EP designation, the EP servicer receives 100 percent reimbursement on default claims on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the two percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria.

Fixed Rate Floor Income—We refer to Floor Income associated with student loans whose borrower rate is fixed to term (primarily Consolidation Loans) as Fixed Rate Floor Income.

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

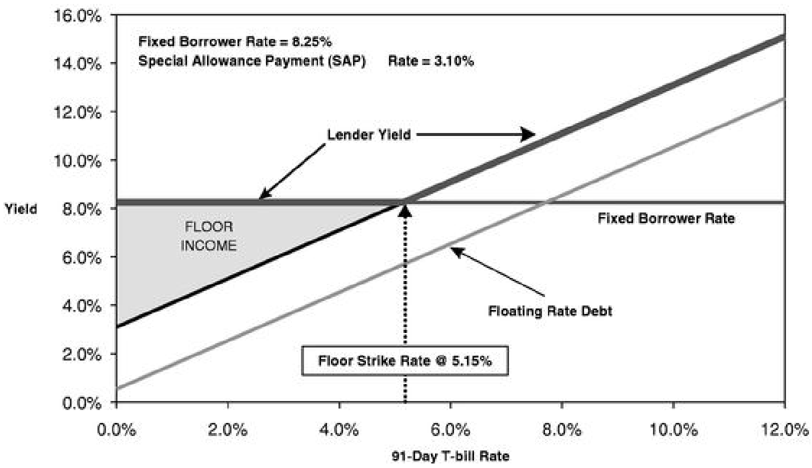
The following example shows the mechanics of Floor Income for a fixed rate Consolidation Loan with a T-bill based SAP spread of 3.10 percent:

Fixed borrower interest rate:	8.25%
SAP spread over 91-day T-bill:	(3.10)%
Floor strike rate[1]:	5.15%

1 The interest rate at which the underlying index (Treasury bill or commercial paper) plus the fixed SAP spread equals the fixed borrower rate. Floor Income is earned anytime the interest rate of the underlying index declines below this rate.

Based on this example, if the quarterly average 91-day Treasury bill rate is over 5.15 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to Treasury bills of 3.10 percent. On the other hand, if the quarterly average 91-day Treasury bill is below 5.15 percent, the SAP formula will produce a rate below the fixed borrower rate of 8.25 percent and the loan holder earns at the borrower rate of 8.25 percent. The difference between the fixed borrower rate and the lender's expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, declines in interest rates increase Floor Income.

Graphic Depiction of Floor Income:



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

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

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

GSE—The Student Loan Marketing Association is a federally chartered government-sponsored enterprise and wholly owned subsidiary of SLM Corporation.

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

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

Offset Fee—We are required to pay to the DOE an annual 30 basis point Offset Fee on the outstanding balance of Stafford and PLUS student loans purchased and held by the GSE after August 10, 1993. The fee does not apply to student loans sold to securitized trusts or to loans held outside of the GSE.

Preferred Channel Originations—Preferred Channel Originations are comprised of: 1) student loans that are originated or serviced on our proprietary platforms, and are committed for sale to Sallie Mae, such that we either own them from inception or acquire them soon after origination, and 2) loans that are originated and serviced on other platforms on behalf of Sallie Mae owned brands and our lending partners, Bank One and JPMorgan Chase, and are committed for sale to Sallie Mae. (See also "RECENT DEVELOPMENTS—Bank One/JPMorgan Chase Merger" for a discussion related to our lender partners.)

Preferred Lender List—To streamline the student loan process, most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

Private Education Loans (formerly, "Private Credit Student Loans")—Education loans to students or parents of students that are not guaranteed or reinsured under the FFELP or any other federal student loan program. Private Education Loans include loans for traditional higher education with repayment terms that begin after graduation, similar to the FFELP, and for alternative education, such as career training, that require repayment immediately.

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

Residual Interest—When we securitize student loans, we retain the right to receive cash flows from the student loans sold in excess of amounts needed to pay servicing and other fees and the principal and interest on the bonds backed by the student loans. The Residual Interest is the present value of the future expected cash flows from off-balance sheet student loans in securitized trusts, which includes the present value of Embedded Fixed Rate Floor Income described above. We value the Residual Interest at the time of sale and at each subsequent quarter.

Retained Interest—In our securitizations the Retained Interest includes the Residual Interest plus reserve and other cash accounts that serve as credit enhancements to asset-backed securities issued in our securitizations.

Risk Sharing—When a FFELP loan defaults, the federal government guarantees 98 percent of the principal balance plus accrued interest and the holder of the loan must absorb the two percent not guaranteed as a Risk Sharing loss on the loan. FFELP student loans acquired after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from death, disability or bankruptcy. FFELP loans with an EP designation from the DOE are not subject to Risk Sharing.

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

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

Wind-Down—The dissolution of the Student Loan Marketing Association (the "GSE") under the terms of the Privatization Act.

Wind-Down Period—The period during which the Student Loan Marketing Association is dissolved under the terms of the Privatization Act.

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

SLM CORPORATION
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September 30, 2004

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Federally insured student loans (net of allowance for losses of $5,222 and $45,993, respectively)	$ 49,496,452	$ 45,577,073
Private Education Loans (net of allowance for losses of $166,816 and $165,716, respectively)	4,772,372	4,470,156
Academic facilities financings and other loans (net of allowance for losses of $10,786 and $10,052, respectively)	994,754	1,030,907
Investments		
Trading	158	166
Available-for-sale	2,966,724	4,370,347
Other	277,607	677,357
Total investments	3,244,489	5,047,870
Cash and cash equivalents	4,277,645	1,847,585
Restricted cash and investments	1,831,116	1,105,896
Retained Interest in securitized receivables	2,510,100	2,475,836
Goodwill and acquired intangible assets, net	753,266	592,112
Other assets	3,079,109	2,463,216
Total assets	$ 70,959,303	$ 64,610,651
Liabilities		
Short-term borrowings	$ 4,399,495	$ 18,735,385
Long-term notes	61,040,160	39,808,174
Other liabilities	2,604,904	3,437,046
Total liabilities	68,044,559	61,980,605
Commitments and contingencies		
Minority interest in subsidiary	14,767	—
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, 1,125,000 shares authorized: 480,469 and 472,643 shares issued, respectively	96,094	94,529
Additional paid-in capital	1,805,129	1,553,240
Accumulated other comprehensive income (net of tax of $262,201 and $229,181, respectively)	486,944	425,621
Retained earnings	1,953,719	941,284
Stockholders' equity before treasury stock	4,506,886	3,179,674
Common stock held in treasury at cost: 51,255 and 24,965 shares, respectively	1,606,909	549,628
Total stockholders' equity	2,899,977	2,630,046
Total liabilities and stockholders' equity	$ 70,959,303	$ 64,610,651

See accompanying notes to consolidated financial statements.

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

	Quarters ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Federally insured student loans	$ 521,606	$ 437,275	$ 1,482,739	$ 1,367,181
Private Education Loans	83,303	81,663	236,505	257,127
Academic facilities financings and other loans	18,212	19,050	54,714	58,546
Investments, cash and cash equivalents	61,774	39,204	157,765	109,499
Total interest income	684,895	577,192	1,931,723	1,792,353
Interest expense:				
Short-term debt	35,085	106,366	179,142	300,306
Long-term debt	336,867	137,353	785,316	458,188
Total interest expense	371,952	243,719	964,458	758,494
Net interest income	312,943	333,473	967,265	1,033,859
Less: provisions for losses	10,930	41,695	79,092	120,689
Net interest income after provisions for losses	302,013	291,778	888,173	913,170
Other income:				
Gains on student loan securitizations	63,590	39,454	375,384	659,477
Servicing and securitization revenue	158,639	146,174	419,334	534,993
Losses on securities, net	(32,887)	(1,778)	(37,244)	(8,674)
Derivative market value adjustment	73,000	91,041	342,404	(233,317)
Guarantor servicing fees	33,192	40,323	91,412	100,776
Debt management fees	78,795	78,282	228,836	189,780
Loss on GSE debt extinguishment	(102,990)	—	(102,990)	—
Other	91,134	53,362	222,561	168,914
Total other income	362,473	446,858	1,539,697	1,411,949
Operating expenses:				
Salaries and benefits	113,386	110,103	353,138	316,644
Other	97,386	74,102	272,562	236,793
Total operating expenses	210,772	184,205	625,700	553,437
Income before income taxes and cumulative effect of accounting change	453,714	554,431	1,802,170	1,771,682
Income taxes	97,136	204,514	539,201	632,522
Income before cumulative effect of accounting change	356,578	349,917	1,262,969	1,139,160
Cumulative effect of accounting change	—	129,971	—	129,971
Net income	356,578	479,888	1,262,969	1,269,131
Preferred stock dividends	2,875	2,875	8,625	8,625
Net income attributable to common stock	$ 353,703	$ 477,013	$ 1,254,344	$ 1,260,506
Basic earnings per common share:				
Before cumulative effect of accounting change	$ .81	$ .77	$ 2.85	$ 2.50
Cumulative effect of accounting change	—	.29	—	.28
Basic earnings per common share, after cumulative effect of accounting change	$ .81	$ 1.06	$ 2.85	$ 2.78
Average common shares outstanding	435,764	450,725	439,430	453,139
Diluted earnings per common share:				
Before cumulative effect of accounting change	$ .80	$ .76	$ 2.80	$ 2.43
Cumulative effect of accounting change	—	.28	—	.28
Diluted earnings per common share, after cumulative effect of accounting change	$ .80	$ 1.04	$ 2.80	$ 2.71
Average common and common equivalent shares outstanding	444,143	460,647	448,011	465,125
Dividends per common share	$ .19	$ .17	$ .55	$ .42

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at June 30, 2003	3,300,000	638,983,455	(188,490,732)	450,492,723	$ 165,000	$ 127,797	$ 1,359,082	$ 689,220	$ 3,386,218	$ (3,361,145)	$ 2,366,172
Comprehensive income:											
Net income									479,888		479,888
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(125,908)			(125,908)
Change in unrealized gains (losses) on derivatives, net of tax								5,069			5,069
Comprehensive income											359,049
Cash dividends:											
Common stock ($.17 per share)									(75,424)		(75,424)
Preferred stock ($.87 per share)									(2,875)		(2,875)
Issuance of common shares		2,294,909	4,289	2,299,198		459	58,317			170	58,946
Retirement of common stock held in treasury		(170,000,000)	170,000,000	—		(34,000)			(3,032,120)	3,066,120	—
Tax benefit related to employee stock option and purchase plans							13,062				13,062
Premiums on equity forward purchase contracts							12,458				12,458
Repurchase of common shares:											
Open market			(477,200)	(477,200)						(18,672)	(18,672)
Equity forwards:											
Exercise cost, cash			(1,022,300)	(1,022,300)						(42,850)	(42,850)
Market value adjustment			—	—						1,343	1,343
Benefit plans			(656,840)	(656,840)						(27,225)	(27,225)
Balance at September 30, 2003	3,300,000	471,278,364	(20,642,783)	450,635,581	$ 165,000	$ 94,256	$ 1,442,919	$ 568,381	$ 755,687	$ (382,259)	$ 2,643,984
Balance at June 30, 2004	3,300,000	478,722,527	(39,760,083)	438,962,444	$ 165,000	$ 95,745	$ 1,747,284	$ 355,955	$ 1,683,563	$ (1,126,881)	$ 2,920,666
Comprehensive income:											
Net income									356,578		356,578
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								97,774			97,774
Change in unrealized gains (losses) on derivatives, net of tax								33,215			33,215
Comprehensive income											487,567
Cash dividends:											
Common stock ($.19 per share)									(83,547)		(83,547)
Preferred stock ($.87 per share)									(2,875)		(2,875)
Issuance of common shares		1,746,074	4,950	1,751,024		349	51,908			205	52,462
Tax benefit related to employee stock option and purchase plans							5,937				5,937
Repurchase of common shares:											
Open market			—								
Equity forwards:											
Exercise cost, cash			(4,740,000)	(4,740,000)						(193,195)	(193,195)
Exercise cost, net settlement			(6,661,561)	(6,661,561)						(289,512)	(289,512)
Market value adjustment			—	—						6,225	6,225
Benefit plans			(98,360)	(98,360)						(3,751)	(3,751)
Balance at September 30, 2004	3,300,000	480,468,601	(51,255,054)	429,213,547	$ 165,000	$ 96,094	$ 1,805,129	$ 486,944	$ 1,953,719	$ (1,606,909)	$ 2,899,977

See accompanying notes to consolidated financial statements.

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

	Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders' Equity
		Issued	Treasury	Outstanding							
Balance at Dec. 31, 2002	3,300,000	624,551,508	(166,812,720)	457,738,788	$ 165,000	$ 124,910	$ 1,102,574	$ 592,760	$ 2,718,226	$ (2,705,520)	$ 1,997,950
Comprehensive income:											
Net income									1,269,131		1,269,131
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								(28,351)			(28,351)
Change in unrealized gains (losses) on derivatives, net of tax								4,900			4,900
Minimum pension liability adjustment								(928)			(928)
Comprehensive income											1,244,752
Cash dividends:											
Common stock ($.42 per share)									(190,925)		(190,925)
Preferred stock ($2.61 per share)									(8,625)		(8,625)
Issuance of common shares		10,899,200	85,693	10,984,893		2,181	255,401			3,061	260,643
Issuance of common shares due to exercise of stock warrants		5,827,656		5,827,656		1,165	39,034				40,199
Retirement of common stock held in treasury		(170,000,000)	170,000,000	—		(34,000)			(3,032,120)	3,066,120	—
Tax benefit related to employee stock option and purchase plans							50,813				50,813
Premiums on equity forward purchase contracts							(17,361)				(17,361)
Cumulative effect of accounting change							12,458				12,458
Repurchase of common shares:											
Open market			(5,474,590)	(5,474,590)						(205,495)	(205,495)
Equity forwards:											
Exercise cost, cash			(16,082,300)	(16,082,300)						(451,982)	(451,982)
Market value adjustment			—	—						1,343	1,343
Benefit plans			(2,358,866)	(2,358,866)						(89,786)	(89,786)
Balance at September 30, 2003	3,300,000	471,278,364	(20,642,783)	450,635,581	$ 165,000	$ 94,256	$ 1,442,919	$ 568,381	$ 755,687	$ (382,259)	$ 2,643,984
Balance at December 31, 2003	3,300,000	472,642,996	(24,964,753)	447,678,243	$ 165,000	$ 94,529	$ 1,553,240	$ 425,621	$ 941,284	$ (549,628)	$ 2,630,046
Comprehensive income:											
Net income									1,262,969		1,262,969
Other comprehensive income, net of tax:											
Change in unrealized gains (losses) on investments, net of tax								25,781			25,781
Change in unrealized gains (losses) on derivatives, net of tax								35,900			35,900
Minimum pension liability adjustment								(358)			(358)
Comprehensive income											1,324,292
Cash dividends:											
Common stock ($.55 per share)									(241,909)		(241,909)
Preferred stock ($2.61 per share)									(8,625)		(8,625)
Issuance of common shares		7,825,605	58,078	7,883,683		1,565	215,399			2,252	219,216
Tax benefit related to employee stock option and purchase plans							36,490				36,490
Repurchase of common shares:											
Open market			(563,500)	(563,500)						(21,554)	(21,554)
Equity forwards:											
Exercise cost, cash			(18,150,460)	(18,150,460)						(643,317)	(643,317)
Exercise cost, net settlement			(6,661,561)	(6,661,561)						(289,512)	(289,512)
Market value adjustment			—	—						(66,425)	(66,425)
Benefit plans			(972,858)	(972,858)						(38,725)	(38,725)
Balance at September 30, 2004	3,300,000	480,468,601	(51,255,054)	429,213,547	$ 165,000	$ 96,094	$ 1,805,129	$ 486,944	$ 1,953,719	$ (1,606,909)	$ 2,899,977

See accompanying notes to consolidated financial statements.

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

	Nine months ended September 30,	
	2004	2003
	(Unaudited)	(Unaudited)
Operating activities		
Net income	$ 1,262,969	$ 1,269,131
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Cumulative effect of accounting change	—	(129,971)
Gains on student loan securitizations	(375,384)	(659,477)
Losses on securities, net	37,244	8,674
Loss on GSE debt extinguishment	102,990	—
Unrealized derivative market value adjustment, excluding equity forwards	(558,387)	(222,078)
Unrealized derivative market value adjustment — equity forwards	(335,271)	(113,084)
Provisions for losses	79,092	120,689
Mortgage loans originated	(1,072,098)	(1,281,910)
Proceeds from sales of mortgage loans	904,412	1,221,219
(Increase) in restricted cash	(669,030)	(134,704)
(Increase)/decrease in accrued interest receivable	(347,405)	21,078
Increase in accrued interest payable	69,093	25,221
Decrease in Retained Interest in securitized receivables, net	67,905	21,455
Decrease in other assets, goodwill and acquired intangible assets	216,268	153,496
(Decrease) in other liabilities	(252,873)	(222,782)
Total adjustments	(2,133,444)	(1,192,174)
Net cash (used in) provided by operating activities	(870,475)	76,957
Investing activities		
Student loans acquired	(17,605,626)	(14,684,275)
Loans purchased from securitized trusts (primarily through loan consolidations)	(3,968,953)	(4,489,637)
Reduction of student loans:		
Installment payments	3,844,999	2,913,412
Claims and resales	571,774	498,061
Proceeds from securitization of student loans treated as sales	12,475,726	12,248,554
Proceeds from sales of student loans	470,711	—
Academic facilities financings and other loans made	(391,058)	(306,517)
Academic facilities financings and other loans repaid	534,946	510,710
Purchases of available-for-sale securities	(192,762,310)	(185,352,094)
Proceeds from sales and maturities of available-for-sale securities	193,993,403	184,093,162
Purchases of held-to-maturity and other securities	(216,814)	(241,373)
Proceeds from maturities of held-to-maturity securities and sales and maturities of other securities	233,683	238,777
Return of investment from Retained Interest	372,833	220,212
Purchase of subsidiaries, net of cash acquired	(148,436)	(43,507)
Net cash used in investing activities	(2,595,122)	(4,394,515)
Financing activities		
Short-term borrowings issued	290,798,033	564,157,806
Short-term borrowings repaid	(296,886,713)	(568,838,673)
Long-term notes issued	10,669,147	17,126,671
Long-term notes repaid	(13,746,106)	(16,123,885)
Borrowings collateralized by loans in trust	17,648,875	9,702,773
GSE debt extinguishment	(1,852,665)	—
Common stock issued	219,216	300,842
Premiums on equity forward contracts	—	(17,361)
Common stock repurchased	(703,596)	(747,263)
Common dividends paid	(241,909)	(190,925)
Preferred dividends paid	(8,625)	(8,625)
Net cash provided by financing activities	5,895,657	5,361,360
Net increase in cash and cash equivalents	2,430,060	1,043,802
Cash and cash equivalents at beginning of period	1,847,585	462,688
Cash and cash equivalents at end of period	$ 4,277,645	$ 1,506,490
Cash disbursements made for:		
Interest	$ 787,628	$ 1,014,287
Income taxes	$ 546,843	$ 528,486

See accompanying notes to consolidated financial statements.

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results for the year ending December 31, 2004. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's 2003 Annual Report on Form 10-K.

Privatization Act—GSE Wind-Down Update

As of September 2004, the Company had substantially completed the Wind-Down of the GSE and, on November 1, 2004, the Company sent notices to the Secretary of Education and the Secretary of the Treasury that it intends to wind-down and dissolve the GSE on December 31, 2004 or as soon as practicable thereafter. On October 28, 2004, as part of the Wind-Down process, the GSE paid a cash dividend of $900 million to the Company.

On June 30, 2004, the Company purchased FFELP student loans through non-GSE affiliates and as a result, the GSE was required by statute to terminate all such activity. As a result, the GSE is no longer a source of liquidity for the Company's purchase of student loans and the Company's GSE related financing activities will primarily consist of refinancing the remainder of its assets through non-GSE sources. All GSE debt that remains outstanding upon completion of these Wind-Down activities will be defeased through the creation of a fully collateralized trust, consisting of cash or financial instruments backed by the full faith and credit of the U.S. government with cash flows that provide for the interest and principal obligations of the defeased debt. Through September 30, 2004, the Company repurchased approximately $1.7 billion of GSE debt through a tender offer and recorded a loss of $103 million. Also in connection with the Wind-Down, the GSE will no longer issue short-term floating rate notes, but will continue to issue other short-term debt, as necessary, until all current GSE assets are refinanced. At September 30, 2004, the GSE had $4.7 billion in assets remaining, primarily consisting of cash and investments. The GSE has no student loans remaining on its balance sheet.

Reclassifications

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

Reclassifications of Realized Derivative Transactions

In addition to unrealized gains and losses, the Financial Accounting Standards Board's (the "FASB's") Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized derivative transactions") that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the reclassification of the realized derivative transactions for the three and nine months ended September 30, 2003.

(Dollars in millions)	Three months ended September 30, 2003	Nine months ended September 30, 2003
Reclassification of realized derivative transactions to derivative market value adjustment:		
Net settlement expense on Floor Income Contracts reclassified from student loan income	$ (93)	$ (308)
Net settlement expense on Floor Income Contracts reclassified from servicing and securitization revenue	(56)	(138)
Net settlement income on interest rate swaps reclassified from interest expense	10	32
Net settlement expense on interest rate swaps reclassified from servicing and securitization revenue	(16)	(48)
Realized gain/loss on closed Eurodollar futures contracts and terminated derivative contracts reclassified from other income	(4)	(106)
Total reclassifications to the derivative market value adjustment	(159)	(568)
Add: Unrealized derivative market value adjustment	250	335
Derivative market value adjustment as reported	$ 91	$ (233)

Recently Proposed Accounting Pronouncements

In September 2004, the Emerging Issues Task Force (the "Task Force" or the "EITF") reached a consensus on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share" ("EITF No. 04-8"), which addresses the timing of the inclusion of the dilutive effect of contingently convertible debt instruments ("Co-Cos") in diluted earnings per share. Co-Cos are generally convertible into the common shares of the issuer after the common stock share price exceeds a predetermined threshold for a specified time period, generally referred to as the market price trigger. EITF No. 04-8 requires the shares underlying the Co-Cos be included in diluted earnings per share computations regardless of whether the market price trigger has been met using the "if-converted" accounting method. EITF No. 04-8 is effective for reporting periods ending after December 15, 2004 with retroactive restatement to all required reporting periods. As a result, the Company will include the common shares underlying its Co-Cos in its diluted earnings per share computations for reporting periods ending after December 15, 2004 and will retroactively restate all required reporting periods at such time. The Company is currently evaluating the impact of EITF No. 04-8 on its consolidated financial statements as it relates to the Company's $2 billion Co-Cos issued in May 2003. The Company believes, however, that no investor would elect to convert this security into common stock when the conversion price is greater than the market price of the common stock.

In March 2004, the EITF reached a consensus on EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("EITF No. 03-1"). EITF No. 03-1 provides guidance for determining the meaning of "other-than-temporarily impaired" and its application to certain debt and equity securities within the scope of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and investments accounted for under the cost method. The guidance requires that investments which have declined in value due to credit concerns or solely due to changes in interest rates must be recorded as other-than-temporarily impaired unless the Company can assert and demonstrate its intention to hold the security for a period of time sufficient to allow for a recovery of fair value up to or beyond the cost of the investment which may include maturity. This issue also requires disclosures assessing the ability and intent to hold investments in instances in which an investor determines that an investment with a fair value less than cost is not other-than-temporarily impaired. To date, the Company has not recorded any impairment related to this pronouncement.

On September 30, 2004, the FASB decided to delay the effective date for the measurement and recognition guidance contained in EITF No. 03-1. This delay does not suspend the requirement to recognize other-than-temporary impairments as required by existing authoritative literature. The disclosure guidance in EITF No. 03-1 was not delayed. The Company is monitoring the outcome of the reconsideration of EITF No. 03-1.

In December 2003, the Accounting Standards Executive Committee ("AcSEC") of the American Institute of Certified Public Accountants issued Statement of Position ("SOP") No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer" ("SOP No. 03-3"). SOP No. 03-3 applies to acquired loans and debt securities where there has been evidence of deterioration in credit quality at the date of purchase and for which it is probable that the investor will not be able to collect all contractually required payments. It addresses the accounting for differences between the contractual cash flows of acquired loans and the cash flows expected to be collected from an investor's initial investment in loans acquired in a transfer if those differences are attributable, at least in part, to credit quality.

SOP No. 03-3 requires purchased loans and debt securities within its scope to be initially recorded at fair value and prohibits the recording of a valuation allowance at the date of purchase. It limits the yield that may be accreted as interest income on such loans to the excess of an investor's estimate of undiscounted expected principal, interest and other cash flows from the loan over the investor's initial investment in the loan. Subsequent increases in estimated future cash flows to be collected would be recognized prospectively in interest income through a yield adjustment over the remaining life of the loan. Decreases in estimated future cash flows to be collected would be recognized as an impairment expense or valuation allowance. SOP No. 03-3 primarily applies prospectively to loans acquired in fiscal years beginning after December 15, 2004. The Company is currently evaluating the effect of the adoption of SOP No. 03-3 on its consolidated financial statements.

Stock-Based Compensation

The Company accounts for its employee stock options under the intrinsic value method of accounting as prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, the Company does not recognize compensation expense unless the exercise price of its employee stock options is less than the market price of the underlying stock on the date of grant. The Company grants all of its options at the fair market value of the underlying stock on the date of grant. Consequently, the Company has not recorded such expense in the periods presented. On March 31, 2004, the FASB issued its exposure draft, "Share-Based Payment, an amendment of FASB Statements No. 123 and 95," that addresses accounting for equity based compensation arrangements. The proposed statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, and replace some of the existing requirements under SFAS No. 123, "Accounting for Stock-Based Compensation." The proposed statement would require that such arrangements are accounted for using a fair-value-based method of accounting and the related cost expensed over the corresponding service period. The FASB intends to issue the final statement by year-end 2004 which would be effective for interim or annual periods beginning after June 15, 2005.

The fair values for the options granted in the three and nine months ended September 30, 2004 and 2003 were estimated at the date of grant using a Black-Scholes option pricing model, with the following weighted average assumptions:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Risk free interest rate	2.97%	2.79%	2.58%	2.33%
Expected volatility	17.92%	24.33%	16.18%	25.14%
Expected dividend rate	1.71%	1.72%	1.68%	1.08%
Expected life of the option (in years)	3 years	3 years	3 years	3 years

For pro forma compensation expense calculations, options that have vesting periods tied to the Company's stock price are assumed to vest ratably over the three-year historical vesting period or when the options vest, whichever occurs first.

The following table summarizes pro forma disclosures for the three and nine months ended September 30, 2004 and 2003, as if the Company had accounted for employee and Board of Directors stock options granted subsequent to December 31, 1994 under the fair market value method as set forth in SFAS No. 123.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Net income attributable to common stock	$ 353,703	$ 477,013	$ 1,254,344	$ 1,260,506
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(9,381)	(14,722)	(32,460)	(73,353)
Pro forma net income attributable to common stock	$ 344,322	$ 462,291	$ 1,221,884	$ 1,187,153
Basic earnings per common share, after cumulative effect of accounting change	$ .81	$ 1.06	$ 2.85	$ 2.78
Pro forma basic earnings per common share, after cumulative effect of accounting change	$ .79	$ 1.03	$ 2.78	$ 2.62
Diluted earnings per common share, after cumulative effect of accounting change	$ .80	$ 1.04	$ 2.80	$ 2.71
Pro forma diluted earnings per common share, after cumulative effect of accounting change	$ .78	$ 1.00	$ 2.73	$ 2.55

The decrease in the pro forma stock-based compensation expense is due to lower stock option grants in 2003 and 2004 versus 2002 and 2001, and to lower expected volatility in the Company's common stock share price, which lowered the valuation of the 2004 stock option grants.

2. Allowance for Student Loan Losses

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

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Balance at beginning of period	$ 197,159	$ 220,641	$ 211,709	$ 230,684
Additions				
Provisions for student loan losses	39,921	39,780	103,995	116,935
Recoveries	3,729	3,574	9,891	10,042
Deductions				
Reductions for student loan sales and securitizations	(4,056)	(5,478)	(35,887)	(65,050)
Charge-offs	(33,661)	(23,601)	(86,265)	(64,561)
Reduction in federal Risk Sharing allowance/provision for EP designation	(31,595)	—	(31,595)	—
Other	541	—	190	6,866
Balance at end of period	$ 172,038	$ 234,916	$ 172,038	$ 234,916

In addition to the provisions for student loan losses, provisions for losses on other Company loans totaled $3 million and $2 million for the three months ended September 30, 2004 and 2003, respectively, and $7 million and $4 million for the nine months ended September 30, 2004 and 2003, respectively.

Allowance for FFELP Student Loan Losses

Effective for a renewable one year period beginning on October 19, 2004, Sallie Mae Servicing, the Company's student loan servicing division was designated as an Exceptional Performer ("EP") by the U.S. Department of Education ("DOE") in recognition of meeting certain performance standards set by the DOE in servicing FFELP loans. As a result of this designation, the Company will receive 100 percent reimbursement on default claims on federally guaranteed student loans that were serviced by Sallie Mae Servicing for a period of at least 270 days before the date of default and will no longer be subject to the two percent Risk Sharing on these loans. The Company is entitled to receive this benefit as long as the Company remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The EP designation applies to all FFELP loans that are serviced by the Company as well as default claims on federally guaranteed student loans that the Company owns but are serviced by other service providers with the EP designation. At September 30, 2004, approximately 98 percent of the Company's federally insured loans are no longer subject to Risk Sharing. As a result of this designation, the Company has reduced the balance in the Risk Sharing allowance for loan losses by $32 million with an equal reduction in the third quarter provision for loan losses.

Allowance for Private Education Loan Losses

The allowance for Private Education Loan losses is an estimate of losses in the portfolio at the balance sheet date that will be charged off in subsequent periods. The Company estimates its losses by analyzing historical data from its Private Education Loan portfolios, extrapolating FFELP loan loss data, and considering current trends and relevant industry information. As the Company's Private Education Loan portfolios continue to mature, more reliance is placed on its own historical charge-off and recovery data. The Company uses this data in internally developed models to estimate losses, net of subsequent collections, projected to occur in the Private Education Loan portfolios.

The following table summarizes changes in the allowance for Private Education Loan losses for the three months and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
(Dollars in millions)	**2004**	**2003**	**2004**	**2003**
Allowance at beginning of period	$ 155	$ 160	$ 166	$ 181
Provision for loan losses	40	27	100	82
Other	—	14	—	21
Charge-offs	(32)	(21)	(81)	(58)
Recoveries	4	3	10	8
Net charge-offs	(28)	(18)	(71)	(50)
Balance before securitization of Private Education Loans	167	183	195	234
Reduction for securitization of Private Education Loans	—	—	(28)	(51)
Allowance at end of period	$ 167	$ 183	$ 167	$ 183
Net charge-offs as a percentage of average loans in repayment (annualized)	4.89%	3.03%	3.97%	2.45%
Allowance as a percentage of the ending total loan balance	3.38%	3.51%	3.38%	3.51%
Allowance as a percentage of ending loans in repayment	7.16%	7.35%	7.16%	7.35%
Allowance coverage of net charge-offs (annualized)	1.51	2.47	1.74	2.75
Average total loans	$ 4,401	$ 4,821	$ 4,640	$ 5,206
Ending total loans	$ 4,939	$ 5,207	$ 4,939	$ 5,207
Average loans in repayment	$ 2,264	$ 2,445	$ 2,407	$ 2,713
Ending loans in repayment	$ 2,328	$ 2,487	$ 2,328	$ 2,487

Delinquencies

The table below presents the Company's Private Education Loan delinquency trends as of September 30, 2004 and 2003. Forbearances and delinquencies result in increased servicing and collection costs and have the potential to adversely impact earnings if the account charges off.

	September 30,			
	2004		2003	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 2,438		$ 2,433	
Loans in forbearance[2]	173		287	
Loans in repayment and percentage of each status:				
Loans current	2,051	88.1%	2,232	89.7%
Loans delinquent 30-59 days[3]	94	4.0	106	4.3
Loans delinquent 60-89 days	63	2.7	59	2.4
Loans delinquent 90 days or greater	120	5.2	90	3.6
Total Private Education Loans in repayment	2,328	100.0%	2,487	100.0%
Total Private Education Loans	4,939		5,207	
Private Education Loan allowance for losses	(167)		(183)	
Private Education Loans, net	$ 4,772		$ 5,024	
Percentage of Private Education Loans in repayment	47.1%		47.8%	
Delinquencies as a percentage of Private Education Loans in repayment	11.9%		10.3%	

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

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

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

3. Student Loan Securitization

Changes in Accounting Estimates Affecting the Residual Interest in Securitized Loans

The Company updated certain assumptions during the third quarter of 2004 that it uses in the valuation of the Residual Interest. The following are the significant assumption changes that were made:

	As of September 30, 2004	As of December 31, 2003
FFELP Stafford CPR	20% – 2004/2005	20% – 2004
	15% – 2006	15% – 2005
	6% – thereafter	6% – thereafter
FFELP expected credit losses (as a % of securitized loan balance outstanding)	0%	.17%

The FFELP Stafford CPR assumption was increased to account for the continued high levels of Consolidation Loan activity. The Company lowered its assumption of expected FFELP credit losses to zero percent to reflect the effect of the EP designation on Sallie Mae serviced FFELP loans in the trusts. The EP designation is discussed in more detail above in "Allowance for FFELP Student Loan Losses." In total, the change in the fair value of the Company's Residual Interests due to all assumption changes as of September 30, 2004 when compared to prior assumptions, was a decrease of $11 million.

Key assumptions used in estimating the fair value of Residual Interests at the date of securitization for securitization transactions that qualified as sales during the three and nine months ended September 30, 2004 and 2003 were as follows:

	Three months ended September 30,					
	2004			2003		
	FFELP Stafford	Consolidation(1)	Private Credit(1)	FFELP Stafford	Consolidation(1)	Private Credit(1)
Prepayment speed	**	—	—	9%	—	—
Weighted-average life (in years)	4.1	—	—	4.6	—	—
Expected credit losses (% of principal securitized)	.06%	—	—	.51%	—	—
Residual cash flows discounted at (weighted average)	12%	—	—	12%	—	—

	Nine months ended September 30,					
	2004			2003		
	FFELP Stafford	Consolidation(1)	Private Credit(1)	FFELP Stafford	Consolidation(1)	Private Credit(1)
Prepayment speed	**	—	6%	9%	7%	6%
Weighted-average life (in years)	4.2	—	7.2	4.6	8.0	6.5
Expected credit losses (% of principal securitized)	.12%	—	4.72%	.52%	.75%	3.96%
Residual cash flows discounted at (weighted average)	12%	—	12%	12%	6%	12%

(1) No securitizations in the period, or such securitizations did not qualify for sale treatment.

** As previously discussed, the Company updated certain assumptions used to value the Residual Interest during the third quarter 2004. As a result, securitizations through August 2004 used a CPR of 20 percent for 2004, 15 percent for 2005, and 6 percent thereafter. Securitizations in September 2004 used a CPR of 20 percent for 2004 through 2005, 15 percent for 2006 and 6 percent thereafter.

Securitization Activity

The Company actively securitizes its student loan assets, and for transactions qualifying as sales, retains a Residual Interest, servicing rights and in some cases, reserve and other cash accounts, all of which are referred to as the Company's Retained Interest in securitized receivables.

The following table summarizes the Company's securitization activity for the three and nine months ended September 30, 2004 and 2003. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	2	$ 4,500	$ 64	1.4%	2	$ 3,511	$ 40	1.1%
Consolidation Loans	—	—	—	—	—	—	—	—
Private Education Loans	—	—	—	—	—	—	—	—
Total securitizations—sales	2	4,500	$ 64	1.4%	2	3,511	$ 40	1.1%
Financings:								
Asset-backed commercial paper(1)	—	—			—	—		
Consolidation Loans(2)	1	2,210			2	5,513		
Total securitizations—financings	1	2,210			2	5,513		
Total securitizations	3	$ 6,710			4	$ 9,024		

	Nine months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	4	$ 10,002	$ 134	1.3%	4	$ 5,772	$ 72	1.3%
Consolidation Loans	—	—	—	—	2	4,256	434	10.2
Private Education Loans	2	2,535	241	9.5	2	2,253	153	6.8
Total securitizations—sales	6	12,537	$ 375	3.0%	8	12,281	$ 659	5.4%
Financings:								
Asset-backed commercial paper(1)	1	4,186			—	—		
Consolidation Loans(2)	5	13,224			4	9,825		
Total securitizations—financings	6	17,410			4	9,825		
Total securitizations	12	$ 29,947			12	$ 22,106		

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

(2) In certain Consolidation Loan securitization structures, the Company holds rights that can affect the remarketing of the bonds that are not significantly limited and as a result, these securitizations did not qualify as QSPEs. Accordingly, they are accounted for on-balance sheet as VIEs.

The following table summarizes the fair value of the Company's Retained Interests along with the underlying student loans that relate to those securitizations that were treated as sales.

(Dollars in millions)	As of September 30, 2004 Retained Interest Fair Value	As of September 30, 2004 Underlying Securitized Loan Balance	As of December 31, 2003 Retained Interest Fair Value	As of December 31, 2003 Underlying Securitized Loan Balance
FFELP Stafford/PLUS loans	$ 1,125	$ 29,869	$ 1,023	$ 26,420
Consolidation Loans	740	7,548	994	8,076
Private Education Loans	645	6,316	459	3,983
Total[(1)(2)(3)]	$ 2,510	$ 43,733	$ 2,476	$ 38,479

(1) Unrealized gains (pre-tax) included in accumulated other comprehensive income related to the Retained Interests totaled $544 million and $443 million as of September 30, 2004 and December 31, 2003, respectively.

(2) Includes $549 million and $727 million related to the fair value of the Embedded Floor Income as of September 30, 2004 and December 31, 2003.

(3) The Company recorded $61 million and $20 million of impairment related to the Retained Interests for the nine months ended September 30, 2004 and 2003, respectively. These impairment charges are recorded as a loss and are included as a reduction to securitization revenue. The impairment charge for 2004 is primarily the result of (a) FFELP Stafford loans continuing to consolidate at levels faster than projected resulting in $28 million of impairment and (b) rising interest rates during the second quarter 2004 which decreased the value of the Floor Income component of the Company's Retained Interest resulting in $33 million of impairment. Impairment for 2003 was primarily due to FFELP Stafford loans prepaying faster than projected.

In addition to student loans in off-balance sheet trusts, the Company had $30 billion and $16 billion of securitized student loans outstanding (face amount) as of September 30, 2004 and December 31, 2003, respectively, in on-balance sheet securitization trusts.

4. Common Stock

The following table summarizes the Company's common share repurchase and equity forward activity for the three and nine months ended September 30, 2004 and 2003.

(Common shares in millions)	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Common shares repurchased:				
Open market	—	.5	.5	5.5
Equity forwards[1]	11.4	1.0	24.8	16.1
Benefit plans	.1	.7	1.0	2.3
Total shares repurchased	11.5	2.2	26.3	23.9
Average purchase price per share	$ 38.91	$ 40.53	$ 36.21	$ 31.19
Common shares issued	1.8	2.3	7.9	16.8
Equity forward contracts:				
Outstanding at beginning of period	47.2	33.1	43.5	28.7
New contracts	12.3	8.1	29.4	27.6
Exercises[1]	(11.4)	(1.0)	(24.8)	(16.1)
Outstanding at end of period	48.1	40.2	48.1	40.2
Board of Director authority remaining at end of period	8.4	47.0	8.4	47.0

(1) During September 2004, the Company accelerated equity forward contracts covering 53.4 million shares of its common stock. The Company net settled these contracts by receiving 6.7 million shares which equaled the intrinsic value of the equity forward contracts that were accelerated. Simultaneously, with the acceleration of these equity forward contracts, the Company entered into new equity forward contracts with the same counterparties covering 46.7 million shares of its common stock. The purchase prices related to these new equity forward contracts were the current market prices of the Company's stock when such contracts were entered into. The net reduction of equity forward contracts outstanding from this transaction of 6.7 million shares is shown net in the "exercises" row of the table.

In October 2004, the Board of Directors voted to authorize the repurchase of up to an additional 30 million shares of the Company's common stock, in addition to the remaining authority at September 30, 2004.

As of September 30, 2004, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

Year of maturity	Outstanding contracts (in millions)	Range of purchase prices	Average purchase price
2006	11.1	$39.74 – $43.75	$ 43.16
2007	12.0	43.24 – 43.75	43.47
2008	9.1	43.48 – 43.75	43.56
2009	15.9	43.24 – 44.33	43.59
	48.1		$ 43.46

The closing price of the Company's common stock on September 30, 2004 was $44.60.

Earnings per Share

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, deferred compensation and shares held in the Employee Stock Purchase Plan ("ESPP"), determined by the treasury stock method, and equity forwards, determined by the reverse treasury stock method.

The following table reflects basic and diluted EPS for the three and nine months ended September 30, 2004 and 2003.

	Net Income Attributable to Common Stock	Average Shares	Earnings per Share
Three months ended September 30, 2004			
Basic EPS, after cumulative effect of accounting change	$ 353,703	435,764	$ .81
Dilutive effect of stock options, equity forwards, deferred compensation, and ESPP shares	—	8,379	(.01)
Diluted EPS, after cumulative effect of accounting change	$ 353,703	444,143	$ .80
Three months ended September 30, 2003			
Basic EPS, after cumulative effect of accounting change	$ 477,013	450,725	$ 1.06
Dilutive effect of stock options, warrants, equity forwards, deferred compensation, and ESPP shares	—	9,922	(.02)
Diluted EPS, after cumulative effect of accounting change	$ 477,013	460,647	$ 1.04

	Net Income Attributable to Common Stock	Average Shares	Earnings per Share
Nine months ended September 30, 2004			
Basic EPS, after cumulative effect of accounting change	$ 1,254,344	439,430	$ 2.85
Dilutive effect of stock options, equity forwards, deferred compensation, and ESPP shares	—	8,581	(.05)
Diluted EPS, after cumulative effect of accounting change	$ 1,254,344	448,011	$ 2.80
Nine months ended September 30, 2003			
Basic EPS, after cumulative effect of accounting change	$ 1,260,506	453,139	$ 2.78
Dilutive effect of stock options, warrants, equity forwards, deferred compensation, and ESPP shares	—	11,986	(.07)
Diluted EPS, after cumulative effect of accounting change	$ 1,260,506	465,125	$ 2.71

At September 30, 2004, the Company had $2 billion Co-Cos outstanding, that are convertible, under certain conditions, into shares of SLM common stock at an initial conversion price of $65.98. The investors generally can only convert the debentures if the Company's common stock has appreciated to 130 percent of the conversion price for a prescribed period, or the Company calls the debentures. Diluted EPS for all periods presented excludes the potential dilutive effect of the Company's outstanding Co-Cos for the three and nine months ended September 30, 2004 and 2003.

EITF No. 04-8 will require the shares underlying the Co-Cos to be included in diluted EPS, effective for reporting periods ending after December 15, 2004 with retroactive restatement to all required reporting periods (see Note 1, "Significant Accounting Policies—Recently Proposed Accounting Pronouncements").

In July 2003, the Board of Directors voted to retire 170 million shares of common stock held in treasury, effective in September 2003. Based on an average price of $18.04 per share, this retirement decreased the balance in treasury stock by $3.1 billion, with corresponding decreases of $34 million in common stock and $3.1 billion in retained earnings.

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at September 30, 2004 and December 31, 2003, and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2004 and 2003. At September 30, 2004 and December 31, 2003, $742 million and $158 million (fair value), respectively, of available-for-sale investment securities and $148 million and $31 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
	September 30, 2004	December 31, 2003	September 30, 2004	December 31, 2003	September 30, 2004	December 31, 2003	September 30, 2004	December 31, 2003
(Dollars in millions)								
Fair Values								
Interest rate swaps	$ 7	$ (4)	$ (139)	$ (182)	$ (111)	$ (133)	$ (243)	$ (319)
Floor/Cap contracts	—	—	—	—	(761)	(1,168)	(761)	(1,168)
Futures	(1)	(76)	—	—	(3)	(40)	(4)	(116)
Equity forwards	—	—	—	—	47	48	47	48
Cross currency interest rate swaps	—	—	379	281	—	—	379	281
Total	$ 6	$ (80)	$ 240	$ 99	$ (828)	$ (1,293)	$ (582)	$ (1,274)
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 5.6	$ 1.6	$ 13.1	$ 16.8	$ 80.3	$ 74.2	$ 99.0	$ 92.6
Floor/Cap contracts	—	—	—	—	36.0	34.1	36.0	34.1
Futures	.8	8.2	—	—	10.2	23.1	11.0	31.3
Cross currency interest rate swaps	—	—	12.5	4.1	—	—	12.5	4.1
Other(1)	—	—	—	—	2.0	2.0	2.0	2.0
Total	$ 6.4	$ 9.8	$ 25.6	$ 20.9	$ 128.5	$ 133.4	$ 160.5	$ 164.1
(Shares in millions)								
Contracts								
Equity forwards	—	—	—	—	48.1	43.5	48.1	43.5

(1) "Other" consists of an embedded derivative bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. The embedded derivative has had zero fair value since inception.

	Three months ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2004	2003	2004	2003	2004	2003	2004	2003
Changes to accumulated other comprehensive income, net of tax								
Hedge ineffectiveness reclassified to earnings	$ 5	$ —	$ —	$ —	$ —	$ —	$ 5	$ —
Change in fair value to cash flow hedges	17	2	—	—	—	—	17	2
Amortization of effective hedges[1]	10	3	—	—	—	—	10	3
Discontinued Hedges	1	—	—	—	—	—	1	—
Change in accumulated other comprehensive income, net	$ 33	$ 5	$ —	$ —	$ —	$ —	$ 33	$ 5
Earnings Summary								
Amortization of closed futures contracts' gains/losses in interest expense[2]	$ (15)	$ (5)	$ —	$ —	$ —	$ —	$ (15)	$ (5)
Recognition of futures losses related to tendered debt	(8)	—	—	—	—	—	(8)	—
Derivative market value adjustment—Realized[3]	—	—	—	—	(154)	(159)	(154)	(159)
Derivative market value adjustment—Unrealized	—	—	(1)[4]	—	228	250	227	250
Total earnings impact	$ (23)	$ (5)	$ (1)	$ —	$ 74	$ 91	$ 50	$ 86

	Nine months ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2004	2003	2004	2003	2004	2003	2004	2003
Changes to accumulated other comprehensive income, net of tax								
Hedge ineffectiveness reclassified to earnings	$ 8	$ (1)	$ —	$ —	$ —	$ —	$ 8	$ (1)
Change in fair value to cash flow hedges	10	(11)	—	—	—	—	10	(11)
Amortization of effective hedges[1]	17	12	—	—	—	—	17	12
Discontinued hedges	1	5	—	—	—	—	1	5
Change in accumulated other comprehensive income, net	$ 36	$ 5	$ —	$ —	$ —	$ —	$ 36	$ 5
Earnings Summary								
Amortization of closed futures contracts' gains/losses in interest expense[2]	$ (26)	$ (19)	$ —	$ —	$ —	$ —	$ (26)	$ (19)
Recognition of futures losses related to tendered debt	(8)	—	—	—	—	—	(8)	—
Derivative market value adjustment—Realized[3]	(4)	(7)	—	—	(547)	(561)	(551)	(568)
Derivative market value adjustment—Unrealized	—	1[4]	(4)[4]	4[4]	897	330	893	335
Total earnings impact	$ (38)	$ (25)	$ (4)	$ 4	$ 350	$ (231)	$ 308	$ (252)

(1) The Company expects to amortize $30 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging debt instruments that were outstanding after September 30, 2004.

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

(3) Includes net settlement income/expense and realized gains and losses related to trading derivatives and ineffectiveness related to cash flow hedges.

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

6. Pension Plans

Under the Company's qualified and supplemental pension plans for eligible employees (the "Pension Plans"), participants accrue benefits under a cash balance formula. Under the formula, each participant has an account, for record keeping purposes only, to which credits are allocated each payroll period based on a percentage of the participant's compensation for the current pay period. The applicable percentage is determined by the participant's number of years of service with the Company. If an individual participated in the Company's prior pension plan as of September 30, 1999 and met certain age and service criteria, the participant ("grandfathered participant") will receive the greater of the benefits calculated under the prior plans, which uses a final average pay plan method, or the current Pension Plans under the cash balance formula.

Effective July 1, 2004, the Pension Plans were frozen with respect to new entrants and participants with less than five years of service. No further benefits will accrue with respect to such participants under the Pension Plans, other than interest accruals on cash balance accounts. Accordingly, at July 1, 2004, the Company recorded a net curtailment gain of $4.5 million. Over the next five years, the Pension Plans will be frozen with respect to additional participants based on years of service. Employees as of June 30, 2004 who have five to nine years of service will continue to accrue benefits under the Pension Plans until June 30, 2006, while employees as of June 30, 2004 who have ten or more years of service will continue to accrue benefits under the Pension Plans through June 30, 2009. In response to this change in the Company's pension benefits, the Company increased the employer contribution in its defined contribution plan. Management believes that the net benefit from these changes in Pension Plans will mitigate projected increases in health plan costs.

Components of Net Periodic Pension Cost

Net periodic pension cost for the Company's Pension Plans and the Board of Directors supplemental pension plan, which was frozen in 1995, for the three and nine months ended September 30, 2004 and 2003 included the following components:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Service cost—benefits earned during the period	$ 2,287	$ 2,776	$ 8,574	$ 8,327
Interest cost on project benefit obligations	2,797	2,587	8,426	7,762
Expected return on plan assets	(3,994)	(3,208)	(11,679)	(9,624)
Net amortization and deferral	(309)	(165)	(1,067)	(495)
Net periodic pension cost	781	1,990	4,254	5,970
Curtailment gain	(4,506)	—	(4,506)	—
Total net periodic pension (income) cost	$ (3,725)	$ 1,990	$ (252)	$ 5,970

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2003 that it did not expect to contribute to its qualified pension plan (the "Qualified Plan") in 2004. As of September 30, 2004, the Company had made no contributions to its Qualified Plan.

7. Contingencies

The Company and various affiliates were defendants in a lawsuit brought by College Loan Corporation ("CLC") in the United States District Court for the Eastern District of Virginia alleging various breach of contract and common law tort claims in connection with CLC's consolidation loan activities. The Complaint sought compensatory damages of at least $60 million. On June 25, 2003, the jury returned a verdict in favor of the Company on all counts. CLC subsequently filed an appeal. Oral argument, before the U.S. Court of Appeals for the Fourth Circuit, was held on June 4, 2004 and on September 26, 2004. The Court of Appeals has not yet issued a decision in the case.

The Company was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The lawsuit sought to bring a nationwide class action on behalf of all borrowers who allegedly paid "undisclosed improper and excessive" late fees over the past three years. The plaintiffs sought damages of one thousand five hundred dollars per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that the Company charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 28, 2003, the trial court granted the Company's motion to dismiss the complaint in its entirety. The Court of Appeals affirmed the Superior Court's decision granting the Company's motion to dismiss the complaint, but granted the plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. The Court of Appeals affirmed the dismissal of the remaining two counts with prejudice. On September 15, 2004, the plaintiffs filed an amended class action complaint. On October 14, 2004, the Company filed a motion to dismiss the amended complaint for failure to state a claim and non-compliance with the Court of Appeals' ruling.

In July 2003, a borrower in California filed a class action complaint against the Company and certain of its affiliates in state court in San Francisco in connection with a monthly payment amortization error discovered by the Company in the fourth quarter of 2002. The complaint asserts claims under the California Business and Professions Code and other California statutory provisions. The complaint further seeks certain injunctive relief and restitution. On May 14, 2004, the court issued an order dismissing two of the three counts of the complaint. The case is currently in the discovery phase.

The Company, together with a number of other FFELP industry participants, filed a lawsuit challenging the DOE's interpretation of and non-compliance with provisions in the HEA governing origination fees and repayment incentives on loans made under the FDLP. The lawsuit, which was filed November 3, 2000 in the United States District Court for the District of Columbia, alleges that the DOE's interpretations of and non-compliance with these statutory provisions are contrary to the statute's unambiguous text, and are arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and violate both the HEA and the Administrative Procedure Act. The Company together with the other plaintiffs and the DOE have filed cross-motions for summary judgment. The court has not ruled on these motions.

The Company has cooperated with the Securities and Exchange Commission (the "SEC") concerning an informal investigation that the SEC initiated on January 14, 2004. There are currently no data requests outstanding and the SEC has not sought to interview any additional witnesses. The investigation concerns certain 2003 year-end accounting entries made by employees of one of the Company's collection agency subsidiaries. The Company's Audit Committee engaged outside counsel to investigate the matter and management conducted its own investigation. These investigations by the Audit Committee and management have been completed and the amounts in question were less than $100,000.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed. In addition, the collections subsidiaries in the Company's debt management operation group are occasionally named in lawsuits in which the plaintiffs allege that the Company has violated a federal or state law in the process of collecting their account. It is not unusual for these subsidiaries to be named in a class action lawsuit relating to these allegations. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on the Company's business, financial condition or results of operations.

8. Acquisitions

During the third quarter of 2004, the Company completed one acquisition and announced two additional acquisitions. The Company will account for these transactions under the purchase method of accounting as defined in SFAS No. 141, "Business Combinations," and allocate the purchase price to the fair market value of the assets acquired, including identifiable intangible assets and goodwill.

Arrow Financial Services

On September 15, 2004, the Company acquired 64 percent of Arrow Financial Services, a full-service, accounts receivable management company that purchases charged-off debt, conducts contingency collection work and performs third-party receivables servicing across a number of consumer asset classes, for a purchase price of approximately $165 million. Under the terms of the agreement, the Company has the option to purchase the remaining interest in Arrow Financial Services over a three-year period. The acquisition will be accounted for under the purchase accounting method and the purchase price will be allocated to tangible and intangible assets based on their fair market values when the independent appraisal is complete.

Arrow Financial Services employs nearly 1,400 individuals at locations in Niles, Illinois; Gaithersburg, Maryland; San Diego, California; Whitewater, Wisconsin; and Rockville Centre, New York. It will retain its brand and senior management team.

Southwest Student Services Corporation

On October 15, 2004, the Company completed its purchase of the outstanding stock of Southwest Student Services Corporation ("Southwest") from the Helios Education Foundation. The transaction includes Southwest's $4.8 billion student loan portfolio, its Phoenix-based loan origination and servicing center and its sales and marketing operations. In addition to the student loan portfolio, the purchase will expand the Company's loan origination capability and broaden its market reach.

Southwest provides for the origination, funding, acquisition and servicing of education loans. It is among the top 30 originators of federal student loans, issuing approximately $300 million in Stafford and PLUS loans and $1.5 billion in Consolidation Loans annually, and it is the nation's ninth largest holder of federal student loans. Southwest provides student loans and related services nationally with a primary focus on colleges and universities in Arizona and Florida. Southwest employs nearly 300 individuals.

Student Loan Finance Association

On September 23, 2004, the Company announced its intent to purchase the secondary market and related businesses of Education Assistance Foundation ("EAF") and its affiliate, Student Loan Finance Association ("SLFA"). SLFA is a Northwest regional leader in education loan funding and acquisition. The transaction includes SLFA's $1.6 billion student loan portfolio and an origination franchise that generates $50 million of student loan volume annually. In addition, as a part of this transaction, the Company will enter into a full service guarantor servicing contract with EAF's affiliate, Northwest Education Association ("NELA"), a guarantee agency for FFELP student loans that serves the Pacific Northwest. In a related transaction, NELA will become an affiliate of United Student Aid Funds ("USAF"), the Company's largest guarantor servicing client. The Company expects to close the transaction in two steps. The first step, which will include NELA and a portion of the SLFA assets, is expected to close by the end of 2004. The balance of the transactions is expected to close in 2005.

9. Bank One/JPMorgan Chase Merger

On July 30, 2004, following the merger of JPMorgan Chase and Bank One, the Company and Bank One entered into a comprehensive agreement under which (i) certain agreements between the parties were terminated in consideration for Bank One agreeing to pay termination fees of $23 million, including a $14 million fee to terminate a marketing services agreement and a $9 million fee to terminate a loan purchase agreement, and (ii) the ExportSS agreement between the parties was extended by more than three years. The separate joint venture agreement with JPMorgan Chase was not affected by the merger. Under its terms, by year end 2004, the Company will offer JPMorgan Chase new loan purchase and servicing terms for a five-year period beginning September 2007. If the Company and JPMorgan Chase are unable to mutually agree upon such terms by May 31, 2005, then either party may trigger a "Dutch auction" process. Under that process, the electing party offers to purchase the other party's 50 percent interest or sell its 50 percent interest in the joint venture at a specified price. The non-electing party then has the right to either sell its interest in the joint venture or purchase the electing party's interest, in either case at the originally offered price. If the Company is the successful purchaser in a Dutch auction, then for a two-year period following the closing:

- JPMorgan Chase may not compete with the Company in the marketing, purchasing, servicing or ownership of education loans (except with respect to the continuation of business activities under the Bank One name or the name of any other entity with which JPMorgan Chase affiliates),
- the Company may use certain Chase trademarks for a nominal annual fee, and
- the Company acquires all rights to make additional FFELP student loans (serial loans) to customers of the joint venture.

If JPMorgan Chase is the successful purchaser in a Dutch auction, then for a two-year period following the closing:

- it may use certain Sallie Mae trademarks for a nominal annual fee (but the Company would not be constrained by any non-compete restriction), and
- the Company would be required to act as origination and servicing agent for JPMorgan Chase at market rates.

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 and nine months ended September 30, 2004 and 2003
(Dollars in millions, except per share amounts, unless otherwise stated)**

OVERVIEW

We are the largest private source of funding, delivery and servicing support for education loans in the United States primarily through our participation in the FFELP. Our primary business is to originate, acquire and hold student loans. We also provide a wide range of financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders, students and their families, and guarantee agencies. We earn fees for student loan servicing, guarantee processing, student loan default management and loan collections. SLM Corporation is a holding company that operates through a number of subsidiaries including the Student Loan Marketing Association, a federally chartered government-sponsored enterprise. References in this quarterly report to "the Company" refer to SLM Corporation and its subsidiaries.

Our results can be materially affected by changes in:

- applicable laws and regulations, which may change the volume, average term, effective yields and refinancing options of student loans under the FFELP or provide advantages to competing FFELP and non-FFELP loan providers;
- demand and competition for education financing;
- financing preferences of students and their families;
- borrower default rates on privately insured loans;
- prepayment rates on student loans, particularly prepayments through loan consolidation;
- access to the capital markets at favorable spreads; and
- our operating execution and efficiencies, including errors, omissions, and breakdowns in internal control.

We have provided the discussion of the GSE within the context of this "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A") because we have substantially completed the Wind-Down of the GSE and have ceased all operating activities such that the GSE is no longer a source of liquidity for the Company's purchase of student loans. For the remainder of 2004, GSE activities will consist of repurchasing long-term GSE debt and preparing for the completion of the Wind-Down, now scheduled to occur December 31, 2004 or as soon as practicable thereafter. All GSE debt that remains outstanding upon completion of these Wind-Down activities will be defeased through the creation of a fully collateralized trust, consisting of cash or financial instruments backed by the full faith and credit of the U.S. government with cash flows that match the interest and principal obligations of the defeased debt. At September 30, 2004, the GSE had $4.7 billion in assets remaining, consisting primarily of investments, cash and cash equivalents, which represents four percent of total Managed assets. The GSE no longer holds student loans. MD&A disclosures applicable solely to the GSE are included at the end of this MD&A in the section titled "STUDENT LOAN MARKETING ASSOCIATION."

The liquidity provided to the Company by the GSE has been replaced by non-GSE financing, including securitizations originated by non-GSE subsidiaries of SLM Corporation. The GSE will no longer sponsor securitizations of student loans. (See also "LIQUIDITY AND CAPITAL RESOURCES" for further discussion of the effects of the GSE Wind-Down.)

The GSE has no employees, so the management of its operations is provided by the Company under a management services agreement. We also serviced the majority of the GSE's student loans under a servicing agreement between the GSE and Sallie Mae, Inc., a wholly owned, non-GSE subsidiary of SLM Corporation which includes the division of Sallie Mae Servicing.

See "STUDENT LOAN MARKETING ASSOCIATION—Privatization Act—GSE Wind-Down" for a more detailed discussion of the GSE and the progress of the Company's Wind-Down effort.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2004	2003	$	%	2004	2003	$	%
Net interest income	$ 313	$ 333	$ (20)	(6)%	$ 967	$ 1,034	$ (67)	(6)%
Less: provisions for losses	11	41	(30)	(73)	79	121	(42)	(35)
Net interest income after provisions for losses	302	292	10	3	888	913	(25)	(3)
Gains on student loan securitizations	64	40	24	60	375	659	(284)	(43)
Servicing and securitization revenue	159	146	13	9	419	535	(116)	(22)
Losses on securities, net	(33)	(2)	(31)	(1,550)	(37)	(9)	(28)	(311)
Derivative market value adjustment	73	91	(18)	(20)	342	(233)	575	247
Guarantor servicing fees	33	40	(7)	(18)	92	101	(9)	(9)
Debt management fees	79	78	1	1	229	190	39	21
Loss on GSE debt extinguishment	(103)	—	(103)	(100)	(103)	—	(103)	(100)
Other income	91	54	37	69	223	169	54	32
Operating expenses	211	184	27	15	626	553	73	13
Income taxes	97	205	(108)	(53)	539	633	(94)	(15)
Cumulative effect of accounting change	—	130	(130)	(100)	—	130	(130)	(100)
Net income	357	480	(123)	(26)	1,263	1,269	(6)	—
Preferred stock dividends	3	3	—	—	9	8	1	13
Net income attributable to common stock	$ 354	$ 477	$ (123)	(26)%	$ 1,254	$ 1,261	$ (7)	(1)%
Basic earnings per common share	$ .81	$ 1.06	$ (.25)	(24)%	$ 2.85	$ 2.78	$ .07	3%
Diluted earnings per common share	$ .80	$ 1.04	$ (.24)	(23)%	$ 2.80	$ 2.71	$ .09	3%
Dividends per common share	$ .19	$ .17	$ .02	12%	$ .55	$ .42	$ .13	31%

Condensed Balance Sheets

	September 30, 2004	December 31, 2003	Increase (decrease) $	Increase (decrease) %
Assets				
Federally insured student loans, net	$ 49,497	$ 45,577	$ 3,920	9%
Private Education Loans, net	4,772	4,470	302	7
Academic facilities financings and other loans, net	995	1,031	(36)	(3)
Cash and investments	7,522	6,896	626	9
Restricted cash and investments	1,831	1,106	725	66
Retained Interest in securitized receivables	2,510	2,476	34	1
Goodwill and acquired intangible assets, net	753	592	161	27
Other assets	3,079	2,463	616	25
Total assets	$ 70,959	$ 64,611	$ 6,348	10%
Liabilities and Stockholders' Equity				
Short-term borrowings	$ 4,399	$ 18,735	$ (14,336)	(77)%
Long-term notes	61,040	39,808	21,232	53
Other liabilities	2,605	3,438	(833)	(24)
Total liabilities	68,044	61,981	6,063	10
Minority interest in subsidiary	15	—	15	100
Stockholders' equity before treasury stock	4,507	3,180	1,327	42
Common stock held in treasury at cost	1,607	550	1,057	192
Total stockholders' equity	2,900	2,630	270	10
Total liabilities and stockholders' equity	$ 70,959	$ 64,611	$ 6,348	10%

RESULTS OF OPERATIONS

NET INTEREST INCOME

Net interest income is derived largely from our portfolio of student loans that remain on-balance sheet. The "Taxable Equivalent Net Interest Income" analysis 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 our student loan portfolio is set forth under "Student Loans—Student Loan Spread Analysis After Reclassification of Realized Derivative Transactions—Non-GAAP Presentation." Information regarding the provisions for losses is contained in Note 2 to the consolidated financial statements.

Taxable Equivalent Net Interest Income

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

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2004	2003	$	%	2004	2003	$	%
Interest income								
Student loans	$ 605	$ 519	$ 86	17%	$ 1,719	$ 1,624	$ 95	6%
Academic facilities financings and other loans	18	19	(1)	(5)	55	59	(4)	(7)
Investments	62	39	23	59	158	109	49	45
Taxable equivalent adjustment	1	3	(2)	(67)	5	11	(6)	(55)
Total taxable equivalent interest income	686	580	106	18	1,937	1,803	134	7
Interest expense	372	244	128	52	964	759	205	27
Taxable equivalent net interest income	$ 314	$ 336	$ (22)	(7)%	$ 973	$ 1,044	$ (71)	(7)%

Average Balance Sheets

The following tables reflect the rates earned on interest earning assets and paid on interest bearing liabilities for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,			
	2004		2003	
	Balance	Rate	Balance	Rate
Average Assets				
Federally insured student loans	$ 50,121	4.14%	$ 40,018	4.34%
Private Education Loans	4,401	7.53	4,821	6.72
Academic facilities financings and other loans	943	7.98	1,135	7.09
Cash and investments	12,238	2.02	8,383	1.92
Total interest earning assets	67,703	4.03%	54,357	4.23%
Non-interest earning assets	6,409		6,210	
Total assets	$ 74,112		$ 60,567	
Average Liabilities and Stockholders' Equity				
Six month floating rate notes	$ 1,259	1.58%	$ 3,087	1.06%
Other short-term borrowings	4,554	2.63	24,729	1.57
Long-term notes	62,428	2.15	26,892	2.03
Total interest bearing liabilities	68,241	2.17%	54,708	1.77%
Non-interest bearing liabilities	3,080		3,078	
Stockholders' equity	2,791		2,781	
Total liabilities and stockholders' equity	$ 74,112		$ 60,567	
Net interest margin		1.84%		2.45%

	Nine months ended September 30,			
	2004		2003	
	Balance	Rate	Balance	Rate
Average Assets				
Federally insured student loans	$ 49,433	4.01%	$ 39,187	4.66%
Private Education Loans	4,640	6.81	5,206	6.60
Academic facilities financings and other loans	996	7.69	1,154	7.27
Cash and investments	11,333	1.89	6,384	2.43
Total interest earning assets	66,402	3.90%	51,931	4.64%
Non-interest earning assets	6,479		5,612	
Total assets	$ 72,881		$ 57,543	
Average Liabilities and Stockholders' Equity				
Six month floating rate notes	$ 2,040	1.21%	$ 2,987	1.17%
Other short-term borrowings	10,895	1.97	23,068	1.59
Long-term notes	53,992	1.94	26,226	2.34
Total interest bearing liabilities	66,927	1.92%	52,281	1.94%
Non-interest bearing liabilities	3,235		2,886	
Stockholders' equity	2,719		2,376	
Total liabilities and stockholders' equity	$ 72,881		$ 57,543	
Net interest margin		1.96%		2.69%

The decrease in the net interest margin from the three and nine months ended September 30, 2003 to the three and nine months ended September 30, 2004 was primarily due to the decrease in Floor Income and other student loan spread related items as discussed under "Student Loans—Student Loan Spread Analysis After Reclassification of Realized Derivative Transactions—Non-GAAP Presentation." The decrease in the net interest margin was also due to the increase in lower yielding short-term investments caused by the build up of non-GSE funding in anticipation of the early completion of the GSE Wind-Down.

Rate/Volume Analysis

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

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in Rate	Increase (decrease) attributable to change in Volume
Three months ended September 30, 2004 vs. three months ended September 30, 2003			
Taxable equivalent interest income	$ 106	$ (10)	$ 116
Interest expense	128	33	95
Taxable equivalent net interest income	$ (22)	$ (43)	$ 21

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in Rate	Increase (decrease) attributable to change in Volume
Nine months ended September 30, 2004 vs. nine months ended September 30, 2003			
Taxable equivalent interest income	$ 134	$ (279)	$ 413
Interest expense	205	(127)	332
Taxable equivalent net interest income	$ (71)	$ (152)	$ 81

Reclassification of Realized Derivative Transactions—Non-GAAP Presentation

In addition to unrealized gains and losses, the Financial Accounting Standards Board's ("FASB's") Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," requires net settlement income/expense on derivatives and realized gains/losses on derivative dispositions ("realized derivative transactions") that do not qualify as accounting hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. We believe that it is also helpful to the understanding of our business to include two presentations of net interest income and net interest margin. The first is the GAAP presentation presented above that includes the net settlement income/expense on trading derivatives and realized gains/losses recorded in the derivative market value adjustment line, which excludes these items from net interest income and margin. The second is a non-GAAP presentation that reclassifies these derivative net settlements and realized gains and losses to the financial statement line item of the economically hedged item, where they are primarily included in net interest income and margin. This second presentation reflects how we manage interest rate risk through the match funding of interest sensitive assets and liabilities.

The presentations of our taxable equivalent net interest income, average balance sheets, rate/volume analysis, student loan spread and funding costs in the following tables reflect the reclassifications. The table below details the reclassification of the derivative net settlements and realized gains/losses related to derivative dispositions that is used in the following non-GAAP presentations as discussed above.

	Three months ended September 30,		Nine months]ended September 30,	
	2004	2003	2004	2003
Reclassification of realized derivative transactions:				
Net settlement expense on Floor Income Contracts reclassified to student loan income	$ (86)	$ (93)	$ (295)	$ (308)
Net settlement expense on Floor Income Contracts reclassified to servicing and securitization revenue	(45)	(56)	(156)	(138)
Net settlement (expense)/income on interest rate swaps reclassified to interest expense/income	(1)	10	12	32
Net settlement expense on interest rate swaps reclassified to servicing and securitization revenue	(26)	(16)	(61)	(48)
Realized gain/loss on closed Eurodollar futures contracts and terminated derivative contracts reclassified to other income	4	(4)	(51)	(106)
Total reclassifications of realized derivative transactions	(154)	(159)	(551)	(568)
Add: Unrealized derivative market value adjustment	227	250	893	335
Derivative market value adjustment	$ 73	$ 91	$ 342	$ (233)

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

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

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2004	2003	$	%	2004	2003	$	%
Interest income, non-GAAP								
Student loans	$ 520	$ 425	$ 95	22%	$ 1,424	$ 1,313	$ 111	8%
Academic facilities financings and other loans	18	19	(1)	(5)	55	59	(4)	(7)
Investments	63	39	24	62	159	109	50	46
Taxable equivalent adjustment	1	3	(2)	(67)	5	11	(6)	(55)
Total taxable equivalent interest income, non-GAAP	602	486	116	24	1,643	1,492	151	10
Interest expense, non-GAAP	375	233	142	61	953	724	229	32
Taxable equivalent net interest income, non-GAAP	$ 227	$ 253	$ (26)	(10)%	$ 690	$ 768	$ (78)	(10)%

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

	Three months ended September 30,		Increase (decrease)		Nine months ended September 30,		Increase (decrease)	
	2004	2003	$	%	2004	2003	$	%
Taxable equivalent net interest income, GAAP	$ 314	$ 336	$ (22)	(7)%	$ 973	$ 1,044	$ (71)	(7)%
Net settlements on Floor Income Contracts reclassified to student loan income	(86)	(93)	7	(8)	(295)	(308)	13	4
Net settlements on interest rate swaps reclassified to interest expense	(1)	10	(11)	(110)	12	32	(20)	(63)
Taxable equivalent net interest income, non-GAAP	$ 227	$ 253	$ (26)	(10)%	$ 690	$ 768	$ (78)	(10)%

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

The following tables reflect the rates earned on interest earning assets and paid on interest bearing liabilities for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,			
	2004		2003	
	Balance	Rate	Balance	Rate
Average Assets				
Federally insured student loans	$ 50,121	3.47%	$ 40,018	3.40%
Private Education Loans	4,401	7.53	4,821	6.72
Academic facilities financings and other loans	943	7.98	1,135	7.09
Cash and investments	12,238	2.05	8,383	1.92
Total interest earning assets	67,703	3.54%	54,357	3.55%
Non-interest earning assets	6,409		6,210	
Total assets	$ 74,112		$ 60,567	
Average Liabilities and Stockholders' Equity				
Six month floating rate notes	$ 1,259	1.58%	$ 3,087	1.06%
Other short-term borrowings	4,554	2.75	24,729	1.46
Long-term notes	62,428	2.15	26,892	1.97
Total interest bearing liabilities	68,241	2.18%	54,708	1.69%
Non-interest bearing liabilities	3,080		3,078	
Stockholders' equity	2,791		2,781	
Total liabilities and stockholders' equity	$ 74,112		$ 60,567	
Net interest margin, non-GAAP		1.34%		1.85%

	Nine months ended September 30,					
	2004			2003		
	Balance		Rate	Balance		Rate
Average Assets						
Federally insured student loans	$	49,433	3.21%	$	39,187	3.60%
Private Education Loans		4,640	6.81		5,206	6.60
Academic facilities financings and other loans		996	7.69		1,154	7.27
Cash and investments		11,333	1.91		6,384	2.43
Total interest earning assets		66,402	3.31%		51,931	3.84%
Non-interest earning assets		6,479			5,612	
Total assets	$	72,881		$	57,543	
Average Liabilities and Stockholders' Equity						
Six month floating rate notes	$	2,040	1.21%	$	2,987	1.17%
Other short-term borrowings		10,895	1.89		23,068	1.56
Long-term notes		53,992	1.93		26,226	2.19
Total interest bearing liabilities		66,927	1.90%		52,281	1.85%
Non-interest bearing liabilities		3,235			2,886	
Stockholders' equity		2,719			2,376	
Total liabilities and stockholders' equity	$	72,881		$	57,543	
Net interest margin, non-GAAP			1.39%			1.98%

The 50 basis point and 57 basis point differences between the three and nine months ended September 30, 2004 non-GAAP net interest margins, respectively, versus the GAAP net interest margins in the same periods is primarily due to the inclusion of payments on Floor Income Contracts in the non-GAAP presentation which reduced net interest income by 50 and 59 basis points, respectively.

Rate/Volume Analysis After Reclassification of Realized Derivative Transactions—Non-GAAP Presentation

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

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in	
		Rate	Volume
Three months ended September 30, 2004 vs. three months ended September 30, 2003			
Taxable equivalent interest income, non-GAAP	$ 116	$ 23	$ 93
Interest expense, non-GAAP	142	45	97
Taxable equivalent net interest income, non-GAAP	$ (26)	$ (22)	$ (4)

	Taxable equivalent increase (decrease)	Increase (decrease) attributable to change in	
		Rate	Volume
Nine months ended September 30, 2004 vs. nine months ended September 30, 2003			
Taxable equivalent interest income, non-GAAP	$ 151	$ (180)	$ 331
Interest expense, non-GAAP	229	(75)	304
Taxable equivalent net interest income, non-GAAP	$ (78)	$ (105)	$ 27

Student Loans

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
On-Balance Sheet				
Student loan yield, before Floor Income	4.59%	4.17%	4.34%	4.32%
Floor Income	.04	.33	.07	.35
Consolidation Loan Rebate Fees	(.60)	(.51)	(.56)	(.49)
Offset Fees	(.01)	(.07)	(.04)	(.07)
Borrower benefits	(.12)	(.08)	(.16)	(.08)
Premium and origination fee amortization	(.11)	(.08)	(.13)	(.08)
Student loan net yield	3.79	3.76	3.52	3.95
Student loan cost of funds	(2.16)	(1.54)	(1.84)	(1.66)
Student loan spread, non-GAAP	1.63%	2.22%	1.68%	2.29%
Off-Balance Sheet				
Servicing and securitization revenue, before Floor Income	1.31%	1.12%	1.16%	1.31%
Floor Income, net of Floor Income previously recognized in gain on sale calculation	.18	.34	.25	.59
Servicing and securitization revenue	1.49%	1.46%	1.41%	1.90%
Average Balances				
On-balance sheet student loans	$ 54,522	$ 44,839	$ 54,073	$ 44,393
Off-balance sheet student loans	42,230	39,803	39,787	37,631
Managed student loans	$ 96,752	$ 84,642	$ 93,860	$ 82,024

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

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

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

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

Floor Income

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

	Three months ended September 30,					
	2004			2003		
	Fixed borrower rate	Variable borrower rate	Total	Fixed borrower rate	Variable borrower rate	Total
Floor Income:						
Gross Floor Income	$ 92	$ —	$ 92	$ 129	$ 1	$ 130
Payments on Floor Income Contracts	(86)	—	(86)	(93)	—	(93)
Net Floor Income	$ 6	$ —	$ 6	$ 36	$ 1	$ 37
Net Floor Income in basis points	4	—	4	32	1	33

	Nine months ended September 30,					
	2004			2003		
	Fixed borrower rate	Variable borrower rate	Total	Fixed borrower rate	Variable borrower rate	Total
Floor Income:						
Gross Floor Income	$ 323	$ 2	$ 325	$ 394	$ 30	$ 424
Payments on Floor Income Contracts	(296)	—	(296)	(309)	—	(309)
Net Floor Income	$ 27	$ 2	$ 29	$ 85	$ 30	$ 115
Net Floor Income in basis points	7	—	7	26	9	35

The decrease in Floor Income for the three months ending September 30, 2004 versus the year-ago period is primarily due to the increase in Floor Income Contracts and to the increase in interest rates since September 30, 2003.

For off-balance sheet student loans, future Fixed Rate Embedded Floor Income is estimated using a discounted cash flow option pricing model and is included in the Residual Interest valuation which is initially recognized as a gain on sale. Variable Rate Embedded Floor Income is recognized as earned in servicing and securitization revenue.

The following table analyzes the ability of the FFELP student loans in our Managed student loan portfolio to earn Floor Income after September 30, 2004 and 2003. Three-month Treasury bill loans are based on the last Treasury bill auctions of September 2004 and 2003 of 1.74 percent and .95 percent, respectively. Commercial paper rate loans are based on the last commercial paper rates of 1.90 percent for September 2004 and 1.05 percent for September 2003. One-year Treasury bill loans are based on the last Treasury bill auctions of May 2004 and 2003 of 1.07 percent and 1.12 percent, respectively.

	September 30, 2004			September 30, 2003		
(Dollars in billions)	Fixed Borrower Rate	Annually Reset Borrower Rate	Total	Fixed Borrower Rate	Annually Reset Borrower Rate	Total
Student loans eligible to earn Floor Income:						
On-balance sheet student loans	$ 32.7	$ 12.0	$ 44.7	$ 23.9	$ 11.0	$ 34.9
Off-balance sheet student loans	7.5	26.8	34.3	8.3	26.1	34.4
Managed student loans eligible to earn Floor Income	40.2	38.8	79.0	32.2	37.1	69.3
Less: Economically hedged Floor Income	(16.4)	—	(16.4)	(16.5)	—	(16.5)
Net Managed student loans eligible to earn Floor Income	$ 23.8	$ 38.8	$ 62.6	$ 15.7	$ 37.1	$ 52.8
Net Managed student loans earning Floor Income	$ 12.7	$ .5	$ 13.2	$ 14.2	$ 31.4	$ 45.6

Floor Income Contracts with a notional value of $9.4 billion expired on September 30, 2004 and, therefore, were not economically hedging Floor Income at September 30, 2004. New contracts totaling $8.3 billion were entered into on October 1, 2004. The following table shows the average balance of Consolidation Loans whose Floor Income is economically hedged as of October 1, 2004 through the end of 2008. These loans are both on and off-balance sheet and the related hedges do not qualify as effective SFAS No. 133 hedges.

(Dollars in billions)	10/1-12/31 2004	2005	2006	2007	2008
Average balance of Consolidation Loans whose Floor Income is economically hedged	$ 25	$ 22	$ 21	$ 9	$ 8

Activity in the Allowance for On-Balance Sheet Private Education Loan Losses

The following table summarizes changes in the allowance for Private Education Loan losses for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30, 2004	Three months ended September 30, 2003	Nine months ended September 30, 2004	Nine months ended September 30, 2003
Allowance at beginning of period	$ 155	$ 160	$ 166	$ 181
Provision for loan losses	40	27	100	82
Other	—	14	—	21
Charge-offs	(32)	(21)	(81)	(58)
Recoveries	4	3	10	8
Net charge-offs	(28)	(18)	(71)	(50)
Balance before securitization of Private Education Loans	167	183	195	234
Reduction for securitization of Private Education Loans	—	—	(28)	(51)
Allowance at end of period	$ 167	$ 183	$ 167	$ 183
Net charge-offs as a percentage of average loans in repayment (annualized)	4.89%	3.03%	3.97%	2.45%
Allowance as a percentage of the ending total loan balance	3.38%	3.51%	3.38%	3.51%
Allowance as a percentage of ending loans in repayment	7.16%	7.35%	7.16%	7.35%
Allowance coverage of net charge-offs (annualized)	1.51	2.47	1.74	2.75
Average total loans	$ 4,401	$ 4,821	$ 4,640	$ 5,206
Ending total loans	$ 4,939	$ 5,207	$ 4,939	$ 5,207
Average loans in repayment	$ 2,264	$ 2,445	$ 2,407	$ 2,713
Ending loans in repayment	$ 2,328	$ 2,487	$ 2,328	$ 2,487

The increase in the provision for Private Education Loan losses of $13 million for the three months ending September 30, 2004 versus the year-ago period is primarily due to the increase in Private Education Loans entering repayment prior to being securitized as compared to the three months ended September 30, 2003. The increase in net charge-offs as a percentage of average loans in repayment can mainly be attributed to the mix of Private Education Loans remaining on-balance sheet, because we primarily securitize loans that are current, leaving a higher percentage of delinquent loans on-balance sheet. Also career training loans, which tend to have higher charge-off rates, have increased as a percentage of the on-balance sheet Private Education Loan portfolio because none of them have been securitized.

We charge borrower fees on the majority of Private Education Loans, both at origination and when the loan enters repayment. Such fees are deferred and recognized into income as a component of interest over the life of the related pool of loans. The unamortized balance of deferred origination fee revenue at September 30, 2004 and 2003 was $170 million and $102 million, respectively.

Forbearance and Delinquencies—On-Balance Sheet Private Education Loan Basis

The table below presents our on-balance sheet Private Education Loan delinquency trends as of September 30, 2004 and 2003. Delinquencies have the potential to adversely impact earnings through increased servicing and collection costs and if the delinquent accounts charge off.

	September 30,			
	2004		2003	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 2,438		$ 2,433	
Loans in forbearance[2]	173		287	
Loans in repayment and percentage of each status:				
Loans current	2,051	88.1%	2,232	89.7%
Loans delinquent 30-59 days[3]	94	4.0	106	4.3
Loans delinquent 60-89 days	63	2.7	59	2.4
Loans delinquent 90 days or greater	120	5.2	90	3.6
Total loans in repayment	2,328	100.0%	2,487	100.0%
Total Private Education Loans	4,939		5,207	
Private Education Loan allowance for losses	(167)		(183)	
Private Education Loans, net	$ 4,772		$ 5,024	
Percentage of Private Education Loans in repayment	47.1%		47.8%	
Delinquencies as a percentage of Private Education Loans in repayment	11.9%		10.3%	

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

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

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

Allowance for FFELP Student Loan Losses

Effective for a renewable one year period beginning on October 19, 2004, Sallie Mae Servicing, the Company's student loan servicing division, was designated as an EP by the DOE in recognition of meeting certain performance standards set by the DOE in servicing FFELP loans. As a result of this designation, the Company will receive 100 percent reimbursement on default claims on federally guaranteed student loans that were serviced by Sallie Mae Servicing for a period of at least 270 days before the date of default and will no longer be subject to the two percent Risk Sharing on these loans. The Company is entitled to receive this benefit as long as we remain in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The EP designation applies to all FFELP loans that are serviced by the Company as well as default claims on federally guaranteed student loans that the Company owns but are serviced by other service providers with the EP designation. At September 30, 2004, approximately 98 percent of the Company's federally insured loans are no longer subject to Risk Sharing. As a result of this designation, the Company has reduced the balance in the Risk Sharing allowance for loan losses by $32 million with an equal reduction in the third quarter provision for loan losses.

On-Balance Sheet Funding Costs After Non-GAAP Reclassification (see "Reclassification of Realized Derivative Transactions—Non-GAAP Presentation")

Our borrowings are generally variable-rate indexed (after the effect of interest rate swaps) principally to LIBOR, the 91-day Treasury bill or the commercial paper 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 and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,				Nine months ended September 30,			
	2004		2003		2004		2003	
Index	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
Treasury bill, principally 91-day	$ 12,274	2.01%	$ 10,659	1.37%	$ 12,891	1.69%	$ 14,614	1.53%
Commercial paper	29,381	1.84	14,737	1.14	26,089	1.55	14,022	1.20
LIBOR	16,634	1.96	11,198	1.36	16,414	1.64	7,806	1.46
Discount notes	27	4.01	10,325	1.05	2,254	1.03	7,869	1.25
Fixed	8,738	3.73	6,443	4.64	7,971	3.82	6,309	4.83
Auction rate securities	825	1.73	828	1.26	833	1.53	828	1.45
Zero coupon	208	11.17	243	11.14	243	11.17	236	11.14
Other	154	5.72	275	3.22	232	4.02	597	2.39
Total	$ 68,241	2.18%	$ 54,708	1.69%	$ 66,927	1.90%	$ 52,281	1.85%

We continue to shift our financing from Treasury bill indexed debt to commercial paper and LIBOR indexed debt as FFELP student loans with interest rates indexed to the commercial paper rate and Private Education Loans indexed to the Prime rate become a larger percentage of our portfolio. We expect daily reset LIBOR indexed debt to remain highly correlated with daily reset commercial paper indexed assets, so we fund a portion of our daily reset commercial paper indexed assets with LIBOR-based debt, swapped to the daily reset LIBOR index. The reduction in discount notes as a source of funding is due to the Wind-Down of the GSE as these instruments were primarily issued in the Agency credit markets by the GSE.

OTHER INCOME

Servicing and Securitization Revenue

Servicing and securitization revenue, the ongoing revenue from securitized loan pools, which includes interest earned on the Residual Interest asset, revenue we receive for servicing the loans in the securitization trusts, and Embedded Floor Income on securitized student loans not previously included in the gain on sale calculation, is discussed in detail in "LIQUIDITY AND CAPITAL RESOURCES—Securitization Activities."

Losses on Securities

The increase in losses on securities versus the prior quarter and year-ago quarter is primarily due to the $27 million leveraged lease impairment of the leveraged lease portfolio recorded in the third quarter (see "Leveraged Leases" below).

Guarantor Servicing Fees, Debt Management Fees and Other Income

The following table summarizes the components of guarantor servicing fees, debt management fees and other income for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Guarantor servicing and debt management fees:				
Guarantor servicing fees	$ 33	$ 40	$ 91	$ 101
Debt management fees	79	78	229	190
Total guarantor servicing and debt management fees	$ 112	$ 118	$ 320	$ 291
Other income:				
Late fees	$ 22	$ 18	$ 74	$ 50
Third party servicing fees	14	15	40	43
Gains on sales of mortgages and other loan fees	5	13	15	34
Other	50	8	94	42
Total other income	$ 91	$ 54	$ 223	$ 169

The $7 million decrease in guarantor servicing fees versus the year-ago quarter is due to the decrease in issuance fee per disbursement from 65 basis points to 40 basis points.

When compared to the third quarter of 2003, the decrease in the growth rate in debt management fees is due to a revision of our estimate of the amortization period for Default Aversion Fees ("DAF") to account for the effect of continued Consolidation Loan activity on the portfolio. This resulted in an $8 million reduction in DAF revenue in the third quarter of 2004. Exclusive of DAF revenue, the decrease in the quarter over quarter growth rate in debt management fees was also negatively impacted by the greater emphasis being placed on rehabilitating defaulted FFELP loans versus consolidating them with other lenders, as this collection strategy has higher margins but a longer revenue cycle. These negative factors in the growth in debt management fees have been offset by the growth in the business, principally at the Company's General Revenue Corporation and Pioneer Credit Recovery subsidiaries.

The increase in other income versus the prior quarter and year-ago quarter is due to higher marketing service fees and a $14 million termination fee received from Bank One (see also "RECENT DEVELOPMENTS—Bank One/JPMorgan Chase Merger"). In addition, in the third quarter of 2003, we changed the method of accounting for fees earned for performing information technology enhancements under an agreement with USAF, that resulted in an $18 million deferral of revenue previously recognized.

Loss on GSE Debt Extinguishment

In the third quarter of 2004, we recognized a $103 million loss on the repurchase of approximately $1.7 billion of GSE debt through a tender offer in August 2004 in connection with the Wind-Down of the GSE. Based on current interest rates on October 13, 2004, we estimate that additional losses related to future debt repurchases and the eventual defeasance of the debt will be between $117 million and $127 million.

OPERATING EXPENSES

The following table summarizes the components of operating expenses for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Servicing and acquisition expenses	$ 129	$ 118	$ 383	$ 353
General and administrative expenses	75	59	222	179
Definite life intangible asset amortization	7	7	21	21
Total operating expenses	$ 211	$ 184	$ 626	$ 553

The increase in operating expenses for the three and nine months ended September 30, 2004 versus the year-ago periods is mainly attributable to the operating expenses of Academic Management Services Corp. ("AMS") acquired in the fourth quarter of 2003, increased servicing and debt management expenses consistent with the growth in borrowers and the growth in the debt management business. Student loan servicing expenses as a percentage of the average balance of student loans serviced was .15 percent and .16 percent for the three months ended September 30, 2004 and 2003, respectively, and .15 percent and .16 percent for the nine months ended September 30, 2004 and 2003, respectively.

STUDENT LOAN ACQUISITIONS

In the nine months ended September 30, 2004, 76 percent of our Managed student loan acquisitions were originated through our Preferred Channel. The following tables summarize the components of our student loan acquisition activity for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30, 2004		
	FFELP	Private	Total
Preferred Channel	$ 3,137	$ 1,138	$ 4,275
Other commitment clients	87	45	132
Spot purchases	325	—	325
Consolidations from third parties	978	—	978
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	2,484	—	2,484
Capitalized interest and deferred origination fees	265	14	279
Total on-balance sheet student loan acquisitions	7,276	1,197	8,473
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(2,484)	—	(2,484)
Capitalized interest and other—off-balance sheet securitized trusts	112	28	140
Total Managed student loan acquisitions	$ 4,904	$ 1,225	$ 6,129

	Three months ended September 30, 2003		
	FFELP	Private	Total
Preferred Channel	$ 2,647	$ 797	$ 3,444
Other commitment clients	93	33	126
Spot purchases	176	2	178
Consolidations from third parties	811	40	851
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	2,540	—	2,540
Capitalized interest and deferred origination fees	257	(10)	247
Total on-balance sheet student loan acquisitions	6,524	862	7,386
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(2,540)	—	(2,540)
Capitalized interest and other—off-balance sheet securitized trusts	278	18	296
Total Managed student loan acquisitions	$ 4,262	$ 880	$ 5,142

	Nine months ended September 30, 2004		
	FFELP	Private	Total
Preferred Channel	$ 10,624	$ 3,173	$ 13,797
Other commitment clients	266	45	311
Spot purchases	1,080	1	1,081
Consolidations from third parties	1,627	—	1,627
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	3,970	—	3,970
Capitalized interest and deferred origination fees	795	(5)	790
Total on-balance sheet student loan acquisitions	18,362	3,214	21,576
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(3,970)	—	(3,970)
Capitalized interest and other—off-balance sheet securitized trusts	396	95	491
Total Managed student loan acquisitions	$ 14,788	$ 3,309	$ 18,097

	Nine months ended September 30, 2003		
	FFELP	Private	Total
Preferred Channel	$ 8,996	$ 2,325	$ 11,321
Other commitment clients	266	33	299
Spot purchases	613	2	615
Consolidations from third parties	1,609	40	1,649
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	4,490	—	4,490
Capitalized interest and deferred origination fees	771	29	800
Total on-balance sheet student loan acquisitions	16,745	2,429	19,174
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(4,490)	—	(4,490)
Capitalized interest and other — off-balance sheet securitized trusts	582	31	613
Total Managed student loan acquisitions	$ 12,837	$ 2,460	$ 15,297

Preferred Channel Originations

We originated $5.9 billion and $14.0 billion in student loan volume through our Preferred Channel in the three and nine months ended September 30, 2004, respectively, versus $5.0 billion and $11.8 billion in the three and nine months ended September 30, 2003.

In the third quarter of 2004, we grew the Sallie Mae brand Preferred Channel Originations by 30 percent versus the year-ago quarter. For the three months ended September 30, 2004, our own brands constituted 32 percent of our Preferred Channel Originations, up from 29 percent in the year-ago period. The pipeline of loans that we currently service and are committed to purchase was $6.4 billion and $5.9 billion at September 30, 2004 and 2003, respectively. The following tables further break down our Preferred Channel Originations by type of loan and source. (See also "RECENT

DEVELOPMENTS—Bank One/JPMorgan Chase Merger" for a discussion related to our lender partners.)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Preferred Channel Originations—Type of Loan				
Stafford	$ 3,655	$ 3,268	$ 8,914	$ 7,812
PLUS	794	648	1,794	1,445
Total FFELP	4,449	3,916	10,708	9,257
Private	1,412	1,113	3,310	2,530
Total	$ 5,861	$ 5,029	$ 14,018	$ 11,787
Preferred Channel Originations—Source				
Sallie Mae brands	$ 1,883	$ 1,446	$ 4,453	$ 3,308
Lender partners	3,978	3,583	9,565	8,479
Total	$ 5,861	$ 5,029	$ 14,018	$ 11,787

The following table summarizes the activity in our Managed portfolio of student loans for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Beginning balance	$ 94,901	$ 83,114	$ 88,789	$ 78,124
Acquisitions, including capitalized interest	6,129	5,142	18,097	15,297
Repayments, claims, other	(2,063)	(1,763)	(6,486)	(5,820)
Charge-offs to reserves and securitization trusts	(31)	(27)	(91)	(75)
Loans sales	(1)	—	(471)	—
Loans consolidated from SLM Corporation	(596)	(655)	(1,499)	(1,715)
Ending balance	$ 98,339	$ 85,811	$ 98,339	$ 85,811

LEVERAGED LEASES

At September 30, 2004, we had investments in leveraged and direct financing leases, net of impairments, totaling $167 million that are general obligations of two commercial airlines and Federal Express Corporation. The aircraft financing business for traditional airlines continues to be adversely affected by the slowdown in the commercial aircraft industry, higher fuel costs and increased competition from new discount carriers. In recognition of this trend and the deteriorating financial condition of Delta Airlines, we recorded an impairment of $27 million in the third quarter of 2004. Based on an analysis of the potential losses on certain leveraged leases plus the increase in incremental tax obligations related to forgiveness of debt obligations and/or the taxable gain on the sale of the aircraft, our remaining after-tax accounting exposure to the two commercial airlines totaled $80 million at September 30, 2004.

FEDERAL AND STATE TAXES

The Company is subject to federal and state income taxes, while the GSE is exempt from all state, local and District of Columbia income taxes. Our effective tax rate for the three and nine months ended September 30, 2004 was 21 percent and 30 percent, respectively, versus 37 percent and 36 percent, respectively, for the three and nine months ended September 30, 2003. The effective tax rate for the period ended September 30, 2004 reflects the permanent benefit of the exclusion of the gains on equity forward contracts under SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity," adopted in the third quarter of 2003.

EFFECTS OF SFAS NO. 133—DERIVATIVE ACCOUNTING

SFAS No. 133 requires the Company to recognize changes in the fair value of derivative instruments currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges and they are a critical element of our interest rate risk management strategy. However, under SFAS No. 133, some of our derivatives, primarily Floor Income Contracts, Eurodollar futures contracts, certain basis swaps and equity forward contracts (discussed in detail below), do not qualify for "hedge treatment" under SFAS No. 133. Consequently, the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The derivative market value adjustment is primarily caused by interest rate volatility and changing credit spreads during the period and the volume and term of derivatives not receiving hedge accounting treatment.

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

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

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

Under SFAS No. 150, equity forward contracts that allow a net settlement option either in cash or the Company's stock are required to be accounted for in accordance with SFAS No. 133 as derivatives. As a result, we now account for our equity forward contracts as derivatives in accordance with SFAS

No. 133 and mark them to market through earnings. They do not qualify as effective SFAS No. 133 hedges as a requirement to achieve hedge accounting is the hedged item must impact net income. The purchase of our own stock does not impact net income.

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

The following table summarizes "core cash" securitization adjustments for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	**2003**	**2004**	**2003**
"Core cash" securitization adjustments:				
Net interest income on securitized loans, after provisions for losses	$ 292	$ 249	$ 803	$ 744
Gains on student loan securitizations	(64)	(40)	(375)	(659)
Servicing and securitization revenue	(159)	(146)	(419)	(535)
Total "core cash" securitization adjustments	$ 69	$ 63	$ 9	$ (450)

2) **Derivative Accounting:** "Core cash" measures exclude the periodic unrealized gains and losses caused by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 and recognize the economic effect of these hedges, which results in recognition of any cash paid or received being recognized ratably as an expense or revenue over the hedged item's life. The effects of derivatives hedging Floor Income is discussed below under Floor Income. See also "EFFECTS OF SFAS NO. 133—DERIVATIVE ACCOUNTING" for a more detailed discussion. We also exclude the gain or loss on equity forward contracts, including the gain recorded upon the adoption of SFAS No. 150 that was recorded as a "cumulative effect of accounting change" in the third quarter of 2003.

The table below separates the effect of the unrealized derivative marks-to-market included in the derivative market value adjustment under SFAS No. 133 from realized derivative transactions for the three and nine months ended September 30, 2004 and 2003, respectively, and accounts for them and other derivative adjustments, in accordance with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
SFAS No. 133 income statement items:				
Derivative market value adjustment in other income	$ (73)	$ (91)	$ (342)	$ 233
Less: Realized derivative transactions[1]	(154)	(159)	(551)	(568)
Unrealized derivative market value adjustment	(227)	(250)	(893)	(335)
Other pre-SFAS No. 133 accounting adjustments	(3)	—	2	—
Total net impact of SFAS No. 133 derivative accounting	$ (230)	$ (250)	$ (891)	$ (335)

(1) See "Reclassification of Realized Derivative Transactions—Non GAAP Presentation" for further discussion and detailed breakdown of realized derivative transactions.

3) **Floor Income:** The timing and amount (if any) of Floor Income earned is uncertain and in excess of expected spreads and, therefore, we exclude such income from "core cash" measures when it is not economically hedged from "core cash" measures.

We employ derivatives, primarily Floor Income Contracts and Eurodollar futures contracts, to economically hedge Floor Income. As discussed under "EFFECTS OF SFAS NO. 133—DERIVATIVE ACCOUNTING," these derivatives do not qualify as effective accounting hedges and therefore are marked-to-market through the derivative market value adjustment. For "core cash" measures, we reverse the fair value adjustments on the Floor Income Contracts and include the amortization of net premiums received (net of Eurodollar futures contracts' realized gains or losses) in income. Since we exclude Floor Income that is not economically hedged, we also exclude net settlements on derivative contracts, primary payments on Floor Income Contracts, and certain gains and losses on derivatives and financial instruments that were economically hedging Floor Income. The following table summarizes the Floor Income adjustments for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
"Core cash" Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ (18)	$ (62)	$ (69)	$ (238)
Amortization of net premiums on Floor Income Contracts and futures in net interest income	54	39	141	113
Net losses related to closed Eurodollar futures contracts economically hedging Floor Income	—	3	50	7
Losses on sales of derivatives hedging Floor Income	—	1	—	92
Total "core cash" Floor Income adjustments	$ 36	$ (19)	$ 122	$ (26)

4) **Other items:** We exclude certain transactions that are not considered part of our core business, including amortization of acquired intangibles and transactions with our off-balance sheet trusts which would be considered intercompany on a Managed Basis. Amortization of acquired intangibles totaled $8 million and $7 million for the three months ended September 30, 2004 and 2003, respectively, and $22 million and $21 million for the nine months ended September 30, 2004 and 2003, respectively.

For the three and nine months ended September 30, 2004 and 2003, the pre-tax effect of these non-GAAP performance measures was as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Non-GAAP performance measures:				
Net impact of securitization accounting	$ 69	$ 63	$ 9	$ (450)
Net impact of derivative accounting	(230)	(250)	(891)	(335)
Net impact of Floor Income	36	(19)	122	(26)
Amortization of acquired intangibles and other	13	3	31	24
Total non-GAAP performance measures	$ (112)	$ (203)	$ (729)	$ (787)

Student Loan Spread Analysis—Managed Basis

The following table analyzes the earnings from our portfolio of Managed student loans on a "core cash" basis. This analysis includes both on-balance sheet and off-balance sheet loans in securitization trusts and derivatives economically hedging these line items (see "NET INTEREST INCOME—Reclassification of Realized Derivative Transactions—Non-GAAP Presentation") and excludes Floor Income while including the amortization of upfront payments on Floor Income Contracts.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Managed Basis student loan yield	4.67%	4.14%	4.39%	4.29%
Consolidation Loan Rebate Fees	(.42)	(.36)	(.41)	(.35)
Offset Fees	—	(.04)	(.02)	(.04)
Borrower benefits	(.02)	(.10)	(.07)	(.11)
Premium and origination fee amortization	(.15)	(.12)	(.12)	(.13)
Managed Basis student loan net yield	4.08	3.52	3.77	3.66
Managed Basis student loan cost of funds	(2.16)	(1.60)	(1.85)	(1.73)
Managed Basis student loan spread	1.92%	1.92%	1.92%	1.93%
Average Balances				
On-balance sheet student loans	$ 54,522	$ 44,839	$ 54,073	$ 44,393
Off-balance sheet student loans	42,230	39,803	39,787	37,631
Managed student loans	$ 96,752	$ 84,642	$ 93,860	$ 82,024

Discussion of Managed Student Loan Spread

The third quarter 2004 Managed student loan spread equaled the third quarter 2003 student loan spread; however, there were a number of items that impacted the quarter-to-quarter spread analysis. The third quarter of 2004 benefited from a decrease in the borrower benefit reserve caused by a change in estimate to reflect the effect of the continued high rate of early Consolidation Loans on the

FFELP Stafford portfolio. Early consolidations result in fewer Stafford borrowers qualifying for borrower benefits as their loans consolidate before they are eligible. In response to this trend, we lowered our estimate of the number of Stafford borrowers who will eventually qualify for borrower benefits and revised the term over which Consolidation Loan benefits are expected to be realized. As a result, we recorded a $22 million or nine basis point reduction in the borrower benefits reserve. These positive effects were offset by the increase in the average balance of Consolidation Loans as a percentage of the Managed portfolio and higher spreads on our debt funding student loans. The increase in the spread to the index on our debt is due to the replacement of lower cost GSE funding with non-GSE funding in connection with the GSE Wind-Down. GSE debt generally has lower credit spreads than non-GSE funding sources and our non-GSE liabilities are significantly longer in duration than our GSE liabilities. The higher credit spreads on non-GSE debt is partially offset by the absence of Offset Fees applicable only to loans financed by the GSE. In addition, we use higher cost, longer-term debt to fund Consolidation Loans.

Consolidation Loans have lower spreads than other FFELP loans due to the 105 basis point Consolidation Loan Rebate Fee and higher costs of funds for reasons discussed above. The negative effect of this fee is partially offset by the absence of the 30 basis point Offset Fee on GSE funded student loans in 2003, higher SAP yield and lower student loan premium amortization discussed below. As long as interest rates remain at historically low levels and absent a program change in the next HEA reauthorization, we expect Consolidation Loans to be actively marketed by the student loan industry and remain an attractive refinancing option for borrowers, resulting in Consolidation Loans representing an increasing percentage of our federally guaranteed student loan portfolio.

The third quarter 2004 Managed student loan spread also benefited from the increase in the average balance of Managed Private Education Loans as a percentage of the average Managed student loan portfolio from 9 percent in the third quarter 2003 to 11 percent in the third quarter 2004. Private Education Loans are subject to credit risk and therefore earn higher spreads which averaged 4.40 percent in the third quarter of 2004 for the Managed Private Education Loan portfolio versus a spread of 1.51 percent for the Managed guaranteed student loan portfolio.

Allowance for Private Education Loan Losses—Managed Basis

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

An analysis of our allowance for loan losses for Managed Private Education Loans for the three and nine months ended September 30, 2004 and 2003 is presented in the following table.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Allowance at beginning of period	$ 288	$ 228	$ 259	$ 194
Provision for loan losses	52	29	127	88
Other	—	13	—	20
Charge-offs	(32)	(21)	(85)	(58)
Recoveries	3	3	10	8
Net charge-offs	(29)	(18)	(75)	(50)
Allowance at end of period	$ 311	$ 252	$ 311	$ 252
Net charge-offs as a percentage of average loans in repayment (annualized)	2.35%	2.01%	2.17%	1.90%
Allowance as a percentage of the ending total loan balance	2.79%	3.17%	2.79%	3.17%
Allowance as a percentage of ending loans in repayment	6.35%	6.85%	6.35%	6.85%
Allowance coverage of net charge-offs (annualized)	2.73	3.44	3.11	3.80
Average total loans	$ 10,639	$ 7,587	$ 9,900	$ 6,969
Ending total loans	$ 11,159	$ 7,961	$ 11,159	$ 7,961
Average loans in repayment	$ 4,845	$ 3,657	$ 4,614	$ 3,492
Ending loans in repayment	$ 4,898	$ 3,684	$ 4,898	$ 3,684

The increase in the provision for Managed Private Education Loan losses for the third quarter of 2004 versus the year-ago quarter is primarily attributed to the growth in the portfolio of Managed Private Education Loans and to updates to our default assumptions in the third quarter of 2004.

The increase in charge-offs is primarily due to the continued growth and maturity of loans in repayment. Reserves and charge-offs will continue to increase with the growth in the repayment portfolio. As discussed further below, the delinquency and forbearance amounts will also increase with the growth in the repayment portfolio. We utilize the expertise of our collection organization, including our debt management operation, to minimize charge-offs in our own portfolio and to increase recoveries on charged-off loans.

We charge borrower fees on the majority of Managed Private Education Loans, both at origination and when the loan enters repayment. Such fees are deferred and recognized into income as a component of interest over the life of the related pool of loans. The unamortized balance of deferred origination fee revenue on a Managed Basis at September 30, 2004 and 2003 was $266 million and $137 million, respectively.

Forbearance and Delinquencies—Managed Basis

The tables below show our Managed Private Education Loan forbearance and delinquency trends at September 30, 2004 and 2003. Forbearances and delinquencies result in increased servicing and collection costs and have the potential to adversely impact earnings if the account charges off. Based on the timing of graduation, there are peak times when loans enter repayment which creates seasonal increases in delinquency and forbearance in the first and third quarters of the fiscal year.

Loans in forbearance status increased from 11.2 percent of loans in repayment and forbearance status at September 30, 2003 to 11.3 percent of loans in repayment and forbearance status at September 30, 2004.

	September 30,			
	2004		2003	
	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	$ 5,639		$ 3,814	
Loans in forbearance(2)	622		463	
Loans in repayment and percentage of each status:				
Loans current	4,469	91.2%	3,381	91.8%
Loans delinquent 30-59 days(3)	160	3.3	127	3.4
Loans delinquent 60-89 days	105	2.1	74	2.0
Loans delinquent 90 days or greater	164	3.4	102	2.8
Total Managed Private Education Loans in repayment	4,898	100.0%	3,684	100.0%
Total Managed Private Education Loans	11,159		7,961	
Managed Private Education Loan allowance for losses	(311)		(252)	
Managed Private Education Loans, net	$ 10,848		$ 7,709	
Percentage of Managed Private Education Loans in repayment	43.9%		46.3%	
Delinquencies as a percentage of Managed Private Education Loans in repayment	8.8%		8.2%	

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

(2) Loans for borrowers who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing procedures and policies.

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

Private Education Loans are made to parent and student borrowers in accordance with our underwriting policies. These loans generally supplement the federally guaranteed student loans, which are subject to federal lending caps and are not guaranteed or insured against any loss of principal or interest. Student borrowers generally use the proceeds of these loans to obtain education and training, which increases the likelihood of obtaining employment at higher income levels. As a result, the loan generally results in the borrowers' repayment capability improving between the time the loan is made and the time they enter the post-education work force. Consistent with the federal guaranteed student loan program, we allow the loan repayment period on all Private Education Loans, except career training loans, to begin six months after the student borrower leaves school. This provides the borrower time to obtain employment and improves his or her ability to service the debt. For borrowers that need more than six months or experience other hardships, we may permit additional payment deferments or partial payments (both referred to as forbearances) when we believe additional time will improve the borrower's ability to repay the loan. Our current policy does not grant any reduction in the repayment obligation (principal or interest) but does allow the borrower to stop or reduce monthly payments for an agreed period of time. If appropriate, we grant forbearance in three to six month increments. During repayment, borrowers may request and obtain forbearances multiple times. Payment deferments can have the effect of reducing delinquencies and delaying charge-offs; however, the potential impact is appropriately considered in the determination of the loan loss reserves.

The table below breaks down the loans in forbearance by the cumulative number of months of forbearance the borrower has used as of September 30, 2004:

	September 30, 2004	
	Forbearance Balance	% of Total
Cumulative number of months borrower has used forbearance		
1 to 12 months	$ 423	68%
13 to 24 months	149	24
25 to 36 months	31	5
More than 36 months	19	3
Total	$ 622	100.0%

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

	Months since entering repayment				
September 30, 2004	1 to 24 months	25 to 48 months	More than 48 months	After 2004(1)	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$ 5,639	$ 5,639
Loans in forbearance	463	105	54	—	622
Loans in repayment — current	2,343	1,149	977	—	4,469
Loans in repayment — delinquent 30-59 days	82	43	35	—	160
Loans in repayment — delinquent 60-89 days	56	29	20	—	105
Loans in repayment — delinquent 90 days or greater	65	57	42	—	164
Total	$ 3,009	$ 1,383	$ 1,128	$ 5,639	$ 11,159

	Months since entering repayment				
September 30, 2003	1 to 24 months	25 to 48 months	More than 48 months	After 2003(1)	Total
Loans in-school/grace/deferment	$ —	$ —	$ —	$ 3,814	$ 3,814
Loans in forbearance	320	90	53	—	463
Loans in repayment — current	1,700	926	755	—	3,381
Loans in repayment — delinquent 30-59 days	62	38	27	—	127
Loans in repayment — delinquent 60-89 days	40	20	14	—	74
Loans in repayment — delinquent 90 days or greater	46	29	27	—	102
Total	$ 2,168	$ 1,103	$ 876	$ 3,814	$ 7,961

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

Allowance for FFELP Student Loan Losses—Managed Basis

As a result of Sallie Mae Servicing receiving the EP designation by the DOE, we have reduced the balance in the Managed Risk Sharing allowance for loan losses by $62 million with an equal reduction in the third quarter provision for loan losses. At September 30, 2004, approximately 99 percent of our Managed federally insured loans are no longer subject to Risk Sharing. (See "Allowance for FFELP Student Loan Losses" above for a further discussion of the EP designation.)

LIQUIDITY AND CAPITAL RESOURCES

We depend on the debt capital markets to support our business plan and we have developed deep and diverse funding sources to ensure continued access to the capital markets. Our biggest funding challenge is to maintain cost effective liquidity to fund the growth in the Managed portfolio of student loans as well as refinancing previously securitized loans when consolidated back on-balance sheet. At the same time we must maintain earnings spreads and control interest rate risk to preserve earnings growth. The main source of funding is student loan securitizations. In the first nine months of 2004, we securitized $29.9 billion in student loans in twelve transactions versus $22.1 billion in twelve transactions in the first nine months of 2003. Securitizations now comprise approximately 69 percent of total Managed debt at September 30, 2004. We expect approximately 75 percent of our student loan funding to come through securitizations by 2006. Our securitizations backed by FFELP loans are unique securities in the asset-backed class as they are backed by student loans with an explicit federal guarantee on 98 percent of principal and interest, 100 percent after October 19, 2004 (see "Allowance for FFELP Student Loan Losses" for a discussion of EP designation). This guarantee is subject to service compliance but is not related to the Company's GSE subsidiary. As evidenced by the 2004 volume, we have built a highly liquid and deep market for student loan securitizations by broadening our investor base worldwide. At September 30, 2004, we financed 100 percent of our Managed student loans from non-GSE sources versus 70 percent at September 30, 2003. In addition to securitizations, in the first nine months of 2004 we also significantly increased and diversified other financing through the issuance of $11.7 billion in SLM Corporation, term unsecured debt. In total, at September 30, 2004, non-GSE on-balance sheet debt, exclusive of on-balance sheet securitizations, totaled $32.2 billion, an 81 percent increase over September 30, 2003.

Another major objective when financing our business is to minimize interest rate risk through match funding of our assets and liabilities. Generally, on a pooled basis to the extent practicable, we match the interest rate and reset characteristics of our Managed assets and liabilities. In this process, we use derivative financial instruments extensively to reduce our interest rate and foreign currency exposure. This interest rate risk management helps us to achieve a stable student loan spread irrespective of the interest rate environment. (See also "Interest Rate Risk Management" below.)

The following tables present the ending balances at September 30, 2004 and 2003 and average balances and average interest rates of our Managed borrowings for the three and nine months ended September 30, 2004 and 2003. The average interest rates include derivatives that are economically hedging the underlying debt, but do not qualify for hedge accounting treatment under SFAS No. 133.

(See "NET INTEREST INCOME—Reclassification of Realized Derivative Transactions—Non-GAAP Presentation.")

	As of September 30,			
	2004		2003	
	Ending Balance		Ending Balance	
	Short Term	Long Term	Short Term	Long Term
GSE	$ 1,492	$ 568	$ 21,951	$ 4,682
Non-GSE	2,909	29,309	855	16,939
Securitizations (on-balance sheet)	—	30,764	—	9,625
Securitizations (off-balance sheet)	—	47,265	—	42,897
Total	$ 4,401	$ 107,906	$ 22,806	$ 74,143

	Three months ended September 30,				Nine months ended September 30,			
	2004		2003		2004		2003	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
GSE	$ 4,513	2.91%	$ 33,060	1.68%	$ 13,559	2.17%	$ 36,991	1.81%
Non-GSE	31,693	2.46	15,465	1.87	27,402	2.07	11,450	2.12
Securitizations (on-balance sheet)	32,036	1.81	6,181	1.33	25,966	1.58	3,838	1.40
Securitizations (off-balance sheet)	45,164	2.13	41,878	1.67	41,731	1.86	38,697	1.83
Total	$ 113,406	2.16%	$ 96,584	1.69%	$ 108,658	1.89%	$ 90,976	1.84%

SLM Corporation's stand-alone liquidity is derived from our asset-backed commercial paper program, the issuance of unsecured commercial paper, $5 billion in committed bank lines of credit as of October 21, 2004, and our short-term investment portfolio. In addition, our Managed student loan assets are a source of liquidity due mainly to broad market acceptance of our principal asset of government guaranteed student loans.

GSE Financing Activities

As of September 30, 2004, we have substantially completed the Wind-Down of the GSE. The GSE will no longer finance the purchase of student loans and will have minimal debt issuances through the completion of the Wind-Down, now scheduled to occur December 31, 2004 or as soon as practicable thereafter. In August 2004, the Company repurchased approximately $1.7 billion of GSE debt through a tender offer and recorded a loss of $103 million. Any GSE debt securities not tendered must be defeased under the terms of the Privatization Act in an irrevocable defeasance trust that is collateralized by cash, U.S. Treasury securities and agency securities that are backed by the full faith and credit of the U.S. government. Based on current interest rates on October 13, 2004, management estimates that additional losses related to future debt repurchases and the eventual defeasance of the debt will be between $117 million and $127 million. Management expects to defease any GSE debt that is remaining outstanding after the tender offer to occur December 31, 2004 or as soon as practicable thereafter. (See also "STUDENT LOAN MARKETING ASSOCIATION—Privatization Act—GSE Wind-Down.")

Non-GSE Unsecured On-Balance Sheet Financing Activities

The following table presents the senior unsecured credit ratings on our non-GSE debt from major rating agencies.

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

The table below presents our non-GSE, unsecured on-balance sheet funding by funding source for the three and nine months ended September 30, 2004 and 2003.

	Debt issued for the three months ended September 30,		Debt issued for the nine months ended September 30,		Outstanding at September 30,	
	2004	2003	2004	2003	2004	2003
Commercial paper	$ —	$ —	$ 272	$ 8,285	$ 273	$ —
Convertible debentures	—	—	—	1,980	1,987	1,982
Retail medium-term notes (EdNotes)	92	82	376	309	732	309
Foreign currency denominated(1)	188	—	4,011	580	4,611	580
Extendible notes	—	—	249	999	1,998	999
Global notes	1,468	3,481	6,778	8,130	18,333	9,833
Medium-term notes	—	—	—	—	3,233	4,091
Total	$ 1,748	$ 3,563	$ 11,686	$ 20,283	$ 31,167	$ 17,794

(1) All foreign currency denominated notes are swapped back to U.S. dollars.

Liquidity Risk

Except for minor short-term debt issuances by the GSE in connection with the Wind-Down, all of our future financing activity will come from non-GSE sources, and as a result, our long-term funding, credit spreads and liquidity exposure to the capital markets have shifted from the government agency capital markets to the corporate and asset-backed capital markets. A major disruption in the fixed income capital markets that limits our ability to raise funds or significantly increases the cost of those funds could have a material impact on our ability to acquire student loans or on our results of operations. Going forward, securitizations will continue to be the primary source of long-term financing. Except for our asset-backed commercial paper conduit, our securitizations are structured such that we do not provide any level of financial, credit or liquidity support to any of the trusts. Our exposure is limited to the recovery of the Retained Interest asset on the balance sheet related to our off-balance sheet deals. Our FFELP Stafford Retained Interests are subject to prepayment risk primarily from consolidating loans that could materially impair their value. Our FFELP securitizations have minimal credit and interest rate risk and as a result, outside of the prepayment risk, we believe that, even in times of great stress in the capital markets, the likelihood is remote that any of these off-balance sheet arrangements could be impaired to the point at which they could result in a material adverse impact on the Company.

Securitization Activities

Changes in Accounting Estimates Affecting the Residual Interest in Securitized Loans

We updated certain assumptions during the third quarter of 2004 used in the valuation of the Residual Interest. The following are the significant assumption changes that were made:

	As of September 30, 2004	As of December 31, 2003
FFELP Stafford CPR	20% – 2004/2005	20% – 2004
	15% – 2006	15% – 2005
	6% – thereafter	6% – thereafter
FFELP expected credit losses (as a % of securitized loan balance outstanding)	0%	.17%

The FFELP Stafford CPR assumption was increased to account for the continued high levels of Consolidation Loan activity. We lowered our assumption of expected FFELP credit losses to zero percent to reflect the effect of the EP designation on Sallie Mae serviced FFELP loans in the trusts. The EP designation is discussed in more detail above in "Allowance for FFELP Student Loan Losses." In total, the change in the fair value of the Company's Residual Interests due to all assumption changes as of September 30, 2004, when compared to prior assumptions, was a decrease of $11 million.

Securitization Program

Our FFELP Stafford, Private Education Loan and certain Consolidation Loan securitizations are structured such that they meet the sale criteria of SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a Replacement of SFAS No. 125," by using a two-step transaction with a qualifying special purpose entity ("QSPE") that legally isolates the transferred assets from the Company, even in the event of bankruptcy, and are accounted for off-balance sheet as a sale. The holders of the beneficial interests issued by the QSPE are not constrained from pledging or exchanging their interests and we do not maintain effective control over the transferred assets. In all of our off-balance sheet securitizations, we retain the right to receive the cash flows from the securitized student loans in excess of cash flows required to pay interest and principal on the bonds issued by the trust and servicing and administration fees.

Prior to 2003, all of our securitization structures were off-balance sheet transactions. In certain 2003 and 2004 Consolidation Loan securitization structures, we hold rights that can affect the remarketing of the bonds, such that these securitizations did not qualify as QSPEs and must therefore be accounted for on-balance sheet as variable interest entities ("VIEs"). These securitization structures were developed to broaden and diversify the investor base for Consolidation Loan securitizations by allowing us to issue bonds with non-amortizing, fixed rate and foreign currency denominated tranches. As of September 30, 2004, we had $30 billion of securitized student loans in on-balance sheet securitization trusts. These securitizations are included with financings in the table below.

The following table summarizes the Company's securitization activity for the three and nine months ended September 30, 2004 and 2003. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	2	$ 4,500	$ 64	1.4%	2	$ 3,511	$ 40	1.1%
Consolidation Loans	—	—	—	—	—	—	—	—
Private Education Loans	—	—	—	—	—	—	—	—
Total securitizations—sales	2	4,500	$ 64	1.4%	2	3,511	$ 40	1.1%
Financings:								
Asset-backed commercial paper[1]	—	—			—	—		
Consolidation Loans	1	2,210			2	5,513		
Total securitizations—financings	1	2,210			2	5,513		
Total securitizations	3	$ 6,710			4	$ 9,024		

	Nine months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain[2] %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	4	$ 10,002	$ 134	1.3%	4	$ 5,772	$ 72	1.3%
Consolidation Loans	—	—	—	—	2	4,256	434	10.2
Private Education Loans	2	2,535	241	9.5	2	2,253	153	6.8
Total securitizations—sales	6	12,537	$ 375	3.0%	8	12,281	$ 659	5.4%
Financings:								
Asset-backed commercial paper[1]	1	4,186			—	—		
Consolidation Loans	5	13,224			4	9,825		
Total securitizations—financings	6	17,410			4	9,825		
Total securitizations	12	$ 29,947			12	$ 22,106		

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

(2) The increase in the Private Education Loans securitization gain percentage in 2004 is due to the underlying student loans having higher spreads and the related bonds having a lower funding cost due primarily to the maturing of the Private Education Loan marketplace which has resulted in greater acceptance by investors and lower spreads on the debt issued.

At September 30, 2004 and December 31, 2003, securitized student loans outstanding totaled $74.5 billion and $55.1 billion, respectively.

Retained Interest on Securitized Loans

The Residual Interest plus any reserve or cash accounts constitute the Retained Interest asset on-balance sheet. The Retained Interests are recorded at fair value at the time of sale and each subsequent quarter using a discounted cash flow methodology. At September 30, 2004 and December 31, 2003, the fair value of the Retained Interest was $2.5 billion and $2.5 billion, respectively. The average balance of the Retained Interest for the three months ended September 30, 2004 and 2003 was $2.4 billion and $2.9 billion, respectively, and for the nine months ended September 30, 2004 and 2003 was $2.4 billion and $2.7 billion, respectively. The deferred tax liability associated with these assets was $311 million and $275 million at September 30, 2004 and December 31, 2003, respectively.

Embedded Fixed Rate Floor Income

Included in the gain on student loan securitizations of Consolidation Loans is an estimate of the Embedded Fixed Rate Floor Income from the loans securitized. Depending on interest rate levels, the ongoing re-evaluation of this estimate of Embedded Fixed Rate Floor Income can cause volatility in the fair value of the Retained Interest asset. The fair value of the Embedded Fixed Rate Floor Income included in the Retained Interest asset as of September 30, 2004 and December 31, 2003 was $549 million and $727 million, respectively.

Servicing and Securitization Revenue

The following table summarizes the components of servicing and securitization revenue for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Servicing revenue	$ 86	$ 81	$ 239	$ 233
Securitization revenue, exclusive of Embedded Floor Income	54	31	107	135
Servicing and securitization revenue, before Embedded Floor Income	140	112	346	368
Embedded Floor Income	56	82	200	276
Less: Floor Income previously recognized in gain calculation	(37)	(48)	(127)	(109)
Net Embedded Floor Income	19	34	73	167
Total servicing and securitization revenue	$ 159	$ 146	$ 419	$ 535
Average off-balance sheet student loans	$ 42,230	$ 39,803	$ 39,787	$ 37,631
Average balance of Retained Interest	$ 2,397	$ 2,871	$ 2,435	$ 2,650
Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans (annualized)	1.49%	1.46%	1.41%	1.90%

Fluctuations in servicing and securitization revenue are generally driven by the amount of and the difference in the timing of Floor Income recognition on off-balance sheet student loans, as well as the impact of Consolidation Loan activity on FFELP Stafford student loan securitizations. When FFELP Stafford loans consolidate they are bought out of the trust, which shortens the life of the trust. We estimate the trust prepayments through consolidation with our CPR assumption. When consolidation activity is higher than forecasted, the Residual Interest asset can be impaired and the yield used to recognize subsequent income from the trust is negatively impacted. Impairments related to the Retained Interests for the three months ended September 30, 2004 and 2003, respectively, were $12 million and $12 million. These impairment charges were recorded as a loss and are included as a reduction in securitization revenue. The impairment charge of $61 million for the nine months ended

September 30, 2004 is primarily the result of (a) FFELP Stafford loans continuing to consolidate at levels faster than projected, resulting in $28 million of impairment and (b) rising interest rates during the second quarter of 2004 which decreased the value of the Floor Income component of our Retained Interest resulting in $33 million of impairment.

Interest Rate Risk Management

Interest Rate Gap Analysis

We manage our interest rate risk on a Managed Basis. As a result, we use on and off-balance sheet derivatives to hedge the basis, interest rate and foreign currency risk in our securitization trusts as the trusts typically issue asset-backed securities with a variety of interest rate terms and in multiple currencies to fund student loans indexed to either the 91-day Treasury bill, commercial paper or in the case of Private Education Loans, the Prime rate.

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 September 30, 2004 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	$ 50,819	$ 135	$ 2,392	$ 882	$ 17	$ 24
Academic facilities financings and other loans	366	39	94	25	21	450
Cash and investments	7,241	29	98	154	1,199	632
Other assets	1,450	158	316	343	676	3,399
Total assets	59,876	361	2,900	1,404	1,913	4,505
Liabilities and Stockholders' Equity						
Short-term borrowings	3,188	490	721	—	—	—
Long-term notes	40,381	—	533	1,155	6,257	12,714
Other liabilities	524	—	—	—	—	2,081
Minority interest in subsidiary	—	—	—	—	—	15
Stockholders' equity	—	—	—	—	—	2,900
Total liabilities and stockholders' equity	44,093	490	1,254	1,155	6,257	17,710
Period gap before adjustments	15,783	(129)	1,646	249	(4,344)	(13,205)
Adjustments for Derivatives and Other Financial Instruments						
Interest rate swaps	(10,567)	388	(5,066)	(517)	3,751	12,011
Impact of securitized student loans	(3,436)	—	3,436	—	—	—
Total derivatives and other financial instruments	(14,003)	388	(1,630)	(517)	3,751	12,011
Period gap	$ 1,780	$ 259	$ 16	$ (268)	$ (593)	$ (1,194)
Cumulative gap	$ 1,780	$ 2,039	$ 2,055	$ 1,787	$ 1,194	$ —
Ratio of interest-sensitive assets to interest-sensitive liabilities	134.1%	41.4%	206.1%	91.9%	19.8%	8.7%
Ratio of cumulative gap to total assets	2.5%	2.9%	2.9%	2.5%	1.7%	—%

Weighted Average Life

The following table reflects the weighted average life for our Managed earning assets and liabilities at September 30, 2004.

(Averages in years)	On-Balance Sheet	Off-Balance Sheet	Managed
Earning assets			
Student loans	8.4	4.3	7.9
Academic facilities financings and other loans	7.3	—	7.3
Cash and investments	1.2	—	1.2
Total earning assets	7.4	4.3	7.3
Borrowings			
Short-term borrowings	.4	—	.4
Long-term borrowings	7.2	4.3	5.9
Total borrowings	6.7	4.3	5.7

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 1.2 years. Long-term debt issuances likely to be called have been categorized according to their call dates rather than their maturity dates. Long-term debt issuances which are putable by the investor are categorized according to their put dates rather than their maturity dates.

COMMON STOCK

The following table summarizes our common share repurchase and equity forward activity for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
(Common shares in millions)	2004	2003	2004	2003
Common shares repurchased:				
Open market	—	.5	.5	5.5
Equity forwards[(1)]	11.4	1.0	24.8	16.1
Benefit plans	.1	.7	1.0	2.3
Total shares repurchased	11.5	2.2	26.3	23.9
Average purchase price per share	$ 38.91	$ 40.53	$ 36.21	$ 31.19
Common shares issued	1.8	2.3	7.9	16.8
Equity forward contracts:				
Outstanding at beginning of period	47.2	33.1	43.5	28.7
New contracts	12.3	8.1	29.4	27.6
Exercises[(1)]	(11.4)	(1.0)	(24.8)	(16.1)
Outstanding at end of period	48.1	40.2	48.1	40.2
Board of Director authority remaining at end of period	8.4	47.0	8.4	47.0

(1) During September 2004, we accelerated equity forward contracts covering 53.4 million shares of our common stock. We net settled these contracts by receiving 6.7 million shares which equaled the intrinsic value of the equity forward contracts that were accelerated. Simultaneously, with the

acceleration of these equity forward contracts, we entered into new equity forward contracts with the same counterparties covering 46.7 million shares of our common stock. The purchase prices related to these new equity forward contracts were the current market prices of our stock when such contracts were entered into. The net reduction of equity forward contracts outstanding from this transaction of 6.7 million shares is shown net in the "exercises" row of the table.

As of September 30, 2004, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

Year of maturity	Outstanding contracts	Range of purchase prices	Average purchase price
	(in millions)		
2006	11.1	$39.74 – $43.75	$ 43.16
2007	12.0	43.24 – 43.75	43.47
2008	9.1	43.48 – 43.75	43.56
2009	15.9	43.24 – 44.33	43.59
	48.1		$ 43.46

At September 30, 2004, the total common shares that could potentially be acquired over the next five years under outstanding equity forward contracts was 48.1 million shares at an average price of $43.46 per share. We have remaining authority to enter into additional share repurchases and equity forward contracts for 8.4 million shares. In October 2004, the Board of Directors voted to authorize the repurchase of up to an additional 30 million shares of the Company's common stock, in addition to the remaining authority at September 30, 2004.

In July 2003, the Board of Directors voted to retire 170 million shares of common stock held in treasury, effective in September 2003. Based on an average price of $18.04 per share, this retirement decreased the balance in treasury stock by $3.1 billion, with corresponding decreases of $34 million in common stock and $3.1 billion in retained earnings.

STUDENT LOAN MARKETING ASSOCIATION

Privatization Act—GSE Wind-Down

As of September 2004, the Company had substantially completed the Wind-Down of the GSE and, on November 1, 2004, the Company sent notices to the Secretary of Education and the Secretary of the Treasury that it intends to wind-down and dissolve the GSE on December 31, 2004 or as soon as practicable thereafter. On October 28, 2004, as part of the Wind-Down process, the GSE paid a cash dividend of $900 million to the Company.

On June 30, 2004, the Company purchased FFELP student loans through non-GSE affiliates and as a result the GSE was required by statute to terminate all such activity. As a result, the GSE is no longer a source of liquidity for the Company's purchase of student loans and the Company's GSE-related financing activities will primarily consist of refinancing the remainder of its assets through non-GSE sources. All GSE debt that remains outstanding upon completion of these Wind-Down activities will be defeased through creation of a fully collateralized trust, consisting of cash or financial instruments backed by the full faith and credit of the U.S. government with cash flows that provide for the interest and principal obligations of the defeased debt. Through September 30, 2004, the Company repurchased approximately $1.7 billion of GSE debt through a tender offer and recorded a loss of $103 million. Based on current interest rates on October 13, 2004, the Company estimates that additional losses related to future debt repurchases and the eventual defeasance of the debt will be between $117 million and $127 million.

The Privatization Act requires that the GSE maintain a minimum statutory capital adequacy ratio (the ratio of the GSE's stockholders' equity to total assets plus 50 percent of the credit equivalent amount of certain off-balance sheet items) of at least 2.25 percent or be subject to certain "safety and soundness" requirements designed to restore compliance. While the GSE may not finance or guarantee the activities of its non-GSE affiliates, it may, subject to its minimum capital requirements, dividend retained earnings and surplus capital to SLM Corporation, which in turn may contribute such amounts to its non-GSE subsidiaries. At September 30, 2004, the GSE's statutory capital adequacy ratio was 36.64 percent.

The GSE has also received guidance from the U.S. Department of the Treasury's Office of Sallie Mae Oversight ("OSMO") regarding safety and soundness considerations affecting its Wind-Down. As a result, in connection with any dividend declarations, the GSE will supplement the statutory minimum capital ratio requirement with a risk-based capital measurement formula. At September 30, 2004, the GSE's capital ratio under this measurement formula was 150 percent, which was above OSMO's minimum recommended level of 4.00 percent. Management does not expect the capital levels of our consolidated balance sheet to change as a result of this supplemental formula.

The Privatization Act imposes certain restrictions on intercompany relations between the GSE and its affiliates during the Wind-Down Period. The GSE may, however, continue to issue new debt obligations maturing on or before September 30, 2008 although, because of the accelerated Wind-Down described above, we are limiting the maturity on any new GSE debt and the GSE has not issued any long-term debt since July 2003. The GSE will no longer issue short-term floating rate notes, but will continue to issue other short-term debt as necessary, until all current GSE assets are refinanced. The legislation further provides that the legal status and attributes of the GSE's debt obligations, including the exemptions from Securities and Exchange Commission registration and state taxes, will be fully preserved until their respective maturities. Such debt obligations will remain GSE debt obligations, whether such obligations were outstanding at the time of, or issued subsequent to, the reorganization of the GSE into the current holding company structure.

In connection with the Wind-Down of the GSE, we have securitized, sold, and transferred the majority of the GSE's assets such that at September 30, 2004, the GSE had $4.7 billion in assets remaining of which none were student loans. This represents four percent of total Managed assets. At September 30, 2004, the GSE's assets primarily consisted of investments, cash and cash equivalents.

Given the GSE's current exemption from state income taxes, management is continually evaluating the impact upon the Company's overall state tax position resulting from planned sales and transfers of GSE assets. It is currently projected that for 2005, the Company's state tax rate will increase by 0.5 percent to 1 percent above current levels as a result of the GSE asset transfers.

The following table summarizes the GSE's asset sales and transfers for the three and nine months ended September 30, 2004 and 2003 (carrying value includes accrued interest).

	Three months ended September 30,					
	2004			2003		
(Dollars in millions)	Sale Amount	Carrying Amount	Gain Amount	Sale Amount	Carrying Amount	Gain Amount
FFELP/Consolidation Loan securitizations	$ —	$ —	$ —	$ 3,603	$ 3,563	$ 40
Sale of on-balance sheet VIEs, net[(1)]	—	—	—	591	141	450
Student loan sales[(2)]	2,076	2,038	38	526	514	12
Non-cash dividend of FFELP Stafford/PLUS student loans[(3)]	—	—	—	1,077	1,054	23
Sale of swaps and Floor Income Contracts[(4)]	(613)	(613)	—	—	—	—
Sale of Retained Interests in securitized receivables[(5)]	—	—	—	3,068	2,451	617
Loans consolidated with SLM Corp. entities	172	172	—	37	37	—
Sale of assets and liabilities to SLM Corp. entities, net	1,886	1,675	211	—	—	—

	Nine months ended September 30,					
	2004			2003		
	Sale Amount	Carrying Amount	Gain Amount	Sale Amount	Carrying Amount	Gain Amount
FFELP/Consolidation Loan securitizations	$ 2,577	$ 2,545	$ 32	$ 10,722	$ 10,216	$ 506
Sale of on-balance sheet VIEs, net[(1)]	963	127	836	1,259	306	953
Student loan sales[(2)]	8,249	8,061	188	4,022	3,877	145
Non-cash dividend of FFELP Stafford/PLUS student loans[(3)]	960	944	16	1,077	1,054	23
Non-cash dividend of insurance and benefit plan related investments	—	—	—	346	346	—
Sale of swaps and Floor Income Contracts[(4)]	(760)	(760)	—	—	—	—
Sale of Retained Interests in securitized receivables[(5)]	65	63	2	3,068	2,451	617
Loans consolidated with SLM Corp. entities	590	590	—	37	37	—
Sale of assets and liabilities to SLM Corp. entities, net	2,054	1,817	237	—	—	—
Sale of GSE subsidiaries to SLM Corp. entities[(6)]	4,626	4,374	252	—	—	—

(1) These VIEs consist of securitized Consolidation Loans totaling $5.5 billion for the three months ended September 30, 2003, respectively, and $10.5 billion and $9.8 billion for the nine months ended September 30, 2004 and 2003, respectively, and the sales are recorded net of debt issued. Included in the $10.5 billion of loans sold in 2004 were $2.2 billion of Consolidation Loans acquired by the GSE from SLM Education Loan Corporation, a non-GSE subsidiary of the Company.

(2) The student loans were sold by the GSE to a subsidiary of SLM Corporation at fair market value.

(3) This dividend was recorded at fair market value.

(4) The GSE sold swaps and Floor Income Contracts to SLM Corporation at fair market value.

(5) The GSE sold its Retained Interests in securitized receivables to SLM Corporation at fair market value.

(6) The GSE sold its subsidiaries to SLM Corporation, in connection with the GSE Wind-Down. This consisted primarily of $5.1 billion in student loans and $1.2 billion in short-term and long-term debt.

All intercompany transactions between the GSE and the Company and its non-GSE subsidiaries have been eliminated in the Company's consolidated financial statements.

The following table shows the percentage of certain assets and income held by the GSE versus non-GSE as of and for the nine months ended September 30, 2004.

	Nine months ended September 30, 2004	
	GSE	Non-GSE
Ending balance of on-balance sheet Private Education Loans, net	—%	100%
Ending balance of on-balance sheet student loans, net	—%	100%
Ending balance of Managed student loans financed, net[1]	—%	100%
Ending balance of on-balance sheet assets	7%	93%
Ending balance of Managed assets	4%	96%
Average balance of on-balance sheet interest earning assets	23%	77%
Interest income	22%	78%
Fee income	1%	99%

(1) Includes securitized trusts.

Average Balance Sheets—GSE

The following table reflects the GSE's rates earned on interest earning assets and paid on interest bearing liabilities for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,				Nine months ended September 30,			
	2004		2003		2004		2003	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets								
Federally insured student loans	$ 1,748	1.92%	$ 29,773	4.37%	$ 11,075	3.67%	$ 32,688	4.77%
Private Education Loans	—	—	674	5.89	526	5.16	1,888	5.59
Academic facilities financings and other loans	137	7.49	728	6.33	453	6.47	792	6.28
Cash and investments	4,844	2.81	3,106	3.21	3,532	3.24	3,509	3.22
Total interest earning assets	6,729	2.68%	34,281	4.34%	15,586	3.70%	38,877	4.70%
Retained Interest in securitized receivables	—		1,774		—		2,113	
Other non-interest earning assets	695		1,904		1,069		1,543	
Total assets	$ 7,424		$ 37,959		$ 16,655		$ 42,533	
Average Liabilities and Stockholders' Equity								
Six month floating rate notes	$ 1,259	1.58%	$ 3,087	1.06%	$ 2,040	1.21%	$ 2,987	1.17%
Other short-term borrowings	2,314	1.81	23,996	1.56	9,009	1.86	22,486	1.57
Long-term notes	961	7.40	6,045	3.13	2,563	4.84	12,669	2.73
Total interest bearing liabilities	4,534	2.93%	33,128	1.80%	13,612	2.32%	38,142	1.92%
Non-interest bearing liabilities	1,133		1,658		1,416		1,649	
Stockholders' equity	1,757		3,173		1,627		2,742	
Total liabilities and stockholders' equity	$ 7,424		$ 37,959		$ 16,655		$ 42,533	
Net interest margin		.70%		2.60%		1.68%		2.81%
Securitized student loans	$ —		$ 37,037		$ —		$ 35,868	

RECENT DEVELOPMENTS

Acquisitions

During the third quarter of 2004, we completed one acquisition and announced two additional acquisitions. We will account for these transactions under the purchase method of accounting as defined in SFAS No. 141, "Business Combinations," and allocate the purchase price to the fair market value of the assets acquired, including identifiable intangible assets and goodwill.

Arrow Financial Services

On September 15, 2004, we acquired 64 percent of Arrow Financial Services, a full-service, accounts receivable management company that purchases charged-off debt, conducts contingency collection work and performs third-party receivables servicing across a number of consumer asset classes, for a purchase price of approximately $165 million. Under the terms of the agreement, Sallie Mae has the option to purchase the remaining interest in Arrow Financial Services over a three-year period. The acquisition will be accounted for under the purchase accounting method and the purchase price will be allocated to tangible and intangible assets based on their fair market values when the independent appraisal is complete.

Arrow Financial Services employs nearly 1,400 individuals at locations in Niles, Illinois; Gaithersburg, Maryland; San Diego, California; Whitewater, Wisconsin; and Rockville Centre, New York. It will retain its brand and senior management team.

Southwest Student Services Corporation

On October 15, 2004, we completed our purchase of the outstanding stock of Southwest Student Services Corporation ("Southwest") from the Helios Education Foundation. The transaction includes Southwest's $4.8 billion student loan portfolio, its Phoenix-based loan origination and servicing center and its sales and marketing operations. In addition to the student loan portfolio, the purchase will expand our loan origination capability and broaden our market reach.

Southwest provides for the origination, funding, acquisition and servicing of education loans. It is among the top 30 originators of federal student loans, issuing approximately $300 million in Stafford and PLUS loans and $1.5 billion in Consolidation Loans annually, and it is the nation's ninth largest holder of federal student loans. Southwest provides student loans and related services nationally with a primary focus on colleges and universities in Arizona and Florida. Southwest employs nearly 300 individuals.

Student Loan Finance Association

On September 23, 2004, we announced our intent to purchase the secondary market and related businesses of Education Assistance Foundation ("EAF") and its affiliate, Student Loan Finance Association ("SLFA"). SLFA is a Northwest regional leader in education loan funding and acquisition. The transaction includes SLFA's $1.6 billion student loan portfolio and an origination franchise that generates $50 million of student loan volume annually. In addition, as a part of this transaction, we will enter into a full service guarantor servicing contract with EAF's affiliate, Northwest Education Association ("NELA"), a guarantee agency for FFELP student loans that serves the Pacific Northwest. In a related transaction, NELA will become an affiliate of USAF, the Company's largest guarantor servicing client. We expect to close the transaction in two steps. The first step, which will include NELA and a portion of the SLFA assets, is expected to close by the end of 2004. The balance of the transactions is expected to close in 2005.

Exceptional Performer Designation

On October 5, 2004, the DOE formally notified us that the Company's loan servicing division, Sallie Mae Servicing, received the Department's "Exceptional Performer" designation, a classification awarded to qualified lenders and loan servicers for meeting certain government standards in administering loans under the FFELP.

To qualify as an Exceptional Performer, lenders and servicers must achieve an overall compliance performance rating of 97 percent or higher for servicing requirements set by the DOE on federally guaranteed loans.

As a result of the designation, during a one-year period that commenced on October 19, 2004, the Company will receive 100 percent reimbursement on default claims on federally guaranteed student loans that were serviced by Sallie Mae Servicing for a period of at least 270 days prior to the date of default. This one-year period may be extended on an annual basis so long as the Company maintains a satisfactory overall compliance rating. The initial one-year period and any extensions are subject to quarterly compliance audits that can result in the revocation of the designation.

Bank One/JPMorgan Chase Merger

On July 30, 2004, following the merger of JPMorgan Chase and Bank One, the Company and Bank One entered into a comprehensive agreement under which (i) certain agreements between the parties were terminated in consideration for Bank One agreeing to pay termination fees of $23 million, including a $14 million fee to terminate a marketing services agreement and a $9 million fee to terminate a loan purchase agreement, and (ii) the ExportSS agreement between the parties was extended by more than three years. The separate joint venture agreement with JPMorgan Chase was not affected by the merger. Under its terms, by year end 2004, we will offer JPMorgan Chase new loan purchase and servicing terms for a five-year period beginning September 2007. If the Company and JPMorgan Chase are unable to mutually agree upon such terms by May 31, 2005, then either party may trigger a "Dutch auction" process. Under that process, the electing party offers to purchase the other party's 50 percent interest or sell its 50 percent interest in the joint venture at a specified price. The non-electing party then has the right to either sell its interest in the joint venture or purchase the electing party's interest, in either case at the originally offered price. If we are the successful purchaser in a Dutch auction, then for a two-year period following the closing:

- JPMorgan Chase may not compete with the Company in the marketing, purchasing, servicing or ownership of education loans (except with respect to the continuation of business activities under the Bank One name or the name of any other entity with which JPMorgan Chase affiliates),
- we may use certain Chase trademarks for a nominal annual fee, and
- we acquire all rights to make additional FFELP student loans (serial loans) to customers of the joint venture.

If JPMorgan Chase is the successful purchaser in a Dutch auction, then for a two-year period following the closing:

- it may use certain Sallie Mae trademarks for a nominal annual fee (but the Company would not be constrained by any non-compete restriction), and
- we would be required to act as origination and servicing agent for JPMorgan Chase at market rates.

During the academic year 2004-2005, we expect to originate $5.4 billion of loans through the Bank One/JPMorgan Chase brand names.

Legislative Update

American Jobs Creation Act of 2004

On October 22, 2004 President Bush signed into law the American Jobs Creation Act of 2004 (the "October 22 Act"), which amends the Internal Revenue Code of 1986. Among other things, the October 22 Act permits the Secretary of the Treasury to contract with private entities to perform tax-collection services similar to the services the Company's Pioneer Credit Recovery subsidiary currently performs for the U.S. Department of Education. The Company believes that it is well qualified to bid for any work outsourced under the October 22 Act.

Taxpayer-Teacher Protection Act of 2004

On October 30, 2004 President Bush signed the Taxpayer-Teacher Protection Act of 2004 (the "October 30 Act"), a new law that amends the Higher Education Act of 1965, as amended ("HEA"). The October 30 Act restricts the situations in which lenders are entitled to a minimum yield of 9.5 percent in connection with loans made from the proceeds of certain tax-exempt bonds. Specifically, the DOE will no longer guarantee a minimum yield of 9.5 percent for a loan financed with qualifying tax-exempt bonds if (1) the underlying bond matures, is retired, is defeased or is refunded or (2) if the loan is refinanced with funds obtained from certain bonds or is sold or transferred to another holder. The Act, which is effective for a 15-month period, is expected to be permanently extended as part of the reauthorization of the HEA. Management expects that the October 30 Act will have no impact on the Company's earnings or operations.

OTHER RELATED EVENTS AND INFORMATION

Congress reauthorizes HEA every five years. The HEA was originally scheduled to expire on September 30, 2003. In October 2004, Congress passed legislation extending the HEA until September 30, 2005. We now expect final Congressional action on the next full reauthorization to occur in 2005.

As with past HEA reauthorizations, there are many legislative proposals being advanced by schools, industry participants and other interested stakeholders. Sallie Mae has joined the "Coalition for Better Student Loans," a group of organizations representing colleges, universities, financial aid administrators, parents and other loan providers that has advanced a series of proposals designed to strengthen federal student loan programs, including:

- lowering the cost of borrowing by eliminating origination fees paid by students,
- raising Stafford loan limits to permit schools to offer students more federal student loans with their below-market interest rates and student-friendly repayment terms,
- making it easier for students to repay their loans by offering more flexible repayment options,
- ensuring a viable loan consolidation program, and
- expanding loan forgiveness to borrowers who work in certain highly needed occupations.

The President's budget also contains proposals to increase first-year loan limits, expand extended repayment options for FFELP borrowers, mandate a one percent guaranty fee for borrowers, and phase out higher special allowance payments associated with certain tax-exempt student loan bonds. Other proposals have already been announced or introduced by Members of Congress, including proposals to create a program that may provide financial incentives to schools to join the FDLP, repeal the "single holder rule," permit borrowers who already completed their higher education studies to refinance or reconsolidate previously consolidated loans, require lenders to win student loan contracts by bidding at an auction and eliminate floor income on variable rate student loans. Under the single holder rule, if only one lender holds all of a borrower's loans, then another lender cannot consolidate the loans away from the current holder unless the current holder declines to consolidate loans for the borrower or is unwilling to offer income-sensitive repayment terms. If the single holder rule is repealed, the Company's student loan portfolio could be subject to an increased level of consolidation activity. In addition, if the reconsolidation proposal is enacted, the Company could experience a significant increase in refinancing activity, which, in turn, would have a material adverse effect on the Company's financial condition and results of operations. If adopted, a student loan auction proposal, depending on its structure, could have a material adverse effect on the Company's student loan spread. Finally, enactment of the proposal to eliminate Floor Income would decrease the Company's interest income in certain interest rate environments. We expect that some of these proposals will be discussed in the context of the full HEA reauthorization.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Interest Rate Sensitivity Analysis

The effect of short-term movements in interest rates on our results of operations and financial position has been limited through our interest rate risk management. The following tables summarize the effect on earnings for the three and nine months ended September 30, 2004 and 2003 and the effect on fair values at September 30, 2004 and December 31, 2003, based upon a sensitivity analysis performed by us assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. We have chosen to illustrate the effects of a hypothetical increase in interest rates, as an increase gives rise to a larger absolute value change to the financial statements. The effect on earnings was performed on our variable rate assets, liabilities and hedging instruments while the effect on fair values was performed on our fixed rate assets, liabilities and hedging instruments.

(Dollars in millions, except per share amounts)	Three months ended September 30, 2004 — Interest Rates: Change from increase of 100 basis points $	%	Change from increase of 300 basis points $	%	2003 — Interest Rates: Change from increase of 100 basis points $	%	Change from increase of 300 basis points $	%
Effect on Earnings								
Increase/(decrease) in pre-tax net income before unrealized derivative market value adjustment	$ 14	4%	$ 44	12%	$ (22)	(7)%	$ (24)	(8)%
Unrealized derivative market value adjustment	108	148	43	58	371	148	877	350
Increase in net income before taxes	$ 122	27%	$ 87	19%	$ 349	63%	$ 853	154%
Increase in diluted earnings per share	$ .179	22%	$ .128	16%	$ .488	47%	$ 1.192	115%

(Dollars in millions, except per share amounts)	Nine months ended September 30, 2004 — Interest Rates: Change from increase of 100 basis points $	%	Change from increase of 300 basis points $	%	2003 — Interest Rates: Change from increase of 100 basis points $	%	Change from increase of 300 basis points $	%
Effect on Earnings								
Increase/(decrease) in pre-tax net income before unrealized derivative market value adjustment	$ 23	2%	$ 111	11%	$ (141)	(10)%	$ (147)	(10)%
Unrealized derivative market value adjustment	108	15	43	6	371	111	877	262
Increase in net income before taxes	$ 131	7%	$ 154	9%	$ 230	13%	$ 730	41%
Increase in diluted earnings per share	$ .190	7%	$ .224	8%	$ .321	12%	$ 1.021	38%

(Dollars in millions)	At September 30, 2004 — Fair Value	Interest Rates: Change from increase of 100 basis points $	%	Change from Increase of 300 basis points $	%
Effect on Fair Values					
Assets					
Student loans	$ 55,996	$ (346)	(1)%	$ (733)	(1)%
Other earning assets	10,396	(81)	(1)	(246)	(2)
Other assets	6,342	(476)	(8)	(624)	(10)
Total assets	$ 72,734	$ (903)	(1)%	$ (1,603)	(2)%
Liabilities					
Interest bearing liabilities	$ 65,736	$ (999)	(2)%	$ (2,660)	(4)%
Other liabilities	2,605	396	15	1,835	70
Total liabilities	$ 68,341	$ (603)	(1)%	$ (825)	(1)%

	At December 31, 2003				
		Interest Rates:			
		Change from increase of 100 basis points		Change from Increase of 300 basis points	
(Dollars in millions)	Fair Value	$	%	$	%
Effect on Fair Values					
Assets					
Student loans	$ 51,559	$ (399)	(1)%	$ (870)	(2)%
Other earning assets	9,085	(112)	(1)	(309)	(3)
Other assets	5,531	(543)	(10)	(839)	(15)
Total assets	$ 66,175	$ (1,054)	(2)%	$ (2,018)	(3)%
Liabilities					
Interest bearing liabilities	$ 58,993	$ (1,458)	(2)%	$ (3,630)	(6)%
Other liabilities	3,437	610	18	1,979	58
Total liabilities	$ 62,430	$ (848)	(1)%	$ (1,651)	(3)%

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, as discussed under "Student Loans—On-Balance Sheet Floor Income," in the current low interest rate environment, we can have a fixed versus floating mismatch in funding as the student loan earns at the fixed borrower rate and the funding remains floating. Therefore, absent other hedges, in a low interest rate environment, the hypothetical rise in interest rates in the above table has a greater adverse effect on earnings and fair values due to the reduction in potential Floor Income than in higher interest rate environments where the interest rate formula rises above the borrower rate and the student loans become a floating rate asset that is matched with floating rate debt.

During the three and nine months ended September 30, 2004, certain FFELP student loans were earning Floor Income and we locked-in a portion of that Floor Income through the use of futures and Floor Income Contracts. The result of these hedging transactions was to convert a portion of the fixed rate nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the above table under the scenario where interest rates increase 100 basis points, the increase in pre-tax net income before the unrealized derivative market value adjustment for 2004 is primarily due to the impact of (i) our off-balance sheet Consolidation Loan securitizations and the related Embedded Floor Income recognized as part of the gain on sale, which results in no change in the Embedded Floor Income as a result of the increase in rates and (ii) our unhedged on-balance sheet loans not currently having significant Floor Income due to the recent increase in interest rates, which results in these loans being more variable rate in nature. The decrease in pre-tax net income in 2003 before the unrealized derivative market value adjustment reflects lower Floor Income on the unhedged portion of our student loan portfolio. Under the scenario where interest rates increase 300 basis points, the change in pre-tax net income before the unrealized derivative market value adjustment is not proportional to the change under the scenario where interest rates increase 100 basis points because of the additional spread earned on loans hedged with futures and swaps mentioned above and the greater proportion of loans earning at a floating rate under a 300 basis point increase in rates.

Item 4. Controls and Procedures

The Company carried out an evaluation, as required by the Securities Exchange Act of 1934 (the "Exchange Act") Rule 13a-15(b), under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, Executive Vice President, Finance and Executive Vice President, Accounting and Risk Management, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report.

Disclosure controls and procedures include internal controls and other procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this Annual Report, is properly recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission's (the "SEC's") rules and forms. Management does not expect that its disclosure controls and procedures will prevent all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance—and cannot guarantee—that it will succeed in its stated objectives.

We monitor our disclosure controls and procedures and our internal controls and make modifications as necessary. By monitoring our control systems, we intend that they be maintained as dynamic systems that change as conditions warrant. The evaluation of our disclosure controls and procedures as of the end of the period covered by this report is performed on a quarterly basis so that the conclusions of management (including the Chief Executive Officer, Executive Vice President, Finance and Executive Vice President, Accounting and Risk Management) concerning controls effectiveness can be reported in our Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K. In addition, our disclosure controls and procedures are evaluated on an ongoing basis by our internal auditors, by our Corporate Finance and Corporate Accounting Departments. As a result of such ongoing evaluations, we periodically make changes to our disclosure controls and procedures to improve the quality of our financial statements and related disclosures. Since the date of the last evaluation, we have taken, and continue to take, steps to improve the design and operation of our internal controls.

Based upon their evaluation, the Chief Executive Officer, Executive Vice President, Finance and Executive Vice President, Accounting and Risk Management, concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in timely alerting them to material information and in providing reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles. In addition, during the period covered by this quarterly report, there have been no changes to our internal controls over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company and various affiliates were defendants in a lawsuit brought by College Loan Corporation ("CLC") in the United States District Court for the Eastern District of Virginia alleging various breach of contract and common law tort claims in connection with CLC's consolidation loan activities. The Complaint sought compensatory damages of at least $60 million. On June 25, 2003, the jury returned a verdict in favor of the Company on all counts. CLC subsequently filed an appeal. Oral argument, before the U.S. Court of Appeals for the Fourth Circuit, was held on June 4, 2004 and on September 26, 2004. The Court of Appeals has not yet issued a decision in the case.

The Company was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The lawsuit sought to bring a nationwide class action on behalf of all borrowers who allegedly paid "undisclosed improper and excessive" late fees over the past three years. The plaintiffs sought damages of one thousand five hundred dollars per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that the Company charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 28, 2003, the trial court granted the Company's motion to dismiss the complaint in its entirety. The Court of Appeals affirmed the Superior Court's decision granting our motion to dismiss the complaint, but granted plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. The Court of Appeals affirmed the dismissal of the remaining two counts with prejudice. On October 15, 2004, the plaintiffs filed an amended class action complaint. On September 15, 2004, the Company filed a motion to dismiss the amended complaint for failure to state a claim and non-compliance with the Court of Appeals' ruling.

In July 2003, a borrower in California filed a class action complaint against the Company and certain of its affiliates in state court in San Francisco in connection with a monthly payment amortization error discovered by the Company in the fourth quarter of 2002. The complaint asserts claims under the California Business and Professions Code and other California statutory provisions. The complaint further seeks certain injunctive relief and restitution. On May 14, 2004, the court issued an order dismissing two of the three counts of the complaint. The case is currently in the discovery phase.

The Company, together with a number of other FFELP industry participants, filed a lawsuit challenging the DOE's interpretation of and non-compliance with provisions in the HEA governing origination fees and repayment incentives on loans made under the FDLP. The lawsuit, which was filed November 3, 2000 in the United States District Court for the District of Columbia, alleges that the Department's interpretations of and non-compliance with these statutory provisions are contrary to the statute's unambiguous text, and are arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and violate both the HEA and the Administrative Procedure Act. The Company together with the other plaintiffs and the DOE have filed cross-motions for summary judgment. The Court has not ruled on these motions.

The Company has cooperated with the SEC concerning an informal investigation that the SEC initiated on January 14, 2004. There are currently no data requests outstanding and the SEC has not sought to interview any additional witnesses. The investigation concerns certain 2003 year-end accounting entries made by employees of one of the Company's debt collection agency subsidiaries. The Company's Audit Committee engaged outside counsel to investigate the matter and management conducted its own investigation. These investigations by the Audit Committee and management have been completed and the amounts in question were less than $100,000.

We are also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed. In addition, the collections subsidiaries in our debt management operation group are occasionally named in lawsuits in which the plaintiffs allege that we have violated a federal or state law in the process of collecting their account. It is not unusual for these subsidiaries to be named in a class action lawsuit relating to these allegations. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on our business, financial condition or results of operations.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes the Company's common share repurchases during the third quarter of 2004 pursuant to the stock repurchase program first authorized in September 1997 by the Board of Directors. Since the inception of the program, the Board of Directors has authorized the purchase of up to 227.5 million shares as of September 30, 2004. In October 2004, the Board of Directors voted to authorize the repurchase of up to an additional 30 million shares of the Company's common stock, in addition to the remaining authority at September 30, 2004.

(Common shares in millions)	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)
Period:				
July 1 – July 31, 2004	3.3	$ 41.33	3.3	13.5
August 1 – August 31, 2004	—	—	—	9.7
September 1 – September 30, 2004	8.2	37.94	8.2	8.4
Total	11.5	$ 38.91	11.5	8.4

(1) Includes outstanding equity forward contracts.

Item 3. Defaults Upon Senior Securities

Nothing to report.

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

Nothing to report.

Item 5. Other Information

Nothing to report.

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are furnished or filed, as applicable.

10.1	SLM Corporation Incentive Plan
10.2	Standard Form of Stock Option Agreement—Incentive, Price-Vested Options, with Replacement—2004
10.3	Standard Form of Stock Option Agreement—Non-Qualified, Price-Vested Options—2004
10.4	Standard Form of Terms of Performance Stock Grant
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.3	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.3	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

The Company furnished or filed one Current Report on Form 8-K with the Commission during the quarter ended September 30, 2004 or thereafter. On October 21, 2004, the Company furnished a Current Report in connection with the Company's press release announcing its earnings for the quarter ended September 30, 2004 and its supplemental financial information for the same period.

SIGNATURES

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

SLM CORPORATION
(Registrant)

By: /s/ C.E. ANDREWS

Executive Vice President,
Accounting and Risk Management
(Principal Accounting Officer and
Duly Authorized Officer)

Date: November 9, 2004

APPENDIX A

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED FINANCIAL STATEMENTS

INDEX

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED BALANCE SHEETS
(Dollars and shares in thousands, except per share amounts)

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Federally insured student loans (net of allowance for losses of $0 and $19,324 respectively)	$ —	$ 19,530,669
Private Education Loans (net of allowance for losses of $0 and $10,655, respectively)	—	1,020,880
Academic facilities financings and other loans	135,628	691,303
Investments		
Available-for-sale	1,162,366	2,517,805
Other	—	115,834
Total investments	1,162,366	2,633,639
Cash and cash equivalents	3,375,589	531,880
Restricted cash and investments	—	254,925
Other assets	21,446	685,268
Total assets	$ 4,695,029	$ 25,348,564
Liabilities		
Short-term borrowings	$ 1,490,039	$ 16,946,615
Long-term notes	568,381	4,781,606
Other liabilities	887,235	1,773,330
Total liabilities	2,945,655	23,501,551
Commitments and contingencies		
Stockholder's equity		
Common stock, par value $.20 per share, 250,000 shares authorized: 6,001 shares issued and outstanding	1,200	1,200
Additional paid-in capital	338,793	338,793
Accumulated other comprehensive income (net of tax of $38,988 and $112,657, respectively)	72,406	209,221
Retained earnings	1,336,975	1,297,799
Total stockholder's equity	1,749,374	1,847,013
Total liabilities and stockholder's equity	$ 4,695,029	$ 25,348,564

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except share and per share amounts)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest income:				
Federally insured student loans	$ 8,432	$ 328,235	$ 304,290	$ 1,165,159
Private Education Loans	—	10,013	20,324	78,890
Academic facilities financings and other loans	1,888	10,384	19,322	33,004
Investments, cash and cash equivalents	34,074	24,860	85,221	81,755
Total interest income	44,394	373,492	429,157	1,358,808
Interest expense:				
Short-term debt	15,510	102,883	144,087	290,021
Long-term debt	17,875	47,676	92,747	259,049
Total interest expense	33,385	150,559	236,834	549,070
Net interest income	11,009	222,933	192,323	809,738
Less: provisions for losses	(352)	9,956	15,677	39,929
Net interest income after provisions for losses	11,361	212,977	176,646	769,809
Other income:				
Gains on student loan securitizations	—	36,116	32,448	500,904
Securitization revenue	—	52,535	—	284,653
Gains on sales to SLM Corporation	249,249	1,101,868	1,531,202	1,738,143
Derivative market value adjustment	5,391	26,829	350	(171,192)
Loss on GSE debt extinguishment	(102,508)	—	(102,508)	—
Other	(1,883)	16,191	7,912	44,813
Total other income	150,249	1,233,539	1,469,404	2,397,321
Operating expenses:				
Related party agreements	3,934	90,874	99,143	221,569
Other	301	(3,332)	4,795	(10,411)
Total operating expenses	4,235	87,542	103,938	211,158
Income before income taxes	157,375	1,358,974	1,542,112	2,955,972
Income taxes	60,216	472,750	543,466	1,024,297
Net income	$ 97,159	$ 886,224	$ 998,646	$ 1,931,675
Basic and diluted earnings per common share	$ 16	$ 148	$ 166	$ 322
Average common shares outstanding and common equivalent shares outstanding	6,001,000	6,001,000	6,001,000	6,001,000

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(Dollars in thousands)
(Unaudited)

	Common Stock Shares						
	Issued	Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholder's Equity
Balance at June 30, 2003	6,001,000	6,001,000	$ 1,200	$ 298,788	$ 740,138	$ 2,023,922	$ 3,064,048
Comprehensive income:							
Net income						886,224	886,224
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax					(527,106)		(527,106)
Change in unrealized gains (losses) on derivatives, net of tax					1,413		1,413
Comprehensive income							360,531
Dividends:							
Student loans to SLM Corporation						(1,076,785)	(1,076,785)
Balance at September 30, 2003	6,001,000	6,001,000	$ 1,200	$ 298,788	$ 214,445	$ 1,833,361	$ 2,347,794
Balance at June 30, 2004	6,001,000	6,001,000	$ 1,200	$ 338,793	$ 187,255	$ 1,239,816	$ 1,767,064
Comprehensive income:							
Net income						97,159	97,159
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax					(121,500)		(121,500)
Change in unrealized gains (losses) on derivatives, net of tax					6,651		6,651
Comprehensive income							(17,690)
Balance at September 30, 2004	6,001,000	6,001,000	$ 1,200	$ 338,793	$ 72,406	$ 1,336,975	$ 1,749,374

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(Dollars in thousands)
(Unaudited)

	Common Stock Shares						
	Issued	Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholder's Equity
Balance at December 31, 2002	6,001,000	6,001,000	$ 1,200	$ 298,788	$ 661,049	$ 1,324,734	$ 2,285,771
Comprehensive income:							
Net income						1,931,675	1,931,675
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax					(452,734)		(452,734)
Change in unrealized gains (losses) on derivatives, net of tax					6,130		6,130
Comprehensive income							1,485,071
Dividends:							
Insurance and benefit plan related investments to SLM Corporation						(346,263)	(346,263)
Student loans to SLM Corporation						(1,076,785)	(1,076,785)
Balance at September 30, 2003	6,001,000	6,001,000	$ 1,200	$ 298,788	$ 214,445	$ 1,833,361	$ 2,347,794
Balance at December 31, 2003	6,001,000	6,001,000	$ 1,200	$ 338,793	$ 209,221	$ 1,297,799	$ 1,847,013
Comprehensive income:							
Net income						998,646	998,646
Other comprehensive income, net of tax:							
Change in unrealized gains (losses) on investments, net of tax					(146,012)		(146,012)
Change in unrealized gains (losses) on derivatives, net of tax					9,197		9,197
Comprehensive income							861,831
Dividends:							
Student loans to SLM Corporation						(959,470)	(959,470)
Balance at September 30, 2004	6,001,000	6,001,000	$ 1,200	$ 338,793	$ 72,406	$ 1,336,975	$ 1,749,374

See accompanying notes to consolidated financial statements.

STUDENT LOAN MARKETING ASSOCIATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine months ended September 30,	
	2004	2003
Operating activities		
Net income	$ 998,646	$ 1,931,675
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gains on student loan securitizations	(32,448)	(500,904)
Gains on sales to SLM Corporation	(1,531,202)	(1,738,143)
Unrealized derivative market value adjustment	(690,090)	(353,881)
Loss on extinguishment of GSE debt	102,508	—
Provisions for losses	15,677	39,929
Decrease in restricted cash	7,840	75,782
(Increase) decrease in accrued interest receivable	(74,799)	41,365
(Decrease) in accrued interest payable	(193,281)	(51,825)
Decrease in Retained Interest in securitized receivables	—	18,835
Decrease in other assets	233,809	103,605
Increase in other liabilities	480,307	1,052,053
Total adjustments	(1,681,679)	(1,313,184)
Net cash (used in) provided by operating activities	(683,033)	618,491
Investing activities		
Student loans acquired	(7,984,892)	(12,143,380)
Loans purchased from securitized trusts (primarily through loan consolidations)	(444,331)	(4,378,654)
Loans acquired from SLM Corporation	(4,443,429)	—
Reduction of student loans:		
Installment payments	1,514,930	2,045,097
Claims and resales	296,776	455,699
Proceeds from securitization of student loans treated as sales	2,515,130	10,027,232
Proceeds from sales of student loans	429,547	—
Proceeds from sales of student loans to SLM Corporation	8,238,945	4,013,691
Academic facilities financings and other loans made	(43,901)	(206,203)
Academic facilities financings and other loans repaid	254,360	354,548
Purchases of available-for-sale securities	(42,184,172)	(1,804,179)
Proceeds from sales and maturities of available-for-sale securities	41,511,844	2,301,490
Purchases of other securities	(133,379)	(223,728)
Proceeds from sales and maturities of other securities	190,541	232,764
Proceeds from sale of Retained Interest in securitized receivables to SLM Corporation	—	2,055,202
Proceeds from sale of Variable Interest Entity to SLM Corporation, net of cash	—	1,081,152
Proceeds from sales of assets, liabilities, and GSE subsidiaries to SLM Corporation, as a result of GSE Wind-Down	6,736,430	—
Net cash provided by investing activities	6,454,399	3,810,731
Financing activities		
Short-term borrowings issued	290,562,845	555,851,330
Short-term borrowings repaid	(296,874,161)	(560,264,204)
Long-term notes issued	873,994	5,161,343
Long-term notes repaid	(11,220,018)	(14,950,365)
Long-term notes issued by Variable Interest Entity	15,402,762	9,702,773
GSE debt extinguishment	(1,852,183)	—
Sale of Trust to SLM Corporation, net of cash	179,104	—
Net cash used in financing activities	(2,927,657)	(4,499,123)
Net increase (decrease) in cash and cash equivalents	2,843,709	(69,901)
Cash and cash equivalents at beginning of period	531,880	166,273
Cash and cash equivalents at end of period	$ 3,375,589	$ 96,372
Cash disbursements made for:		
Interest	$ 264,387	$ 858,528
Income taxes	$ —	$ —
Noncash items:		
Sale of GSE subsidiaries to SLM Corporation	$ 62,499	$ —
Dividend of FFELP Stafford/PLUS student loans to SLM Corporation	$ (959,470)	$ (1,076,785)
Dividend of insurance and benefit plan related investments to SLM Corporation	$ —	$ (346,263)

See accompanying notes to consolidated financial statements.

(Information at September 30, 2004 and for the three and nine months ended September 30, 2004 and 2003 is unaudited)
(Dollars in thousands, unless otherwise stated)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of the Student Loan Marketing Association ("SLMA" or the "GSE") have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP in the United States of America for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2004 may not necessarily be indicative of the results for the year ending December 31, 2004. The GSE is a wholly owned subsidiary of SLM Corporation ("the Company"). These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's 2003 Annual Report on Form 10-K.

Going Concern—GSE Wind-Down

The financial statements have been prepared using the going concern basis of accounting, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company continues to use going concern accounting as substantially all assets and operations of the GSE will be transferred to its parent, SLM Corporation. As of September 2004, the Company had substantially completed the Wind-Down of the GSE and, on November 1, 2004, the Company sent notices to the Secretary of Education and the Secretary of the Treasury that it intends to wind-down and dissolve the GSE on December 31, 2004 or as soon as practicable thereafter. Accordingly, SLMA will not continue as a going concern and its assets will be realized and liabilities satisfied through the Wind-Down process. On October 28, 2004, as part of the Wind-Down process, the GSE paid a cash dividend of $900 million to the Company.

On June 30, 2004, the Company purchased FFELP student loans through non-GSE affiliates and as a result the GSE was required by statute to terminate all such activity. As a result, the GSE is no longer a source of liquidity for SLM Corporation's purchase of student loans and SLM Corporation's GSE related financing activities will primarily consist of refinancing the remainder of the GSE's assets through non-GSE sources. All GSE debt that remains outstanding upon completion of these Wind-Down activities will be defeased through the creation of a fully collateralized trust, consisting of cash or financial instruments backed by the full faith and credit of the U.S. government with cash flows that match the interest and principal obligations of the defeased debt. Through September 30, 2004, SLM Corporation repurchased approximately $1.7 billion of GSE debt through a tender offer and recorded a loss of $103 million. Also in connection with the Wind-Down, the GSE will no longer issue short-term floating rate notes, but will continue to issue other short-term debt, as necessary, until all current GSE assets are refinanced. At September 30, 2004, the GSE had $4.7 billion in assets remaining primarily consisting of cash and cash equivalents and investments. The GSE no longer holds student loans.

Reclassifications

In addition to unrealized gains and losses, the Financial Accounting Standards Board's (the "FASB's") Statement of Financial Accounting Standards ("SFAS") No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as "realized derivative transactions") that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the reclassification of the realized derivative transactions for the three and nine months ended September 30, 2003.

(Dollars in millions)	Three months ended September 30, 2003	Nine months ended September 30, 2003
Reclassification of realized derivative transactions to derivative market value adjustment:		
Net settlement expense on Floor Income Contracts reclassified from student loan income	$ (82)	$ (298)
Net settlement expense on Floor Income Contracts reclassified from servicing and securitization income	(57)	(139)
Net settlement income on interest rate swaps reclassified from net interest income	8	30
Net settlement expense on interest rate swaps reclassified from servicing and securitization income	(15)	(46)
Realized losses on closed Eurodollar futures contracts and terminated derivative contracts reclassified from other expense	(3)	(72)
Total reclassifications to the derivative market value adjustment	(149)	(525)
Add: Unrealized derivative market value adjustment	175	354
Derivative market value adjustment as reported	$ 26	$ (171)

2. Student Loans

As a result of the GSE Wind-Down, as of September 30, 2004, SLMA no longer holds student loans. (See Note 1, "Going Concern—GSE Wind-Down," and Note 6, "Related Parties"). Previously, SLMA purchased student loans from originating lenders. SLMA's portfolio consisted principally of loans originated under two federally sponsored programs—the Federal Family Education Loan Program ("FFELP") and the Health Education Assistance Loan Program ("HEAL"). SLMA also purchased Private Education Loans.

The following table reflects the distribution of SLMA's student loan portfolio by program as of September 30, 2004 and 2003.

(Dollars in millions)	September 30, 2004	September 30, 2003
FFELP—Stafford	$ —	$ 10,311
FFELP—PLUS/SLS	—	962
FFELP—Consolidation Loans	—	13,952
Private Education Loans	—	758
HEAL[(1)]	—	1,245
Subtotal	—	27,228
Allowance for loan losses	—	(48)
Total student loans, net	$ —	$ 27,180

(1) The HEAL program was integrated into the FFELP in 1998, so there are no new originations under that program.

3. Allowance for Student Loan Losses

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

The following table summarizes changes in the allowance for student loan losses for SLMA's Private Education and federally insured student loan portfolios for the three and nine months ended September 30, 2004 and 2003.

	Three months ended September 30,		Nine months ended September 30,	
	2004	2003	2004	2003
Balance at beginning of period	$ 2,473	$ 52,655	$ 29,979	$ 109,144
Additions				
Provisions for student loan losses	(352)	9,956	15,677	39,929
Recoveries	—	1,201	1,068	3,770
Deductions				
Transfer to SLM Corporation	(1,705)	—	(4,430)	—
Reductions for student loan sales and securitizations	(98)	(12,808)	(36,755)	(95,545)
Charge-offs	—	(3,400)	(4,662)	(10,615)
Other	(318)	—	(877)	921
Balance at end of period	$ —	$ 47,604	$ —	$ 47,604

4. Student Loan Securitization

When SLMA sold student loans in securitizations prior to September 30, 2003, it retained a Residual Interest and, in some cases, a cash reserve account, all of which are Retained Interests in the securitized receivables. In 2003, and in the second quarter of 2004, SLMA sold its Retained Interests in securitizations to SLM Corporation in a cash transaction.

The following table summarizes securitization activity for the three and nine months ended September 30, 2004 and 2003. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	—	$ —	$ —	—%	2	$ 3,511	$ 40	1.1%
Consolidation Loans	—	—	—	—	—	—	—	—
Total securitizations—sales	—	—	$ —	—%	2	3,511	$ 40	1.1%
Financings:								
Asset-backed commercial paper[1]	—	—			—	—		
Consolidation Loans[2]	—	—			2	5,513		
Total securitizations—financings	—	—			2	5,513		
Total securitizations	—	$ —			4	$ 9,024		

	Nine months ended September 30,							
	2004				2003			
(Dollars in millions)	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Amount Securitized	Pre-Tax Gain	Gain %
Sales:								
FFELP Stafford/PLUS loans	1	$ 2,501	$ 32	1.3%	4	$ 5,772	$ 72	1.3%
Consolidation Loans	—	—	—	—	2	4,256	434	10.2
Total securitizations—sales	1	2,501	$ 32	1.3%	6	10,028	$ 506	5.1%
Financings:								
Asset-backed commercial paper[1]	1	4,186			—	—		
Consolidation Loans[2]	4	10,469			4	9,825		
Total securitizations—financings	5	14,655			4	9,825		
Total securitizations	6	$ 17,156			10	$ 19,853		

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

(2) In certain Consolidation Loan securitization structures, SLMA holds rights that can affect the remarketing of the bonds; and as a result, these securitizations did not qualify as QSPEs. Accordingly, they are accounted for on-balance sheet as VIEs.

Key economic assumptions used in estimating the fair value of the Retained Interests at the date of securitization for FFELP Stafford securitization transactions that qualified as sales during the three and nine months ended September 30, 2004 and 2003 were as follows:

	Three months ended September 30,			
	2004		2003	
	FFELP Stafford[(1)]	Consolidation[(1)]	FFELP Stafford	Consolidation[(1)]
Prepayment speed	**	—	9%	—
Weighted-average life (in years)	—	—	4.6	—
Expected credit losses (% of principal securitized)	—	—	.51%	—
Residual cash flows discounted at (weighted average)	—	—	12%	—

	Nine months ended September 30,			
	2004		2003	
	FFELP Stafford	Consolidation[(1)]	FFELP Stafford	Consolidation
Prepayment speed	**	—	9%	7%
Weighted-average life (in years)	4.1	—	4.6	8.0
Expected credit losses (% of principal securitized)	.17%	—	.52%	.75%
Residual cash flows discounted at (weighted average)	12%	—	12%	6%

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

** 20% CPR for 2004, 15% CPR for 2005 and 6% thereafter.

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2004 and December 31, 2003, and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2004 and 2003. At September 30, 2004 and December 31, 2003, $0 million and $156 million (fair value), respectively, of available-for-sale investment securities were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**September 30, 2004**	**December 31, 2003**	**September 30, 2004**	**December 31, 2003**	**September 30, 2004**	**December 31, 2003**	**September 30, 2004**	**December 31, 2003**
Fair Values								
Interest rate swaps	$ —	$ —	$ (1)	$ (110)	$ —	$ (89)	$ (1)	$ (199)
Floor/Cap contracts	—	—	—	—	—	(563)	—	(563)
Futures	—	(2)	—	—	(1)	(40)	(1)	(42)
Total	$ —	$ (2)	$ (1)	$ (110)	$ (1)	$ (692)	$ (2)	$ (804)
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ —	$ —	$ .7	$ 8.1	$ .6	$ 35.8	$ 1.3	$ 43.9
Floor/Cap contracts	—	—	—	—	.5	18.7	.5	18.7
Futures	—	0.3	—	—	.8	9.4	.8	9.7
Total	$ —	$ 0.3	$ .7	$ 8.1	$ 1.9	$ 63.9	$ 2.6	$ 72.3

	Three months ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2004	2003	2004	2003	2004	2003	2004	2003
Changes to accumulated other comprehensive income, net of tax								
Hedge ineffectiveness reclassified to earnings	$ 5	$ —	$ —	$ —	$ —	$ —	$ 5	$ —
Amortization of effective hedges[1]	—	—	—	—	—	—	—	—
Discontinued hedges	1	$ 2	$ —	$ —	$ —	$ —	$ 1	$ 2
Change in accumulated other comprehensive income, net	$ 6	$ 2	$ —	$ —	$ —	$ —	$ 6	$ 2
Earnings Summary								
Recognition of closed futures contracts' gains/losses into interest expense[2]	$ (1)	$ (2)	$ —	$ —	$ —	$ —	$ (1)	$ (2)
Recognition of future losses related to tendered debt	(8)	—	—	—	—	—	(8)	—
Derivative market value adjustment—Realized[3]	—	—	—	—	(381)	(149)	(381)	(149)
Derivative market value adjustment—Unrealized	—	—	(1)[4]	1[4]	235	174	234	175
Total earnings impact	$ (9)	$ (2)	$ (1)	$ 1	$ (146)	$ 25	$ (156)	$ 24

	Nine months ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	2004	2003	2004	2003	2004	2003	2004	2003
Changes to accumulated other comprehensive income, net of tax								
Hedge ineffectiveness reclassified to earnings	$ 5	$ —	$ —	$ —	$ —	$ —	$ 5	$ —
Change in fair value of cash flow hedges	—	(1)	—	—	—	—	—	(1)
Amortization of effective hedges[1]	3	7	—	—	—	—	3	7
Discontinued hedges	1	—	—	—	—	—	1	—
Change in accumulated other comprehensive income, net	$ 9	$ 6	$ —	$ —	$ —	$ —	$ 9	$ 6
Earnings Summary								
Recognition of closed futures contracts' gains/losses into interest expense[2]	$ (5)	$ (11)	$ —	$ —	$ —	$ —	$ (5)	$ (11)
Recognition of future losses related to tendered debt	(8)	—	—	—	—	—	(8)	—
Derivative market value adjustment—Realized[3]	—	—	—	—	(690)	(525)	(690)	(525)
Derivative market value adjustment—Unrealized	—	1[4]	—	2[4]	690	351	690	354
Total earnings impact	$ (13)	$ (10)	$ —	$ 2	$ —	$ (174)	$ (13)	$ (182)

(1) SLMA expects to amortize $1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging debt instruments that remain outstanding after September 30, 2004.

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

(3) Includes net settlement income/expense realized gains and losses related to trading derivatives and ineffectiveness related to cash flow hedges.

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

6. Related Parties

SLMA is a member of a group of affiliated companies and has significant transactions with members of the group. Accordingly, the terms of such transactions may not necessarily be indicative of transactions amongst wholly unrelated companies.

In connection with the Wind-Down of the GSE, SLM Corporation has securitized, sold and transferred the majority of SLMA's assets. The following table summarizes SLMA's asset sales and transfers for the three and nine months ended September 30, 2004 and 2003 (carrying value includes accrued interest).

	Three months ended September 30,					
	2004			2003		
(Dollars in millions)	Sale Amount	Carrying Amount	Gain Amount	Sale Amount	Carrying Amount	Gain Amount
FFELP/Consolidation Loan securitizations	$ —	$ —	$ —	$ 3,603	$ 3,563	$ 40
Sale of on-balance sheet VIEs, net[1]				591	141	450
Student loan sales[2]	2,076	2,038	38	526	514	12
Non-cash dividend of FFELP Stafford/PLUS student loans[3]	—	—	—	1,077	1,054	23
Sale of swaps and Floor Income Contracts[4]	(613)	(613)	—	—	—	—
Sale of Retained Interests in securitized receivables[5]	—	—	—	3,068	2,451	617
Loans consolidated with SLM Corp. entities	172	172	—	37	37	—
Sale of assets and liabilities to SLM Corp. entities, net	1,886	1,675	211	—	—	—

	Nine months ended September 30,					
	2004			2003		
(Dollars in millions)	Sale Amount	Carrying Amount	Gain Amount	Sale Amount	Carrying Amount	Gain Amount
FFELP/Consolidation Loan securitizations	$ 2,577	$ 2,545	$ 32	$ 10,722	$ 10,216	$ 506
Sale of on-balance sheet VIEs, net[1]	963	127	836	1,259	306	953
Student loan sales[2]	8,249	8,061	188	4,022	3,877	145
Non-cash dividend of FFELP Stafford/PLUS student loans[3]	960	944	16	1,077	1,054	23
Non-cash dividend of insurance and benefit plan related investments	—	—	—	346	346	—
Sale of swaps and Floor Income Contracts[4]	(760)	(760)	—	—	—	—
Sale of Retained Interests in securitized receivables[5]	65	63	2	3,068	2,451	617
Loans consolidated with SLM Corp. entities	590	590	—	37	37	—
Sale of assets and liabilities to SLM Corp. entities, net	2,054	1,817	237	—	—	—
Sale of GSE subsidiaries to SLM Corp. entities[6]	4,626	4,374	252	—	—	—

(1) These VIEs consist of securitized Consolidation Loans totaling $5.5 billion for the three months ended September 30, 2003, respectively, and $10.5 billion and $9.8 billion for the nine months ended September 30, 2004 and 2003, respectively, and the sales are recorded net of debt issued. Included in the $10.5 billion of loans sold in 2004 were $2.2 billion of Consolidation Loans acquired by SLMA from SLM Education Loan Corporation, a non-GSE subsidiary of the Company.

(2) The student loans were sold by SLMA to a subsidiary of SLM Corporation at fair market value.

(3) This dividend was recorded at fair market value.

(4) SLMA sold swaps and Floor Income Contracts to SLM Corporation at fair market value.

(5) SLMA sold its Retained Interests in securitized receivables to a subsidiary of SLM Corporation at fair market value.

(6) SLMA sold its subsidiaries to SLM Corporation in connection with the GSE Wind-Down. This consisted primarily of $5.1 billion in student loans and $1.2 billion in short-term and long-term debt.

As described above, such transactions were among a group of related parties. Such transactions were conducted at estimated market value, which was determined using discounted cash flow models and other estimation techniques. Different assumptions or changes in future market conditions could significantly affect the estimates of fair value.

In connection with the transfer of employees from SLMA to SLM Corporation and its non-GSE subsidiaries, SLMA and SLM Corporation and various of its non-GSE subsidiaries entered into Management Services Agreements ("MSAs") whereby all management and administrative support would be provided to SLMA for a monthly fee. Intercompany expenses under the MSAs for the three months ended September 30, 2004 and 2003 totaled $3 million and $23 million, respectively, and for the nine months ended September 30, 2004 and 2003 totaled $37 million and $70 million, respectively. Effective January 1, 2003, only third party loan acquisition costs are being booked directly to SLMA and are included in other operating expenses.

Intercompany expenses under the servicing contract between SLMA and Sallie Mae, Inc., a wholly owned non-GSE subsidiary of SLM Corporation which includes the division of Sallie Mae Servicing, for the three months ended September 30, 2004 and 2003 totaled $0 million and $68 million, respectively, and for the nine months ended September 30, 2004 and 2003 totaled $63 million and $151 million, respectively.

At September 30, 2004 and December 31, 2003, SLMA had a net intercompany liability of $275 million and $530 million, respectively, with SLM Corporation and several of its non-GSE subsidiaries.

Through the second quarter of 2004, SLMA purchased insurance for its Private Education Loan portfolio from HICA. SLMA paid HICA insurance premiums in return for HICA's guarantee of payment of principal and interest on Private Education Loans. In connection with this arrangement, HICA invested its insurance reserves related to SLMA's HICA insured loans in a Master Promissory Note of SLMA to HICA. This note matured on July 1, 2004. At December 31, 2003, SLMA owed HICA $69 million under this note.

7. Contingencies

SLMA and various affiliates were defendants in a lawsuit brought by College Loan Corporation ("CLC") in the United States District Court for the Eastern District of Virginia alleging various breach of contract and common law tort claims in connection with CLC's consolidation loan activities. The Complaint sought compensatory damages of at least $60 million. On June 25, 2003, the jury returned a verdict in favor of SLMA on all counts. CLC subsequently filed an appeal. Oral argument, before the U.S. Court of Appeals for the Fourth Circuit, was held on June 4, 2004 and on September 26, 2004. The Court of Appeals has not yet issued a decision in the case.

SLMA was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The lawsuit sought to bring a nationwide class action on behalf of all borrowers who allegedly paid "undisclosed improper and excessive" late fees over the past three years. The plaintiffs sought damages of one thousand five hundred dollars per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that SLMA charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 28, 2003, the trial court granted SLMA's motion to dismiss the complaint in its entirety. The Court of Appeals affirmed the Superior Court's decision granting SLMA's motion to dismiss the complaint, but granted plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. The Court of Appeals affirmed the dismissal of the remaining two counts with prejudice. On September 15, 2004, the plaintiffs filed an amended class action complaint. On October 15, 2004, SLMA filed a motion to dismiss the amended complaint for failure to state a claim and non-compliance with the Court of Appeals' ruling.

In July 2003, a borrower in California filed a class action complaint against SLMA and certain of its affiliates in state court in San Francisco in connection with a monthly payment amortization error discovered by SLMA in the fourth quarter of 2002. The complaint asserts claims under the California Business and Professions Code and other California statutory provisions. The complaint further seeks certain injunctive relief and restitution. On May 14, 2004, the court issued an order dismissing two of the three counts of the complaint. The case is currently in the discovery phase.

SLMA, together with a number of other FFELP industry participants, filed a lawsuit challenging the DOE's interpretation of and non-compliance with provisions in the HEA governing origination fees and repayment incentives on loans made under the FDLP. The lawsuit, which was filed November 3, 2000 in the United States District Court for the District of Columbia, alleges that the DOE's interpretations of and non-compliance with these statutory provisions are contrary to the statute's unambiguous text, and are arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law, and violate both the HEA and the Administrative Procedure Act. SLMA together with the other plaintiffs and the DOE have filed cross-motions for summary judgment. The Court has not ruled on these motions.

SLMA is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on SLMA's business, financial condition or results of operations.

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Exhibit 10.1

SLM CORPORATION
INCENTIVE PLAN

SECTION 1. PURPOSE OF PLAN

The purpose of the SLM Corporation Incentive Plan ("Plan") is to enable SLM Corporation (the "Corporation") to attract, retain and motivate its employees and to further align the interests of the Corporation's employees with those of the stockholders of the Corporation by providing for or increasing their proprietary interest in the Corporation.

SECTION 2. ADMINISTRATION OF THE PLAN

2.1 *Composition of Committee.* The Plan shall be administered by the Board of Directors and/or by a committee of the Board of Directors of SLM Corporation, as appointed from time to time by the Board of Directors (the "Committee"). The Board of Directors shall fill vacancies on and from time to time may remove or add members to the Committee. The Committee shall act pursuant to a majority vote or unanimous written consent. Notwithstanding the foregoing, with respect to any Award that is not intended to satisfy the conditions of Rule 16b-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") or Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), the Committee may appoint one or more separate committees (any such committee, a "Subcommittee") composed of one or more directors of the Corporation, (who may but need not be members of the Committee) and may delegate to any such Subcommittee(s) the authority to grant Awards, as defined in Section 5.1 hereof, under the Plan to Employees, as defined in Section 4, to determine all terms of such Awards, and/or to administer the Plan or any aspect of it. Any action by any such Subcommittee within the scope of such delegation shall be deemed for all purposes to have been taken by the Committee. The Committee may designate the Secretary of the Corporation or other Corporation employees to assist the Committee in the administration of the Plan, and may grant authority to such persons to execute agreements evidencing Awards made under this Plan or other documents entered into under this Plan on behalf of the Committee or the Corporation.

2.2 *Powers of the Committee.* Subject to the express provisions of this Plan, the Committee shall be authorized and empowered to do all things necessary or desirable in connection with the administration of this Plan with respect to the Awards over which such Committee has authority, including, without limitation, the following:

(a) to prescribe, amend and rescind rules and regulations relating to this Plan and to define terms not otherwise defined herein; provided that, unless the Committee shall specify otherwise, for purposes of this Plan (i) the term "fair market value" shall mean, as of any date, the closing price for a Share, as defined in Section 3.1 hereof, reported for that date on the composite tape for securities listed on the New York Stock Exchange or, if no Shares traded on the New York Stock Exchange on the date in question, then for the next preceding date for which Shares traded on the New York Stock Exchange; and (ii) the term "Corporation" shall mean SLM Corporation and its subsidiaries and affiliates, unless the context otherwise requires;

(b) to determine the Employees to whom Awards shall be granted hereunder and the timing of any such Awards;

(c) to determine the number of Shares subject to Awards and the exercise or purchase price of such Shares;

(d) to establish and verify the extent of satisfaction of any performance goals applicable to Awards;

(e) to prescribe and amend the terms of the agreements evidencing Awards made under this Plan (which need not be identical);

(f) to determine whether, and the extent to which, adjustments are required pursuant to Section 12 hereof;

(g) to interpret and construe this Plan, any rules and regulations under the Plan and the terms and conditions of any Award granted hereunder, and to make exceptions to any such provisions in good faith and for the benefit of the Corporation; and

(h) to make all other determinations deemed necessary or advisable for the administration of the Plan.

2.3 *Determinations of the Committee.* All decisions, determinations and interpretations by the Committee or the Board regarding the Plan shall be final and binding on all Employees and Participants, as defined in Section 4 hereof. The Committee or the Board, as applicable, shall consider such factors as it deems relevant, in its sole and absolute discretion, to making such decisions, determinations and interpretations including, without limitation, the recommendations or advice of any officer of the Corporation or Employee and such attorneys, consultants and accountants as it may select.

SECTION 3. STOCK SUBJECT TO PLAN

3.1 *Aggregate Limits.* Subject to adjustment as provided in Section 12, at any time, the aggregate number of shares of the Corporation's common stock, $.20 par value ("Shares"), issued and issuable pursuant to all Awards granted under this Plan shall not exceed 15,000,000; provided that no more than 2,000,000 of such Shares may be issued as Share Awards, as that term is defined in Section 5.1. The Shares subject to the Plan may be either Shares reacquired by the Corporation, including Shares purchased in the open market, or authorized but unissued Shares.

3.2 *Code Section 162(m) Limits.* The aggregate number of Shares subject to Options granted under this Plan during any calendar year to any one Employee shall not exceed 1,000,000. The aggregate number of Shares issued or issuable during any calendar year to any one Employee as Performance Stock Awards and Restricted Stock Awards shall not exceed 100,000 Shares. The maximum amount payable pursuant to that portion of an Incentive Bonus Award granted under this Plan for any calendar year to any Employee that is intended to satisfy the requirements for "performance based compensation" under Code Section 162(m) shall not exceed five million dollars ($5,000,000).

Notwithstanding anything to the contrary in the Plan, the foregoing limitations shall be subject to adjustment under Section 12 only to the extent that such adjustment will not affect the status of any Award intended to qualify as "performance based compensation" under Code Section 162(m).

3.3 *Issuance of Shares.* For purposes of Section 3.1, the aggregate number of Shares issued under this Plan at any time shall equal the number of Shares actually issued upon exercise or settlement of an Award less any Shares returned to the Corporation upon cancellation, expiration or forfeiture of an Award and less any Shares delivered to the Corporation by or on behalf of a Participant (either actually or by attestation) in payment or satisfaction of the purchase price, exercise price or tax obligation of an Award.

SECTION 4. PERSONS ELIGIBLE UNDER PLAN

Only employees of the Corporation shall be eligible to be considered for the grant of Awards under the Plan. For purposes of the administration of Awards, the term "Employee" shall also include a former Employee or any person (including any estate) who is a beneficiary of a former Employee. A "Participant" is any Employee to whom an Award has been made and any person (including any estate) to whom an Award has been assigned or transferred pursuant to Section 11.1.

SECTION 5. PLAN AWARDS

5.1 *Award Types.* The following arrangements or benefits are authorized under the Plan if their terms and conditions are not inconsistent with the provisions of the Plan: Stock Options, Incentive Bonuses, Performance Stock and Restricted Stock. Such arrangements and benefits are sometimes referred to herein as "Awards." Incentive Bonuses, Performance Stock and Restricted Stock are also referred to as "Share Awards". Each type of Award is defined as follows:

Stock Options: A Stock Option is a right granted under Section 6 to purchase a number of Shares at such exercise price, at such times, and on such other terms and conditions as are specified in or determined pursuant to the agreement evidencing the Award (the "Option Agreement"). Options intended to qualify as Incentive Stock Options ("ISOs") pursuant to Code Section 422 and Options which are not intended to qualify as ISOs ("Non-qualified Options") may be granted under Section 6 as the Committee in its sole discretion shall determine.

Incentive Bonus: An Incentive Bonus is a bonus opportunity awarded under Section 7 pursuant to which an Employee may become entitled to receive an amount based on satisfaction of such performance criteria as are specified in the document evidencing the Award (the "Incentive Bonus Agreement").

Performance Stock: Performance Stock is an award of Shares made under Section 8, the grant, issuance, retention and/or vesting of which is subject to such performance and other conditions as are expressed in the document evidencing the Award (the "Performance Stock Agreement").

Restricted Stock: Restricted Stock is an award of Shares made under Section 9, the grant, issuance, retention and/or vesting of which is subject to certain restrictions, as are appropriate in the document evidencing the Award (the "Restricted Stock Agreement").

5.2 *Grants of Awards.* An Award may consist of one such arrangement or benefit or two or more of them in tandem or in the alternative.

SECTION 6. STOCK OPTION GRANTS

The Committee may grant an Option or provide for the grant of an Option, either from time-to-time in the discretion of the Committee or automatically upon the occurrence of specified events, including, without limitation, the achievement of performance goals, the satisfaction of an event or condition within the control of the recipient of the Award, within the control of others or not within the person's control.

6.1 *Option Agreement.* Each Option Agreement shall contain provisions regarding (a) the number of Shares which may be issued upon exercise of the Option, (b) the purchase price of the Shares and the means of payment for the Shares, (c) the term of the Option, (d) such terms and conditions of exercisability as may be determined from time to time by the Committee, (e) restrictions on the transfer of the Option and forfeiture provisions, and (f) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee. Option Agreements evidencing ISOs shall contain such terms and conditions as may be necessary to comply with the applicable provisions of Section 422 of the Code.

6.2 *Option Price.* The purchase price per Share of the Shares subject to each Option granted under the Plan shall equal or exceed 100 percent of the fair market value of such Stock on the date the Option is granted, except that in the case of Options granted to employees upon a merger or acquisition, the purchase price may be higher or lower than the fair market value of the Stock on the date the Option is granted if such purchase price is required to assume or substitute options held by employees of the acquired Corporation at the time of the acquisition.

6.3 *Option Term.* The "Term" of each Option granted under the Plan, including any ISOs, shall not exceed ten (10) years from the date of its grant.

6.4 *Option Vesting.* Options granted under the Plan shall be exercisable at such time and in such installments during the period prior to the expiration of the Option's Term as determined by the Committee in its sole discretion, provided that no Option shall vest earlier than one year from the date of grant, other than for reasons set forth in Section 11.6 and Section 13. The Committee shall have the right to make the timing of the ability to exercise any Option granted under the Plan subject to such performance requirements as deemed appropriate by the Committee. At any time after the grant of an Option the Committee may, in its sole discretion, reduce or eliminate any restrictions surrounding any Participant's right to exercise all or part of the Option.

6.5 *Option Exercise*.

(a) *Partial Exercise.* An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional Shares and the Committee may require, by the terms of the Option Agreement, a partial exercise to include a minimum number of Shares.

(b) *Manner of Exercise.* All or a portion of an exercisable Option shall be deemed exercised upon delivery to the representative of the Corporation designated for such purpose by the Committee all of the following: (i) notice of exercise in such form as the Committee authorizes specifying the number of Shares to be purchased by the Participant, (ii) payment or provision for payment of the exercise price for such number of Shares, (iii) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act of 1933, as amended, and any other federal, state or foreign securities laws or regulations, (iv) in the event that the Option shall be exercised pursuant to Section 11.1 by any person or persons other than the Employee, appropriate proof of the right of such person or persons to exercise the Option, and (v) such representations and documents as the Committee, in its sole discretion, deems necessary or advisable to provide for the tax withholding pursuant to Section 14. Unless provided otherwise by the Committee, no Participant shall have any right as a stockholder with respect to any Shares purchased pursuant to any Option until the registration of Shares in the name of such person, and no adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such Shares are so registered.

(c) *Payment of Exercise Price.* To the extent authorized by the Committee, the exercise price of an Option may be paid in the form of one of more of the following, either through the terms of the Option Agreement or at the time of exercise of an Option: (i) cash or certified or cashiers' check, (ii) Shares that have been held by the Participant for such period of time as the Committee may specify, (iii) other property deemed acceptable by the Committee, (iv) a reduction in the number of Shares or other property otherwise issuable pursuant to such Option, (v) any combination of (i) through (iv).

SECTION 7. INCENTIVE BONUS

Each Incentive Bonus Award will confer upon the Employee the opportunity to earn a payment tied to the level of achievement with respect to one or more performance criteria established for a performance period of not less than one year.

7.1 *Incentive Bonus Award.* Each Incentive Bonus Award shall contain provisions regarding (a) the target and maximum amount payable to the Employee as an Incentive Bonus, (b) the performance criteria and level of achievement versus these criteria which shall determine the amount of such payment, (c) the period as to which performance shall be measured for determining the amount of any payment, (d) the timing of any payment earned by virtue of performance, (e) restrictions on the alienation or transfer of the Incentive Bonus prior to actual payment, (f) forfeiture provisions, and

(g) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee.

7.2 *Performance Criteria.* The Committee shall establish the performance criteria and level of achievement versus these criteria, which shall determine the maximum amount payable under an Incentive Bonus Award, which criteria may be based on financial performance and/or personal performance evaluations. The Committee may specify the percentage of the target Incentive Bonus that is intended to satisfy the requirements for "performance-based compensation" under Code Section 162(m). Notwithstanding anything to the contrary herein, the performance criteria for any portion of an Incentive Bonus that is intended by the Committee to satisfy the requirements for "performance-based compensation" under Code Section 162(m) shall be a measure based on one or more Qualifying Performance Criteria (as defined in Section 11.2 hereof) selected by the Committee and specified at the time the Incentive Bonus Award is granted. The Committee shall certify the extent to which any Qualifying Performance Criteria has been satisfied, and the amount payable as a result thereof, prior to payment of any Incentive Bonus that is intended by the Committee to satisfy the requirements for "performance-based compensation" under Code Section 162(m).

7.3 *Timing and Form of Payment.* The Committee shall determine the timing of payment of any Incentive Bonus. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the payment of any Incentive Bonus to be deferred to a specified date or event. The Committee may provide for a Participant to have the option for his or her Incentive Bonus, or such portion thereof as the Committee may specify, to be paid in whole or in part in Shares or Stock Units.

7.4 *Discretionary Adjustments.* Notwithstanding satisfaction of any performance goals, the amount paid under an Incentive Bonus Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

SECTION 8. PERFORMANCE STOCK

Performance Stock consists of an award of Shares, the grant, issuance, retention and/or vesting of which shall be subject to such performance conditions and to such further terms and conditions as the Committee deems appropriate.

8.1 *Performance Stock Award.* Each Performance Stock Award shall contain provisions regarding (a) the number of Shares subject to such Award or a formula for determining such, (b) the performance criteria and level of achievement versus these criteria which shall determine the number of Shares granted, issued, retainable and/or vested, (c) the period as to which performance shall be measured for determining achievement of performance, provided that such period shall be no shorter than one year, (d) forfeiture provisions, and (e) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee.

8.2 *Performance Criteria.* The grant, issuance, retention and/or vesting of each Performance Share shall be subject to such performance criteria and level of achievement versus these criteria as the Committee shall determine, which criteria may be based on financial performance and/or personal performance evaluations. Notwithstanding anything to the contrary herein, the performance criteria for any Performance Stock that is intended by the Committee to satisfy the requirements for "performance-based compensation" under Code Section 162(m) shall be a measure based on one or more Qualifying Performance Criteria selected by the Committee and specified at the time the Performance Stock Award is granted.

8.3 *Timing and Form of Payment.* The Committee shall determine the timing of payment of any Performance Stock Award. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the payment of any Performance

Stock to be deferred to a specified date or event. The Committee may provide for a Participant to have the option for his or her Performance Stock, or such portion thereof as the Committee may specify, to be granted in whole or in part in Shares or Stock Units.

8.4 *Discretionary Adjustments.* Notwithstanding satisfaction of any performance goals, the number of Shares granted, issued, retainable and/or vested under a Performance Stock Award on account of either financial performance or personal performance evaluations may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

SECTION 9. RESTRICTED STOCK

9.1 *Restricted Stock Award.* Each Restricted Stock Award shall contain provisions regarding (a) the number of Shares subject to such Award or a formula for determining such, (b) the length of the restrictive period over which the Restricted Stock Award shall vest or may ratably vest, provided that such period shall be no shorter than three years, (c) forfeiture provisions, and (d) such further terms and conditions, in each case not inconsistent with the Plan as may be determined from time to time by the Committee.

9.2. *Timing and Form of Payment.* The Committee shall determine the timing of payment of any Restricted Stock Award. The Committee may provide for or, subject to such terms and conditions as the Committee may specify, may permit a Participant to elect for the payment of any Restricted Stock to be deferred to a specified date or event. The Committee may provide for a Participant to have the option for his or her Restricted Stock, or such portion thereof as the Committee may specify, to be granted in whole or in part in Shares or Stock Units.

9.3 *Discretionary Adjustments.* The number of Shares granted, issued, retainable and/or vested under a Restricted Stock Award may be reduced by the Committee on the basis of such further considerations as the Committee in its sole discretion shall determine.

SECTION 10. STOCK UNITS

10.1 *Stock Units.* A "Stock Unit" is a bookkeeping entry representing an amount equivalent to the fair market value of one share of Common Stock. Stock Units represent an unfunded and unsecured obligation of the Corporation, except as otherwise provided for by the Committee.

10.2 *Grant of Stock Units.* Stock Units may be issued upon exercise of Options, or in payment and satisfaction of any Share Award.

10.3 *Settlement of Stock Units.* Unless provided otherwise by the Committee, settlement of Stock Units shall be made by issuance of Shares and shall occur within 60 days after an Employee's termination of employment for any reason. The Committee may provide for Stock Units to be settled in cash (at the election of the Corporation or the Participant, as specified by the Committee) and to be made at such other times as it determines appropriate or as it permits a Participant to choose. The amount of Shares, or other settlement medium, to be so distributed may be increased by an interest factor or by dividend equivalents, which may be valued as if reinvested in Shares. Until a Stock Unit is settled, the number of shares of Shares represented by a Stock Unit shall be subject to adjustment pursuant to Section 12.

SECTION 11. OTHER PROVISIONS APPLICABLE TO AWARDS

11.1 *Transferability.* Unless the agreement evidencing an Award (or an amendment thereto authorized by the Committee) expressly states that the Award is transferable as provided hereunder, no Award granted under the Plan, nor any interest in such Award, may be sold, assigned, conveyed, gifted, pledged, hypothecated or otherwise transferred in any manner prior to the vesting or lapse of any and all restrictions applicable thereto, other than by will or the laws of descent and distribution. The

Committee may in its sole discretion grant an Award or amend an outstanding Award to provide that the Award is transferable or assignable to a member or members of the Employee's "immediate family," as such term is defined under Exchange Act Rule 16a-1(e), or to a trust for the benefit solely of a member or members of the Employee's immediate family, or to a partnership or other entity whose only owners are members of the Employee's family, provided that (i) no consideration is given in connection with the transfer of such Award, and (2) following any such transfer or assignment the Award will remain subject to substantially the same terms applicable to the Award while held by the Employee, as modified as the Committee in its sole discretion shall determine appropriate, and the Participant shall execute an agreement agreeing to be bound by such terms.

11.2 *Qualifying Performance Criteria.* For purposes of this Plan, the term "Qualifying Performance Criteria" shall mean any one or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Corporation as a whole or to a business unit or subsidiary, either individually, alternatively or in any combination, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to previous years' results or to a designated comparison group, in each case as specified by the Committee in the Award: (a) cash flow, (b) "core cash" earnings per share (including earnings before interest, taxes, depreciation and amortization), (c) return on equity, (d) total stockholder return, (e) return on capital, (f) return on assets or net assets, (g) revenue, (h) "core cash" income or net income, (i) "core cash" operating income or net operating income, (j) operating profit or net operating profit, (k) operating margin, (l) return on operating revenue, (m) market share, (n) loan volume and (o) overhead or other expense reduction. The Committee may appropriately adjust any evaluation of performance under a Qualifying Performance Criteria to exclude any of the following events that occurs during a performance period: (i) asset write-downs, (ii) litigation or claim judgments or settlements, (iii) the effect of changes in tax law, accounting principles or other laws or provisions affecting reported results, (iv) accruals for reorganization and restructuring programs, and (v) any extraordinary non-recurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Corporation's annual report to stockholders for the applicable year.

11.3 *Dividends.* Unless otherwise provided by the Committee, no adjustment shall be made in Shares issuable under Awards on account of cash dividends that may be paid or other rights that may be issued to the holders of Shares prior to their issuance under any Award. The Committee shall specify whether dividends or dividend equivalent amounts shall be paid to any Participant with respect to the Shares subject to any Award that have not vested or been issued or that are subject to any restrictions or conditions on the record date for dividends.

11.4 *Agreements Evidencing Awards.* The Committee shall, subject to applicable law, determine the date an Award is deemed to be granted, which for purposes of this Plan shall not be affected by the fact that an Award is contingent on subsequent stockholder approval of the Plan. The Committee or, except to the extent prohibited under applicable law, its delegate(s) may establish the terms of agreements evidencing Awards under this Plan and may, but need not, require as a condition to any such agreement's effectiveness that such agreement be executed by the Participant and that such Participant agree to such further terms and conditions as specified in such agreement. The grant of an Award under this Plan shall not confer any rights upon the Participant holding such Award other than such terms, and subject to such conditions, as are specified in this Plan as being applicable to such type of Award (or to all Awards) or as are expressly set forth in the Agreement evidencing such Award.

11.5 *Tandem Stock or Cash Rights.* Either at the time an Award is granted or by subsequent action, the Committee may, but need not, provide that an Award shall contain as a term thereof, a right, either in tandem with the other rights under the Award or as an alternative thereto, of the Participant to receive, without payment to the Corporation, a number of Shares, cash or a combination thereof, the amount of which is determined by reference to the value of the Award.

11.6 *Termination of Employment.* At the time of the grant of an Award, the Committee may provide that upon an Award holder's termination of employment on account of death, Disability or Involuntary Termination, as those terms are defined herein, all unvested Awards held by the Award holder shall vest. "Disability" means total and permanent disability within the meaning of the Corporation's long-term disability policy applicable at the time to the Award holder, as may be amended from time to time. "Involuntary Termination' means termination of employment due to job abolishment.

11.7 *Misconduct.* At the time of the grant of an Award, the Committee may provide that if the Award holder engages in Misconduct, as defined herein, the Award, whether vested or unvested, is forfeited. Whether an Award holder has engaged in Misconduct will be determined by the Corporation's senior human resources officer or his or her designee. Misconduct is defined as an act of embezzlement, fraud, dishonesty, nonpayment of any obligation owed to the Corporation, breach of fiduciary duty or deliberate disregard of Corporation rules; an unauthorized disclosure of any Corporation trade secret or confidential information; any conduct constituting unfair competition; inducing any customer of the Corporation to breach a contract with the Corporation or any principal for whom the Corporation acts as agent to terminate such agency relationship; or engaging in any other act or conduct proscribed by the senior human resources officer as Misconduct.

SECTION 12. CHANGES IN CAPITAL STRUCTURE

If the outstanding securities of the class then subject to this Plan are increased, decreased or exchanged for or converted into cash, property or a different number or kind of shares or securities, or if cash, property or shares or securities are distributed in respect of such outstanding securities, in either case as a result of a reorganization, merger, consolidation, recapitalization, restructuring, reclassification, dividend (other than a regular, quarterly cash dividend) or other distribution, stock split, reverse stock split, spin-off or the like, or if substantially all of the property and assets of the Corporation are sold, then, unless the terms of such transaction shall provide otherwise, the Committee shall make appropriate and proportionate adjustments in (i) the number and type of shares or other securities or cash or other property that may be acquired pursuant to Awards theretofore granted under this Plan and the exercise or settlement price of such Awards, provided, however, that such adjustment shall be made in such a manner that will not affect the status of any Award intended to qualify as an ISO under Code Section 422 or as "performance based compensation" under Code Section 162(m), and (ii) the maximum number and type of shares or other securities that may be issued pursuant to such Awards thereafter granted under this Plan.

SECTION 13. CHANGE OF CONTROL

13.1 *Effect of Change of Control.* The Committee may through the terms of the Award or otherwise provide that any or all of the following shall occur, either immediately upon the Change of Control or a Change of Control Transaction, or upon termination of the Employee's employment within twenty-four (24) months following a Change of Control or a Change of Control Transaction: (a) in the case of an Option, the Participant's ability to exercise any portion of the Option not previously exercisable, (b) in the case of an Incentive Bonus, the right to receive a payment equal to the target amount payable or, if greater, a payment based on performance through a date determined by the Committee prior to the Change of Control, and (c) in the case of Shares issued in payment of any Incentive Bonus, and/or in the case of Performance Stock or Stock Units, the lapse and expiration on any conditions to the grant, issuance, retention, vesting or transferability of, or any other restrictions applicable to, such Award. The Committee also may, through the terms of the Award or otherwise, provide for an absolute or conditional exercise, payment or lapse of conditions or restrictions on an Award which shall only be effective if, upon the announcement of a Change of Control Transaction, no provision is made in such Change of Control Transaction for the exercise, payment or lapse of conditions or restrictions on the Award, or other procedure whereby the Participant may realize the full benefit of the Award.

13.2 *Definitions.* Unless the Committee or the Board shall provide otherwise, "Change of Control" shall mean an occurrence of any of the following events: (a) an acquisition (other than directly from the Corporation) of any voting securities of the Corporation (the "Voting Securities") by any "person or group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) other than an employee benefit plan of the Corporation, immediately after which such Person 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 the Corporation's then outstanding Voting Securities; (b) approval by the stockholders of (i) a merger, consolidation or reorganization involving the Corporation, unless the Corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") shall adopt or assume this Plan and a Participant's Awards under the Plan and either (A) the stockholders of the Corporation immediately before such merger, consolidation or reorganization own, directly or indirectly immediately following such merger, consolidation or reorganization, at least seventy-five percent (75%) of the combined voting power of the Surviving Corporation in substantially the same proportion as their ownership immediately before such merger, consolidation or reorganization, or (B) at least a majority of the members of the Board of Directors of the Surviving Corporation were directors of the Corporation immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization, or (ii) a complete liquidation or dissolution of the Corporation; or (c) such other events as the Committee or the Board from time to time may specify. "Change of Control Transaction" shall include any tender offer, offer, exchange offer, solicitation, merger, consolidation, reorganization or other transaction which is intended to or reasonably expected to result in a change of control.

SECTION 14. TAXES

14.1 *Withholding Requirements.* The Committee may make such provisions or impose such conditions as it may deem appropriate for the withholding or payment by the Employee or Participant, as appropriate, of any taxes which it determines are required in connection with any Awards granted under this Plan, and a Participant's rights in any Award are subject to satisfaction of such conditions.

14.2 *Payment of Withholding Taxes.* Notwithstanding the terms of Section 14.1 hereof, the Committee may provide in the agreement evidencing an Award or otherwise that all or any portion of the taxes required to be withheld by the Corporation or, if permitted by the Committee, desired to be paid by the Participant, in connection with the exercise of a Non-qualified Option or the exercise, vesting, settlement or transfer of any other Award shall be paid or, at the election of the Participant, may be paid by the Corporation withholding Shares otherwise issuable or subject to such Award, or by the Participant delivering previously owned Shares, in each case having a fair market value equal to the amount required or elected to be withheld or paid. Any such elections are subject to such conditions or procedures as may be established by the Committee and may be subject to disapproval by the Committee.

SECTION 15. AMENDMENTS OR TERMINATION

The Board may amend, alter or discontinue the Plan or any agreement evidencing an Award made under the Plan, but no such amendment shall, without the approval of the shareholders of the Corporation:

(a) materially increase the number of shares that may be issued under the Plan;

(b) permit granting of stock options at less than fair market value;

(c) reduce or adjust downward the exercise price of outstanding options, whether through amendment, cancellation or replacement grants, or any other means;

(d) impair the rights of any award holder without his or her consent;

(e) change the class of individuals eligible for the Plan

(f) extend the term of the Plan; and

(g) otherwise amend the Plan in any manner if not permitted to do so by law or the NYSE listing requirements without shareholder approval.

SECTION 16. COMPLIANCE WITH OTHER LAWS AND REGULATIONS.

The Plan, the grant and exercise of Awards thereunder, and the obligation of the Corporation to sell, issue or deliver Shares under such Awards, shall be subject to all applicable federal, state and foreign laws, rules and regulations and to such approvals by any governmental or regulatory agency as may be required. The Corporation shall not be required to register in a Participant's name or deliver any Shares prior to the completion of any registration or qualification of such Shares under any federal, state or foreign law or any ruling or regulation of any government body which the Committee shall, in its sole discretion, determine to be necessary or advisable. This Plan is intended to constitute an unfunded arrangement for a select group of management or other key employees.

No Option shall be exercisable unless a registration statement with respect to the Option is effective or the Corporation has determined that such registration is unnecessary. Unless the Awards and Shares covered by this Plan have been registered under the Securities Act of 1933, as amended, or the Corporation has determined that such registration is unnecessary, each person receiving an Award and/or Shares pursuant to any Award may be required by the Corporation to give a representation in writing that such person is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof.

SECTION 17. OPTION GRANTS BY SUBSIDIARIES

In the case of a grant of an option to any eligible Employee employed by a subsidiary, such grant may, if the Committee so directs, be implemented by the Corporation issuing any subject shares to the subsidiary, for such lawful consideration as the Committee may determine, upon the condition or understanding that the subsidiary will transfer the shares to the option holder in accordance with the terms of the option specified by the Committee pursuant to the provisions of the Plan. Notwithstanding any other provision hereof, such option may be issued by and in the name of the subsidiary and shall be deemed granted on such date as the Committee shall determine.

SECTION 18. NO RIGHT TO COMPANY EMPLOYMENT

Nothing in this Plan or as a result of any Award granted pursuant to this Plan shall confer on any individual any right to continue in the employ of the Corporation or interfere in any way with the right of the Corporation to terminate an individual's employment at any time. The Award agreements may contain such provisions as the Committee may approve with reference to the effect of approved leaves of absence.

SECTION 19. EFFECTIVENESS AND EXPIRATION OF PLAN

The Plan shall be effective on May 13, 2004. All Awards granted under this Plan are subject to, and may not be exercised before, the approval of this Plan by the stockholders prior to the first anniversary date of the effective date of the Plan, by the affirmative vote of the holders of a majority of the outstanding shares of the Corporation present, or represented by proxy, and entitled to vote, at a meeting of the Corporation's stockholders or by written consent in accordance with the laws of the State of Delaware; provided that if such approval by the stockholders of the Corporation is not forthcoming, all Awards previously granted under this Plan shall be void. No Awards shall be granted pursuant to the Plan after May 31, 2009.

SECTION 20. NON-EXCLUSIVITY OF THE PLAN

Neither the adoption of the Plan by the Board nor the submission of the Plan to the stockholders of the Corporation for approval shall be construed as creating any limitations on the power of the Board or the Committee to adopt such other incentive arrangements as it or they may deem desirable, including without limitation, the granting of restricted stock or stock options otherwise than under the Plan, and such arrangements may be either generally applicable or applicable only in specific cases.

SECTION 21. GOVERNING LAW

This Plan and any agreements hereunder shall be interpreted and construed in accordance with the laws of the State of Delaware and applicable federal law. The Committee may provide that any dispute as to any Award shall be presented and determined in such forum as the Committee may specify, including through binding arbitration. Any reference in this Plan or in the agreement evidencing any Award to a provision of law or to a rule or regulation shall be deemed to include any successor law, rule or regulation of similar effect or applicability.

QuickLinks

SLM CORPORATION INCENTIVE PLAN

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Exhibit 10.2

Stock Option Agreement
SLM Corporation Incentive Plan
Incentive, Price-Vested Options, with Replacement—2004

A. *Option Grant*. Stock Options (the "Options") for a total of **«Total_Option_Granted»** shares of Common Stock, par value $.20, of SLM Corporation (the "Corporation") are hereby granted, to **«FIRST_NAME» «LAST_NAME»** (the "Optionee"), subject in all respects to the terms and provisions of the SLM Corporation Incentive Plan (the "Plan"), which is incorporated herein by reference, and this Stock Option Agreement (the "Agreement").

B. *Option Price*. The purchase price per share is «option price» dollars (the"Option Price").

C. *Grant Date*. The date of grant of these Options is «grant date» (the "Grant Date").

D. *Vesting; Exercisability*. The Options are not vested as of the Grant Date. All Options vest upon the earlier of: (1) the Corporation's Common Stock price reaching a closing price equal to or greater than «premium vesting price» per share for five days, but no sooner than one year from the Grant Date; (2) eight years from the Grant Date; or (3) Optionee's death, Disability or Involuntary Termination, unless the Options are terminated earlier in accordance with the provisions of the Plan or this Agreement.

- Upon termination of employment for any reason, other than death, Disability or Involuntary Termination, any unvested Options will not vest and will be canceled.
- Upon termination of employment for Misconduct, any Options, vested or unvested, are forfeited.
- Upon termination for death or Disability, vested Options are exercisable until the earlier of: (1) the Expiration Date; or (2) one year from the date of termination.
- Upon termination for all reasons except death or Disability, vested Options are exercisable until the earlier of: (1) the Expiration Date; or (2) three months from the date of termination.

E. *Expiration*. These Options expire ten years from the Grant Date (the "Expiration Date"), subject to the provisions of the Plan and this Agreement, which may provide for earlier expiration in certain instances, including Optionee's termination of employment.

F. *Incentive Stock Options*. These Options are intended to be incentive stock options ("ISOs") under Section 422 of the Internal Revenue Code of 1986, as amended, to the extent permitted. There is currently a $100,000 statutory annual limitation for ISOs. The annual limitation is calculated based on the Option Price multiplied by the number of shares first becoming exercisable in any one calendar year. *The Plan Administrator will notify you after vesting of the grant as to which options qualify for Non-Qualified Stock Options (NQSO) and ISO tax treatment.* The annual ISO limitation is inclusive of any future ISO grants.

When you exercise Options, you must specify whether you are exercising them for ISO shares or NQSO shares.

G. *Disqualifying Disposition*. When exercising the ISO portion of a grant and receiving ISO shares, the Optionee agrees to notify the Corporation of a "disqualifying disposition". A disqualifying disposition occurs if the Optionee disposes of ISO shares before the expiration of the necessary holding period, which is two years after the Grant Date or one year after the Option is exercised, whichever is later. A cashless exercise through a broker may create a disqualifying disposition if ISO shares are used to pay for the cost of the options. The Corporation is under no obligation to acknowledge or register a transfer of shares upon a disqualifying disposition unless and until the Optionee satisfies any tax obligation arising therefrom.

The one-year holding period for ISO shares described above begins on the date the Corporation accepts the Optionee's notice of exercise and payment of the Option Price, even though the Optionee's interest in the stock may have been delayed under the Options until stock certificates are delivered or shares are received electronically into the Optionee's brokerage account.

Upon a disqualifying disposition, the Corporation will calculate and inform the Optionee of the tax liability due the Corporation. The Optionee agrees to send immediately available funds (check) to the Corporation within three days of notification in the amount required for such taxes, as determined by the Corporation. Alternatively, by exercising the Options, the Optionee agrees that the Corporation may at its option withhold such tax amount from any amount otherwise payable to the Optionee. In the event the Corporation is not notified of a disqualifying disposition by a terminated employee, the Optionee agrees to pay the Corporation any tax penalty and interest resulting from such non-notification.

H. *Replacement Options*. Upon exercise of these Options, Optionee shall receive replacement options, subject to the terms and conditions of the Corporation's replacement option program, for the same number of shares of stock as are used to pay the Option Price upon exercise of these Options if such shares of SLM Common Stock have been owned by the Optionee for at least six months at the time of such exercise.

I. *Non-Transferable; Binding Effect*. These Options may not be transferred except as provided for in the Plan, and may be exercised during the lifetime of the Optionee only by him or her. The terms of these Options shall be binding upon the executors, administrators, heirs, and successors of the Optionee.

J. *Exercise; Payment of Option Price; Taxes*. These Options shall be exercised only in accordance with the terms of the Plan and this Agreement. Each exercise shall be for no fewer than fifty (50) shares, other than an exercise for all remaining Option shares. Upon exercise of all or part of these Options, the Optionee shall pay the Option Price to the Corporation only in the following manner: either (i) by cash or certified or cashier's check, (ii) by arrangement with a broker where payment is made pursuant to an irrevocable direction to the broker to sell sufficient Option shares and pay the entire Option Price to the Corporation in cash, or (iii) by delivery of shares of Common Stock of the Corporation that have been owned by Optionee for at least six months. The value of any such shares delivered as payment of the Option Price shall be such shares' fair market value as indicated by the price per share of the Corporation's common stock at the time of exercise. In addition, as a condition to the issuance of shares of Common Stock of the Corporation pursuant to these Options, the Optionee agrees to remit to the Corporation at the time of any exercise of these Options any taxes required to be withheld by the Corporation under federal, state, or local law as a result of the exercise of these Options or as a result of disposing of ISO shares before the expiration of the necessary holding period (disqualifying disposition).

K. *Vesting Upon Change In Control*. Notwithstanding anything to the contrary in this Agreement, any of the Options which have not otherwise become exercisable shall become immediately exercisable upon a Change in Control of the Corporation. For purposes of this paragraph, the term "Change in Control" means an occurrence of any of the following events: (a) an acquisition (other than directly from the Corporation) of any voting securities of the Corporation (the "Voting Securities") by any "person or group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) other than an employee benefit plan of the Corporation, 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 the Corporation's then outstanding Voting Securities;
(b) approval by the stockholders of (i) a merger, consolidation or

reorganization involving the Corporation, unless the Corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") shall adopt or assume the Plan and this Option and either (A) the stockholders of the Corporation immediately before such merger, consolidation or reorganization own, directly or indirectly immediately following such merger, consolidation, or reorganization, at least seventy-five percent (75%) of the combined voting power of the Surviving Corporation in substantially the same proportion as their ownership immediately before such merger, consolidation or reorganization, or (B) at least a majority of the members of the Board of Directors of the Surviving Corporation were directors of the Corporation immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization, or (ii) a complete liquidation or dissolution of the Corporation; or (c) such other events as the Committee or the Board from time to time may specify.

In the event that, as a result of the Options becoming exercisable in connection with a Change in Control, any state, local or federal taxing authority imposes any taxes on the Optionee that would not be imposed but for the occurrence of a Change in Control, including any excise tax under Section 4999 of the Internal Revenue Code and any successor or comparable provision, then the Corporation (including any successor to the Corporation) shall pay to the Optionee at the time any such tax becomes payable an amount equal to the amount of any such tax imposed on the Optionee (the amount of any such payment, the "Parachute Tax Reimbursement"). In addition, the Corporation (including any successor to the Corporation) shall "gross up" such Parachute Tax Reimbursement by paying to the Optionee at the time any such tax becomes payable 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 payable by the Optionee as a result of the Parachute Tax Reimbursement being payable to the Optionee and/or as a result of the additional amounts payable to the Optionee pursuant to this sentence, such that after payment of such additional taxes the Optionee shall have been paid on an after-tax basis an amount equal to the Parachute Tax Reimbursement.

L. *Board Interpretation*. The Optionee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Board of Directors of the Corporation and, where applicable, the Compensation and Personnel Committee of the Board of Directors (the "Committee") concerning any questions arising under this Agreement or the Plan.

M. *Amendments for Accounting Charges*: The Committee reserves the right to unilaterally amend this Agreement to reflect any changes in applicable law or financial accounting standards.

N. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of Delaware, without giving effect to principles of conflicts of law.

O. *Notices*. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if personally delivered, telefaxed or telecopied to, or, if mailed, when received by, the other party at the following addresses:

If to the Corporation to:

Director, Stock Plans
Sallie Mae
12061 Bluemont Way
Reston, VA 20190
Fax: (703) 984-5170

If to the Optionee, to (i) the last address maintained in the Corporation's Human Resources files for the Optionee or (ii) the Optionee's mail delivery code or place of work at the Corporation.

P. *Miscellaneous*. In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of this Agreement shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision. The headings in this Agreement are solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect. The Optionee shall cooperate and take such actions as may be reasonably requested by the Corporation in order to carry out the provisions and purposes of the Agreement. The Optionee is responsible for complying with all laws applicable to Optionee, including federal and state securities reporting laws.

The Optionee hereby accepts these Options subject to all the terms and provisions set forth herein and in the Plan.

SLM CORPORATION

By: **«Insert Signature»**

Albert L. Lord,
Vice Chairman and Chief Executive Officer

OPTIONEE:

Signature: ____________________

Name: «FIRST_NAME» «LAST_NAME»

Date signed: ____________________

Copies of the Plan Document and Prospectus are available on the Sallie Mae Stock Options Intranet site located at http://salliemaecentral.com/legal/esop/plandocs.htm. Paper copies of these documents can be obtained by contacting the Plan Administrator by sending an email to stock.options@slma.com, or to request by fax to (703) 984-5170.

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Exhibit 10.3

Stock Option Agreement
SLM Corporation Incentive Plan
Non-Qualified, Price-Vested Options—2004

A. *Option Grant*. Stock Options (the "Options") for a total of **«Options_Granted»** shares of Common Stock, par value $.20, of SLM Corporation (the "Corporation") are hereby granted, to **«FIRST_NAME» «LAST_NAME»** (the "Optionee"), subject in all respects to the terms and provisions of the SLM Corporation Incentive Plan (the "Plan"), which is incorporated herein by reference, and this Stock Option Agreement (the "Agreement"). The Options are non-qualified stock options and are not incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended.

B. *Option Price*. The purchase price per share is **«OPTION_PRICE»** dollars (the"Option Price").

C. *Grant Date*. The date of grant of these Options is **«GRANT_DATE»** (the "Grant Date").

D. *Vesting; Exercisability*. The Options are not vested as of the Grant Date. All Options vest upon the earlier of: (1) the Corporation's Common Stock price reaching a closing price equal to or greater than **«VESTING_PRICE»** per share for five days, but no sooner than one year from the Grant Date; (2) eight years from the Grant Date; or (3) Optionee's death, Disability or Involuntary Termination, unless the Options are terminated earlier in accordance with the provisions of the Plan or this Agreement.

- Upon termination of employment for any reason, other than death, Disability or Involuntary Termination, any unvested Options will not vest and will be canceled.
- Upon termination of employment for Misconduct, any Options, vested or unvested, are forfeited.
- Upon termination for death or Disability, vested Options are exercisable until the earlier of: (1) the Expiration Date; or (2) one year from the date of termination.
- Upon termination for all reasons except death or Disability, vested Options are exercisable until the earlier of: (1) the Expiration Date; or (2) three months from the date of termination.

E. *Expiration*. These Options expire ten years from the Grant Date (the "Expiration Date"), subject to the provisions of the Plan and this Agreement, which may provide for earlier expiration in certain instances, including Optionee's termination of employment.

F. *Non-Transferable; Binding Effect*. These Options may not be transferred except as provided for in the Plan, and may be exercised during the lifetime of the Optionee only by him or her. The terms of these Options shall be binding upon the executors, administrators, heirs, and successors of the Optionee.

G. *Exercise; Payment of Option Price; Taxes*. These Options shall be exercised only in accordance with the terms of the Plan and this Agreement. Each exercise shall be for no fewer than fifty (50) shares, other than an exercise for all remaining Option shares. Upon exercise of all or part of these Options, the Optionee shall pay the Option Price to the Corporation only in the following manner: either (i) by cash or certified or cashier's check, (ii) by arrangement with a broker where payment is made pursuant to an irrevocable direction to the broker to sell sufficient Option shares and pay the entire Option Price to the Corporation in cash, or (iii) by delivery of shares of Common Stock of the Corporation that have been owned by Optionee for at least six months. The value of any such shares delivered as payment of the Option Price shall be such shares' fair market value as indicated by the price per share of the Corporation's common stock at the time of exercise. In addition, as a condition to the issuance of shares of Common Stock of the Corporation pursuant to these Options, the Optionee agrees to remit to the Corporation at the time of any exercise of these Options any taxes required to be withheld by the Corporation under federal, state, or local law as a result of the exercise of these Options.

H. *Vesting Upon Change In Control*. Notwithstanding anything to the contrary in this Agreement, any of the Options which have not otherwise become exercisable shall become immediately exercisable upon a Change in Control of the Corporation. For purposes of this paragraph, the term "Change in Control" means an occurrence of any of the following events: (a) an acquisition (other than directly from the Corporation) of any voting securities of the Corporation (the "Voting Securities") by any "person or group" (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) other than an employee benefit plan of the Corporation, 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 the Corporation's then outstanding Voting Securities; (b) approval by the stockholders of (i) a merger, consolidation or reorganization involving the Corporation, unless the Corporation resulting from such merger, consolidation or reorganization (the "Surviving Corporation") shall adopt or assume the Plan and this Option and either (A) the stockholders of the Corporation immediately before such merger, consolidation or reorganization own, directly or indirectly immediately following such merger, consolidation, or reorganization, at least seventy-five percent (75%) of the combined voting power of the Surviving Corporation in substantially the same proportion as their ownership immediately before such merger, consolidation or reorganization, or (B) at least a majority of the members of the Board of Directors of the Surviving Corporation were directors of the Corporation immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization, or (ii) a complete liquidation or dissolution of the Corporation; or (c) such other events as the Committee or the Board from time to time may specify.

In the event that, as a result of the Options becoming exercisable in connection with a Change in Control, any state, local or federal taxing authority imposes any taxes on the Optionee that would not be imposed but for the occurrence of a Change in Control, including any excise tax under Section 4999 of the Internal Revenue Code and any successor or comparable provision, then the Corporation (including any successor to the Corporation) shall pay to the Optionee at the time any such tax becomes payable an amount equal to the amount of any such tax imposed on the Optionee (the amount of any such payment, the "Parachute Tax Reimbursement"). In addition, the Corporation (including any successor to the Corporation) shall "gross up" such Parachute Tax Reimbursement by paying to the Optionee at the time any such tax becomes payable 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 payable by the Optionee as a result of the Parachute Tax Reimbursement being payable to the Optionee and/or as a result of the additional amounts payable to the Optionee pursuant to this sentence, such that after payment of such additional taxes the Optionee shall have been paid on an after-tax basis an amount equal to the Parachute Tax Reimbursement.

I. *Board Interpretation*. The Optionee hereby agrees to accept as binding, conclusive, and final all decisions and interpretations of the Board of Directors of the Corporation and, where applicable, the Compensation and Personnel Committee of the Board of Directors (the "Committee") concerning any questions arising under this Agreement or the Plan.

J. *Amendments for Accounting Charges*: The Committee reserves the right to unilaterally amend this Agreement to reflect any changes in applicable law or financial accounting standards.

K. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of Delaware, without giving effect to principles of conflicts of law.

L. *Notices*. All notices, requests, demands and other communications under this Agreement shall be in writing and shall be deemed to have been duly given if personally delivered, telefaxed or telecopied to, or, if mailed, when received by, the other party at the following addresses:

If to the Corporation to:

Director, Stock Plans
Sallie Mae
12061 Bluemont Way
Reston, VA 20190
Fax: (703) 984-5170

If to the Optionee, to (i) the last address maintained in the Corporation's Human Resources files for the Optionee or (ii) the Optionee's mail delivery code or place of work at the Corporation.

M. *Miscellaneous*. In the event that any provision of this Agreement is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of this Agreement shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision. The headings in this Agreement are solely for convenience of reference, and shall not constitute a part of this Agreement, nor shall they affect its meaning, construction or effect. The Optionee shall cooperate and take such actions as may be reasonably requested by the Corporation in order to carry out the provisions and purposes of the Agreement. The Optionee is responsible for complying with all laws applicable to Optionee, including federal and state securities reporting laws.

The optionee must contact Merrill Lynch to accept the terms of this grant. Merrill Lynch can be contacted at www.benefits.ml.com or by phone at 1-877-SLM-ESOP. If the optionee fails to accept the terms of this grant, the options may not be exercised.

SLM CORPORATION

[INSERT SIGNATURE]

By: ____________________

Albert L. Lord,
Vice Chairman and Chief Executive Officer

Copies of the Plan Document and Prospectus are available on the Sallie Mae Stock Options Intranet site located at http://salliemaecentral.com/legal/esop/plandocs.htm. Paper copies of these documents can be obtained by contacting the Plan Administrator by sending an email to stock.options@slma.com, or to request by fax to (703) 810-7170.

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Exhibit 10.4

Terms of Performance Stock Grant

Pursuant to the terms and conditions of the SLM Corporation Incentive Plan ("IP"), the Compensation and Personnel Committee of the Board of Directors of SLM Corporation hereby grants to XXX, on [date] ( ) shares of SLM Corporation common stock ("Performance Stock).

On and from the date of grant of the Performance Stock, the Performance Stock shall be subject to forfeiture and shall not be vested or transferable, except as provided below.

- 40 percent of the Performance Stock will vest upon the later of the third anniversary of the grant date and the date that SLM Corporation announces its 200X fiscal year results; provided that SLM Corporation has positive "core cash basis" net income for the 200X fiscal year; and 60 percent will vest upon the later of the fifth anniversary of the grant date and the date that SLM Corporation announces its 200X fiscal year results; provided that SLM Corporation has positive "core cash basis" net income for the 200X fiscal year. Except as provided below, if XXX ceases to be an employee of SLM Corporation (or one of its subsidiaries) for any reason, he/she shall forfeit any shares of Performance Stock that have not vested as of the date of such termination of employment.

- Unless previously vested pursuant to the foregoing provisions, the Performance Stock will vest upon XXX's death or Involuntary Termination, Disability or Change in Control, all as those terms are defined in the IP.

- Shares of Performance Stock are outstanding shares of common stock of SLM Corporation and as such, holders of the Performance Stock are entitled to vote the shares and receive dividends on the shares in the same manner as other shareholders of SLM Corporation. As required by the Internal Revenue Code, dividends declared on unvested shares of Performance Stock will be paid to XXX as additional compensation and will be taxed as ordinary income. Dividends declared on vested shares of Performance Stock will be paid directly to XXX and taxed as dividend income.

- XXX may at any time elect to have a sufficient number of shares of SLM Corporation's stock withheld by SLM Corporation to satisfy his income and employment tax withholding requirements that accrue upon the Performance Stock becoming vested and transferable, and the Compensation and Personnel Committee hereby approves the transfer of such shares to SLM Corporation for purposes of SEC Rule 16b-3.

- If compensation paid to XXX might be subject to the deduction limitations of section 162(m) of the Internal Revenue Code, actual vesting of the Performance Stock will occur upon certification by the Compensation and Personnel Committee that applicable performance targets have been met.

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Exhibit 31.1

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

I, Albert L. Lord, certify that:

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

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

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

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

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

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

    c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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

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

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

/s/ ALBERT L. LORD

Albert L. Lord
Vice Chairman and Chief Executive Officer
November 9, 2004

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Exhibit 31.2

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

I, John F. Remondi, certify that:

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

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

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

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

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

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

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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

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

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

/s/ JOHN F. REMONDI

John F. Remondi
Executive Vice President, Finance
November 9, 2004

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Exhibit 31.3

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

I, C.E. Andrews, certify that:

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

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

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

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

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

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

   c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

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

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

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

/s/ C.E. ANDREWS

C.E. Andrews
Executive Vice President, Accounting and Risk Management
November 9, 2004

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Exhibit 32.1

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

In connection with the Quarterly Report of SLM Corporation (the Company) on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Albert L. Lord, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ ALBERT L. LORD

Albert L. Lord
Chief Executive Officer
November 9, 2004

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Exhibit 32.2

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

In connection with the Quarterly Report of SLM Corporation (the Company) on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, John F. Remondi, Executive Vice President, Finance of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ JOHN F. REMONDI

John F. Remondi
Executive Vice President, Finance
November 9, 2004

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Exhibit 32.3

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

In connection with the Quarterly Report of SLM Corporation (the Company) on Form 10-Q for the period ending September 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, C.E. Andrews, Executive Vice President, Accounting and Risk Management of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ C.E. ANDREWS

C.E. Andrews
Executive Vice President, Accounting and Risk Management
November 9, 2004