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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 March 31, 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 to**

**Commission File Number: 001-13251**

# SLM CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware**<br>(State or other jurisdiction of incorporation or organization) | **52-2013874**<br>(I.R.S. Employer Identification No.) |
| **11600 Sallie Mae Drive, Reston, Virginia**<br>(Address of principal executive offices) | **20193**<br>(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 April 30, 2004 |
|---|---|
| Common Stock, $.20 par value | 438,951,385 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 1/8$^{th}$ 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.

**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 has a direct effect on 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.

**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.

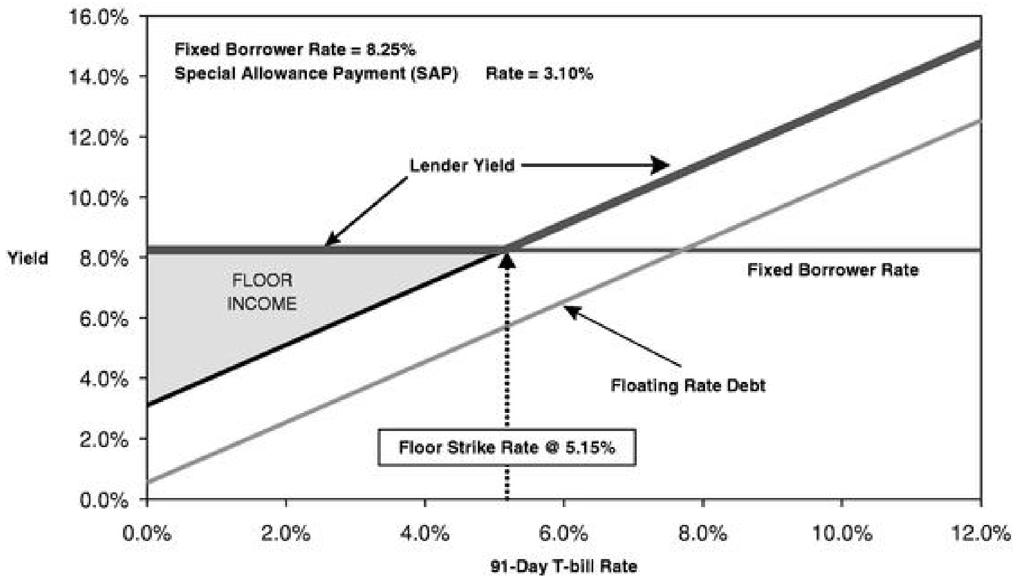
**Floor Income**—Our portfolio of FFELP student loans generally earns interest at the higher of a floating rate based on the Special Allowance Payment or SAP (see definition below) formula set by the DOE and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when our student loans are earning at the fixed borrower rate and the interest on our floating rate debt is continuing to decline, we may earn additional spread income and refer to it 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:

| | |
|---|---|
| Fixed borrower/minimum floor interest rate: | 8.25% |
| Floating rate special allowance payment formula: | 91-day T-bill + 3.10% |
| Floor strike rate (minimum floor strike rate less SAP spread): | 5.15% |

Based on this example, if the quarterly average 91-day Treasury bill rate is over 5.15 percent, special allowance payments will be made to ensure that the holder receives at least a specified floating rate based on the Special Allowance Payment formula. On the other hand, if the quarterly average 91-day Treasury bill is below 5.15 percent, the loan holder will earn the minimum floor rate of 8.25 percent from the student loan. The difference between the minimum floor rate of 8.25 percent and the lender's expected yield (i.e., the yield that the lender would have earned if the borrower's rate did not create a floor) is referred to as Floor Income. Because the student loan assets are generally funded with floating rate debt, the net interest income is enhanced during periods of declining interest rates when the student loan is earning at the fixed borrower rate.

***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.

**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 JP Morgan Chase, and are committed for sale to Sallie Mae.

**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 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 Credit Student 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. All 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.

**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**
**FORM 10-Q**
**INDEX**
**March 31, 2004**

## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements**

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

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Federally insured student loans (net of allowance for losses of $20,592 and $26,283, respectively) | $ 26,174,672 | $ 29,222,268 |
| Federally insured student loans in trust (net of allowance for losses of $28,637 and $19,710, respectively) | 24,062,169 | 16,354,805 |
| Private Credit Student Loans (net of allowance for losses of $154,222 and $165,716, respectively) | 4,176,841 | 4,470,156 |
| Academic facilities financings and other loans (net of allowance for losses of $10,179 and $10,052, respectively) | 1,104,226 | 1,030,907 |
| Investments | | |
| Trading | 165 | 166 |
| Available-for-sale | 5,774,693 | 4,370,347 |
| Other | 701,022 | 677,357 |
| Total investments | 6,475,880 | 5,047,870 |
| Cash and cash equivalents | 3,818,812 | 1,847,585 |
| Restricted cash and investments | 1,245,828 | 1,105,896 |
| Retained Interest in securitized receivables | 2,482,242 | 2,475,836 |
| Goodwill and acquired intangible assets, net | 589,078 | 592,112 |
| Other assets | 3,133,709 | 2,463,216 |
| Total assets | $ 73,263,457 | $ 64,610,651 |
| **Liabilities** | | |
| Short-term borrowings | $ 16,176,387 | $ 18,735,385 |
| Borrowings collateralized by loans in trust | 24,595,289 | 16,597,396 |
| Long-term notes | 26,710,017 | 23,210,778 |
| Other liabilities | 3,044,113 | 3,437,046 |
| Total liabilities | 70,525,806 | 61,980,605 |
| **Commitments and contingencies** | | |
| **Stockholders' equity** | | |
| Preferred stock, Series A, par value $.20 per share, 20,000 shares authorized: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share | 165,000 | 165,000 |
| Common stock, par value $.20 per share, 1,125,000 shares authorized: 476,442 and 472,643 shares issued, respectively | 95,289 | 94,529 |
| Additional paid-in capital | 1,670,640 | 1,553,240 |
| Accumulated other comprehensive income (net of tax of $287,778 and $229,181, respectively) | 534,445 | 425,621 |
| Retained earnings | 1,153,100 | 941,284 |
| Stockholders' equity before treasury stock | 3,618,474 | 3,179,674 |
| Common stock held in treasury at cost: 33,533 and 24,965 shares, respectively | 880,823 | 549,628 |
| Total stockholders' equity | 2,737,651 | 2,630,046 |
| Total liabilities and stockholders' equity | $ 73,263,457 | $ 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)**

| | Three months ended March 31, 2004 (Unaudited) | Three months ended March 31, 2003 (Unaudited) |
|---|---|---|
| **Interest income:** | | |
| Federally insured student loans | $ 468,967 | $ 467,482 |
| Private Credit Student Loans | 76,589 | 87,572 |
| Academic facilities financings and other loans | 18,376 | 20,206 |
| Investments | 43,457 | 28,261 |
| Total interest income | 607,389 | 603,521 |
| **Interest expense:** | | |
| Short-term debt | 84,664 | 94,222 |
| Long-term debt | 201,010 | 163,080 |
| Total interest expense | 285,674 | 257,302 |
| Net interest income | 321,715 | 346,219 |
| Less: provision for losses | 39,818 | 42,545 |
| Net interest income after provision for losses | 281,897 | 303,674 |
| **Other income:** | | |
| Gains on student loan securitizations | 113,954 | 305,803 |
| Servicing and securitization revenue | 136,658 | 188,612 |
| Derivative market value adjustment | (116,743) | (119,064) |
| Guarantor servicing fees | 34,971 | 35,193 |
| Debt management fees | 79,928 | 58,813 |
| Other | 58,955 | 49,575 |
| Total other income | 307,723 | 518,932 |
| **Operating expenses:** | | |
| Salaries and benefits | 126,268 | 95,819 |
| Other | 82,609 | 83,546 |
| Total operating expenses | 208,877 | 179,365 |
| Income before income taxes | 380,743 | 643,241 |
| Income taxes | 89,278 | 226,692 |
| **Net income** | 291,465 | 416,549 |
| Preferred stock dividends | 2,886 | 2,875 |
| Net income attributable to common stock | $ 288,579 | $ 413,674 |
| Basic earnings per common share | $ .65 | $ .91 |
| Average common shares outstanding | 442,664 | 456,581 |
| Diluted earnings per common share | $ .64 | $ .88 |
| Average common and common equivalent shares outstanding | 451,747 | 469,696 |
| Dividends per common share | $ .17 | $ .08 |

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 December 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 (loss) | | | | | | | | | 416,549 | | 416,549 |
| Other comprehensive income, net of tax: | | | | | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | | | | 1,774 | | | 1,774 |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | | | | 3,087 | | | 3,087 |
| Minimum pension liability adjustment | | | | | | | | (928) | | | (928) |
| Comprehensive income | | | | | | | | | | | 420,482 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.08 per share) | | | | | | | | | (37,850) | | (37,850) |
| Preferred stock ($.87 per share) | | | | | | | | | (2,875) | | (2,875) |
| Issuance of common shares | | 5,731,644 | 77,274 | 5,808,918 | | 1,147 | 132,875 | | | 2,725 | 136,747 |
| Tax benefit related to employee stock option and purchase plans | | | | | | | 3,389 | | | | 3,389 |
| Premiums on equity forward purchase contracts | | | | | | | (6,365) | | | | (6,365) |
| Repurchase of common shares: | | | | | | | | | | | |
| Open market repurchases | | | (3,415,290) | (3,415,290) | | | | | | (122,786) | (122,786) |
| Equity forward repurchases | | | (4,560,000) | (4,560,000) | | | | | | (109,987) | (109,987) |
| Benefit plans | | | (968,778) | (968,778) | | | | | | (34,449) | (34,449) |
| **Balance at March 31, 2003** | 3,300,000 | 630,283,152 | (175,679,514) | 454,603,638 | $ 165,000 | $ 126,057 | $ 1,232,473 | $ 596,693 | $ 3,094,050 | $ (2,970,017) | $ 2,244,256 |
| **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 | | | | | | | | | 291,465 | | 291,465 |
| Other comprehensive income, net of tax: | | | | | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | | | | 104,189 | | | 104,189 |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | | | | 4,993 | | | 4,993 |
| Minimum pension liability adjustment | | | | | | | | (358) | | | (358) |
| Comprehensive income | | | | | | | | | | | 400,289 |
| Cash dividends: | | | | | | | | | | | |
| Common stock ($.17 per share) | | | | | | | | | (76,763) | | (76,763) |
| Preferred stock ($.87 per share) | | | | | | | | | (2,886) | | (2,886) |
| Issuance of common shares | | 3,799,142 | 37,679 | 3,836,821 | | 760 | 96,053 | | | 1,513 | 98,326 |
| Tax benefit related to employee stock option and purchase plans | | | | | | | 21,347 | | | | 21,347 |
| Repurchase of common shares: | | | | | | | | | | | |
| Equity forward repurchases | | | (7,891,660) | (7,891,660) | | | | | | (303,751) | (303,751) |
| Benefit plans | | | (714,748) | (714,748) | | | | | | (28,957) | (28,957) |
| **Balance at March 31, 2004** | 3,300,000 | 476,442,138 | (33,533,482) | 442,908,656 | $ 165,000 | $ 95,289 | $ 1,670,640 | $ 534,445 | $ 1,153,100 | $ (880,823) | $ 2,737,651 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended March 31, 2004 (Unaudited) | Three months ended March 31, 2003 (Unaudited) |
|---|---|---|
| **Operating activities** | | |
| Net income | $ 291,465 | $ 416,549 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gains on student loan securitizations | (113,954) | (305,803) |
| Losses on sales of securities, net | — | 81,560 |
| Unrealized derivative market value adjustment | 41,094 | (114,366) |
| Unrealized derivative equity forward non-taxable | (140,761) | — |
| Provision for losses | 39,818 | 42,545 |
| Mortgage loans originated | (363,140) | (228,319) |
| Proceeds from sales of mortgage loans | 262,582 | 195,554 |
| Increase in restricted cash | (238,066) | (30,508) |
| (Increase) decrease in accrued interest receivable | (164,716) | 76,278 |
| Increase in accrued interest payable | 99,349 | 36,206 |
| Decrease in Retained Interest in securitized receivables, net | 22,893 | 411 |
| Decrease (increase) in other assets, goodwill and acquired intangible assets | 34,558 | (274,198) |
| (Decrease) increase in other liabilities | (558,130) | 50,749 |
| Total adjustments | (1,078,473) | (469,891) |
| Net cash used in operating activities | (787,008) | (53,342) |
| **Investing activities** | | |
| Student loans acquired | (6,311,801) | (5,179,019) |
| Loans purchased from securitized trusts (primarily through loan consolidations) | (1,273,677) | (1,332,504) |
| Reduction of student loans: | | |
| Installment payments | 1,595,982 | 1,080,080 |
| Claims and resales | 216,594 | 174,641 |
| Proceeds from securitization of student loans treated as sales | 1,236,345 | 4,237,815 |
| Proceeds from sales of student loans | 190,687 | — |
| Academic facilities financings and other loans made | (151,343) | (99,687) |
| Academic facilities financings and other loans repayments | 143,086 | 164,077 |
| Purchases of available-for-sale securities | (51,640,829) | (13,727,223) |
| Proceeds from sales and maturities of available-for-sale securities | 50,367,989 | 13,796,908 |
| Purchases of other securities | (114,179) | (109,792) |
| Proceeds from sales and maturities of other securities | 90,515 | 92,925 |
| Return of investment from Retained Interest | 126,897 | 76,115 |
| Net cash used in investing activities | (5,523,734) | (825,664) |
| **Financing activities** | | |
| Short-term borrowings issued | 179,680,070 | 173,060,575 |
| Short-term borrowings repaid | (181,021,844) | (173,771,906) |
| Long-term notes issued | 5,943,574 | 5,181,684 |
| Long-term notes repaid | (4,074,944) | (5,576,723) |
| Borrowings collateralized by loans in trust | 8,009,643 | 2,037,331 |
| Common stock issued | 98,326 | 136,747 |
| Premiums on equity forward contracts | — | (6,365) |
| Common stock repurchased | (273,207) | (267,222) |
| Common dividends paid | (76,763) | (37,850) |
| Preferred dividends paid | (2,886) | (2,875) |
| Net cash provided by financing activities | 8,281,969 | 753,396 |
| Net increase (decrease) in cash and cash equivalents | 1,971,227 | (125,610) |
| Cash and cash equivalents at beginning of period | 1,847,585 | 462,688 |
| **Cash and cash equivalents at end of period** | $ 3,818,812 | $ 337,078 |
| Cash disbursements made for: | | |
| Interest | $ 218,583 | $ 281,348 |
| Income taxes | $ 201,564 | $ 215,920 |

See accompanying notes to consolidated financial statements.

**(Information at March 31, 2004 and for the three months ended March 31, 2004 and 2003 is unaudited)**
**(Dollars and shares in thousands, except per share amounts, unless otherwise stated)**

## 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 months ended March 31, 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.

### *Reclassifications*

A recent interpretation of the Financial Accounting Standards Board's (the "FASB's") Statement of Financial Accounting Standard ("SFAS") No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions that do not qualify as hedges under SFAS No. 133 to be included in the derivative market value adjustment on the income statement. The table below summarizes these derivative reclassifications for the three months ended March 31, 2003.

| (Dollars in millions) | | Three months ended March 31, 2003 |
|---|---|---|
| **Reclassification of realized derivative transactions to derivative market value adjustment:** | | |
| Net settlement expense on Floor Income Contracts reclassified from student loan income | $ | (118) |
| Net settlement expense on Floor Income Contracts reclassified from servicing and securitization income | | (36) |
| Net settlement income on interest rate swaps reclassified from interest expense | | 12 |
| Net settlement expense on interest rate swaps reclassified from servicing and securitization income | | (15) |
| Realized losses on closed Eurodollar futures contracts and terminated derivative contracts reclassified from other expense | | (77) |
| **Total reclassifications to the derivative market value adjustment** | | (234) |
| Add: Unrealized derivative market value adjustment | | 115 |
| Derivative market value adjustment as reported | $ | (119) |

***Stock-Based Compensation***

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require more prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The additional disclosure requirements of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The Company has elected to continue to account 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.

The following table summarizes pro forma disclosures for the three months ended March 31, 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. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model, with the following weighted average assumptions for the three months ended March 31, 2004 and 2003, respectively: risk-free interest rate of 2.08 percent and 2.31 percent; volatility factor of the expected market price of the Company's common stock of 14.04 percent and 24.99 percent; expected dividend rate of 1.62 percent and 1.04 percent; and the expected life of the option of three years for both periods. Options that have vesting periods tied to the Company's stock price are assumed to vest ratably over the three year historical vesting period.

| | Three months ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| Net income attributable to common stock | $ 288,579 | $ 413,674 |
| Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (16,499) | (26,201) |
| Pro forma net income attributable to common stock | $ 272,080 | $ 387,473 |
| Basic earnings per common share | $ .65 | $ .91 |
| Pro forma basic earnings per common share | $ .61 | $ .85 |
| Diluted earnings per common share | $ .64 | $ .88 |
| Pro forma diluted earnings per common share | $ .60 | $ .82 |

## 2. Allowance for Student Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the student loan portfolios. The allowance for Private Credit Student Loan losses is an estimate of losses in the portfolio at the balance sheet date that will be charged off in subsequent periods. The evaluation of the provision for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. The Company believes that the allowance for loan losses is adequate to cover probable losses in the student loan portfolio.

The federal government guarantees 98 percent of principal and interest of federally insured student loans, which limits the Company's loss exposure to two percent of the outstanding balance of the Company's federally insured portfolio.

The Company estimates its losses using historical data from its Private Credit Student Loan portfolios, extrapolations of FFELP loan loss data, current trends and relevant industry information. As the Company's Private Credit Student Loan portfolios continue to mature, more reliance is placed on the Company's own historical Private Credit Student Loan charge-off and recovery data. Accordingly, during the fourth quarter of 2003, the Company revised its expected default assumptions to further align the allowance estimate with the Company's collection experience as well as the terms and policies of the individual Private Credit Student Loan programs. The Company uses this data in internally developed models to estimate the amount of losses, net of subsequent collections, projected to occur in the Private Credit Student Loan portfolios.

To calculate the Private Credit Student Loan loss allowance, the Company divides the portfolio into categories of similar risk characteristics based on loan program type, underwriting criteria, existence or absence of a co-borrower, repayment begin date and repayment status. The Company then applies default and collection rate projections to each category. The repayment begin date indicates when the borrower is required to begin repaying the loan. The Company's career training Private Credit Student Loan programs (30 percent of the Private Credit Student Loan portfolio at March 31, 2004) generally require borrowers to start repaying their loans immediately. The Company's higher education Private Credit Student Loan programs (70 percent of the Private Credit Student Loan portfolio at March 31, 2004) do not require the borrowers to begin repayment until they have graduated or otherwise left school. Consequently, loss estimates for these programs are minimal while the borrower is in school. At March 31, 2004, 46 percent of the principal balance in the higher education Private Credit Student Loan portfolio relates to borrowers who are still in school and, therefore, not required to make payments. As the current portfolio ages, an increasing percentage of borrowers will leave school and be required to begin to repay their loans. With a higher percentage of borrowers in repayment, the Company expects the allowance for losses to increase accordingly.

The Company's loss estimates include losses that the Company expects to incur over the loss confirmation period, which is the period of the highest concentration of defaults. The loss confirmation period is 2 years for career training loans beginning when the loan is originated and 5 years for higher education loans beginning when the borrower leaves school. The loss confirmation period is in alignment with the Company's typical collection cycle and the Company considers these periods of nonpayment when estimating the allowance. The Company's collection policies allow for periods of nonpayment for borrowers experiencing temporary difficulty meeting payment obligations (typically, very early in the repayment term when the borrowers are starting their careers). This is referred to as forbearance status. At March 31, 2004, 4 percent of the Private Credit Student Loan portfolio was in forbearance status.

Private Credit Student Loan principal and accrued interest is charged off against the allowance at 212 days of delinquency. Private Credit Student Loans continue to accrue interest until they are charged off and removed from the active portfolio. Recoveries on loans charged off are recorded directly to the allowance.

The following table summarizes changes in the allowance for student loan losses for both the Private Credit and federally insured student loan portfolios for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| **Balance at beginning of period** | $ 211,709 | $ 230,684 |
| Additions | | |
| Provisions for student loan losses | 37,793 | 42,861 |
| Recoveries | 2,846 | 3,443 |
| Deductions | | |
| Reductions for student loan sales and securitizations | (21,102) | (31,736) |
| Charge-offs | (27,795) | (19,499) |
| Other | — | 6,828 |
| **Balance at end of period** | $ 203,451 | $ 232,581 |

In addition to the provisions for student loan losses, provisions for losses on other Company loans totaled $2.0 million and $0.3 million for the three months ended March 31, 2004 and 2003, respectively.

The table below presents the Company's Private Credit Student Loan delinquency trends as of March 31, 2004 and 2003. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

| | March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment [1] | $ 1,975 | | $ 2,203 | |
| Loans in forbearance [2] | 187 | | 281 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 1,944 | 90% | 2,366 | 90% |
| Loans delinquent 30-59 days [3] | 81 | 4 | 123 | 5 |
| Loans delinquent 60-89 days | 49 | 2 | 65 | 2 |
| Loans delinquent 90 days or greater | 95 | 4 | 77 | 3 |
| Total Private Credit Student Loans in repayment | 2,169 | 100% | 2,631 | 100% |
| Total Private Credit Student Loans | 4,331 | | 5,115 | |
| Private Credit Student Loan allowance for losses | (154) | | (174) | |
| Private Credit Student Loans, net | $ 4,177 | | $ 4,941 | |
| Percentage of Private Credit Student Loans in repayment | 50% | | 51% | |
| Delinquencies as a percentage of Private Credit Student Loans in repayment | 10% | | 10% | |

(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. Additionally, the forbearance balance at March 31, 2004 includes $7 million of career training loans in "closed school" status.

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

The following table summarizes changes in the allowance for student loan losses for on-balance sheet Private Credit Student Loans for the three months ended March 31, 2004 and 2003.

| (Dollars in millions) | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| Private Credit Student Loan allowance balance at beginning of period | $ 166 | $ 181 |
| Provision for Private Credit Student Loan losses | 32 | 28 |
| Other | — | 7 |
| Charge-offs: | | |
| Private Credit Student Loan charge-offs | (26) | (17) |
| Private Credit Student Loan recoveries | 3 | 2 |
| Total charge-offs, net of recoveries | (23) | (15) |
| Balance before securitization of Private Credit Student Loans | 175 | 201 |
| Reduction for securitization of Private Credit Student Loans | (21) | (27) |
| Private Credit Student Loan allowance balance at end of period | $ 154 | $ 174 |
| Net Private Credit Student Loan charge-offs as a percentage of average Private Credit Student Loans | 1.80% | 1.09% |
| Net Private Credit Student Loan charge-offs as a percentage of average Private Credit Student Loans in repayment | 3.97% | 2.14% |
| Private Credit Student Loan allowance as a percentage of average Private Credit Student Loans | 3.00% | 3.19% |
| Private Credit Student Loan allowance as a percentage of the ending balance of Private Credit Student Loans | 3.56% | 3.40% |
| Private Credit Student Loan allowance as a percentage of the ending balance of Private Credit Student Loans in repayment | 7.11% | 6.62% |
| Average balance of Private Credit Student Loans | $ 5,146 | $ 5,464 |
| Ending balance of Private Credit Student Loans | $ 4,331 | $ 5,115 |
| Average balance of Private Credit Student Loans in repayment | $ 2,328 | $ 2,785 |
| Ending balance of Private Credit Student Loans in repayment | $ 2,169 | $ 2,631 |

## 3. Student Loan Securitization

### *Securitization Activity*

The Company actively securitizes its student loan assets and 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 loans.

The following table summarizes the Company's securitization activity for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2003 | | | |
| (Dollars in millions) | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % |
| FFELP Stafford/PLUS loans | — | $ — | $ — | —% | 1 | $ 1,256 | $ 20 | 1.6% |
| Consolidation Loans | — | — | — | — | 1 | 2,005 | 218 | 10.9 |
| Private Credit Student Loans | 1 | 1,252 | 114 | 9.1 | 1 | 1,005 | 68 | 6.8 |
| Total securitization sales | 1 | 1,252 | $ 114 | 9.1% | 3 | 4,266 | $ 306 | 7.2% |
| On-balance sheet securitization of Consolidation Loans [(1)] | 3 | 8,023 | | | 1 | 2,056 | | |
| Total loans securitized | 4 | $ 9,275 | | | 4 | $ 6,322 | | |

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

Key economic 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 months ended March 31, 2004 and 2003 were as follows:

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| | FFELP Stafford [(1)] | Consolidation [(1)] | Private Credit | Stafford FFELP | Consolidation | Private Credit |
| Prepayment speed | N/A | N/A | 6% | 9% | 7% | 6% |
| Weighted-average life (in years) | N/A | N/A | 6.86 | 4.67 | 8.13 | 6.47 |
| Expected credit losses (% of principal securitized) | N/A | N/A | 4.73% | .53% | .72% | 3.92% |
| Residual cash flows discounted at (weighted average) | N/A | N/A | 12% | 12% | 6% | 12% |

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

The following table summarizes the fair value of the Company's Retained Interests related to those securitizations that were treated as sales.

| | As of March 31, 2004 | | As of December 31, 2003 | |
|---|---|---|---|---|
| **(Dollars in millions)** | **Fair Value** [1] | **Underlying Securitized Loan Balance** [2] | **Fair Value** | **Underlying Securitized Loan Balance** [2] |
| FFELP Stafford | $ 959 | $ 24,760 | $ 1,023 | $ 26,736 |
| Consolidation | 1,046 | 8,016 | 994 | 8,172 |
| Private Credit | 477 | 4,959 | 459 | 3,834 |
| Tota1 [3][4] | $ 2,482 | $ 37,735 | $ 2,476 | $ 38,742 |

(1) The Company used the same underlying economic assumptions regarding prepayment speeds, loss rates and discount rates to value the Retained Interests as of March 31, 2004 as were used as of December 31, 2003.

(2) For the Company's on-balance sheet securitizations, there were $24.1 billion and $16.4 billion of securitized student loans outstanding as of March 31, 2004 and December 31, 2003, respectively. These student loans are reflected in the Company's balance sheet as "federally insured student loans in trust."

(3) Unrealized gains (pre-tax) included in accumulated other comprehensive income related to the Retained Interests totaled $611 million and $443 million as of March 31, 2004 and December 31, 2003, respectively.

(4) Includes $801 million and $727 million related to the fair value of the Embedded Floor Income as of March 31, 2004 and December 31, 2003, respectively.

## 4. Common Stock

The following table summarizes the Company's common share repurchase and equity forward activity for the three months ended March 31, 2004 and 2003.

| (Common shares in millions) | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| Common shares repurchased: | | |
| Open market | — | 3.4 |
| Equity forwards | 7.9 | 4.6 |
| Benefit plans | .7 | .9 |
| Total shares repurchased | 8.6 | 8.9 |
| Average purchase price per share | $ 31.26 | $ 29.88 |
| Common shares issued | 3.8 | 5.7 |
| Equity forward contracts: | | |
| Outstanding at beginning of period | 43.5 | 28.7 |
| New contracts | 4.2 | 7.1 |
| Exercises | (7.9) | (4.6) |
| Outstanding at end of period | 39.8 | 31.2 |
| Board of Director authority remaining at end of period | 34.2 | 39.7 |

As of March 31, 2004, the expiration dates and range and average purchase prices for outstanding equity forward contracts were as follows:

(Contracts in millions)

| Year of maturity | Outstanding contracts | Range of purchase prices | Average purchase price |
|---|---|---|---|
| 2005 | 3.0 | $ 38.25–$40.17 | $ 39.21 |
| 2006 | 20.5 | 33.82– 41.88 | 37.37 |
| 2007 | 13.1 | 37.70– 41.81 | 38.70 |
| 2008 | 3.2 | 38.64– 40.00 | 39.28 |
| | 39.8 | | $ 38.10 |

The closing price of the Company's common stock on March 31, 2004 was $41.85.

### *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. Diluted EPS excludes the potential dilutive effect of senior convertible debt, as management believes conversion is not likely in the near term. The following table reflects basic and diluted EPS for the three months ended March 31, 2004 and 2003.

| | Net Income Attributable to Common Stock | Average Shares | Earnings per Share |
|---|---|---|---|
| **Three months ended March 31, 2004** | | | |
| Basic EPS | $ 288,579 | 442,664 | $ .65 |
| Dilutive effect of stock options, equity forwards, deferred compensation, and ESPP shares | — | 9,083 | (.01) |
| Diluted EPS | $ 288,579 | 451,747 | $ .64 |
| **Three months ended March 31, 2003** | | | |
| Basic EPS | $ 413,674 | 456,581 | $ .91 |
| Dilutive effect of stock options, warrants, equity forwards, deferred compensation, and ESPP shares | — | 13,115 | (.03) |
| Diluted EPS | $ 413,674 | 469,696 | $ .88 |

In May 2003, the Board of Directors approved a three-for-one split of the Company's common stock to be effected in the form of a stock dividend. The additional shares of stock were distributed on June 20, 2003, for all shareholders of record on June 6, 2003. All share and per share amounts presented have been retroactively restated for the stock split. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from additional paid-in capital to common stock the par value of the additional shares issued as a result of the stock split.

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 March 31, 2004 and December 31, 2003, and their impact on other comprehensive income and earnings for the three months ended March 31, 2004 and 2003. At March 31, 2004 and December 31, 2003, $156 million and $158 million (fair value), respectively, of available-for-sale investment securities and $446 million and $31 million, respectively, of cash were pledged as collateral against these derivative instruments.

| | Cash Flow | | Fair Value | | Trading | | Total | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 |
| **(Dollars in millions)** | | | | | | | | |
| ***Fair Values*** | | | | | | | | |
| Interest rate swaps | $ 10 | $ (4) | $ 21 | $ (182) | $ (142) | $ (133) | $ (111) | $ (319) |
| Floor/Cap contracts | — | — | — | — | (1,335) | (1,168) | (1,335) | (1,168) |
| Futures | (75) | (76) | — | — | — | (40) | (75) | (116) |
| Equity forwards | — | — | — | — | 135 | 48 | 135 | 48 |
| Cross currency interest rate swaps | — | — | 319 | 281 | — | — | 319 | 281 |
| Total | $ (65) | $ (80) | $ 340 | $ 99 | $ (1,342) | $ (1,293) | $ (1,067) | $ (1,274) |
| **(Dollars in billions)** | | | | | | | | |
| ***Notional Values*** | | | | | | | | |
| Interest rate swaps | $ 4.6 | $ 1.6 | $ 16.2 | $ 16.8 | $ 75.9 | $ 74.2 | $ 96.7 | $ 92.6 |
| Floor/Cap contracts | — | — | — | — | 46.5 | 34.1 | 46.5 | 34.1 |
| Futures | 7.1 | 8.2 | — | — | 5.0 | 23.1 | 12.1 | 31.3 |
| Cross currency interest rate swaps | — | — | 8.1 | 4.1 | — | — | 8.1 | 4.1 |
| Other [(1)] | — | — | — | — | 2.0 | 2.0 | 2.0 | 2.0 |
| Total | $ 11.7 | $ 9.8 | $ 24.3 | $ 20.9 | $ 129.4 | $ 133.4 | $ 165.4 | $ 164.1 |
| **(Shares in millions)** | | | | | | | | |
| ***Contracts*** | | | | | | | | |
| Equity forwards | — | — | — | — | 39.8 | 43.5 | 39.8 | 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.

| (Dollars in millions) | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash Flow | | Fair Value | | Trading | | Total | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| ***Changes to other comprehensive income, net of tax*** | | | | | | | | |
| Other comprehensive income, net | $ 5 | $ 3 | $ — | $ — | $ — | $ — | $ 5 | $ 3 |
| ***Earnings Summary*** | | | | | | | | |
| Recognition of closed futures contracts' gains/losses into interest expense [1] | $ (5) | $ (6) | $ — | $ — | $ — | $ — | $ (5) | $ (6) |
| Derivative market value adjustment — Realized [2] | — | (7) | — | — | (216) | (227) | (216) | (234) |
| Derivative market value adjustment — Unrealized | — | 1[3] | (2)[3] | 4[3] | 101 | 110 | 99 | 115 |
| Total earnings impact | $ (5) | $ (12) | $ (2) | $ 4 | $ (115) | $ (117) | $ (122) | $ (125) |

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

(2) Includes net settlement income/expense on trading derivatives and realized gains and losses on disposed derivatives that do not qualify as hedges under SFAS No. 133.

(3) The change in fair value of cash flow and fair value hedges represents amounts related to ineffectiveness.

The following table presents the components of the change in accumulated other comprehensive income, net of tax, related to derivatives.

| (Dollars in millions) | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| ***Accumulated other comprehensive income, net of tax*** | | |
| **Balance at beginning of period** | $ (83) | $ (90) |
| **Change in unrealized gains (losses) on derivatives:** | | |
| Hedge ineffectiveness reclassified to earnings | — | (1) |
| Change in fair value of cash flow hedges | 2 | (4) |
| Amortization of effective hedges [1] | 3 | 3 |
| Discontinued hedges | — | 5 |
| **Total change in unrealized gains (losses) on derivatives** | 5 | 3 |
| **Balance at end of period** | $ (78) | $ (87) |

(1) The Company expects to amortize $16 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 March 31, 2004. In addition, the Company expects to amortize portions of the accumulated unrealized net losses related to futures contracts that were open at March 31, 2004 and are expected to be closed over the next 12 months based on the anticipated issuance of debt. Based on the value of these contracts at March 31, 2004 and expected issuance dates, this amount is estimated to be $19 million over the next 12 months. The Company has open futures contracts hedging the anticipated issuances of debt, which are anticipated to occur from 2003 through 2008.

## 6. Guarantees

The Company has issued lending-related financial instruments including letters of credit and lines of credit to meet the financing needs of its customers. Letters of credit support the issuance of state student loan revenue bonds. They represent unconditional guarantees of the GSE to repay holders of the bonds in the event of a default. In the event that letters of credit are drawn upon, such loans are collateralized by the student loans underlying the bonds. The initial liability recognition and measurement provisions of Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of the Indebtedness of Others, and Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," are effective for such guarantees issued or modified after December 31, 2002. During 2003 and the three months ended March 31, 2004, there were no new letters of credit issued or modifications to existing letters of credit. Accordingly, the Company's financial statements do not include a liability for the estimated fair value of these guarantees.

The Company offers a line of credit to certain financial institutions and other institutions in the higher education community for the purpose of buying or originating student loans. In the event that a line of credit is drawn upon, the loan is collaterialized by underlying student loans. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Company fulfill its obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of its contract with the Company. Under the terms of the Privatization Act, any future activity under lines of credit and letter of credit activity by the GSE is limited to guarantee commitments, which were in place on August 7, 1997.

The following schedule summarizes expirations of the Company's guarantees to the earlier of call date or maturity date outstanding at March 31, 2004.

| | Lines of Credit | Letters of Credit | Total |
|---|---|---|---|
| 2004 | $ 878,845 | $ 574,328 | $ 1,453,173 |
| 2005 | — | 45,518 | 45,518 |
| 2006 | — | — | — |
| 2007 | — | — | — |
| 2008-2020 | — | — | — |
| Total | $ 878,845 | $ 619,846 | $ 1,498,691 |

## 7. Pension Plans

Under the Company's qualified and supplemental 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 plan, which uses a final average pay plan method, or the current plan under the cash balance formula.

**Components of Net Periodic Pension Cost**

Net periodic pension cost for the Company's pension plans for the three months ended March 31, 2004 and 2003 included the following components:

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Service cost—benefits earned during the period | $ 3,144 | $ 2,776 |
| Interest cost on project benefit obligations | 2,814 | 2,587 |
| Expected return on plan assets | (3,842) | (3,208) |
| Net amortization and deferral | (379) | (165) |
| Net periodic pension cost | $ 1,737 | $ 1,990 |

**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 pension plan in 2004. As of March 31, 2004, the Company has made no contributions to its pension plan.

**8. 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, after five days of trial, the jury returned a verdict in favor of the Company on all counts. CLC has since filed an appeal. All appellate briefing has been completed and oral argument has been scheduled before the U.S. Court of Appeals for the Fourth Circuit on June 4, 2004.

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 2 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 Court granted the Company's motion to dismiss the complaint in its entirety. The plaintiffs appealed the trial court decision. All appellate briefing has been completed and oral argument was held in April 2004. No decision has been issued on the appeal as of this date.

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.

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 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. 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three months ended March 31, 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 for non-GSE funding 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 the GSE's primary function of financing the initial purchase of student loans is a subset of similar operations conducted by the Company. As we wind down the GSE, such operations will constitute less and less of the Company's operations. 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 discussion that follows regarding our interest income and expenses from on-balance sheet assets and liabilities is applicable to both the Company and the GSE. Likewise, because all of our FFELP securitizations to date have originated from the GSE, the discussion of securitization gains for FFELP student loans is applicable to the GSE only. The ongoing servicing and securitization revenue from those securitizations is primarily earned by the Company because the Retained Interests in FFELP securitizations are sold by the GSE to SLM Corporation shortly after completion of the securitization transactions. Discussions of Private Credit Student Loan securitizations are applicable to the Company only. The discussions of off-balance sheet loans, our fee-based businesses, and our operations on a Managed Basis, as well as the discussions set forth below under the headings "Selected Financial Data," "Other Income," "Federal and State Taxes" and "Alternative Performance Measures" do not involve the GSE and relate to the Company on a consolidated basis.

Through the first quarter of 2004, the majority of our student loan purchases were financed in the GSE and were initially financed through the issuance of short-term GSE debt obligations and then through student loan securitizations that were conducted through the GSE. Once securitized, the GSE no longer owns the student loans and the bonds issued by the trust are not obligations of the GSE. As the Wind-Down of the GSE continues, the liquidity provided to the Company by the GSE is being replaced by non-GSE financing, including securitizations originated by non-GSE subsidiaries of SLM Corporation. All student loans that the Company directly originates are owned by non-GSE subsidiaries from inception.

The GSE has no employees, so the management of its operations is provided by the Company under a management services agreement. We also service 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 March 31, 2004 | Three months ended March 31, 2003 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| Net interest income | $ 322 | $ 346 | $ (24) | (7)% |
| Less: provision for losses | 40 | 43 | (3) | (7) |
| Net interest income after provision for losses | 282 | 303 | (21) | (7) |
| Gains on student loan securitizations | 114 | 306 | (192) | (63) |
| Servicing and securitization revenue | 137 | 189 | (52) | (28) |
| Derivative market value adjustment | (117) | (119) | 2 | 2 |
| Guarantor servicing fees | 35 | 35 | — | — |
| Debt management fees | 80 | 59 | 21 | 36 |
| Other income | 59 | 49 | 10 | 20 |
| Operating expenses | 209 | 179 | 30 | 17 |
| Income taxes | 90 | 226 | (136) | (60) |
| **Net income** | 291 | 417 | (126) | (30) |
| Preferred stock dividends | 3 | 3 | — | — |
| Net income attributable to common stock | $ 288 | $ 414 | $ (126) | (30)% |
| **Basic earnings per common share** | $ .65 | $ .91 | $ (.26) | (29)% |
| **Diluted earnings per common share** | $ .64 | $ .88 | $ (.24) | (27)% |
| Dividends per common share | $ .17 | $ .08 | $ .09 | 113% |

### Condensed Balance Sheets

| | March 31, 2004 | December 31, 2003 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| **Assets** | | | | |
| Federally insured student loans, net | $ 26,175 | $ 29,222 | $ (3,047) | (10)% |
| Federally insured student loans in trust, net | 24,062 | 16,355 | 7,707 | 47 |
| Private Credit Student Loans, net | 4,177 | 4,470 | (293) | (7) |
| Academic facilities financings and other loans | 1,104 | 1,031 | 73 | 7 |
| Cash and investments | 10,294 | 6,896 | 3,398 | 49 |
| Restricted cash and investments | 1,246 | 1,106 | 140 | 13 |
| Retained Interest in securitized receivables | 2,482 | 2,476 | 6 | — |
| Goodwill and acquired intangible assets, net | 589 | 592 | (3) | — |
| Other assets | 3,134 | 2,463 | 671 | 27 |
| Total assets | $ 73,263 | $ 64,611 | $ 8,652 | 13% |
| **Liabilities and Stockholders' Equity** | | | | |
| Short-term borrowings | $ 16,176 | $ 18,735 | $ (2,559) | (14)% |
| Borrowings collateralized by loans in trust | 24,595 | 16,597 | 7,998 | 48 |
| Long-term notes | 26,710 | 23,211 | 3,499 | 15 |
| Other liabilities | 3,045 | 3,438 | (393) | (11) |
| Total liabilities | 70,526 | 61,981 | 8,545 | 14 |
| Stockholders' equity before treasury stock | 3,618 | 3,180 | 438 | 14 |
| Common stock held in treasury at cost | 881 | 550 | 331 | 60 |
| Total stockholders' equity | 2,737 | 2,630 | 107 | 4 |
| Total liabilities and stockholders' equity | $ 73,263 | $ 64,611 | $ 8,652 | 13% |

## 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—Non-GAAP." Information regarding the provision 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 March 31, | | Increase (decrease) | |
|---|---|---|---|---|
| | 2004 | 2003 | $ | % |
| Interest income | | | | |
| Student loans | $ 546 | $ 555 | $ (9) | (2)% |
| Academic facilities financings and other loans | 18 | 20 | (2) | (9) |
| Investments | 43 | 28 | 15 | 54 |
| Taxable equivalent adjustment | 3 | 4 | (1) | — |
| Total taxable equivalent interest income | 610 | 607 | 3 | 1 |
| Interest expense | 285 | 257 | 28 | 11 |
| Taxable equivalent net interest income | $ 325 | $ 350 | $ (25) | (7)% |

### Average Balance Sheets

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

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | |
| Federally insured student loans | $ 47,746 | 3.95% | $ 38,695 | 4.90% |
| Private Credit Student Loans | 5,146 | 5.99 | 5,464 | 6.50 |
| Academic facilities financings and other loans | 1,062 | 7.36 | 1,164 | 7.59 |
| Cash and investments | 9,025 | 2.04 | 4,486 | 2.71 |
| Total interest earning assets | 62,979 | 3.90% | 49,809 | 4.94% |
| Non-interest earning assets | 6,046 | | 4,956 | |
| Total assets | $ 69,025 | | $ 54,765 | |
| **Average Liabilities and Stockholders' Equity** | | | | |
| Six month floating rate notes | $ 2,621 | 1.04% | $ 2,887 | 1.27% |
| Other short-term borrowings | 16,208 | 1.93 | 22,881 | 1.51 |
| Long-term notes | 44,169 | 1.83 | 24,081 | 2.75 |
| Total interest bearing liabilities | 62,998 | 1.82% | 49,849 | 2.09% |
| Non-interest bearing liabilities | 3,487 | | 2,832 | |
| Stockholders' equity | 2,540 | | 2,084 | |
| Total liabilities and stockholders' equity | $ 69,025 | | $ 54,765 | |
| Net interest margin | | 2.08% | | 2.85% |

The decrease in the net interest margin from the first quarter of 2003 to the first quarter of 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—Non-GAAP." The decrease in the net interest margin was also due to the increase in lower yielding short-term investments caused by the increase in non-GSE funding that is temporarily being held pending future asset transfers from the GSE to SLM Corporation.

**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 | Volume |
|---|---|---|---|
| **Three months ended March 31, 2004 vs. three months ended March 31, 2003** | | | |
| Taxable equivalent interest income | $ 3 | $ (136) | $ 139 |
| Interest expense | 28 | (86) | 114 |
| Taxable equivalent net interest income | $ (25) | $ (50) | $ 25 |

**Derivative Reclassification—Non-GAAP**

A recent interpretation of SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses on derivative dispositions ("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. In response to this interpretation, we believe that it is helpful to the understanding of our business to include two presentations of net interest income and net interest margin. The first is a GAAP presentation presented above that includes the net settlement income/expense on 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 reflects these net settlements after having been reclassified to the financial statement line item of the economically hedged item, which includes them in net interest income and margin. We believe that this second presentation is meaningful as it 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 sheet, rate volume analysis, student loan spread and funding costs in the following tables will reflect these 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 March 31, | |
|---|---|---|
| | 2004 | 2003 |
| **Reclassification of realized derivative transactions:** | | |
| Net settlement expense on Floor Income Contracts reclassified to student loan income | $ (109) | $ (118) |
| Net settlement expense on Floor Income Contracts reclassified to servicing and securitization income | (58) | (36) |
| Net settlement income on interest rate swaps reclassified to interest expense | 12 | 12 |
| Net settlement expense on interest rate swaps reclassified to servicing and securitization income | (13) | (15) |
| Realized gain/loss on closed Eurodollar futures contracts and terminated derivative contracts | (48) | (77) |
| **Total reclassifications from realized derivative transactions** | (216) | (234) |
| Add: Unrealized derivative market value adjustment | 99 | 115 |
| Derivative market value adjustment | $ (117) | $ (119) |

***Taxable Equivalent Net Interest Income After Reclassification—Non-GAAP***

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 March 31, | | Increase (decrease) | |
|---|---|---|---|---|
| | 2004 | 2003 | $ | % |
| Interest income | | | | |
| Student loans | $ 438 | $ 436 | $ 2 | —% |
| Academic facilities financings and other loans | 18 | 20 | (2) | (9) |
| Investments | 43 | 28 | 15 | 54 |
| Taxable equivalent adjustment | 3 | 4 | (1) | 2 |
| Total taxable equivalent interest income | 502 | 488 | 14 | 3 |
| Interest expense | 274 | 244 | 30 | 12 |
| Taxable equivalent net interest income, non- GAAP | $ 228 | $ 244 | $ (16) | (7)% |

***Taxable Equivalent Net Interest Income Reconciliation from GAAP to non-GAAP***

The following table reconciles the taxable equivalent net interest income from GAAP to non-GAAP.

| | Three months ended March 31, 2004 | Three months ended March 31, 2003 | Increase (decrease) $ | Increase (decrease) % |
|---|---|---|---|---|
| Taxable equivalent net interest income, GAAP | $ 325 | $ 350 | $ (25) | (7)% |
| Settlements on Floor Income Contracts reclassified to student loan income | (109) | (118) | 9 | 8 |
| Net settlements on interest rate swaps reclassified to interest expense | 12 | 12 | — | — |
| Taxable equivalent net interest income, non-GAAP | $ 228 | $ 244 | $ (16) | (7)% |

***Average Balance Sheets After Reclassification—Non-GAAP***

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

| | 2004 Balance | 2004 Rate | 2003 Balance | 2003 Rate |
|---|---|---|---|---|
| **Average Assets** | | | | |
| Federally insured student loans | $ 47,746 | 3.04% | $ 38,695 | 3.65% |
| Private Credit Student Loans | 5,146 | 5.99 | 5,464 | 6.50 |
| Academic facilities financings and other loans | 1,062 | 7.36 | 1,164 | 7.59 |
| Cash and investments | 9,025 | 2.04 | 4,486 | 2.71 |
| Total interest earning assets | 62,979 | 3.21% | 49,809 | 3.97% |
| Non-interest earning assets | 6,046 | | 4,956 | |
| Total assets | $ 69,025 | | $ 54,765 | |
| **Average Liabilities and Stockholders' Equity** | | | | |
| Six month floating rate notes | $ 2,621 | 1.04% | $ 2,887 | 1.27% |
| Other short-term borrowings | 16,208 | 1.78 | 22,881 | 1.52 |
| Long-term notes | 44,169 | 1.78 | 24,081 | 2.51 |
| Total interest bearing liabilities | 62,998 | 1.75% | 49,849 | 1.99% |
| Non-interest bearing liabilities | 3,487 | | 2,832 | |
| Stockholders' equity | 2,540 | | 2,084 | |
| Total liabilities and stockholders' equity | $ 69,025 | | $ 54,765 | |
| Net interest margin, non-GAAP | | 1.46% | | 1.99% |

The 62 basis point difference between the first quarter of 2004 non-GAAP net interest margin of 1.46 percent versus the GAAP net interest margin of 2.08 percent is primarily due to the inclusion of payments on Floor Income Contracts in the non-GAAP presentation which reduced net interest income by 69 basis points (See "Derivative Reclassification—Non-GAAP" above). For a discussion of other fluctuations between the first quarter of 2004 net interest margin versus the first quarter of 2003 net interest margin, please see the GAAP Average Balance Sheet above.

***Rate/Volume Analysis After Reclassification—Non-GAAP***

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 March 31, 2004 vs. three months ended March 31, 2003** | | | |
| Taxable equivalent interest income | $ 14 | $ (96) | $ 110 |
| Interest expense | 30 | (72) | 102 |
| Taxable equivalent net interest income, non-GAAP | $ (16) | $ (24) | $ 8 |

Taxable equivalent net interest income after reclassification for the three months ended 2004 versus 2003 decreased by $16 million while the net interest margin decreased by 53 basis points.

**Student Loans**

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

***Student Loan Spread Analysis After Reclassification—Non-GAAP (see "NET INTEREST INCOME—Derivative Reclassification—Non-GAAP")***

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 March 31, | |
|---|---|---|
| | 2004 | 2003 |
| **On-Balance Sheet** | | |
| Student loan yield, before Floor Income | 4.12% | 4.47% |
| Floor Income | .13 | .29 |
| Consolidation Loan Rebate Fees | (.54) | (.50) |
| Offset Fees | (.06) | (.07) |
| Borrower benefits | (.14) | (.08) |
| Premium and origination fee amortization | (.18) | (.10) |
| Student loan net yield | 3.33 | 4.01 |
| Student loan cost of funds | (1.60) | (1.75) |
| Student loan spread, non-GAAP | 1.73% | 2.26% |
| **Off-Balance Sheet** | | |
| Servicing and securitization revenue, before Floor Income | 1.12% | 1.52% |
| Floor Income, net of Floor Income previously recognized in gain on sale calculation | .33 | .65 |
| Servicing and securitization revenue | 1.45% | 2.17% |
| **Average Balances** | | |
| On-balance sheet student loans | $ 52,892 | $ 44,159 |
| Off-balance sheet student loans | 37,786 | 35,228 |
| Managed student loans | $ 90,678 | $ 79,387 |

***Discussion of On-Balance Sheet Student Loan Spread Exclusive of Floor Income***

The decrease in the first quarter 2004 student loan spread, versus the first quarter of 2003, was due to lower Floor Income, higher spreads on our debt funding student loans, the increase in the average balance of Consolidation Loans as a percentage of the on-balance sheet portfolio and higher premium amortization and borrower benefit expenses. The increase in the spreads to the underlying index on the cost of funds is due to the replacement of lower cost GSE funding with non-GSE funding in connection with the GSE Wind-Down. This higher cost is the result of both higher credit spreads on non-GSE funding sources and the significantly longer duration of non-GSE liabilities. Also, we use higher cost, longer-term debt to fund Consolidation Loans.

The average balance of Consolidation Loans increased as a percentage of the average on-balance sheet FFELP student loan portfolio from 55 percent in the first quarter of 2003 to 58 percent in the first quarter of 2004. Consolidation Loans have lower spreads due to the 105 basis point Consolidation Loan Rebate Fee, which is partially offset by the absence of the 30 basis point offset fee on GSE student loans and higher SAP yield.

The higher premium amortization and borrower benefit expense in 2004 is primarily the result of revised life of loan estimates for higher consolidation activity that reduced premium amortization in the first quarter of 2003.

*Floor Income*

For on-balance sheet student loans, 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 months ended March 31, 2004 and 2003.

| (Dollars in billions) | Three months ended March 31, 2004 Fixed borrower rate | Three months ended March 31, 2004 Variable borrower rate | Three months ended March 31, 2004 Total | Three months ended March 31, 2003 Fixed borrower rate | Three months ended March 31, 2003 Variable borrower rate | Three months ended March 31, 2003 Total |
|---|---|---|---|---|---|---|
| Gross Floor Income | $ 124 | $ 2 | $ 126 | $ 137 | $ 13 | $ 150 |
| Payments on Floor Income Contracts | (109) | — | (109) | (118) | — | (118) |
| Floor Income | $ 15 | $ 2 | $ 17 | $ 19 | $ 13 | $ 32 |
| Floor Income in basis points | 11 | 2 | 13 | 18 | 11 | 29 |

The decrease in Floor Income for the three months ending March 31, 2004 versus the year-ago period is primarily due to the decline in Treasury bill and commercial paper rates from the July 1, 2002 reset of borrower rates to March 31, 2003. Treasury bill and commercial paper rates did not decline as steeply from the July 1, 2003 reset to March 31, 2004 as compared to the same period in 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.

At March 31, 2004, the notional amount of student loan Floor Income Contracts totaled $43.6 billion of which $19.4 billion are contracts that commence between April 1, 2004 and 2007. The following table analyzes the ability of the FFELP student loans in our Managed student loan portfolio to earn Floor Income after March 31, 2004 and 2003. Three-month Treasury bill loans are based on the last Treasury bill auctions of March 2004 and 2003 of .96 percent and 1.12 percent, respectively. Commercial paper rate loans are based on the last commercial paper rates of 1.04 percent for March 2004 and 1.23 percent for March 2003. One-year Treasury bill loans are based on the last Treasury bill auctions of May 2003 and 2002 of 1.12 percent and 1.76 percent, respectively.

| (Dollars in billions) | March 31, 2004 Fixed Borrower Rate | March 31, 2004 Annually Reset Borrower Rate | March 31, 2004 Total | March 31, 2003 Fixed Borrower Rate | March 31, 2003 Annually Reset Borrower Rate | March 31, 2003 Total |
|---|---|---|---|---|---|---|
| Student loans eligible to earn Floor Income: | | | | | | |
| On-balance sheet student loans | $ 28.4 | $ 14.8 | $ 43.2 | $ 21.0 | $ 11.1 | $ 32.1 |
| Off-balance sheet student loans | 7.9 | 21.8 | 29.7 | 6.4 | 26.4 | 32.8 |
| Managed student loans eligible to earn Floor Income | 36.3 | 36.6 | 72.9 | 27.4 | 37.5 | 64.9 |
| Less: Economically hedged Floor Income | (15.9) | — | (15.9) | (16.0) | — | (16.0) |
| Net Managed student loans eligible to earn Floor Income | $ 20.4 | $ 36.6 | $ 57.0 | $ 11.4 | $ 37.5 | $ 48.9 |
| Net Managed student loans earning Floor Income | $ 15.0 | $ 32.1 | $ 47.1 | $ 10.3 | $ 37.5 | $ 47.8 |

**Activity in the Allowance for On-Balance Sheet Private Credit Student Loan Losses**

The following table summarizes changes in the allowance for student loan losses for on-balance sheet Private Credit Student Loans for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| Private Credit Student Loan allowance balance at beginning of period | $ 166 | $ 181 |
| Provision for Private Credit Student Loan losses | 32 | 28 |
| Other | — | 7 |
| Charge-offs: | | |
| Private Credit Student Loan charge-offs | (26) | (17) |
| Private Credit Student Loan recoveries | 3 | 2 |
| Total charge-offs, net of recoveries | (23) | (15) |
| Balance before securitization of Private Credit Student Loans | 175 | 201 |
| Reduction for securitization of Private Credit Student Loans | (21) | (27) |
| Private Credit Student Loan allowance balance at end of period | $ 154 | $ 174 |
| Net Private Credit Student Loan charge-offs as a percentage of average Private Credit Student Loans | 1.80% | 1.09% |
| Net Private Credit Student Loan charge-offs as a percentage of average Private Credit Student Loans in repayment | 3.97% | 2.14% |
| Private Credit Student Loan allowance as a percentage of average Private Credit Student Loans | 3.00% | 3.19% |
| Private Credit Student Loan allowance as a percentage of the ending balance of Private Credit Student Loans | 3.56% | 3.40% |
| Private Credit Student Loan allowance as a percentage of the ending balance of Private Credit Student Loans in repayment | 7.11% | 6.62% |
| Average balance of Private Credit Student Loans | $ 5,146 | $ 5,464 |
| Ending balance of Private Credit Student Loans | $ 4,331 | $ 5,115 |
| Average balance of Private Credit Student Loans in repayment | $ 2,328 | $ 2,785 |
| Ending balance of Private Credit Student Loans in repayment | $ 2,169 | $ 2,631 |

The increase in the provision for Private Credit Student Loan losses of $4 million for the three months ending March 31, 2004 versus the year-ago period is primarily due to the increase in Private Credit Student Loans entering repayment prior to being securitized as compared to the three months ended March 31, 2003. For the three months ended March 31, 2004, Private Credit Student Loan charge-offs increased by $9 million over the comparable period in 2003, which is due to the increase in securitization activity in 2003 as we primarily securitize loans that are current, leaving a higher percentage of delinquent loans on-balance sheet and to the increase in career training loans as a percentage of the on-balance sheet portfolio.

We charge borrower fees on the majority of Private Credit Student 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 March 31, 2004 and 2003 was $142 million and $99 million, respectively.

*Delinquencies*

The table below presents our on-balance sheet Private Credit Student Loan delinquency trends as of March 31, 2004 and 2003. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

| | March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Balance | % | Balance | % |
| Loans in-school/grace/deferment [1] | $ 1,975 | | $ 2,203 | |
| Loans in forbearance [2] | 187 | | 281 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 1,944 | 90% | 2,366 | 90% |
| Loans delinquent 30-59 days [3] | 81 | 4 | 123 | 5 |
| Loans delinquent 60-89 days | 49 | 2 | 65 | 2 |
| Loans delinquent 90 days or greater | 95 | 4 | 77 | 3 |
| Total loans in repayment | 2,169 | 100% | 2,631 | 100% |
| Total Private Credit Student Loans | 4,331 | | 5,115 | |
| Private Credit Student Loan allowance for losses | (154) | | (174) | |
| Private Credit Student Loans, net | $ 4,177 | | $ 4,941 | |
| Percentage of Private Credit Student Loans in repayment | 50% | | 51% | |
| Delinquencies as a percentage of Private Credit Student Loans in repayment | 10% | | 10% | |

(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. Additionally, the forbearance balance at March 31, 2004 includes $7 million of career training loans in "closed school" status.

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

**On-Balance Sheet Funding Costs After Non-GAAP Reclassification (see "NET INTEREST INCOME—Derivative Reclassification 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 months ended March 31, 2004 and 2003.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| Index | Average Balance | Average Rate | Average Balance | Average Rate |
| Treasury bill, principally 91-day | $ 11,448 | 1.47% | $ 17,868 | 1.64% |
| Commercial paper | 22,649 | 1.33 | 13,586 | 1.26 |
| LIBOR | 15,446 | 1.41 | 3,765 | 1.60 |
| Discount notes | 4,366 | 1.02 | 6,398 | 1.39 |
| Fixed | 7,662 | 4.12 | 6,316 | 4.96 |
| Auction rate securities | 849 | 1.40 | 828 | 1.57 |
| Zero coupon | 256 | 11.17 | 229 | 11.14 |
| Other | 322 | 3.14 | 859 | 2.28 |
| Total | $ 62,998 | 1.75% | $ 49,849 | 1.99% |

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 Credit Student Loans indexed to the Prime rate become a larger percentage of our portfolio. LIBOR-based debt, swapped to the daily reset LIBOR index, funds a portion of our daily reset commercial paper indexed assets, as we expect daily reset LIBOR indexed debt to remain highly correlated with daily reset commercial paper indexed assets.

## 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."

**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 months ended March 31, 2004 and 2003.

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Guarantor servicing and debt management fees: | | |
| Guarantor servicing fees | $ 35 | $ 35 |
| Debt management fees | 80 | 59 |
| Total guarantor servicing and debt management fees | $ 115 | $ 94 |
| Other income: | | |
| Late fees | $ 21 | $ 16 |
| Third party servicing fees | 13 | 15 |
| Mortgage and consumer loan fees | 5 | 6 |
| Other | 20 | 12 |
| Total other income | $ 59 | $ 49 |

The $21 million increase in guarantor servicing and debt management fees for the three months ended March 31, 2004 versus the year-ago period is mainly due to growth across all segments of our debt management businesses. Specifically, portfolio management fees increased $8 million, or 35 percent over the prior year-ago period due to higher volume from United Student Aid Funds, Inc. ("USA Funds"), and to the increase in the percentage of collections via rehabilitation versus other less economic collection options. There was also strong growth from our collection subsidiaries General Revenue Corporation ("GRC") and Pioneer Credit Recovery ("PCR"), related to collections on behalf of USA Funds ($6 million) and collections on campus-based student loans ($5 million).

**OPERATING EXPENSES**

The following table summarizes the components of operating expenses for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Servicing and acquisition expenses | $ 126 | $ 117 |
| General and administrative expenses | 76 | 55 |
| Definite life intangible asset amortization | 7 | 7 |
| Total operating expenses | $ 209 | $ 179 |

The $30 million increase in operating expenses for the three months ended March 31, 2004 versus the year-ago period is mainly attributable to the operating expenses of Pioneer Mortgage acquired in the second quarter of 2003 and Academic Management Services Corp. ("AMS") acquired in the fourth quarter of 2003. Exclusive of these acquisitions, operating expenses increased in debt management and student loan servicing and origination consistent with revenue growth and borrowers serviced. In addition, in the first quarter of 2003, we recognized $9 million for servicing adjustments related to an underbilling error. 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 March 31, 2004 and 2003, respectively.

**STUDENT LOAN ACQUISITIONS**

In the first quarter of 2004, 75 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 months ended March 31, 2004 and 2003.

| | Three months ended March 31, 2004 | | |
|---|---|---|---|
| | FFELP | Private | Total |
| Preferred Channel | $ 3,821 | $ 1,065 | $ 4,886 |
| Other commitment clients | 72 | — | 72 |
| Spot purchases | 584 | 1 | 585 |
| Consolidations from third parties | 509 | — | 509 |
| Acquisitions from off-balance sheet securitized trusts, primarily consolidations | 1,274 | — | 1,274 |
| Capitalized interest and deferred origination fees | 282 | (22) | 260 |
| Total on-balance sheet student loan acquisitions | 6,542 | 1,044 | 7,586 |
| Consolidations to SLM Corporation from off-balance sheet securitized trusts | (1,274) | — | (1,274) |
| Capitalized interest and other—off-balance sheet securitized trusts | 154 | 28 | 182 |
| Total Managed student loan acquisitions | $ 5,422 | $ 1,072 | $ 6,494 |

| | Three months ended March 31, 2003 | | |
|---|---|---|---|
| | FFELP | Private | Total |
| Preferred Channel | $ 3,315 | $ 842 | $ 4,157 |
| Other commitment clients | 56 | — | 56 |
| Spot purchases | 53 | — | 53 |
| Consolidations from third parties | 631 | — | 631 |
| Acquisitions from off-balance sheet securitized trusts, primarily consolidations | 1,333 | — | 1,333 |
| Capitalized interest and deferred origination fees | 264 | 18 | 282 |
| Total on-balance sheet student loan acquisitions | 5,652 | 860 | 6,512 |
| Consolidations to SLM Corporation from off-balance sheet securitized trusts | (1,333) | — | (1,333) |
| Capitalized interest and other—off-balance sheet securitized trusts | 159 | 10 | 169 |
| Total Managed student loan acquisitions | $ 4,478 | $ 870 | $ 5,348 |

**Preferred Channel Originations**

In the first quarter of 2004, we originated $5.8 billion in student loan volume through our Preferred Channel, a 19 percent increase over the $4.9 billion originated in the year-ago period. In the first quarter of 2004, we grew the Sallie Mae brand Preferred Channel Originations by 33 percent. As of March 31, 2004, our own brands constitute 32 percent of our Preferred Channel Originations, up from 28 percent in the year-ago period. The pipeline of loans that we currently service and are committed to purchase was $7.3 billion and $6.2 billion at March 31, 2004 and 2003, respectively. The following tables further break down our Preferred Channel Originations by type of loan and source.

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| **Preferred Channel Originations—Type of Loan** | | |
| Stafford | $ 3,732 | $ 3,280 |
| PLUS | 825 | 663 |
| Total FFELP | 4,557 | 3,943 |
| Private | 1,287 | 953 |
| Total | $ 5,844 | $ 4,896 |
| **Preferred Channel Originations—Source** | | |
| Sallie Mae brands | $ 1,847 | $ 1,387 |
| Lender partners | 3,997 | 3,509 |
| Total | $ 5,844 | $ 4,896 |

The following table summarizes the activity in our Managed portfolio of student loans for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Beginning balance | $ 88,789 | $ 78,124 |
| Acquisitions, including capitalized interest | 6,494 | 5,348 |
| Repayments, claims, other | (2,387) | (2,082) |
| Charge-offs to reserves and securitization trusts | (30) | (25) |
| Loans sales | (191) | — |
| Loans consolidated from SLM Corporation | (526) | (646) |
| Ending balance | $ 92,149 | $ 80,719 |

**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 months ended March 31, 2004 and 2003 was 23 percent and 35 percent, respectively. The effective tax rate for the period ended March 31, 2004 reflects the permanent benefit of the exclusion of the gains on equity forward contracts under SFAS No. 150, adopted in the third quarter of 2003. As SFAS No. 150 was implemented in the third quarter of 2003, the effective tax rate for the three months ended March 31, 2003 does not include any impact from equity forward contracts.

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

## 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 months ended March 31, 2004 and March 31, 2003.

| | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| **"Core cash" securitization adjustments:** | | |
| Net interest income on securitized loans, after provision for losses | $ 262 | $ 230 |
| Gains on student loan securitizations | (114) | (306) |
| Servicing and securitization revenue | (137) | (189) |
| Total "core cash" securitization adjustments | $ 11 | $ (265) |

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.

The table below quantifies the effect of a derivative market value transactions adjustment under SFAS No. 133 and non-Floor Income related realized derivatives transactions on our net income for the three months ended March 31, 2004 and 2003, respectively, in accordance with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

| | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| **SFAS No. 133 income statement items:** | | |
| Derivative market value adjustment included in other income | $ 117 | $ 119 |
| Less: Realized derivative transactions reclassified (see "Derivative Reclassifications—Non-GAAP under NET INTEREST INCOME") | (216) | (234) |
| Total net impact of SFAS No. 133 derivative accounting | $ (99) | $ (115) |

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 futures, 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 months ended March 31, 2004 and 2003.

| | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| **"Core cash" Floor Income adjustments:** | | |
| Floor Income earned on Managed loans | $ (34) | $ (73) |
| Amortization of net premiums on Floor Income Contracts and futures in net interest income | 45 | 38 |
| Net losses related to closed Eurodollar futures contracts economically hedging Floor Income | 50 | 1 |
| Losses on sales of derivatives hedging Floor Income | — | 71 |
| Total "core cash" Floor Income adjustments | $ 61 | $ 37 |

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

For the three months ended March 31, 2004 and 2003, the pre-tax effect of these non-GAAP performance measures was as follows:

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| **Non-GAAP performance measures:** | | |
| Net impact of securitization accounting | $ 11 | $ (265) |
| Net impact of derivative accounting | (99) | (115) |
| Net impact of Floor Income | 61 | 37 |
| Amortization of acquired intangibles and other | 7 | 15 |
| Total non-GAAP performance measures | $ (20) | $ (328) |

**Student Loan Spread Analysis—Managed Basis**

The following table analyzes the reported earnings from our portfolio of Managed student loans, which includes both on-balance sheet and off-balance sheet loans in securitization trusts, and excludes Floor Income and includes derivatives economically hedging these line items (see "NET INTEREST INCOME—Derivative Reclassification—Non-GAAP").

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Managed Basis student loan yield | 4.15% | 4.44% |
| Consolidation Loan Rebate Fees | (.40) | (.34) |
| Offset Fees | (.03) | (.04) |
| Borrower benefits | (.08) | (.11) |
| Premium and origination fee amortization | (.09) | (.16) |
| Managed Basis student loan net yield | 3.55 | 3.79 |
| Managed Basis student loan cost of funds | (1.64) | (1.86) |
| Managed Basis student loan spread | 1.91% | 1.93% |
| **Average Balances** | | |
| On-balance sheet student loans | $ 52,892 | $ 44,159 |
| Off-balance sheet student loans | 37,786 | 35,228 |
| Managed student loans | $ 90,678 | $ 79,387 |

***Discussion of Managed Student Loan Spread***

The first quarter of 2004 student loan spread was affected both positively and negatively by a number of factors as compared to the first quarter of 2003. Positive changes to the spread included lower premium amortization and borrower benefit expenses associated with increased Consolidation Loan activity, an increase in the average balance of Managed Private Credit Student Loans as a percentage of the average Managed student loan portfolio to 10 percent of the average Managed Student Loan Portfolio, and higher amortization of upfront premiums received on Floor Income Contracts. Negative changes to the spread included higher spreads on our debt funding student loans and an increase in the average balance of lower spread Consolidation Loans as a percentage of the Managed portfolio. The net effect of these changes was a 2 basis point reduction in the Managed student loan spread. The details of these fluctuations are discussed further below.

When we consolidate a Managed FFELP Stafford loan, the term of the loan is extended and the amortization of the premium is likewise extended to match the new term of the loan. Conversely, if a Managed FFELP Stafford student loan consolidates with another lender, it is treated as a prepayment, and unamortized premium balance must be written off. We calculate a Constant Prepayment Rate ("CPR") to estimate the effect of term extensions and prepayments on the average life of the student loan portfolio; the CPR is used to calculate premium amortization. Under SFAS No. 91, when actual Consolidation Loan activity differs from predicted results, we must adjust the premium balance from inception to reflect the new term of the loan portfolio. In the first quarter of 2004, the pace of Consolidation Loan activity was higher than predicted resulting in lower than expected premium amortization. Additionally, the overall longer amortization terms from Consolidation Loans decreased premium amortization in the first quarter of 2004 versus the first quarter of 2003 as the average balance of Consolidation Loans grew as a percentage of the average Managed FFELP student loan portfolio from 36 percent in the first quarter of 2003 to 44 percent in the first quarter of 2004. Additionally, based on further analysis of student loans in our trust portfolios and Private Credit Student Loans, we increased the term for amortizing premiums and discounts related to those loans. The net effect of these items lowered premium amortization expense by $16 million.

The increase in Consolidation Loan activity also reduced our estimate of the number of borrowers who qualify for borrower benefits. As loans consolidate the benefit remaining on the original FFELP Stafford loan is written off and replaced by a lower benefit on the Consolidation Loan that is recognized over a longer term.

In the first quarter of 2004, Private Credit Student Loans increased. Private Credit Student Loans are subject to credit risk and therefore earn higher spreads which averaged 4.50 percent in the first quarter of 2004 before the effect of a change in estimate adjustment that extended the term of the loans and lowered discount amortization as discussed below for the Managed Private Credit Student Loan portfolio, versus a spread of 1.54 percent for the Managed guaranteed student loan portfolio before Floor Income and estimate adjustments.

The decrease in the student loan spread from the higher cost of funds is mainly due to increased spreads to the index on our debt caused by the replacement of lower cost GSE funding with non-GSE funding in connection with the GSE Wind-Down. GSE debt generally has lower credit spreads than non-GSE funding sources and our non-GSE liabilities are significantly longer in duration than our GSE liabilities. Also, we use higher cost, longer-term debt to fund Consolidation Loans.

Absent the effects of Consolidation Loan activity on our premium amortization and borrower benefits, Consolidation Loans have lower spreads than other FFELP loans due to the 105 basis point Consolidation Loan Rebate Fee. The negative effect of this fee is partially offset by the absence of the 30 basis point offset fee on GSE student loans, higher SAP yield and lower student loan premium amortization discussed above. 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 an increasing percentage of our federally guaranteed student loan portfolio.

**Allowance for Private Credit Student Loan Losses—Managed Basis**

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

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Managed Private Credit Student Loan allowance balance at beginning of period | $ 259 | $ 194 |
| Provision for Managed Private Credit Student Loan losses | 37 | 32 |
| Other | — | 7 |
| Charge-offs: | | |
| Managed Private Credit Student Loan charge-offs | (26) | (17) |
| Managed Private Credit Student Loan recoveries | 2 | 2 |
| Total charge-offs, net of recoveries | (24) | (15) |
| Managed Private Credit Student Loan allowance balance at end of period | $ 272 | $ 218 |
| Net Managed Private Credit Student Loan charge-offs as a percentage of average Managed Private Credit Student Loans | 1.03% | ..94% |
| Net Managed Private Credit Student Loan charge-offs as a percentage of average Managed Private Credit Student Loans in repayment | 2.16% | 1.78% |
| Managed Private Credit Student Loan allowance as a percentage of average Managed Private Credit Student Loans | 2.98% | 3.44% |
| Managed Private Credit Student Loan allowance as a percentage of the ending balance of Managed Private Credit Student Loans | 2.90% | 3.24% |
| Managed Private Credit Student Loan allowance as a percentage of the ending balance of Managed Private Credit Student Loans in repayment | 6.16% | 6.39% |
| Average balance of Managed Private Credit Student Loans | $ 9,142 | $ 6,323 |
| Ending balance of Managed Private Credit Student Loans | $ 9,408 | $ 6,716 |
| Average balance of Managed Private Credit Student Loans in repayment | $ 4,376 | $ 3,354 |
| Ending balance of Managed Private Credit Student Loans in repayment | $ 4,422 | $ 3,410 |

The increase in the provision for Managed Private Credit Student Loans of $5 million for the three months ended March 31, 2004 versus the year-ago period is primarily due to the increase in Managed Private Credit Student Loans entering repayment over the prior year and to the effect of the revision of our default assumptions in the fourth quarter of 2003. For the three months ended March 31, 2004, Private Credit Student Loan charge-offs increased by $9 million over the prior year, which is due primarily to the increase in Managed Private Credit Student Loans in repayment and the aging of the loans.

**Delinquencies—Managed Basis**

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

Loans in forbearance status increased from 11 percent of loans in repayment and forbearance status at March 31, 2003 to 12 percent of loans in repayment and forbearance status at March 31, 2004. The increase is due to a temporary spike in forbearances granted on career training loans during a loan system conversion in the second quarter of 2003. The career training ratio has been gradually declining but is not yet back down to the March 31, 2003 level. For all other categories of Private Credit Student Loans, the forbearance ratio decreased when compared to March 31, 2003.

| | March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Balance | % | Balance | % |
| Loans in-school/grace/deferment [1] | $ 4,386 | | $ 2,892 | |
| Loans in forbearance [2] | 600 | | 414 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 4,090 | 92% | 3,118 | 91% |
| Loans delinquent 30-59 days [3] | 126 | 3 | 136 | 4 |
| Loans delinquent 60-89 days | 82 | 2 | 72 | 2 |
| Loans delinquent 90 days or greater | 124 | 3 | 84 | 3 |
| Total Private Credit Student Loans in repayment | 4,422 | 100% | 3,410 | 100% |
| Total Private Credit Student Loans | 9,408 | | 6,716 | |
| Private Credit Student Loan allowance for losses | (272) | | (218) | |
| Private Credit Student Loans, net | $ 9,136 | | $ 6,498 | |
| Percentage of Private Credit Student Loans in repayment | 47% | | 51% | |
| Delinquencies as a percentage of Private Credit Student Loans in repayment | 8% | | 9% | |

(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. Additionally, the forbearance balance at March 31, 2004 included $7 million of career training loans in "closed school" status.

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

## 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 as we transition from GSE funding to SLM Corporation non-GSE funding. Our biggest funding challenge going forward 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 non-GSE funding is student loan securitizations. In the first quarter of 2004, we securitized $9.3 billion in student loans in four transactions versus $6.3 billion in four transactions in the first quarter of 2003. Our securitizations backed by FFELP loans are unique securities in the asset-backed class as they are backed by student loans with an explicit guarantee on 98 percent of principal and interest. This guarantee is subject to service compliance, but is not related to the Company's GSE subsidiary. At March 31, 2004, we financed 83 percent of our Managed student loans from non-GSE sources versus 57 percent at March 31, 2003. As evidenced by the 2003 volume, we have built a highly liquid and deep market for student loan securitizations by broadening our investor base worldwide.

Securitizations will continue to grow and are expected to comprise approximately 70 percent of total Managed debt by 2006, versus 60 percent at March 31, 2004.

In addition to securitizations, we also significantly increased and diversified other non-GSE financing through the issuance of $5.3 billion in SLM Corporation, term, unsecured non-GSE debt. In total, at March 31, 2004, non-GSE on-balance sheet debt, exclusive of on-balance sheet securitizations, totaled $25.5 billion, a 211 percent increase over March 31, 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 and average balances and average interest rates of our Managed borrowings for the three months ended March 31, 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 "Derivative Reclassification—non-GAAP").

| | As of March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Ending Balance | | Ending Balance | |
| | Short Term | Long Term | Short Term | Long Term |
| GSE | $ 14,330 | $ 2,843 | $ 22,770 | $ 15,030 |
| Non-GSE | 1,805 | 23,705 | 244 | 7,969 |
| Securitizations (on-balance sheet) | — | 24,256 | — | 2,021 |
| Securitizations (off-balance sheet) | — | 39,532 | — | 38,972 |
| Total | $ 16,135 | $ 90,336 | $ 23,014 | $ 63,992 |

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Average Balance | Average Rate | Average Balance | Average Rate |
| GSE | $ 20,955 | 2.03% | $ 40,071 | 1.90% |
| Non-GSE | 22,932 | 1.75 | 7,691 | 2.61 |
| Securitizations (on-balance sheet) | 19,111 | 1.44 | 1,372 | 1.53 |
| Securitizations (off-balance sheet) | 39,399 | 1.63 | 36,497 | 1.97 |
| Total | $ 102,397 | 1.70% | $ 85,631 | 1.99% |

As the GSE is wound down, stand-alone liquidity at SLM Corporation will become increasingly important over time. SLM Corporation's stand-alone liquidity is derived from our modest debt maturities and use of commercial paper, $3 billion in committed bank lines of credit, short-term investment portfolio and broad market acceptance of our principal asset, government guaranteed student loans.

**GSE Financing Activities**

The GSE secures financing to fund its on-balance sheet portfolio of student loans, along with its other operations, by issuing debt securities in the domestic and overseas capital markets, through public offerings and private placements of U.S. dollar-denominated and foreign currency-denominated debt of varying maturities and interest rate characteristics. The GSE's debt securities are currently rated at the highest credit rating level by both Moody's and S&P. Historically, the rating agencies' ratings of the GSE have been largely a factor of its status as a government-sponsored enterprise. Since the Privatization Act did not modify the attributes of debt issued by the GSE, management anticipates that the GSE will retain its current credit ratings.

The GSE's unsecured financing requirements are driven by the following factors: liquidity to meet the short-term funding of new student loan acquisitions; refinancing of existing GSE liabilities as they mature and are not replaced by non-GSE funding sources; the level of securitization activity; and the transfer and refinancing of GSE assets by the Company's non-GSE entities.

**Non-GSE Unsecured On-Balance Sheet Financing Activities**

As discussed above, we continue to diversify our non-GSE funding sources such as commercial paper, bank lines of credit, underwritten long-term debt, and global and medium-term note programs. 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 | A-2 | A+ |

The table below presents our non-GSE unsecured on-balance sheet funding by funding source for the three months ended March 31, 2004 and 2003.

| | Debt issued for the three months ended March 31, | | Outstanding at March 31, | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| Commercial paper | $ — | $ 7,494 | $ — | $ 44 |
| Convertible debentures | — | — | 1,984 | — |
| Retail medium-term notes (EdNotes) | 172 | 78 | 528 | 78 |
| Foreign currency denominated[1] | 1,976 | — | 2,574 | — |
| Extendible notes | 249 | — | 1,997 | — |
| Inflation indexed notes | 2,933 | — | 14,485 | — |
| Global notes | — | 2,246 | 3,942 | 3,948 |
| Medium-term notes | — | — | — | 4,143 |
| Total | $ 5,330 | $ 9,818 | $ 25,510 | $ 8,213 |

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

**Securitization Activities**

***Securitization Program***

Our FFELP Stafford, Private Credit Student Loan and certain Consolidation Loan securitizations are off-balance sheet transactions that are structured to meet the sale criteria of SFAS No. 140 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. Each of these transactions is structured to ensure that the holders of the beneficial interests issued by the QSPE are not constrained from pledging or exchanging their interests and that 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 certain rights that can affect the remarketing of certain bonds. These remarketing rights are not significantly limited in nature. Therefore, these securitizations did not qualify as QSPEs. Accordingly, they are accounted for on-balance sheet as variable interest entities ("VIEs") with the securitized federally insured student loans reflected in the balance sheet as "federally insured student loans in trust." 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.

The following table summarizes our securitization activity for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2003 | | | |
| | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % |
| FFELP Stafford/PLUS loans | — | $ — | $ — | —% | 1 | $ 1,256 | $ 20 | 1.6% |
| Consolidation Loans | — | — | — | — | 1 | 2,005 | 218 | 10.9 |
| Private Credit Student Loans | 1 | 1,252 | 114 | 9.1 | 1 | 1,005 | 68 | 6.8 |
| Total securitization sales | 1 | 1,252 | $ 114 | 9.1% | 3 | 4,266 | $ 306 | 7.2% |
| On-balance sheet securitization of Consolidation Loans | 3 | 8,023 | | | 1 | 2,056 | | |
| Total loans securitized | 4 | $ 9,275 | | | 4 | $ 6,322 | | |

The increase in the Private Credit securitization gain for the first quarter of 2004 is due to the underlying student loans having higher spreads and lower cost of funds.

At March 31, 2004 and December 31, 2003, securitized student loans outstanding totaled $61.8 billion and $55.1 billion, respectively.

The asset-backed securities issued by our trusts generally have a higher net cost to fund our student loans than our GSE on-balance sheet financing because the asset-backed securities are term match-funded to the assets securitized and do not benefit from the implicit guarantee of the federal government that investors attribute to GSE debt. The GSE's funding advantage over our securitizations is somewhat mitigated by the absence of Offset Fees on securitized loans. Our securitizations to date have been structured to achieve a triple "AAA" credit rating on over 96 percent of the asset-backed securities sold. Securities issued in our typical FFELP student loan securitizations are issued with a variety of interest rate terms and in multiple currencies while the index on our securitized loans are either indexed to the 91-day or 52-week Treasury bill, commercial paper or the Prime rate. We manage this interest rate and currency risk with derivatives, principally interest rate and currency swaps, which can either be on-balance sheet or embedded in the securitization trust.

In 2004, we expect to maintain the 2003 level of securitization activity to fund new student loan purchases and continue the refinancing of GSE debt. We expect our term asset-backed securities issuance to be $25 billion versus $30 billion with our asset-backed commercial paper program adding another $5 billion.

***Liquidity Risk***

As non-GSE financing replaces GSE financing and becomes an ever-larger percentage of our long-term funding, our credit spread and liquidity exposure to the capital markets shifts from the government agency capital markets to the corporate and asset-backed 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 and the timely and effective completion of the GSE Wind-Down. Our securitizations are structured such that we do not provide any level of financial, credit or liquidity support to any of the trusts, and our exposure is limited to the recovery of the Retained Interest asset on the balance sheet. Our 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.

***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 analysis. At March 31, 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 March 31, 2004 and 2003 was $2.4 billion and $2.2 billion, respectively. The deferred tax liability associated with these assets was $333 million and $275 million at March 31, 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 March 31, 2004 and December 31, 2003 was $801 million and $727 million, respectively.

***Servicing and Securitization Revenue***

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

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

| | Three months ended March 31, | |
|---|---|---|
| | 2004 | 2003 |
| Servicing revenue | $ 76 | $ 75 |
| Securitization revenue, exclusive of Embedded Floor Income | 30 | 57 |
| Servicing and securitization revenue, before Embedded Floor Income | 106 | 132 |
| Embedded Floor Income | 78 | 78 |
| Less: Floor Income previously recognized in gain calculation | (47) | (21) |
| Net Embedded Floor Income | 31 | 57 |
| Total servicing and securitization revenue | $ 137 | $ 189 |
| Average off-balance sheet student loans | $ 37,786 | $ 35,228 |
| Average balance of Retained Interest | $ 2,442 | $ 2,195 |
| Servicing and securitization revenue as a percentage of the average balance of off-balance sheet student loans (annualized) | 1.45% | 2.17% |

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 which can result in an impairment of the Residual Interest asset and negatively impact yields used to recognize subsequent income. In the first quarter of 2004, we recognized impairment of the Residual Interest asset of $13.7 million due to higher than anticipated Consolidation Loan activity. We receive annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to our Stafford, Consolidation Loan and Private Credit Student Loan securitizations, respectively.

In off-balance sheet securitizations that qualify as sales, we recognize a gain on the sale, which is calculated as the difference between the allocated cost basis of the assets sold and the relative fair value of the assets received. The carrying value of the student loan portfolio being securitized includes the applicable accrued interest, unamortized student loan premiums, loan loss reserves and borrower benefits reserves. We recognize no gain or loss or servicing and securitization revenue associated with on-balance sheet securitizations.

**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 Credit Student 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 March 31, 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 | $ 50,868 | $ 3,215 | $ 331 | $ — | $ — | $ — |
| Academic facilities financings and other loans | 438 | 51 | 74 | 50 | 38 | 453 |
| Cash and investments | 9,200 | 41 | 19 | 85 | 915 | 1,280 |
| Other assets | 1,253 | 121 | 243 | 240 | 572 | 3,776 |
| Total assets | 61,759 | 3,428 | 667 | 375 | 1,525 | 5,509 |
| **Liabilities and Stockholders' Equity** | | | | | | |
| Short-term borrowings | 12,522 | 2,049 | 1,605 | — | — | — |
| Long-term notes | 31,229 | — | 25 | 2,042 | 5,870 | 12,139 |
| Other liabilities | — | — | — | — | — | 3,044 |
| Stockholders' equity | — | — | — | — | — | 2,738 |
| Total liabilities and stockholders' equity | 43,751 | 2,049 | 1,630 | 2,042 | 5,870 | 17,921 |
| Period gap before adjustments | 18,008 | 1,379 | (963) | (1,667) | (4,345) | (12,412) |
| **Adjustments for Derivatives and Other Financial Instruments** | | | | | | |
| Interest rate derivatives | (17,046) | (2,350) | 577 | 3,912 | 3,835 | 11,072 |
| Impact of securitized student loans | (2,618) | 2,618 | — | — | — | — |
| Total derivatives and other financial instruments | (19,664) | 268 | 577 | 3,912 | 3,835 | 11,072 |
| Period gap | $ (1,656) | $ 1,647 | $ (386) | $ 2,245 | $ (510) | $ (1,340) |
| Cumulative gap | $ (1,656) | $ (9) | $ (395) | $ 1,850 | $ 1,340 | $ — |
| Ratio of interest-sensitive assets to interest-sensitive liabilities | 138.3% | 161.4% | 26.0% | 6.6% | 16.2% | 14.3% |
| Ratio of cumulative gap to total assets | (2.3)% | —% | (0.5)% | 2.5% | 1.8% | —% |

***Weighted Average Life***

The following table reflects the weighted average life for our Managed earning assets and liabilities at March 31, 2004.

| (Averages in years) | On-Balance Sheet | Off-Balance Sheet | Managed |
|---|---|---|---|
| **Earning assets** | | | |
| Student loans | 9.3 | 4.4 | 8.8 |
| Academic facilities financings and other loans | 6.8 | — | 6.8 |
| Cash and investments | 1.3 | — | 1.3 |
| Total earning assets | 8.0 | 4.4 | 8.0 |
| **Borrowings** | | | |
| Short-term borrowings | .3 | — | .3 |
| Long-term borrowings | 7.4 | 4.4 | 6.1 |
| Total borrowings | 5.7 | 4.4 | 5.2 |

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 1.3 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**

We repurchased 7.9 million shares during the first quarter of 2004 through equity forward settlements and issued a net 3.1 million shares related to benefit plans. At March 31, 2004, the total common shares that could potentially be acquired over the next four years under outstanding equity forward contracts was 39.8 million shares at an average price of $38.10 per share. We have remaining authority to enter into additional share repurchases and equity forward contracts for 34.2 million shares.

In May 2003, the Board of Directors approved a three-for-one split of our common stock to be effected in the form of a stock dividend. The additional shares were distributed on June 20, 2003, for all shareholders of record on June 6, 2003. All share and per share amounts presented have been retroactively restated for the stock split. Stockholders' equity has been restated to give retroactive recognition to the stock split for all periods presented by reclassifying from additional paid-in capital to common stock the par value of the additional shares issued as a result of the stock split.

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.

The following table summarizes our common share repurchase and equity forward activity for the three months ended March 31, 2004 and 2003.

| (Common shares in millions) | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| Common shares repurchased: | | |
| Open market | — | 3.4 |
| Equity forwards | 7.9 | 4.6 |
| Benefit plans | .7 | .9 |
| Total shares repurchased | 8.6 | 8.9 |
| Average purchase price per share | $ 31.26 | $ 29.88 |
| Common shares issued | 3.8 | 5.7 |
| Equity forward contracts: | | |
| Outstanding at beginning of period | 43.5 | 28.7 |
| New contracts | 4.2 | 7.1 |
| Exercises | (7.9) | (4.6) |
| Outstanding at end of period | 39.8 | 31.2 |
| Board of Director authority remaining at end of period | 34.2 | 39.7 |

As of March 31, 2004, the expiration dates and range and average purchase prices for outstanding equity forward contracts were as follows:

(Contracts in millions)

| Year of maturity | Outstanding contracts | Range of purchase prices | Average purchase price |
|---|---|---|---|
| 2005 | 3.0 | $38.25–$40.17 | $ 39.21 |
| 2006 | 20.5 | 33.82–41.88 | 37.37 |
| 2007 | 13.1 | 37.70–41.81 | 38.70 |
| 2008 | 3.2 | 38.64–40.00 | 39.28 |
| | 39.8 | | $ 38.10 |

**STUDENT LOAN MARKETING ASSOCIATION**

**Privatization Act—GSE Wind-Down**

Under the Privatization Act, the GSE must Wind-Down its operations and dissolve on or before September 30, 2008, and until the GSE is dissolved, the Privatization Act places a number of limitations on the GSE. Management, however, plans to accelerate the Wind-Down of the GSE to no later than June 2006 and is well ahead of the periodic milestones. Any GSE debt obligations outstanding at the date of such dissolution are required to 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 match the interest and principal obligations of the defeased debt. The Privatization Act requires that on the dissolution date, the GSE shall repurchase or redeem, or make proper provisions for repurchase or redemption of any outstanding preferred stock. The GSE redeemed its Series A, Adjustable Rate Cumulative Preferred Stock, its only outstanding preferred stock, in the fourth quarter of 2001. Also upon the GSE's dissolution, all of its remaining assets will be transferred to the Company.

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 March 31, 2004, the GSE's statutory capital adequacy ratio was 5.76 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 March 31, 2004, the GSE's capital ratio under this measurement formula was 18.32 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 to six months. The GSE has not issued any long-term debt since July 2003. 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 must either securitize, sell, transfer or defease the GSE's assets by the Wind-Down date and retire or defease the GSE's debt obligations. For loans securitized, the GSE retains an interest in the loans, which is recognized on the balance sheet as Retained Interest in securitized receivables. In connection with the GSE Wind-Down, in 2003 the GSE sold its Retained Interests to a non-GSE subsidiary of the Company for $2.1 billion. The GSE will continue to finance student loans through securitizations in 2004, and intends to sell its Retained Interest in such securitizations as soon as practical after the sale.

During the course of developing the Wind-Down plan, management was advised by its tax counsel that, while the matter is not certain, under current authority, the defeasance of certain GSE bonds that mature after the dissolution of the GSE, could be construed to be a taxable event for taxable holders of those bonds. Management intends to commence discussions on this matter with the Internal Revenue Service and may seek a private letter ruling that the defeasance does not trigger a taxable event for such bondholders in the context of the GSE's privatization.

Given the GSE's current exemption from state income taxes, management is continually evaluating the potential impact (if any) upon the Company's overall state tax position resulting from planned sales and transfers of GSE assets.

The following table summarizes the GSE's asset sales and transfers for the three months ended March 31, 2004 and 2003 (carrying value includes accrued interest).

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| (Dollars in millions) | Sale Amount | Carrying Amount | Gain Amount | Sale Amount | Carrying Amount | Gain Amount |
| FFELP/Consolidation Student Loan securitizations | $ — | $ — | $ — | $ 3,567 | $ 3,330 | $ 237 |
| Sale of on-balance sheet VIEs, net [1] | 527 | 47 | 480 | 334 | 89 | 245 |
| Student loan sales [2] | 1,342 | 1,321 | 21 | 794 | 760 | 34 |
| Non-cash dividend of FFELP Stafford/PLUS student loans [3] | 960 | 944 | 16 | — | — | — |
| Non-cash dividend of insurance and benefit plan related investments | — | — | — | 346 | 346 | — |
| Sale of basis swaps [4] | — | — | — | — | — | 5 |
| Loans consolidated with SLM Corp entities | 361 | 361 | — | — | — | — |

(1) These VIEs consist of securitized Consolidation Loans, totaling $8.0 billion and $2.1 billion for the three months ended March 31, 2004 and 2003, respectively, and the sales are recorded net of debt issued. Included in the $8.0 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 basis swaps to SLM Corporation at fair market value.

We will continue to securitize, sell, transfer or defease the GSE's assets throughout the Wind-Down Period. All intercompany transactions between the GSE and the Company and its non-GSE subsidiaries have been eliminated in the Company's consolidated financial statements. In connection with the acquisition of AMS, SLM Corporation contributed to the GSE $40 million of assets, net of liabilities assumed. The assets contributed consisted primarily of student loans.

The following table shows the percentage of certain assets and income held by the GSE versus non-GSE as of and for the three months ended March 31, 2004.

| | Three months ended March 31, 2004 | |
|---|---|---|
| | GSE | Non-GSE |
| Ending balance of on-balance sheet Private Credit Student Loans, net | 11% | 89% |
| Ending balance of on-balance sheet student loans, net | 29% | 71% |
| Ending balance of Managed student loans financed, net [1] | 17% | 83% |
| Ending balance of on-balance sheet assets | 28% | 72% |
| Average balance of on-balance sheet interest earning assets | 37% | 63% |
| Interest income | 36% | 64% |
| Fee income | 3% | 97% |

(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 months ended March 31, 2004 and 2003.

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Balance | Rate | Balance | Rate |
| **Average Assets** | | | | |
| Federally insured student loans | $ 18,088 | 3.70% | $ 35,259 | 5.04% |
| Private Credit Student Loans | 1,265 | 4.64 | 2,907 | 5.30 |
| Academic facilities financings and other loans | 688 | 6.12 | 855 | 6.23 |
| Cash and investments | 3,017 | 3.39 | 3,778 | 3.14 |
| Total interest earning assets | 23,058 | 3.79% | 42,799 | 4.91% |
| Retained Interest in securitized receivables | — | | 2,086 | |
| Other non-interest earning assets | 1,264 | | 1,454 | |
| Total assets | $ 24,322 | | $ 46,339 | |
| **Average Liabilities and Stockholders' Equity** | | | | |
| Six month floating rate notes | $ 2,621 | 1.04% | $ 2,887 | 1.27% |
| Other short-term borrowings | 14,459 | 1.96 | 22,129 | 1.47 |
| Long-term notes | 3,944 | 4.03 | 17,208 | 2.81 |
| Total interest bearing liabilities | 21,024 | 2.23% | 42,224 | 2.00% |
| Non-interest bearing liabilities | 1,525 | | 1,734 | |
| Stockholders' equity | 1,773 | | 2,381 | |
| Total liabilities and stockholders' equity | $ 24,322 | | $ 46,339 | |
| Net interest margin | | 1.75% | | 2.93% |
| Securitized student loans | $ — | | $ 34,369 | |

**OTHER RELATED EVENTS AND INFORMATION**

Congress reauthorizes the Higher Education Act every five years. The Higher Education Act was originally scheduled to expire on September 30, 2003, but by its terms was automatically extended to September 30, 2004. We now expect that Congress will actively debate provisions of the Higher Education Act that govern the FFELP and the FDLP during 2004 and final action on the next reauthorization may not occur until 2005 (following another short extension of the current Act).

As with past Higher Education Act 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 needy 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,

- maintaining a viable loan consolidation program, and
- extending 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 by Presidential hopefuls or introduced by Members of Congress, including proposals to 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 the student loan auction proposal is adopted, it 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.

### 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 months ended March 31, 2004 and 2003 and the effect on fair values at March 31, 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.

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2003 | | | |
| | Interest Rates: | | | | Interest Rates: | | | |
| | Change from increase of 100 basis points | | Change from increase of 300 basis points | | Change from increase of 100 basis points | | Change from increase of 300 basis points | |
| (Dollars in millions, except per share amounts) | $ | % | $ | % | $ | % | $ | % |
| **Effect on Earnings** | | | | | | | | |
| Increase/(decrease) in pre-tax net income before unrealized derivative market value adjustment | $ (2) | (1)% | $ 27 | 9% | $ (57) | (11)% | $ (66) | (12)% |
| Unrealized derivative market value adjustment | 382 | 383 | 844 | 847 | 345 | 301 | 825 | 721 |
| Increase in net income before taxes | $ 380 | 100% | $ 871 | 229% | $ 288 | 45% | $ 759 | 118% |
| Increase in diluted earnings per share | $ .547 | 86% | $ 1.253 | 196% | $ .396 | 45% | $ 1.050 | 119% |

| | At March 31, 2004 | | | | |
|---|---|---|---|---|---|
| | | 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 | $ 56,093 | $ (449) | (1)% | $ (973) | (2)% |
| Other earning assets | 12,751 | (108) | (1) | (303) | (2) |
| Other assets | 6,205 | (692) | (11) | (1,070) | (17) |
| Total assets | $ 75,049 | $ (1,249) | (2)% | $ (2,346) | (3)% |
| Liabilities | | | | | |
| Interest bearing liabilities | $ 68,034 | $ (1,122) | (2)% | $ (3,100) | (5)% |
| Other liabilities | 3,044 | 105 | 3 | 1,209 | 40 |
| Total liabilities | $ 71,078 | $ (1,017) | (1)% | $ (1,891) | (3)% |

| (Dollars in millions) | At December 31, 2003 | | | | |
|---|---|---|---|---|---|
| | | Interest Rates: | | | |
| | | Change from increase of 100 basis points | | Change from Increase of 300 basis points | |
| | 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—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 months ended March 31, 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 floating rate debt into fixed rate debt, matching the fixed rate nature of the student loans and fixing the relative spread between the student loan asset rate and the converted fixed rate liability.

In the above table under the scenario where interest rates increase 100 basis points, the decrease in pre-tax net income before SFAS No. 133 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 SFAS No. 133 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") 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, after five days of trial, the jury returned a verdict in favor of the Company on all counts. CLC has since filed an appeal. All appellate briefing has been completed and oral argument has been scheduled before the U.S. Court of Appeals for the Fourth Circuit on June 4, 2004.

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 2 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 Court granted the Company's motion to dismiss the complaint in its entirety. The plaintiffs appealed the trial court decision. All appellate briefing has been completed and oral argument was held in April 2004. No decision has been issued on the appeal as of this date.

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 (see "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—OTHER RELATED EVENTS AND INFORMATION"). 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.

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. 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 first 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 have authorized the purchase of up to 227.5 million shares.

| (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:** | | | | |
| January 1—January 31, 2004 | 6.5 | $ 30.44 | 6.5 | 36.6 |
| February 1—February 29, 2004 | 2.1 | 33.64 | 2.1 | 34.8 |
| March 1—March 31, 2004 | — | — | — | 34.2 |
| Total | 8.6 | $ 31.26 | 8.6 | |

(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**

Attached as Exhibit 3.2 are the Company's amended By-laws. The Company's By-laws provide that the By-laws may be amended by the Board of Directors and that any amendments will become effective on the date of the next shareholder meeting provided that notice is provided to shareholders before the date of the meeting.

The amendment will change the definition of "independence" for members of the Board of Directors of the Company to comply with the listing requirements of the New York Stock Exchange. Certain, more restrictive criteria established by the Board continues in effect, as well.

The amendment will provide that a director will not be considered independent if, within the preceding three years, the director or their immediate family members have certain relationships with the Company, the Company's internal or external auditor, a significant supplier or customer of the Company, a charitable organization to which the Company makes contributions or certain interlocking compensation committee relationships.

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

| | |
|---|---|
| 3.2 | By-Laws of the Registrant |
| 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 |
| 99 | Selected Financial Data |

(b) Reports on Form 8-K

The Company furnished or filed two Current Reports on Form 8-K with the Commission during the quarter ended March 31, 2004 or thereafter. On January 15, 2003, the Company furnished a Current Report in connection with the Company's press release announcing its earnings for the quarter ended December 31, 2003 and its supplemental financial information for the same period. On April 15, 2004, the Company furnished a Current Report in connection with the Company's press release announcing its earnings for the quarter ended March 31, 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

C.E. Andrews
*Executive Vice President,*
*Accounting and Risk Management*
*(Principal Accounting Officer and*
*Duly Authorized Officer)*

Date: May 10, 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)**

| | March 31, 2004 | December 31, 2003 |
|---|---|---|
| | (Unaudited) | |
| **Assets** | | |
| Federally insured student loans (net of allowance for losses of $12,472 and $19,324 respectively) | $ 15,520,830 | $ 19,530,669 |
| Private Credit Student Loans (net of allowance for losses of $7,698 and $10,655, respectively) | 443,082 | 1,020,880 |
| Academic facilities financings and other loans | 696,313 | 691,303 |
| Investments | | |
| Available-for-sale | 2,463,633 | 2,517,805 |
| Other | 139,759 | 115,834 |
| Total investments | 2,603,392 | 2,633,639 |
| Cash and cash equivalents | 121,851 | 531,880 |
| Restricted cash and investments | 279,685 | 254,925 |
| Other assets | 484,974 | 685,268 |
| Total assets | $ 20,150,127 | $ 25,348,564 |
| **Liabilities** | | |
| Short-term borrowings | $ 14,440,356 | $ 16,946,615 |
| Long-term notes | 2,842,385 | 4,781,606 |
| Other liabilities | 1,685,033 | 1,773,330 |
| Total liabilities | 18,967,774 | 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 $110,455 and $112,657, respectively) | 205,131 | 209,221 |
| Retained earnings | 637,229 | 1,297,799 |
| Total stockholder's equity | 1,182,353 | 1,847,013 |
| Total liabilities and stockholder's equity | $ 20,150,127 | $ 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 March 31, 2004 (Unaudited) | Three months ended March 31, 2003 (Unaudited) |
|---|---|---|
| **Interest income:** | | |
| Federally insured student loans | $ 166,549 | $ 438,045 |
| Private Credit Student Loans | 14,611 | 37,960 |
| Academic facilities financings and other loans | 9,411 | 11,549 |
| Investments | 25,245 | 26,996 |
| Total interest income | 215,816 | 514,550 |
| **Interest expense:** | | |
| Short-term debt | 77,162 | 89,293 |
| Long-term debt | 39,558 | 119,371 |
| Total interest expense | 116,720 | 208,664 |
| Net interest income | 99,096 | 305,886 |
| Less: provision for losses | 12,793 | 13,260 |
| Net interest income after provision for losses | 86,303 | 292,626 |
| **Other income:** | | |
| Gains on student loan securitizations | — | 236,637 |
| Securitization revenue | — | 112,672 |
| Gains on sales to SLM Corporation | 516,861 | 283,809 |
| Losses on sales of securities, net | (437) | (10,229) |
| Derivative market value adjustment | (94,112) | (79,656) |
| Other | 5,266 | 18,378 |
| Total other income | 427,578 | 561,611 |
| **Operating expenses:** | | |
| Related party agreements | 55,531 | 66,127 |
| Other | (652) | 571 |
| Total operating expenses | 54,879 | 66,698 |
| Income before income taxes | 459,002 | 787,539 |
| Income taxes | 159,600 | 271,318 |
| **Net income** | $ 299,402 | $ 516,221 |
| Basic and diluted earnings per common share | $ 50 | $ 86 |
| Average common shares outstanding and common equivalent shares outstanding | 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 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 | | | | | | 516,221 | 516,221 |
| Other comprehensive income, net of tax: | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | (7,385) | | (7,385) |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | 1,239 | | 1,239 |
| Comprehensive income | | | | | | | 510,075 |
| Dividends: | | | | | | | |
| Insurance and benefit plan related investments | | | | | | (346,263) | (346,263) |
| **Balance at March 31, 2003** | 6,001,000 | 6,001,000 | $ 1,200 | $ 298,788 | $ 654,903 | $ 1,494,692 | $ 2,449,583 |
| **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 | | | | | | 299,402 | 299,402 |
| Other comprehensive income, net of tax: | | | | | | | |
| Change in unrealized gains (losses) on investments, net of tax | | | | | (4,849) | | (4,849) |
| Change in unrealized gains (losses) on derivatives, net of tax | | | | | 1,117 | | 1,117 |
| Change in minimum pension liability adjustment | | | | | (358) | | (358) |
| Comprehensive income | | | | | | | 295,312 |
| Dividends: | | | | | | | |
| Student loans | | | | | | (959,972) | (959,972) |
| **Balance at March 31, 2004** | 6,001,000 | 6,001,000 | $ 1,200 | $ 338,793 | $ 205,131 | $ 637,229 | $ 1,182,353 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| **Operating activities** | | |
| Net income | $ 299,402 | $ 516,221 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gains on student loan securitizations | — | (236,637) |
| Gains on sales to SLM Corporation | (516,861) | (283,809) |
| Losses on sales of securities, net | — | 69,017 |
| Unrealized derivative market value adjustment | (99,350) | (140,626) |
| Provision for losses | 12,793 | 13,260 |
| Increase in restricted cash | (24,736) | (3,512) |
| (Increase) decrease in accrued interest receivable | (64,510) | 94,668 |
| (Decrease) increase in accrued interest payable | (9,369) | 6,826 |
| Decrease in Retained Interest in securitized receivables | — | 68,330 |
| Decrease in other assets | 212,822 | 420,480 |
| Increase (decrease) in other liabilities | 12,047 | (445,936) |
| Total adjustments | (477,164) | (437,939) |
| Net cash (used in) provided by operating activities | (177,762) | 78,282 |
| **Investing activities** | | |
| Student loans acquired | (4,252,535) | (4,197,972) |
| Loans acquired through trust consolidation | (413,576) | (1,332,504) |
| Loans acquired from SLM Corporation | (2,188,559) | — |
| Reduction of student loans: | | |
| Installment payments | 877,603 | 860,479 |
| Claims and resales | 160,500 | 165,331 |
| Proceeds from securitization of student loans treated as sales | — | 3,248,255 |
| Proceeds from sales of student loans | 181,879 | — |
| Proceeds from sales of student loans to SLM Corporation | 1,341,926 | 793,727 |
| Academic facilities financings and other loans made | (28,720) | (95,425) |
| Academic facilities financings and other loans repayments | 23,013 | 158,887 |
| Purchases of available-for-sale securities | (397,191) | (954,562) |
| Proceeds from sales and maturities of available-for-sale securities | 464,513 | 1,174,508 |
| Purchases of other securities | (111,496) | (116,396) |
| Proceeds from sales and maturities of other securities | 87,571 | 91,477 |
| Net cash used in investing activities | (4,255,072) | (204,195) |
| **Financing activities** | | |
| Short-term borrowings issued | 179,676,591 | 165,555,718 |
| Short-term borrowings repaid | (181,015,500) | (166,053,750) |
| Long-term notes issued | 630,513 | 2,864,839 |
| Long-term notes repaid | (3,687,073) | (4,611,723) |
| Long-term notes issued by Variable Interest Entity | 8,009,643 | 2,037,331 |
| Sale of Trust to SLM Corporation, net of cash | 408,630 | 287,235 |
| Net cash provided by financing activities | 4,022,804 | 79,650 |
| Net decrease in cash and cash equivalents | (410,030) | (46,263) |
| **Cash and cash equivalents at beginning of period** | 531,881 | 166,273 |
| Cash and cash equivalents at end of period | $ 121,851 | $ 120,010 |
| Cash disbursements made for: | | |
| Interest | $ 96,694 | $ 256,207 |
| Income taxes | $ — | $ 215,000 |
| Noncash items: | | |
| Dividend of FFELP Stafford/PLUS student loans to SLM Corporation | $ (959,972) | $ — |
| Dividend of insurance and benefit plan related investments to SLM Corporation | $ — | $ (346,263) |

See accompanying notes to consolidated financial statements.

**(Information at March 31, 2004 and for the three months ended March 31, 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 months ended March 31, 2004 may not necessarily be 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.

***Reclassifications***

A recent interpretation of 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 that do not qualify as hedges under SFAS No. 133 to be included in the derivative market value adjustment on the income statement. The table below summarizes these derivative reclassifications for the three months ended March 31, 2003:

| (Dollars in millions) | | Three months ended March 31, 2003 |
|---|---|---|
| **Reclassification of realized derivative transactions to derivative market value adjustment:** | | |
| Net settlement expense on Floor Income Contracts reclassified from student loan income | $ | (119) |
| Net settlement expense on Floor Income Contracts reclassified from servicing and securitization income | | (36) |
| Net settlement income on interest rate swaps reclassified from net interest income | | 13 |
| Net settlement expense on interest rate swaps reclassified from servicing and securitization income | | (14) |
| Realized losses on closed Eurodollar futures contracts and terminated derivative contracts reclassified from other expense | | (64) |
| **Total reclassifications to the derivative market value adjustment** | | (220) |
| Add: Unrealized derivative market value adjustment | | 141 |
| Derivative market value adjustment as reported | $ | (79) |

## 2. Student Loans

SLMA purchases student loans from originating lenders. SLMA's portfolio consists principally of loans originated under two federally sponsored programs—the Federal Family Education Loan Program ("FFELP") and the Health Education Assistance Loan Program ("HEAL"). SLMA also purchases Private Credit Student Loans.

The following table reflects the distribution of SLMA's student loan portfolio by program as of March 31, 2004 and 2003.

| | March 31, | |
|---|---|---|
| **(Dollars in millions)** | **2004** | **2003** |
| FFELP—Stafford | $ 11,002,576 | $ 10,823,941 |
| FFELP—PLUS/SLS | 1,555,585 | 1,463,338 |
| FFELP—Consolidation Loans | 2,919,716 | 19,064,768 |
| Private Credit | 450,780 | 2,620,270 |
| HEAL[1] | 55,425 | 1,369,042 |
| Subtotal | 15,984,082 | 35,341,359 |
| Allowance for loan losses | (20,170) | (99,867) |
| Total student loans, net | $ 15,963,912 | $ 35,241,492 |

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

At March 31, 2004 and 2003, 3 percent and 7 percent, respectively, of SLMA's total student loan portfolio was Private Credit.

## 3. Allowance for Student Loan Losses

The provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the student loan portfolios. The allowance for Private Credit Student Loan losses is an estimate of losses in the portfolio at the balance sheet date that will be charged off in subsequent periods. The evaluation of the provision for loan losses is inherently subjective as it requires material estimates that may be susceptible to significant changes. SLMA believes that the allowance for loan losses is adequate to cover probable losses in the student loan portfolio.

SLMA estimates its losses using historical data from its Private Credit Student Loan portfolios, extrapolations of FFELP loan loss data, current trends and relevant industry information. As SLMA's Private Credit Student Loan portfolios continue to mature, more reliance is placed on SLMA's own historical Private Credit Student Loan charge-off and recovery data. Accordingly, during the fourth quarter of 2003, SLMA revised its expected default assumptions to further align the allowance estimate with SLMA's collection experience as well as the terms and policies of the individual Private Credit

Student Loan programs. SLMA uses this data in internally developed models to estimate the amount of losses, net of subsequent collections, projected to occur in the Private Credit Student Loan portfolios.

To calculate the Private Credit Student Loan loss allowance, SLMA divides the portfolio into categories of similar risk characteristics based on loan program type, underwriting criteria, existence or absence of a co-borrower, repayment begin date and repayment status. SLMA then applies default and collection rate projections to each category. The repayment begin date indicates when the borrower is required to begin repaying the loan. SLMA's Private Credit Student Loan programs do not require borrowers to begin repayment until they have graduated or otherwise left school. Consequently, loss estimates for these programs are minimal while the borrower is in school. At March 31, 2004, 73 percent of the principal balance in the Private Credit Student Loan portfolio relates to borrowers who are still in-school and, therefore, not required to make payments. As the current portfolio ages, an increasing percentage of the borrowers will leave school and be required to begin to repay their loans. With a higher percentage of borrowers in repayment, SLMA expects the allowance for losses to increase accordingly.

SLMA's loss estimates include losses that SLMA expects to incur over the loss confirmation period, which is the period of the highest concentration of defaults. The loss confirmation period is 5 years for higher education loans beginning when the borrower leaves school. The loss confirmation period is in alignment with SLMA's typical collection cycle and SLMA considers these periods of nonpayment when estimating the allowance. SLMA's collection policies allow for periods of nonpayment for borrowers experiencing temporary difficulty meeting payment obligations (typically, very early in the repayment term when borrowers are starting their careers). This is referred to as forbearance status. At March 31, 2004, 3 percent of the Private Credit Student Loan portfolio was in forbearance status.

Private Credit Student Loan principal and accrued interest is charged off against the allowance at 212 days of delinquency. Private Credit Student Loans continue to accrue interest until they are charged off and removed from the active portfolio. Recoveries on loans charged off are recorded directly to the allowance.

The following table summarizes changes in the allowance for student loan losses for SLMA's Private Credit and federally insured student loan portfolios for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | |
|---|---|---|
| | **2004** | **2003** |
| **Balance at beginning of period** | $ 29,979 | $ 109,144 |
| Additions | | |
| Provisions for student loan losses | 12,784 | 13,260 |
| Recoveries | 474 | 1,407 |
| Deductions | | |
| Reductions for student loan sales and securitizations | (18,287) | (20,297) |
| Charge-offs | (4,439) | (3,647) |
| Other | (341) | — |
| **Balance at end of period** | $ 20,170 | $ 99,867 |

SLMA receives certain fees related to originated loans at both origination and the commencement of repayment. These origination fees are charged to cover, in part, anticipated loan losses. Such fees are deferred and recognized into income as a component of interest over the average life of the related pool of loans.

The table below presents SLMA's Private Credit Student Loan delinquency trends as of March 31, 2004 and 2003. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

| | March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| (Dollars in millions) | Balance | % | Balance | % |
| Loans in-school/grace/deferment[1] | 330 | | 1,625 | |
| Loans in forbearance[2] | 12 | | 199 | |
| Loans in repayment and percentage of each status: | | | | |
| Loans current | 95 | 87% | 685 | 86% |
| Loans delinquent 30-59 days[3] | 2 | 2 | 38 | 5 |
| Loans delinquent 60-89 days | 3 | 3 | 29 | 4 |
| Loans delinquent 90 days or greater | 9 | 8 | 44 | 5 |
| Total Private Credit Student Loans in repayment | 109 | 100% | 796 | 100% |
| Total Private Credit Student Loans | 451 | | 2,620 | |
| Private Credit Student Loan allowance for losses | (8) | | (51) | |
| Private Credit Student Loans, net | $ 443 | | $ 2,569 | |
| Percentage of Private Credit Student Loans in repayment | 24% | | 30% | |
| Delinquencies as a percentage of Private Credit Student Loans in repayment | 13% | | 14% | |

(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.

**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, SLMA sold its Retained Interests in securitizations to SLM Corporation in a cash transaction. SLMA will continue to sell loans in securitizations in 2004 and recognize Retained Interests as a result of these future transactions. Gains or losses realized at the settlement of these future transactions will continue to be based upon the carrying amount of the financial assets involved in the transfer, allocated between the assets sold and the Retained Interests based on their relative fair values at the date of transfer, as they have with past transactions.

The following table summarizes securitization activity for the three months ended March 31, 2004 and 2003.

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | | | | 2003 | | | |
| (Dollars in millions) | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % | Number of Transactions | Amount Securitized | Pre-tax Gains | Gain % |
| FFELP Stafford/PLUS loans | — | $ — | $ — | —% | 1 | $ 1,256 | $ 20 | 1.6% |
| Consolidation Loans | — | — | — | — | 1 | 2,005 | 218 | 10.9 |
| Total securitization sales | — | — | $ — | —% | 2 | 3,261 | $ 238 | 7.3% |
| On-balance sheet securitization of Consolidation Loans(1) | 3 | 8,023 | | | 1 | 2,056 | | |
| Total loans securitized | 3 | $ 8,023 | | | 3 | $ 5,317 | | |

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

Key economic assumptions used in estimating the fair value of the Retained Interests at the date of securitization related to those securitization transactions that qualify as sales during the three months ended March 31, 2004 and 2003 were as follows:

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | FFELP Stafford (1) | Consolidation (1) | FFELP Stafford | Consolidation |
| Prepayment speed | N/A | N/A | 9% | 7% |
| Weighted-average life (in years) | N/A | N/A | 4.67 | 8.13 |
| Expected credit losses (% of principal securitized) | N/A | N/A | .53% | .72% |
| Residual cash flows discounted at (weighted average) | N/A | N/A | 12% | 6% |

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

## 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 March 31, 2004 and December 31, 2003, and their impact on other comprehensive income and earnings for the three months ended March 31, 2004 and 2003. At March 31, 2004 and December 31, 2003, $148 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 | |
|---|---|---|---|---|---|---|---|---|
| | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 | March 31, 2004 | December 31, 2003 |
| **(Dollars in millions)** | | | | | | | | |
| ***Fair Values*** | | | | | | | | |
| Interest rate swaps | $ — | $ — | $ (159) | $ (110) | $ (106) | $ (89) | $ (265) | $ (199) |
| Floor/Cap contracts | — | — | — | — | (488) | (563) | (488) | (563) |
| Futures | (2) | (2) | — | — | — | (40) | (2) | (42) |
| Total | $ (2) | $ (2) | $ (159) | $ (110) | $ (594) | $ (692) | $ (755) | $ (804) |
| (Dollars in billions) | | | | | | | | |
| ***Notional Values*** | | | | | | | | |
| Interest rate swaps | $ — | $ — | $ 7.0 | $ 8.1 | $ 34.0 | $ 35.8 | $ 41.0 | $ 43.9 |
| Floor/Cap contracts | — | — | — | — | 18.0 | 18.7 | 18.0 | 18.7 |
| Futures | 0.2 | 0.3 | — | — | 0.6 | 9.4 | 0.8 | 9.7 |
| Total | $ 0.2 | $ 0.3 | $ 7.0 | $ 8.1 | $ 52.6 | $ 63.9 | $ 59.8 | $ 72.3 |

| | Three months ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Cash Flow | | Fair Value | | Trading | | Total | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **(Dollars in millions)** | | | | | | | | |
| Changes to other comprehensive income, net of tax | | | | | | | | |
| Other comprehensive income, net | $ 1 | $ 1 | $ — | $ — | $ — | $ — | $ 1 | $ 1 |
| ***Earnings Summary*** | | | | | | | | |
| Recognition of closed futures contracts' gains/losses into interest expense(1) | $ (2) | $ (3) | $ — | $ — | $ — | $ — | $ (2) | $ (3) |
| Derivative market value adjustment—Realized(2) | — | — | — | — | (193) | (220) | (193) | (220) |
| Derivative market value adjustment—Unrealized | — | 1(3) | 1(3) | 3(3) | 98 | 137 | 99 | 141 |
| Total earnings impact | (2) | (2) | 1 | 3 | (95) | (83) | (96) | (82) |

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

(2) Includes net settlement income/expense on trading derivatives and realized gains and losses on disposed derivatives that do not qualify as hedges under SFAS No. 133.

(3) The change in fair value of cash flow and fair value hedges represents amounts related to ineffectiveness.

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

| (Dollars in millions) | Three months ended March 31, 2004 | Three months ended March 31, 2003 |
|---|---|---|
| ***Accumulated Other Comprehensive Income, Net*** | | |
| **Balance at beginning of period** | $ (11) | $ (18) |
| **Change in unrealized gains (losses) on derivatives, net:** | | |
| Amortization of effective hedges(1) | 1 | 1 |
| **Total change in unrealized gains (losses) on derivatives, net** | 1 | 1 |
| **Balance at end of period** | $ (10) | $ (17) |

(1) SLMA expects to amortize $4 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 March 31, 2004. In addition, SLMA expects to amortize into earnings over the next 12 months portions of the accumulated unrealized net losses related to futures contracts that were open at March 31, 2004 and are expected to be closed based on the anticipated issuance of debt. Based on the value of these contracts at March 31, 2004 and expected issuance dates, this amount is estimated to be $1 million over the next 12 months. SLMA has open futures contracts hedging the anticipated issuances of debt which are anticipated to occur from 2004 through 2008.

## 6. Guarantees

The Company has issued lending-related financial instruments including letters of credit and lines of credit to meet the financing needs of its customers. Letters of credit support the issuance of state student loan revenue bonds. They represent unconditional guarantees of the GSE to repay holders of the bonds in the event of a default. In the event that letters of credit are drawn upon, such loans are collateralized by the student loans underlying the bonds. The initial liability recognition and measurement provisions of Financial Accounting Standards Board Interpretation ("FIN") No. 45, "Guarantors' Accounting and Disclosure Requirements for Guarantees Including Indirect Guarantees of the Indebtedness of Others, and Interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," are effective for such guarantees issued or modified after December 31, 2002. During 2003 and the three months ended March 31, 2004, there were no new letters of credit issued or modifications to existing letters of credit. Accordingly, the Company's financial statements do not include a liability for the estimated fair value of these guarantees.

The Company offers a line of credit to certain financial institutions and other institutions in the higher education community for the purpose of buying or originating student loans. In the event that a line of credit is drawn upon, the loan is collaterialized by underlying student loans. The contractual amount of these financial instruments represents the maximum possible credit risk should the counterparty draw down the commitment or the Company fulfill its obligation under the guarantee, and the counterparty subsequently fails to perform according to the terms of its contract with the Company. Under the terms of the Privatization Act, any future activity under lines of credit and letter of credit activity by the GSE is limited to guarantee commitments, which were in place on August 7, 1997.

The following schedule summarizes expirations of the GSE's guarantees to the earlier of call date or maturity date outstanding at March 31, 2004.

| | Lines of Credit | Letters of Credit | Total |
|---|---|---|---|
| 2004 | $ 323,657 | $ 574,328 | $ 897,985 |
| 2005 | — | 45,518 | 45,518 |
| 2006 | — | — | — |
| 2007 | — | — | — |
| 2008-2020 | — | — | — |
| Total | $ 323,657 | $ 619,846 | $ 943,503 |

## 7. 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 must either securitize, sell, transfer or defease SLMA's assets by the Wind-Down date and retire or defease SLMA's debt obligations. The following table summarizes SLMA's asset sales and transfers for the three months ended March 31, 2004 and 2003 (carrying value includes accrued interest).

| | Three months ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2004 | | | 2003 | | |
| (Dollars in millions) | Sale Amount | Carrying Amount | Gain Amount | Sale Amount | Carrying Amount | Gain Amount |
| FFELP/Consolidation Student Loan securitizations | $ — | $ — | $ — | $ 3,567 | $ 3,330 | $ 237 |
| Sale of on-balance sheet VIEs, net [1] | 527 | 47 | 480 | 334 | 89 | 245 |
| Student loan sales [2] | 1,342 | 1,321 | 21 | 794 | 760 | 34 |
| Non-cash dividend of FFELP Stafford/PLUS student loans [3] | 960 | 944 | 16 | — | — | — |
| Non-cash dividend of insurance and benefit plan related investments | — | — | — | 346 | 346 | — |
| Sale of basis swaps [4] | — | — | — | — | — | 5 |
| Loans consolidated with SLM Corp entities | 361 | 361 | — | — | — | — |

(1) These VIEs consist of securitized Consolidation Loans, totaling $8.0 billion and $2.1 billion for the three months ended March 31, 2004 and 2003, respectively, and the sales are recorded net of debt issued. Included in the $8.0 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 basis swaps to SLM Corporation at fair market value.

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 March 31, 2004 and 2003 totaled $17 million and $21 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 March 31, 2004 and 2003 totaled $38 million and $45 million, respectively.

At March 31, 2004 and December 31, 2003, SLMA had net intercompany liabilities of $288 million and $530 million, respectively, with SLM Corporation and various of its non-GSE subsidiaries, incurred in the normal course of business, exclusive of the intercompany promissory note owed to Hemar Insurance Corporation of America ("HICA") discussed below.

SLMA purchases insurance for its Private Credit Student Loan portfolio from HICA. SLMA pays HICA insurance premiums in return for HICA's guarantee of payment of principal and interest on Private Credit Student Loans. In connection with this arrangement, HICA invests its insurance reserves related to SLMA's HICA insured loans in a Master Promissory Note of SLMA to HICA. In addition to the intercompany balances between SLMA and SLM Corporation, at March 31, 2004 and December 31, 2003, SLMA owed HICA $69 million under this note at the end of each period.

**8. 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, after five days of trial, the jury returned a verdict in favor of SLMA on all counts. CLC has since filed an appeal. All appellate briefing has been completed and oral argument has been scheduled before the U.S. Court of Appeals for the Fourth Circuit on June 4, 2004.

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 2 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 Court granted SLMA's motion to dismiss the complaint in its entirety. The plaintiffs appealed the trial court decision. All appellate briefing has been completed and oral argument was held in April 2004. No decision has been issued on the appeal as of this date.

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.

SLMA, together with a number of other FFELP industry participants, filed a lawsuit challenging the Department of Education's interpretation of and non-compliance with provisions in the Higher

Education Act 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. SLMA together with the other plaintiffs and the Department of Education 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.

SLMA 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. 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 3.2**

*Effective May 13, 2004*

**BY-LAWS**

**OF**

**SLM CORPORATION**

**(HEREINAFTER CALLED THE "CORPORATION")**

## ARTICLE I—OFFICES

Section 1. Registered Office. The registered office of the Corporation shall be in the City of Wilmington, County of New Castle, State of Delaware.

Section 2. Offices. The principal office of the Corporation shall be located in the city and jurisdiction as the Board of Directors may, from time to time, determine. The Corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine.

## ARTICLE II—MEETINGS OF STOCKHOLDERS

Section 1. Place of Meetings. Meetings of the stockholders for the election of directors or for any other purpose shall be held at such time and place within the continental United States, either within or without the State of Delaware, as shall be designated from time to time by the Board of Directors or, in the case of a special meeting called pursuant to Section 3 of this Article at the request in writing of the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors, as shall be designated by such stockholders or their representative, and stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The annual meetings of stockholders shall be held on such date and at such time as shall be designated from time to time by the Board of Directors and stated in the notice of the meeting, at which meetings the stockholders shall elect by a plurality vote a Board of Directors, and transact such other business as may properly be brought before the meeting. Notice of the annual meeting, stating the place, date and hour of the meeting, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 3. Special Meetings. Unless otherwise prescribed by law or by the Certificate of Incorporation, special meetings of stockholders, for any purpose or purposes, shall be called by the Secretary (i) at the direction of either (x) the Chairman or (y) the Chief Executive Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the request in writing of either (x) a majority of the Board of Directors or (y) the holders of at least one-third of the capital stock of the Corporation issued and outstanding and entitled to vote at an election of directors. Any such request shall state the purpose or purposes of the proposed meeting. Notice of a special meeting, stating the place, date and hour of the meeting and purpose or purposes for which the meeting is called, shall be given to each stockholder entitled to vote at such meeting not less than ten nor more than sixty days before the date of the meeting.

Section 4. Quorum. Except as otherwise provided by law or by the Certificate of Incorporation, at all meetings of the stockholders, the holders of a majority of the capital stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall constitute a quorum for the transaction of business. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally noticed. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder entitled to vote at the meeting.

Section 5. Voting. Unless otherwise required by law, the Certificate of Incorporation or these By-Laws, any question brought before any meeting of stockholders shall be decided by the vote of the holders of a majority of the stock represented and entitled to vote thereat. Each stockholder represented at a meeting of stockholders shall be entitled to cast one vote for each share of the capital stock entitled to vote thereat held by such stockholder, provided, however, that at all elections of directors of the Corporation, each holder of record of shares of Common Stock on the relevant record date shall be entitled to cast as many votes, in person or by proxy, which (except for this provision) such holder would be entitled to cast for the election of directors with respect to its shares of stock multiplied by the number of directors to be elected at such election, and that such holder may cast all such votes for a single director or may distribute them among the number of directors to be voted for, or for any two or more of them as such holder sees fit. Such votes may be cast in person or by proxy, but no proxy shall be voted on or after three years from its date, unless such proxy provides for a longer period. The Board of Directors, in its discretion, or the officer of the Corporation presiding at a meeting of stockholders, in his discretion, may require that any votes cast at such meeting shall be cast by written ballot.

Section 6. List of Stockholders Entitled to Vote. The officer of the Corporation who has charge of the stock ledger of the Corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the principal office of the Corporation. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder of the Corporation who is present.

Section 7. Stock Ledger. The stock ledger of the Corporation shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list required by Section 6 of this Article II or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 8. Meeting Business. No business shall be brought before any meeting of stockholders unless it has been properly brought before the meeting in accordance with the procedures set forth in these By-Laws; provided, however, that nothing in this Section shall be deemed to preclude discussion by any stockholder of any business properly brought before such meeting.

To be properly brought before an annual meeting, such business must be either (a) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the Board of Directors (or any duly authorized committee thereof), (b) otherwise properly brought before the annual meeting by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (c) otherwise brought before the annual meeting by any stockholder of the Corporation who is a stockholder of record on the date of the giving of the notice provided for in Section 2 of this Article and on the record date for the determination of stockholders entitled to vote at the such annual meeting. To be properly brought before an annual meeting, such business also must be a proper subject for action by stockholders, provided that the law of Delaware shall govern whether such business is a proper subject for action by stockholders.

In addition to any other applicable requirements, for business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a stockholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a stockholder's notice to the Secretary must set forth as to each matter such stockholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and record address such stockholder, (c) the number of shares of the Corporation which are owned (beneficially or of record) by such stockholder, (d) a description of all arrangements or understandings between such stockholder and any other person or persons (including their names) in connection with the proposal of such business by such stockholder and any material interest of such stockholder in such business, and (e) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to bring such business before the meeting. This provision shall not prevent the consideration and approval or disapproval at the annual meeting of the reports of officers and committees, but in connection with such reports no new business shall be acted upon at such annual meeting unless brought before the meeting in accordance with the procedures set forth in this Section.

The business conducted at any special meeting of stockholders shall be limited to the purposes stated in the notice of such special meeting.

The Chairman shall determine the order of business and the procedure at any stockholder meeting, including such regulation of the manner of voting and the conduct of discussion as seem to the Chairman in order and not inconsistent with these By-Laws. If the Chairman determines that business was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such business shall not be conducted.

Section 9. Board Nominations. Only persons who are nominated in accordance with the following procedures shall be eligible for election as directors at any annual meeting of stockholders. Nominations of persons for election to the Board of Directors may be made at any annual meeting of stockholders (a) by or at the direction of the Board of Directors (or any duly authorized committee thereof), or (b) by any stockholder of the Corporation who is a stockholder of record on the date of the giving of the notice provided for in Section 2 of this Article II and on the record date for the determination of stockholders entitled to vote at such annual meeting.

In addition to any other applicable requirements, for a nomination to be made by a stockholder, the stockholder must have given timely notice thereof in proper written form to the Secretary of the Corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the Corporation not less than thirty (30) nor more than ninety (90) days prior to the anniversary date of the immediately preceding annual meeting; provided, however, that in the event that the annual meeting is called for a date that is not within thirty (30) days before or after such anniversary date, notice by the stockholder in order to be timely must be so received not later than the close of business on the tenth day following the day on which notice of the date of such annual meeting was mailed. When a date is set for the determination of the timeliness of a stockholder's notice, such date shall apply to any adjournment of such meeting. To be in proper written form, a stockholder's notice to the Secretary must set forth (a) as to each person whom such stockholder proposes to nominate for election as a director (i) the name, age, business address and residence address of the person, (ii) the principal occupation or employment of the person and the purported basis for such person's eligibility to serve on the Board of Directors, if elected, (iii) the number of shares of the Corporation which are owned beneficially or of record by the person and (iv) any other information relating to the person that would be required by law to be disclosed in a proxy statement or in other filings required to be made in connection with solicitations of proxies for election of directors, including information required pursuant to Section 14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the rules and regulations promulgated thereunder; and (b) as to the stockholder giving the notice (i) the name and record address of such stockholder, (ii) the number of shares of the Corporation which are owned beneficially or of record by such stockholder, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to nominate the persons named in its notice and (v) any other information relating to such stockholder that would be required by law to be disclosed in a proxy statement or in other filings required to be made in connection with solicitations of proxies for election of directors, including information required pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder. Such notice must be accompanied by a written consent of each proposed nominee to being named as a nominee and to serve as a director if elected.

If the Chairman determines that a nomination was not properly brought before the meeting in accordance with these By-Laws, the Chairman shall so declare and such defective nomination shall be disregarded.

**ARTICLE III—DIRECTORS**

Section 1. Number of Directors. Subject to the provisions of the Corporation's Certificate of Incorporation, the number of directors of the Corporation shall be fixed from time to time by a majority vote of the directors then in office.

Section 2. Election of Directors. Except as provided in Section 3 of this Article, directors shall be elected by a plurality of the votes cast at annual meetings of stockholders, and each director so elected shall hold office until the succeeding annual meeting (or special meeting in lieu thereof) and until his successor is duly elected and qualified, or until his earlier resignation or removal. Any director may resign at any time upon notice to the Corporation. Such resignation shall take effect at the time specified therein or, if the time be not specified, upon the receipt thereof and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. Directors need not be stockholders of the Corporation.

Section 3. Vacancies. Any vacancy on the Board of Directors resulting from an increase in the number of directors or otherwise, may be filled by a majority vote of the directors then in office, even if the directors in office constitute fewer than a quorum.

Section 4. Duties and Powers. The business of the Corporation shall be managed by or under the direction of the Board of Directors, which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these By-Laws directed or required to be exercised or done by the stockholders.

Section 5. Meetings. The Board of Directors of the Corporation may hold meetings, both regular and special, either within or without the State of Delaware. Regular meetings of the Board of Directors may be held at such time and at such place as may from time to time be determined by the Board of Directors. Special meetings of the Board of Directors shall be called by the Secretary (i) at the direction of (x) the Chairman or (y) the Chief Executive Officer, if the Chief Executive Officer is a member of the Board of Directors, or (ii) at the written request of a majority of the entire Board of

Directors. Notice of a meeting of the Board of Directors, stating the place, date and hour of the meeting, shall be given to each director either by mail not less than forty-eight (48) hours before the date of such meeting, or by telephone, telegram, facsimile transmission or any other lawful means not less than twenty-four (24) hours before the date of such meeting. A waiver of such notice by any director or directors, in writing, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed the equivalent of such notice.

Section 6. Quorum. Except as may be otherwise specifically provided by law, the Certificate of Incorporation or these By-Laws, at all meetings of the Board of Directors, a majority of the entire Board of Directors shall constitute a quorum for the transaction of business, and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 7. Actions of Board. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all of the members of the Board of Directors or committee, as the case may be, consent thereto in writing, and the writing or writings, setting forth the action so taken, are filed with the minutes of proceedings of the Board of Directors or committee.

Section 8. Meetings by Means of Conference Telephone. Unless otherwise provided by the Certificate of Incorporation or these By-Laws, members of the Board of Directors of the Corporation, or of any committee thereof, may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this Section 8 shall constitute presence in person at such meeting.

Section 9. Committees. The Board of Directors shall adopt resolutions establishing the following committees: (i) Executive, (ii) Audit, (iii) Nominations and Governance and (iv) Compensation and Personnel. In addition, the Board of Directors may, by resolution passed by a majority of the entire Board of Directors, designate one or more additional committees. Each committee shall consist of one or more of the directors of the Corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of any such committee. In the absence or disqualification of a member of a committee, and in the absence of a designation by the Board of Directors of an alternate member to replace the absent or disqualified member, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any absent or disqualified member. Any committee, to the extent allowed by law and provided in the resolution establishing such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation. Each committee shall keep regular minutes and report to the Board of Directors when required.

Section 10. Compensation. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum or a fixed number of shares of the Corporation's stock or other compensation for attendance at each meeting of the Board of Directors and/or as compensation for service as director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

Section 11. Interested Directors. No contract or transaction between the Corporation and one or more of its directors or officers, or between the Corporation and any other corporation, partnership, association, or other organization in which one or more of its directors or officers are directors or officers, or have a financial interest, shall be void or voidable solely for this reason, or solely because the director or officer is present at or participates in the meeting of the Board of Directors or committee thereof which authorizes the contract or transaction, or solely because his or their votes are counted for such purpose if (i) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors, even though the disinterested directors be less than a quorum; or (ii) the material facts as to his or their relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders; or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified, by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee which authorizes the contract or transaction.

Section 12. Qualification of Directors. Notwithstanding any other provision of these By-Laws, (i) the Board of Directors shall consist of a majority of Independent directors, (ii) the Executive Committee of the Board of Directors shall consist of a majority of Independent directors, and (iii) the Audit, Nominations and Governance and Compensation and Personnel Committees of the Board of Directors shall consist solely of Independent directors. For purposes hereof, a director will not generally be considered Independent if he or she: (a) is currently an employee of the Corporation, or within the past three years has been an employee of the Corporation; (b) has a personal services contract with the Corporation, in any amount; (c) is an employee or owner of a firm that is one of the Corporation's paid advisors or consultants, regardless of the amount of such business relationship, may be considered independent; or (d) is employed by a business that directly competes against the Corporation. In addition to the standards above, a director will not be considered Independent if within the preceding three years: (e) the director or an immediate family member of the director has received more than $100,000 per year in direct compensation from the Corporation (other than director fees); (f) the director was employed by or affiliated with the Corporation's internal or external auditor; (g) an immediate family member of the director was employed by the Corporation's internal or external auditor in a professional capacity, including as a partner, principal or manager; (h) an executive officer of the Corporation was on the compensation committee of a company which employed the director or an immediate family member of the director as an officer; (i) the director was an executive officer or employee of, or an immediate family member was an executive officer of, another company that does business with the Corporation and the annual revenue derived from that business accounts for at least (j) $1,000,000 or (ii) 2 percent, whichever is greater, of that company's annual revenues; (k) a director, or his or her spouse, serves as an employee of a charitable organization, foundation or university and the Corporation's charitable contributions, grants or endowments to such organization are more than the greater of (i) $1,000, 000 or (ii) 2 percent of the organization's total annual receipts. In addition, Audit Committee members may not accept, directly or indirectly, any consulting, advisory or other compensatory fee from the Corporation (other than director fees). For purposes of determining independence, an "immediate family member" is defined as a director's spouse, parents, children, sibling, mothers and fathers-in-law, sons and daughters-in-law, brother and sisters-in-law, and anyone (other than domestic employees) who share the director's home.

**ARTICLE IV—OFFICERS**

Section 1. General. The officers of the Corporation shall be chosen by the Board of Directors and shall be a Chief Executive Officer, a General Counsel, a Secretary and a Treasurer. The Board of Directors, in its discretion, may also choose a President and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and other officers. Any number of offices may be held by the same person, unless otherwise prohibited by law, the Certificate of Incorporation or these By-Laws. The officers of the Corporation need not be stockholders of the Corporation, need such officers be directors of the Corporation.

Section 2. Election. The Board of Directors at its first meeting held after each annual meeting of stockholders shall elect the officers of the Corporation who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors; and all officers of the Corporation shall hold office until their successors are chosen and qualified, or until their earlier resignation or removal. The Chief Executive Officer elected by the Board of Directors may be removed at any time by the affirmative vote of a majority of the Board of Directors; any other officer may be removed at any time by the Chief Executive Officer after consultation with the Board of Directors or any appropriate Committee thereof. Any vacancy occurring in any office of the Corporation shall be filled by the Board of Directors. The salaries of all officers of the Corporation shall be fixed by the Board of Directors.

Section 3. Voting Securities Owned by the Corporation. Powers of attorney, proxies, waivers of notice of meeting, consents and other instruments relating to securities owned by the Corporation may be executed in the name of and on behalf of the Corporation by the Chief Executive Officer or the General Counsel or such other authorized officer of the Corporation, and any such officer may, in the name of and on behalf of the Corporation, take all such action as any such officer may deem advisable to vote in person or by proxy at any meeting of security holders of any corporation in which the Corporation may own securities and at any such meeting shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner thereof, the Corporation might have exercised and possessed if present. The Board of Directors may, by resolution, from time to time confer like powers upon any other person or persons.

Section 4. Chairman of the Board of Directors. The Chairman of the Board of Directors shall preside at all meetings of the stockholders and of the Board of Directors. The Chairman of the Board of Directors shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 5. Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board of Directors and the Chairman of the Board of Directors, have general supervision of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall execute all bonds, mortgages, contracts and other instruments necessary for the conduct of the business of the Corporation, except where required or permitted by law to be otherwise signed and executed and except that the other officers of the Corporation may sign and execute documents when so authorized by these By-Laws, the Board of Directors or the Chief Executive Officer. In the absence or disability of the Chairman of the Board of Directors, the Chief Executive Officer shall preside at all meetings of the stockholders and the Board of Directors. The Chief Executive Officer shall also perform such other duties and may exercise such other powers as from time to time may be assigned to him by these By-Laws or by the Board of Directors.

Section 6. President and Vice Presidents. At the request of the Chief Executive Officer or in his absence, or in the event of his inability or refusal to act, a President or a Vice President as designated by the Board of Directors shall perform the duties of the Chief Executive Officer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Chief Executive Officer.

Each President and Vice President shall perform such other duties and have such other powers as the Board of Directors or the Chief Executive Officer from time to time may prescribe.

Section 7. General Counsel. The General Counsel shall (a) be the principal consulting officer of the Corporation for all legal matters; (b) be responsible for and direct all counsel, attorneys, employees and agents in the performance of all legal duties and services for and on behalf of the Corporation; (c) perform such other duties and have such other powers as are ordinarily incident to the office of the General Counsel; and (d) perform such other duties as from time to time may be assigned to him by the Chief Executive Officer or by the Board of Directors.

Section 8. Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of stockholders and record all the proceedings thereat in a book or books to be kept for that purpose; the Secretary shall also perform like duties, when required, for the committees of the Board of Directors. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or Chief Executive Officer, under whose supervision he shall be. If the Secretary shall be unable or shall refuse to cause to be given notice of all meetings of the stockholders and special meetings of the Board of Directors, and if there be no Assistant Secretary, then either the Board of Directors or the Chief Executive Officer may choose another officer to cause such notice to be given. The Secretary shall have custody of the seal of the Corporation and the Secretary or any Assistant Secretary, if there be one, shall have authority to affix the same to any instrument requiring it, and when so affixed, it may be attested by the signature of the Secretary or by the signature of any such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing by his signature. The Secretary shall see that all books, reports, statements, certificates and other documents and records required by law to be kept or filed are properly kept or filed, as the case may be.

Section 9. Treasurer. The Treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chief Executive Officer and the Board of Directors, at its regular meetings, or when the Board of Directors so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation. If required by the Board of Directors, the Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 10. Assistant Secretaries. Except as may be otherwise provided in these By-Laws, Assistant Secretaries, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Secretary, and in the absence of the Secretary or in the event of his disability or refusal to act, shall perform the duties of the Secretary, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Secretary.

Section 11. Assistant Treasurers. Assistant Treasurers, if there be any, shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors, the Chief Executive Officer, or the Treasurer, and in the absence of the Treasurer or in the event of his disability or refusal to act, shall perform the duties of the Treasurer, and when so acting, shall have all the powers of and be subject to all the restrictions upon the Treasurer. If required by the Board of Directors, an Assistant Treasurer shall give the Corporation a bond in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

Section 12. Other Officers. Such other officers as the Board of Directors may choose shall perform such duties and have such powers as from time to time may be assigned to them by the Board of Directors. The Board of Directors may delegate to any other officer of the Corporation the power to choose such other officers and to prescribe their respective duties and powers.

Section 13. Employee Conduct. No officer or employee shall engage, directly or indirectly, in any personal business transaction or private arrangement for personal profit which accrues from or is based upon his official position or authority or upon confidential information which he gains by reason of such position or authority, and each officer and employee shall reasonably restrict his personal business affairs so as to avoid conflicts of interest with his official duties. No officer or employee shall divulge confidential information to any unauthorized person, or release any such information in advance of authorization for its release, nor shall he accept, directly or indirectly, any valuable gift, favor or service from any person with whom he transacts business on behalf of the Corporation.

Section 14. Outside or Private Employment. No officer or employee shall have any outside or private employment or affiliation with any firm or organization incompatible with his concurrent employment by the Corporation, nor shall he accept or perform any outside or private employment which the Chief Executive Officer of the Corporation determines will interfere with the efficient performance of his official duties.

**ARTICLE V—STOCK**

Section 1. Form of Certificates. Every holder of stock in the Corporation shall be entitled to have a certificate signed, in the name of the Corporation (i) by the Chairman of the Board of Directors, the Chief Executive Officer or a Vice President and (ii) by the Treasurer or an Assistant Treasurer, or the Secretary or an Assistant Secretary of the Corporation, certifying the number of shares owned by him in the Corporation.

Section 2. Signatures. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue.

Section 3. Lost Certificates. The Board of Directors may direct a new certificate to be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate, or his legal representative, to advertise the same in such manner as the Board of Directors shall require and/or to give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

Section 4. Transfers. Stock of the Corporation shall be transferable in the manner prescribed by law and in these By-Laws. Transfers of stock shall be made on the books of the Corporation only by the person named in the certificate or by his attorney lawfully constituted in writing and upon the surrender of the certificate therefor, which shall be canceled before a new certificate shall be issued.

Section 5. Record Date. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix, in advance, a record date, which shall not be more than sixty days nor less than ten days before the date of such meeting, nor more than sixty days prior to any other action. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

Section 6. Beneficial Owners. The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

**ARTICLE VI—NOTICES**

Section 1. Notices. Whenever written notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, such notice may be given by mail, addressed to such director, member of a committee or stockholder, at his address as it appears on the records of the Corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. Notice may also be given personally or by facsimile, telegram, telex, cable, or any other lawful means.

Section 2. Waivers of Notice. Whenever any notice is required by law, the Certificate of Incorporation or these By-Laws, to be given to any director, member of a committee or stockholder, a waiver thereof in writing, signed, by the person or persons entitled to said notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

**ARTICLE VII—GENERAL PROVISIONS**

Section 1. Dividends. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, and may be paid in cash, in property, or in shares of the capital stock. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Board of Directors from time to time, in its absolute discretion, deems proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for any proper purpose, and the Board of Directors may modify or abolish any such reserve.

Section 2. Acquisition of Common Stock by the Corporation. Unless approved by holders of a majority of the outstanding capital stock of the Corporation then entitled to vote at an election of directors, the Corporation shall not take any action that would result in the acquisition by the

Corporation, directly or indirectly, from any one person or "group" (as defined in Section 13(d) of the Securities Exchange Act of 1934) of one percent or more of the shares of Common Stock then outstanding, in one or a series of related transactions, at a price in excess of the prevailing market price of such stock, other than pursuant to a tender offer made to all holders of Common Stock or to all holders of less than 100 shares of Common Stock.

Section 3. Disbursements. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

Section 4. Fiscal Year. The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

Section 5. Corporate Seal. The corporate seal shall have inscribed thereon the name of the Corporation, the year of its organization and the words "Corporate Seal, Delaware". The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

**ARTICLE VIII—INDEMNIFICATION**

Section 1. Power to Indemnify in Actions, Suits or Proceedings other than those by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 2. Power to Indemnify in Actions, Suits or Proceedings by or in the Right of the Corporation. Subject to Section 3 of this Article VIII, the Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director or officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

Section 3. Authorization of Indemnification. Any indemnification under this Article VIII (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1 or Section 2 of this Article VIII, as the case may be. Such determination shall be made (i) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (ii) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (iii) by the stockholders. To the extent, however, that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

Section 4. Good Faith Defined. For purposes of any determination under Section 3 of this Article VIII, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, or, with respect to any criminal action or proceeding, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Corporation or another enterprise, or on information supplied to him by the officers of the Corporation or another enterprise in the course of their duties, or on the advice of legal counsel for the Corporation or another enterprise or on information or records given or reports made to the Corporation or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Corporation or another enterprise. The term "another enterprise" as used in this Section 4 shall mean any other corporation or any partnership, joint venture, trust, employee benefit plan or other enterprise of which such person is or was serving at the request of the Corporation as a director, officer, employee or agent. The provisions of this Section 4 shall not be deemed to be exclusive or to limit in any way the circumstances in which a person may be deemed to have met the applicable standard of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be.

Section 5. Indemnification by a Court. Notwithstanding any contrary determination in the specific case under Section 3 of this Article VIII, and notwithstanding the absence of any determination thereunder, any director or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under Sections 1 and 2 of this Article VIII. The basis of such indemnification by a court shall be a determination by such court that indemnification of the director or officer is proper in the circumstances because he has met the applicable standards of conduct set forth in Sections 1 or 2 of this Article VIII, as the case may be. Neither a contrary determination in the specific case under Section 3 of this Article VIII nor the absence of any determination thereunder shall be a defense to such application or create a presumption that the director or officer seeking indemnification has not met any applicable standard of conduct. Notice of any application for indemnification pursuant to this Section 5 shall be given to the Corporation promptly upon the filing of such application. If successful, in whole or in part, the director or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

Section 6. Expenses Payable in Advance. Expenses incurred by a director or officer in defending or investigating a threatened or pending action, suit or proceeding may be paid by the Corporation, upon the determination by the Board of Directors, in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article VIII, provided the Corporation approves in advance counsel selected by the director or officer (which approval shall not be unreasonably withheld).

Section 7. Non-exclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this Article VIII shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Certificate of Incorporation or any By-Law, agreement, contract, vote of stockholders or disinterested directors or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, it being the policy of the Corporation that indemnification of the persons specified in Sections 1 and 2 of this Article VIII shall be made to the fullest extent permitted by law. The provisions of this Article VIII shall not be deemed to preclude the indemnification of any person who is not specified in Sections 1 or 2 of this Article VIII but whom the Corporation has the power or obligation to indemnify under the provisions of the General Corporation Law of the State of Delaware, or otherwise.

Section 8. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director or officer of the Corporation, or is or was a director or officer of the Corporation serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power or the obligation to indemnify him against such liability under the provisions of this Article VIII.

Section 9. Certain Definitions. For purposes of this Article VIII, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors or officers, so that any person who is or was a director or officer of such constituent corporation, or is or was a director or officer of such constituent corporation serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, shall stand in the same position under the provisions of this Article VIII with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued. For purposes of this Article VIII, references to "fines" shall include any excise taxes assessed on a person with respect to an employee benefit plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director or officer with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article VIII.

Section 10. Survival of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by the Corporation pursuant to this Article VIII shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 11. Limitation on Indemnification. Notwithstanding anything contained in this Article VIII to the contrary, except for proceedings to enforce rights to indemnification (which shall be governed by Section 5 hereof), the Corporation shall not be obligated to indemnify any director or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Board of Directors of the Corporation.

Section 12. Indemnification of Employees and Agents. The Corporation may, to the extent authorized from time to time by the Board of Directors, provide rights to indemnification and to the advancement of expenses to employees and agents of the Corporation similar to those conferred in this Article VIII to directors and officers of the Corporation.

**ARTICLE IX—AMENDMENTS**

Section 1. Amendments. These By-Laws of the Corporation may be altered, amended, changed, added to or repealed in whole or in part, or new By-Laws may be adopted, by the stockholders or the Board of Directors, provided, however, that notice of such alteration, amendment, repeal or adoption of new By-Laws is provided before the date on which the meeting of stockholders at which such shall become effective or be voted on, as the case may be. For purposes of this Article IX, filing such alteration, amendment, repeal or new By-Laws with the Securities and Exchange Commission and/or the principal securities exchange on which the common stock of the Corporation is traded shall be deemed to provide notice thereof. All such amendments must be approved by either the holders of a majority of the outstanding capital stock of the Corporation entitled to vote thereon or by a majority of the entire Board of Directors.

QuickLinks

BY-LAWS OF SLM CORPORATION (HEREINAFTER CALLED THE "CORPORATION")

QuickLinks -- Click here to rapidly navigate through this document

**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

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Albert L. Lord
*Vice Chairman and Chief Executive Officer*
May 10, 2004

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QuickLinks

**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*
May 10, 2004

**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*
May 10, 2004

QuickLinks

**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 March 31, 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

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Albert L. Lord
*Chief Executive Officer*
May 10, 2004

QuickLinks -- Click here to rapidly navigate through this document

**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 March 31, 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*
May 10, 2004

**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 March 31, 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*
May 10, 2004