SLM CORP
Form 10-Q
August 05, 2009

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-13251

SLM Corporation
(Exact name of registrant as specified in its charter)

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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

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 June 30, 2009**
Voting common stock, $.20 par value	467,607,602 shares

SLM CORPORATION

FORM 10-Q
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June 30, 2009

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[1] Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2009	December 31, 2008
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $102,857 and $90,906, respectively)	$ 44,044,636	$ 44,025,361
FFELP Stafford Loans Held-for-Sale	18,159,232	8,450,976
FFELP Consolidation Loans (net of allowance for losses of $50,181 and $46,637, respectively)	70,102,304	71,743,435
Private Education Loans (net of allowance for losses of $1,396,707 and $1,308,043, respectively)	21,850,688	20,582,298
Other loans (net of allowance for losses of $68,282 and $58,395, respectively)	489,180	729,380
Investments:		
Available-for-sale	1,186,971	861,008
Other	885,511	180,397
Total investments	2,072,482	1,041,405
Cash and cash equivalents	6,139,957	4,070,002
Restricted cash and investments	5,245,702	3,535,286
Retained Interest in off-balance sheet securitized loans	1,820,614	2,200,298
Goodwill and acquired intangible assets, net	1,233,871	1,249,219
Other assets	10,025,129	11,140,777
Total assets	$ 181,183,795	$ 168,768,437
Liabilities		
Short-term borrowings	$ 47,331,576	$ 41,933,043
Long-term borrowings	125,880,044	118,224,794
Other liabilities	3,120,636	3,604,260
Total liabilities	176,332,256	163,762,097
Commitments and contingencies		
Equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized:		
Series A: 3,300 and 3,300 shares, respectively, issued at stated value of $50 per share	165,000	165,000

Series B: 4,000 and 4,000 shares, respectively, issued at stated value of $100 per share	400,000	400,000
Series C: 7.25% mandatory convertible preferred stock; 1,150 and 1,150 shares, respectively, issued at liquidation preference of $1,000 per share	1,149,770	1,149,770
Common stock, par value $.20 per share, 1,125,000 shares authorized: 534,842 and 534,411 shares issued, respectively	106,969	106,883
Additional paid-in capital	4,709,053	4,684,112
Accumulated other comprehensive loss (net of tax benefit of $27,750 and $43,202, respectively)	(48,683)	(76,476)
Retained earnings	229,865	426,175
Total SLM Corporation stockholders equity before treasury stock	6,711,974	6,855,464
Common stock held in treasury at cost: 67,128 and 66,958 shares, respectively	1,860,440	1,856,394
Total SLM Corporation stockholders equity	4,851,534	4,999,070
Noncontrolling interest	5	7,270
Total equity	4,851,539	5,006,340
Total liabilities and equity	$ 181,183,795	$ 168,768,437

See accompanying notes to consolidated financial statements.

SLM CORPORATION

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest income:				
FFELP Stafford and Other Student Loans	$ 323,939	$ 497,598	$ 666,755	$ 962,074
FFELP Consolidation Loans	460,690	769,664	950,052	1,606,320
Private Education Loans	393,019	409,323	780,060	852,845
Other loans	18,468	21,355	34,888	44,699
Cash and investments	7,044	70,521	13,015	194,337
Total interest income	1,203,160	1,768,461	2,444,770	3,660,275
Total interest expense	819,459	1,365,918	1,846,006	2,981,363
Net interest income	383,701	402,543	598,764	678,912
Less: provisions for loan losses	278,112	143,015	528,391	280,326
Net interest income after provisions for loan losses	105,589	259,528	70,373	398,586
Other income:				
Servicing and securitization revenue (loss)	87,488	1,630	(7,817)	109,272
Losses on sales of loans and securities, net		(43,583)		(78,249)
Gains (losses) on derivative and hedging activities, net	(561,795)	362,043	(457,770)	89,247
Contingency fee revenue	73,368	83,790	148,183	169,096
Collections revenue	22,068	26,365	738	83,604
Guarantor servicing fees	24,772	23,663	58,780	58,316
Other	399,065	108,728	591,523	202,261
Total other income	44,966	562,636	333,637	633,547
Expenses:				
Salaries and benefits	139,419	167,788	276,340	347,517
Other operating expenses	175,766	185,900	340,328	361,819
Restructuring expenses	4,430	46,740	9,203	67,418
Total expenses	319,615	400,428	625,871	776,754
Net income (loss) before income tax benefit	(169,060)	421,736	(221,861)	255,379
Income tax expense (benefit)	(46,551)	153,074	(78,247)	90,586

Net income (loss)		(122,509)		268,662		(143,614)		164,793
Less: net income attributable to noncontrolling interest		211		2,926		492		2,861
Net income (loss) attributable to SLM Corporation		(122,720)		265,736		(144,106)		161,932
Preferred stock dividends		25,800		27,391		52,195		56,416
Net income (loss) attributable to SLM Corporation common stock	$	(148,520)	$	238,345	$	(196,301)	$	105,516
Basic earnings (loss) per common share attributable to SLM Corporation common shareholders	$	(.32)	$	.51	$	(.42)	$	.23
Average common shares outstanding		466,799		466,649		466,780		466,615
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	$	(.32)	$	.50	$	(.42)	$	.23
Average common and common equivalent shares outstanding		466,799		517,954		466,780		467,316
Dividends per common share attributable to SLM Corporation common shareholders	$		$		$		$	

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)

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
ssued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
3,678,028	(66,301,201)	467,376,827	$ 1,715,000	$ 106,736	$ 4,610,278	$ (2,394)	$ 617,184	$ (1,838,63
							265,736	
						(8,984)		
						73,844		
						(472)		
							(2,875)	
							(3,511)	
							(20,844)	
							(2)	
332,150	3,142	335,292		66	6,761			7
					161		(161)	
					(3,866)			
					24,397			

	(146,726)	(146,726)						(3,48
4,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527	$ (1,842,05
4,698,117	(67,105,360)	467,592,757	$ 1,714,770	$ 106,940	$ 4,694,155	$ (70,450)	$ 378,387	$ (1,859,95
							(122,720)	
						1,319		
						20,606		
						(158)		
							(2,875)	
							(1,923)	
							(20,840)	
							(2)	
143,762		143,762		29	181			
					162		(162)	
					(1,324)			
					15,879			
	(22,839)	(22,839)						(48
4,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,44

See accompanying notes to consolidated financial statements.

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SLM CORPORATION

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

Common Stock Shares			Preferred	Common	Additional Paid-In	Accumulated Other Comprehensive Income	Retained	Treasury
sued	Treasury	Outstanding	Stock	Stock	Capital	(Loss)	Earnings	Stock
,493,081	(65,951,394)	466,541,687	$ 1,565,000	$ 106,499	$ 4,590,174	$ 236,364	$ 557,204	$ (1,831,70
							161,932	
						(21,513)		
						42,270		
						(472)		
							(5,750)	
							(8,897)	
							(41,446)	
							(1,848)	
,517,097	3,142	1,520,239		303	18,704			7
			150,000		(4,332)		(323)	
					(10,016)			

					43,201			
						(194,655)	194,655	
	(496,533)	(496,533)						(10,41
,010,178	(66,444,785)	467,565,393	$ 1,715,000	$ 106,802	$ 4,637,731	$ 61,994	$ 855,527	$ (1,842,05
,411,271	(66,958,400)	467,452,871	$ 1,714,770	$ 106,883	$ 4,684,112	$ (76,476)	$ 426,175	$ (1,856,39
							(144,106)	
						2,269		
						26,015		
						(491)		
							(5,750)	
							(4,443)	
							(41,680)	
							(9)	
430,608	98	430,706		86	2,226			
					322		(322)	
					(5,819)			
					28,212			

	(169,897)	(169,897)						(4,05
,841,879	(67,128,199)	467,713,680	$ 1,714,770	$ 106,969	$ 4,709,053	$ (48,683)	$ 229,865	$ (1,860,44

See accompanying notes to consolidated financial statements.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Operating activities		
Net income (loss)	$ (143,614)	$ 164,793
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:		
Losses on sales of loans and securities, net		78,249
Stock-based compensation cost	30,144	48,080
Unrealized (gains)/losses on derivative and hedging activities	497,361	(64,418)
Provisions for loan losses	528,391	280,326
Decrease in purchased paper mortgages, net	174,701	109,720
Student loans originated for sale	(10,171,363)	
Decrease in restricted cash other	52,552	1,050
Decrease in accrued interest receivable	481,791	52,020
(Decrease) in accrued interest payable	(409,109)	(166,484)
Adjustment for non-cash loss related to Retained Interest	351,331	279,900
(Increase) in other assets, goodwill and acquired intangible assets, net	(120,788)	(55,712)
(Decrease) in other liabilities	(150,321)	(346,220)
Total adjustments	(8,735,310)	216,511
Net cash (used in) provided by operating activities	(8,878,924)	381,304
Investing activities		
Student loans acquired	(4,944,270)	(15,340,698)
Loans purchased from securitized trusts (primarily loan consolidations)	(3,698)	(555,024)
Reduction of student loans:		
Installment payments, claims and other	5,148,780	5,268,996
Proceeds from sales of student loans	462,311	27,239
Other loans originated	(2,817)	(931,752)
Other loans repaid	217,557	1,183,672
Other investing activities, net	(736,002)	(58,287)
Purchases of available-for-sale securities	(66,062,442)	(72,071,580)
Proceeds from sales of available-for-sale securities	100,056	
Proceeds from maturities of available-for-sale securities	65,615,526	72,279,652
Purchase of held-to-maturity and other securities		(400)
Proceeds from maturities of held-to-maturity securities and other securities	68,928	12,502
(Increase) decrease in restricted cash on-balance sheet trusts	(663,658)	874,029
Return of investment from Retained Interest	16,361	217,391

Purchase of subsidiaries, net of cash acquired		(37,868)
Net cash used in investing activities	(783,368)	(9,132,128)
Financing activities		
Borrowings collateralized by loans in trust issued	9,040,986	11,590,919
Borrowings collateralized by loans in trust repaid	(2,932,288)	(3,535,266)
Asset-backed commercial paper conduits net activity	(12,454,223)	(161,576)
ED Participation Program	9,871,053	
ED Conduit Program facility	11,094,745	
Other short-term borrowings issued	298,294	1,304,509
Other short-term borrowings repaid	(990,720)	(333,397)
Other long-term borrowings issued	4,333,168	2,437,226
Other long-term borrowings repaid	(4,935,047)	(5,942,937)
Other financing activities, net	(1,533,226)	842,957
Excess tax benefit from the exercise of stock-based awards		282
Common stock issued	5	4,403
Preferred stock issued		145,345
Preferred dividends paid	(51,873)	(56,093)
Noncontrolling interest, net	(8,627)	(4,378)
Net cash provided by financing activities	11,732,247	6,291,994
Net increase (decrease) in cash and cash equivalents	2,069,955	(2,458,830)
Cash and cash equivalents at beginning of period	4,070,002	7,582,031
Cash and cash equivalents at end of period	$ 6,139,957	$ 5,123,201
Cash disbursements made for:		
Interest	$ 2,303,145	$ 3,557,181
Income taxes	$ 177,478	$ 564,269

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company or Sallie Mae) 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 June 30, 2009 are not necessarily indicative of the results for the year ending December 31, 2009. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2008 Annual Report on Form 10-K. Management has evaluated subsequent events, and the impact on the reported results and disclosures, through August 5, 2009, which is the date these financial statements were issued.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2008 to be consistent with classifications adopted for 2009, and had no effect on net income, total assets, or total liabilities.

Recently Issued Accounting Pronouncements

Transfers of Financial Assets and the Variable Interest Entity (VIE) Consolidation Model

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 166, Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140, and SFAS No. 167, Amendments to FASB Interpretation No. 46(R).

SFAS No. 166, among other things, (1) eliminates the concept of a Qualifying Special Purpose Entity (QSPE), (2) changes the requirements for derecognizing financial assets, (3) changes the amount of the recognized gain/loss on a transfer accounted for as a sale when beneficial interests are received by the transferor, and (4) requires additional disclosure. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009.

SFAS No. 167 significantly changes the consolidation model for Variable Interest Entities (VIEs). SFAS No. 167 amends FIN No. 46(R) and, among other things, (1) eliminates the exemption for QSPEs, (2) provides a new approach for determining who should consolidate a VIE which is more focused on control rather than economic interest, (3) changes when it is necessary to reassess who should consolidate a VIE and (4) requires additional disclosure. SFAS No. 167 is effective for the first annual reporting period beginning after November 15, 2009.

The Company is currently evaluating the impact of these statements to its consolidated financial statements. Based on the Company s preliminary review, management expects these changes will lead to the consolidation of QSPEs that are currently not consolidated by the Company. Assuming no changes to the Company s current business model, the Company will consolidate its securitization trusts that are currently off-balance sheet on January 1, 2010 at their historical cost basis. The historical cost basis is the basis that would exist if these securitization trusts had remained on balance sheet since they settled. These proposed new

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended
June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

accounting rules would also be applied to new transactions entered into from January 1, 2010 forward. If these statements had been adopted as of June 30, 2009, the Company would have removed the $1.8 billion of Residual Interests associated with these trusts from the consolidated balance sheet and the Company would have consolidated $36.7 billion of assets and $35.9 billion of liabilities, which would have resulted in an approximate $0.6 billion reduction of stockholders equity as of June 30, 2009. Management allocates capital on a Managed Basis. This change will not impact management s view of capital adequacy.

FASB Accounting Standards Codification

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, which replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, and establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. SFAS No. 168 is effective for interim and annual periods ending after September 15, 2009. The Company will begin to use the new Codification when referring to GAAP in its Form 10-Q for the quarter ending September 30, 2009. The Codification does not change authoritative guidance. Accordingly, implementing the Codification will not change any of the Company s accounting, and therefore, will not have an impact on the consolidated results of the Company.

Subsequent Events

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. This standard is intended to establish general standards of accounting for, and disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, this standard sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for fiscal years and interim periods ending after June 15, 2009. The Company adopted this standard effective June 15, 2009 and has evaluated any events subsequent to June 30, 2009, and their impact on the reported results and disclosures, through the date of this filing. The Company does not believe there are any material subsequent events that would require further disclosure.

Fair Value Measurements

On April 9, 2009, the FASB issued three staff positions regarding fair value measurements and recognition of impairment. Under FASB Staff Position (FSP) Financial Accounting Standards (FAS) No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, impairment must be recorded within the

consolidated statements of income for debt securities if there exists a fair value loss and the entity intends to sell the security or it is more likely than not the entity will be required to sell the security before recovery of the loss. Additionally, expected credit losses must be recorded through income regardless of the impairment determination above. Remaining fair value losses are recorded to other comprehensive income. FSP FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, requires interim disclosures of the fair value of financial instruments that were previously only required annually. Finally, FSP FAS No. 157-4, Determining Fair Value When the Volume

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidance for determining when a significant decrease in market activity has occurred and when a transaction is not orderly. It further reiterates that prices from inactive markets or disorderly transactions should carry less weight, if any, to the determination of fair value. These standards were effective for the Company beginning April 1, 2009. The adoption of these standards was not material to the Company.

On February 12, 2008, the FASB issued FSP FAS No. 157-2, Effective Date of Statement of Financial Accounting Standards (SFAS) No. 157, which defers the effective date of SFAS No. 157 for nonfinancial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP FAS No. 157-2 delayed the implementation of SFAS No. 157 for the Company s accounting of goodwill, acquired intangibles, and other nonfinancial assets and liabilities that are measured at the lower of cost or market until January 1, 2009. Adoption of this standard was not material to the Company.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS No. 141(R) requires the acquiring entity in a business combination to recognize the entire acquisition-date fair value of assets acquired and liabilities assumed in both full and partial acquisitions; changes the recognition of assets acquired and liabilities assumed related to contingencies; changes the recognition and measurement of contingent consideration; requires expensing of most transaction and restructuring costs; and requires additional disclosures to enable the users of the financial statements to evaluate and understand the nature and financial effect of the business combination. SFAS No. 141(R) applies to all transactions or other events in which the Company obtains control of one or more businesses. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the reporting period beginning on or after December 15, 2008, which for the Company was January 1, 2009. The adoption of this standard on January 1, 2009, did not have a material effect on the Company s results of operations or financial position.

In February 2009, the FASB issued FSP FAS No. 141(R), Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. FSP FAS No. 141(R) amends the provisions related to the initial recognition and measurement, subsequent measurement and disclosure of assets and liabilities arising from contingencies in a business combination under SFAS No. 141(R), Business Combinations. FSP FAS No. 141(R) had the same effective date as SFAS No. 141(R). The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of Accounting Research Bulletin No. 51. SFAS No. 160 requires reporting entities to present noncontrolling (minority) interests as equity (as opposed to a presentation as a liability or mezzanine equity) and provides guidance on the accounting for transactions between an entity and noncontrolling interests. On January 1, 2009, the Company adopted SFAS No. 160, the provisions of which, among other things, require that minority interests be renamed noncontrolling interests and that a company present a consolidated net income (loss) measure that includes the amount attributable to such noncontrolling interests for all periods presented. SFAS No. 160 applies prospectively for reporting periods beginning on or

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

after December 15, 2008, except for the presentation and disclosure requirements which are applied retrospectively for all periods presented. The Company has reclassified financial statement line items within its consolidated balance sheets, statements of income, statements of changes in stockholders equity and statements of cash flows for the prior period to conform to this standard. Other than the change in presentation of noncontrolling interests, the adoption of SFAS No. 160 had no impact on the consolidated financial statements.

Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Investments and Hedging Activities an Amendment of FASB Statement No. 133. SFAS No. 161 requires enhanced disclosures about an entity s derivative and hedging activities, including (1) how and why an entity uses derivative instruments, (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. To meet those objectives, SFAS No. 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted this standard on January 1, 2009.

Accounting for Hedging Activities An Amendment of FASB Statement No. 133

In June 2008, the FASB issued an exposure draft to amend the accounting for hedging activities in SFAS No. 133. This proposed statement is intended to simplify accounting for hedging activities, improve the financial reporting of hedging activities, resolve major practice issues related to hedge accounting that have arisen under SFAS No. 133, and address differences resulting from recognition and measurement anomalies between the accounting for derivative instruments and the accounting for hedged items or transactions. While the amendment as currently drafted may simplify the Company s accounting model for hedging activities under SFAS No. 133, the Company does not expect it to significantly impact its results of operations. The full impact of this amendment, effective January 1, 2010, as currently proposed, cannot be evaluated until the final statement is issued. The exposure draft is currently in redeliberations at the FASB.

2. Allowance for Loan Losses

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

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2. Allowance for Loan Losses (Continued)

The following table summarizes the total loan provisions for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Private Education Loans	$ 241,759	$ 119,838	$ 445,304	$ 238,449
FFELP Stafford and Other Student Loans	25,595	19,295	59,993	35,398
Mortgage and consumer loans	10,758	3,882	23,094	6,479
Total provisions for loan losses	$ 278,112	$ 143,015	$ 528,391	$ 280,326

Allowance for Private Education Loan Losses

The following table summarizes changes in the allowance for loan losses for Private Education Loans for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Allowance at beginning of period	$ 1,384,454	$ 1,073,317	$ 1,308,043	$ 1,003,964
Provision for Private Education Loan losses	241,759	119,838	445,304	238,449
Charge-offs	(238,943)	(72,249)	(377,758)	(129,601)
Reclassification of interest reserve[1]	9,437	8,094	21,118	16,188
Allowance at end of period	$ 1,396,707	$ 1,129,000	$ 1,396,707	$ 1,129,000
Charge-offs as a percentage of average loans in repayment (annualized)	8.2%	3.6%	6.7%	3.5%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	7.6%	3.2%	6.2%	3.0%
	5.9%	5.8%	5.9%	5.8%

Allowance as a percentage of the ending total loan balance				
Allowance as a percentage of ending loans in repayment	11.5%	13.1%	11.5%	13.1%
Allowance coverage of charge-offs (annualized)	1.5	3.9	1.8	4.3
Ending total loans[2]	$ 23,784,039	$ 19,607,553	$ 23,784,039	$ 19,607,553
Average loans in repayment	$ 11,700,129	$ 7,991,624	$ 11,405,253	$ 7,543,605
Ending loans in repayment	$ 12,145,736	$ 8,608,651	$ 12,145,736	$ 8,608,651

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

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

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2. Allowance for Loan Losses (Continued)

Private Education Loan Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of June 30, 2009, December 31, 2008, and June 30, 2008.

	Private Education Loan Delinquencies					
	June 30, 2009		December 31, 2008		June 30, 2008	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 10,355		$ 10,159		$ 9,662	
Loans in forbearance[2]	945		862		1,178	
Loans in repayment and percentage of each status:						
Loans current	10,294	84.8%	9,748	87.2%	7,720	89.7%
Loans delinquent 31-60 days[3]	504	4.2	551	4.9	326	3.8
Loans delinquent 61-90 days[3]	335	2.7	296	2.6	210	2.4
Loans delinquent greater than 90 days[3]	1,013	8.3	587	5.3	353	4.1
Total Private Education Loans in repayment	12,146	100%	11,182	100%	8,609	100%
Total Private Education Loans, gross	23,446		22,203		19,449	
Private Education Loan unamortized discount	(537)		(535)		(508)	
Total Private Education Loans	22,909		21,668		18,941	
Private Education Loan receivable for partially charged-off loans	338		222		159	
Private Education Loan allowance for losses	(1,396)		(1,308)		(1,129)	
Private Education Loans, net	$ 21,851		$ 20,582		$ 17,971	
Percentage of Private Education Loans in repayment		51.8%		50.4%		44.3%

Delinquencies as a percentage of Private Education Loans in repayment	15.2%	12.8%	10.3%
Loans in forbearance as a percentage of loans in repayment and forbearance	7.2%	7.2%	12.0%

(1) Loans for borrowers who 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 used their allowable deferment time or do not qualify for deferment and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors consistent with the established loan program servicing procedures and policies.

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

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2. Allowance for Loan Losses (Continued)

Allowance for FFELP Loan Losses

The following table summarizes changes in the allowance for loan losses for the FFELP loan portfolio for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Allowance at beginning of period	$ 152,294	$ 93,997	$ 137,543	$ 88,729
Provision for FFELP loan losses	25,595	19,295	59,993	35,398
Charge-offs	(24,851)	(15,876)	(43,731)	(26,711)
Increase (decrease) for student loan sales		277	(767)	277
Allowance at end of period	$ 153,038	$ 97,693	$ 153,038	$ 97,693
Charge-offs as a percentage of average loans in repayment (annualized)	.1%	.1%	.1%	.1%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.1%	.1%	.1%	.1%
Allowance as a percentage of the ending total loan balance	.1%	.1%	.1%	.1%
Allowance as a percentage of ending loans in repayment	.2%	.1%	.2%	.1%
Allowance coverage of charge-offs (annualized)	1.5	1.5	1.7	1.8
Ending total loans	$ 130,084,026	$ 114,067,540	$ 130,084,026	$ 114,067,540
Average loans in repayment	$ 68,657,756	$ 65,967,183	$ 68,949,585	$ 65,101,991
Ending loans in repayment	$ 70,011,495	$ 66,687,513	$ 70,011,495	$ 66,687,513

The Company maintains an allowance for Risk Sharing loan losses on its FFELP loan portfolio. The level of Risk Sharing has varied over the past few years with legislative changes. As of June 30, 2009, 53 percent of the on-balance

sheet FFELP loan portfolio was subject to three-percent Risk Sharing, 46 percent was subject to two-percent Risk Sharing and the remaining 1 percent was not subject to any Risk Sharing.

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2. Allowance for Loan Losses (Continued)

FFELP Loan Delinquencies

The table below shows the Company s FFELP loan delinquency trends as of June 30, 2009, December 31, 2008 and June 30, 2008.

	FFELP Loan Delinquencies					
	June 30, 2009		December 31, 2008		June 30, 2008	
(Dollars in millions)	Balance	%	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 46,644		$ 39,270		$ 35,136	
Loans in forbearance[2]	13,428		12,483		12,245	
Loans in repayment and percentage of each status:						
Loans current	58,746	83.9%	58,811	83.8%	57,046	85.5%
Loans delinquent 31-60 days[3]	3,996	5.7	4,044	5.8	3,573	5.4
Loans delinquent 61-90 days[3]	1,959	2.8	2,064	2.9	1,662	2.5
Loans delinquent greater than 90 days[3]	5,311	7.6	5,255	7.5	4,406	6.6
Total FFELP loans in repayment	70,012	100%	70,174	100%	66,687	100%
Total FFELP loans, gross	130,084		121,927		114,068	
FFELP loan unamortized premium	2,375		2,431		2,347	
Total FFELP loans	132,459		124,358		116,415	
FFELP loan allowance for losses	(153)		(138)		(97)	
FFELP loans, net	$ 132,306		$ 124,220		$ 116,318	
Percentage of FFELP loans in repayment		53.8%		57.6%		58.5%
Delinquencies as a percentage of FFELP loans in repayment		16.1%		16.2%		14.5%
FFELP loans in forbearance as a percentage of loans in repayment and forbearance		16.1%		15.1%		15.5%

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

(2) Loans for borrowers who have used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or 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 period of delinquency is based on the number of days scheduled payments are contractually past due.

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2. Allowance for Loan Losses (Continued)

3. Investments

A summary of investments and restricted investments as of June 30, 2009 and December 31, 2008 follows:

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale				
U.S. Treasury securities and other U.S. government agency obligations	$ 9,061	$ 73	$	$ 9,134
Other securities:				
Asset-backed securities	115,114		(843)	114,271
Commercial paper and asset-backed commercial paper	1,049,988			1,049,988
Municipal bonds	10,298	2,048		12,346
Other	1,530		(298)	1,232
Total investment securities available-for-sale	$ 1,185,991	$ 2,121	$ (1,141)	$ 1,186,971
Restricted Investments				
Available-for sale				
U.S. Treasury securities and other U.S. government agency obligations	$ 32,750	$	$	$ 32,750
Guaranteed investment contracts	25,189			25,189
Total restricted investments available-for-sale	$ 57,939	$	$	$ 57,939
Held-to-maturity				
Guaranteed investment contracts	$ 3,963	$	$	$ 3,963
Other	215			215
Total restricted investments held-to-maturity	$ 4,178	$	$	$ 4,178

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3. Investments (Continued)

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Investments				
Available-for-sale				
U.S. Treasury securities and other U.S. government agency obligations	$ 8,908	$ 195	$	$ 9,103
Other securities:				
Asset-backed securities	40,907	13	(4,299)	36,621
Commercial paper and asset-backed commercial paper	801,169			801,169
Municipal bonds	10,883	1,924		12,807
Other	1,673		(365)	1,308
Total investment securities available-for-sale	$ 863,540	$ 2,132	$ (4,664)	$ 861,008
Restricted Investments				
Available-for sale				
Guaranteed investment contracts	$ 31,914	$	$	$ 31,914
Total restricted investments available-for-sale	$ 31,914	$	$	$ 31,914
Held-to-maturity				
Guaranteed investment contracts	$ 5,500	$	$	$ 5,500
Other	215			215
Total restricted investments held-to-maturity	$ 5,715	$	$	$ 5,715

In addition to the restricted investments detailed above, at June 30, 2009 and December 31, 2008, the Company had restricted cash of $5.2 billion and $3.5 billion, respectively.

As of June 30, 2009 and December 31, 2008, $1 million and $(2) million, respectively, of the net unrealized gain (loss) (after tax) related to available-for-sale investments was included in accumulated other comprehensive income. As of June 30, 2009 and December 31, 2008, $60 million ($33 million of this is in restricted cash and investments on the balance sheet) and $26 million (none of which is in restricted cash and investments on the balance sheet),

respectively, of available-for-sale investment securities were pledged as collateral.

There were no sales of investments during the three-months ended June 30, 2009. In the six months ended June 30, 2009, the Company sold available-for-sale securities with a fair value of $100 million, resulting in no realized gain or loss. There were no sales of securities in the three and six months ended June 30, 2008. The cost basis for these securities was determined through specific identification of the securities sold.

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3. Investments (Continued)

As of June 30, 2009, the stated maturities for the investments (including restricted investments) are shown in the following table:

	June 30, 2009		
	Held-to-Maturity	Available-for-Sale[1]	Other
Year of Maturity			
2009	$	$ 1,093,104	$ 814,316
2010	215		6,833
2011			5,092
2012			
2013		936	
2014-2018		12,346	31,044
After 2018	3,963	138,524	28,226
Total	$ 4,178	$ 1,244,910	$ 885,511

[1] Available-for-sale securities are stated at fair value.

At June 30, 2009 and December 31, 2008, the Company also had other investments of $886 million and $180 million, respectively. At June 30, 2009, other investments included a $772 million receivable for cash collateral posted to derivative counterparties. Other investments also included leveraged leases which at June 30, 2009 and December 31, 2008, totaled $65 million and $76 million, respectively, that are general obligations of American Airlines and Federal Express Corporation. At June 30, 2009 and December 31, 2008, other investments also included the Company s remaining investment in The Reserve Primary Fund totaling $42 million and $97 million, respectively.

4. Goodwill and Acquired Intangible Assets

Goodwill

In accordance with SFAS No. 142, Goodwill and Other Intangible Assets, all acquisitions must be assigned to a reporting unit or units. A reporting unit is the same as or one level below an operating segment, as defined in SFAS No. 131. The following table summarizes the Company s allocation of goodwill to its reporting units.

(Dollars in millions)	As of June 30, 2009	2008
Lending	$ 388	$ 388
Asset Performance Group	401	396
Guarantor services	62	62
Upromise	140	140
Total	$ 991	$ 986

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4. Goodwill and Acquired Intangible Assets (Continued)

Impairment Testing

In accordance with SFAS No. 142, the Company performs goodwill impairment testing annually in the fourth quarter as of a September 30 valuation date or more frequently if an event occurs or circumstances change such that there is a potential that the fair value of a reporting unit or reporting units may be below their respective carrying values.

On February 26, 2009, the Obama Administration (the Administration) issued their 2010 budget request to Congress, which included provisions that could significantly impact the FFELP. In light of the potential implications of the Administration s 2010 budget proposal to the Company s business model, as well as continued uncertainty in the economy, the tight credit markets and the Company s decline in market capitalization during the first quarter of 2009, the Company assessed goodwill impairment as of March 31, 2009. This assessment resulted in estimated fair values of the Company s reporting units in excess of their carrying values. Accordingly, no goodwill impairment was recorded in the first quarter.

During the second quarter, no new unfavorable events or changes in circumstances occurred to warrant an impairment assessment as of June 30, 2009. Nevertheless, in light of ongoing uncertainties associated with the Administration s proposed budget and the economic conditions described above, the Company continues to monitor the fair value of goodwill for each of its reporting units on a quarterly basis. Based on the Company s assessment that there have been no change in circumstances associated with any of its reporting units during the second quarter and based on its aforementioned monitoring process, the Company concluded that goodwill is not impaired as of June 30, 2009.

Acquired Intangible Assets

Acquired intangible assets include the following:

		As of June 30, 2009		
(Dollars in millions)	**Average Amortization Period**	**Gross**	**Accumulated Amortization**	**Net**
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 332	$ (190)	$ 142
Software and technology	7 years	98	(88)	10
Non-compete agreements	2 years	11	(10)	1
Total		441	(288)	153
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	91		91

Total acquired intangible assets	$ 532	$ (288)	$ 244

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4. Goodwill and Acquired Intangible Assets (Continued)

(Dollars in millions)	Average Amortization Period	As of December 31, 2008 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	13 years	$ 332	$ (173)	$ 159
Software and technology	7 years	93	(85)	8
Non-compete agreements	2 years	11	(10)	1
Total		436	(268)	168
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	91		91
Total acquired intangible assets		$ 527	$ (268)	$ 259

The Company recorded amortization of acquired intangible assets totaling $10 million and $15 million for the three months ended June 30, 2009 and 2008, respectively, and $19 million and $31 million for the six months ended June 30, 2009 and 2008, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

5. Borrowings

The following table summarizes the Company s borrowings as of June 30, 2009 and December 31, 2008.

(Dollars in millions)	June 30, 2009 Short Term	Long Term	Total	December 31, 2008 Short Term	Long Term	Total
Unsecured borrowings	$ 4,249	$ 28,416	$ 32,665	$ 6,794	$ 31,182	$ 37,976
Term bank deposits	901	5,199	6,100	1,148	1,108	2,256
Indentured trusts	8	1,761	1,769	31	1,972	2,003
2008 Asset-Backed Financing Facilities	12,476		12,476	24,768		24,768
ED Participation Program facility	17,236		17,236	7,365		7,365

ED Conduit Program facility	11,095		11,095			
On-balance sheet securitizations		87,386	87,386		80,601	80,601
Other	1,358		1,358	1,827		1,827
Total before fair value adjustments	47,323	122,762	170,085	41,933	114,863	156,796
SFAS No. 133 fair value adjustments	9	3,118	3,127		3,362	3,362
Total	$ 47,332	$ 125,880	$ 173,212	$ 41,933	$ 118,225	$ 160,158

As of June 30, 2009, the Company had $3.5 billion in unsecured revolving credit facilities which provide liquidity support for general corporate purposes. The Company has never drawn on these facilities. The facilities include a $1.9 billion revolving credit facility maturing in October 2010 and $1.6 billion maturing in October 2011. These figures do not include a $215 million commitment from a subsidiary of Lehman Brothers Holding, Inc. On April 24, 2009, in conjunction with the extension of the 2008 ABCP Facilities, a $1.4 billion

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5. Borrowings (Continued)

revolving credit facility maturing in October 2009 was retired and a $1.9 billion revolving credit facility maturing in October 2011 was reduced to $1.6 billion. In connection with the early termination of the unsecured revolving credit facilities, interest on these facilities, if drawn, increases to LIBOR plus 450 basis points. The principal financial covenants in the unsecured revolving credit facilities require the Company to maintain tangible net worth of at least $1.38 billion at all times. Consolidated tangible net worth as calculated for purposes of this covenant was $2.9 billion as of June 30, 2009. The covenants also require the Company to meet either a minimum interest coverage ratio or a minimum net adjusted revenue test based on the four preceding quarters adjusted Core Earnings financial performance. The Company was compliant with both the minimum interest coverage ratio and the minimum net adjusted revenue tests as of the quarter ended June 30, 2009. Failure to meet these covenants would result in the facilities being withdrawn. In the past, the Company has not relied upon its unsecured revolving credit facilities as a primary source of liquidity. Although the Company has never borrowed under these facilities, they are available to be drawn upon for general corporate purposes.

Lehman Brothers Bank, FSB, a subsidiary of Lehman Brothers Holdings Inc., is a party to the Company s unsecured revolving credit facilities under which they provide the Company with a $215 million commitment. Lehman Brothers Holdings Inc. declared bankruptcy on September 15, 2008. The Company is operating under the assumption that the lending commitment of Lehman Brothers Bank, FSB, will not be honored if drawn upon. While the Company continues to explore various options, it does not anticipate replacing its commitment from Lehman Brothers Bank, FSB.

Secured Borrowings

FIN No. 46(R), Consolidation of Variable Interest Entities, requires VIEs to be consolidated by their primary beneficiaries. A VIE exists when either the total equity investment at risk is not sufficient to permit the entity to finance its activities by itself, or the equity investors lack one of three characteristics associated with owning a controlling financial interest. Those characteristics are the direct or indirect ability to make decisions about an entity s activities that have a significant impact on the success of the entity, the obligation to absorb the expected losses of an entity, and the rights to receive the expected residual returns of the entity.

The Company currently consolidates a number of financing entities that are VIEs as a result of being the entities primary beneficiary. As a result, these financing VIEs are accounted for as secured borrowings. The process of identifying the primary beneficiary involves identifying all other parties that hold variable interests in the entity and determining which of the parties, including the Company, has the responsibility to absorb the majority of the entity s expected losses or the rights to its expected residual returns. The Company is the

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5. Borrowings (Continued)

primary beneficiary of and currently consolidates the following financing VIEs as of June 30, 2009 and December 31, 2008:

	June 30, 2009						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Loans**	**Cash**	**Other Assets**	**Total**
Secured Borrowings:							
ED Participation Program facility	$ 17,236	$	$ 17,236	$ 17,472	$ 127	$ 243	$ 17,842
ED Conduit Program facility	11,095		11,095	11,390	204	353	11,947
2008 Asset-Backed Financing Facilities[1]	12,476		12,476	13,707	346	126	14,179
On-balance sheet securitizations		87,386	87,386	90,161	3,523	2,816	96,500
Indentured trusts	8	1,761	1,769	2,253	189	31	2,473
	40,815	89,147	129,962	134,983	4,389	3,569	142,941
SFAS No. 133 fair value adjustment		1,307	1,307				
Total	$ 40,815	$ 90,454	$ 131,269	$ 134,983	$ 4,389	$ 3,569	$ 142,941

[1] Includes $95 million of assets within the facility that can be released to the Company.

	December 31, 2008					
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Loans**	**Cash**	**Total**

						Other Assets	
Secured Borrowings:							
ED Participation Program facility	$ 7,365	$	$ 7,365	$ 7,733	$ 88	$ 85	$ 7,906
2008 Asset-Backed Financing Facilities	24,768		24,768	31,953	462	816	33,231
On-balance sheet securitizations		80,601	80,601	81,547	2,632	999	85,178
Indentured trusts	31	1,972	2,003	2,199	236	40	2,475
	32,164	82,573	114,737	123,432	3,418	1,940	128,790
SFAS No. 133 fair value adjustment		872	872				
Total	$ 32,164	$ 83,445	$ 115,609	$ 123,432	$ 3,418	$ 1,940	$ 128,790

Asset-Backed Financing Facilities

During the first quarter of 2008, the Company entered into three new asset-backed financing facilities (the 2008 Asset-Backed Financing Facilities): (i) a $26.0 billion FFELP student loan ABCP conduit facility (the 2008 FFELP ABCP Facility); (ii) a $5.9 billion Private Education Loan ABCP conduit facility (the 2008 Private Education Loan ABCP Facility) (collectively, the 2008 ABCP Facilities); and (iii) a

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5. Borrowings (Continued)

$2.0 billion secured FFELP loan facility (the 2008 Asset-Backed Loan Facility). The initial term of the 2008 Asset-Backed Financing Facilities was 364 days. The underlying cost of borrowing under the 2008 ABCP Facilities was approximately LIBOR plus 0.68 percent for the FFELP loan facilities and LIBOR plus 1.55 percent for the Private Education Loan facility, excluding up-front and unused commitment fees. All-in pricing on the 2008 ABCP Facilities varies based on usage. For the full year 2008, the combined, all-in cost of borrowings related to the 2008 Asset-Backed Financing Facilities, including amortized up-front fees and unused commitment fees, was three-month LIBOR plus 2.47 percent. The primary use of the 2008 Asset-Backed Financing Facilities was to refinance comparable ABCP facilities incurred in connection with the Proposed Merger, with the expectation that outstanding balances under the 2008 Asset-Backed Financing Facilities would be reduced through securitization of the underlying student loan collateral in the term asset-backed securities (ABS) market.

On February 2, 2009, the Company extended the maturity date of the 2008 ABCP Facilities from February 28, 2009 to April 28, 2009 for a $61 million upfront fee. The other terms of the facilities remained materially unchanged.

On February 27, 2009, the Company extended the maturity date of the 2008 Asset-Backed Loan Facility from February 28, 2009 to April 28, 2009 for a $4 million upfront fee. The other terms of this facility remained materially unchanged.

On April 24, 2009, the Company extended the maturity of $21.8 billion of the 2008 FFELP ABCP Facility for one year to April, 23, 2010. The Company also extended its 2008 Asset-Backed Loan Facility in the amount of $1.5 billion. The 2008 Asset-Backed Loan Facility matured on June 26, 2009 and was paid in full. A total of $86 million in fees were paid related to these extensions. The 2008 Private Education Loan ABCP Facility was paid off and terminated on April 24, 2009. The stated borrowing rate of the 2008 FFELP ABCP Facility is the applicable funding rate plus 130 basis points excluding upfront fees. The applicable funding rate generally will be either a LIBOR or commercial paper rate. The terms of the 2008 FFELP ABCP Facility call for an increase in the applicable funding spread to 300 basis points if the outstanding borrowing amount is not reduced to $15.2 billion and $10.9 billion as of June 30, 2009 and September 30, 2009, respectively. If the Company does not negotiate an extension or pay off all outstanding amounts of the 2008 FFELP ABCP Facility at maturity, the facility will extend by 90 days with the interest rate generally increasing to LIBOR plus 250 basis points to 550 basis points over the 90 day period. The other terms of the facilities remained materially unchanged.

The maximum amount the Company may borrow under the 2008 FFELP ABCP Facility is limited based on certain factors, including market conditions and the fair value of student loans in the facility. As of June 30, 2009, the maximum borrowing amount was approximately $14.8 billion under the 2008 FFELP ABCP Facility. Funding under the 2008 FFELP ABCP Facility is subject to usual and customary conditions. The 2008 FFELP ABCP Facility is subject to termination under certain circumstances, including the Company s failure to comply with the principal financial covenants in its unsecured revolving credit facilities.

Borrowings under the 2008 FFELP ABCP Facility are nonrecourse to the Company. As of June 30, 2009, the Company had $12.5 billion outstanding in connection with the 2008 FFELP ABCP Facility. The book basis of the assets securing this facility as of June 30, 2009 was $14.2 billion.

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5. Borrowings (Continued)

ED Conduit Program

Pursuant to the Ensuring Continued Access to Student Loans Act of 2008 (ECASLA), on January 15, 2009, ED published summary terms under which it will purchase eligible FFELP Stafford and PLUS loans from a conduit vehicle established to provide funding for eligible student lenders (the ED Conduit Program). Loans eligible for the ED Conduit Program must be first disbursed on or after October 1, 2003, but not later than July 1, 2009, and fully disbursed before September 30, 2009, and meet certain other requirements including with respect to borrower benefits. The ED Conduit was launched on May 11, 2009. Funding for the ED Conduit Program is provided by the capital markets at a cost based on market rates, with the Company being advanced 97 percent of the student loan face amount. The ED Conduit Program has a term of five years and will expire on January 19, 2014. The Student Loan Short-Term Notes (SLST Notes), issued by the ED Conduit, are supported by a combination of i) Funding Notes backed by FFELP student loans, ii) the Liquidity Agreement with the Federal Financing Bank (FFB) and iii) the Put Agreement provided by ED. If the conduit does not have sufficient funds to pay all SLST Notes then those SLST Notes will be repaid with funds from the FFB. The FFB will hold the notes for a short period of time and if at the end of that time the SLST Notes still cannot be paid off, the underlying FFELP loans that serve as collateral to the ED Conduit will be sold to ED through the Put Agreement at a price of 97 percent of the face amount of the loans. Approximately $15.5 billion of the Company s Stafford and PLUS loans (excluding loans currently in the Participation Program) are eligible for funding under the ED Conduit Program. As of June 30, 2009, $11.4 billion of these assets have been funded through this program with a weighted average issuance cost of approximately .74 percent.

Term Asset-Backed Securities Loan Facility (TALF)

On February 6, 2009, the Federal Reserve Bank of New York published proposed terms for a program designed to facilitate renewed issuance of consumer and small business ABS at lower interest rate spreads. TALF was initiated on March 17, 2009 and currently provides investors with funding of up to five years for eligible ABS rated by two or more rating agencies in the highest investment-grade rating category. Eligible ABS include AAA rated student loan ABS backed by FFELP and private student loans first disbursed since May 1, 2007. As of June 30, 2009, the Company had approximately $12.7 billion book basis ($13.4 billion face amount) of student loans eligible to serve as collateral for ABS funded under TALF; this amount does not include loans eligible for ECASLA financing programs. The Federal Reserve Bank launched the TALF program on March 3, 2009.

On May 5, 2009, the Company priced a $2.6 billion Private Education Loan securitization which closed on May 12, 2009. The issue bears a coupon of 1-month LIBOR plus 6.0 percent and is callable at the Company s option at 93 percent of the outstanding balance of the ABS between November 15, 2011 and April 15, 2012. If the issue is called on November 15, 2011, which the Company believes is probable, the effective cost of the bond financing will be approximately 1-month LIBOR plus 3.7 percent. This transaction was TALF-eligible.

This securitization is accounted for as a secured borrowing. The Company has concluded that it is probable it will call these bonds at the call date at the 7 percent discount. Probability is based on the Company s assessment on whether these bonds can be refinanced at the call date at or lower than a breakeven cost of funds based on the call discount. As a result, the Company is accreting this call discount as a reduction to interest expense through the call date under APB No. 21, Interest on Receivables and Payables, and SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans

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5. Borrowings (Continued)

and Initial Direct Costs of Leases. If it becomes less than probable the Company will call these bonds at a future date it will result in the Company reversing this prior accretion as a cumulative catch up under SFAS No. 91 and the effective interest rate method. The Company has accreted approximately $9 million as a reduction of interest expense through June 30, 2009.

Consolidation of Off-Balance Sheet Securitizations

In the second quarter of 2009, three of the Company s off-balance sheet securitization trusts were re-evaluated under SFAS No. 140 and it was determined that they no longer met the criteria to be considered QSPEs. These trusts were then evaluated as VIEs using the guidance in FIN No. 46(R) and it was determined that they should be consolidated and accounted for as secured borrowings as the Company is the primary beneficiary. These trusts had reached their 10 percent clean-up call levels but the call was not exercised by the Company. Under SFAS No. 140, because the Company can now exercise that option at their discretion going forward, the Company effectively controls the assets of the trusts. This resulted in the Company consolidating at fair value $454 million in assets and $432 million in liabilities related to these trusts. This resulted in an $11 million gain being recognized during the second quarter of 2009.

6. Student Loan Securitization

The Company securitizes its FFELP Stafford loans, FFELP Consolidation Loans and Private Education Loan assets and, for transactions qualifying as sales, retains a Residual Interest and servicing rights (as the Company retains the servicing responsibilities), all of which are referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans.

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6. Student Loan Securitization (Continued)

Securitization Activity

The following table summarizes the Company s securitization activity for the three and six months ended June 30, 2009 and 2008. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended June 30,							
	2009				2008			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans								
Total securitizations sales			$	%			$	%
Securitizations financings:								
FFELP Stafford/PLUS Loans[1]					3	7,125		
FFELP Consolidation Loans[1]	2	4,524						
Private Education Loans[1]	1	3,527						
Total securitizations financings	3	8,051			3	7,125		
Total securitizations	3	$ 8,051			3	$ 7,125		

	Six Months Ended June 30,							
	2009				2008			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain %**

Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans								
Private Education Loans								
Total securitizations sales			$	%			$	%
Securitizations financings:								
FFELP Stafford/PLUS Loans[1]					6	11,825		
FFELP Consolidation Loans[1]	2	4,524						
Private Education Loans[1]	2	6,419						
Total securitizations financings	4	10,943			6	11,825		
Total securitizations	4	$ 10,943			6	$ 11,825		

(1) In certain securitizations there are terms within the deal structure that result in such securitizations not qualifying for sale treatment and accordingly, they are accounted for on-balance sheet as VIEs. Terms that prevent sale treatment include: (1) allowing the Company to hold certain rights that can affect the remarketing of certain bonds, (2) allowing the trust to enter into interest rate cap agreements after the initial settlement of the securitization, which do not relate to the reissuance of third party beneficial interests or (3) allowing the Company to hold an unconditional call option related to a certain percentage of the securitized assets.

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6. Student Loan Securitization (Continued)

The following table summarizes cash flows received from or paid to the off-balance sheet securitization trusts during the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2009**	**2008**	**2009**	**2008**
Net proceeds from new securitizations completed during the period	$	$	$	$
Cash distributions from trusts related to Residual Interests	154	285	268	515
Servicing fees received[1]	57	62	115	125
Purchases of previously transferred financial assets for representation and warranty violations	(2)	(10)	(5)	(13)
Reimbursements of borrower benefits[2]	(8)	(7)	(16)	(14)
Purchases of delinquent Private Education Loans from securitization trusts using delinquent loan call option		(52)		(100)
Purchases of loans using clean-up call option		112		112

(1) The Company receives annual servicing fees of 90 basis points, 50 basis points and 70 basis points of the outstanding securitized loan balance related to its FFELP Stafford, FFELP Consolidation Loan and Private Education Loan securitizations, respectively.

(2) Under the terms of the securitizations, the transaction documents require that the Company reimburse the trusts for any borrower benefits afforded the borrowers of the underlying securitized loans.

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6. Student Loan Securitization (Continued)

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of June 30, 2009 and December 31, 2008.

	As of June 30, 2009			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts**[1]	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 272	$ 721	$ 827	$ 1,820
Underlying securitized loan balance	6,046	14,736	13,372	34,154
Weighted average life	3.1 yrs.	8.0 yrs.	6.4 yrs.	
Prepayment speed (annual rate)[3]				
Interim status	0%	N/A	0%	
Repayment status	2-19%	1-6%	2-15%	
Life of loan repayment status	12%	4%	6%	
Expected remaining credit losses (% of outstanding student loan principal)[4]	.10%	.22%	5.76%	
Residual cash flows discount rate	11.5%	13.0%	32.4%	

	As of December 31, 2008			
(Dollars in millions)	**FFELP Stafford and PLUS**	**Consolidation Loan Trusts**[1]	**Private Education Loan Trusts**	**Total**
Fair value of Residual Interests[2]	$ 250	$ 918	$ 1,032	$ 2,200
Underlying securitized loan balance	7,057	15,077	13,690	35,824
Weighted average life	3.0 yrs.	8.1 yrs.	6.4 yrs.	

Prepayment speed (annual rate)[3]			
Interim status	0%	N/A	0%
Repayment status	2-19%	1-6%	2-15%
Life of loan repayment status	12%	4%	6%
Expected remaining credit losses (% of outstanding student loan principal)[4]	.11%	.23%	5.22%
Residual cash flows discount rate	13.1%	11.9%	26.3%

(1) Includes $529 million and $762 million related to the fair value of the Embedded Floor Income as of June 30, 2009 and December 31, 2008, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) The Company had no unrealized gains (pre-tax) in accumulated other comprehensive income that related to the Retained Interests for any of the periods presented.

(3) The Company uses CPR curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan s seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

(4) Remaining expected credit losses as of the respective balance sheet date.

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6. Student Loan Securitization (Continued)

The Company recorded net unrealized mark-to-market losses in servicing and securitization revenue (loss) of $90 million and $192 million in the three months ended June 30, 2009 and 2008, respectively, and $351 million and $280 million in the six months ended June 30, 2009 and 2008, respectively, related to the Residual Interest.

As of June 30, 2009, the Company did not change any significant assumptions compared to those used as of March 31, 2009, to determine the fair value of the Residual Interests. The $90 million unrealized mark-to-market loss in the second quarter of 2009 was primarily a result of an increase in forward interest rates which resulted in a higher discount rate used to value the Residual Interests as well as a reduction in the fair value of the Embedded Fixed Rate Floor Income. The $192 million unrealized mark-to-market loss in the second quarter of 2008 was primarily related to increases in forward interest rates during the quarter reducing the value of Embedded Fixed Rate Floor Income ($137 million decrease) and increasing the discount rate used to value the Residual Interests ($57 million decrease). Additionally, the Company increased the spread to LIBOR component of the Private Education discount rate formula to better reflect current market conditions which resulted in a $113 million Residual Interest mark-to-market loss. Actual quarterly experience, including improved forward curve spreads used in the valuation of the Residual Interests, partially mitigated these mark-to-market losses.

The following table reflects the sensitivity of the current fair value of the Residual Interests to adverse changes in the key economic assumptions used in the valuation of the Residual Interest at June 30, 2009, discussed in detail in the preceding table. The effect of a variation in a particular assumption on the fair value of the Residual Interest is calculated without changing any other assumption. In reality, changes in one factor may result in changes in another (for example, increases in market interest rates may result in lower

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6. Student Loan Securitization (Continued)

prepayments and increased credit losses), which might magnify or counteract the sensitivities. These sensitivities are hypothetical, as the actual results could be materially different than these estimates.

	As of June 30, 2009		
(Dollars in millions)	**FFELP Stafford/PLUS Loan Trusts[5]**	**FFELP Consolidation Loan Trusts[5]**	**Private Education Loan Trusts[5]**
Fair value of Residual Interest	$ 272	$ 721[1]	$ 827
Weighted-average life	3.1 yrs.	8.0 yrs.	6.4 yrs.
Prepayment speed assumptions[2]			
Interim status	**0%**	**N/A**	**0%**
Repayment status	**2-19%**	**1-6%**	**2-15%**
Life of loan repayment status	**12%**	**4%**	**6%**
Impact on fair value of 5% absolute increase	$ (24)	$ (82)	$ (108)
Impact on fair value of 10% absolute increase	$ (43)	$ (143)	$ (195)
Expected credit losses (as a% of student loan principal)	**.10%**	**.22%**	**5.76%[3]**
Impact on fair value of 5% absolute increase in default rate	$ (6)	$ (8)	$ (170)
Impact on fair value of 10% absolute increase in default rate	$ (10)	$ (16)	$ (339)
Residual cash flows discount rate	**11.5%**	**13.0%**	**32.4%**
Impact on fair value of 5% absolute increase	$ (25)	$ (115)	$ (94)
Impact on fair value of 10% absolute increase	$ (46)	$ (198)	$ (169)
	3 month LIBOR forward curve at June 30, 2009 plus contracted spreads		
Difference between Asset and Funding underlying indices[4]			
Impact on fair value of 0.25% absolute increase in funding index compared to asset index	$ (42)	$ (161)	$ (2)
Impact on fair value of 0.50% absolute increase in funding index compared to asset index	$ (85)	$ (322)	$ (4)

(1) Certain consolidation trusts have $3.3 billion of non-U.S. dollar (Euro denominated) bonds outstanding. To convert these non-U.S. dollar denominated bonds into U.S. dollar liabilities, the trusts have entered into foreign-currency swaps with certain counterparties. Additionally, certain Private Education Loan trusts contain interest rate swaps that hedge the basis and reset risk between the Prime indexed assets and LIBOR index notes. As of June 30, 2009, these swaps are in an $833 million gain position (in the aggregate) and the trusts had $600 million of exposure to counterparties (gain position less collateral posted) primarily as a result of the decline in the exchange rates between the U.S. dollar and the Euro. This unrealized market value gain is not part of the fair value of the Residual Interest in the table above. Not all derivatives within the trusts require the swap counterparties to post collateral to the respective trust for changes in market value, unless the trust s swap counterparty s credit rating has been withdrawn or has been downgraded below a certain level. If the swap counterparty does not post the required collateral or is downgraded further, the counterparty must find a suitable replacement counterparty or provide the trust with a letter of credit or a guaranty from an entity that has the required credit ratings. Ultimately, the Company s exposure related to a swap counterparty failing to make its payments is limited to the fair value of the related trust s Residual Interest which was $1.3 billion as of June 30, 2009.

(2) See previous table for details on CPR. Impact on fair value due to increase in prepayment speeds only increases the repayment status speeds. Interim status CPR remains 0%.

(3) Expected credit losses are used to project future cash flows related to the Private Education Loan securitization s Residual Interest. However, until the fourth quarter of 2008 when it ceased this activity for all trusts settling prior to September 30, 2005, the Company purchased loans at par when the loans reached 180 days delinquent prior to default under a contingent call option, resulting in no credit losses at the trust nor related to the Company s Residual Interest. When the Company exercised its contingent call option and purchased the loans from the trust at par, the Company recorded a loss related to these loans that are now on the Company s balance sheet. The Company recorded losses of $43 million and $80 million, respectively, for the three and six months ended June 30, 2008, and did not record any losses for the three and six months ended June 30, 2009, related to this activity. For all trusts settling after October 1, 2005, the Company does not hold this contingent call option.

(4) Student loan assets are primarily indexed to a Treasury bill, commercial paper or a prime index. Funding within the trust is primarily indexed to a LIBOR index. Sensitivity analysis increases funding indices as indicated while keeping assets underlying indices fixed.

(5) In addition to the assumptions in the table above, the Company also projects the reduction in distributions that will result from the various benefit programs that exist related to consecutive on-time payments by borrowers. Related to the entire $1.8 billion Residual Interest, there are $205 million (present value) of benefits projected which reduce the fair value.

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6. Student Loan Securitization (Continued)

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of June 30, 2009 and 2008.

	Off-Balance Sheet Private Education Loan Delinquencies			
	June 30, 2009		June 30, 2008	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 2,974		$ 4,159	
Loans in forbearance[2]	583		1,339	
Loans in repayment and percentage of each status:				
Loans current	8,874	90.4%	7,871	95.1%
Loans delinquent 31-60 days[3]	261	2.7	178	2.2
Loans delinquent 61-90 days[3]	174	1.8	102	1.2
Loans delinquent greater than 90 days[3]	505	5.1	124	1.5
Total off-balance sheet Private Education Loans in repayment	9,814	100%	8,275	100%
Total off-balance sheet Private Education Loans, gross	$ 13,371		$ 13,773	

(1) Loans for borrowers who 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 used their allowable deferment time or do not qualify for deferment, and need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors consistent with the established loan program servicing procedures and programs.

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

The following table summarizes charge-off activity for Private Education Loans in the off-balance sheet trusts for the three and six months ended June 30, 2009 and 2008.

(Dollars in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Charge-offs	$ 116	$ 40	$ 179	$ 73
Charge-offs as a percentage of average loans in repayment (annualized)	4.8%	2.1%	3.8%	1.9%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.6%	1.8%	3.6%	1.6%
Ending off-balance sheet total Private Education Loans[1]	$ 13,520	$ 13,831	$ 13,520	$ 13,831
Average off-balance sheet Private Education Loans in repayment	$ 9,630	$ 7,811	$ 9,522	$ 7,638
Ending off-balance sheet Private Education Loans in repayment	$ 9,814	$ 8,275	$ 9,814	$ 8,275

(1) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans (see Note 2, Allowance for Loan Losses).

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6. Student Loan Securitization (Continued)

7. Derivative Financial Instruments

Derivative instruments that are used as part of the Company s interest rate and foreign currency risk management strategy include interest rate swaps, basis swaps, cross-currency interest rate swaps, interest rate futures contracts, and interest rate floor and cap contracts with indices that relate to the pricing of specific balance sheet assets and liabilities including the Residual Interests from off-balance sheet securitizations. (For a full discussion of the Company s risk management strategy and use of derivatives, please see the Company s 2008 Form 10-K, Note 9, Derivative Financial Instruments, to the consolidated financial statements.) The Company accounts for its derivatives under SFAS No. 133 which requires that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. The Company s derivative instruments are classified and accounted for by the Company as fair value hedges, cash flow hedges or trading activities.

Fair Value Hedges

Fair value hedges are generally used by the Company to hedge the exposure to changes in fair value of a recognized fixed rate asset or liability. The Company enters into interest rate swaps to convert fixed rate assets into variable rate assets and fixed rate debt into variable rate debt. The Company also enters into cross-currency interest rate swaps to convert foreign currency denominated fixed and floating debt to U.S. dollar denominated variable debt. Changes in value for both the hedge and the hedged item are recorded to earnings. These amounts offset each other with the net amount representing the ineffectiveness of the relationship.

Cash Flow Hedges

Cash flow hedges are used by the Company to hedge the exposure to variability in cash flows for a forecasted debt issuance and for exposure to variability in cash flows of floating rate debt. This strategy is used primarily to minimize the exposure to volatility from future changes in interest rates. Gains and losses on the effective portion of a qualifying hedge are accumulated in other comprehensive income and ineffectiveness is recorded immediately to earnings.

Trading Activities

When instruments do not qualify as hedges under SFAS No. 133, they are accounted for as trading where all changes in fair value of the derivatives are recorded through earnings. In general, derivative instruments included in trading activities include Floor Income Contracts, basis swaps and various other derivatives that do not qualify for hedge accounting under SFAS No. 133.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Derivative Financial Instruments (Continued)

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at June 30, 2009 and December 31, 2008, and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2009 and 2008.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow Jun. 30, 2009	Cash Flow Dec. 31, 2008	Fair Value Jun. 30, 2009	Fair Value Dec. 31, 2008	Trading Jun. 30, 2009	Trading Dec. 31, 2008	Total Jun. 30, 2009	Total Dec. 31, 2008
Fair Values[1]									
Derivative Assets									
Interest rate swaps	Interest rate	$	$	$ 810	$ 1,529	$ 82	$ 323	$ 892	$ 1,852
Cross currency interest rate swaps	Foreign currency and interest rate			2,498	2,743	36	13	2,534	2,756
Total derivative assets[3]				3,308	4,272	118	336	3,426	4,608
Derivative Liabilities									
Interest rate swaps	Interest rate	(106)	(146)			(635)	(332)	(741)	(478)
Floor/Cap contracts	Interest rate					(1,143)	(1,466)	(1,143)	(1,466)
Futures	Interest rate					(2)	(3)	(2)	(3)
Cross currency interest rate swaps	Foreign currency and interest rate			(210)	(640)	(1)		(211)	(640)
Other[2]	Interest rate					(22)		(22)	
Total derivative liabilities[3]		(106)	(146)	(210)	(640)	(1,803)	(1,801)	(2,119)	(2,587)
Net total derivatives		$ (106)	$ (146)	$ 3,098	$ 3,632	$ (1,685)	$ (1,465)	$ 1,307	$ 2,021

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

(2) Other includes the fair value of the embedded derivatives in the total return swap related to the $1.5 billion asset-backed securities based facility which closed in January 2009. The embedded derivatives are required to be accounted for as derivatives under SFAS No. 133.

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

	Other Assets		Other Liabilities	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Gross position	$ 3,426	$ 4,608	$ (2,119)	$ (2,587)
Impact of master netting agreements	(1,052)	(1,594)	1,052	1,594
Derivative values with impact of master netting agreements	$ 2,374	$ 3,014	$ (1,067)	$ (993)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Derivative Financial Instruments (Continued)

	Cash Flow		Fair Value		Trading		Total	
(Dollars in billions)	**Jun. 30, 2009**	**Dec. 31, 2008**	**Jun. 30, 2009**	**Dec. 31, 2008**	**Jun. 30, 2009**	**Dec. 31, 2008**	**Jun. 30, 2009**	**Dec. 31, 2008**
Notional Values								
Interest rate swaps	$ 3.9	$ 4.8	$ 10.9	$ 13.4	$ 154.8	$ 159.3	$ 169.6	$ 177.5
Floor/Cap contracts					38.7	32.4	38.7	32.4
Futures					.2	.2	.2	.2
Cross currency interest rate swaps			20.9	23.1	.3	.1	21.2	23.2
Other[1]					5.1	.7	5.1	.7
Total derivatives	$ 3.9	$ 4.8	$ 31.8	$ 36.5	$ 199.1	$ 192.7	$ 234.8	$ 234.0

(1) Other includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155 as well as embedded derivatives in the total return swap discussed in footnote 2 to the table above.

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended June 30,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Fair Value Hedges								
Interest rate swaps	$ (487)	$ (364)	$ 97	$ 42	$ 521	$ 358	$ 131	$ 36
Cross currency interest rate swaps	1,163	(396)	120	(3)	(1,524)	439	(241)	40
Total fair value derivatives	676	(760)	217	39	(1,003)	797	(110)	76
Cash Flow Hedges								

Interest rate swaps	(5)		(21)	(11)			(26)	(11)
Total cash flow derivatives	(5)		(21)	(11)			(26)	(11)
Trading								
Interest rate swaps	(301)	(170)	119	105			(182)	(65)
Floor/Cap contracts	236	569	(171)	(174)			65	395
Futures		(3)		3				
Cross currency interest rate swaps	(1)	(4)	1	(1)				(5)
Other	(115)		2				(113)	
Total trading derivatives	(181)	392	(49)	(67)			(230)	325
Total	490	(368)	147	(39)	(1,003)	797	(366)	390
Less: realized gains (losses) recorded in interest expense			196	28			196	28
Gains (losses) on derivative and hedging activities, net	$ 490	$ (368)	$ (49)	$ (67)	$ (1,003)	$ 797	$ (562)	$ 362

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

(2) Represents ineffectiveness related to cash flow hedges.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Derivative Financial Instruments (Continued)

	Six Months Ended June 30,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	2009	2008	2009	2008	2009	2008	2009	2008
Fair Value Hedges								
Interest rate swaps	$ (670)	$ 40	$ 176	$ 46	$ 715	$ (44)	$ 221	$ 42
Cross currency interest rate swaps	241	1,497	196	76	(501)	(1,394)	(64)	179
Total fair value derivatives	(429)	1,537	372	122	214	(1,438)	157	221
Cash Flow Hedges								
Interest rate swaps			(39)	(20)			(39)	(20)
Total cash flow derivatives			(39)	(20)			(39)	(20)
Trading								
Interest rate swaps	(601)	(302)	348	338			(253)	36
Floor/Cap contracts	402	274	(311)	(315)			91	(41)
Futures	1	(2)		3			1	1
Cross currency interest rate swaps	(34)	(5)	1	(1)			(33)	(6)
Other	(51)		2				(49)	
Total trading derivatives	(283)	(35)	40	25			(243)	(10)
Total	(712)	1,502	373	127	214	(1,438)	(125)	191
Less: realized gains (losses) recorded in interest expense			333	102			333	102
Gains (losses) on derivative and hedging activities, net	$ (712)	$ 1,502	$ 40	$ 25	$ 214	$ (1,438)	$ (458)	$ 89

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

[2] Represents ineffectiveness related to cash flow hedges.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
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7. Derivative Financial Instruments (Continued)

Impact of Derivatives on Consolidated Statements of Changes in Stockholders Equity (net of tax)

	Interest Rate Swaps		Interest Rate Swaps	
	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2009**	**2008**	**2009**	**2008**
Total gains (losses) on cash flow hedges	$ 5	$ 67	$ 1	$ 30
Realized (gains) losses reclassified to interest expense(1)(2)(3)	13	7	25	12
Hedge ineffectiveness reclassified to earnings(1)(4)	3			
Total change in stockholders equity for unrealized gains (losses) on derivatives	$ 21	$ 74	$ 26	$ 42

(1) Amounts included in Impact of Derivatives on Consolidated Statements of Income table above.

(2) Includes net settlement income/expense.

(3) The Company expects to reclassify $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to net settlement accruals on interest rate swaps.

(4) Recorded in Gains (losses) derivatives and hedging activities, net in the consolidated statements of income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Derivative Financial Instruments (Continued)

Collateral

Collateral held and pledged at June 30, 2009 and December 31, 2008 related to derivative exposures between the Company and its derivative counterparties are detailed in the following table:

(Dollars in millions)		June 30, 2009		December 31, 2008
Collateral held:[1]				
Cash (obligation to return cash collateral is recorded in short-term borrowings)[2]	$	1,055	$	1,624
Securities at fair value corporate derivatives (not recorded in financial statements)[3]		185		689
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[4]		610		688
Total collateral held	$	1,850	$	3,001
Derivative asset at fair value including accrued interest	$	2,809	$	3,741
Collateral pledged to others:				
Cash (right to receive return of cash collateral is recorded in investments)	$	772	$	
Securities at fair value (recorded in investments)[5]		27		26
Securities at fair value (recorded in restricted investments)[6]		33		
Securities at fair value re-pledged (not recorded in financial statements)[6][7]				191
Total collateral pledged	$	832	$	217
Derivative liability at fair value including accrued interest and premium receivable	$	856	$	677

(1) In addition to collateral held for derivative exposures, the Company held $779 million (fair value) of mortgage-backed securities as collateral in a reverse repurchase transaction. The securities are not reflected in the consolidated financial statements; however, the reverse repurchase transaction is reflected in the Company s cash

and cash equivalents line of the consolidated balance sheets.

(2) Effective with the downgrade in the Company s unsecured credit ratings on May 13, 2009, cash collateral is held in restricted cash accounts.

(3) Effective with the downgrade in the Company s unsecured credit ratings on May 13, 2009, the Company does not have the ability to sell or re-pledge securities it holds as collateral.

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

(5) Counterparty does not have the right to sell or re-pledge securities.

(6) Counterparty has the right to sell or re-pledge securities.

(7) Represents securities the Company holds as collateral that have been pledged to other counterparties.

Additionally, as of June 30, 2009 and December 31, 2008, $259 million and $340 million, respectively, in collateral related to off-balance sheet trust derivatives were held by these off-balance sheet trusts. Collateral posted by third parties to the off-balance sheet trusts cannot be sold or re-pledged by the trusts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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7. Derivative Financial Instruments (Continued)

8. Other Assets

The following table provides detail on the Company s other assets at June 30, 2009 and December 31, 2008.

	June 30, 2009		December 31, 2008	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable	$ 2,993,603	30%	$ 3,466,404	31%
Derivatives at fair value	2,373,712	24	3,013,644	27
Income tax asset	1,895,199	19	1,661,039	15
APG purchased paper receivables and real estate owned	856,929	9	1,222,345	11
Benefit and insurance-related investments	475,780	5	472,899	4
Fixed assets, net	309,925	3	313,059	3
Accounts receivable general	652,036	7	712,854	6
Other	467,945	3	278,533	3
Total	$ 10,025,129	100%	$ 11,140,777	100%

The Derivatives at fair value line in the above table includes the fair value of the Company s derivatives in a gain position by counterparty exclusive of accrued interest and collateral. At June 30, 2009 and December 31, 2008, these balances included cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of June 30, 2009 and December 31, 2008, the cumulative mark-to-market adjustment to the hedged debt was $(3.1) billion and $(3.4) billion, respectively.

9. Stockholders Equity

The following table summarizes the Company s common share repurchases and issuances for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,	Six Months Ended June 30,

(Shares in millions)	2009	2008	2009	2008
Common shares repurchased:				
Benefit plans[1]		.2	.1	.5
Total shares repurchased		.2	.1	.5
Average purchase price per share	$	$ 23.74	$ 23.84	$ 20.98
Common shares issued	.1	.3	.4	1.5
Authority remaining at end of period for repurchases	38.8	38.8	38.8	38.8

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

The closing price of the Company s common stock on June 30, 2009 was $10.27.

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9. Stockholders Equity (Continued)

Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income (loss) as of June 30, 2009, December 31, 2008 and June 30, 2008.

	June 30, 2009	December 31, 2008	June 30, 2008
Net unrealized gains (losses) on investments[1]	$ 1,026	$ (1,243)	$ 22,604
Net unrealized gains (losses) on derivatives[2]	(67,971)	(93,986)	19,696
Defined benefit pension plans:			
Net prior service cost			
Net gain	18,262	18,753	19,694
Total defined benefit pension plans[3]	18,262	18,753	19,694
Total accumulated other comprehensive income (loss)	$ (48,683)	$ (76,476)	$ 61,994

(1) Net of tax expense of $560 as of June 30, 2009, tax benefit of $750 as of December 31, 2008, and tax expense of $12,707 as of June 30, 2008.

(2) Net of tax benefit of $39,086, and $53,419 as of June 30, 2009 and December 31, 2008, respectively, and tax expense of $11,118 as of June 30, 2008.

(3) Net of tax expense of $10,776, $10,967 and $11,425 as of June 30, 2009, December 31, 2008 and June 30, 2008, respectively.

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9. Stockholders Equity (Continued)

10. Earnings (Loss) per Common Share

Basic earnings (loss) per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Numerator:				
Net income (loss) attributable to common stock	$ (148,520)	$ 238,345	$ (196,301)	$ 105,516
Adjusted for dividends of convertible preferred stock series C[1]		20,844		
Net income (loss) attributable to common stock, adjusted	$ (148,520)	$ 259,189	$ (196,301)	$ 105,516
Denominator ***(shares in thousands):***				
Weighted average shares used to compute basic EPS	466,799	466,649	466,780	466,615
Effect of dilutive securities:				
Dilutive effect of convertible preferred stock series C[1]		50,568		
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP)[2]		737		701
Dilutive potential common shares[3]		51,305		701
Weighted average shares used to compute diluted EPS	466,799	517,954	466,780	467,316
Net earnings (loss) per share:				
Basic earnings (loss) per common share	$ (.32)	$ .51	$ (.42)	$ .23
Dilutive effect of convertible preferred stock series C[1]		(.01)		

Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP[(2)]								
Diluted earnings (loss) per common share	$	(.32)	$	.50	$	(.42)	$	.23

[(1)] The Company s 7.25 percent mandatory convertible preferred stock series C was issued on December 31, 2007. The mandatory convertible preferred stock will automatically convert on December 15, 2010, into between approximately 48 million shares and 59 million shares of common stock, depending upon the Company s stock price at that time. Depending upon the amount of the mandatory convertible preferred stock outstanding as of that date, the actual number of shares of common stock issued may be less. These instruments were anti-dilutive for the three months ended June 30, 2009 and the six months ended June 30, 2009 and 2008. These instruments were anti-dilutive for the three and six months ended June 30, 2009, due to the net losses attributable to common stock for those periods.

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

[(3)] For the three and six months ended June 30, 2009, stock options covering approximately 45 million shares for each period, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the three and six months ended June 30, 2008, stock options covering approximately 40 million and 41 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

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10. Earnings (Loss) per Common Share (Continued)

11. Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Gains on debt repurchases	$ 325,294	$ 21,284	$ 389,049	$ 21,284
Late fees and forbearance fees	32,051	34,030	68,763	71,185
Asset servicing and other transaction fees	26,391	26,067	51,446	51,935
Loan servicing fees	8,687	5,616	18,733	12,268
Foreign currency translation gains (losses), net	(5,692)	3,958	33,992	4,127
Other	12,334	17,773	29,540	41,462
Total	$ 399,065	$ 108,728	$ 591,523	$ 202,261

The increase in other income for the three and six months ended June 30, 2009 over the year-ago periods presented is primarily the result of the gains on debt repurchased. The Company began repurchasing its outstanding debt in the second quarter of 2008. In the second quarter of 2009, the Company repurchased $1.1 billion face amount of its senior unsecured notes compared to $1.2 billion in the second quarter of 2008. Since the second quarter of 2008, the Company has repurchased $3.2 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

12. Restructuring Activities

During the fourth quarter of 2007, the Company initiated a restructuring program to reduce costs and improve operating efficiencies in response to the impacts of The College Cost Reduction and Access Act of 2007 (CCRAA) and challenges in the capital markets. As part of this restructuring program, the Company has refocused its lending activities, exited certain customer relationships and product lines and consolidated and exited certain facilities. Management estimates approximately $7 million of additional restructuring expenses associated with the Company s current cost reduction efforts will be incurred. These estimated additional restructuring costs relate primarily to position eliminations and resulting employee terminations as well as lease termination costs in the Company s Asset Performance Group (APG) business segment. Management expects the Company s current restructuring program will

be substantially complete by the end of 2009. However, management is continuing to review the Company s business to determine whether there are other opportunities to further streamline the business.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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12. Restructuring Activities (Continued)

The following table summarizes the restructuring expenses incurred during the quarters ended June 30, 2009 and 2008 and cumulative restructuring expenses incurred through June 30, 2009.

	Three Months Ended June 30,		Six Months Ended June 30,		Cumulative Expense as of June 30,
	2009	2008	2009	2008	2009
Severance costs	$ 4,291	$ 34,214	$ 6,957	$ 49,083	$ 92,320
Lease and other contract termination costs	67	8,634	742	9,069	10,259
Exit and other costs	72	3,892	1,504	9,266	12,904
Total[1]	$ 4,430	$ 46,740	$ 9,203	$ 67,418	$ 115,483

[1] Aggregate restructuring expenses incurred across the Company s reportable segments during the three months ended June 30, 2009 and 2008 totaled $4 million and $31 million, respectively, in the Company s Lending reportable segment, $.4 million and $5 million, respectively, in the Company s APG reportable segment, and $(.2) million and $11 million, respectively, in the Company s Corporate and Other reportable segment.

As of June 30, 2009 and 2008, severance costs were incurred in conjunction with aggregate completed and planned position eliminations of approximately 2,800 and 2,500 positions, respectively, across all of the Company s reportable segments, with position eliminations ranging from senior executives to clerical personnel. Lease and other contract termination costs and exit and other costs incurred during the three months ended June 30, 2009 and 2008, respectively, related primarily to terminated or abandoned facility leases and consulting costs incurred in conjunction with various cost reduction and exit strategies.

The following table summarizes the restructuring liability balance, which is included in other liabilities in the accompanying consolidated balance sheet.

	Lease and Other Contract

	Severance Costs	Termination Costs	Exit and Other Costs	Total
Balance at December 31, 2007	$ 18,329	$	$	$ 18,329
Net accruals	62,858	9,517	11,400	83,775
Cash paid	(66,063)	(6,719)	(11,340)	(84,122)
Balance at December 31, 2008	15,124	2,798	60	17,982
Net accruals	6,957	742	1,504	9,203
Cash paid	(15,104)	(982)	(1,564)	(17,650)
Balance at June 30, 2009	$ 6,977	$ 2,558	$	$ 9,535

13. Fair Value Measurements

The Company uses estimates of fair value as defined by SFAS No. 157 in applying various accounting standards for its financial statements. Under GAAP, fair value measurements are used in one of four ways:

In the consolidated balance sheet with changes in fair value recorded in the consolidated statement of income;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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13. Fair Value Measurements (Continued)

In the consolidated balance sheet with changes in fair value recorded in the accumulated other comprehensive income section of the consolidated statement of changes in stockholders equity;

In the consolidated balance sheet for instruments carried at lower of cost or fair value with impairment charges recorded in the consolidated statement of income; and

In the notes to the financial statements as required by SFAS No. 107, Disclosures about Fair Value of Financial Instruments.

Fair value under SFAS No. 157 is defined as the price to sell an asset or transfer a liability in an orderly transaction between willing and able market participants. In general, the Company s policy in estimating fair values is to first look at observable market prices for identical assets and liabilities in active markets, where available. When these are not available, other inputs are used to model fair value such as prices of similar instruments, yield curves, volatilities, prepayment speeds, default rates and credit spreads (including for the Company s liabilities), relying first on observable data from active markets. Additional adjustments may be made for factors including liquidity, credit, bid/offer spreads, etc., depending on current market conditions. Transaction costs are not included in the determination of fair value. When possible, the Company seeks to validate the model s output to market transactions. Depending on the availability of observable inputs and prices, different valuation models could produce materially different fair value estimates. The values presented may not represent future fair values and may not be realizable.

Under SFAS No. 157, the Company categorizes its fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Classification is based on the lowest level of input that is significant to the fair value of the instrument. The three levels are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of financial instruments included in level 1 are highly liquid instruments with quoted prices;

Level 2 Inputs from active markets, other than quoted prices for identical instruments, are used to model fair value. Significant inputs are directly observable from active markets for substantially the full term of the asset or liability being valued; and

Level 3 Pricing inputs significant to the valuation are unobservable. Inputs are developed based on the best information available; however, significant judgment is required by management in developing the inputs.

Student Loans

The Company s FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or market if the loan is held-for-sale (see Note 2, Significant Accounting Policies Loans, to the consolidated financial statements in the Company s 2008 Annual Report on Form 10-K, for a discussion of the accounting treatment); however, the fair value is disclosed in compliance with SFAS No. 107. FFELP loans classified as held-for-sale are those which the Company has the ability and intent to sell under various ED loan purchase programs. In these instances, the FFELP loans are valued using the committed sales price under the programs. For all other FFELP loans and Private Education Loans, fair value was determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash

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13. Fair Value Measurements (Continued)

flows are prepayment speeds, default rates, cost of funds, required return on equity, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of the Company s FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are not observable.

Other Loans

Warehousing, facilities financings, and mortgage and consumer loans held for investment are accounted for at cost with fair values being disclosed as required by SFAS No. 107. Mortgage loans held for sale are accounted for at lower of cost or market. Fair value was determined with discounted cash flow models using the stated terms of the loans and observable market yield curves. In addition, adjustments and assumptions were made for credit spreads, liquidity, prepayment speeds and defaults. A number of significant inputs into the models are not observable.

Cash and Investments (Including Restricted)

Cash and cash equivalents are carried at cost. Carrying value approximated fair value for disclosure purposes. Investments accounted for under SFAS No. 115 and classified as trading or available-for-sale are carried at fair value in the financial statements. Investments in U.S. Treasury securities and securities issued by U.S. government agencies that are traded in active markets were valued using observable market prices. Other investments for which observable prices from active markets are not available were valued through standard bond pricing models using observable market yield curves adjusted for credit and liquidity spreads. The fair value of investments in Commercial Paper, Asset Backed Commercial Paper, or Demand Deposits that have a remaining term of less than 90 days when purchased are estimated at cost and when needed, adjustments for liquidity and credit spreads are made depending on market conditions and counterparty credit risks. These investments consist of mostly overnight/weekly maturity instruments with highly-rated counterparties.

Borrowings

Borrowings are accounted for at cost in the financial statements except when denominated in a foreign currency or when designated as the hedged item in a fair value hedge relationship under SFAS No. 133. When the hedged risk is the benchmark interest rate and not full fair value, the cost basis is adjusted for changes in value due to benchmark interest rates only. Additionally, foreign currency denominated borrowings are re-measured at current spot rates in the financial statements. The full fair value of all borrowings is disclosed as required by SFAS No. 107. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates and volatilities from active markets; or from quotes from broker-dealers. Credit adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Credit adjustments for secured borrowings are based on indicative quotes from broker-dealers. These adjustments for both secured and unsecured

borrowings are material to the overall valuation of these items and, currently, are based on inputs from inactive markets.

Derivative Financial Instruments

All derivatives are accounted for at fair value in the financial statements. The fair values of a majority of derivative financial instruments, including swaps and floors, were determined by standard derivative pricing

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13. Fair Value Measurements (Continued)

and option models using the stated terms of the contracts and observable yield curves, forward foreign currency exchange rates and volatilities from active markets. In some cases, management utilized internally developed amortization streams to model the fair value for swaps whose notional amounts contractually amortizes with securitized asset balances. Complex structured derivatives or derivatives that trade in less liquid markets require significant adjustments and judgment in determining fair value that cannot be corroborated with market transactions. When determining the fair value of derivatives, the Company takes into account counterparty credit risk for positions where it is exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, the Company fully collateralizes the exposure minimizing the adjustment necessary to the derivative valuations for the Company s credit risk. While trusts that contain derivatives are not required to post collateral to counterparties, the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. It is the Company s policy to compare its derivative fair values to those received by its counterparties in order to validate the model s outputs. The carrying value of borrowings designated as the hedged item in a SFAS No. 133 fair value hedge are adjusted for changes in fair value due to benchmark interest rates and foreign-currency exchange rates. These valuations are determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, and observable yield curves, foreign currency exchange rates, and volatilities.

During 2008 and 2009, the bid/ask spread widened significantly for certain interest rate indices for which the Company had derivatives as a result of market inactivity. As such, significant adjustments for the bid/ask spread and unobservable inputs were used in the fair value calculation resulting in these instruments being classified as level 3 in the hierarchy. Additionally, significant unobservable inputs were used to model the amortizing notional of some swaps tied to securitized asset balances and as such, these derivatives have been classified as level 3 in the hierarchy.

Residual Interests

The Residual Interests are carried at fair value in the financial statements. No active market exists for student loan Residual Interests; as such, the fair value is calculated using discounted cash flow models and option models. Observable inputs from active markets are used where available, including yield curves and volatilities. Significant unobservable inputs such as prepayment speeds, default rates, certain bonds costs of funds and discount rates, are used in determining the fair value and require significant judgment. These unobservable inputs are internally determined based upon analysis of historical data and expected industry trends. On a quarterly basis the Company back tests its prepayment speed, default rates and costs of funds assumptions by comparing those assumptions to actuals experienced. Additionally, the Company uses non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interests. Market transactions are not available to validate the models results. An analysis of the impact of changes to significant inputs is addressed further

in Note 6, Student Loan Securitization.

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13. Fair Value Measurements (Continued)

The following tables summarize the valuation of the Company s financial instruments that are marked-to-market on a recurring basis in the consolidated financial statements as of June 30, 2009 and December 31, 2008.

	Fair Value Measurements on a Recurring Basis as of June 30, 2009					
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cash Collateral**	**Net**
Assets						
Available for sale investments	$	$ 1,187	$	$ 1,187	$	$ 1,187
Retained Interest in off-balance sheet securitized loans			1,821	1,821		1,821
Derivative instruments(1)(2)		1,584	790	2,374	(1,055)	1,319
Total Assets	$	$ 2,771	$ 2,611	$ 5,382	$ (1,055)	$ 4,327
Liabilities(3)						
Derivative instruments(1)(2)	$ (2)	$ (1,065)	$	$ (1,067)	$ 772	$ (295)
Total Liabilities	$ (2)	$ (1,065)	$	$ (1,067)	$ 772	$ (295)

	Fair Value Measurements on a Recurring Basis as of December 31, 2008					
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Cash Collateral**	**Net**
Assets						
Available for sale investments	$	$ 861	$	$ 861	$	$ 861
Retained Interest in off-balance sheet securitized loans			2,200	2,200		2,200
Derivative instruments(1)(2)		3,014		3,014	(1,624)	1,390
Total Assets	$	$ 3,875	$ 2,200	$ 6,075	$ (1,624)	$ 4,451

Liabilities[3]						
Derivative instruments[1][2]	$ (3)	$ (648)	$ (341)	$ (992)	$	$ (992)
Total Liabilities	$ (3)	$ (648)	$ (341)	$ (992)	$	$ (992)

(1) Fair value of derivative instruments is comprised of market value less accrued interest and excludes collateral.

(2) Level 1 derivatives include euro-dollar futures contracts. Level 2 derivatives include derivatives indexed to interest rate indices and currencies that are considered liquid. Level 3 derivatives include derivatives indexed to illiquid interest rate indices and derivatives for which significant adjustments were made to observable inputs.

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

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13. Fair Value Measurements (Continued)

The following table summarizes the change in balance sheet carrying value associated with Level 3 financial instruments carried at fair value on a recurring basis during the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,					
	2009			2008		
(Dollars in millions)	Residual Interests	Derivative Instruments	Total	Residual Interests	Derivative Instruments	Total
Balance, beginning of period	$ 1,951	$ 437	$ 2,388	$ 2,874	$ (52)	$ 2,822
Total gains/(losses) (realized and unrealized):						
Included in earnings[1]	36	206	242	(43)	(72)	(115)
Included in other comprehensive income						
Purchases, issuances and settlements	(166)	147	(19)	(286)	3	(283)
Transfers in and/or out of Level 3						
Balance, end of period	$ 1,821	$ 790	$ 2,611	$ 2,545	$ (121)	$ 2,424
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ (90)[2]	$ 339[3]	$ 249	$ (192)[2]	$ (68)[3]	$ (260)

	Six Months Ended June 30,					
	2009			2008		
(Dollars in millions)	Residual Interests	Derivative Instruments	Total	Residual Interests	Derivative Instruments	Total
Balance, beginning of period	$ 2,200	$ (341)	$ 1,859	$ 3,044	$ (71)	$ 2,973
Total gains/(losses) (realized and unrealized):						

Included in earnings[1]	(99)	(124)	(223)	17	(62)	(45)
Included in other comprehensive income						
Purchases, issuances and settlements	(280)	187	(93)	(516)	12	(504)
Transfers in and/or out of Level 3		1,068	1,068			
Balance, end of period	$ 1,821	$ 790	$ 2,611	$ 2,545	$ (121)	$ 2,424
Change in unrealized gains/(losses) relating to instruments still held at the reporting date	$ (351)[2]	$ 66[3]	$ (285)	$ (280)[2]	$ (49)[3]	$ (329)

[1] Included in earnings is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

(Dollars in millions)	**Three Months Ended June 30, 2009**	**2008**	**Six Months Ended June 30, 2009**	**2008**
Servicing and securitization revenue	$ 36	$ (43)	$ (99)	$ 17
Gains (losses) on derivative and hedging activities, net	264	(72)	(28)	(62)
Interest expense	(58)		(96)	
Total	$ 242	$ (115)	$ (223)	$ (45)

[2] Recorded in servicing and securitization revenue (loss) in the consolidated statements of income.

[3] Recorded in gains (losses) on derivative and hedging activities, net in the consolidated statements of income.

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13. Fair Value Measurements (Continued)

In addition, at June 30, 2009, the Company had real estate owned assets, related to its Purchased Paper Mortgage/Properties business, held on its balance sheet at fair value totaling $130 million. These assets are carried at the lower of cost or fair value and as such are marked-to-market on a non-recurring basis. Fair value is determined using significant unobservable inputs primarily based on broker price opinions and are considered Level 3 valuations.

The following table summarizes the fair values of the Company s financial assets and liabilities, including derivative financial instruments, as of June 30, 2009 and December 31, 2008.

	June 30, 2009			December 31, 2008		
(Dollars in millions)	**Fair Value**	**Carrying Value**	**Difference**	**Fair Value**	**Carrying Value**	**Difference**
Earning assets						
FFELP loans	$ 127,239	$ 132,306	$ (5,067)	$ 107,319	$ 124,220	$ (16,901)
Private Education Loans	18,035	21,850	(3,815)	14,141	20,582	(6,441)
Other loans	364	489	(125)	619	729	(110)
Cash and investments	13,458	13,458		8,646	8,646	
Total earning assets	159,096	168,103	(9,007)	130,725	154,177	(23,452)
Interest-bearing liabilities						
Short-term borrowings	47,160	47,332	172	41,608	41,933	325
Long-term borrowings	110,827	125,880	15,053	93,462	118,225	24,763
Total interest-bearing liabilities	157,987	173,212	15,225	135,070	160,158	25,088
Derivative financial instruments						
Floor Income/Cap contracts	(1,143)	(1,143)		(1,466)	(1,466)	
Interest rate swaps	151	151		1,374	1,374	
Cross currency interest rate swaps	2,323	2,323		2,116	2,116	
Futures contracts	(2)	(2)		(3)	(3)	
Other	(22)	(22)				
Other						

Residual interest in securitized assets	1,821	1,821		2,200	2,200	
Excess of net asset fair value over carrying value			$ 6,218			$ 1,636

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14. Commitments and Contingencies

On August 3, 2009, the Company received the final audit report of ED s Office of the Inspector General (OIG) related to the Company s billing practices for special allowance payments. Among other things, the OIG recommended that ED instruct the Company to return approximately $22 million in alleged special allowance overpayments. The Company continues to believe that its practices are consistent with longstanding ED guidance and all applicable rules and regulations and intends to continue disputing these findings. The OIG has audited other industry participants with regard to special allowance payments for loans funded by tax exempt obligations and in certain cases the Secretary of ED has disagreed with the OIG s recommendations.

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

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

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, the Company cannot predict what the eventual outcome of the pending matters will be, what the timing or the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with SFAS No. 5, Accounting for Contingencies, the Company is required to establish reserves for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, the Company does not establish reserves.

Based on current knowledge, no reserves have been established for any pending litigation or regulatory matters. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending litigation or regulatory matters will have a material adverse effect on the consolidated financial position or liquidity of the Company.

15. Income Taxes

For the six months ended June 30, 2009 and 2008, the Company reported an income tax benefit of $78 million and income tax expense of $91 million, respectively, representing effective tax rates of 35 percent and 35 percent, respectively.

Accounting for Uncertainty in Income Taxes

The unrecognized tax benefits changed from $86 million at December 31, 2008 to $121 million at June 30, 2009, and there was no material change from December 31, 2008 for the accrued interest and penalties. Included in the $121 million are $32 million of unrecognized tax benefits that if recognized, would favorably impact the effective tax rate.

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15. Income Taxes (Continued)

These changes result primarily from adding a new issue that was identified during the first quarter of 2009 while completing the 2008 U.S. federal income tax return as well as adjusting the 2005 and 2006 unrecognized tax benefits to incorporate the net impact of the IRS examination of the Company s 2005 and 2006 U.S. federal income tax returns. New information was received from the IRS during the first quarter as part of that IRS examination and the examination was ultimately concluded during the second quarter. Several other less significant amounts of uncertain tax benefits were also added during the quarter.

16. Segment Reporting

The Company has two primary operating segments as defined in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information the Lending operating segment and the APG, formerly known as DMO, operating segment. The Lending and APG operating segments meet the quantitative thresholds for reportable segments identified in SFAS No. 131. Accordingly, the results of operations of the Company s Lending and APG segments are presented below. The Company has smaller operating segments including the Guarantor Servicing, Loan Servicing, and Upromise operating segments, as well as certain other products and services provided to colleges and universities which do not meet the quantitative thresholds identified in SFAS No. 131. Therefore, the results of operations for these operating segments and the revenues and expenses associated with these other products and services are combined with corporate overhead and other corporate activities within the Corporate and Other reportable segment.

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company s chief operating decision makers, evaluates the performance of the Company s operating segments based on their profitability. As discussed further below, management measures the profitability of the Company s operating segments based on Core Earnings net income. Accordingly, information regarding the Company s reportable segments is provided based on a Core Earnings basis. The Company s Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income as described below. Unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. The management reporting process measures the performance of the operating segments based on the management structure of the Company and is not necessarily comparable with similar information for any other financial institution. The Company s operating segments are defined by the products and services they offer or the types of customers they serve, and they reflect the manner in which financial information is currently evaluated by management. Intersegment revenues and expenses are netted within the appropriate financial statement line items consistent with the income statement presentation provided to management. Changes in management structure or allocation methodologies and procedures may result in changes in reported segment financial information.

The Company s principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer

accounted for more than 10 percent of its total revenue during the three months ended June 30, 2009 and 2008. United Student Aid Funds, Inc. (USA Funds) is the Company s largest customer in both the APG and Corporate and Other segments. During the six months ended June 30, 2009 and 2008, USA Funds accounted for 13 percent and 28 percent, respectively, of the aggregate revenues

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16. Segment Reporting (Continued)

generated by the Company s APG and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

Lending

In the Company s Lending operating segment, the Company originates and acquires both FFELP loans and Private Education Loans. As of June 30, 2009, the Company managed $188.1 billion of student loans, of which $153.6 billion or 82 percent are federally insured, and has 10 million student and parent customers. In the six months ended June 30, 2009, the Company originated $4 million in mortgage loans which were sold. The Company s mortgage and other consumer loan portfolio totaled $428 million at June 30, 2009.

Private Education Loans consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. Most higher education Private Education Loans are made in conjunction with a FFELP loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through historical risk-performance underwriting strategies, the addition of qualified cosigners and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

APG

The Company s APG operating segment provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, and accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors, and sub-performing and non-performing mortgage loans. The Company s APG operating segment serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay-for-performance basis to 14 FFELP guarantors and for campus-based programs.

In addition to collecting on its own purchased receivables and mortgage loans, the APG operating segment provides receivable management and collection services for federal agencies, credit card clients and other holders of consumer debt.

The Company concluded in 2008 that its APG purchased paper business no longer produced a strategic fit, and the Company decided to wind down this business. Due to the continued weakening of the U.S. economy, during the second quarter of 2009, the Company recorded $8 million of impairment related to declines in the fair value of

mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary and $13 million of impairment related to the Company s non-mortgage purchase paper subsidiary. These impairments are recorded within collections revenue (loss) as they are not considered restructuring expenses.

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16. Segment Reporting (Continued)

Corporate and Other

The Company s Corporate and Other segment includes the aggregate activity of its smaller operating segments, primarily its Guarantor Servicing, Loan Servicing and Upromise operating segments. Corporate and Other also includes several smaller products and services, as well as corporate overhead.

In the Guarantor Servicing operating segment, the Company provides a full complement of administrative services to FFELP guarantors including guarantee issuance, account maintenance, and guarantee fulfillment. In the Loan Servicing operating segment, the Company provides a full complement of activities required to service student loans on behalf of lenders who are unrelated to the Company. Such servicing activities generally commence once a loan has been fully disbursed and include sending out payment coupons to borrowers, processing borrower payments, originating and disbursing FFELP Consolidation Loans on behalf of the lender, and other administrative activities required by ED.

Upromise markets and administers a consumer savings network and also provides program management, transfer and servicing agent services, and administration services for 529 college-savings plans. The Company s other products and services include comprehensive financing and loan delivery solutions that it provides to college financial aid offices and students to streamline the financial aid process. Corporate overhead includes all of the typical headquarter functions such as executive management, accounting and finance, human resources and marketing.

Measure of Profitability

The tables below include the condensed operating results for each of the Company s reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that the Company refers to as Core Earnings performance measures for each operating segment. While Core Earnings results are not a substitute for reported results under GAAP, the Company relies on Core Earnings performance measures to manage each operating segment because it believes these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Core Earnings performance measures are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage the business. Reconciliation of the Core Earnings segment totals to the Company s consolidated operating results in accordance with GAAP is also included in the tables below.

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16. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended June 30, 2009					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[2]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 310	$	$	$ 310	$ 14	$ 324
FFELP Consolidation Loans	394			394	67	461
Private Education Loans	559			559	(166)	393
Other loans	18			18		18
Cash and investments	4		4	8	(1)	7
Total interest income	1,285		4	1,289	(86)	1,203
Total interest expense	824	5	3	832	(13)	819
Net interest income (loss)	461	(5)	1	457	(73)	384
Less: provisions for loan losses	402			402	(124)	278
Net interest income (loss) after provisions for loan losses	59	(5)	1	55	51	106
Contingency fee revenue		73		73		73
Collections revenue		22		22		22
Guarantor servicing fees			25	25		25
Other income (loss)	360		46	406	(481)	(75)
Total other income	360	95	71	526	(481)	45
Restructuring expenses	4			4		4
Operating expenses	141	80	85	306	10	316
Total expenses	145	80	85	310	10	320
Income (loss) before income tax expense (benefit)	274	10	(13)	271	(440)	(169)
Income tax expense (benefit)[1]	102	4	(5)	101	(147)	(46)

Less: net income attributable to noncontrolling interest												
Net income (loss) attributable to SLM Corporation	$	172	$	6	$	(8)	$	170	$	(293)	$	(123)
Economic Floor Income (net of tax) not included in Core Earnings	$	89	$		$		$	89				

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended June 30, 2009									
(Dollars in millions)	Net Impact of Securitization Accounting		Net Impact of Derivative Accounting		Net Impact of Floor Income		Net Impact of Acquired Intangibles		Total	
Net interest income (loss)	$	(230)	$	67	$	90	$		$	(73)
Less: provisions for loan losses		(124)								(124)
Net interest income (loss) after provisions for loan losses		(106)		67		90				51
Contingency fee revenue										
Collections revenue										
Guarantor servicing fees										
Other income (loss)		81		(562)						(481)
Total other income (loss)		81		(562)						(481)
Restructuring expenses										
Operating expenses								10		10
Total expenses								10		10
Total pre-tax Core Earnings adjustments to GAAP	$	(25)	$	(495)	$	90	$	(10)		(440)
Income tax benefit										(147)
Less: net income attributable to noncontrolling interest										
Total Core Earnings adjustments to GAAP									$	(293)

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16. Segment Reporting (Continued)

	Three Months Ended June 30, 2008					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 524	$	$	$ 524	$ (26)	$ 498
FFELP Consolidation Loans	908			908	(138)	770
Private Education Loans	665			665	(256)	409
Other loans	21			21		21
Cash and investments	81		5	86	(15)	71
Total interest income	2,199		5	2,204	(435)	1,769
Total interest expense	1,605	7	5	1,617	(251)	1,366
Net interest income (loss)	594	(7)		587	(184)	403
Less: provisions for loan losses	192			192	(49)	143
Net interest income (loss) after provisions for loan losses	402	(7)		395	(135)	260
Contingency fee revenue		84		84		84
Collections revenue		27		27	(1)	26
Guarantor servicing fees			24	24		24
Other income	62		45	107	322	429
Total other income	62	111	69	242	321	563
Restructuring expenses	31	5	11	47		47
Operating expenses	155	110	73	338	16	354
Total expenses	186	115	84	385	16	401
Income (loss) before income tax expense (benefit)	278	(11)	(15)	252	170	422
Income tax expense (benefit)[1]	103	(4)	(6)	93	60	153
		3		3		3

Less: net income attributable to noncontrolling interest						
Net income (loss) attributable to SLM Corporation	$ 175	$ (10)	$ (9)	$ 156	$ 110	$ 266
Economic Floor Income (net of tax) not included in Core Earnings	$ 22	$	$	$ 22		

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

(2) Core Earnings adjustments to GAAP:

	Three Months Ended June 30, 2008				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (254)	$ 89	$ (19)	$	$ (184)
Less: provisions for loan losses	(49)				(49)
Net interest income (loss) after provisions for loan losses	(205)	89	(19)		(135)
Contingency fee revenue					
Collections revenue (loss)	(1)				(1)
Guarantor servicing fees					
Other income (loss)	(40)	362			322
Total other income (loss)	(41)	362			321
Restructuring expenses					
Operating expenses	1			15	16
Total expenses	1			15	16
Total pre-tax Core Earnings adjustments to GAAP	$ (247)	$ 451	$ (19)	$ (15)	170
Income tax expense					60
Less: net income attributable to noncontrolling interest					
Total Core Earnings adjustments to GAAP					$ 110

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

16. Segment Reporting (Continued)

	Six Months Ended June 30, 2009					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 672	$	$	$ 672	$ (5)	$ 667
FFELP Consolidation Loans	833			833	117	950
Private Education Loans	1,122			1,122	(342)	780
Other loans	35			35		35
Cash and investments	6		9	15	(2)	13
Total interest income	2,668		9	2,677	(232)	2,445
Total interest expense	1,773	10	8	1,791	55	1,846
Net interest income (loss)	895	(10)	1	886	(287)	599
Less: provisions for loan losses	751			751	(223)	528
Net interest income (loss) after provisions for loan losses	144	(10)	1	135	(64)	71
Contingency fee revenue		148		148		148
Collections revenue					1	1
Guarantor servicing fees			59	59		59
Other income (loss)	461		96	557	(432)	125
Total other income	461	148	155	764	(431)	333
Restructuring expenses	5	2	2	9		9
Operating expenses	272	169	156	597	20	617
Total expenses	277	171	158	606	20	626
Income (loss) before income tax expense (benefit)	328	(33)	(2)	293	(515)	(222)
Income tax expense (benefit)[1]	122	(12)	(1)	109	(187)	(78)

Less: net income attributable to noncontrolling interest						
Net income (loss) attributable to SLM Corporation	$ 206	$ (21)	$ (1)	$ 184	$ (328)	$ (144)
Economic Floor Income (net of tax) not included in Core Earnings	$ 168	$	$	$ 168		

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

(2) Core Earnings adjustments to GAAP:

	Six Months Ended June 30, 2009				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (473)	$ 17	$ 169	$	$ (287)
Less: provisions for loan losses	(223)				(223)
Net interest income (loss) after provisions for loan losses	(250)	17	169		(64)
Contingency fee revenue					
Collections revenue	1				1
Guarantor servicing fees					
Other income (loss)	26	(458)			(432)
Total other income (loss)	27	(458)			(431)
Restructuring expenses					
Operating expenses	1			19	20
Total expenses	1			19	20
Total pre-tax Core Earnings adjustments to GAAP	$ (224)	$ (441)	$ 169	$ (19)	(515)
Income tax benefit					(187)
Less: net income attributable to noncontrolling interest					
Total Core Earnings adjustments to GAAP					$ (328)

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SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

16. Segment Reporting (Continued)

	Six Months Ended June 30, 2008					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[2]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 1,018	$	$	$ 1,018	$ (56)	$ 962
FFELP Consolidation Loans	1,896			1,896	(290)	1,606
Private Education Loans	1,415			1,415	(562)	853
Other loans	45			45		45
Cash and investments	222		11	233	(39)	194
Total interest income	4,596		11	4,607	(947)	3,660
Total interest expense	3,429	14	10	3,453	(472)	2,981
Net interest income (loss)	1,167	(14)	1	1,154	(475)	679
Less: provisions for loan losses	374			374	(94)	280
Net interest income (loss) after provisions for loan losses	793	(14)	1	780	(381)	399
Contingency fee revenue		169		169		169
Collections revenue		84		84		84
Guarantor servicing fees			58	58		58
Other income	106		97	203	119	322
Total other income	106	253	155	514	119	633
Restructuring expenses	46	6	15	67		67
Operating expenses	318	216	144	678	32	710
Total expenses	364	222	159	745	32	777
Income (loss) before income tax expense (benefit)	535	17	(3)	549	(294)	255
Income tax expense (benefit)[1]	197	6	(1)	202	(112)	90
		3		3		3

Less: net income attributable to noncontrolling interest						
Net income (loss) attributable to SLM Corporation	$ 338	$ 8	$ (2)	$ 344	$ (182)	$ 162
Economic Floor Income (net of tax) not included in Core Earnings	$ 49	$	$	$ 49		

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

(2) Core Earnings adjustments to GAAP:

	Six Months Ended June 30, 2008				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (449)	$ (2)	$ (24)	$	$ (475)
Less: provisions for loan losses	(94)				(94)
Net interest income (loss) after provisions for loan losses	(355)	(2)	(24)		(381)
Contingency fee revenue					
Collections revenue					
Guarantor servicing fees					
Other income	30	89			119
Total other income	30	89			119
Restructuring expenses					
Operating expenses	1			31	32
Total expenses	1			31	32
Total pre-tax Core Earnings adjustments to GAAP	$ (326)	$ 87	$ (24)	$ (31)	(294)
Income tax benefit					(112)
Less: net income attributable to noncontrolling interest					
Total Core Earnings adjustments to GAAP					$ (182)

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at June 30, 2009 and for the three and six months ended June 30, 2009 and 2008 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

16. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

The adjustments required to reconcile from the Company s Core Earnings results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects aggregate adjustments associated with these areas for the three and six months ended June 30, 2009 and 2008.

(Dollars in millions)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Core Earnings adjustments to GAAP:				
Net impact of securitization accounting[1]	$ (25)	$ (247)	$ (224)	$ (326)
Net impact of derivative accounting[2]	(495)	451	(441)	87
Net impact of Floor Income[3]	90	(19)	169	(24)
Net impact of acquired intangibles[4]	(10)	(15)	(19)	(31)
Net tax effect[5]	147	(60)	187	112
Total Core Earnings adjustments to GAAP	$ (293)	$ 110	$ (328)	$ (182)

(1) **Securitization:** Under GAAP, certain securitization transactions in the Company s Lending operating segment are accounted for as sales of assets. Under the Company s Core Earnings presentation for the Lending operating segment, the Company presents all securitization transactions on a Core Earnings basis as long-term non-recourse financings. The upfront gains on sale from securitization transactions as well as ongoing servicing and securitization revenue presented in accordance with GAAP are excluded from Core Earnings net income and replaced by the interest income, provisions for loan losses, and interest expense as they are earned or incurred on the securitization loans. The Company also excludes transactions with its off-balance sheet trusts from Core Earnings net income as they are considered intercompany transactions on a Core Earnings basis.

(2) **Derivative accounting:** Core Earnings net income excludes periodic unrealized gains and losses arising primarily in the Company s Lending operating segment, and to a lesser degree in the Company s Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on derivatives that do not qualify for hedge treatment under GAAP. Under the Company s Core Earnings presentation, the Company

recognizes the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life.

(3) **Floor Income:** The timing and amount (if any) of Floor Income earned in the Company s Lending operating segment is uncertain and in excess of expected spreads. Therefore, the Company only includes such income in Core Earnings when it is Fixed Rate Floor Income that is economically hedged. The Company employs derivatives, primarily Floor Income Contracts, to economically hedge Floor Income. As discussed above in Derivative Accounting, these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For Core Earnings, the Company reverses the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and includes in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

(4) **Acquired Intangibles:** The Company excludes goodwill and intangible impairment and amortization of acquired intangibles.

(5) **Net Tax Effect:** Such tax effect is based upon the Company s Core Earnings effective tax rate for the year.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Three and six months ended June 30, 2009 and 2008
(Dollars in millions, except per share amounts, unless otherwise noted)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report contains forward-looking statements and information based on management s current expectations as of the date of this document. Statements that are not historical facts, including statements about our beliefs or expectations and statements that assume or are dependent upon future events, are forward-looking statements. Forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to our ability to cost-effectively refinance asset-backed financing facilities due April 2010, (collectively, the 2008 Asset-Backed Financing Facilities), including any potential foreclosure on the student loans under those facilities following their termination; increased financing costs; limited liquidity; any adverse outcomes in any significant litigation to which we are a party; our derivative counterparties terminating their positions with the Company if permitted by their contracts and the Company substantially incurring additional costs to replace any terminated positions; changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws, such as any laws enacted to implement the Administration s 2010 budget proposals as they relate to the Federal Family Education Loan Program (FFELP) and regulations and from the implementation of applicable laws and regulations) which, among other things, may change the volume, average term and yields on student loans under the FFELP, may result in loans being originated or refinanced under non-FFELP programs, or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. The Company could be affected by: various liquidity programs being implemented by the federal government; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments, and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in general economic conditions; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. All forward-looking statements contained in this quarterly report are qualified by these cautionary statements and are made only as of the date of this quarterly report is filed. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company s expectations.

Definitions for capitalized terms used in this document can be found in the Glossary at the end of this document.

RECENT DEVELOPMENTS

U.S. Department of Education Federal Student Aid Title IV Student Loan Management/Servicing Contract (the ED Servicing Contract)

During the quarter, ED named Sallie Mae as one of four private sector servicers awarded a servicing contract (the ED Servicing Contract) to service new loans and a portion of the approximately $550 billion outstanding federal student loan portfolio. The contract specifically covers the servicing of all types of federally-owned student loans, including

the servicing of FFELP loans purchased by ED pursuant to ECASLA. We expect the contract to begin in the second half of August 2009 and span five years with one, five-year renewal option. Beginning in August 2010, the contract will also cover the servicing on new Direct Loans.

ED has not yet announced its plans for allocating the initial servicing accounts other than that Sallie Mae will continue to service loans put to ED under ECASLA that are on our systems today. Today we have over two million accounts on our system that we expect to be serviced under this contract. Given our cost structure, we expect that this will be profitable and will produce an acceptable risk-adjusted return.

Legislative and Regulatory Developments

On February 26, 2009, the Administration issued its 2010 budget request to Congress, which included provisions that could impact significantly the FFELP. The President s budget overview states: FFEL processors would continue to receive federal subsidies for new loans originated in the 2009-2010 academic year and prior academic years under the regular FFEL program and the emergency programs established by the Ensuring Continued Access to Student Loans Act of 2008. The budget proposal must be passed in the Congress, prior to enactment into law.

On July 21, 2009, the House Education and Labor Committee approved H.R. 3221, the Student Aid Reform and Fiscal Responsibility Act (SAFRA), which would eliminate the FFELP and require that, after July 1, 2010, all new federal student loans be made through the Direct Student Loan Program. It is expected that the full House of Representatives will consider the legislation sometime in September. The Senate Health, Education, Labor and Pensions Committee has not released a timeline for its consideration of the legislation but it is expected that they will begin considering student loan legislation no earlier than September. In addition to the House s proposal, there are several other reforms that may be considered as the legislation moves forward. These include a possible extension of ECASLA, which expires on July 1, 2010, and the Student Loan Community Proposal, an alternative student loan proposal endorsed by a cross-section of FFELP service providers (including Sallie Mae).

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A discussion of the Company s critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, securitization and Retained Interest accounting, and derivative accounting can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Fair Value Measurements

On April 9, 2009, the Financial Accounting Standards Board (FASB) issued three staff positions regarding fair value measurements and recognition of impairment. Under FASB Staff Position (FSP) Financial Accounting Standards (FAS) No. 115-2 and FAS No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, impairment must be recorded to income for debt securities if there exists a fair value loss and the entity intends to sell the security or it is more likely than not the entity will be required to sell the security before recovery of the loss. Additionally, credit losses must be recorded through income regardless of the impairment determination above. Remaining fair value losses are recorded to other comprehensive income. FSP FAS No. 107-1 and APB No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, require interim disclosures of the fair value of financial instruments that were previously only required annually. Finally, FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidance for determining when a significant decrease in market activity has occurred and when a transaction is not orderly. It further reiterates that prices from inactive markets or disorderly transactions should carry less weight, if any, to the determination of fair value. These standards are effective for the Company beginning April 1, 2009. The adoption of these standards was not material to the Company.

Significant assumptions used in fair value measurements including those related to credit and liquidity risk are as follows:

1. **Investments** Our investments primarily consist of overnight/weekly maturity instruments with high credit quality counterparties. However, we have considered credit and liquidity risk involving specific

instruments. These assumptions have further been validated by the successful maturity of these investments in the period immediately following the end of the reporting period. In the fourth quarter 2008, we recorded an impairment of $8 million related to our investment in the Reserve Primary Fund based on an internal assessment of the collectability of our remaining investment. See LIQUIDITY AND CAPITAL RESOURCES Counterparty Exposure for further discussion.

2. **Derivatives** When determining the fair value of derivatives, we take into account counterparty credit risk for positions where we are exposed to the counterparty on a net basis by assessing exposure net of collateral held. The net exposures for each counterparty are adjusted based on market information available for the specific counterparty including spreads from credit default swaps. Additionally, when the counterparty has exposure to the Company related to SLM Corporation derivatives, we fully collateralize the exposure minimizing the adjustment necessary to the derivative valuations for our credit risk. While trusts that contain derivatives are not required to post collateral to counterparties, the credit quality and securitized nature of the trusts minimizes any adjustments for the counterparty s exposure to the trusts. Adjustments related to credit risk reduced the overall value of our derivatives by $(133) million as of June 30, 2009. We also take into account changes in liquidity when determining the fair value of derivative positions. We adjusted the fair value of certain less liquid positions downward by approximately $(222) million to take into account a significant reduction in liquidity as of June 30, 2009, related primarily to basis swaps indexed to interest rate indices with inactive markets. A major indicator of market inactivity is the widening of the bid/ask spread in these markets. In general, the widening of counterparty credit spreads and reduced liquidity for derivative instruments as indicated by wider bid/ask spreads will reduce the fair value of derivatives. In addition, certain cross-currency interest rate swaps hedging foreign currency denominated reset rate notes in the Company s on-balance sheet trusts contain extension features that coincide with the remarketing dates of the notes. The valuation of the extension feature requires significant judgment based on internally developed inputs. These swaps were transferred into Level 3 during the first quarter of 2009 due to a change in the assumption regarding successful remarketing. These swaps were carried at $1.4 billion as of June 30, 2009.

3. **Residual Interests** We have never sold our Residual Interests. We do not consider our Residual Interests to be liquid, which we take into account when valuing our Residual Interests. We use non-binding broker quotes and industry analyst reports which show changes in the indicative prices of the asset-backed securities tranches immediately senior to the Residual Interest as an indication of potential changes in the discount rate used to value the Residual Interest. We also use the most current prepayment and default rate assumptions to project the cash flows used to value Residual Interests. These assumptions are internally developed and primarily based on analyzing the actual results of loan performance from past periods. See Note 6, Student Loan Securitization, to the consolidated financial statements for a discussion of all assumption changes made during the quarter to properly determine the fair value of the Residual Interests, as well as a shock analysis to fair value related to all significant assumptions.

4. **Student Loans** Our FFELP loans and Private Education Loans are accounted for at cost or at the lower of cost or fair value if the loan is held-for-sale. The fair value is disclosed in compliance with Statement of Financial Accounting Standards (SFAS) No. 107. For both FFELP loans and Private Education Loans accounted for at cost, fair value is determined by modeling loan level cash flows using stated terms of the assets and internally-developed assumptions to determine aggregate portfolio yield, net present value and average life. The significant assumptions used to project cash flows are prepayment speeds, default rates, cost of funds, and required return on equity. In addition, the Floor Income component of our FFELP loan portfolio is valued through discounted cash flow and option models using both observable market inputs and internally developed inputs. Significant inputs into the models are not generally market observable. They are either derived internally through a combination of historical experience and management s qualitative expectation of future performance (in the case of prepayment speeds, default rates, and capital assumptions), or are obtained

through external broker quotes (as in the case of cost of funds). When possible, market transactions are used to

validate the model. In most cases these are either infrequent or not observable. For FFELP loans classified as held-for-sale and accounted for at the lower of cost or market, the fair value is based on the committed sales price of the various loan purchase programs established by ED.

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)	
	2009	2008	$	%	2009	2008	$	%
Net interest income	$ 384	$ 403	$ (19)	(5)%	$ 599	$ 679	$ (80)	(12)%
Less: provisions for loan losses	278	143	135	94	528	280	248	89
Net interest income (loss) after provisions for loan losses	106	260	(154)	(59)	71	399	(328)	(82)
Servicing and securitization revenue (loss)	87	2	85	4,250	(8)	109	(117)	(107)
Losses on loans and securities, net		(44)	44	100		(78)	78	100
Gains (losses) on derivative and hedging activities, net	(562)	362	(924)	(255)	(458)	89	(547)	(615)
Contingency fee revenue	73	84	(11)	(13)	148	169	(21)	(12)
Collections revenue	22	26	(4)	(15)	1	84	(83)	(99)
Guarantor servicing fees	25	24	1	4	59	58	1	2
Other income	400	109	291	267	591	202	389	193
Restructuring expenses	4	47	(43)	(91)	9	67	(58)	(87)
Operating expenses	316	354	(38)	(11)	617	710	(93)	(13)
Net income (loss) before income tax benefit	(169)	422	(591)	(140)	(222)	255	(477)	(187)
Income tax expense (benefit)	(46)	153	(199)	(130)	(78)	90	(168)	(187)
Net income (loss)	(123)	269	(392)	(146)	(144)	165	(309)	(187)
Less: net income attributable to noncontrolling interest		3	(3)	(100)		3	(3)	(100)
Net income (loss) attributable to SLM Corporation	(123)	266	(389)	(146)	(144)	162	(306)	(189)
Preferred stock dividends	26	27	(1)	(4)	52	56	(4)	(7)
Net income (loss) attributable to SLM Corporation common stock	$ (149)	$ 239	$ (388)	(162)%	$ (196)	$ 106	$ (302)	(285)%

Basic earnings (loss) per common share attributable to SLM Corporation common shareholders	$	(.32)	$	.51	$	(.83)	(163)%	$	(.42)	$	.23	$	(.65)	(283)%
Diluted earnings (loss) per common share attributable to SLM Corporation common shareholders	$	(.32)	$	.50	$	(.82)	(164)%	$	(.42)	$	.23	$	(.65)	(283)%
Dividends per common share attributable to SLM Corporation common shareholders	$		$		$		%	$		$		$		%

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Condensed Balance Sheets

	June 30, 2009	December 31, 2008	Increase (Decrease) $	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 44,045	$ 44,025	$ 20	%
FFELP Stafford Loans Held-for-Sale	18,159	8,451	9,708	115
FFELP Consolidation Loans, net	70,102	71,744	(1,642)	(2)
Private Education Loans, net	21,851	20,582	1,269	6
Other loans, net	489	729	(240)	(33)
Cash and investments	8,212	5,112	3,100	61
Restricted cash and investments	5,246	3,535	1,711	48
Retained Interest in off-balance sheet securitized loans	1,821	2,200	(379)	(17)
Goodwill and acquired intangible assets, net	1,234	1,249	(15)	(1)
Other assets	10,025	11,141	(1,116)	(10)
Total assets	$ 181,184	$ 168,768	$ 12,416	7%
Liabilities and Equity				
Short-term borrowings	$ 47,332	$ 41,933	$ 5,399	13%
Long-term borrowings	125,880	118,225	7,655	6
Other liabilities	3,120	3,604	(484)	(13)
Total liabilities	176,332	163,762	12,570	8
SLM Corporation stockholders equity before treasury stock	6,712	6,855	(143)	(2)
Common stock held in treasury	1,860	1,856	4	
SLM Corporation stockholders equity	4,852	4,999	(147)	(3)
Noncontrolling interest		7	(7)	(100)
Total equity	4,852	5,006	(154)	(3)
Total liabilities and equity	$ 181,184	$ 168,768	$ 12,416	7%

RESULTS OF OPERATIONS

Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

For the three months ended June 30, 2009, net loss attributable to SLM Corporation was $123 million or $.32 diluted loss per common share attributable to SLM Corporation common shareholders, compared to net income of $266 million or $.50 diluted earnings per common share attributable to SLM Corporation common shareholders for the three months ended June 30, 2008. The effective tax rate for those periods was 28 percent and 36 percent, respectively. The movement in the effective tax rate was primarily driven by the impact of concluding, during the three months ended June 30, 2009, the IRS examination of the Company s 2005 and 2006 U.S. federal income tax returns. For the three months ended June 30, 2009, the Company s pre-tax loss was $169 million compared to pre-tax income of $422 million in the year-ago quarter. The decrease in pre-tax income of $591 million was primarily due to a net loss on derivative and hedging activities of $562 million in the second quarter of 2009 from a $362 million gain in the second quarter of 2008, partially offset by an increase in gains on debt repurchases.

There were no gains on student loan securitizations in either the second quarter of 2009 or the year-ago quarter as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue increased by $85 million from revenue of $2 million in the second quarter of 2008 to $87 million in the second quarter of 2009. This increase was primarily due to a smaller current-quarter unrealized mark-to-market loss of $90 million on the Company s Residual Interests compared to the year-ago second-quarter $192 million unrealized mark-to-market loss. See LIQUIDITY AND CAPITAL RESOURCES Securitization Activities *Retained Interest in Securitized Receivables* for further discussion of the factors impacting the fair values.

Net interest income after provisions for loan losses decreased by $154 million in the second quarter from the year-ago quarter. This decrease was due to a $135 million increase in provisions for loan losses and a $19 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread and other asset spread, partially offset by a decrease in the 2008 Asset Backed Financing Facilities fees and an $19.8 billion increase in the average balance of on-balance sheet student loans (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*). The increase in provisions for loan losses relates primarily to the increase in charge-off expectations on Private Education Loans from the year-ago period, primarily as a result of the continued weakening of the U.S. economy (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Allowance for Private Education Loan Losses*).

In the second quarter of 2009, contingency fee, collections and guarantor servicing fee revenue totaled $120 million, a $14 million decrease from $134 million in the year-ago quarter. This decrease was primarily due to a significantly smaller portfolio in the purchased paper businesses year-over-year, as a result of winding down these businesses. Offsetting this decrease in revenue was a reduction in impairment recognized on our purchased paper portfolios. In the second quarter of 2009, total impairment of $21 million was comprised of $8 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary and $13 million of impairment related to the Company s non-mortgage purchased paper subsidiary, compared to $58 million of total impairment recorded in the second quarter of 2008 (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT and a separate discussion of *Other Income* at the end of this section).

There were no losses on sales of loans and securities in the second quarter of 2009, as compared to net losses of $44 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company s repurchase of delinquent Private Education Loans from the Company s off-balance sheet securitization trusts. When Private Education Loans in the Company s off-balance sheet securitization trusts that settled before September 30, 2005, became 180 days delinquent, the Company previously exercised its contingent call

option to repurchase these loans at par value out of the trusts and recorded a loss for the difference in the par value paid and the fair market value of the loans at the time of

purchase. The Company does not hold the contingent call option for any trusts that settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

The Company continues to restructure its business in response to the impact of The College Cost Reduction and Access Act of 2007 (CCRAA), and current challenges in the capital markets. In conjunction with our restructuring plan, we are refocusing our lending activities, exiting certain customer relationships and product lines, and winding down our debt purchased paper businesses. During 2008, we reduced the run-rate of our operating expenses by 20 percent versus the end of 2007, after adjusting for restructuring costs, growth and other investments. As part of the Company s cost reduction efforts, restructuring expenses of $4 million and $47 million were recognized in the current quarter and year-ago quarter, respectively. Restructuring expenses from the fourth quarter of 2007 through the second quarter of 2009 totaled $115 million. The majority of these restructuring expenses were severance costs related to the completed and planned elimination of approximately 2,800 positions, or approximately 25 percent of the workforce. We estimate approximately $7 million of additional restructuring expenses associated with our current cost reduction efforts will be incurred and our current restructuring plan will be substantially complete by the end of 2009. During 2009, we will continue to review our business to determine whether there are other opportunities to further streamline the business.

Operating expenses, excluding $6 million of reorganization-related asset impairments recognized in the second quarter of 2008, were $315 million in the second quarter of 2009 compared to $348 million in the second quarter of 2008. This decrease was primarily due to the Company s cost reduction efforts. The amortization of acquired intangibles totaled $10 million and $15 million for the second quarters of 2009 and 2008, respectively.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

For the six months ended June 30, 2009, net loss attributable to SLM Corporation was $144 million or $.42 diluted loss per common share attributable to SLM Corporation common shareholders, compared to net income of $162 million or $.23 diluted earnings per common share attributable to SLM Corporation common shareholders for the six months ended June 30, 2008. The effective tax rate for those periods was 35 percent and 35 percent, respectively. For the six months ended June 30, 2009, the Company s pre-tax loss was $222 million compared to pre-tax income of $255 million in the year-ago period. The decrease in pre-tax income of $477 million was primarily due to a net loss on derivative and hedging activities of $458 million for the six months ended June 30, 2009 from a $89 million gain in the year-ago period, and an increase to provisions for loan losses of $248 million, partially offset by an increase in gains on debt repurchases.

There were no gains on student loan securitizations in either the six months ended June 30, 2009 or the year-ago period as the Company did not complete any off-balance sheet securitizations in those periods. Servicing and securitization revenue decreased by $117 million from revenue of $109 million in the six months ended June 30, 2008 to an $8 million loss in the six months ended June 30, 2009. This decrease was primarily due to a larger unrealized mark-to-market loss for the six months ended June 30, 2009 of $351 million on the Company s Residual Interests compared to a year-ago period $280 million unrealized mark-to-market loss. See LIQUIDITY AND CAPITAL RESOURCES Securitization Activities *Retained Interest in Securitized Receivables* for further discussion of the factors impacting the fair values.

Net interest income of $70 million, after provisions for loan losses, decreased by $328 million in the six months ended June 30, 2009 from the year-ago period. This decrease was due to a $248 million increase in provisions for loan losses and an $80 million decrease in net interest income. The decrease in net interest income was primarily due to a decrease in the student loan spread and other asset spread partially offset by a $20 billion increase in the average balance of on-balance sheet student loans (see LENDING BUSINESS SEGMENT Net Interest Income *Net Interest Margin On-Balance Sheet*). The increase in provisions for loan losses relates primarily to increases in charge-off

expectations on Private Education Loans primarily as a result of the continued weakening of the U.S. economy (see LENDING BUSINESS SEGMENT Private Education Loan Losses *Private Education Loan Delinquencies and Forbearance* and *Allowance for Private Education Loan Losses*)

For the six months ended June 30, 2009, contingency fee, collections and guarantor servicing fee revenue totaled $208 million, a $103 million decrease from $311 million in the year-ago period. This decrease was primarily due to a significantly smaller portfolio in the purchased paper businesses year-over-year as a result of winding down these businesses. In addition, the decline was the result of $97 million of impairment on our purchased paper portfolios recorded in the six months ended June 30, 2009, comprised of $81 million of impairment related to declines in the fair value of mortgage loans and real estate held by the Company s mortgage purchased paper subsidiary and $16 million of impairment related to the Company s non-mortgage purchased paper subsidiary, compared to $81 million of total impairment recorded in the six months ended June 30, 2008 (see ASSET PERFORMANCE GROUP BUSINESS SEGMENT and a separate discussion of *Other Income* at the end of this section).

There were no losses on sales of loans and securities in the first half of 2009, as compared to net losses of $78 million incurred in the year-ago quarter. Prior to the fourth quarter of 2008, these losses were primarily the result of the Company s repurchase of delinquent Private Education Loans from the Company s off-balance sheet securitization trusts. As previously discussed, the Company no longer repurchases these loans.

Restructuring expenses of $9 million and $67 million were recognized in the six months ended June 30, 2009 and 2008, respectively, as previously discussed.

Operating expenses, excluding $6 million of reorganization-related asset impairments recognized in the six months ended June 30, 2008, were $617 million in the first half of 2009 compared to $703 million in the first half of 2008. This decrease was primarily due to the Company s cost reduction efforts. The amortization of acquired intangibles totaled $19 million and $31 million for the six months ended June 30, 2009 and 2008, respectively.

Other Income

The following table summarizes the components of Other income in the consolidated statements of income for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Gains on debt repurchases	$ 325	$ 21	$ 389	$ 21
Late fees and forbearance fees	32	34	69	71
Asset servicing and other transaction fees	26	26	51	52
Loan servicing fees	9	6	19	12
Foreign currency translation gains (losses)	(6)	4	34	4
Other	14	18	29	42
Total	$ 400	$ 109	$ 591	$ 202

The increase in other income for the three and six months ended June 30, 2009 over the year-ago periods is primarily the result of the gains on debt repurchased. The Company began repurchasing its outstanding debt in the second quarter of 2008; and in the second quarter of 2009, the Company repurchased $1.1 billion face amount of its senior unsecured notes compared to $1.2 billion in the second quarter of 2008. The increase in the gain on debt repurchases between 2009 and 2008 was the result of differences in the characteristics of the debt repurchased and larger

unsecured credit spreads in 2009. Since the second quarter of 2008, the Company has repurchased $3.2 billion face amount of its senior unsecured notes in the aggregate, with maturity dates ranging from 2008 to 2014.

BUSINESS SEGMENTS

The results of operations of the Company s Lending and Asset Performance Group (APG) operating segments are presented below. These defined business segments operate in distinct business environments and are considered reportable segments under SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, based on quantitative thresholds applied to the Company s financial statements. In addition, we provide other complementary products and services, including guarantor and student loan servicing, through smaller operating segments that do not meet such thresholds and are aggregated in the Corporate and Other reportable segment for financial reporting purposes.

The management reporting process measures the performance of the Company s operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. In accordance with the Rules and Regulations of the Securities and Exchange Commission (SEC), we prepare financial statements in accordance with GAAP. In addition to evaluating the Company s GAAP-based financial information, management, including the Company s chief operating decision makers, evaluates the performance of the Company s operating segments based on their profitability on a basis that, as allowed under SFAS No. 131, differs from GAAP. We refer to management s basis of evaluating our segment results as Core Earnings presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. Accordingly, information regarding the Company s reportable segments is provided herein based on Core Earnings, which are discussed in detail below.

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

Core Earnings are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets. While Core Earnings are not a substitute for reported results under GAAP, the Company relies on Core Earnings in operating its business because Core Earnings permit management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by management. Management believes this information provides additional insight into the financial performance of the core business activities of our operating segments. Accordingly, the tables presented below reflect Core Earnings which is reviewed and utilized by management to manage the business for each of the Company s reportable segments. A further discussion regarding Core Earnings is included under Limitations of Core Earnings and Pre-tax Differences between Core Earnings and GAAP by Business Segment.

The LENDING BUSINESS SEGMENT section includes all discussion of income and related expenses associated with the net interest margin, the student loan spread and its components, the provisions for loan losses, and other fees earned on our Managed portfolio of student loans. The APG BUSINESS SEGMENT section reflects the fees earned and expenses incurred in providing accounts receivable management and collection services. The CORPORATE AND OTHER BUSINESS SEGMENT section includes our remaining fee businesses and other corporate expenses that do not pertain directly to the primary operating segments identified above.

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	Three Months Ended June 30,2009		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 310	$	$
FFELP Consolidation Loans	394		
Private Education Loans	559		
Other loans	18		
Cash and investments	4		4
Total interest income	1,285		4
Total interest expense	824	5	3
Net interest income (loss)	461	(5)	1
Less: provisions for loan losses	402		
Net interest income (loss) after provisions for loan losses	59	(5)	1
Contingency fee revenue		73	
Collections revenue		22	
Guarantor servicing fees			25
Other income	360		46
Total other income	360	95	71
Restructuring expenses	4		
Operating expenses	141	80	85
Total expenses	145	80	85
Income (loss) before income tax expense (benefit)	274	10	(13)
Income tax expense (benefit)[(1)]	102	4	(5)
Less: net income attributable to noncontrolling interest			
Core Earnings net income (loss) attributable to SLM Corporation	$ 172	$ 6	$ (8)
Economic Floor Income (net of tax) not included in Core Earnings	$ 89	$	$

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

	Three Months Ended June 30, 2008		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 524	$	$
FFELP Consolidation Loans	908		
Private Education Loans	665		
Other loans	21		
Cash and investments	81		5
Total interest income	2,199		5
Total interest expense	1,605	7	5
Net interest income (loss)	594	(7)	
Less: provisions for loan losses	192		
Net interest income (loss) after provisions for loan losses	402	(7)	
Contingency fee revenue		84	
Collections revenue		27	
Guarantor servicing fees			24
Other income	62		45
Total other income	62	111	69
Restructuring expenses	31	5	11
Operating expenses	155	110	73
Total expenses	186	115	84
Income (loss) before income tax expense (benefit)	278	(11)	(15)
Income tax expense (benefit)[1]	103	(4)	(6)
Less: net income attributable to noncontrolling interest		3	
Core Earnings net income (loss) attributable to SLM Corporation	$ 175	$ (10)	$ (9)
Economic Floor Income (net of tax) not included in Core Earnings	$ 22	$	$

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

	Six Months Ended June 30, 2009		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 672	$	$
FFELP Consolidation Loans	833		
Private Education Loans	1,122		
Other loans	35		
Cash and investments	6		9
Total interest income	2,668		9
Total interest expense	1,773	10	8
Net interest income (loss)	895	(10)	1
Less: provisions for loan losses	751		
Net interest income (loss) after provisions for loan losses	144	(10)	1
Contingency fee revenue		148	
Collections revenue			
Guarantor servicing fees			59
Other income	461		96
Total other income	461	148	155
Restructuring expenses	5	2	2
Operating expenses	272	169	156
Total expenses	277	171	158
Income (loss) before income tax expense (benefit)	328	(33)	(2)
Income tax expense (benefit)[1]	122	(12)	(1)
Less: net income attributable to noncontrolling interest			
Core Earnings net income (loss) attributable to SLM Corporation	$ 206	$ (21)	$ (1)
Economic Floor Income (net of tax) not included in Core Earnings	$ 168	$	$

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

	Six Months Ended June 30, 2008		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 1,018	$	$
FFELP Consolidation Loans	1,896		
Private Education Loans	1,415		
Other loans	45		
Cash and investments	222		11
Total interest income	4,596		11
Total interest expense	3,429	14	10
Net interest income (loss)	1,167	(14)	1
Less: provisions for loan losses	374		
Net interest income (loss) after provisions for loan losses	793	(14)	1
Contingency fee revenue		169	
Collections revenue		84	
Guarantor servicing fees			58
Other income	106		97
Total other income	106	253	155
Restructuring expenses	46	6	15
Operating expenses	318	216	144
Total expenses	364	222	159
Income (loss) before income tax expense (benefit)	535	17	(3)
Income tax expense (benefit)[(1)]	197	6	(1)
Less: net income attributable to noncontrolling interest		3	
Core Earnings net income (loss) attributable to SLM Corporation	$ 338	$ 8	$ (2)
Economic Floor Income (net of tax) not included in Core Earnings	$ 49	$	$

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

Limitations of Core Earnings

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that Core Earnings are an important additional tool for providing a more complete understanding of the Company s results of operations. Nevertheless, Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no

comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike GAAP, Core Earnings reflect only current period adjustments to GAAP. Accordingly, the Company s Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not compare our Company s performance with that of other financial services companies based upon Core Earnings. Core Earnings results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, the Company s board of directors, rating agencies and lenders to assess performance.

Other limitations arise from the specific adjustments that management makes to GAAP results to derive Core Earnings results. For example, in reversing the unrealized gains and losses that result from SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on derivatives that do not qualify for hedge treatment, as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility, changing credit spreads and changes in our stock price on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but not on the underlying hedged item) tend to show more volatility in the short term. While our presentation of our results on a Core Earnings basis provides important information regarding the performance of our Managed portfolio, a limitation of this presentation is that we are presenting the ongoing spread income on loans that have been sold to a trust managed by us. While we believe that our Core Earnings presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our Core Earnings results exclude certain Floor Income, which is real cash income, from our reported results and therefore may understate earnings in certain periods. Management s financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is Fixed Rate Floor Income that is economically hedged through Floor Income Contracts.

Pre-tax differences between Core Earnings and GAAP by Business Segment

Our Core Earnings are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision makers. Our Core Earnings are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Core Earnings net income reflects only current period adjustments to GAAP net income, as described in the more detailed discussion of the differences between Core Earnings and GAAP that follows, which includes further detail on each specific adjustment required to reconcile our Core Earnings segment presentation to our GAAP earnings.

	Three Months Ended June 30,					
	2009			2008		
	Lending	**APG**	**Corporate and Other**	**Lending**	**APG**	**Corporate and Other**
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ (25)	$	$	$ (247)	$	$
Net impact of derivative accounting	(495)			451		
Net impact of Floor Income	90			(19)		
Net impact of acquired intangibles	(3)	(2)	(5)	(5)	(6)	(4)
Total Core Earnings adjustments to GAAP	$ (433)	$ (2)	$ (5)	$ 180	$ (6)	$ (4)

	Six Months Ended June 30,					
	2009			2008		
			Corporate			**Corporate**

	Lending	APG	and Other	Lending	APG	and Other
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ (224)	$	$	$ (326)	$	$
Net impact of derivative accounting	(441)			87		
Net impact of Floor Income	169			(24)		
Net impact of acquired intangibles	(6)	(3)	(10)	(10)	(11)	(10)
Total Core Earnings adjustments to GAAP	$ (502)	$ (3)	$ (10)	$ (273)	$ (11)	$ (10)

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1) **Securitization Accounting:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under Core Earnings for the Lending operating segment, we present all securitization transactions on a Core Earnings basis as long-term non-recourse financings. The upfront gains on sale from securitization transactions, as well as ongoing servicing and securitization revenue presented in accordance with GAAP, are excluded from Core Earnings and are replaced by interest income, provisions for loan losses, and interest expense as earned or incurred on the securitization loans. We also exclude transactions with our off-balance sheet trusts from Core Earnings as they are considered intercompany transactions on a Core Earnings basis.

The following table summarizes the securitization adjustments in our Lending operating segment for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Core Earnings securitization adjustments:				
Net interest income on securitized loans, before provisions for loan losses and before intercompany transactions	$ (236)	$ (256)	$ (438)	$ (449)
Provisions for loan losses	124	49	222	93
Net interest income on securitized loans, after provisions for loan losses, before intercompany transactions	(112)	(207)	(216)	(356)
Intercompany transactions with off-balance sheet trusts		(42)		(79)
Net interest income on securitized loans, after provisions for loan losses	(112)	(249)	(216)	(435)
Servicing and securitization revenue	87	2	(8)	109
Total Core Earnings securitization adjustments[1]	$ (25)	$ (247)	$ (224)	$ (326)

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

Intercompany transactions with off-balance sheet trusts in the above table relate primarily to losses that result from the repurchase of delinquent loans from our off-balance sheet securitization trusts. When Private Education Loans in our securitization trusts settling before September 30, 2005 became 180 days delinquent, we previously exercised our contingent call option to repurchase these loans at par value out of the trust and recorded a loss for the difference in the par value paid and the fair market value of the loan at the time of purchase. We do not hold the contingent call option for any trusts settled after September 30, 2005. In October 2008, the Company decided to no longer exercise its contingent call option.

2) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for hedge treatment under GAAP. These unrealized gains and losses occur in our Lending operating segment. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or

received being recognized ratably as an expense or revenue over the hedged item s life.

SFAS No. 133 requires that changes in the fair value of derivative instruments be recognized currently in earnings unless specific hedge accounting criteria, as specified by SFAS No. 133, are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge treatment as defined by SFAS No. 133, and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. The gains and losses described in Gains (losses) on derivative and hedging activities, net are primarily caused by interest rate and foreign currency exchange rate volatility, and changing credit spreads during the period as well as the volume and term of derivatives not receiving hedge treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. 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 primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. 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.

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index and reset frequency of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required by SFAS No. 133. Additionally, some of our FFELP 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, under GAAP these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the three and six months ended June 30, 2009 and 2008, when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three Months Ended June 30,		June 30, Ended Six Months	
	2009	2008	2009	2008
Core Earnings derivative adjustments:				
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (562)	$ 362	$ (458)	$ 89
Less: Realized (gains) losses on derivative and hedging activities, net[1]	78	90	2	(1)
Unrealized gains (losses) on derivative and hedging activities, net[1]	(484)	452	(456)	88
Other pre-SFAS No. 133 accounting adjustments	(11)	(1)	15	(1)
Total net impact of SFAS No. 133 derivative accounting[2]	$ (495)	$ 451	$ (441)	$ 87

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

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

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item

below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and the associated reclassification on a "Core Earnings" basis for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Reclassification of realized gains (losses) on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (171)	$ (175)	$ (311)	$ (315)
Net settlement income (expense) on interest rate swaps reclassified to net interest income	95	86	324	317
Foreign exchange derivatives gains (losses) reclassified to other income	(1)	(5)	(14)	(5)
Net realized gains (losses) on terminated derivative contracts reclassified to other income	(1)	4	(1)	4
Total reclassifications of realized (gains) losses on derivative and hedging activities	(78)	(90)	(2)	1
Add: Unrealized gains (losses) on derivative and hedging activities, net[(1)]	(484)	452	(456)	88
Gains (losses) on derivative and hedging activities, net	$ (562)	$ 362	$ (458)	$ 89

(1) "Unrealized gains (losses) on derivative and hedging activities, net" is comprised of the following unrealized mark-to-market gains (losses):

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Floor Income Contracts	$ 236	$ 569	$ 402	$ 274
Basis swaps	(217)	(157)	(532)	(289)
Foreign currency hedges	(361)	44	(280)	103
Other	(142)	(4)	(46)	
Total unrealized gains (losses) on derivative and hedging activities, net	$ (484)	$ 452	$ (456)	$ 88

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates and the forward interest rate curve. In general, an increase in interest rates, or a steepening of the forward interest rate curve, results in an unrealized gain and vice versa. Unrealized gains and losses on basis swaps result from changes in the

spread between indices and on changes in the forward interest rate curves that impact basis swaps hedging repricing risk between quarterly reset debt and daily reset assets. Unrealized gains (losses) on foreign currency hedges are primarily the result of ineffectiveness on cross-currency interest rate swaps hedging foreign currency denominated debt related to differences between forward and spot foreign currency exchange rates.

3) **Floor Income:** The timing and amount (if any) of Floor Income earned in our Lending operating segment is uncertain and in excess of expected spreads. Therefore, we only include such income in Core Earnings when it is Fixed Rate Floor Income that is economically hedged. We employ derivatives, primarily Floor Income Contracts, to economically hedge Floor Income. As discussed above in Derivative Accounting, these derivatives do not qualify as effective accounting hedges, and therefore, under GAAP, they are marked-to-market through the gains (losses) on derivative and hedging activities, net line in the consolidated statement of income with no offsetting gain or loss recorded for the economically hedged items. For Core Earnings, we reverse the fair value adjustments on the Floor Income Contracts economically hedging Floor Income and include in income the amortization of net premiums received on contracts economically hedging Fixed Rate Floor Income.

The following table summarizes the Floor Income adjustments in our Lending operating segment for the three and six months ended June 30, 2009 and 2008.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Core Earnings Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$ 120	$ 25	$ 227	$ 58
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(30)	(44)	(58)	(82)
Total Core Earnings Floor Income adjustments[1][2]	$ 90	$ (19)	$ 169	$ (24)

[1] Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income and positive amounts are added to Core Earnings net income to arrive at GAAP net income.

[2] The following table summarizes the amount of Economic Floor Income earned during the three and six months ended June 30, 2009 and 2008 that is not included in Core Earnings net income:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Floor Income earned on Managed loans, net of payments on Floor Income Contracts, not included in Core Earnings	$ 120	$ 25	$ 227	$ 58
Amortization of net premiums on Variable Rate Floor Income Contracts not included in Core Earnings	21	10	40	20
Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings	30	44	58	82
Total Economic Floor Income earned	171	79	325	160
Less: Amortization of net premiums on Fixed Rate Floor Income Contracts included in Core Earnings	(30)	(44)	(58)	(82)
Total Economic Floor Income earned, not included in Core Earnings	$ 141	$ 35	$ 267	$ 78

4) **Acquired Intangibles:** Our Core Earnings exclude goodwill and intangible impairment and the amortization of acquired intangibles. These amounts totaled $10 million and $15 million, respectively, for the three months ended June 30, 2009 and 2008, and $19 million and $31 million, respectively, for the six months ended June 30, 2009 and 2008.

LENDING BUSINESS SEGMENT

In our Lending business segment, we originate and acquire federally guaranteed student loans and Private Education Loans, which are not federally guaranteed. Typically a Private Education Loan is made in conjunction with a FFELP Stafford loan and as a result is marketed through the same marketing channels as FFELP loans. While FFELP loans and Private Education Loans have different overall risk profiles due to the federal guarantee of the FFELP loans, they currently share many of the same characteristics such as similar repayment terms, the same marketing channel and sales force, and are originated and serviced on the same servicing platform. Finally, where possible, the borrower receives a single bill for both FFELP and Private Education Loans.

On a Managed Basis, the Company had $113.9 billion, $125.5 billion and $127.2 billion as of June 30, 2009, March 31, 2009 and December 31, 2008, respectively, of FFELP loans indexed to three-month financial commercial paper rate (CP) funded with debt indexed to LIBOR. Due to the unintended consequences of government actions in other areas of the capital markets and limited issuances of qualifying financial commercial paper, the historic relationship between CP and LIBOR has been broken. For the fourth quarter of 2008, ED announced that for purposes of calculating the FFELP loan index from October 27, 2008 to the end of the fourth quarter, the Federal Reserve s Commercial Paper Funding Facility (CPFF) rates would be

used for those days in which no CP was available. This resulted in a CP/LIBOR spread of 21 basis points in the fourth quarter of 2008. The CP/LIBOR spread would have been 62 basis points in the fourth quarter of 2008 if ED had not addressed this issue by using the CPFF rates. ED has decided that no such correction was required for the first and second quarters of 2009. This resulted in a CP/LIBOR spread of 52 basis points and 45 basis points in the first and second quarters of 2009, respectively, compared to the CP/LIBOR spread of 21 basis points in the fourth quarter of 2008 and the historic average spread through the third quarter of 2008 of approximately 10 basis points.

Core Earnings net interest income would have been $139 million and $105 million higher in the first and second quarters of 2009, respectively, at a historical CP/LIBOR spread of 10 basis points. Because of the low interest rate environment, the Company earned additional Economic Floor Income not included in Core Earnings of $141 million in the second quarter of 2009 compared to $126 million in the first quarter of 2009. Although we exclude these amounts from our Core Earnings presentation, the levels earned in both the first and second quarters of 2009 can be viewed as direct and significant offsets to the CP/LIBOR basis exposure in low interest rate environments where we earn Floor Income.

Additionally, the index paid on borrowings under ED s Participation Program is based on the prior quarter s CP rates, whereas the index earned on the underlying loans is based on the current quarter s CP rates. The sharp decline in CP rates during the first and second quarters of 2009 resulted in $40 million and $13 million of higher interest expense in the first and second quarters of 2009, respectively.

The following table summarizes the Core Earnings results of operations for our Lending business segment.

	Three Months Ended June 30,		**Increase (Decrease) 2009 vs. 2008**	**Six Months Ended June 30,**		**Increase (Decrease) 2009 vs. 2008**
	2009	**2008**		**2009**	**2008**	
Core Earnings interest income:						
FFELP Stafford and Other Student Loans	$ 310	$ 524	(41)%	$ 672	$ 1,018	(34)%
FFELP Consolidation Loans	394	908	(57)	833	1,896	(56)
Private Education Loans	559	665	(16)	1,122	1,415	(21)
Other loans	18	21	(14)	35	45	(22)
Cash and investments	4	81	(95)	6	222	(97)
Total Core Earnings interest income	1,285	2,199	(42)	2,668	4,596	(42)
Total Core Earnings interest expense	824	1,605	(49)	1,773	3,429	(48)
Net Core Earnings interest income	461	594	(22)	895	1,167	(23)
Less: provisions for loan losses	402	192	109	751	374	101
Net Core Earnings interest income after provisions for loan losses	59	402	(85)	144	793	(82)
Other income	360	62	481	461	106	335
Restructuring expenses	4	31	(87)	5	46	(89)
Operating expenses	141	155	(9)	272	318	(14)
Total expenses	145	186	(22)	277	364	(24)

Income before income taxes and minority interest in net earnings of subsidiaries		274		278	(1)		328		535	(39)
Income tax expense		102		103	(1)		122		197	(38)
Core Earnings net income	$	172	$	175	(2)%	$	206	$	338	(39)%
Economic Floor Income (net of tax) not included in Core Earnings	$	89	$	22	305%	$	168	$	49	243%

Net Interest Income

Changes to net interest income are primarily due to fluctuations in the student loan and other asset spread discussed below, the growth of our student loan portfolio, and changes in the level of cash and investments we hold on our balance sheet for liquidity purposes.

Average Balance Sheets On-Balance Sheet

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities for the three and six months ended June 30, 2009 and 2008. This table reflects the net interest margin for the entire Company for our on-balance sheet assets. It is included in the Lending business segment discussion because this segment includes substantially all interest-earning assets and interest-bearing liabilities.

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009		2008		2009		2008	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets								
FFELP Stafford and Other Student Loans	$ 60,120	2.16%	$ 41,666	4.80%	$ 57,913	2.32%	$ 40,008	4.84%
FFELP Consolidation Loans	70,456	2.62	73,509	4.21	70,881	2.70	73,654	4.39
Private Education Loans	23,012	6.85	18,573	8.86	22,842	6.89	17,882	9.59
Other loans	630	11.76	1,018	8.43	669	10.51	1,106	8.13
Cash and investments	10,383	.27	9,076	3.13	8,904	.29	10,670	3.66
Total interest-earning assets	164,601	2.93%	143,842	4.94%	161,209	3.06%	143,320	5.14%
Non-interest-earning assets	8,898		10,391		9,181		9,969	
Total assets	$ 173,499		$ 154,233		$ 170,390		$ 153,289	
Average Liabilities and Equity								
Short-term borrowings	$ 44,550	1.99%	$ 35,494	4.85%	$ 44,198	2.48%	$ 35,735	4.81%
Long-term borrowings	120,073	2.00	109,351	3.45	117,167	2.24	108,508	3.94
Total interest-bearing liabilities	164,623	2.00%	144,845	3.79%	161,365	2.31%	144,243	4.16%
Non-interest-bearing liabilities	3,799		3,888		3,894		3,671	
Equity	5,077		5,500		5,131		5,375	
Total liabilities and equity	$ 173,499		$ 154,233		$ 170,390		$ 153,289	
Net interest margin		.94%		1.13%		.75%		.95%

Rate/Volume Analysis On-Balance Sheet

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

	Increase (Decrease)	Increase (Decrease) Attributable to Change in Rate	Increase (Decrease) Attributable to Change in Volume
Three Months Ended June 30, 2009 vs. 2008			
Interest income	$ (565)	$ (859)	$ 294
Interest expense	(547)	(752)	205
Net interest income	$ (18)	$ (107)	$ 89
Six Months Ended June 30, 2009 vs. 2008			
Interest income	$ (1,215)	$ (1,760)	$ 545
Interest expense	(1,135)	(1,498)	363
Net interest income	$ (80)	$ (262)	$ 182

Net Interest Margin On-Balance Sheet

The following table reflects the net interest margin of our on-balance sheet interest-earning assets, before provisions for loan losses. (Certain percentages do not add or subtract down as they are based on average balances.)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Student loan spread[1][2]	1.32%	1.52%	1.14%	1.25%
Other asset spread[1][3]	(2.08)	.28	(2.12)	.14
Net interest margin, before the impact of 2008 Asset-Backed Financing Facilities fees[1]	1.10	1.44	.95	1.16
Less: 2008 Asset-Backed Financing Facilities fees	(.16)	(.31)	(.20)	(.21)
Net interest margin	.94%	1.13%	.75%	.95%

[1] Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the 2008 Asset-Backed Financing Facilities fees (see LIQUIDITY AND CAPITAL RESOURCES

Additional Funding for General Corporate Purposes *Asset-Backed Financing Facilities* for a further discussion).

(2) Composition of student loan spread:

Student loan yield, before Floor Income	3.21%	5.54%	3.38%	5.83%
Gross Floor Income	.56	.40	.53	.38
Consolidation Loan Rebate Fees	(.47)	(.57)	(.49)	(.58)
Repayment Borrower Benefits	(.09)	(.12)	(.09)	(.12)
Premium and discount amortization	(.14)	(.21)	(.14)	(.28)
Student loan net yield	3.07	5.04	3.19	5.23
Student loan cost of funds	(1.75)	(3.52)	(2.05)	(3.98)
Student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.32%	1.52%	1.14%	1.25%

(3) Comprised of investments, cash and other loans.

Student Loan Spread On-Balance Sheet

The student loan spread is impacted by changes in its various components, as reflected in footnote (2) to the *Net Interest Margin On-Balance Sheet* table above. Gross Floor Income is impacted by interest rates and the percentage of the FFELP portfolio eligible to earn Floor Income. Floor Income Contracts used to

economically hedge Gross Floor Income do not qualify as SFAS No. 133 hedges and, as a result, the net settlements on such contracts are not recorded in net interest margin but rather in the gains (losses) on derivative and hedging activities, net line in the consolidated statements of income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Repayment Borrower Benefits are generally impacted by the terms of the Repayment Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally impacted by the prices previously paid for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

The student loan spread, before 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 20 basis points from the year-ago quarter. This decrease was primarily due to an increase in the Company s cost of funds as discussed below. This decrease was partially offset by an increase in Floor Income resulting from a decrease in interest rates during the quarter.

The cost of funds for on-balance sheet student loans excludes the impact of basis swaps that are intended to economically hedge the re-pricing and basis mismatch between our funding and student loan asset indices, but do not receive hedge accounting treatment under SFAS No. 133. We use basis swaps to manage the basis risk associated with our interest rate sensitive assets and liabilities. These swaps generally do not qualify as accounting hedges, and as a result, are required to be accounted for in the gains (losses) on derivatives and hedging activities, net line in the consolidated statements of income, as opposed to being accounted for in interest expense. As a result, these basis swaps are not considered in the calculation of the cost of funds in the table above and therefore, in times of volatile movements of interest rates like those experienced in 2008 and 2009, the student loan spread can be volatile. See *Core Earnings Net Interest Margin* in the following table, which reflects these basis swaps in interest expense and demonstrates the economic hedge effectiveness of these basis swaps.

Other Asset Spread On-Balance Sheet

The other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The other asset spread for the second quarter of 2009 decreased 236 basis points from the year-ago quarter. Changes in the other asset spread primarily relate to differences in the index basis and reset frequency between the asset indices and funding indices. A portion of this risk is hedged with derivatives that do not receive hedge accounting treatment under SFAS No. 133 and will impact the other asset spread in a similar fashion as the impact to the on-balance sheet student loan spread as discussed above. In volatile interest rate environments, these spreads may move significantly from period to period and differ from the *Core Earnings Basis Other Asset Spread* discussed below.

Net Interest Margin On-Balance Sheet

The net interest margin, before 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 34 basis points from the year-ago quarter. This change primarily relates to the previously discussed changes in the on-balance sheet student loan and other asset spreads. The student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the periods.

See LIQUIDITY AND CAPITAL RESOURCES Additional Funding Sources for General Corporate Purposes *Asset-Backed Financing Facilities* for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

Core Earnings Net Interest Margin

The following table analyzes the earnings from our portfolio of Managed interest-earning assets on a Core Earnings basis (see BUSINESS SEGMENTS Pre-tax Differences between Core Earnings and GAAP). The *Core Earnings* *Interest Margin* presentation and certain components used in the

calculation differ from the *Net Interest Margin On-Balance Sheet* presentation. The Core Earnings presentation, when compared to our on-balance sheet presentation, is different in that it:

- Includes the net interest margin related to our off-balance sheet student loan securitization trusts. This includes any related fees or costs such as the Consolidation Loan Rebate Fees, premium/discount amortization and Repayment Borrower Benefits yield adjustments;

- Includes the reclassification of certain derivative net settlement amounts. The net settlements on certain derivatives that do not qualify as SFAS No. 133 hedges are recorded as part of the gain (loss) on derivative and hedging activities, net line in the consolidated statements of income and are therefore not recognized in the on-balance sheet student loan spread. Under this presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest margin, this would primarily include: (a) reclassifying the net settlement amounts related to our written Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense;

- Excludes unhedged Floor Income and hedged Variable Rate Floor Income earned on the Managed student loan portfolio; and

- Includes the amortization of upfront payments on Fixed Rate Floor Income Contracts in student loan income that we believe are economically hedging the Floor Income.

The following table reflects the Core Earnings net interest margin, before provisions for loan losses. (Certain percentages do not add or subtract down as they are based on average balances.)

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2009	**2008**	**2009**	**2008**
Core Earnings basis student loan spread[1]				
FFELP loan spread	.39%	.87%	.38%	.73%
Private Education Loan spread[2]	4.50	5.08	4.58	5.23
Total Core Earnings basis student loan spread[3]	1.17	1.65	1.19	1.56
Core Earnings basis other asset spread[1][4]	(.91)	(.25)	(1.01)	(.21)
Core Earnings net interest margin, before 2008 Asset-Backed Financing Facilities fees[1]	1.04	1.52	1.06	1.42
Less: 2008 Asset-Backed Financing Facilities fees	(.13)	(.24)	(.16)	(.16)
Core Earnings net interest margin	.91%	1.28%	.90%	1.26%

[1] Before commitment and liquidity fees associated with the 2008 Asset-Backed Financing Facilities, which are referred to as the 2008 Asset-Backed Financing Facilities fees (see LIQUIDITY AND CAPITAL RESOURCES Additional Funding for General Corporate Purposes *Asset-Backed Financing Facilities* for a further discussion).

(2) Core Earnings basis Private Education Loan Spread, before 2008 Asset-Backed Financing Facilities fees and after provision for loan losses	.47%	3.02%	.88%	3.15%
(3) Composition of Core Earnings basis student loan spread:				
Core Earnings basis student loan yield	3.36%	5.75%	3.54%	6.06
Consolidation Loan Rebate Fees	(.47)	(.54)	(.48)	(.55)
Repayment Borrower Benefits	(.09)	(.12)	(.09)	(.12)
Premium and discount amortization	(.12)	(.18)	(.13)	(.27)
Core Earnings basis student loan net yield	2.68	4.91	2.84	5.12
Core Earnings basis student loan cost of funds	(1.51)	(3.26)	(1.65)	(3.56)
Core Earnings basis student loan spread, before 2008 Asset-Backed Financing Facilities fees	1.17%	1.65%	1.19%	1.56%
(4) Comprised of investments, cash and other loans				
(5) The average balances of our Managed interest-earning assets for the respective periods are:				
FFELP loans	$ 152,482	$ 140,033	$ 150,960	$ 138,891
Private Education Loans	36,008	31,890	35,913	31,323
Total student loans	188,490	171,923	186,873	170,214
Other interest-earning assets	12,336	12,427	10,987	14,211
Total Managed interest-earning assets	$ 200,826	$ 184,350	$ 197,860	$ 184,425

Core Earnings Basis Student Loan Spread

The Core Earnings basis student loan spread, before the 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 48 basis points from the year-ago quarter. The Core Earnings basis student loan spread was negatively impacted by an increase in the Company s cost of funds primarily resulting from both a 40 basis points widening of the CP/LIBOR spread between the current and year-ago quarter, and an increase in the credit spreads on the Company s debt issued during the last year due to the current credit environment.

The Core Earnings basis FFELP loan spread for the second quarter of 2009 declined from the year-ago quarter primarily as a result of the increase in the cost of funds previously discussed, as well as the mix of the FFELP portfolio shifting towards loans originated subsequent to October 1, 2007 which have lower yields as a result of the CCRAA. The Core Earnings basis Private Education Loan spread before provision for loan losses for the second quarter of 2009 was negatively impacted by the increase in the cost of funds discussed previously. The changes in the Core Earnings basis Private Education Loan spread after provision for loan losses for all periods presented was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below (see Private Education Loan Losses *Allowance for Private Education Loan Losses*).

Core Earnings Basis Other Asset Spread

The Core Earnings basis other asset spread is generated from cash and investments (both restricted and unrestricted) primarily in our liquidity portfolio, and other loans. The Company invests its liquidity portfolio primarily in short-term securities with maturities of one week or less in order to manage counterparty credit risk and maintain available cash balances. The Core Earnings basis other asset spread for the second quarter of 2009 decreased 66 basis points from the year-ago quarter. Changes in this spread primarily relate to differences between the index basis and reset frequency of the asset indices and funding indices. In volatile interest rate environments, the asset and debt reset frequencies will lag each other. In addition, the current steepness of the yield curve is negatively impacting this spread. Changes in this spread are also a result of the increase in our cost of funds as previously discussed.

Core Earnings Net Interest Margin

The Core Earnings net interest margin, before the 2008 Asset-Backed Financing Facilities fees, for the second quarter of 2009 decreased 48 basis points from the year-ago quarter. This change primarily relates to the previously discussed changes in the Core Earnings basis student loan and other asset spreads. The Managed student loan portfolio as a percentage of the overall interest-earning asset portfolio did not change substantially between the periods.

See LIQUIDITY AND CAPITAL RESOURCES Additional Funding Sources for General Corporate Purposes *Asset-Backed Financing Facilities* for a discussion of the 2008 Asset-Backed Financing Facilities fees and related extensions.

Summary of our Managed Student Loan Portfolio

The following tables summarize the components of our Managed student loan portfolio and show the changing composition of our portfolio.

Ending Managed Student Loan Balances, net

	June 30, 2009				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 21,588	$	$ 21,588	$ 6,962	$ 28,550
Grace and repayment	39,568	68,928	108,496	16,484	124,980
Total on-balance sheet, gross	61,156	68,928	130,084	23,446	153,530
On-balance sheet unamortized premium (discount)	1,151	1,224	2,375	(536)	1,839
On-balance sheet receivable for partially charged-off loans				338	338
On-balance sheet allowance for losses	(103)	(50)	(153)	(1,397)	(1,550)
Total on-balance sheet, net	62,204	70,102	132,306	21,851	154,157
Off-balance sheet:					
In-school	313		313	981	1,294
Grace and repayment	5,733	14,736	20,469	12,391	32,860
Total off-balance sheet, gross	6,046	14,736	20,782	13,372	34,154
Off-balance sheet unamortized premium (discount)	141	444	585	(355)	230
Off-balance sheet receivable for partially charged-off loans				148	148
Off-balance sheet allowance for losses	(17)	(10)	(27)	(544)	(571)
Total off-balance sheet, net	6,170	15,170	21,340	12,621	33,961
Total Managed	$ 68,374	$ 85,272	$ 153,646	$ 34,472	$ 188,118
% of on-balance sheet FFELP	47%	53%	100%		
% of Managed FFELP	45%	55%	100%		
% of total	36%	46%	82%	18%	100%