

SLM CORP  
Form 10-Q  
May 03, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

**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)

Edgar Filing: SLM CORP - Form 10-Q

**Delaware**  
 (State or other jurisdiction of  
 incorporation or organization)  
  
**300 Continental Drive, Newark, Delaware**  
 (Address of principal executive offices)  
  
**(302) 283-8000**  
 (Registrant's telephone number, including area code)  
  
 (Former name, former address and former fiscal year, if changed since last report)

**52-2013874**  
 (I.R.S. Employer  
 Identification No.)  
  
**19713**  
 (Zip Code)

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

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

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  No

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

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

Class	Outstanding at March 31, 2013
Common Stock, \$0.20 par value	444,210,360 shares

**Table of Contents**

**SLM CORPORATION**

**Table of Contents**

**Part I. Financial Information**

Item 1.	<u>Financial Statements</u>	2
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	77
Item 4.	<u>Controls and Procedures</u>	82

**PART II. Other Information**

Item 1.	<u>Legal Proceedings</u>	83
Item 1A.	<u>Risk Factors</u>	83
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	83
Item 3.	<u>Defaults Upon Senior Securities</u>	84
Item 4.	<u>Mine Safety Disclosures</u>	84
Item 5.	<u>Other Information</u>	84
Item 6.	<u>Exhibits</u>	84

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SLM CORPORATION****CONSOLIDATED BALANCE SHEETS****(In millions, except share and per share amounts)****(Unaudited)**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
<b>Assets</b>		
FFELP Loans (net of allowance for losses of \$147 and \$159, respectively)	\$ 119,195	\$ 125,612
Private Education Loans (net of allowance for losses of \$2,170 and \$2,171 respectively)	37,465	36,934
Investments		
Available-for-sale	77	72
Other	929	1,010
Total investments	1,006	1,082
Cash and cash equivalents	3,685	3,900
Restricted cash and investments	4,828	5,011
Goodwill and acquired intangible assets, net	444	448
Other assets	7,463	8,273
Total assets	\$ 174,086	\$ 181,260
<b>Liabilities</b>		
Short-term borrowings	\$ 17,254	\$ 19,856
Long-term borrowings	147,887	152,401
Other liabilities	3,791	3,937
Total liabilities	168,932	176,194
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Preferred stock, par value \$0.20 per share, 20 million shares authorized		
Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of \$50 per share	165	165
Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share	400	400
Common stock, par value \$0.20 per share, 1.125 billion shares authorized: 540 million and 536 million shares issued, respectively	108	107
Additional paid-in capital	4,291	4,237
Accumulated other comprehensive loss (net of tax benefit of \$2 and \$3, respectively)	(4)	(6)
Retained earnings	1,723	1,451
Total SLM Corporation stockholders' equity before treasury stock	6,683	6,354
Less: Common stock held in treasury at cost: 95 million and 83 million shares, respectively	(1,535)	(1,294)
Total SLM Corporation stockholders' equity	5,148	5,060
Noncontrolling interest	6	6
Total equity	5,154	5,066

Edgar Filing: SLM CORP - Form 10-Q

Total liabilities and equity \$ 174,086 \$ 181,260

**Supplemental information assets and liabilities of consolidated variable interest entities:**

	<b>March 31, 2013</b>	<b>December 31, 2012</b>
FFELP Loans	\$ 114,621	\$ 121,059
Private Education Loans	26,310	26,072
Restricted cash and investments	4,648	4,826
Other assets	1,726	2,312
Short-term borrowings	7,506	9,551
Long-term borrowings	126,697	131,518
Net assets of consolidated variable interest entities	\$ 13,102	\$ 13,200

See accompanying notes to consolidated financial statements.

**Table of Contents**

**SLM CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

(In millions, except per share amounts)

(Unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Interest income:</b>		
FFELP Loans	\$ 735	\$ 842
Private Education Loans	623	625
Other loans	3	5
Cash and investments	5	5
Total interest income	1,366	1,477
Total interest expense	571	666
Net interest income	795	811
Less: provisions for loan losses	241	253
Net interest income after provisions for loan losses	554	558
<b>Other income (loss):</b>		
Losses on derivative and hedging activities, net	(31)	(372)
Servicing revenue	96	97
Contingency revenue	99	90
Gains on debt repurchases	23	37
Other	90	40
Total other income (loss)	277	(108)
<b>Expenses:</b>		
Salaries and benefits	138	127
Other operating expenses	132	135
Total operating expenses	270	262
Goodwill and acquired intangible assets impairment and amortization expense	4	5
Restructuring expenses	5	5
Total expenses	274	272
Income before income tax expense	557	178
Income tax expense	211	67
<b>Net income</b>	<b>346</b>	<b>111</b>
Less: net loss attributable to noncontrolling interest		(1)
Net income attributable to SLM Corporation	346	112
Preferred stock dividends	5	5
Net income attributable to SLM Corporation common stock	\$ 341	\$ 107
Basic earnings per common share attributable to SLM Corporation	\$ .76	\$ .21

## Edgar Filing: SLM CORP - Form 10-Q

Average common shares outstanding	451	503
Diluted earnings per common share attributable to SLM Corporation	\$ .74	\$ .21
Average common and common equivalent shares outstanding	458	510
Dividends per common share attributable to SLM Corporation	\$ .15	\$ .125

See accompanying notes to consolidated financial statements.

**Table of Contents****SLM CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(In millions)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 346	\$ 111
Other comprehensive income (loss):		
Unrealized gains (losses) on derivatives:		
Unrealized hedging gains (losses) on derivatives	1	(2)
Reclassification adjustments for derivative losses included in net income (interest expense)	3	10
Total unrealized gains on derivatives	4	8
Unrealized losses on investments	(1)	
Income tax expense	(1)	(3)
Other comprehensive income, net of tax	2	5
Comprehensive income	348	116
Less: comprehensive loss attributable to noncontrolling interest		(1)
Total comprehensive income attributable to SLM Corporation	\$ 348	\$ 117

See accompanying notes to consolidated financial statements.



Table of Contents

## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions, except share and per share amounts)

(Unaudited)

	Common Stock Shares				Accumulated Other Comprehensive Income					Total		
	Preferred Stock Shares	Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Paid-In Capital	(Loss) Earnings	Retained Earnings	Treasury Stock	Stockholders' Equity	Interest
<b>December 31, 2011</b>	7,300,000	529,075,322	(20,323,997)	508,751,325	\$ 565	\$ 106	\$ 4,136	\$ (14)	\$ 770	\$ (320)	\$ 5,243	\$ 8
Comprehensive income:												
Net income									112		112	(1)
Other comprehensive income, net of tax							5				5	
Comprehensive income												(1)
Changes:												
Stock repurchased (\$0.125 per share)									(63)		(63)	
Stock repurchased, series A (\$0.87 per share)									(3)		(3)	
Stock repurchased, series B (\$0.57 per share)									(2)		(2)	
Issuance of common shares		3,171,484		3,171,484			27				27	
Stock-based compensation expense							(3)				(3)	
Stock-based compensation expense							22				22	
Stock repurchased			(16,703,182)	(16,703,182)						(268)	(268)	
Stock repurchased related to employee stock-based compensation plans			(2,056,977)	(2,056,977)						(32)	(32)	
<b>March 31, 2012</b>	7,300,000	532,246,806	(39,084,156)	493,162,650	\$ 565	\$ 106	\$ 4,182	\$ (9)	\$ 814	\$ (620)	\$ 5,038	\$ 7
<b>December 31, 2012</b>	7,300,000	535,507,965	(82,910,021)	452,597,944	\$ 565	\$ 107	\$ 4,237	\$ (6)	\$ 1,451	\$ (1,294)	\$ 5,060	\$ 6
Comprehensive income:												
Net income									346		346	
Other comprehensive income, net of tax							2				2	
Comprehensive income												(1)
Changes:												
Stock repurchased (\$0.15 per share)									(68)		(68)	
Stock repurchased, series A (\$0.87 per share)									(3)		(3)	
Stock repurchased, series B (\$0.49 per share)									(2)		(2)	
Equivalent units related to stock-based compensation plans									(1)		(1)	
Issuance of common shares		4,157,795		4,157,795		1	33				34	
Stock-based compensation expense							2				2	
Stock-based compensation expense							19				19	
Stock repurchased			(10,220,804)	(10,220,804)						(199)	(199)	
Stock repurchased related to employee stock-based compensation plans			(2,324,575)	(2,324,575)						(42)	(42)	
<b>March 31, 2013</b>	7,300,000	539,665,760	(95,455,400)	444,210,360	\$ 565	\$ 108	\$ 4,291	\$ (4)	\$ 1,723	\$ (1,535)	\$ 5,148	\$ 6

See accompanying notes to consolidated financial statements.



**Table of Contents**

**SLM CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in millions)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Operating activities</b>		
Net income	\$ 346	\$ 111
Adjustments to reconcile net income to net cash provided by operating activities:		
Gains on debt repurchases and loan sales	(78)	(37)
Goodwill and acquired intangible assets impairment and amortization expense	4	5
Stock-based compensation expense	19	22
Unrealized (gains) losses on derivative and hedging activities	(138)	193
Provisions for loan losses	241	253
(Increase) decrease in restricted cash - other	(3)	29
Decrease in accrued interest receivable	19	5
Increase in accrued interest payable	2	39
Decrease in other assets	292	109
Decrease in other liabilities	(175)	(138)
Total adjustments	183	480
Total net cash provided by operating activities	529	591
<b>Investing activities</b>		
Student loans acquired and originated	(1,559)	(1,658)
Reduction of student loans:		
Installment payments, claims and other	3,349	3,391
Proceeds from sales of student loans	226	135
Other investing activities, net	65	121
Purchases of available-for-sale securities	(14)	(14)
Proceeds from maturities of available-for-sale securities	9	12
Purchases of other securities	(93)	(80)
Proceeds from maturities of other securities	94	78
Decrease (increase) in restricted cash - variable interest entities	107	(44)
Total net cash provided by investing activities	2,184	1,941
<b>Financing activities</b>		
Borrowings collateralized by loans in trust - issued	2,588	2,115
Borrowings collateralized by loans in trust - repaid	(3,182)	(3,817)
Asset-backed commercial paper conduits, net	427	1,728
ED Conduit Program facility, net	(2,583)	(3,198)
Other short-term borrowings issued		23
Other short-term borrowings repaid	(114)	(23)
Other long-term borrowings issued	1,489	1,584
Other long-term borrowings repaid	(1,319)	(454)
Other financing activities, net	(358)	(93)
Retail and other deposits, net	396	188
Common stock repurchased	(199)	(268)
Common stock dividends paid	(68)	(63)
Preferred stock dividends paid	(5)	(5)

## Edgar Filing: SLM CORP - Form 10-Q

Net cash used in financing activities	(2,928)	(2,283)
Net (decrease) increase in cash and cash equivalents	(215)	249
Cash and cash equivalents at beginning of period	3,900	2,794
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,685</b>	<b>\$ 3,043</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash disbursements made (refunds received) for:		
Interest	\$ 568	\$ 632
Income taxes paid	\$ 15	\$ 46
Income taxes received	\$ (1)	\$ (5)
Noncash activity:		
Investing activity Student loans and other assets acquired	\$	\$ 402
Student loans and other assets removed related to sale of Residual Interest in securitization	\$ (3,665)	\$
Financing activity Borrowings assumed in acquisition of student loans and other assets	\$	\$ 425
Borrowings removed related to sale of Residual Interest in securitization	\$ (3,681)	\$

See accompanying notes to consolidated financial statements.

---

**Table of Contents**

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Information at March 31, 2013 and for the three months ended**

**March 31, 2013 and 2012 is unaudited)**

**1. Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements of SLM Corporation ( we, us, our, or the Company ) have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities ( VIEs ) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results for the year ending December 31, 2013 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K ).

***Consolidation***

In first-quarter 2013 we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. Prior to the sale of the Residual Interest we had consolidated the trust as a VIE because we had met the two criteria for consolidation of a VIE. We had determined we were the primary beneficiary because (1) as servicer to the trust we had the power to direct the activities of the VIE that most significantly affected its economic performance and (2) as the residual holder of the trust we had an obligation to absorb losses or receive benefits of the trust that could potentially be significant. Upon the sale of the Residual Interest we are no longer the residual holder, thus we determined we no longer met criterion (2) above and deconsolidated the trust. As a result of this transaction we removed trust assets of \$3.8 billion and the related liabilities of \$3.7 billion from the balance sheet and recorded a \$55 million gain as part of other income.

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

***Recently Adopted Accounting Standards***

***Accumulated Other Comprehensive Income***

On January 1, 2013, we adopted Accounting Standards Update No. 2013-02, Comprehensive Income (Topic 220), Reporting Amounts Reclassified out of Accumulated Other Comprehensive Income. The objective of this new guidance is to improve the reporting of reclassifications out of accumulated other comprehensive income. The impact of adopting this new guidance was immaterial and there was no impact on our results of operations.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses**

Our provisions for loan losses represent the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses, net of expected 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. We believe that the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios. We segregate our Private Education Loan portfolio into two classes of loans – traditional and non-traditional. Non-traditional loans are loans to (i) customers attending for-profit schools with an original Fair Isaac and Company ( FICO ) score of less than 670 and (ii) customers attending not-for-profit schools with an original FICO score of less than 640. The FICO score used in determining whether a loan is non-traditional is the greater of the customer or cosigner FICO score at origination. Traditional loans are defined as all other Private Education Loans that are not classified as non-traditional.

*Allowance for Loan Losses Metrics*

(Dollars in millions)	Allowance for Loan Losses Three Months Ended March 31, 2013			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 159	\$ 2,171	\$ 47	\$ 2,377
Total provision	16	225		241
Charge-offs <sup>(1)</sup>	(22)	(232)	(5)	(259)
Student loan sales	(6)			(6)
Reclassification of interest reserve <sup>(2)</sup>		6		6
<b>Ending balance</b>	<b>\$ 147</b>	<b>\$ 2,170</b>	<b>\$ 42</b>	<b>\$ 2,359</b>
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 1,157	\$ 31	\$ 1,188
Ending balance: collectively evaluated for impairment	\$ 147	\$ 1,013	\$ 11	\$ 1,171
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 8,018	\$ 65	\$ 8,083
Ending balance: collectively evaluated for impairment	\$ 118,058	\$ 32,389	\$ 106	\$ 150,553
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.97%	10.95%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.09%	2.87%	10.95%	
Allowance as a percentage of the ending total loan balance	.12%	5.37%	24.55%	
Allowance as a percentage of the ending loans in repayment	.17%	6.88%	24.55%	
Allowance coverage of charge-offs (annualized)	1.6	2.3	2.1	
Ending total loans <sup>(3)</sup>	\$ 118,058	\$ 40,407	\$ 171	
Average loans in repayment	\$ 87,256	\$ 31,645	\$ 179	
Ending loans in repayment	\$ 85,304	\$ 31,533	\$ 171	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which

## Edgar Filing: SLM CORP - Form 10-Q

represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

- (2) 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.
- (3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Allowance for Loan Losses Three Months Ended March 31, 2012			
	FFELP Loans	Private Education Loans	Other Loans	Total
<b>Allowance for Loan Losses</b>				
Beginning balance	\$ 187	\$ 2,171	\$ 69	\$ 2,427
Total provision	18	235		253
Charge-offs <sup>(1)</sup>	(23)	(224)	(5)	(252)
Student loan sales	(2)			(2)
Reclassification of interest reserve <sup>(2)</sup>		8		8
Ending balance	\$ 180	\$ 2,190	\$ 64	\$ 2,434
<i>Allowance:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 853	\$ 48	\$ 901
Ending balance: collectively evaluated for impairment	\$ 180	\$ 1,337	\$ 16	\$ 1,533
<i>Loans:</i>				
Ending balance: individually evaluated for impairment	\$	\$ 6,030	\$ 88	\$ 6,118
Ending balance: collectively evaluated for impairment	\$ 134,490	\$ 33,745	\$ 160	\$ 168,395
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	2.96%	7.17%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.08%	2.84%	7.17%	
Allowance as a percentage of the ending total loan balance	.13%	5.51%	26.0%	
Allowance as a percentage of the ending loans in repayment	.20%	7.24%	26.0%	
Allowance coverage of charge-offs (annualized)	2.0	2.4	3.6	
Ending total loans <sup>(3)</sup>	\$ 134,490	\$ 39,775	\$ 248	
Average loans in repayment	\$ 93,150	\$ 30,378	\$ 252	
Ending loans in repayment	\$ 92,224	\$ 30,236	\$ 248	

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

(2) 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.

(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.





**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)***Key Credit Quality Indicators*

FFELP Loans are substantially insured and guaranteed as to their principal and accrued interest in the event of default; therefore, the key credit quality indicator for this portfolio is loan status. The impact of changes in loan status is incorporated quarterly into the allowance for loan losses calculation.

For Private Education Loans, the key credit quality indicators are school type, FICO scores, the existence of a cosigner, the loan status and loan seasoning. The school type/FICO score are assessed at origination and maintained through the traditional/non-traditional loan designation. The other Private Education Loan key quality indicators can change and are incorporated quarterly into the allowance for loan losses calculation. The following table highlights the principal balance (excluding the receivable for partially charged-off loans) of our Private Education Loan portfolio stratified by the key credit quality indicators.

(Dollars in millions)	Private Education Loans Credit Quality Indicators			
	March 31, 2013		December 31, 2012	
	Balance <sup>(3)</sup>	% of Balance	Balance <sup>(3)</sup>	% of Balance
<b>Credit Quality Indicators</b>				
School Type/FICO Scores:				
Traditional	\$ 35,947	92%	\$ 35,347	92%
Non-Traditional <sup>(1)</sup>	3,121	8	3,207	8
<b>Total</b>	<b>\$ 39,068</b>	<b>100%</b>	<b>\$ 38,554</b>	<b>100%</b>
Cosigners:				
With cosigner	\$ 25,646	66%	\$ 24,907	65%
Without cosigner	13,422	34	13,647	35
<b>Total</b>	<b>\$ 39,068</b>	<b>100%</b>	<b>\$ 38,554</b>	<b>100%</b>
Seasoning <sup>(2)</sup> :				
1-12 payments	\$ 7,186	19%	\$ 7,371	19%
13-24 payments	5,834	15	6,137	16
25-36 payments	5,908	15	6,037	16
37-48 payments	4,838	12	4,780	12
More than 48 payments	8,868	23	8,325	22
Not yet in repayment	6,434	16	5,904	15
<b>Total</b>	<b>\$ 39,068</b>	<b>100%</b>	<b>\$ 38,554</b>	<b>100%</b>

<sup>(1)</sup> Defined as loans to customers attending for-profit schools (with a FICO score of less than 670 at origination) and customers attending not-for-profit schools (with a FICO score of less than 640 at origination).

## Edgar Filing: SLM CORP - Form 10-Q

- (2) Number of months in active repayment for which a scheduled payment was due.
- (3) Balance represents gross Private Education Loans.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

The following tables provide information regarding the loan status and aging of past due loans.

(Dollars in millions)	FFELP Loan Delinquencies			
	March 31, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 17,324		\$ 17,702	
Loans in forbearance <sup>(2)</sup>	15,430		15,902	
Loans in repayment and percentage of each status:				
Loans current	71,792	84.2%	75,499	83.2%
Loans delinquent 31-60 days <sup>(3)</sup>	4,186	4.9	4,710	5.2
Loans delinquent 61-90 days <sup>(3)</sup>	2,441	2.9	2,788	3.1
Loans delinquent greater than 90 days <sup>(3)</sup>	6,885	8.0	7,734	8.5
Total FFELP Loans in repayment	85,304	100%	90,731	100%
Total FFELP Loans, gross	118,058		124,335	
FFELP Loan unamortized premium	1,284		1,436	
Total FFELP Loans	119,342		125,771	
FFELP Loan allowance for losses	(147)		(159)	
FFELP Loans, net	\$ 119,195		\$ 125,612	
Percentage of FFELP Loans in repayment		72.3%		73.0%
Delinquencies as a percentage of FFELP Loans in repayment		15.8%		16.8%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		15.3%		14.9%

(1) Loans for customers who may still 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, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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



**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Private Education Traditional Loan Delinquencies			
	March 31, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 5,959		\$ 5,421	
Loans in forbearance <sup>(2)</sup>	966		996	
Loans in repayment and percentage of each status:				
Loans current	27,072	93.2%	26,597	91.9%
Loans delinquent 31-60 days <sup>(3)</sup>	597	2.1	837	2.9
Loans delinquent 61-90 days <sup>(3)</sup>	393	1.4	375	1.3
Loans delinquent greater than 90 days <sup>(3)</sup>	960	3.3	1,121	3.9
Total traditional loans in repayment	29,022	100%	28,930	100%
Total traditional loans, gross	35,947		35,347	
Traditional loans unamortized discount	(691)		(713)	
Total traditional loans	35,256		34,634	
Traditional loans receivable for partially charged-off loans	799		797	
Traditional loans allowance for losses	(1,643)		(1,637)	
Traditional loans, net	\$ 34,412		\$ 33,794	
Percentage of traditional loans in repayment		80.7%		81.9%
Delinquencies as a percentage of traditional loans in repayment		6.7%		8.1%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.2%		3.3%

(1) Deferment includes customers who have returned to school or are engaged 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 customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with 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.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

(Dollars in millions)	Private Education Non-Traditional Loan Delinquencies			
	March 31, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 475		\$ 483	
Loans in forbearance <sup>(2)</sup>	135		140	
Loans in repayment and percentage of each status:				
Loans current	1,997	79.6%	1,978	76.5%
Loans delinquent 31-60 days <sup>(3)</sup>	134	5.3	175	6.8
Loans delinquent 61-90 days <sup>(3)</sup>	98	3.9	106	4.1
Loans delinquent greater than 90 days <sup>(3)</sup>	282	11.2	325	12.6
Total non-traditional loans in repayment	2,511	100%	2,584	100%
Total non-traditional loans, gross	3,121		3,207	
Non-traditional loans unamortized discount	(81)		(83)	
Total non-traditional loans	3,040		3,124	
Non-traditional loans receivable for partially charged-off loans	540		550	
Non-traditional loans allowance for losses	(527)		(534)	
Non-traditional loans, net	\$ 3,053		\$ 3,140	
Percentage of non-traditional loans in repayment		80.4%		80.6%
Delinquencies as a percentage of non-traditional loans in repayment		20.5%		23.4%
Loans in forbearance as a percentage of loans in repayment and forbearance		5.1%		5.1%

(1) Deferment includes customers who have returned to school or are engaged 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 customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with 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.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)***Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was \$209 million and \$151 million in allowance for Private Education Loan losses at March 31, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans.

The following table summarizes the activity in the receivable for partially charged-off loans.

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Receivable at beginning of period	\$ 1,347	\$ 1,241
Expected future recoveries of current period defaults <sup>(1)</sup>	78	69
Recoveries <sup>(2)</sup>	(68)	(50)
Charge-offs <sup>(3)</sup>	(18)	(10)
Receivable at end of period	1,339	1,250
Allowance for estimated recovery shortfalls <sup>(4)</sup>	(209)	(151)
Net receivable at end of period	\$ 1,130	\$ 1,099

<sup>(1)</sup> Represents the difference between the loan balance and our estimate of the amount to be collected in the future.

<sup>(2)</sup> Current period cash collections.

<sup>(3)</sup> Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the Allowance for Loan Losses Metrics tables.

<sup>(4)</sup> The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the \$2.2 billion overall allowance for Private Education Loan losses as of March 31, 2013 and 2012, respectively.

*Troubled Debt Restructurings ( TDRs )*



## Edgar Filing: SLM CORP - Form 10-Q

We modify the terms of loans for certain customers when we believe such modifications may increase the ability and willingness of a customer to make payments and thus increase the ultimate overall amount collected on a loan. These modifications generally take the form of a forbearance, a temporary interest rate reduction or an extended repayment plan. For customers experiencing financial difficulty, certain Private Education Loans for

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

which we have granted either cumulative forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Forbearance provides customers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. The recorded investment of loans granted a forbearance that were classified as TDRs was \$6.8 billion and \$6.4 billion at March 31, 2013 and December 31, 2012, respectively. The recorded investment for TDRs from loans granted interest rate reductions or extended repayment plans was \$0.9 billion at both March 31, 2013 and December 31, 2012. At March 31, 2013 and December 31, 2012, the percentage of loans granted forbearance that have migrated to a TDR classification due to the extension of the original forbearance period was 45 percent and 43 percent, respectively.

At March 31, 2013 and December 31, 2012, all of our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

(Dollars in millions)		Recorded Investment <sup>(1)</sup>	TDR Loans Unpaid Principal Balance	Related Allowance
<b>March 31, 2013</b>				
Private Education Loans	Traditional	\$ 6,379	\$ 6,460	\$ 874
Private Education Loans	Non-Traditional	1,335	1,345	283
Total		\$ 7,714	\$ 7,805	\$ 1,157
<b>December 31, 2012</b>				
Private Education Loans	Traditional	\$ 5,999	\$ 6,074	\$ 844
Private Education Loans	Non-Traditional	1,295	1,303	282
Total		\$ 7,294	\$ 7,377	\$ 1,126

<sup>(1)</sup> The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs. The following table provides the average recorded investment and interest income recognized for our troubled debt restructuring loans.

(Dollars in millions)		Three Months Ended March 31,			
		2013	2012		
		Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Private Education Loans	Traditional	\$ 6,328	\$ 96	\$ 4,507	\$ 73
Private Education Loans	Non-Traditional	1,370	27	1,110	25
Total		\$ 7,698	\$ 123	\$ 5,617	\$ 98



**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)**

The following tables provide information regarding the loan status and aging of TDR loans that are past due.

(Dollars in millions)	TDR Loan Delinquencies			
	March 31, 2013		December 31, 2012	
	Balance	%	Balance	%
Loans in deferment <sup>(1)</sup>	\$ 687		\$ 574	
Loans in forbearance <sup>(2)</sup>	565		544	
Loans in repayment and percentage of each status:				
Loans current	5,073	77.4%	4,619	73.8%
Loans delinquent 31-60 days <sup>(3)</sup>	397	6.1	478	7.6
Loans delinquent 61-90 days <sup>(3)</sup>	293	4.5	254	4.1
Loans delinquent greater than 90 days <sup>(3)</sup>	790	12.0	908	14.5
Total TDR loans in repayment	6,553	100%	6,259	100%
Total TDR loans, gross	\$ 7,805		\$ 7,377	

(1) Loans for customers who have requested and qualify for permitted program deferments such as military, unemployment, or economic hardships.

(2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making full payments due to hardship or other factors.

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

The following table provides the amount of modified loans that resulted in a TDR in the periods presented. Additionally, the table summarizes charge-offs occurring in the TDR portfolio, as well as TDRs for which a payment default occurred in the current period within 12 months of the loan first being designated as a TDR. We define payment default as 60 days past due for this disclosure. The majority of our loans that are considered TDRs involve a temporary forbearance of payments and do not change the contractual interest rate of the loan.

(Dollars in millions)		Three Months Ended March 31,					
		2013	2013	2013	2012	2012	
		Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default	Modified Loans <sup>(1)</sup>	Charge-Offs <sup>(2)</sup>	Payment Default
Private Education Loans	Traditional	\$ 545	\$ 97	\$ 216	\$ 657	\$ 65	\$ 404
Private Education Loans	Non-Traditional	90	34	57	140	29	128
Total		\$ 635	\$ 131	\$ 273	\$ 797	\$ 94	\$ 532

## Edgar Filing: SLM CORP - Form 10-Q

- (1) Represents period ending balance of loans that have been modified during the period and resulted in a TDR.
- (2) Represents loans that charged off that were classified as TDRs.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****2. Allowance for Loan Losses (continued)***Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

<b>(Dollars in millions)</b>		<b>Accrued Interest Receivable</b>		
		<b>Total</b>	<b>Greater Than 90 Days Past Due</b>	<b>Allowance for Uncollectible Interest</b>
<b>March 31, 2013</b>				
Private Education Loans	Traditional	\$ 822	\$ 34	\$ 47
Private Education Loans	Non-Traditional	96	14	21
Total		\$ 918	\$ 48	\$ 68
<b>December 31, 2012</b>				
Private Education Loans	Traditional	\$ 798	\$ 39	\$ 45
Private Education Loans	Non-Traditional	106	16	22
Total		\$ 904	\$ 55	\$ 67

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Borrowings**

The following table summarizes our borrowings.

(Dollars in millions)	March 31, 2013			December 31, 2012		
	Short Term	Long Term	Total	Short Term	Long Term	Total
<i>Unsecured borrowings:</i>						
Senior unsecured debt	\$ 2,778	\$ 15,167	\$ 17,945	\$ 2,319	\$ 15,446	\$ 17,765
Brokered deposits	1,170	2,782	3,952	979	3,088	4,067
Retail and other deposits	3,643		3,643	3,247		3,247
Other <sup>(1)</sup>	1,240		1,240	1,609		1,609
Total unsecured borrowings	8,831	17,949	26,780	8,154	18,534	26,688
<i>Secured borrowings:</i>						
FFELP Loan securitizations		100,750	100,750		105,525	105,525
Private Education Loan securitizations		20,252	20,252		19,656	19,656
ED Conduit Program Facility	6,967		6,967	9,551		9,551
FFELP ABCP Facility		5,114	5,114		4,154	4,154
Private Education Loan ABCP Facility	539		539		1,070	1,070
Acquisition financing <sup>(2)</sup>		576	576		673	673
FHLB-DM Facility	880	1,220	2,100	2,100		2,100
Total secured borrowings	8,386	127,912	136,298	11,651	131,078	142,729
Total before hedge accounting adjustments	17,217	145,861	163,078	19,805	149,612	169,417
Hedge accounting adjustments	37	2,026	2,063	51	2,789	2,840
Total	\$ 17,254	\$ 147,887	\$ 165,141	\$ 19,856	\$ 152,401	\$ 172,257

<sup>(1)</sup> Other primarily consists of the obligation to return cash collateral held related to derivative exposures.

<sup>(2)</sup> Relates to the acquisition of \$25 billion of student loans at the end of 2010.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Borrowings (continued)***Secured Borrowings*

The tables below summarize all of our financing entities that are VIEs which we consolidate as a result of being the entities' primary beneficiary. As such, these financing VIEs are accounted for as secured borrowings. We consolidate the following financing VIEs:

(Dollars in millions)	March 31, 2013						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings VIEs:</b>							
ED Conduit Program Facility	\$ 6,967	\$	\$ 6,967	\$ 7,056	\$ 295	\$ 99	\$ 7,450
FFELP ABCP Facility		5,114	5,114	5,430	108	76	5,614
Private Education Loan ABCP Facility	539		539	989	173	21	1,183
Securitizations FFELP Loans		100,750	100,750	102,135	3,618	575	106,328
Securitizations Private Education Loans		20,252	20,252	25,321	454	550	26,325
Total before hedge accounting adjustments	7,506	126,116	133,622	140,931	4,648	1,321	146,900
Hedge accounting adjustments		581	581			405	405
<b>Total</b>	<b>\$ 7,506</b>	<b>\$ 126,697</b>	<b>\$ 134,203</b>	<b>\$ 140,931</b>	<b>\$ 4,648</b>	<b>\$ 1,726</b>	<b>\$ 147,305</b>

(Dollars in millions)	December 31, 2012						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
<b>Secured Borrowings VIEs:</b>							
ED Conduit Program Facility	\$ 9,551	\$	\$ 9,551	\$ 9,645	\$ 410	\$ 134	\$ 10,189
FFELP ABCP Facility		4,154	4,154	4,405	77	63	4,545
Private Education Loan ABCP Facility		1,070	1,070	1,454	302	33	1,789
Securitizations FFELP Loans		105,525	105,525	107,009	3,652	608	111,269
Securitizations Private Education Loans		19,656	19,656	24,618	385	545	25,548
Total before hedge accounting adjustments	9,551	130,405	139,956	147,131	4,826	1,383	153,340
Hedge accounting adjustments		1,113	1,113			929	929
<b>Total</b>	<b>\$ 9,551</b>	<b>\$ 131,518</b>	<b>\$ 141,069</b>	<b>\$ 147,131</b>	<b>\$ 4,826</b>	<b>\$ 2,312</b>	<b>\$ 154,269</b>





**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Borrowings (continued)***Securizations*

The following table summarizes the securitization transactions that occurred during the year ended December 31, 2012 and the three months ended March 31, 2013.

(Dollars in millions)

Issue	Date Issued	Total Issued	AAA-rated bonds	
			Weighted Average Interest Rate	Weighted Average Life
<b>FFELP:</b>				
2012-1	January 2012	\$ 765	1 month LIBOR plus 0.91%	4.6 years
2012-2	March 2012	824	1 month LIBOR plus 0.70%	4.7 years
2012-3	May 2012	1,252	1 month LIBOR plus 0.65%	4.6 years
2012-4	June 2012	1,491 <sup>(1)</sup>	1 month LIBOR plus 1.10%	8.2 years
2011-3	July 2012	24	N/A (Retained B Notes sold)	
2012-4	July 2012	45	N/A (Retained B Notes sold)	
2012-5	July 2012	1,252	1 month LIBOR plus 0.67%	4.5 years
2012-6	September 2012	1,249	1 month LIBOR plus 0.62%	4.6 years
2012-7	November 2012	1,251	1 month LIBOR plus 0.55%	4.5 years
2012-8	December 2012	1,527	1 month LIBOR plus 0.90%	7.8 years
Total bonds issued in 2012		\$ 9,680		
Total loan amount securitized in 2012		\$ 9,565		
2013-1	February 2013	\$ 1,249	1 month LIBOR plus 0.46%	4.3 years
Total bonds issued in first-quarter 2013		\$ 1,249		
Total loan amount securitized in first-quarter 2013		\$ 1,250		
<b>Private Education:</b>				
2012-A	February 2012	\$ 547	1 month LIBOR plus 2.17%	3.0 years
2012-B	April 2012	891	1 month LIBOR plus 2.12%	2.9 years
2012-C	May 2012	1,135	1 month LIBOR plus 1.77%	2.6 years
2012-D	July 2012	640	1 month LIBOR plus 1.69%	2.5 years
2012-E	October 2012	976	1 month LIBOR plus 1.22%	2.6 years
Total bonds issued in 2012		\$ 4,189		
Total loan amount securitized in 2012		\$ 5,557		

## Edgar Filing: SLM CORP - Form 10-Q

2013-R1	January 2013	\$ 254	1 month LIBOR plus 1.75%	6.3 years
2013-A	March 2013	1,108	1 month LIBOR plus 0.81%	2.6 years
Total bonds issued in first-quarter 2013		\$ 1,362		
Total loan amount securitized in first-quarter 2013		\$ 1,307		

(1) Total size excludes subordinated tranche that was retained at issuance totaling \$45 million.

**Table of Contents**

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Borrowings (continued)**

*2013 Sale of FFELP Securitization Trust Residual Interest*

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed student loan assets of \$3.8 billion and related liabilities of \$3.7 billion from our balance sheet.

*Additional, Recent Borrowing-Related Transactions*

*Senior Unsecured Debt*

On January 28, 2013, we issued \$1.5 billion of senior unsecured bonds.

**4. Derivative Financial Instruments**

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2012 Form 10-K. Please refer to Note 7 Derivative Financial Instruments in our 2012 Form 10-K for a full discussion.

*Summary of Derivative Financial Statement Impact*

The following tables summarize the fair values and notional amounts of all derivative instruments at March 31, 2013 and December 31, 2012, and their impact on other comprehensive income and earnings for the three months ended March 31, 2013 and 2012.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Derivative Financial Instruments (continued)****Impact of Derivatives on Consolidated Balance Sheet**

(Dollars in millions)	Hedged Risk Exposure	Cash Flow		Fair Value		Trading		Total	
		Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012
<b>Fair Values<sup>(1)</sup></b>									
<i>Derivative Assets:</i>									
Interest rate swaps	Interest rate	\$ 1	\$	\$ 1,237	\$ 1,396	\$ 127	\$ 150	\$ 1,365	\$ 1,546
Cross-currency interest rate swaps	Foreign currency & interest rate			731	1,165	23	70	754	1,235
Other <sup>(2)</sup>	Interest rate						4		4
Total derivative assets <sup>(3)</sup>		1		1,968	2,561	150	224	2,119	2,785
<i>Derivative Liabilities:</i>									
Interest rate swaps	Interest rate	(8)	(11)	(14)	(1)	(193)	(197)	(215)	(209)
Floor Income Contracts	Interest rate					(1,969)	(2,154)	(1,969)	(2,154)
Cross-currency interest rate swaps	Foreign currency & interest rate			(258)	(136)			(258)	(136)
Total derivative liabilities <sup>(3)</sup>		(8)	(11)	(272)	(137)	(2,162)	(2,351)	(2,442)	(2,499)
Net total derivatives		\$ (7)	\$ (11)	\$ 1,696	\$ 2,424	\$ (2,012)	\$ (2,127)	\$ (323)	\$ 286

(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 embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility.

(3) The following table reconciles gross positions with the impact of master netting agreements to the balance sheet classification:

(Dollar in millions)	Other Assets		Other Liabilities	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Gross position	\$ 2,119	\$ 2,785	\$ (2,442)	\$ (2,499)
Impact of master netting agreements	(435)	(544)	435	544
Derivative values with impact of master netting agreements (as carried on balance sheet)	1,684	2,241	(2,007)	(1,955)

## Edgar Filing: SLM CORP - Form 10-Q

Cash collateral (held) pledged	(1,239)	(1,423)	893	973
<b>Net position</b>	<b>\$ 445</b>	<b>\$ 818</b>	<b>\$ (1,114)</b>	<b>\$ (982)</b>

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Derivative Financial Instruments (continued)**

The above fair values include adjustments for counterparty credit risk both for when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at March 31, 2013 and December 31, 2012 by \$71 million and \$111 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at March 31, 2013 and December 31, 2012 by \$102 million and \$107 million, respectively.

(Dollars in billions)	Cash Flow		Fair Value		Trading		Total	
	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012	Mar. 31, 2013	Dec. 31, 2012
<b>Notional Values:</b>								
Interest rate swaps	\$ 0.7	\$ 0.7	\$ 15.8	\$ 15.8	\$ 55.5	\$ 56.9	\$ 72.0	\$ 73.4
Floor Income Contracts					36.8	51.6	36.8	51.6
Cross-currency interest rate swaps			12.5	13.7	.3	0.3	12.8	14.0
Other <sup>(1)</sup>					1.2	1.4	1.2	1.4
Total derivatives	\$ 0.7	\$ 0.7	\$ 28.3	\$ 29.5	\$ 93.8	\$ 110.2	\$ 122.8	\$ 140.4

<sup>(1)</sup> Other includes embedded derivatives bifurcated from securitization debt, as well as derivatives related to our Total Return Swap Facility.

**Impact of Derivatives on Consolidated Statements of Income**

(Dollars in millions)	Three Months Ended March 31,							
	Unrealized Gain (Loss) on Derivatives <sup>(1)(2)</sup>		Realized Gain (Loss) on Derivatives <sup>(3)</sup>		Unrealized Gain (Loss) on Hedged Item <sup>(1)</sup>		Total Gain (Loss)	
	2013	2012	2013	2012	2013	2012	2013	2012
<b>Fair Value Hedges:</b>								
Interest rate swaps	\$ (172)	\$ (148)	\$ 109	\$ 113	\$ 195	\$ 156	\$ 132	\$ 121
Cross-currency interest rate swaps	(556)	192	21	61	552	(453)	17	(200)
Total fair value derivatives	(728)	44	130	174	747	(297)	149	(79)
<b>Cash Flow Hedges:</b>								
Interest rate swaps			(3)	(7)			(3)	(7)
Total cash flow derivatives			(3)	(7)			(3)	(7)
<b>Trading:</b>								
Interest rate swaps	(19)	(39)	24	35			5	(4)
Floor Income Contracts	189	136	(213)	(215)			(24)	(79)
Cross-currency interest rate swaps	(47)	(33)	20	2			(27)	(31)
Other	(4)	(4)			(1)		(4)	(5)

## Edgar Filing: SLM CORP - Form 10-Q

Total trading derivatives	119	60	(169)	(179)		(50)	(119)
Total	(609)	104	(42)	(12)	747	(297)	(205)
Less: realized gains (losses) recorded in interest expense			127	167		127	167
Gains (losses) on derivative and hedging activities, net	\$ (609)	\$ 104	\$ (169)	\$ (179)	\$ 747	\$ (297)	\$ (372)

(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.



**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****4. Derivative Financial Instruments (continued)***Collateral*

Collateral held and pledged related to derivative exposures between us and our derivative counterparties are detailed in the following table:

(Dollars in millions)	March 31, 2013	December 31, 2012
<b>Collateral held:</b>		
Cash (obligation to return cash collateral is recorded in short-term borrowings) <sup>(1)</sup>	\$ 1,239	\$ 1,423
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements) <sup>(2)</sup>	488	613
Total collateral held	\$ 1,727	\$ 2,036
Derivative asset at fair value including accrued interest	\$ 1,972	\$ 2,570
<b>Collateral pledged to others:</b>		
Cash (right to receive return of cash collateral is recorded in investments)	\$ 893	\$ 973
Total collateral pledged	\$ 893	\$ 973
Derivative liability at fair value including accrued interest and premium receivable	\$ 1,231	\$ 1,204

<sup>(1)</sup> At March 31, 2013 and December 31, 2012, \$0 and \$9 million, respectively, were held in restricted cash accounts.

<sup>(2)</sup> The trusts do not have the ability to sell or re-pledge securities they hold as collateral. Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of \$940 million with our counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of \$254 million and have posted \$251 million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, we would be required to deliver additional assets of \$3 million to settle the contracts. Trust related derivatives do not contain credit contingent features related to our or the trusts' credit ratings.

**5. Other Assets**

The following table provides the detail of our other assets.

Edgar Filing: SLM CORP - Form 10-Q

(Dollars in millions)	March 31, 2013		December 31, 2012	
	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable, net	\$ 2,129	29%	\$ 2,147	26%
Derivatives at fair value	1,684	23	2,241	27
Income tax asset, net current and deferred	1,280	17	1,478	18
Accounts receivable	1,099	15	1,111	13
Benefit and insurance-related investments	475	6	474	6
Fixed assets, net	226	3	215	3
Other loans, net	129	2	137	2
Other	441	5	470	5
<b>Total</b>	<b>\$ 7,463</b>	<b>100%</b>	<b>\$ 8,273</b>	<b>100%</b>

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Derivatives at fair value line in the above table represents the fair value of our derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At March 31, 2013 and December 31, 2012, these balances included \$1.7 billion and \$2.4 billion, respectively, of 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 March 31, 2013 and December 31, 2012, the cumulative mark-to-market adjustment to the hedged debt was \$(2.1) billion and \$(2.8) billion, respectively.

**6. Stockholders Equity**

The following table summarizes our common share repurchases and issuances.

	Three Months Ended March 31,	
	2013	2012
Common shares repurchased <sup>(1)</sup>	10,220,804	16,703,182
Average purchase price per share <sup>(2)</sup>	\$ 19.49	\$ 16.04
Shares repurchased related to employee stock-based compensation plans <sup>(3)</sup>	2,324,575	2,056,977
Average purchase price per share	\$ 18.11	\$ 15.33
Common shares issued <sup>(4)</sup>	4,157,795	3,171,484

(1) Common shares purchased under our share repurchase program, of which \$201 million remains available as of March 31, 2013.

(2) Average purchase price per share includes purchase commission costs.

(3) Comprises 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.

(4) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on March 28, 2013 was \$20.50.

*Dividend and Share Repurchase Program*

In the first-quarter 2013, we paid a common stock dividend of \$0.15 per common share, up from \$0.125 per common share in the prior year.

For the first-quarter 2013, we repurchased 10 million shares of common stock for \$199 million. The shares were repurchased under the Company's February 2013 share repurchase program that authorizes up to \$400 million of share repurchases.

In 2012, we authorized the repurchase of up to \$900 million of outstanding common stock in open market transactions and we repurchased 58 million shares for an aggregate purchase price of \$900 million.



**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Earnings per Common Share**

Basic earnings 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.

(In millions, except per share data)	Three Months Ended March 31,	
	2013	2012
<b>Numerator:</b>		
Net income attributable to SLM Corporation	\$ 346	\$ 112
Preferred stock dividends	5	5
Net income attributable to SLM Corporation common stock	\$ 341	\$ 107
<b>Denominator:</b>		
Weighted average shares used to compute basic EPS	451	503
Effect of dilutive securities:		
Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units and Employee Stock Purchase Plan ( ESPP <sup>(1)</sup> )	7	7
Dilutive potential common shares <sup>(2)</sup>	7	7
Weighted average shares used to compute diluted EPS	458	510
Basic earnings per common share attributable to SLM Corporation	\$ .76	\$ .21
Diluted earnings per common share attributable to SLM Corporation	\$ .74	\$ .21

(1) 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.

(2) For the three months ended March 31, 2013 and 2012, securities covering approximately 5 million and 12 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

**8. Fair Value Measurements**

We use estimates of fair value in applying various accounting standards in our financial statements.

We categorize our fair value estimates based on a hierarchical framework associated with three levels of price transparency utilized in measuring financial instruments at fair value. Please refer to Note 13 Fair Value Measurements in our 2012 Form 10-K for a full discussion.

During the three months ended March 31, 2013, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments.



**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Fair Value Measurements (continued)**

The following table summarizes the valuation of our financial instruments that are marked-to-market on a recurring basis.

(Dollars in millions)	Fair Value Measurements on a Recurring Basis							
	March 31, 2013				December 31, 2012			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Assets</b>								
Available-for-sale investments:								
Agency residential mortgage-backed securities	\$	\$ 67	\$	\$ 67	\$	\$ 63	\$	\$ 63
Guaranteed investment contracts		8		8		9		9
Other		10		10		9		9
Total available-for-sale investments		85		85		81		81
Derivative instruments: <sup>(1)</sup>								
Interest rate swaps		1,275	90	1,365		1,444	102	1,546
Cross-currency interest rate swaps		26	728	754		48	1,187	1,235
Other							4	4
Total derivative assets <sup>(3)</sup>		1,301	818	2,119		1,492	1,293	2,785
<b>Total</b>	\$	\$ 1,386	\$ 818	\$ 2,204	\$	\$ 1,573	\$ 1,293	\$ 2,866
<b>Liabilities<sup>(2)</sup></b>								
Derivative instruments <sup>(1)</sup>								
Interest rate swaps	\$	\$ (49)	\$ (166)	\$ (215)	\$	\$ (34)	\$ (175)	\$ (209)
Floor Income Contracts		(1,969)		(1,969)		(2,154)		(2,154)
Cross-currency interest rate swaps			(258)	(258)		(2)	(134)	(136)
Other								
Total derivative liabilities <sup>(3)</sup>		(2,018)	(424)	(2,442)		(2,190)	(309)	(2,499)
<b>Total</b>	\$	\$ (2,018)	\$ (424)	\$ (2,442)	\$	\$ (2,190)	\$ (309)	\$ (2,499)

(1) Fair value of derivative instruments excludes accrued interest and the value of collateral.

(2) 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.

(3) See Note 4 Derivative Financial Instruments for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.





Table of Contents

## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (continued)

The following tables summarize the change in balance sheet carrying value associated with level 3 financial instruments carried at fair value on a recurring basis.

(Dollars in millions)	Three Months Ended March 31, 2013			
	Interest Rate Swaps	Cross- Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (73)	\$ 1,053	\$ 4	\$ 984
Total gains/(losses) (realized and unrealized):				
Included in earnings <sup>(1)</sup>	5	(546)	(5)	(546)
Included in other comprehensive income				
Settlements	(8)	(37)	1	(44)
Transfers in and/or out of level 3				
<b>Balance, end of period</b>	\$ (76)	\$ 470	\$	\$ 394
Change in unrealized gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	\$ (3)	\$ (514)	\$ (5)	\$ (522)

(Dollars in millions)	Three Months Ended March 31, 2012			
	Interest Rate Swaps	Cross- Currency Interest Rate Swaps	Other	Total Derivative Instruments
<b>Balance, beginning of period</b>	\$ (40)	\$ 1,021	\$ 1	\$ 982
Total gains/(losses) (realized and unrealized):				
Included in earnings <sup>(1)</sup>	(4)	170	(5)	161
Included in other comprehensive income				
Settlements	(12)	(46)		(58)
Transfers in and/or out of level 3				
<b>Balance, end of period</b>	\$ (56)	\$ 1,145	\$ (4)	\$ 1,085
Change in unrealized gains/(losses) relating to instruments still held at the reporting date <sup>(2)</sup>	\$ (16)	\$ 124	\$ (4)	\$ 104

<sup>(1)</sup> Included in earnings is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

Edgar Filing: SLM CORP - Form 10-Q

(Dollars in millions)	Three Months Ended	
	March 31,	
	2013	2012
Gains (losses) on derivative and hedging activities, net	\$ (562)	\$ 116
Interest expense	16	45
<b>Total</b>	<b>\$ (546)</b>	<b>\$ 161</b>

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

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Fair Value Measurements (continued)**

The following table presents the significant inputs that are unobservable or from inactive markets used in the recurring valuations of the level 3 financial instruments detailed above.

(Dollars in millions)	Fair Value at March 31, 2013	Valuation Technique	Input	Range (Weighted Average)
<b>Derivatives</b>				
Consumer Price Index/LIBOR basis swaps			Bid/ask adjustment	0.03% 0.05%
	\$ 81	Discounted cash flow	to discount rate	(0.04%)
Prime/LIBOR basis swaps	(157)	Discounted cash flow	Constant prepayment rate	4.3%
			Bid/ask adjustment to discount rate	0.08% 0.08%
				(0.08%)
Cross-currency interest rate swaps	470	Discounted cash flow	Constant prepayment rate	2.6%
Total	\$ 394			

The significant inputs that are unobservable or from inactive markets related to our level 3 derivatives detailed in the table above would be expected to have the following impacts to the valuations:

**Consumer Price Index/LIBOR basis swaps** These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation.

**Prime/LIBOR basis swaps** These swaps do not actively trade in the markets as indicated by a wide bid/ask spread. A wider bid/ask spread will result in a decrease in the overall valuation. In addition, the unobservable inputs include constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap which will increase the value for swaps in a gain position and decrease the value for swaps in a loss position, everything else equal. The opposite is true for an increase in the input.

**Cross-currency interest rate swaps** The unobservable inputs used in these valuations are constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Fair Value Measurements (continued)**

The following table summarizes the fair values of our financial assets and liabilities, including derivative financial instruments.

(Dollars in millions)	March 31, 2013			December 31, 2012		
	Fair Value	Carrying Value	Difference	Fair Value	Carrying Value	Difference
<b>Earning assets</b>						
FFELP Loans	\$ 119,294	\$ 119,195	\$ 99	\$ 125,042	\$ 125,612	\$ (570)
Private Education Loans	37,214	37,465	(251)	36,081	36,934	(853)
Cash and investments <sup>(1)</sup>	9,519	9,519		9,994	9,994	
<b>Total earning assets</b>	<b>166,027</b>	<b>166,179</b>	<b>(152)</b>	<b>171,117</b>	<b>172,540</b>	<b>(1,423)</b>
<b>Interest-bearing liabilities</b>						
Short-term borrowings	17,250	17,254	4	19,861	19,856	(5)
Long-term borrowings	144,203	147,887	3,684	146,210	152,401	6,191
<b>Total interest-bearing liabilities</b>	<b>161,453</b>	<b>165,141</b>	<b>3,688</b>	<b>166,071</b>	<b>172,257</b>	<b>6,186</b>
<b>Derivative financial instruments</b>						
Floor Income Contracts	(1,969)	(1,969)		(2,154)	(2,154)	
Interest rate swaps	1,150	1,150		1,337	1,337	
Cross-currency interest rate swaps	496	496		1,099	1,099	
Other				4	4	
<b>Excess of net asset fair value over carrying value</b>			<b>\$ 3,536</b>			<b>\$ 4,763</b>

<sup>(1)</sup> Cash and investments includes available-for-sale investments that consist of investments that are primarily agency securities whose cost basis is \$83 million and \$78 million at March 31, 2013 and December 31, 2012, respectively, versus a fair value of \$85 million and \$81 million at March 31, 2013 and December 31, 2012, respectively.

The following includes a discussion of financial instruments whose fair value is included for disclosure purposes only in the table above along with their level in the fair value hierarchy.

**Student Loans****FFELP Loans**

Fair values for FFELP Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, cost of funds, capital levels, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

*Private Education Loans*

Fair values for Private Education Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are

---

**Table of Contents**

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**8. Fair Value Measurements (continued)**

prepayment speeds, default rates, recovery rates, cost of funds and capital levels. A number of significant inputs into the models are internally derived and not observable to market participants nor can the resulting fair values be validated against market transactions. As such, these are level 3 valuations.

***Cash and Investments (Including Restricted Cash and Investments )***

Cash and cash equivalents are carried at cost. Carrying value approximated fair value. These are level 2 valuations.

***Borrowings***

The full fair value of all borrowings is disclosed. Fair value was determined through standard bond pricing models and option models (when applicable) using the stated terms of the borrowings, observable yield curves, foreign currency exchange rates, volatilities from active markets or from quotes from broker-dealers. Fair value adjustments for unsecured corporate debt are made based on indicative quotes from observable trades and spreads on credit default swaps specific to the Company. Fair value adjustments for secured borrowings are based on indicative quotes from broker-dealers. These fair value adjustments are based on inputs from inactive markets. As such, these are level 3 valuations.

**9. Commitments and Contingencies**

In the ordinary course of business, we and our 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 and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against us and our subsidiaries.

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

In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, we 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.

We are required to establish reserves for litigation and regulatory matters where those matters present loss contingencies that are both probable and estimable. When loss contingencies are not both probable and estimable, we do not establish reserves.

Based on current knowledge, reserves have been established for certain litigation or regulatory matters where the loss is both probable and estimable. Based on current knowledge, management does not believe that loss contingencies, if any, arising from pending investigations, litigation or regulatory matters will have a material adverse effect on our consolidated financial position, liquidity, results of operations or cash flows.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Segment Reporting*****Consumer Lending Segment***

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, primarily consisting of late fees.

The following table includes asset information for our Consumer Lending segment.

<b>(Dollars in millions)</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
Private Education Loans, net	\$ 37,465	\$ 36,934
Cash and investments <sup>(1)</sup>	3,107	2,731
Other	3,095	3,275
 Total assets	 \$ 43,667	 \$ 42,940

<sup>(1)</sup> Includes restricted cash and investments.

***Business Services Segment***

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED, as well as processing capabilities to educational institutions and 529 college-savings plan programs. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

At March 31, 2013 and December 31, 2012, the Business Services segment had total assets of \$883 million and \$867 million, respectively.

***FFELP Loans Segment***

Our FFELP Loans segment consists of our \$119.2 billion FFELP Loan portfolio at March 31, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

The following table includes asset information for our FFELP Loans segment.

<b>(Dollars in millions)</b>	<b>March 31, 2013</b>	<b>December 31, 2012</b>
FFELP Loans, net	\$ 119,195	\$ 125,612
Cash and investments <sup>(1)</sup>	5,489	5,766
Other	3,703	4,286

Edgar Filing: SLM CORP - Form 10-Q

Total assets	\$ 128,387	\$ 135,664
--------------	------------	------------

(1) Includes restricted cash and investments.



---

**Table of Contents**

**SLM CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**10. Segment Reporting (continued)**

*Other Segment*

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment

At March 31, 2013 and December 31, 2012, the Other segment had total assets of \$1.1 billion and \$1.8 billion, respectively.

*Measure of Profitability*

The tables below include the condensed operating results for each of our reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that we refer to as *Core Earnings* performance measures for each operating segment. We use *Core Earnings* to manage each business segment because *Core Earnings* reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that *Core Earnings* provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items adjusted for in our *Core Earnings* presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. 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 our consolidated operating results in accordance with GAAP is also included in the tables below.

Our *Core Earnings* performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. 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. Our 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.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Segment Reporting (continued)****Segment Results and Reconciliations to GAAP****Three Months Ended March 31, 2013**

(Dollars in millions)	Consumer Business		FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total Core Earnings		Adjustments		Total Adjustments <sup>(2)</sup>	Total GAAP
	Lending	Services				Reclassification	Subtractions				
Interest income:											
Student loans	\$ 623	\$	\$ 599	\$	\$	\$ 1,222	\$ 212	\$ (76)	\$	\$ 136	\$ 1,358
Other loans				3		3					3
Cash and investments	1	2	2	2	(2)	5					5
<b>Total interest income</b>	<b>624</b>	<b>2</b>	<b>601</b>	<b>5</b>	<b>(2)</b>	<b>1,230</b>	<b>212</b>	<b>(76)</b>		<b>136</b>	<b>1,366</b>
Total interest expense	204		340	13	(2)	555	18	(2) <sup>(4)</sup>		16	571
Net interest income (loss)	420	2	261	(8)		675	194	(74)		120	795
Less: provisions for loan losses	225		16			241					241
Net interest income (loss) after provisions for loan losses	195	2	245	(8)		434	194	(74)		120	554
Servicing revenue	10	212	23		(149)	96					96
Contingency revenue		99				99					99
Gains on debt repurchases				29		29	(6)			(6)	23
Other income		8	55			63	(188)	184 <sup>(5)</sup>		(4)	59
Total other income (loss)	10	319	78	29	(149)	287	(194)	184		(10)	277
Expenses:											
Direct operating expenses	66	122	157		(149)	196					196
Overhead expenses				74		74					74
Operating expenses	66	122	157	74	(149)	270					270
Goodwill and acquired intangible assets impairment and amortization								4		4	4
Total expenses	66	122	157	74	(149)	270		4		4	274
Income (loss) before income tax expense (benefit)	139	199	166	(53)		451		106		106	557
Income tax expense (benefit) <sup>(3)</sup>	51	75	62	(20)		168		43		43	211
Net income (loss)	\$ 88	\$ 124	\$ 104	\$ (33)	\$	\$ 283	\$	\$ 63	\$	\$ 63	\$ 346

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

Edgar Filing: SLM CORP - Form 10-Q

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended March 31, 2013		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 120	\$	\$ 120
Total other loss	(10)		(10)
Goodwill and acquired intangible assets impairment and amortization		4	4
Total Core Earnings adjustments to GAAP	\$ 110	\$ (4)	106
Income tax expense			43
Net income			\$ 63

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

(4) Represents a portion of the \$29 million of other derivative accounting adjustments.

(5) Represents the \$157 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the \$29 million of other derivative accounting adjustments.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Segment Reporting (continued)**

(Dollars in millions)	Three Months Ended March 31, 2012									
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total Core Earnings	Reclassifications	Adjustments Additions/Subtractions	Total Adjustments <sup>(2)</sup>	Total GAAP
<b>Interest income:</b>										
Student loans	\$ 625	\$	\$ 725	\$	\$	\$ 1,350	\$ 215	\$ (98)	\$ 117	\$ 1,467
Other loans				5		5				5
Cash and investments	2	3	3		(3)	5				5
<b>Total interest income</b>	<b>627</b>	<b>3</b>	<b>728</b>	<b>5</b>	<b>(3)</b>	<b>1,360</b>	<b>215</b>	<b>(98)</b>	<b>117</b>	<b>1,477</b>
<b>Total interest expense</b>	<b>202</b>		<b>424</b>	<b>5</b>	<b>(3)</b>	<b>628</b>	<b>36</b>	<b>2<sup>(4)</sup></b>	<b>38</b>	<b>666</b>
<b>Net interest income (loss)</b>	<b>425</b>	<b>3</b>	<b>304</b>			<b>732</b>	<b>179</b>	<b>(100)</b>	<b>79</b>	<b>811</b>
Less: provisions for loan losses	235		18			253				253
<b>Net interest income (loss) after provisions for loan losses</b>	<b>190</b>	<b>3</b>	<b>286</b>			<b>479</b>	<b>179</b>	<b>(100)</b>	<b>79</b>	<b>558</b>
Servicing revenue	12	236	25		(176)	97				97
Contingency revenue		90				90				90
Gains on debt repurchases				37		37				37
Other income (loss)		8		3		11	(179)	(164) <sup>(5)</sup>	(343)	(332)
<b>Total other income (loss)</b>	<b>12</b>	<b>334</b>	<b>25</b>	<b>40</b>	<b>(176)</b>	<b>235</b>	<b>(179)</b>	<b>(164)</b>	<b>(343)</b>	<b>(108)</b>
<b>Expenses:</b>										
Direct operating expenses	69	120	185		(176)	198				198
Overhead expenses				64		64				64
<b>Operating expenses</b>	<b>69</b>	<b>120</b>	<b>185</b>	<b>64</b>	<b>(176)</b>	<b>262</b>				<b>262</b>
Goodwill and acquired intangible assets impairment and amortization								5	5	5
Restructuring expenses	1	1		3		5				5
<b>Total expenses</b>	<b>70</b>	<b>121</b>	<b>185</b>	<b>67</b>	<b>(176)</b>	<b>267</b>		<b>5</b>	<b>5</b>	<b>272</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>132</b>	<b>216</b>	<b>126</b>	<b>(27)</b>		<b>447</b>		<b>(269)</b>	<b>(269)</b>	<b>178</b>
Income tax expense (benefit) <sup>(3)</sup>	48	80	46	(10)		164		(97)	(97)	67
<b>Net income (loss)</b>	<b>84</b>	<b>136</b>	<b>80</b>	<b>(17)</b>		<b>283</b>		<b>(172)</b>	<b>(172)</b>	<b>111</b>
Less: net loss attributable to noncontrolling interest		(1)				(1)				(1)
<b>Net income (loss) attributable to SLM Corporation</b>	<b>\$ 84</b>	<b>\$ 137</b>	<b>\$ 80</b>	<b>\$ (17)</b>	<b>\$</b>	<b>\$ 284</b>	<b>\$</b>	<b>\$ (172)</b>	<b>\$ (172)</b>	<b>\$ 112</b>

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

## Edgar Filing: SLM CORP - Form 10-Q

(2) Core Earnings adjustments to GAAP:

	<b>Three Months Ended March 31, 2012</b>		
<b>(Dollars in millions)</b>	<b>Net Impact of Derivative Accounting</b>	<b>Net Impact of Goodwill and Acquired Intangibles</b>	<b>Total</b>
Net interest income after provisions for loan losses	\$ 79	\$	\$ 79
Total other loss	(343)		(343)
Goodwill and acquired intangible assets impairment and amortization		5	5
 Total Core Earnings adjustments to GAAP	 \$ (264)	 \$ (5)	 (269)
 Income tax benefit			 (97)
 Net loss			 \$ (172)

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

(4) Represents a portion of the \$27 million of other derivative accounting adjustments.

(5) Represents the \$193 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the \$27 million of other derivative accounting adjustments.

**Table of Contents****SLM CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****10. Segment Reporting (continued)***Summary of Core Earnings Adjustments to GAAP*

The two adjustments required to reconcile from our Core Earnings results to our GAAP results of operations relate to differing treatments for: (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The following table reflects aggregate adjustments associated with these areas.

(Dollars in millions)	Three months ended March 31,	
	2013	2012
<b>Core Earnings adjustments to GAAP:</b>		
Net impact of derivative accounting <sup>(1)</sup>	\$ 110	\$ (264)
Net impact of goodwill and acquired intangible assets <sup>(2)</sup>	(4)	(5)
Net tax effect <sup>(3)</sup>	(43)	97
<b>Total Core Earnings adjustments to GAAP</b>	<b>\$ 63</b>	<b>\$ (172)</b>

- (1) **Derivative accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.
- (2) **Goodwill and acquired intangible assets:** Our Core Earnings exclude goodwill and intangible asset impairment and amortization of acquired intangible assets.
- (3) **Net tax effect:** Such tax effect is based upon our Core Earnings effective tax rate for the year.

**11. Subsequent Event**

On April 11, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale will remove student loan assets of approximately \$2.03 billion and related liabilities of approximately \$1.99 billion from our balance sheet.

---

**Table of Contents**

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

The following discussion and analysis should be read in conjunction with our Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and our Audited Consolidated Financial Statements and related Notes thereto and

Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K).

This 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, opinions, 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 risks and uncertainties set forth in Item 1A Risk Factors and elsewhere in our 2012 Form 10-K and subsequent filings with the Securities and Exchange Commission (SEC); increases in financing costs; limits on liquidity; increases in costs associated with compliance with laws and regulations; changes in accounting standards and the impact of related changes in significant accounting estimates; any adverse outcomes in any significant litigation to which we are a party; credit risk associated with our exposure to third parties, including counterparties to our derivative transactions; and changes in the terms of student loans and the educational credit marketplace (including changes resulting from new laws and the implementation of existing laws). We could also be affected by, among other things: changes in our funding costs and availability; reductions to our credit ratings or the credit ratings of the United States of America; failures of our operating systems or infrastructure, including those of third-party vendors; damage to our reputation; failures to successfully implement cost-cutting and restructuring initiatives and adverse effects of such initiatives on our business; changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; changes in law and regulations with respect to the student lending business and financial institutions generally; increased competition from banks and other consumer lenders; the creditworthiness of our customers; changes in the general interest rate environment, including the rate relationships among relevant money-market instruments and those of our earning assets versus our funding arrangements; changes in general economic conditions; our ability to successfully effectuate any acquisitions and other strategic initiatives; and changes in the demand for debt management services. The preparation of our consolidated financial statements also requires management to make certain estimates and assumptions including estimates and assumptions about future events. These estimates or assumptions may prove to be incorrect. All forward-looking statements contained in this report are qualified by these cautionary statements and are made only as of the date of this document. We do not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in our expectations.

Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

Through this discussion and analysis, we intend to provide the reader with some narrative context for how our management views our consolidated financial statements, additional context within which to assess our operating results, and information on the quality and variability of our earnings, liquidity and cash flows.

**Table of Contents****Selected Financial Information and Ratios**

(In millions, except per share data)	Three Months Ended March 31,	
	2013	2012
<b>GAAP Basis</b>		
Net income attributable to SLM Corporation	\$ 346	\$ 112
Diluted earnings per common share attributable to SLM Corporation	\$ .74	\$ .21
Weighted average shares used to compute diluted earnings per share	458	510
Return on assets	.82%	.24%
<b>Core Earnings Basis</b>		
Core Earnings attributable to SLM Corporation	\$ 283	\$ 284
Core Earnings diluted earnings per common share attributable to SLM Corporation	\$ .61	\$ .55
Weighted average shares used to compute diluted earnings per share	458	510
Core Earnings return on assets	.67%	.62%
<b>Other Operating Statistics</b>		
Ending FFELP Loans, net	\$ 119,195	\$ 135,934
Ending Private Education Loans, net	37,465	36,732
Ending total student loans, net	\$ 156,660	\$ 172,666
Average student loans	\$ 160,261	\$ 174,942

- (1) Core Earnings are non-GAAP financial measures and do not represent a comprehensive basis of accounting. For a greater explanation of Core Earnings, see the section titled Core Earnings Definition and Limitations and subsequent sections.

**Overview**

Our primary business is to originate, service and collect loans we make to students and their families to finance the cost of education. The core of our marketing strategy is to generate student loan originations by promoting our products on campus through the financial aid office and through direct marketing to students and their families. We also provide servicing, loan default aversion and defaulted loan collection services for loans owned by other institutions, including ED, as well as providing processing capabilities to educational institutions, 529 college-savings plan program management services and a consumer savings network.

In addition we are the largest holder, servicer and collector of loans made under FFELP, a program that was discontinued in 2010.

We monitor and assess our ongoing operations and results based on the following four reportable segments:

- (1) Consumer Lending, (2) Business Services, (3) FFELP Loans and (4) Other.

**Consumer Lending Segment**

In this segment, we originate, acquire, finance and service Private Education Loans. The Private Education Loans we make are primarily to bridge the gap between the cost of higher education and the amount funded through financial aid, federal loans or customers' resources. In this segment, we earn net interest income on the Private Education Loan portfolio (after provision for loan losses) as well as servicing fees, primarily consisting of late fees.



---

## **Table of Contents**

### ***Business Services Segment***

Our Business Services segment generates the majority of its revenue from servicing our FFELP Loan portfolio. We also provide servicing, loan default aversion and defaulted loan collection services for loans on behalf of Guarantors of FFELP Loans and other institutions, including ED, as well as processing capabilities to educational institutions and 529 college-savings plan programs. We also operate a consumer savings network that provides financial rewards on everyday purchases to help families save for college.

### ***FFELP Loans Segment***

Our FFELP Loans segment consists of our \$119.2 billion FFELP Loan portfolio at March 31, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

### ***Other***

Our Other segment primarily consists of activities of our holding company, including the repurchase of debt, the corporate liquidity portfolio and all overhead. We also include results from smaller wind-down and discontinued operations within this segment.

### **Recent Developments**

Many aspects of our businesses are subject to federal and state regulation and administrative oversight, including by the Consumer Financial Protection Bureau (the CFPB). We expect the CFPB and other regulatory agencies will continue proposing new or additional regulatory requirements or oversight over our various businesses (most notably, private student lending and servicing, default aversion and debt collection), or, generally to large nonbank financial services companies. Additional information on supervision and regulation of our businesses can be found in Item 1, Business Supervision and Regulation in our 2012 Form 10-K.

#### ***CFPB Oversight of Nonbank Student Loan Servicers***

On March 14, 2013, the CFPB proposed a new rule allowing the CFPB to federally supervise certain nonbank student loan servicers for the first time. As proposed, the CFPB will have supervisory authority over any nonbank student loan servicer that services more than one million borrower accounts, including accounts for both Private Education Loans and federal student loans. We would be subject to this new oversight. Under the proposal, the CFPB's supervision would include gathering reports, conducting examinations for compliance with federal consumer financial laws and taking enforcement actions as appropriate, similar to the CFPB's current supervisory authority over large bank student loan servicers. The CFPB expects to issue a final rule by the end of this year.

### **Key Financial Measures**

Our operating results are primarily driven by net interest income from our student loan portfolios (which include financing costs), provision for loan losses, the revenues and expenses generated by our service businesses, and gains and losses on loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions for loan losses; charge-offs and delinquencies; servicing and contingency revenues; other income (loss); operating expenses; and Core Earnings) can be found in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K.

---

## **Table of Contents**

### **First-Quarter 2013 Summary of Results**

We operate in a challenging economic environment marked by continued high unemployment resulting in uncertainty to Private Education Loan collectibility.

Our first-quarter 2013 accomplishments are discussed below.

We report financial results on a GAAP basis and also present certain Core Earnings performance measures. Our management, equity investors, credit rating agencies and debt capital providers use these Core Earnings measures to monitor our business performance. See Core Earnings Definition and Limitations for a further discussion and a complete reconciliation between GAAP net income and Core Earnings.

First-quarter 2013 GAAP net income was \$346 million (\$0.74 diluted earnings per share), versus net income of \$112 million (\$0.21 diluted earnings per share) in the first-quarter 2012. The changes in GAAP net income are driven by the same types of Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. First-quarter 2013 results included a \$110 million gain from derivative accounting treatment that is excluded from Core Earnings results. In the year-ago period, these amounts were losses of \$264 million.

Core Earnings for the quarter were \$283 million (\$0.61 diluted earnings per share), compared with \$284 million (\$0.55 diluted earnings per share) in the year-ago period. The improvement in Core Earnings earnings per share was primarily the result of a \$55 million gain from the sale of the Residual Interest in a FFELP Loan securitization trust, a \$12 million decline in the provision for loan losses and a decline in the number of common shares outstanding, which more than offset lower net interest income before provision for loan losses of \$57 million and lower debt repurchase gains of \$8 million.

During the first quarter of 2013, we:

issued \$1.2 billion of FFELP asset-backed securities ( ABS ), \$1.4 billion of Private Education Loan ABS and \$1.5 billion of unsecured bonds;

repurchased \$927 million of debt and realized Core Earnings gains of \$29 million, compared with \$204 million of debt repurchased and \$37 million of gains in the first quarter of 2012;

repurchased 10 million common shares for \$199 million on the open market as part of our previously announced share repurchase program authorization of up to \$400 million;

increased our regular quarterly common stock dividend to \$0.15 per share, up from \$0.125 per share in the prior quarter. We paid our quarterly dividend on March 15, 2013; and

sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed student loan assets of \$3.8 billion and related liabilities of \$3.7 billion from our balance sheet.

### **2013 Management Objectives**

In 2013 we have set out five major goals to create shareholder value. They are: (1) prudently grow Consumer Lending segment assets and revenues; (2) maximize cash flows from FFELP Loans; (3) reduce operating expenses while improving efficiency and customer experience; (4) maintain our financial strength; and (5) expand the Bank's capabilities. Here is how we plan to achieve these objectives and the progress we have made to date:



---

**Table of Contents**

***Prudently Grow Consumer Lending Segment Assets and Revenues***

We will continue to pursue managed growth in our Private Education Loan portfolio in 2013 by leveraging our Sallie Mae and Upromise brand while sustaining the credit quality of, and percentage of cosigners for, new originations. We are currently targeting at least \$4 billion in new loan originations for 2013, compared with \$3.3 billion in 2012. We will also continue to help our customers manage their borrowings and succeed in its payoff, which we expect will result in lower charge-offs and provision for loan losses. Originations were 22 percent higher in the first quarter of 2013 compared with the year-ago quarter. Charge-offs remained unchanged at 3.0 percent in both quarters. Provision for Private Education Loan losses decreased \$10 million from the year-ago quarter.

***Maximize Cash Flows from FFELP Loans***

In 2013, we will continue to purchase additional FFELP Loan portfolios. In February 2013, we sold our ownership interest in one of our FFELP Loan securitization trusts. We will continue to explore alternative transactions and structures that can increase our ability to maximize the value of our ownership interests in these trusts and allow us to diversify our holdings while maintaining servicing fee income. We must also continue to reduce operating and overhead costs attributable to the maintenance and management of this segment. During the first quarter of 2013, we purchased \$154 million of FFELP Loans.

***Reduce Operating Expenses While Improving Efficiency and Customer Experience***

For 2013, we will reduce unit costs, and balance our Private Education Loan growth and the challenge of increased regulatory oversight. We also plan to improve efficiency and customer experience by replacing certain of our legacy systems and making enhancements to our self-service platform and call centers (including improved call segmentation that routes an in-bound customer call directly to the appropriate agent who can answer the customer's inquiry). First-quarter 2013 operating expenses were \$270 million compared with \$262 million in the year-ago quarter. Excluding the result of a non-recurring \$8 million pension termination gain in first-quarter 2012, operating expenses were unchanged.

***Maintain Our Financial Strength***

In January 2013, we announced an increase in our quarterly common stock dividend to \$0.15 per share and a new \$400 million common share repurchase program. It is management's objective for 2013 to provide these shareholder distributions while ending 2013 with capital and reserve positions as strong as those with which we ended 2012. We also plan to continue to issue FFELP ABS primarily to refinance our remaining FFELP Loans in ED's Conduit Program prior to the Conduit Program's January 19, 2014 maturity date. During the first quarter of 2013, \$2.3 billion in principal amount of FFELP Loans were refinanced out of the ED Conduit Program leaving \$6.9 billion in principal amount of FFELP Loans remaining in the ED Conduit Program as of March 31, 2013. During the first quarter of 2013, we repurchased 10 million shares of common stock at an aggregate purchase price of \$199 million.

***Expand Bank Capabilities***

The Bank will fund our Private Education Loan originations in 2013. We are continuing to evolve the operational and enterprise risk oversight program at the Bank in preparation for expected growth and designation as a large bank, which will entail enhanced regulatory scrutiny. In addition, we plan to voluntarily make similar changes at SLM Corporation. See the 2012 10-K, Item 1 Business Supervision and Regulation Regulatory Outlook Evolving Regulation of the Bank for additional information about the Bank's regulatory environment once it becomes a large bank.

**Table of Contents****RESULTS OF OPERATIONS**

We present the results of operations below first on a consolidated basis in accordance with GAAP. Following our discussion of consolidated earnings results on a GAAP basis, we present our results on a segment basis. We have four business segments: FFELP Loans, Consumer Lending, Business Services and Other. Since these segments operate in distinct business environments and we manage and evaluate the financial performance of these segments using non-GAAP financial measures, these segments are presented on a Core Earnings basis (see Core Earnings Definition and Limitations ).

**GAAP Statements of Income (Unaudited)**

(Dollars in millions, except per share data)	Three Months Ended March 31,		Increase (Decrease)	
	2013	2012	\$	%
Interest income:				
FFELP Loans	\$ 735	\$ 842	\$ (107)	(13)%
Private Education Loans	623	625	(2)	
Other loans	3	5	(2)	(40)
Cash and investments	5	5		
Total interest income	1,366	1,477	(111)	(8)
Total interest expense	571	666	(95)	(14)
Net interest income	795	811	(16)	(2)
Less: provisions for loan losses	241	253	(12)	(5)
Net interest income after provisions for loan losses	554	558	(4)	(1)
Other income (loss):				
Losses on derivative and hedging activities, net	(31)	(372)	341	(92)
Servicing revenue	96	97	(1)	(1)
Contingency revenue	99	90	9	10
Gains on debt repurchases	23	37	(14)	(38)
Other income	90	40	50	125
Total other income (loss)	277	(108)	385	356
Expenses:				
Operating expenses	270	262	8	3
Goodwill and acquired intangible assets impairment and amortization expense	4	5	(1)	(20)
Restructuring expenses		5	(5)	(100)
Total expenses	274	272	2	1
Income before income tax expense	557	178	379	213
Income tax expense	211	67	144	215
<b>Net income</b>	<b>346</b>	<b>111</b>	<b>235</b>	<b>212</b>
Less: net loss attributable to noncontrolling interest		(1)	1	(100)
<b>Net income attributable to SLM Corporation</b>	<b>346</b>	<b>112</b>	<b>234</b>	<b>209</b>
Preferred stock dividends	5	5		
Net income attributable to SLM Corporation common stock	\$ 341	\$ 107	\$ 234	219%
Basic earnings per common share attributable to SLM Corporation	\$ .76	\$ .21	\$ .55	262%
Diluted earnings per common share attributable to SLM Corporation	\$ .74	\$ .21	\$ .53	252%

## Edgar Filing: SLM CORP - Form 10-Q

Dividends per common share attributable to SLM Corporation	\$ .15	\$ .125	\$ .025	20%
--	--------	---------	---------	-----

**Table of Contents****Consolidated Earnings Summary GAAP-basis****Three Months Ended March 31, 2013 Compared with Three Months Ended March 31, 2012**

For the three months ended March 31, 2013, net income was \$346 million, or \$0.74 diluted earnings per common share, compared with net income of \$112 million, or \$0.21 diluted earnings per common share, for the three months ended March 31, 2012. The increase in net income was primarily due to a \$341 million decrease in net losses on derivative and hedging activities, a \$50 million increase in other income and a \$12 million decrease in provisions for loan losses, which were partially offset by a \$16 million decrease in net interest income and a \$14 million decrease in gains on debt repurchases.

The primary contributors to each of the identified drivers of changes in net income for the current quarter compared with the year-ago quarter are as follows:

Net interest income declined by \$16 million primarily due to a \$15.3 billion decline in average FFELP Loans outstanding. The decline in average FFELP Loans outstanding was driven by normal loan amortization as well as \$5.2 billion of loans that were consolidated by the U. S. Department of Education ( ED ) in 2012 under their Special Direct Consolidation Loan Initiative ( SDCL ).

Provisions for loan losses declined \$12 million compared with the year-ago quarter primarily as a result of the overall improvement in Private Education Loans credit quality and delinquency trends as well as expected decreases in future charge-offs.

Other income increased by \$50 million primarily as a result of a \$55 million gain on the sale of the Residual Interest in a FFELP Loan securitization trust. See FFELP Loans Segment for further discussion.

Gains (losses) on derivative and hedging activities resulted in a net loss of \$31 million in the current quarter compared with a net loss of \$372 million in the year-ago quarter. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Gains on debt repurchases decreased \$14 million. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

First-quarter 2013 operating expenses were \$270 million compared with \$262 million in the year-ago quarter. Excluding the result of a non-recurring \$8 million pension termination gain in first-quarter 2012, operating expenses were unchanged.

In addition, we repurchased 10 million shares of our common stock during the first-quarter 2013 as part of a common share repurchase program. Primarily as a result of ongoing common share repurchases, our average outstanding diluted shares decreased by 52 million shares from the year-ago quarter.

**Core Earnings Definition and Limitations**

We prepare financial statements in accordance with GAAP. However, we also evaluate our business segments on a basis that differs from GAAP. We refer to this different basis of presentation as Core Earnings. We provide this Core Earnings basis of presentation on a consolidated basis for each business segment because this is what we review internally when making management decisions regarding our performance and how we allocate resources. We also refer to this information in our presentations with credit rating agencies, lenders and investors. Because our Core Earnings basis of presentation corresponds to our segment financial presentations, we are required by GAAP to provide Core Earnings disclosure in the notes to our consolidated financial statements for our business segments. For additional information, see Note 10 Segment

Reporting.



## **Table of Contents**

Core Earnings are not a substitute for reported results under GAAP. We use Core Earnings to manage each business segment because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by management. The two items for which we adjust our Core Earnings presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets.

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our Core Earnings basis of presentation does not. Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, 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. Accordingly, our Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our 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, our board of directors, rating agencies, lenders and investors to assess performance.

Specific adjustments that management makes to GAAP results to derive our Core Earnings basis of presentation are described in detail in the section titled Core Earnings Definition and Limitations Differences between Core Earnings and GAAP of this Item 2.

The following tables show Core Earnings for each business segment and our business as a whole along with the adjustments made to the income/expense items to reconcile the amounts to our reported GAAP results as required by GAAP and reported in Note 10 Segment Reporting.

**Table of Contents**

(Dollars in millions)	Three Months Ended March 31, 2013									
	Total					Adjustments				
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Core Earnings	Reclassifications	Additions/Subtractions	Total Adjustments <sup>(2)</sup>	Total GAAP
Interest income:										
Student loans	\$ 623	\$	\$ 599	\$	\$	\$ 1,222	\$ 212	\$ (76)	\$ 136	\$ 1,358
Other loans				3		3				3
Cash and investments	1	2	2	2	(2)	5				5
<b>Total interest income</b>	<b>624</b>	<b>2</b>	<b>601</b>	<b>5</b>	<b>(2)</b>	<b>1,230</b>	<b>212</b>	<b>(76)</b>	<b>136</b>	<b>1,366</b>
Total interest expense	204		340	13	(2)	555	18	(2) <sup>(4)</sup>	16	571
Net interest income (loss)	420	2	261	(8)		675	194	(74)	120	795
Less: provisions for loan losses	225		16			241				241
Net interest income (loss) after provisions for loan losses	195	2	245	(8)		434	194	(74)	120	554
Servicing revenue	10	212	23		(149)	96				96
Contingency revenue		99				99				99
Gains on debt repurchases				29		29	(6)		(6)	23
Other income		8	55			63	(188)	184 <sup>(5)</sup>	(4)	59
Total other income (loss)	10	319	78	29	(149)	287	(194)	184	(10)	277
Expenses:										
Direct operating expenses	66	122	157		(149)	196				196
Overhead expenses				74		74				74
Operating expenses	66	122	157	74	(149)	270				270
Goodwill and acquired intangible assets impairment and amortization								4	4	4
Total expenses	66	122	157	74	(149)	270		4	4	274
Income (loss) before income tax expense (benefit)	139	199	166	(53)		451		106	106	557
Income tax expense (benefit) <sup>(3)</sup>	51	75	62	(20)		168		43	43	211
Net income (loss)	\$ 88	\$ 124	\$ 104	\$ (33)	\$	\$ 283	\$	\$ 63	\$ 63	\$ 346

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended March 31, 2013		
	Net Impact of	Net Impact of	Total
	Derivative Accounting	Goodwill and Acquired Intangibles	
Net interest income after provisions for loan losses	\$ 120	\$	\$ 120
Total other loss	(10)		(10)
Goodwill and acquired intangible assets impairment and amortization		4	4
Total Core Earnings adjustments to GAAP	\$ 110	\$ (4)	106
Income tax expense			43

Net income

\$ 63

- (3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
- (4) Represents a portion of the \$29 million of other derivative accounting adjustments.
- (5) Represents the \$157 million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the \$29 million of other derivative accounting adjustments.

**Table of Contents**

(Dollars in millions)	Three Months Ended March 31, 2012									
	Consumer Lending	Business Services	FFELP Loans	Other	Eliminations <sup>(1)</sup>	Total Core Earnings	Reclassifications	Adjustments Additions/Subtractions	Total Adjustments <sup>(2)</sup>	Total GAAP
Interest income:										
Student loans	\$ 625	\$	\$ 725	\$	\$	\$ 1,350	\$ 215	\$ (98)	\$ 117	\$ 1,467
Other loans				5		5				5
Cash and investments	2	3	3		(3)	5				5
<b>Total interest income</b>	<b>627</b>	<b>3</b>	<b>728</b>	<b>5</b>	<b>(3)</b>	<b>1,360</b>	<b>215</b>	<b>(98)</b>	<b>117</b>	<b>1,477</b>
Total interest expense	202		424	5	(3)	628	36	2 <sup>(4)</sup>	38	666
<b>Net interest income (loss)</b>	<b>425</b>	<b>3</b>	<b>304</b>			<b>732</b>	<b>179</b>	<b>(100)</b>	<b>79</b>	<b>811</b>
Less: provisions for loan losses	235		18			253				253
<b>Net interest income (loss) after provisions for loan losses</b>	<b>190</b>	<b>3</b>	<b>286</b>			<b>479</b>	<b>179</b>	<b>(100)</b>	<b>79</b>	<b>558</b>
Servicing revenue	12	236	25		(176)	97				97
Contingency revenue		90				90				90
Gains on debt repurchases				37		37				37
Other income (loss)		8		3		11	(179)	(164) <sup>(5)</sup>	(343)	(332)
<b>Total other income (loss)</b>	<b>12</b>	<b>334</b>	<b>25</b>	<b>40</b>	<b>(176)</b>	<b>235</b>	<b>(179)</b>	<b>(164)</b>	<b>(343)</b>	<b>(108)</b>
Expenses:										
Direct operating expenses	69	120	185		(176)	198				198
Overhead expenses				64		64				64
<b>Operating expenses</b>	<b>69</b>	<b>120</b>	<b>185</b>	<b>64</b>	<b>(176)</b>	<b>262</b>				<b>262</b>
Goodwill and acquired intangible assets impairment and amortization								5	5	5
Restructuring expenses	1	1		3		5				5
<b>Total expenses</b>	<b>70</b>	<b>121</b>	<b>185</b>	<b>67</b>	<b>(176)</b>	<b>267</b>		<b>5</b>	<b>5</b>	<b>272</b>
<b>Income (loss) before income tax expense (benefit)</b>	<b>132</b>	<b>216</b>	<b>126</b>	<b>(27)</b>		<b>447</b>		<b>(269)</b>	<b>(269)</b>	<b>178</b>
Income tax expense (benefit) <sup>(3)</sup>	48	80	46	(10)		164		(97)	(97)	67
<b>Net income (loss)</b>	<b>84</b>	<b>136</b>	<b>80</b>	<b>(17)</b>		<b>283</b>		<b>(172)</b>	<b>(172)</b>	<b>111</b>
Less: net loss attributable to noncontrolling interest		(1)				(1)				(1)
<b>Net income (loss) attributable to SLM Corporation</b>	<b>\$ 84</b>	<b>\$ 137</b>	<b>\$ 80</b>	<b>\$ (17)</b>	<b>\$</b>	<b>\$ 284</b>	<b>\$</b>	<b>\$ (172)</b>	<b>\$ (172)</b>	<b>\$ 112</b>

(1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

(2) Core Earnings adjustments to GAAP:

(Dollars in millions)	Three Months Ended March 31, 2012		
	Net Impact of Derivative Accounting	Net Impact of Goodwill and Acquired Intangibles	Total
Net interest income after provisions for loan losses	\$ 79	\$	\$ 79
Total other loss	(343)		(343)

## Edgar Filing: SLM CORP - Form 10-Q

Goodwill and acquired intangible assets impairment and amortization	5		5
Total Core Earnings adjustments to GAAP	\$ (264)	\$	(5) (269)
Income tax benefit			(97)
Net loss			\$ (172)

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

(4) Represents a portion of the \$27 million of other derivative accounting adjustments.

(5) Represents the \$193 million of unrealized losses on derivative and hedging activities, net as well as the remaining portion of the \$27 million of other derivative accounting adjustments.

**Table of Contents****Differences between Core Earnings and GAAP**

The two adjustments required to reconcile from our Core Earnings results to our GAAP results of operations relate to differing treatments for: (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The following table reflects aggregate adjustments associated with these areas.

(Dollars in millions)	Three Months Ended	
	March 31,	
	2013	2012
<b>Core Earnings adjustments to GAAP:</b>		
Net impact of derivative accounting	\$ 110	\$ (264)
Net impact of goodwill and acquired intangible assets	(4)	(5)
Net income tax effect	(43)	97
<b>Total Core Earnings adjustments to GAAP</b>	<b>\$ 63</b>	<b>\$ (172)</b>

1) **Derivative Accounting:** Core Earnings exclude periodic unrealized gains and losses that are caused by the mark-to-market valuations on derivatives that do not qualify for hedge accounting treatment under GAAP as well as the periodic unrealized gains and losses that are a result of ineffectiveness recognized related to effective hedges under GAAP. These unrealized gains and losses occur in our Consumer Lending, FFELP Loans and Other business segments. Under GAAP, for our derivatives that are held to maturity, the cumulative net unrealized gain or loss over the life of the contract will equal \$0 except for Floor Income Contracts where the cumulative unrealized gain will equal the amount for which we sold the contract. In our Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any net settlement cash paid or received being recognized ratably as an interest expense or revenue over the hedged item's life.

The accounting for derivatives requires that changes in the fair value of derivative instruments be recognized currently in earnings, with no fair value adjustment of the hedged item, unless specific hedge accounting criteria are met. We believe that our derivatives are effective economic hedges, and as such, are a critical element of our interest rate and foreign currency risk management strategy. However, some of our derivatives, primarily Floor Income Contracts and certain basis swaps, do not qualify for hedge accounting treatment and the stand-alone derivative must be marked-to-market in the income statement with no consideration for the corresponding change in fair value of the hedged item. These gains and losses recorded 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 accounting treatment.

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. 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. Additionally, the term, the interest rate index, and the interest rate index reset frequency of the Floor Income Contract can be different than that of the student loans. Under derivative accounting treatment, 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 earning Floor Income but that offsetting change in value is not recognized. 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. Therefore, for purposes of Core Earnings, we have removed the unrealized gains and losses related to these contracts and

**Table of Contents**

added back the amortization of the net premiums received on the Floor Income Contracts. The amortization of the net premiums received on the Floor Income Contracts for Core Earnings is reflected in student loan interest income. Under GAAP accounting, the premiums received on the Floor Income Contracts are recorded as revenue in the losses on derivative and hedging activities, net line item by the end of the contracts lives.

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 hedge our student loan assets that are primarily indexed to LIBOR, Prime or Treasury bill index (for \$128 billion of our FFELP assets as of April 1, 2012, we elected to change the index from commercial paper to LIBOR). In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. The accounting for derivatives 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 for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. 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 between GAAP and Core Earnings net income.

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
<b>Core Earnings derivative adjustments:</b>		
Losses on derivative and hedging activities, net, included in other income <sup>(1)</sup>	\$ (31)	\$ (372)
Plus: Realized losses on derivative and hedging activities, net <sup>(1)</sup>	188	179
Unrealized gains (losses) on derivative and hedging activities, net <sup>(2)</sup>	157	(193)
Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings	(76)	(98)
Other derivative accounting adjustments <sup>(3)</sup>	29	27
<b>Total net impact of derivative accounting<sup>(4)</sup></b>	<b>\$ 110</b>	<b>\$ (264)</b>

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

(2) Unrealized gains (losses) on derivative and hedging activities, net comprises the following unrealized mark-to-market gains (losses):

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
Floor Income Contracts	\$ 189	\$ 136
Basis swaps	(4)	(22)
Foreign currency hedges	(32)	(294)
Other	4	(13)
<b>Total unrealized gains (losses) on derivative and hedging activities, net</b>	<b>\$ 157</b>	<b>\$ (193)</b>

(3) Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustment are reversed for Core Earnings and (2) certain terminated derivatives that did not receive hedge

## Edgar Filing: SLM CORP - Form 10-Q

accounting treatment under GAAP but were economic hedges under Core Earnings and, as a result, such gains or losses amortized into Core Earnings over the life of the hedged item.

- (4) 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.



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

Derivative accounting 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 to be recorded in a separate income statement line item below net interest income. Under our Core Earnings 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 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. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a Core Earnings basis.

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
<b>Reclassification of realized gains (losses) on derivative and hedging activities:</b>		
Net settlement expense on Floor Income Contracts reclassified to net interest income	\$ (212)	\$ (215)
Net settlement income on interest rate swaps reclassified to net interest income	18	36
Net realized gains on terminated derivative contracts reclassified to other income	6	
<b>Total reclassifications of realized losses on derivative and hedging activities</b>	<b>\$ (188)</b>	<b>\$ (179)</b>

*Cumulative Impact of Derivative Accounting under GAAP compared to Core Earnings*

As of March 31, 2013, derivative accounting has reduced GAAP equity by approximately \$1.0 billion as a result of cumulative net unrealized losses (after tax) recognized under GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these unrealized after tax net losses related to derivative accounting.

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
Beginning impact of derivative accounting on GAAP equity	\$ (1,080)	\$ (977)
Net impact of net unrealized gains (losses) under derivative accounting <sup>(1)</sup>	53	(172)
<b>Ending impact of derivative accounting on GAAP equity</b>	<b>\$ (1,027)</b>	<b>\$ (1,149)</b>

<sup>(1)</sup> Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

(Dollars in millions)	Three Months Ended	
	2013	March 31, 2012
Total pre-tax net impact of derivative accounting recognized in net income <sup>(a)</sup>	\$ 110	\$ (264)
Tax impact of derivative accounting adjustment recognized in net income	(60)	87
Change in unrealized gains on derivatives, net of tax recognized in Other Comprehensive Income	3	5
<b>Net impact of net unrealized gains (losses) under derivative accounting</b>	<b>\$ 53</b>	<b>\$ (172)</b>

## Edgar Filing: SLM CORP - Form 10-Q

<sup>(a)</sup> See Core Earnings derivative adjustments table above.

Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods and are presented net of tax. As of March 31, 2013, the remaining amortization term of the net floor premiums was approximately 3.25 years for existing contracts. Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into

**Table of Contents**

additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

(Dollars in millions)	March 31,	
	2013	2012
Unamortized net Floor premiums (net of tax)	\$ (498)	\$ (711)

2) **Goodwill and Acquired Intangible Assets:** Our Core Earnings exclude goodwill and intangible asset impairment and the amortization of acquired intangible assets. The following table summarizes the goodwill and acquired intangible asset adjustments.

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
Core Earnings goodwill and acquired intangible asset adjustments	\$ (4)	\$ (5)

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

**Business Segment Earnings Summary Core Earnings Basis****Consumer Lending Segment**

The following table includes Core Earnings results for our Consumer Lending segment.

(Dollars in millions)	Three Months Ended March 31,		% Increase (Decrease) March 31, 2013 vs. March 31, 2012
	2013	2012	
Core Earnings interest income:			
Private Education Loans	\$ 623	\$ 625	%
Cash and investments	1	2	(50)
Total Core Earnings interest income	624	627	
Total Core Earnings interest expense	204	202	1
Net Core Earnings interest income	420	425	(1)
Less: provision for loan losses	225	235	(4)
Net Core Earnings interest income after provisions for loan losses	195	190	3
Servicing revenue	10	12	(17)
Total other income	10	12	(17)
Direct operating expenses	66	69	(4)
Restructuring expenses		1	(100)
Total expenses	66	70	(6)
Income before income tax expense	139	132	5
Income tax expense	51	48	6

## Edgar Filing: SLM CORP - Form 10-Q

Core Earnings	\$ 88	\$ 84	5%
---------------	-------	-------	----

Core Earnings were \$88 million for the three months ended March 31, 2013, compared with \$84 million in the year-ago period. This improvement was primarily the result of reduced loan loss provision.

Highlights compared to first-quarter 2012 included:

Loan originations of \$1.4 billion, up 22 percent.

Delinquencies of 90 days or more of 3.9 percent of loans in repayment, down from 4.4 percent.

**Table of Contents**

Loans in forbearance of 3.4 percent of loans in repayment and forbearance, down from 4.3 percent.

Annualized charge-off rate of 3.0 percent of average loans in repayment for both the current and year-ago quarters.

Provision for Private Education Loan losses of \$225 million, down from \$235 million.

Core net interest margin, before loan loss provision, of 4.15 percent, down from 4.26 percent.

The portfolio balance, net of loan loss allowance, totaled \$37 billion, a \$733 million increase over the year-ago quarter.

**Consumer Lending Net Interest Margin**

The following table shows the Core Earnings basis Consumer Lending net interest margin along with reconciliation to the GAAP-basis Consumer Lending net interest margin before provision for loan losses.

	<b>Three Months Ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Core Earnings basis Private Education Loan yield	6.35%	6.42%
Discount amortization	.23	.24
Core Earnings basis Private Education Loan net yield	6.58	6.66
Core Earnings basis Private Education Loan cost of funds	(2.02)	(2.01)
Core Earnings basis Private Education Loan spread	4.56	4.65
Core Earnings basis other interest-earning asset spread impact	(.41)	(.39)
Core Earnings basis Consumer Lending net interest margin	4.15%	4.26%
Core Earnings basis Consumer Lending net interest margin	4.15%	4.26%
Adjustment for GAAP accounting treatment	(.03)	(.13)
GAAP-basis Consumer Lending net interest margin <sup>(1)</sup>	4.12%	4.13%

<sup>(1)</sup> The average balances of our Consumer Lending Core Earnings basis interest-earning assets for the respective periods are:

<b>(Dollars in millions)</b>		
Private Education Loans	\$ 38,406	\$ 37,749
Other interest-earning assets	2,662	2,327
Total Consumer Lending Core Earnings basis interest-earning assets	\$ 41,068	\$ 40,076

**Private Education Loan Provision for Loan Losses and Charge-Offs**

## Edgar Filing: SLM CORP - Form 10-Q

The following table summarizes the total Private Education Loan provision for loan losses and charge-offs.

<b>(Dollars in millions)</b>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2013</b>	<b>2012</b>
Private Education Loan provision for loan losses	\$ 225	\$ 235
Private Education Loan charge-offs	\$ 232	\$ 224

In establishing the allowance for Private Education Loan losses as of March 31, 2013, we considered several factors with respect to our Private Education Loan portfolio. In particular, as compared with the year-ago period, we continue to see improving credit quality and continuing positive delinquency, forbearance and charge-off

**Table of Contents**

trends in connection with this portfolio. Improving credit quality is seen in higher FICO scores and cosigner rates as well as a more seasoned portfolio. Total loans delinquent (as a percentage of loans in repayment) has decreased to 7.8 percent from 9.1 percent in the year-ago quarter. Loans greater than 90 days delinquent (as a percentage of loans in repayment) has decreased to 3.9 percent from 4.4 percent in the year-ago quarter. Loans in forbearance (as a percentage of loans in repayment and forbearance) have decreased to 3.4 percent from 4.3 percent in the year-ago quarter. The charge-off rate remained unchanged at 3.0 percent in both quarters.

Additionally, Private Education Loans that have defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue to not do so. Our allowance for loan losses takes into account these potential recovery uncertainties.

The Private Education Loan provision for loan losses was \$225 million in the first quarter of 2013, down \$10 million from the first quarter of 2012, as a result of the overall improvement in credit quality and delinquency trends as well as expected decreases in future charge-offs.

For a more detailed discussion of our policy for determining the collectability of Private Education Loans and maintaining our allowance for Private Education Loan losses, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Allowance for Loan Losses in our Annual Report on Form 10-K for the year ended December 31, 2012.

***Operating Expenses Consumer Lending Segment***

Operating expenses for our Consumer Lending segment include costs incurred to originate Private Education Loans and to service and collect on our Private Education Loan portfolio. The decrease in operating expenses in the quarter ended March 31, 2013 compared with the quarter ended March 31, 2012 was primarily the result of continued management focus on expense control and operating efficiencies. Operating expenses were 70 basis points and 77 basis points of average Private Education Loans in the quarters ended March 31, 2013 and 2012, respectively.

**Table of Contents****Business Services Segment**

The following table includes Core Earnings results for our Business Services segment.

(Dollars in millions)	Three Months Ended March 31,		% Increase (Decrease)
	2013	2012	2013 vs. 2012
Net interest income	\$ 2	\$ 3	(33)%
Servicing revenue:			
Intercompany loan servicing	149	176	(15)
Third-party loan servicing	27	22	23
Guarantor servicing	10	11	(9)
Other servicing	26	27	(4)
Total servicing revenue	212	236	(10)
Contingency revenue	99	90	10
Other Business Services revenue	8	8	
Total other income	319	334	(4)
Direct operating expenses	122	120	2
Restructuring expenses		1	(100)
Total expenses	122	121	1
Income before income tax expense	199	216	(8)
Income tax expense	75	80	(6)
Core Earnings	124	136	(9)
Less: net loss attributable to noncontrolling interest		(1)	(100)
Core Earnings attributable to SLM Corporation	\$ 124	\$ 137	(9)%

Core Earnings were \$124 million in the first quarter of 2013, compared to \$137 million in the year-ago quarter. The decrease was primarily due to the lower balance of FFELP Loans serviced.

Our Business Services segment includes intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was \$121 billion and \$135 billion for the quarters ended March 31, 2013 and 2012, respectively. The decline in intercompany loan servicing revenue from the year-ago period is primarily the result of a lower outstanding principal balance in the underlying portfolio.

We are servicing approximately 4.8 million accounts under the ED Servicing Contract as of March 31, 2013, compared with 3.7 million accounts serviced at March 31, 2012. Third-party loan servicing fees in the quarters ended March 31, 2013 and 2012 included \$23 million and \$17 million, respectively, of servicing revenue related to the ED Servicing Contract. This increase in ED loan servicing fees was driven by the increase in the number of accounts serviced as well as an increase in ancillary servicing fees earned.

Third-party loan servicing income increased \$5 million from the year-ago quarter primarily due to the increase in ED servicing revenue (discussed above) as well as a result of the sale of a Residual Interest in a FFELP Loan securitization trust in the first quarter of 2013. (See FFELP Loans Segment for further discussion.) When we sold this Residual Interest, we retained the right to service the trust. As such, servicing income that had previously been recorded as intercompany loan servicing will now be recognized as third-party loan servicing income.

Other servicing revenue includes account asset servicing revenue and Campus Solutions revenue. Account asset servicing revenue represents fees earned on program management, transfer and servicing agent services and administration services for our various 529 college-savings plans. Assets under administration of 529 college-savings plans totaled \$47.9 billion as of March 31, 2013, a 16 percent increase from the year-ago



## Edgar Filing: SLM CORP - Form 10-Q

quarter. Campus Solutions revenue is earned from our Campus Solutions business whose services include comprehensive

**Table of Contents**

financing and transaction processing solutions that we provide to college financial aid offices and students to streamline the financial aid process.

Our contingency revenue consists of fees we receive for collections of delinquent debt on behalf of third-party clients performed on a contingent basis. Contingency revenue increased \$9 million in the current quarter compared with the year-ago quarter as a result of the higher volume of collections.

The following table presents the outstanding inventory of contingent collections receivables that our Business Services segment will collect on behalf of others. We expect the inventory of contingent collections receivables to decline over time as a result of the elimination of FFELP.

(Dollars in millions)	March 31, 2013	December 31, 2012	March 31, 2012
Contingency:			
Student loans	\$ 13,549	\$ 13,189	\$ 11,004
Other	2,239	2,139	1,752
Total	\$ 15,788	\$ 15,328	\$ 12,756

Other Business Services revenue is primarily transaction fees that are earned in conjunction with our rewards program from participating companies based on member purchase activity, either online or in stores, depending on the contractual arrangement with the participating company.

Revenues related to services performed on FFELP Loans accounted for 74 percent and 76 percent of total segment revenues for the quarters ended March 31, 2013 and 2012, respectively.

**Operating Expenses Business Services Segment**

Operating expenses for the quarter ended March 31, 2013 remained consistent with the year-ago quarter.

**FFELP Loans Segment**

The following table includes Core Earnings results for our FFELP Loans segment.

(Dollars in millions)	Three Months Ended March 31, 2013	2012	% Increase (Decrease) 2013 vs. 2012
Core Earnings interest income:			
FFELP Loans	\$ 599	\$ 725	(17)%
Cash and investments	2	3	(33)
Total Core Earnings interest income	601	728	(17)
Total Core Earnings interest expense	340	424	(20)
Net Core Earnings interest income	261	304	(14)
Less: provision for loan losses	16	18	(11)
Net Core Earnings interest income after provision for loan losses	245	286	(14)
Servicing revenue	23	25	(8)
Other income	55		100
Total other income	78	25	212

Edgar Filing: SLM CORP - Form 10-Q

Direct operating expenses	157	185	(15)
Total expenses	157	185	(15)
Income before income tax expense	166	126	32
Income tax expense	62	46	35
Core Earnings	\$ 104	\$ 80	30%

**Table of Contents**

Core Earnings from the FFELP Loans segment were \$104 million in the first quarter of 2013, compared with \$80 million in the year-ago quarter. The increase was the result of a \$55 million gain from the sale of the Residual Interest in a FFELP Loan securitization trust, which more than offset the decline in net interest income from the amortizing FFELP portfolio. Key financial measures include:

Net interest margin of .83 percent in the first quarter of 2013 compared with .85 percent in the year-ago quarter (see FFELP Loan Net Interest Margin for a further discussion of this decrease).

The provision for loan losses of \$16 million in the first quarter of 2013 decreased from \$18 million in the year-ago quarter.

**FFELP Loan Net Interest Margin**

The following table includes the Core Earnings basis FFELP Loan net interest margin along with reconciliation to the GAAP-basis FFELP Loan net interest margin.

	Three Months Ended March 31,	
	2013	2012
Core Earnings basis FFELP Loan yield	2.61%	2.67%
Hedged Floor Income	.25	.28
Unhedged Floor Income	.06	.11
Consolidation Loan Rebate Fees	(.68)	(.66)
Repayment Borrower Benefits	(.11)	(.13)
Premium amortization	(.14)	(.14)
Core Earnings basis FFELP Loan net yield	1.99	2.13
Core Earnings basis FFELP Loan cost of funds	(1.06)	(1.17)
Core Earnings basis FFELP Loan spread	.93	.96
Core Earnings basis FFELP other interest-earning asset spread impact	(.10)	(.11)
Core Earnings basis FFELP Loan net interest margin	.83%	.85%
Core Earnings basis FFELP Loan net interest margin	.83%	.85%
Adjustment for GAAP accounting treatment	.40	.27
GAAP-basis FFELP Loan net interest margin <sup>(1)</sup>	1.23%	1.12%

(1) The average balances of our FFELP Core Earnings basis interest-earning assets for the respective periods are:

**(Dollars in millions)**

FFELP Loans	\$ 121,855	\$ 137,193
Other interest-earning assets	5,555	6,427
Total FFELP Core Earnings basis interest-earning assets	\$ 127,410	\$ 143,620

## Edgar Filing: SLM CORP - Form 10-Q

The decrease in the Core Earnings basis FFELP Loan net interest margin of 2 basis points for the quarter ended March 31, 2013 compared with the quarter ended March 31, 2012 was primarily the result of a general increase in our funding costs related to unsecured and ABS debt issuances over the last year.

As of March 31, 2013, our FFELP Loan portfolio totaled approximately \$119.2 billion, comprised of \$43.0 billion of FFELP Stafford and \$76.2 billion of FFELP Consolidation Loans. The weighted-average life of these portfolios is 4.9 years and 9.9 years, respectively, assuming a Constant Prepayment Rate ( CPR ) of 4 percent and 3 percent, respectively.

**Table of Contents****Floor Income**

The following table analyzes the ability of the FFELP Loans in our portfolio to earn Floor Income after March 31, 2013 and 2012, based on interest rates as of those dates.

(Dollars in billions)	March 31, 2013			March 31, 2012		
	Fixed Borrower Rate	Variable Borrower Rate	Total	Fixed Borrower Rate	Variable Borrower Rate	Total
Student loans eligible to earn Floor Income	\$ 102.9	\$ 14.6	\$ 117.5	\$ 116.7	\$ 17.1	\$ 133.8
Less: post-March 31, 2006 disbursed loans required to rebate Floor Income	(52.9)	(1.0)	(53.9)	(62.0)	(1.2)	(63.2)
Less: economically hedged Floor Income Contracts	(31.7)		(31.7)	(41.5)		(41.5)
Student loans eligible to earn Floor Income	\$ 18.3	\$ 13.6	\$ 31.9	\$ 13.2	\$ 15.9	\$ 29.1
Student loans earning Floor Income	\$ 18.3	\$ 1.9	\$ 20.2	\$ 13.2	\$ 1.0	\$ 14.2

We have sold Floor Income Contracts to hedge the potential Floor Income from specifically identified pools of FFELP Consolidation Loans that are eligible to earn Floor Income.

The following table presents a projection of the average balance of FFELP Consolidation Loans for which Fixed Rate Floor Income has been economically hedged through Floor Income Contracts for the period April 1, 2013 to June 30, 2016. The hedges related to these loans do not qualify as effective hedges.

(Dollars in billions)	April 1, 2013 to December 31, 2013	2014	2015	2016
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged	\$ 31.7	\$ 28.3	\$ 27.2	\$ 10.4

**FFELP Loan Provision for Loan Losses and Charge-Offs**

The following table summarizes the total FFELP Loan provision for loan losses and charge-offs for the three months March 31, 2013 and 2012.

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
FFELP Loan provision for loan losses	\$ 16	\$ 18
FFELP Loan charge-offs	22	23

**Other Income**

The increase in other income from the year-ago quarter is the result of a \$55 million gain from the sale of the Residual Interest in a FFELP Loan securitization trust. We will continue to service the student loans in the trust that was sold under existing agreements. The sale removed student loan assets of \$3.8 billion and related liabilities of \$3.7 billion from the balance sheet.

**Operating Expenses - FFELP Loans Segment**

Operating expenses for our FFELP Loans segment primarily include the contractual rates we pay to service loans in term asset-backed securitization trusts or a similar rate if a loan is not in a term financing facility (which is presented as an intercompany charge from the Business

## Edgar Filing: SLM CORP - Form 10-Q

Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged by the Business Services segment and included in those amounts was \$149 million and \$176 million for the quarters ended March 31, 2013 and 2012, respectively. These amounts exceed the actual cost of servicing the loans. Operating expenses were 52 basis points and 53 basis points of average FFELP Loans in the quarters ended March 31, 2013 and 2012, respectively. The decline in operating expenses from the prior-year quarter was primarily the result of the reduction in the average outstanding balance of our FFELP Loans portfolio.

**Table of Contents****Other Segment**

The following table includes Core Earnings results of our Other segment.

(Dollars in millions)	Three Months Ended March 31,		% Increase (Decrease)
	2013	2012	2013 vs. 2012
Net interest loss after provision for loan losses	\$ (8)	\$	100%
Gains on debt repurchases	29	37	(22)
Other income		3	(100)
Total other income	29	40	(28)
Overhead expenses:			
Corporate overhead	46	36	28
Unallocated information technology costs	28	28	
Total overhead expenses	74	64	16
Total operating expenses	74	64	16
Restructuring expenses		3	(100)
Total expenses	74	67	10
Loss before income tax benefit	(53)	(27)	96
Income tax benefit	(20)	(10)	100
Core Earnings (loss)	\$ (33)	\$ (17)	94%

***Net Interest Loss after Provision for Loan Losses***

Net interest loss after provision for loan losses includes net interest income related to our corporate liquidity portfolio as well as net interest income and provision expense related to our mortgage and consumer loan portfolios.

***Gains on Debt Repurchases***

We repurchased \$927 million and \$204 million face amount of our debt for the quarters ended March 31, 2013 and 2012, respectively.

***Overhead***

Corporate overhead is comprised of costs related to executive management, the board of directors, accounting, finance, legal, human resources and stock-based compensation expense. Unallocated information technology costs are related to infrastructure and operations.

The increase in overhead for the quarter ended March 31, 2013 compared with the year-ago period was primarily the result of a non-recurring \$8 million pension termination gain in first-quarter 2012.



**Table of Contents****Financial Condition**

This section provides additional information regarding the changes in our loan portfolio assets and related liabilities as well as credit quality and performance indicators related to our loan portfolio.

**Average Balance Sheets GAAP**

The following table reflects the rates earned on interest-earning assets and paid on interest-bearing liabilities and reflects our net interest margin on a consolidated basis.

(Dollars in millions)	Three Months Ended March 31,			
	2013		2012	
	Balance	Rate	Balance	Rate
<b>Average Assets</b>				
FFELP Loans	\$ 121,855	2.45%	\$ 137,193	2.47%
Private Education Loans	38,406	6.58	37,749	6.66
Other loans	133	9.36	187	9.67
Cash and investments	9,878	.19	9,198	.22
Total interest-earning assets	170,272	3.25%	184,327	3.22%
Non-interest-earning assets	4,567		4,768	
Total assets	\$ 174,839		\$ 189,095	
<b>Average Liabilities and Equity</b>				
Short-term borrowings	\$ 19,070	1.03%	\$ 29,037	.93%
Long-term borrowings	146,977	1.44	151,081	1.59
Total interest-bearing liabilities	166,047	1.39	180,118	1.49
Non-interest-bearing liabilities	3,674		3,904	
Equity	5,118		5,073	
Total liabilities and equity	\$ 174,839		\$ 189,095	
Net interest margin		1.89%		1.77%

**Rate/Volume Analysis GAAP**

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

(Dollars in millions)	Increase (Decrease)	Change Due To <sup>(1)</sup>	
		Rate	Volume
<b>Three Months Ended March 31, 2013 vs. 2012</b>			
Interest income	\$ (111)	\$ 14	\$ (125)
Interest expense	(95)	(40)	(55)
Net interest income	\$ (16)	\$ 54	\$ (70)

## Edgar Filing: SLM CORP - Form 10-Q

- (1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

**Table of Contents****Summary of our Student Loan Portfolio***Ending Student Loan Balances, net*

(Dollars in millions)	March 31, 2013				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total student loan portfolio:					
In-school <sup>(1)</sup>	\$ 1,350	\$	\$ 1,350	\$ 2,546	\$ 3,896
Grace, repayment and other <sup>(2)</sup>	41,080	75,628	116,708	36,522	153,230
Total, gross	42,430	75,628	118,058	39,068	157,126
Unamortized premium/(discount)	667	617	1,284	(772)	512
Receivable for partially charged-off loans				1,339	1,339
Allowance for loan losses	(92)	(55)	(147)	(2,170)	(2,317)
Total student loan portfolio	\$ 43,005	\$ 76,190	\$ 119,195	\$ 37,465	\$ 156,660
% of total FFELP	36%	64%	100%		
% of total	27%	49%	76%	24%	100%

(Dollars in millions)	December 31, 2012				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP Loans	Private Education Loans	Total Portfolio
Total student loan portfolio:					
In-school <sup>(1)</sup>	\$ 1,506	\$	\$ 1,506	\$ 2,194	\$ 3,700
Grace, repayment and other <sup>(2)</sup>	42,189	80,640	122,829	36,360	159,189
Total, gross	43,695	80,640	124,335	38,554	162,889
Unamortized premium/(discount)	691	745	1,436	(796)	640
Receivable for partially charged-off loans				1,347	1,347
Allowance for loan losses	(97)	(62)	(159)	(2,171)	(2,330)
Total student loan portfolio	\$ 44,289	\$ 81,323	\$ 125,612	\$ 36,934	\$ 162,546
% of total FFELP	35%	65%	100%		
% of total	27%	50%	77%	23%	100%

<sup>(1)</sup> Loans for customers still attending school and are not yet required to make payments on the loan.<sup>(2)</sup> Includes loans in deferment or forbearance.*Average Student Loan Balances (net of unamortized premium/discount)*

(Dollars in millions)	Three Months Ended March 31, 2013				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
Total	\$ 43,721	\$ 78,134	\$ 121,855	\$ 38,406	\$ 160,261
% of FFELP	36%	64%	100%		

Edgar Filing: SLM CORP - Form 10-Q

	27%	49%	76%	24%	100%
% of total					
<b>Three Months Ended March 31, 2012</b>					
	<b>FFELP Stafford and Other</b>	<b>FFELP Consolidation Loans</b>	<b>Total FFELP</b>	<b>Private Education Loans</b>	<b>Total</b>
<b>(Dollars in millions)</b>					
Total	\$ 50,149	\$ 87,044	\$ 137,193	\$ 37,749	\$ 174,942
% of FFELP	37%	63%	100%		
% of total	28%	50%	78%	22%	100%

**Table of Contents***Student Loan Activity*

(Dollars in millions)	Three Months Ended March 31, 2013				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Portfolio
Beginning balance	\$ 44,289	\$ 81,323	\$ 125,612	\$ 36,934	\$ 162,546
Acquisitions and originations	101	53	154	1,405	1,559
Capitalized interest and premium/discount amortization	295	313	608	200	808
Consolidations to third parties	(445)	(275)	(720)	(24)	(744)
Sales <sup>(1)</sup>	(72)	(3,749)	(3,821)		(3,821)
Repayments and other	(1,163)	(1,475)	(2,638)	(1,050)	(3,688)
Ending balance	\$ 43,005	\$ 76,190	\$ 119,195	\$ 37,465	\$ 156,660

(Dollars in millions)	Three Months Ended March 31, 2012				
	FFELP Stafford and Other	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Portfolio
Beginning balance	\$ 50,440	\$ 87,690	\$ 138,130	\$ 36,290	\$ 174,420
Acquisitions and originations	819	78	897	1,151	2,048
Capitalized interest and premium/discount amortization	335	398	733	245	978
Consolidations to third parties	(719)	(225)	(944)	(23)	(967)
Sales	(135)		(135)		(135)
Repayments and other	(1,232)	(1,515)	(2,747)	(931)	(3,678)
Ending balance	\$ 49,508	\$ 86,426	\$ 135,934	\$ 36,732	\$ 172,666

<sup>(1)</sup> Includes \$3.7 billion of student loans in connection with the sale of the Residual Interest in a FFELP Loan securitization trust.

**Table of Contents***Student Loan Allowance for Loan Losses Activity*

(Dollars in millions)	Three Months Ended March 31,					
	FFELP Loans	2013 Private Education Loans	Total Portfolio	FFELP Loans	2012 Private Education Loans	Total Portfolio
Beginning balance	\$ 159	\$ 2,171	\$ 2,330	\$ 187	\$ 2,171	\$ 2,358
Less:						
Charge-offs <sup>(1)</sup>	(22)	(232)	(254)	(23)	(224)	(247)
Student loan sales	(6)		(6)	(2)		(2)
Plus:						
Provision for loan losses	16	225	241	18	235	253
Reclassification of interest reserve <sup>(2)</sup>		6	6		8	8
Ending balance	\$ 147	\$ 2,170	\$ 2,317	\$ 180	\$ 2,190	\$ 2,370
Troubled debt restructuring <sup>(3)</sup>	\$	\$ 7,714	\$ 7,714	\$	\$ 5,957	\$ 5,957

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See *Receivable for Partially Charged-Off Private Education Loans* for further discussion.

(2) 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.

(3) Represents the recorded investment of loans classified as troubled debt restructuring.

*Private Education Loan Originations*

The following table summarizes our Private Education Loan originations.

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
Smart Option interest only <sup>(1)</sup>	\$ 365	\$ 358
Smart Option fixed pay <sup>(1)</sup>	439	345
Smart Option deferred <sup>(1)</sup>	590	432
Other	17	25
<b>Total Private Education Loan originations</b>	<b>\$ 1,411</b>	<b>\$ 1,160</b>

(1) Interest only, fixed pay and deferred describe the payment option while in school or in grace period. See *Consumer Lending Portfolio Performance Private Education Loan Repayment Options* for further discussion.

**Table of Contents****Consumer Lending Portfolio Performance***Private Education Loan Delinquencies and Forbearance*

The table below presents our Private Education Loan delinquency trends.

(Dollars in millions)	Private Education Loan Delinquencies			
	March 31, 2013		March 31, 2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 6,434		\$ 6,917	
Loans in forbearance <sup>(2)</sup>	1,101		1,372	
Loans in repayment and percentage of each status:				
Loans current	29,069	92.2%	27,499	90.9%
Loans delinquent 31-60 days <sup>(3)</sup>	731	2.3	859	2.8
Loans delinquent 61-90 days <sup>(3)</sup>	491	1.6	544	1.9
Loans delinquent greater than 90 days <sup>(3)</sup>	1,242	3.9	1,334	4.4
Total Private Education Loans in repayment	31,533	100%	30,236	100%
Total Private Education Loans, gross	39,068		38,525	
Private Education Loan unamortized discount	(772)		(853)	
Total Private Education Loans	38,296		37,672	
Private Education Loan receivable for partially charged-off loans	1,339		1,250	
Private Education Loan allowance for losses	(2,170)		(2,190)	
Private Education Loans, net	\$ 37,465		\$ 36,732	
Percentage of Private Education Loans in repayment		80.7%		78.5%
Delinquencies as a percentage of Private Education Loans in repayment		7.8%		9.1%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.4%		4.3%
Loans in repayment greater than 12 months as a percentage of loans in repayment <sup>(4)</sup>		79.1%		74.1%

(1) Deferment includes customers who have returned to school or are engaged 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 customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with 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.

(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.





**Table of Contents***Allowance for Private Education Loan Losses*

The following table summarizes changes in the allowance for Private Education Loan losses.

(Dollars in millions)	Three Months Ended	
	March 31,	
	2013	2012
Allowance at beginning of period	\$ 2,171	\$ 2,171
Provision for Private Education Loan losses	225	235
Charge-offs <sup>(1)</sup>	(232)	(224)
Reclassification of interest reserve <sup>(2)</sup>	6	8
Allowance at end of period	\$ 2,170	\$ 2,190
Charge-offs as a percentage of average loans in repayment (annualized)	2.97%	2.96%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	2.87%	2.84%
Allowance as a percentage of the ending total loan balance	5.37%	5.51%
Allowance as a percentage of ending loans in repayment	6.88%	7.24%
Average coverage of charge-offs (annualized)	2.3	2.4
Ending total loans <sup>(3)</sup>	\$ 40,407	\$ 39,775
Average loans in repayment	\$ 31,645	\$ 30,378
Ending loans in repayment	\$ 31,533	\$ 30,236

<sup>(1)</sup> Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See *Receivable for Partially Charged-Off Private Education Loans* for further discussion.

<sup>(2)</sup> 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.

<sup>(3)</sup> Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

**Table of Contents**

The following table provides the detail for our traditional and non-traditional Private Education Loans.

(Dollars in millions)	March 31, 2013			March 31, 2012		
	Traditional	Non-Traditional	Total	Traditional	Non-Traditional	Total
Ending total loans <sup>(1)</sup>	\$ 36,746	\$ 3,661	\$ 40,407	\$ 35,755	\$ 4,020	\$ 39,775
Ending loans in repayment	29,022	2,511	31,533	27,588	2,648	30,236
Private Education Loan allowance for losses	1,643	527	2,170	1,587	603	2,190
Charge-offs as a percentage of average loans in repayment (annualized)	2.5%	8.7%	3.0%	2.3%	10.3%	3.0%
Allowance as a percentage of ending total loan balance	4.5%	14.4%	5.4%	4.4%	15.0%	5.5%
Allowance as a percentage of ending loans in repayment	5.7%	21.0%	6.9%	5.8%	22.8%	7.2%
Average coverage of charge-offs (annualized)	2.3	2.4	2.3	2.5	2.2	2.4
Delinquencies as a percentage of Private Education Loans in repayment	6.7%	20.5%	7.8%	7.7%	23.3%	9.1%
Delinquencies greater than 90 days as a percentage of Private Education Loans in repayment	3.3%	11.2%	3.9%	3.6%	12.5%	4.4%
Loans in forbearance as a percentage of loans in repayment and forbearance	3.2%	5.1%	3.4%	4.1%	6.8%	4.3%
Loans that entered repayment during the period <sup>(2)</sup>	\$ 553	\$ 23	\$ 576	\$ 729	\$ 54	\$ 783
Percentage of Private Education Loans with a cosigner	69%	30%	66%	66%	29%	63%
Average FICO at origination	728	624	720	727	624	718

<sup>(1)</sup> Ending total loans represent gross Private Education Loans, plus the receivable for partially charged-off loans.

<sup>(2)</sup> Includes loans that are required to make a payment for the first time.

As part of concluding on the adequacy of the allowance for loan losses, we review key allowance and loan metrics. The most significant of these metrics considered are the allowance coverage of charge-offs ratio; the allowance as a percentage of total loans and of loans in repayment; and delinquency and forbearance percentages.

#### *Receivable for Partially Charged-Off Private Education Loans*

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was \$209 million and \$151 million in allowance for Private Education Loan losses at March 31, 2013 and 2012, respectively, providing for

**Table of Contents**

possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans (see Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-Offs for a further discussion).

The following table summarizes the activity in the receivable for partially charged-off Private Education Loans.

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
Receivable at beginning of period	\$ 1,347	\$ 1,241
Expected future recoveries of current period defaults <sup>(1)</sup>	78	69
Recoveries <sup>(2)</sup>	(68)	(50)
Charge-offs <sup>(3)</sup>	(18)	(10)
Receivable at end of period	1,339	1,250
Allowance for estimated recovery shortfalls <sup>(4)</sup>	(209)	(151)
Net receivable at end of period	\$ 1,130	\$ 1,099

(1) Represents the difference between the defaulted loan balance and our estimate of the amount to be collected in the future.

(2) Current period cash collections.

(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the Allowance for Private Education Loan Losses table.

(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the \$2.2 billion overall allowance for Private Education Loan losses as of March 31, 2013 and 2012.

#### *Use of Forbearance as a Private Education Loan Collection Tool*

Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer's unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer's ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

Forbearance may be granted to customers who are exiting their grace period to provide additional time to obtain employment and income to support their obligations, or to current customers who are faced with a hardship and request forbearance time to provide temporary payment relief. In these circumstances, a customer's loan is placed into a forbearance status in limited monthly increments and is reflected in the forbearance status at month-end during this time. At the end of their granted forbearance period, the customer will enter repayment status as current and is expected to begin making their scheduled monthly payments on a go-forward basis.

Forbearance may also be granted to customers who are delinquent in their payments. In these circumstances, the forbearance cures the delinquency and the customer is returned to a current repayment status. In more limited instances, delinquent customers will also be granted

additional forbearance time.

**Table of Contents**

The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 66 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 20 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses. The number of loans in a forbearance status as a percentage of loans in repayment and forbearance decreased to 3.4 percent in the first quarter of 2013 compared with 4.3 percent in the year-ago quarter. As of March 31, 2013, 2.2 percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current as of March 31, 2013 (customers made payments on approximately 37 percent of these loans as a prerequisite to being granted forbearance).

**Tracking by First Time in Forbearance Compared to All Loans Entering Repayment****Portfolio data through March 31, 2013**

	<b>Status distribution 36 months after being granted forbearance for the first time</b>	<b>Status distribution 36 months after entering repayment (all loans)</b>	<b>Status distribution 36 months after entering repayment for loans never entering forbearance</b>
In-school/grace/deferment	9.6%	9.0%	5.5%
Current	50.7	59.1	66.8
Delinquent 31-60 days	3.2	2.0	.4
Delinquent 61-90 days	1.9	1.2	.2
Delinquent greater than 90 days	4.8	2.8	.3
Forbearance	4.0	3.1	
Defaulted	20.0	11.4	7.3
Paid	5.8	11.4	19.5
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At March 31, 2013, loans in forbearance status as a percentage of loans in repayment and

**Table of Contents**

forbearance was 5.9 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.2 percent for loans that have been in active repayment status for more than 48 months. Approximately 70 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.

**(Dollars in millions)****Monthly Scheduled Payments Due**

<b>March 31, 2013</b>	<b>0 to 12</b>	<b>13 to 24</b>	<b>25 to 36</b>	<b>37 to 48</b>	<b>More than 48</b>	<b>Not Yet in Repayment</b>	<b>Total</b>
Loans in-school/grace/deferment	\$	\$	\$	\$	\$	\$ 6,434	\$ 6,434
Loans in forbearance	587	184	145	79	106		1,101
Loans in repayment current	5,645	5,156	5,345	4,505	8,418		29,069
Loans in repayment delinquent 31-60 days	252	139	132	85	123		731
Loans in repayment delinquent 61-90 days	189	95	82	54	71		491
Loans in repayment delinquent greater than 90 days	513	260	204	115	150		1,242
<b>Total</b>	<b>\$ 7,186</b>	<b>\$ 5,834</b>	<b>\$ 5,908</b>	<b>\$ 4,838</b>	<b>\$ 8,868</b>	<b>\$ 6,434</b>	<b>39,068</b>
Unamortized discount							(772)
Receivable for partially charged-off loans							1,339
Allowance for loan losses							(2,170)
<b>Total Private Education Loans, net</b>							<b>\$ 37,465</b>
Loans in forbearance as a percentage of loans in repayment and forbearance	8.2%	3.2%	2.5%	1.6%	1.2%	%	3.4%

**(Dollars in millions)****Monthly Scheduled Payments Due**

<b>March 31, 2012</b>	<b>0 to 12</b>	<b>13 to 24</b>	<b>25 to 36</b>	<b>37 to 48</b>	<b>More than 48</b>	<b>Not Yet in Repayment</b>	<b>Total</b>
Loans in-school/grace/deferment	\$	\$	\$	\$	\$	\$ 6,917	\$ 6,917
Loans in forbearance	892	198	132	64	86		1,372
Loans in repayment current	6,529	5,920	5,204	3,626	6,220		27,499
Loans in repayment delinquent 31-60 days	381	171	136	72	99		859
Loans in repayment delinquent 61-90 days	265	107	79	39	54		544
Loans in repayment delinquent greater than 90 days	663	270	186	93	122		1,334
<b>Total</b>	<b>\$ 8,730</b>	<b>\$ 6,666</b>	<b>\$ 5,737</b>	<b>\$ 3,894</b>	<b>\$ 6,581</b>	<b>\$ 6,917</b>	<b>38,525</b>
Unamortized discount							(853)
Receivable for partially charged-off loans							1,250
Allowance for loan losses							(2,190)
<b>Total Private Education Loans, net</b>							<b>\$ 36,732</b>

Edgar Filing: SLM CORP - Form 10-Q

Loans in forbearance as a percentage of loans in repayment and forbearance	10.2%	3.0%	2.3%	1.7%	1.3%	%	4.3%
--	-------	------	------	------	------	---	------

**Table of Contents**

The table below stratifies the portfolio of Private Education Loans in forbearance by the cumulative number of months the customer has used forbearance as of the dates indicated. As detailed in the table below, 5 percent of loans currently in forbearance have cumulative forbearance of more than 24 months.

(Dollars in millions)	March 31, 2013		March 31, 2012	
	Forbearance Balance	% of Total	Forbearance Balance	% of Total
<b>Cumulative number of months customer has used forbearance</b>				
Up to 12 months	\$ 867	79%	\$ 839	61%
13 to 24 months	178	16	477	35
More than 24 months	56	5	56	4
<b>Total</b>	<b>\$ 1,101</b>	<b>100%</b>	<b>\$ 1,372</b>	<b>100%</b>

*Private Education Loan Repayment Options*

Certain loan programs allow customers to select from a variety of repayment options depending on their loan type and their enrollment/loan status, which include the ability to extend their repayment term or change their monthly payment. The chart below provides the optional repayment offerings in addition to the standard level principal and interest payments as of March 31, 2013.

(Dollars in millions)	Loan Program			Total
	Signature and Other	Smart Option	Career Training	
\$ in repayment	\$23,701	\$6,421	\$ 1,411	\$31,533
\$ in total	28,943	8,658	1,467	39,068
Payment method by enrollment status:				
In-school/grace	Deferred <sup>(1)</sup>	Deferred <sup>(1)</sup> , interest-only or fixed \$25/month	Interest-only or fixed \$25/month	
Repayment	Level principal and interest or graduated	Level principal and interest	Level principal and interest	

<sup>(1)</sup> Deferred includes loans for which no payments are required and interest charges are capitalized into the loan balance.

The graduated repayment program that is part of Signature and Other Loans includes an interest-only payment feature that may be selected at the option of the customer. Customers elect to participate in this program at the time they enter repayment following their grace period. This program is available to customers in repayment, after their grace period, who would like a temporary lower payment from the required principal and interest payment amount. Customers participating in this program pay monthly interest with no amortization of their principal balance for up to 48 payments after entering repayment (dependent on the loan product type). The maturity date of the loan is not extended when a customer participates in this program. As of March 31, 2013 and 2012, customers in repayment owing approximately \$6.1 billion (19 percent of loans in repayment) and \$7.0 billion (23 percent of loans in repayment), respectively, were enrolled in the interest-only program. Of these amounts, 10 percent and 11 percent were non-traditional loans as of March 31, 2013 and 2012, respectively.

*Accrued Interest Receivable*

The following table provides information regarding accrued interest receivable on our Private Education Loans. The table also discloses the amount of accrued interest on loans greater than 90 days past due as





**Table of Contents**

compared to our allowance for uncollectible interest. The allowance for uncollectible interest exceeds the amount of accrued interest on our 90 days past due portfolio for all periods presented.

(Dollars in millions)	Total	Accrued Interest Receivable	
		Greater Than 90 Days Past Due	Allowance for Uncollectible Interest
March 31, 2013	\$ 918	\$ 48	\$ 68
December 31, 2012	\$ 904	\$ 55	\$ 67
March 31, 2012	\$ 1,007	\$ 50	\$ 71

**FFELP Loan Portfolio Performance***FFELP Loan Delinquencies and Forbearance*

The table below presents our FFELP Loan delinquency trends.

(Dollars in millions)	FFELP Loan Delinquencies March 31,			
	2013		2012	
	Balance	%	Balance	%
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 17,324		\$ 22,788	
Loans in forbearance <sup>(2)</sup>	15,430		19,478	
Loans in repayment and percentage of each status:				
Loans current	71,792	84.2%	77,099	83.6%
Loans delinquent 31-60 days <sup>(3)</sup>	4,186	4.9	5,173	5.6
Loans delinquent 61-90 days <sup>(3)</sup>	2,441	2.9	2,666	2.9
Loans delinquent greater than 90 days <sup>(3)</sup>	6,885	8.0	7,286	7.9
Total FFELP Loans in repayment	85,304	100%	92,224	100%
Total FFELP Loans, gross	118,058		134,490	
FFELP Loan unamortized premium	1,284		1,624	
Total FFELP Loans	119,342		136,114	
FFELP Loan allowance for losses	(147)		(180)	
FFELP Loans, net	\$ 119,195		\$ 135,934	
Percentage of FFELP Loans in repayment		72.3%		68.6%
Delinquencies as a percentage of FFELP Loans in repayment		15.8%		16.4%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		15.3%		17.4%

<sup>(1)</sup> Loans for customers who may still 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 customers who have requested extension of grace period during employment transition or who have temporarily ceased making payments due to hardship or other factors.

## Edgar Filing: SLM CORP - Form 10-Q

- (2) Loans for customers who have used their allowable deferment time or do not qualify for deferment, that need additional time to obtain employment or who have temporarily ceased making payments due to hardship or other factors.
  
- (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

**Table of Contents***Allowance for FFELP Loan Losses*

The following table summarizes changes in the allowance for FFELP Loan losses.

(Dollars in millions)	Three Months Ended March 31,	
	2013	2012
Allowance at beginning of period	\$ 159	\$ 187
Provision for FFELP Loan losses	16	18
Charge-offs	(22)	(23)
Student loan sales	(6)	(2)
Allowance at end of period	\$ 147	\$ 180
Charge-offs as a percentage of average loans in repayment (annualized)	.10%	.10%
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.09%	.08%
Allowance as a percentage of the ending total loans, gross	.12%	.13%
Allowance as a percentage of ending loans in repayment	.17%	.20%
Allowance coverage of charge-offs (annualized)	1.6	2.0
Ending total loans, gross	\$ 118,058	\$ 134,490
Average loans in repayment	\$ 87,256	\$ 93,150
Ending loans in repayment	\$ 85,304	\$ 92,224

**Liquidity and Capital Resources***Funding and Liquidity Risk Management*

The following Liquidity and Capital Resources discussion concentrates on our Consumer Lending and FFELP Loans segments. Our Business Services and Other segments require minimal capital and funding.

We define liquidity risk as the potential inability to meet our obligations when they become due without incurring unacceptable losses, such as the ability to fund liability maturities and deposit withdrawals, or invest in future asset growth and business operations at reasonable market rates, as well as the potential inability to fund Private Education Loan originations. Our three primary liquidity needs include our ongoing ability to meet our funding needs for our businesses throughout market cycles, including during periods of financial stress and to avoid any mismatch between the maturity of assets and liabilities, our ongoing ability to fund originations of Private Education Loans and servicing our indebtedness and bank deposits. To achieve these objectives we analyze and monitor our liquidity needs, maintain excess liquidity and access diverse funding sources including the issuance of unsecured debt, the issuance of secured debt primarily through asset-backed securitizations and/or other financing facilities and through deposits at the Bank.

We define liquidity as cash and high-quality liquid securities that we can use to meet our funding requirements. Our primary liquidity risk relates to our ability to fund new originations and raise replacement funding at a reasonable cost as our unsecured debt and bank deposits mature. In addition, we must continue to obtain funding at reasonable rates to meet our other business obligations and to continue to grow our business. Key risks associated with our liquidity relate to our ability to access the capital markets and bank deposits and access them at reasonable rates. This ability may be affected by our credit ratings, as well as the overall availability of funding sources in the marketplace. In addition, credit ratings may be important to customers or counterparties when we compete in certain markets and when we seek to engage in certain transactions, including over-the-counter derivatives.

Credit ratings and outlooks are opinions subject to ongoing review by the ratings agencies and may change from time to time based on our financial performance, industry dynamics and other factors. Other factors that

---

**Table of Contents**

influence our credit ratings include the ratings agencies' assessment of the general operating environment, our relative positions in the markets in which we compete, reputation, liquidity position, the level and volatility of earnings, corporate governance and risk management policies, capital position and capital management practices. A negative change in our credit rating could have a negative effect on our liquidity because it would raise the cost and availability of funding and potentially require additional cash collateral or restrict cash currently held as collateral on existing borrowings or derivative collateral arrangements. It is our objective to improve our credit ratings so that we can continue to efficiently access the capital markets even in difficult economic and market conditions.

We expect to fund our ongoing liquidity needs, including the origination of new Private Education Loans and the repayment of \$2.8 billion of senior unsecured notes that mature in the next twelve months, primarily through our current cash and investment portfolio, the issuance of additional bank deposits and unsecured debt, the predictable operating cash flows provided by earnings, the repayment of principal on unencumbered student loan assets and the distributions from our securitization trusts (including servicing fees which are priority payments within the trusts). We may also draw down on our FFELP ABCP Facilities and the facility with the Federal Home Loan Bank in Des Moines (the FHLB-DM Facility); and we may also issue term ABS.

Currently, new Private Education Loan originations are initially funded through deposits and subsequently securitized to term. We have \$1.4 billion of cash at the Bank as of March 31, 2013 available to fund future originations. We no longer originate FFELP Loans and therefore no longer have liquidity requirements for new FFELP Loan originations.

We will continue to opportunistically purchase FFELP Loan portfolios from others. Additionally, we still expect to redeem all remaining FFELP Loans we currently finance in the ED Conduit Program on or before the program's anticipated January 19, 2014, maturity date (the ED Maturity Date). We plan to rely primarily on securitizing these loans to term through securitization trusts. However, we may also utilize existing FFELP ABCP and FHLB-DM Facility capacities, as well as additional capital markets funding sources.

Since December 31, 2010, we have refinanced approximately \$11.6 billion in principal amount of our FFELP Loans previously financed through the ED Conduit Program, most being funded to term through the use of securitization trusts. As of March 31, 2013, we have \$6.9 billion in principal amount of FFELP Loans remaining in the ED Conduit Program. If we cannot obtain sufficient cost-effective funding to finance any or all of the FFELP Loans remaining in the ED Conduit Program on or before the ED Maturity Date, any remaining FFELP Loans still in the program must be put to ED at 97 percent of their principal balance which results in us forfeiting three percent of the principal amount of those loans. In addition, we will also no longer collect future servicing revenues or interest income on any loans put to ED.

**Table of Contents****Sources of Liquidity and Available Capacity***Ending Balances*

(Dollars in millions)	March 31, 2013	December 31, 2012
Sources of primary liquidity:		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	\$ 2,290	\$ 2,376
Sallie Mae Bank <sup>(1)</sup>	1,472	1,598
<b>Total unrestricted cash and liquid investments</b>	<b>\$ 3,762</b>	<b>\$ 3,974</b>
Unencumbered FFELP Loans	\$ 1,753	\$ 1,656

*Average Balances*

(Dollars in millions)	Three Months Ended	
	March 31, 2013	March 31, 2012
Sources of primary liquidity:		
Unrestricted cash and liquid investments:		
Holding Company and other non-bank subsidiaries	\$ 2,820	\$ 1,656
Sallie Mae Bank <sup>(1)</sup>	1,229	880
<b>Total unrestricted cash and liquid investments</b>	<b>\$ 4,049</b>	<b>\$ 2,536</b>
Unencumbered FFELP Loans	\$ 1,695	\$ 1,080

(1) This amount will be used primarily to originate or acquire student loans at the Bank. See discussion below on restrictions on the Bank to pay dividends. Liquidity may also be available under secured credit facilities to the extent we have eligible collateral and capacity available. Maximum borrowing capacity under the FFELP ABCP Facility and FHLB-DM Facility will vary and be subject to each agreement's borrowing conditions, including, among others, facility size, current usage and availability of qualifying collateral from unencumbered FFELP Loans. As of March 31, 2013 and December 31, 2012, the maximum additional capacity under these facilities was \$9.8 billion and \$11.8 billion, respectively. For the three months ended March 31, 2013 and 2012, the average maximum additional capacity under these facilities was \$10.8 billion and \$12.1 billion, respectively.

We also hold a number of other unencumbered assets, consisting primarily of Private Education Loans and other assets. Total unencumbered student loans, net, comprised \$12.5 billion of our unencumbered assets of which \$10.8 billion and \$1.7 billion related to Private Education Loans, net and FFELP Loans, net, respectively. At March 31, 2013, we had a total of \$21.2 billion of unencumbered assets inclusive of those described above as sources of primary liquidity and exclusive of goodwill and acquired intangible assets.

The Bank's ability to pay dividends is subject to the laws of Utah and the regulations of the FDIC. Generally, under Utah's industrial bank laws and regulations as well as FDIC regulations, the Bank may pay dividends from its net profits without regulatory approval if, following the payment of the dividend, the Bank's capital and surplus would not be impaired. While applicable Utah and FDIC regulations differ in approach as to determinations of impairment of capital and surplus, neither method of determination has historically required the Bank to obtain consent to the payment of dividends. For the three months ended March 31, 2013 and 2012, the Bank paid dividends of \$120 million and \$50 million, respectively.

For further discussion of our various sources of liquidity, such as the ED Conduit Program, the FFELP ABCP Facility, the Bank, our continued access to the ABS market, our asset-backed financing facilities, the lending agreement we entered into with the FHLB-DM and our issuance of unsecured debt, see Note 6 Borrowings in our Annual Report on Form 10-K for the year ended December 31, 2012.



**Table of Contents**

The following table reconciles encumbered and unencumbered assets and their net impact on total tangible equity.

(Dollars in billions)	March 31, 2013	December 31, 2012
Net assets of consolidated variable interest entities (encumbered assets) FFELP Loans	\$ 6.4	\$ 6.6
Net assets of consolidated variable interest entities (encumbered assets) Private Education Loans	6.7	6.6
Tangible unencumbered assets <sup>(1)</sup>	21.2	21.2
Unsecured debt	(26.7)	(26.7)
Mark-to-market on unsecured hedged debt <sup>(2)</sup>	(1.5)	(1.7)
Other liabilities, net	(1.4)	(1.4)
<b>Total tangible equity</b>	<b>\$ 4.7</b>	<b>\$ 4.6</b>

<sup>(1)</sup> Excludes goodwill and acquired intangible assets.

<sup>(2)</sup> At March 31, 2013 and December 31, 2012, there were \$1.2 billion and \$1.4 billion, respectively, of net gains on derivatives hedging this debt in unencumbered assets, which partially offset these losses.

*Transactions during the First-Quarter 2013*

The following financing transactions have taken place in the first quarter of 2013:

## Unsecured Financings:

January 28, 2013 issued \$1.5 billion senior unsecured bonds.

## FFELP Financings:

February 14, 2013 issued \$1.2 billion FFELP ABS.

## Private Education Loan Financings:

January 31, 2013 issued \$0.3 billion Private Education Loan subordinate ABS previously retained.

March 7, 2013 issued \$1.1 billion Private Education Loan ABS.

*Shareholder Distributions*

On February 5, 2013, we increased our quarterly dividend on our common stock from \$0.125 per common share to \$0.15 per common share. The Board of Directors also authorized a \$400 million share repurchase program for our outstanding common stock. The program does not have an expiration date. For the first-quarter 2013, we repurchased 10 million shares of common stock for \$199 million.

*2013 Sale of FFELP Securitization Trust Residual Interest*



## Edgar Filing: SLM CORP - Form 10-Q

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed student loan assets of \$3.8 billion and related liabilities of \$3.7 billion from our balance sheet. The gain from the transaction added \$0.08 to our first-quarter 2013 GAAP and Core Earnings diluted earnings per share.

### *Recent Second-Quarter 2013 Transactions*

On April 11, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale will remove student loan assets of approximately \$2.03 billion and related liabilities of approximately \$1.99 billion from our balance sheet. The gain from the transaction will add approximately \$0.13 to our second-quarter 2013 GAAP and Core Earnings diluted earnings per share.

**Table of Contents****Counterparty Exposure**

Counterparty exposure related to financial instruments arises from the risk that a lending, investment or derivative counterparty will not be able to meet its obligations to us. Risks associated with our lending portfolio are discussed in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Consumer Lending Portfolio Performance and FFELP Loan Portfolio Performance.

Our investment portfolio is composed of very short-term securities issued by a diversified group of highly rated issuers, limiting our counterparty exposure. Additionally, our investing activity is governed by Board approved limits on the amount that is allowed to be invested with any one issuer based on the credit rating of the issuer, further minimizing our counterparty exposure. Counterparty credit risk is considered when valuing investments and considering impairment.

Related to derivative transactions, protection against counterparty risk is generally provided by International Swaps and Derivatives Association, Inc. (ISDA) Credit Support Annexes (CSAs). CSAs require a counterparty to post collateral if a potential default would expose the other party to a loss. All derivative contracts entered into by SLM Corporation and the Bank are covered under such agreements and require collateral to be exchanged based on the net fair value of derivatives with each counterparty. Our securitization trusts require collateral in all cases if the counterparty's credit rating is withdrawn or downgraded below a certain level. Additionally, securitizations involving foreign currency notes issued after November 2005 also require the counterparty to post collateral to the trust based on the fair value of the derivative, regardless of credit rating. The trusts are not required to post collateral to the counterparties. In all cases, our exposure is limited to the value of the derivative contracts in a gain position net of any collateral we are holding. We consider counterparties' credit risk when determining the fair value of derivative positions on our exposure net of collateral.

We have liquidity exposure related to collateral movements between us and our derivative counterparties. Movements in the value of the derivatives, which are primarily affected by changes in interest rate and foreign exchange rates, may require us to return cash collateral held or may require us to access primary liquidity to post collateral to counterparties. If our credit ratings are downgraded from current levels, we may be required to segregate additional unrestricted cash collateral into restricted accounts.

The table below highlights exposure related to our derivative counterparties at March 31, 2013.

(Dollars in millions)	SLM Corporation and Sallie Mae Bank Contracts	Securitization Trust Contracts
Exposure, net of collateral <sup>(1)</sup>	\$ 83	\$ 587
Percent of exposure to counterparties with credit ratings below S&P AA- or Moody's Aa3	88%	31%
Percent of exposure to counterparties with credit ratings below S&P A- or Moody's A3	0%	0%

<sup>(1)</sup> Recent turmoil in the European markets has led to increased disclosure of exposure to those markets. Our securitization trusts had total net exposure of \$519 million related to financial institutions located in France; of this amount, \$400 million carries a guaranty from the French government. The total exposure relates to \$5.8 billion notional amount of cross-currency interest rate swaps held in our securitization trusts, of which \$3.5 billion notional amount carries a guaranty from the French government. Counterparties to the cross-currency interest rate swaps are required to post collateral when their credit rating is withdrawn or downgraded below a certain level. As of March 31, 2013, no collateral was required to be posted and we are not holding any collateral related to these contracts. Adjustments are made to our derivative valuations for counterparty credit risk. The adjustments made at March 31, 2013 related to derivatives with French financial institutions (including those that carry a guaranty from the French government) decreased the derivative asset value by \$53 million. Credit risks for all derivative counterparties are assessed internally on a continual basis.

**Table of Contents****Core Earnings Basis Borrowings**

The following tables present the ending balances of our Core Earnings basis borrowings at March 31, 2013 and December 31, 2012, and average balances and average interest rates of our Core Earnings basis borrowings for the three months ended March 31, 2013 and 2012. The average interest rates include derivatives that are economically hedging the underlying debt but do not qualify for hedge accounting treatment. (See Core Earnings Definition and Limitations Differences between Core Earnings and GAAP Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities of this Item 2).

*Ending Balances*

(Dollars in millions)	March 31, 2013			December 31, 2012		
	Short Term	Long Term	Total	Short Term	Long Term	Total
<i>Unsecured borrowings:</i>						
Senior unsecured debt	\$ 2,778	\$ 15,167	\$ 17,945	\$ 2,319	\$ 15,446	\$ 17,765
Brokered deposits	1,170	2,782	3,952	979	3,088	4,067
Retail and other deposits	3,643		3,643	3,247		3,247
Other <sup>(1)</sup>	1,240		1,240	1,609		1,609
<b>Total unsecured borrowings</b>	<b>8,831</b>	<b>17,949</b>	<b>26,780</b>	<b>8,154</b>	<b>18,534</b>	<b>26,688</b>
<i>Secured borrowings:</i>						
FFELP Loan securitizations		100,750	100,750		105,525	105,525
Private Education Loan securitizations		20,252	20,252		19,656	19,656
ED Conduit Program Facility	6,967		6,967	9,551		9,551
FFELP ABCP Facility		5,114	5,114		4,154	4,154
Private Education Loan ABCP Facility	539		539		1,070	1,070
Acquisition financing <sup>(2)</sup>		576	576		673	673
FHLB-DM Facility	880	1,220	2,100	2,100		2,100
<b>Total secured borrowings</b>	<b>8,386</b>	<b>127,912</b>	<b>136,298</b>	<b>11,651</b>	<b>131,078</b>	<b>142,729</b>
<b>Total Core Earnings basis</b>	<b>17,217</b>	<b>145,861</b>	<b>163,078</b>	<b>19,805</b>	<b>149,612</b>	<b>169,417</b>
Hedge accounting adjustments	37	2,026	2,063	51	2,789	2,840
<b>Total GAAP basis</b>	<b>\$ 17,254</b>	<b>\$ 147,887</b>	<b>\$ 165,141</b>	<b>\$ 19,856</b>	<b>\$ 152,401</b>	<b>\$ 172,257</b>

(1) Other primarily consists of the obligation to return cash collateral held related to derivative exposure.

(2) Relates to the acquisition of \$25 billion of student loans at the end of 2010.

Secured borrowings comprised 84 percent of our Core Earnings basis debt outstanding at both March 31, 2013 and December 31, 2012.

**Table of Contents***Average Balances*

(Dollars in millions)	Three Months Ended March 31,		2012	
	Average Balance	Average Rate	Average Balance	Average Rate
<i>Unsecured borrowings:</i>				
Senior unsecured debt	\$ 18,324	3.17%	\$ 18,004	2.88%
Brokered deposits	4,012	1.56	3,515	2.08
Retail and other deposits	3,540	.83	2,283	.95
Other <sup>(1)</sup>	1,396	.22	1,400	.11
Total unsecured borrowings	27,272	2.48	25,202	2.44
<i>Secured borrowings:</i>				
FFELP Loan securitizations	102,532	.97	107,230	1.14
Private Education Loan securitizations	19,712	2.06	18,577	2.09
ED Conduit Program Facility	8,446	.94	20,515	.81
FFELP ABCP Facility	4,464	.99	4,018	1.19
Private Education Loan ABCP Facility	919	1.74	2,633	1.69
Acquisition financing <sup>(2)</sup>	602	4.79	872	4.85
FHLB-DM Facility	2,100	.30	1,071	.29
Total secured borrowings	138,775	1.13	154,916	1.23
Total	\$ 166,047	1.35%	\$ 180,118	1.40%
Core Earnings average balance and rate	\$ 166,047	1.35%	\$ 180,118	1.40%
Adjustment for GAAP accounting treatment		.04		.09
GAAP-basis average balance and rate	\$ 166,047	1.39%	\$ 180,118	1.49%

<sup>(1)</sup> Other primarily consists of the obligation to return cash collateral held related to derivative exposure.

<sup>(2)</sup> Relates to the acquisition of \$25 billion of student loans at the end of 2010.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations addresses our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States of America. A discussion of our critical accounting policies, which include allowance for loan losses, premium and discount amortization related to our loan portfolio, fair value measurement, transfers of financial assets and the VIE consolidation model, derivative accounting and goodwill and intangible assets can be found in our 2012 Form 10-K. There were no significant changes to these critical accounting policies during the first quarter of 2013.

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures about Market Risk  
Interest Rate Sensitivity Analysis**

Our interest rate risk management seeks to limit the impact of short-term movements in interest rates on our results of operations and financial position. The following tables summarize the potential effect on earnings over the next 12 months and the potential effect on fair values of balance sheet assets and liabilities at March 31, 2013 and December 31, 2012, based upon a sensitivity analysis performed by management assuming a hypothetical increase in market interest rates of 100 basis points and 300 basis points while funding spreads remain constant. Additionally, as it relates to the effect on earnings, a sensitivity analysis was performed assuming the funding index increases 25 basis points while holding the asset index constant, if the funding index is different than the asset index. The earnings sensitivity is applied only to financial assets and liabilities, including hedging instruments, that existed at the balance sheet date and does not take into account new assets, liabilities or hedging instruments that may arise in 2013.

(Dollars in millions, except per share amounts)	As of March 31, 2013			As of March 31, 2012		
	Impact on Annual Earnings If:		Increase 25 Basis Points <sup>(1)</sup>	Impact on Annual Earnings If:		Increase 25 Basis Points <sup>(1)</sup>
	Interest Rates	Funding Indices		Interest Rates	Funding Indices	
	Increase 100 Basis Points	Increase 300 Basis Points		Increase 100 Basis Points	Increase 300 Basis Points	
<b>Effect on Earnings:</b>						
Change in pre-tax net income before unrealized gains (losses) on derivative and hedging activities	\$ (32)	\$ (17)	\$ (281)	\$ (19)	\$ 8	\$ (343)
Unrealized gains (losses) on derivative and hedging activities	368	593	(2)	503	857	(12)
Increase in net income before taxes	\$ 336	\$ 576	\$ (283)	\$ 484	\$ 865	\$ (355)
Increase in diluted earnings per common share	\$ .733	\$ 1.257	\$ (.618)	\$ .949	\$ 1.697	\$ (.696)

<sup>(1)</sup> If an asset is not funded with the same index/frequency reset of the asset then it is assumed the funding index increases 25 basis points while holding the asset index constant.

**Table of Contents**

(Dollars in millions)	Fair Value	At March 31, 2013 Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
		\$	%	\$	%
<b>Effect on Fair Values:</b>					
Assets					
FFELP Loans	\$ 119,294	\$ (672)	(1)%	\$ (1,317)	(1)%
Private Education Loans	37,214				
Other earning assets	9,519			(1)	
Other assets	7,907	(461)	(6)	(936)	(12)%
<b>Total assets gain/(loss)</b>	<b>\$ 173,934</b>	<b>\$ (1,133)</b>	<b>(1)%</b>	<b>\$ (2,254)</b>	<b>(1)%</b>
Liabilities					
Interest-bearing liabilities	\$ 161,453	\$ (855)	(1)%	\$ (2,371)	(1)%
Other liabilities	3,791	(213)	(6)	195	5
<b>Total liabilities (gain)/loss</b>	<b>\$ 165,244</b>	<b>\$ (1,068)</b>	<b>(1)%</b>	<b>\$ (2,176)</b>	<b>(1)%</b>

(Dollars in millions)	Fair Value	At December 31, 2012 Interest Rates:			
		Change from Increase of 100 Basis Points		Change from Increase of 300 Basis Points	
		\$	%	\$	%
<b>Effect on Fair Values:</b>					
Assets					
FFELP Loans	\$ 125,042	\$ (738)	(1)%	\$ (1,438)	(1)%
Private Education Loans	36,081				
Other earning assets	9,994			(1)	
Other assets	8,721	(560)	(6)	(1,187)	(14)%
<b>Total assets gain/(loss)</b>	<b>\$ 179,838</b>	<b>\$ (1,298)</b>	<b>(1)%</b>	<b>\$ (2,626)</b>	<b>(1)%</b>
Liabilities					
Interest-bearing liabilities	\$ 166,071	\$ (829)	%	\$ (2,298)	(1)%
Other liabilities	3,937	(422)	(11)	(274)	(7)
<b>Total liabilities (gain)/loss</b>	<b>\$ 170,008</b>	<b>\$ (1,251)</b>	<b>(1)%</b>	<b>\$ (2,572)</b>	<b>(2)%</b>

A primary objective in our funding is to minimize our sensitivity to changing interest rates by generally funding our floating rate student loan portfolio with floating rate debt. However, due to the ability of some FFELP loans to earn Floor Income, we can have a fixed versus floating mismatch in funding if the student loan earns at the fixed borrower rate and the funding remains floating. In addition, we can have a mismatch in the index (including the frequency of reset) of floating rate debt versus floating rate assets.

During the three months ended March 31, 2013 and 2012, certain FFELP Loans were earning Floor Income and we locked in a portion of that Floor Income through the use of Floor Income contracts. The result of these hedging transactions was to convert a portion of the fixed rate

## Edgar Filing: SLM CORP - Form 10-Q

nature of student loans to variable rate, and to fix the relative spread between the student loan asset rate and the variable rate liability.

In the preceding tables, under the scenario where interest rates increase 100 and 300 basis points, the change in pre-tax net income before the unrealized gains (losses) on derivative and hedging activities is primarily due to

**Table of Contents**

the impact of (i) our unhedged loans being in a fixed-rate mode due to Floor Income, while being funded with variable debt in low interest rate environments; and (ii) a portion of our variable assets being funded with fixed rate liabilities and equity. Item (i) will generally cause income to decrease when interest rates increase from a low interest rate environment, whereas item (ii) will generally offset this decrease.

Under the scenario in the tables above labeled Impact on Annual Earnings If: Funding Indices Increase 25 Basis Points, the main driver of the decrease in pre-tax income before unrealized gains (losses) on derivative and hedging activities in both the March 31, 2013 and March 31, 2012 analyses is the result of one-month LIBOR-indexed FFELP Loans (loans formerly indexed to commercial paper) being funded with three-month LIBOR and other non-discrete indexed liabilities. See Asset and Liability Funding Gap of this Item 7A for a further discussion. Increasing the spread between indices will also impact the unrealized gains (losses) on derivative and hedging activities as it relates to basis swaps that hedge the mismatch between the asset and funding indices.

In addition to interest rate risk addressed in the preceding tables, we are also exposed to risks related to foreign currency exchange rates. Foreign currency exchange risk is primarily the result of foreign currency denominated debt issued by us. When we issue foreign denominated corporate unsecured and securitization debt, our policy is to use cross currency interest rate swaps to swap all foreign currency denominated debt payments (fixed and floating) to U.S. dollar LIBOR using a fixed exchange rate. In the tables above, there would be an immaterial impact on earnings if exchange rates were to decrease or increase, due to the terms of the hedging instrument and hedged items matching. The balance sheet interest bearing liabilities would be affected by a change in exchange rates; however, the change would be materially offset by the cross currency interest rate swaps in other assets or other liabilities. In the current economic environment, volatility in the spread between spot and forward foreign exchange rates has resulted in material mark-to-market impacts to current-period earnings which have not been factored into the above analysis. The earnings impact is noncash, and at maturity of the instruments the cumulative mark-to-market impact will be zero.



**Table of Contents****Asset and Liability Funding Gap**

The tables below present our assets and liabilities (funding) arranged by underlying indices as of March 31, 2013. In the following GAAP presentation, the funding gap only includes derivatives that qualify as effective hedges (those derivatives which are reflected in net interest margin, as opposed to those reflected in the gains (losses) on derivatives and hedging activities, net line on the consolidated statements of income). The difference between the asset and the funding is the funding gap for the specified index. This represents our exposure to interest rate risk in the form of basis risk and repricing risk, which is the risk that the different indices may reset at different frequencies or may not move in the same direction or at the same magnitude.

Management analyzes interest rate risk and in doing so includes all derivatives that are economically hedging our debt whether they qualify as effective hedges or not (Core Earnings basis). Accordingly, we are also presenting the asset and liability funding gap on a Core Earnings basis in the table that follows the GAAP presentation.

*GAAP-Basis*

<b>(Dollars in billions)</b>		<b>Frequency of Variable Resets</b>	<b>Assets<sup>(1)</sup></b>	<b>Funding<sup>(2)</sup></b>	<b>Funding Gap</b>
<b>Index</b>					
3-month Treasury bill		weekly	\$ 6.0	\$	\$ 6.0
Prime		annual	0.6		0.6
Prime		quarterly	4.2		4.2
Prime		monthly	19.1		19.1
Prime		daily		1.3	(1.3)
PLUS Index		annual	0.4		0.4
3-month LIBOR		daily			
3-month LIBOR		quarterly		100.4	(100.4)
1-month LIBOR		monthly	12.8	32.2	(19.4)
1-month LIBOR daily		daily	112.0		112.0
CMT/CPI Index		monthly/quarterly		1.3	(1.3)
Non-Discrete reset <sup>(3)</sup>		monthly		17.6	(17.6)
Non-Discrete reset <sup>(4)</sup>		daily/weekly	9.5	4.9	4.6
Fixed Rate <sup>(5)</sup>			9.5	16.4	(6.9)
<b>Total</b>			<b>\$ 174.1</b>	<b>\$ 174.1</b>	<b>\$</b>

(1) FFELP Loans of \$51.9 billion (\$47.1 billion LIBOR index and \$4.8 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding (by index) includes all derivatives that qualify as hedges.

(3) Funding consists of auction rate securities, the ABCP Facilities, the ED Conduit Program Facility and the FHLB-DM Facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposures.

(5) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity (excluding series B Preferred Stock).

## Edgar Filing: SLM CORP - Form 10-Q

The Funding Gaps in the above table are primarily interest rate mismatches in short-term indices between our assets and liabilities. We address this issue typically through the use of basis swaps that typically convert quarterly reset three-month LIBOR to other indices that are more correlated to our asset indices. These basis swaps do not qualify as effective hedges and as a result the effect on the funding index is not included in our interest margin and is therefore excluded from the GAAP presentation.

**Table of Contents***Core Earnings Basis*

(Dollars in billions)				
Index	Frequency of Variable Resets	Assets <sup>(1)</sup>	Funding <sup>(2)</sup>	Funding Gap
3-month Treasury bill	weekly	\$ 6.0	\$	\$ 6.0
Prime	annual	.6		.6
Prime	quarterly	4.2		4.2
Prime	monthly	19.1	4.5	14.6
Prime	daily		1.3	(1.3)
PLUS Index	annual	.4		.4
3-month LIBOR	daily		6.0	(6.0)
3-month LIBOR	quarterly		78.8	(78.8)
1-month LIBOR	monthly	12.8	41.9	(29.1)
1-month LIBOR	daily	112.0	5.0	107.0
Non-Discrete reset <sup>(3)</sup>	monthly		17.6	(17.6)
Non-Discrete reset <sup>(4)</sup>	daily/weekly	9.5	4.9	4.6
Fixed Rate <sup>(5)</sup>		7.2	11.8	(4.6)
Total		\$ 171.8	\$ 171.8	\$

(1) FFELP Loans of \$20.2 billion (\$18.5 billion LIBOR index and \$1.7 billion Treasury bill index) are currently earning a fixed rate of interest as a result of the low interest rate environment.

(2) Funding (by index) includes all derivatives that management considers economic hedges of interest rate risk and reflects how we internally manage our interest rate exposure.

(3) Funding consists of auction rate securities, the ABCP Facilities, the ED Conduit Program Facility and the FHLB-DM Facility.

(4) Assets include restricted and unrestricted cash equivalents and other overnight type instruments. Funding includes retail and other deposits and the obligation to return cash collateral held related to derivatives exposures.

(5) Assets include receivables and other assets (including goodwill and acquired intangibles). Funding includes other liabilities and stockholders' equity (excluding series B Preferred Stock).

We use interest rate swaps and other derivatives to achieve our risk management objectives. Our asset liability management strategy is to match assets with debt (in combination with derivatives) that have the same underlying index and reset frequency or, when economical, have interest rate characteristics that we believe are highly correlated. The use of funding with index types and reset frequencies that are different from our assets exposes us to interest rate risk in the form of basis and repricing risk. This could result in our cost of funds not moving in the same direction or with the same magnitude as the yield on our assets. While we believe this risk is low, as all of these indices are short-term with rate movements that are highly correlated over a long period of time, market disruptions (which have occurred in recent years) can lead to a temporary divergence between indices resulting in a negative impact to our earnings.

**Table of Contents****Weighted Average Life**

The following table reflects the weighted average life of our earning assets and liabilities at March 31, 2013.

(Averages in Years)	Weighted Average Life
<b>Earning assets</b>	
Student loans	7.9
Other loans	7.2
Cash and investments	.1
<b>Total earning assets</b>	<b>7.5</b>
<b>Borrowings</b>	
Short-term borrowings	.3
Long-term borrowings	6.7
<b>Total borrowings</b>	<b>6.0</b>

**Item 4. Controls and Procedures*****Disclosure Controls and Procedures***

Our management, with the participation of our chief principal executive and principal financial officers, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2013. Based on this evaluation, our chief principal executive and principal financial officers concluded that, as of March 31, 2013, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is (a) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (b) accumulated and communicated to our management, including our chief principal executive and principal financial officers as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control over Financial Reporting***

No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We and our subsidiaries and affiliates also are subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of our reports to credit bureaus. In addition, our collections subsidiaries are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that those subsidiaries have violated a federal or state law in the process of collecting their accounts. We believe that these claims, lawsuits and other actions will not have a material adverse effect on our business, financial condition or results of operations. Finally, from time to time, we and our subsidiaries and affiliates receive information and document requests from state attorneys general, legislative committees and administrative agencies concerning certain business practices. Our practice has been and continues to be to cooperate with these bodies and to be responsive to any such requests.

For a description of these items and other litigation to which we are a party, see our 2012 Form 10-K and subsequent filings with the SEC.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Share Repurchases*

The following table provides information relating to our purchase of shares of our common stock in the three months ended March 31, 2013.

(In millions, except per share data) Period:		Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share	Approximate Dollar Value of Shares That May Yet Be Purchased Under Publicly Announced Plans or Programs <sup>(2)</sup>	
				Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Publicly Announced Plans or Programs <sup>(2)</sup>
January 1	January 31, 2013	.6	\$ 16.99		\$
February 1	February 28, 2013	3.9	18.74	2.6	351
March 1	March 31, 2013	8.0	19.65	7.6	201
Total first-quarter 2013		12.5	\$ 19.23	10.2	

(1) The total number of shares purchased includes: (i) shares purchased under the stock repurchase program discussed below, and (ii) shares of our common stock tendered to us to satisfy the exercise price in connection with cashless exercise of stock options, and tax withholding obligations in connection with exercise of stock options and vesting of restricted stock and restricted stock units.

(2) In February 2013, our board of directors authorized us to purchase up to \$400 million of shares of our common stock.

## Edgar Filing: SLM CORP - Form 10-Q

The closing price of our common stock on the NASDAQ Global Select Market on March 28, 2013 was \$20.50.

**Table of Contents**

**Item 3. Defaults upon Senior Securities**

Nothing to report.

**Item 4. Mine Safety Disclosures**

Nothing to report.

**Item 5. Other Information**

Nothing to report.

**Item 6. Exhibits**

The following exhibits are furnished or filed, as applicable:

10.1	Form of SLM Corporation 2012 Omnibus Incentive Plan, Performance Stock Unit Term Sheet 2013
10.2	Form of SLM Corporation 2012 Omnibus Incentive Plan, Bonus Restricted Stock Unit Term Sheet 2013
10.3	Form of SLM Corporation 2012 Omnibus Incentive Plan, Stock Option Agreement, Net Settled Options 2013
10.4	Form of SLM Corporation 2012 Omnibus Incentive Plan, Independent Director Restricted Stock Agreement 2013
10.5	Form of SLM Corporation 2012 Omnibus Incentive Plan, Independent Director Stock Option Agreement 2013
12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Management Contract or Compensatory Plan or Arrangement

**Table of Contents**

**SIGNATURES**

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

SLM CORPORATION

(Registrant)

By: /s/ JOSEPH A. DEPAULO  
Joseph A. DePaulo

*Executive Vice President - Banking and Finance*

*(Principal Financial Officer)*

Date: May 3, 2013