SLM CORP
Form 10-Q
November 09, 2007

Table of Contents

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

Form 10-Q

(Mark One)

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the quarterly period ended September 30, 2007 or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the transition period from to

Commission File Number: 001-13251

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

Delaware	**52-2013874**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

12061 Bluemont Way, Reston, Virginia	**20190**
(Address of principal executive offices)	*(Zip Code)*

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

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

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

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

Class	Outstanding at October 31, 2007
Voting common stock, $.20 par value	413,998,316 shares

GLOSSARY

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

Borrower Benefits Borrower Benefits are financial incentives offered to borrowers who qualify based on pre-determined qualifying factors, which are generally tied directly to making on-time monthly payments. The impact of Borrower Benefits is dependent on the estimate of the number of borrowers who will eventually qualify for these benefits and the amount of the financial benefit offered to the borrower. We occasionally change Borrower Benefits programs in both amount and qualification factors. These programmatic changes must be reflected in the estimate of the Borrower Benefits discount.

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

Constant Prepayment Rate (CPR) A variable in life of loan estimates that measures the rate at which loans in the portfolio pay before their stated maturity. The CPR is directly correlated to the average life of the portfolio. CPR equals the percentage of loans that prepay annually as a percentage of the beginning of period balance.

Core Earnings In accordance with the Rules and Regulations of the Securities and Exchange Commission (SEC), we prepare financial statements in accordance with generally accepted accounting principles in the United States of America (GAAP). In addition to evaluating the Company s GAAP-based financial information, management evaluates the Company s business segments on a basis that, as allowed under the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, differs from GAAP. We refer to management s basis of evaluating our segment results as Core Earnings presentations for each business segment and we refer to these performance measures in our presentations with credit rating agencies and lenders. While Core Earnings results are not a substitute for reported results under GAAP, we rely on Core Earnings performance measures in operating each business segment because we believe these measures provide additional information regarding the operational and performance indicators that are most closely assessed by management.

Our Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision maker. Our Core Earnings performance measures are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Our Core Earnings performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income. Accordingly, the Company s Core Earnings presentation does not represent another comprehensive basis of accounting.

See NOTE 11 TO THE CONSOLIDATED FINANCIAL STATEMENTS Segment Reporting and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS BUSINESS SEGMENTS Limitations of Core Earnings for further discussion of the differences between Core Earnings and GAAP, as well as reconciliations between Core Earnings and GAAP.

In prior filings with the SEC of SLM Corporation s Annual Report on Form 10-K and quarterly report on Form 10-Q, Core Earnings has been labeled as Core net income or Managed net income in certain instances.

Table of Contents

Direct Loans Student loans originated directly by ED under the FDLP.

ED The U.S. Department of Education.

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

Exceptional Performer (EP) Designation The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP Loans. Upon receiving the EP designation, the EP servicer receives 99 percent reimbursement on default claims on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the 3 percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the 3 percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance. The College Cost Reduction Act of 2007 eliminated the EP designation effective October 1, 2007. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RECENT DEVELOPMENTS Other Developments *Exceptional Performer*.

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

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

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

FFELP Stafford and Other Student Loans Education loans to students or parents of students that are guaranteed or reinsured under the FFELP. The loans are primarily Stafford loans but also include PLUS and HEAL loans.

Fixed Rate Floor Income We refer to Floor Income (see definition below) associated with student loans whose borrower rate is fixed to term (primarily FFELP Consolidation Loans and Stafford Loans originated on or after July 1, 2006) as Fixed Rate Floor Income.

Floor Income FFELP student loans generally earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the

SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date. In accordance with new legislation enacted in 2006, lenders are required to rebate Floor Income to ED for all new FFELP loans disbursed on or after April 1, 2006.

The following example shows the mechanics of Floor Income for a typical fixed rate FFELP Consolidation Loan (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate	7.25%
SAP Spread over Commercial Paper Rate	(2.64)%
Floor Strike Rate[1]	4.61%

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

Based on this example, if the quarterly average commercial paper rate is over 4.61 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 4.61 percent, the SAP formula will produce a rate below the fixed borrower rate of 7.25 percent and the loan holder earns at the borrower rate of 7.25 percent. The difference between the fixed borrower rate and the lender s expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

Graphic Depiction of Floor Income:

Floor Income Contracts We enter into contracts with counterparties under which, in exchange for an upfront fee representing the present value of the Floor Income that we expect to earn on a notional amount of underlying student loans being economically hedged, we will pay the counterparties the Floor Income earned on that notional amount over the life of the Floor Income Contract. Specifically, we agree to pay the counterparty the difference, if positive, between the fixed borrower rate less the SAP (see definition below) spread and the average of the applicable interest rate index on that notional amount, regardless of the actual balance of underlying student loans, over the life of the contract. The contracts generally do not extend over the life of the underlying student loans. This contract effectively locks in the amount of Floor Income we will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and each quarter we must record the change in fair value of these contracts through income.

GSE The Student Loan Marketing Association was a federally chartered government-sponsored enterprise and wholly owned subsidiary of SLM Corporation that was dissolved under the terms of the Privatization Act (see definition below) on December 29, 2004.

HEA The Higher Education Act of 1965, as amended.

Lender Partners Lender Partners are lenders who originate loans under forward purchase commitments to Sallie Mae where we own the loans from inception or acquire the loans soon after origination.

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

Merger On April 16, 2007, the Company announced that a buyer group (Buyer Group) led by J.C. Flowers & Co. (J.C. Flowers) signed a definitive agreement (Merger Agreement) to acquire the Company for approximately $25.3 billion or $60.00 per share of common stock. Under the terms of the Merger Agreement, J.C. Flowers and certain other private equity investors, including Friedman Fleischer & Lowe, would, upon consummation, invest approximately $4.4 billion and own 50.2 percent, and Bank of America (NYSE: BAC) and JPMorgan Chase (NYSE: JPM) each would, upon consummation, invest approximately $2.2 billion and each would own 24.9 percent of the surviving entity. The remainder of the purchase price is expected to be funded by debt. The Company s independent board members unanimously approved the agreement and recommended that its shareholders approve the agreement. The Company s shareholders approved the Merger Agreement during a special meeting of shareholders held on August 15, 2007. (See also Merger Agreement filed with the SEC on the Company s Current Report on Form 8-K, dated April 18, 2007.) Pursuant to the Merger Agreement, the Company was not permitted to pay dividends on its common stock prior to the consummation of the proposed transaction. This restriction has been terminated. The Buyer Group has since repudiated the Merger Agreement and the Company has filed a lawsuit in Delaware Court of Chancery against the Buyer Group. Under guidance from the Delaware Court of Chancery at a scheduling hearing on November 5, 2007, the Company has elected to pursue an expedited decision on its October 19, 2007 motion for partial judgment on the pleadings. Specifically, the Company is seeking an expedited ruling that its interpretation of the Merger Agreement as it pertains to a Material Adverse Effect (as defined in the Merger Agreement) is the correct interpretation. The effect of this election will be that trial is expected to commence on an undetermined date after Thanksgiving 2008, rather than in mid-July 2008. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RECENT DEVELOPMENTS Merger-Related Developments.

Preferred Lender List Most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

Preferred Channel Originations Preferred Channel Originations are comprised of: 1) student loans that are originated by lenders with forward purchase commitment agreements with Sallie Mae and are committed for sale to Sallie Mae, such that we either own them from inception or, in most cases, acquire them soon after origination, and 2) loans that are originated by internally marketed Sallie Mae brands.

Private Education Consolidation Loans Borrowers with multiple Private Education Loans (defined below) may consolidate them into a single loan with Sallie Mae. The interest rate on the new loan is variable rate with the spread set at the lower of the average weighted spread of the underlying loans (available only to Sallie Mae customers) or a new spread as a result of favorable underwriting criteria.

Private Education Loans Education loans to students or parents of students that are not guaranteed or reinsured under the FFELP or any other federal or private student loan program. Private Education Loans include loans for traditional higher education, undergraduate and graduate degrees, and for alternative

Table of Contents

education, such as career training, private kindergarten through secondary education schools and tutorial schools. Traditional higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. Repayment for alternative education or career training loans generally begins immediately.

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

Reconciliation Legislation The Higher Education Reconciliation Act of 2005, which reauthorized the student loan programs of the HEA and generally became effective as of July 1, 2006.

Residual Interest When we securitize student loans, we retain the right to receive cash flows from the student loans sold to trusts we sponsor in excess of amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The Residual Interest, which may also include reserve and other cash accounts, is the present value of these future expected cash flows, which includes the present value of Embedded Fixed Rate Floor Income described above. We value the Residual Interest at the time of sale of the student loans to the trust and at the end of each subsequent quarter.

Retained Interest The Retained Interest includes the Residual Interest (defined above) and servicing rights (as the Company retains the servicing responsibilities).

Risk Sharing When a FFELP loan defaults, the federal government guarantees 97 percent of the principal balance plus accrued interest (98 percent on loans disbursed before July 1, 2006) and the holder of the loan generally must absorb the remaining three percent not guaranteed as a Risk Sharing loss on the loan. FFELP student loans originated after October 1, 1993 are subject to Risk Sharing on loan default claim payments unless the default results from the borrower s death, disability or bankruptcy. FFELP loans serviced by a servicer that has EP designation (see definition above) from ED are subject to one-percent Risk Sharing for claims filed on or after July 1, 2006 and before October 1, 2007.

Special Allowance Payment (SAP) FFELP student loans originated prior to April 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan s repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. For loans disbursed after April 1, 2006, FFELP loans effectively only earn at the SAP rate, as the excess interest earned when the borrower rate exceeds the SAP rate (Floor Income) must be refunded to ED.

Variable rate PLUS Loans and SLS Loans earn SAP only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. For PLUS loans disbursed on or after January 1, 2000, this limitation on SAP was repealed effective April 1, 2006.

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

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

Wholesale Consolidation Loans During 2006, we implemented a loan acquisition strategy under which we began purchasing a significant amount of FFELP Consolidation Loans, primarily via the spot market, which augments our traditional FFELP Consolidation Loan origination process. Wholesale Consolidation Loans are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our brand strategy.

SLM CORPORATION

FORM 10-Q
INDEX
September 30, 2007

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
FFELP Stafford and Other Student Loans (net of allowance for losses of $30,655 and $8,701, respectively)	$ 34,108,560	$ 24,840,464
FFELP Consolidation Loans (net of allowance for losses of $26,809 and $11,614, respectively)	71,370,681	61,324,008
Private Education Loans (net of allowance for losses of $454,100 and $308,346, respectively)	13,675,571	9,755,289
Other loans (net of allowance for losses of $21,738 and $20,394, respectively)	1,193,405	1,308,832
Investments		
Available-for-sale	4,152,071	2,464,121
Other	92,976	99,330
Total investments	4,245,047	2,563,451
Cash and cash equivalents	7,794,954	2,621,222
Restricted cash and investments	4,999,369	3,423,326
Retained Interest in off-balance sheet securitized loans	3,238,637	3,341,591
Goodwill and acquired intangible assets, net	1,354,141	1,371,606
Other assets	8,835,025	5,585,943
Total assets	$ 150,815,390	$ 116,135,732
Liabilities		
Short-term borrowings	$ 33,008,374	$ 3,528,263
Long-term borrowings	108,860,988	104,558,531
Other liabilities	3,934,267	3,679,781
Total liabilities	145,803,629	111,766,575
Commitments and contingencies		
Minority interest in subsidiaries	10,054	9,115
Stockholders equity		
Preferred stock, par value $.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of $50 per share;	565,000	565,000

Series B: 4,000 and 4,000 shares issued, respectively, at stated value of $100 per share		
Common stock, par value $.20 per share, 1,125,000 shares authorized; 439,660 and 433,113 shares issued, respectively	87,932	86,623
Additional paid-in capital	2,847,748	2,565,211
Accumulated other comprehensive income (net of tax of $128,716 and $183,684, respectively)	245,352	349,111
Retained earnings	2,437,639	1,834,718
Stockholders equity before treasury stock	6,183,671	5,400,663
Common stock held in treasury: 25,544 and 22,496 shares, respectively	1,181,964	1,040,621
Total stockholders equity	5,001,707	4,360,042
Total liabilities and stockholders equity	$ 150,815,390	$ 116,135,732

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (Unaudited)	2006 (Unaudited)	2007 (Unaudited)	2006 (Unaudited)
Interest income:				
FFELP Stafford and Other Student Loans	$ 545,618	$ 364,621	$ 1,507,680	$ 1,000,211
FFELP Consolidation Loans	1,145,473	916,091	3,247,573	2,579,017
Private Education Loans	392,737	254,747	1,060,509	729,796
Other loans	25,990	24,550	80,416	71,398
Cash and investments	211,303	141,083	466,731	361,847
Total interest income	2,321,121	1,701,092	6,362,909	4,742,269
Total interest expense	1,879,811	1,363,271	5,109,130	3,660,122
Net interest income	441,310	337,821	1,253,779	1,082,147
Less: provisions for loan losses	142,600	67,242	441,130	194,957
Net interest income after provisions for loan losses	298,710	270,579	812,649	887,190
Other income (loss):				
Gains on student loan securitizations		201,132	367,300	902,417
Servicing and securitization revenue	28,883	187,082	413,808	368,855
Losses on loans and securities, net	(25,163)	(13,427)	(67,051)	(24,899)
Gains (losses) on derivative and hedging activities, net	(487,478)	(130,855)	(22,881)	(94,875)
Guarantor servicing fees	45,935	38,848	115,449	99,011
Debt management fees	76,306	122,556	243,865	304,329
Collections revenue	52,788	57,913	195,442	181,951
Other	106,684	87,923	292,121	234,380
Total other income (loss)	(202,045)	551,172	1,538,053	1,971,169
Operating expenses:				
Salaries and benefits	185,741	179,910	563,723	523,977
Other	170,158	173,584	547,150	469,428
Total operating expenses	355,899	353,494	1,110,873	993,405
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	(259,234)	468,257	1,239,829	1,864,954
Income taxes	84,449	203,686	499,187	722,559
	(343,683)	264,571	740,642	1,142,395

Income (loss) before minority interest in net earnings of subsidiaries								
Minority interest in net earnings of subsidiaries		77		1,099		1,778		3,544
Net income (loss)		(343,760)		263,472		738,864		1,138,851
Preferred stock dividends		9,274		9,221		27,523		26,309
Net income (loss) attributable to common stock	$	(353,034)	$	254,251	$	711,341	$	1,112,542
Basic earnings (loss) per common share	$	(.85)	$	.62	$	1.73	$	2.71
Average common shares outstanding		412,944		410,034		411,958		411,212
Diluted earnings (loss) per common share	$	(.85)	$	.60	$	1.69	$	2.56
Average common and common equivalent shares outstanding		412,944		449,841		420,305		452,012
Dividends per common share	$		$	.25	$	.25	$	.72

See accompanying notes to consolidated financial statements.

Table of Contents

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

ferred ock ares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings
00,000	430,753,515	(19,078,488)	411,675,027	$ 565,000	$ 86,151	$ 2,440,565	$ 370,204	$ 1,775,948
								263,472
							98,168	
							(7,845)	
								(101,995)
								(2,875)
								(6,183)
	836,344	4,996	841,340		167	25,380		
						163		(163)
						6,695		
						18,048		
		(2,159,827)	(2,159,827)					
		(861,576)	(861,576)					

		(134,033)	(134,033)					
00,000	431,589,859	(22,228,928)	409,360,931	$ 565,000	$ 86,318	$ 2,490,851	$ 460,527	$ 1,928,204
00,000	436,095,303	(23,477,044)	412,618,259	$ 565,000	$ 87,219	$ 2,721,554	$ 265,388	$ 2,790,674
								(343,760)
							(12,914)	
							(7,208)	
							86	
								(2,875)
								(6,236)
								(1)
	3,565,038		3,565,038		713	86,182		
						163		(163)
						31,105		
						8,744		
		(2,067,201)	(2,067,201)					
00,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639

See accompanying notes to consolidated financial statements.

Table of Contents

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

erred ock ares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Other Comprehensive Income (Loss)	Retained Earnings
00,000	426,483,527	(13,346,717)	413,136,810	$ 565,000	$ 85,297	$ 2,233,647	$ 367,910	$ 1,111,743
								1,138,851
							91,356	
							1,256	
							5	
								(296,081)
								(8,625)
								(17,200)
	5,106,332	58,745	5,165,077		1,021	157,331		
						484		(484)
						44,654		
						54,735		
		(2,159,827)	(2,159,827)					

		(5,395,979)	(5,395,979)					
		(1,385,150)	(1,385,150)					
00,000	431,589,859	(22,228,928)	409,360,931	$ 565,000	$ 86,318	$ 2,490,851	$ 460,527	$ 1,928,204
00,000	433,112,982	(22,496,170)	410,616,812	$ 565,000	$ 86,623	$ 2,565,211	$ 349,111	$ 1,834,718
								738,864
							(103,014)	
							(309)	
							(436)	
								(102,658)
								(8,625)
								(18,414)
								(1)
	6,547,359	35,364	6,582,723		1,309	180,376		
						484		(484)
						46,579		
						55,098		
								(5,761)
		(3,083,439)	(3,083,439)					
00,000	439,660,341	(25,544,245)	414,116,096	$ 565,000	$ 87,932	$ 2,847,748	$ 245,352	$ 2,437,639

See accompanying notes to consolidated financial statements.

Table of Contents

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

	Nine Months Ended September 30, 2007 (Unaudited)	Restated 2006 (Unaudited)
Operating activities		
Net income	$ 738,864	$ 1,138,851
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(367,300)	(902,417)
Losses on sales of loans and securities, net	67,051	24,899
Stock-based compensation cost	65,193	62,081
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(129,078)	(193,972)
Unrealized (gains)/losses on derivative and hedging activities equity forwards	73,467	181,616
Provisions for loan losses	441,130	194,957
Minority interest, net	(1,239)	(5,639)
Mortgage loans originated	(528,241)	(1,030,296)
Proceeds from sales of mortgage loans	585,853	1,052,750
Decrease (increase) in restricted cash-other	127	(148,312)
(Increase) in accrued interest receivable	(1,018,465)	(722,659)
Increase in accrued interest payable	157,082	167,418
Adjustment for non-cash (income)/loss related to Retained Interest	142,225	147,839
(Increase) decrease in other assets, goodwill and acquired intangible assets, net	(269,818)	390,679
Increase in other liabilities	649,274	394,756
Total adjustments	(132,739)	(386,300)
Net cash provided by operating activities	606,125	752,551
Investing activities		
Student loans acquired	(31,057,701)	(27,121,113)
Loans purchased from securitized trusts (primarily loan consolidations)	(3,944,000)	(5,903,077)
Reduction of student loans:		
Installment payments	8,532,193	7,846,175
Proceeds from securitization of student loans treated as sales	1,976,599	19,521,365
Proceeds from sales of student loans	777,982	94,578
Other loans originated	(2,967,425)	(1,302,201)
Other loans repaid	3,007,256	1,159,201
Other investing activities, net	(204,634)	(110,866)
Purchases of available-for-sale securities	(65,822,245)	(58,882,238)
Proceeds from sales of available-for-sale securities	73,199	2,866
Proceeds from maturities of available-for-sale securities	64,214,984	59,393,499
Purchases of held-to-maturity and other securities	(330,050)	(559,098)

Proceeds from maturities of held-to-maturity securities and other securities	434,771	635,268
(Increase) in restricted cash on-balance sheet trusts	(1,696,092)	(424,200)
Return of investment from Retained Interest	199,345	66,781
Purchase of subsidiaries, net of cash acquired		(289,162)
Net cash (used in) investing activities	(26,805,818)	(5,872,222)
Financing activities		
Short-term borrowings issued	5,027,546	15,854,385
Short-term borrowings repaid	(6,870,392)	(15,860,749)
Long-term borrowings issued	1,567,602	7,682,583
Long-term borrowings repaid	(3,078,229)	(4,284,140)
Borrowings collateralized by loans in trust issued	18,953,651	6,203,019
Borrowings collateralized by loans in trust repaid	(4,295,630)	(3,860,982)
Asset-backed commercial paper conduits net activity	20,391,717	7,303
Other financing activities, net	(54,790)	(64,886)
Excess tax benefit from the exercise of stock-based awards	29,535	27,445
Common stock issued	159,832	144,448
Net settlements on equity forward contracts	(184,793)	(45,906)
Common stock repurchased	(142,927)	(469,846)
Common dividends paid	(102,658)	(296,081)
Preferred dividends paid	(27,039)	(25,825)
Net cash provided by financing activities	31,373,425	5,010,768
Net increase (decrease) in cash and cash equivalents	5,173,732	(108,903)
Cash and cash equivalents at beginning of period	2,621,222	2,498,655
Cash and cash equivalents at end of period	$ 7,794,954	$ 2,389,752
Cash disbursements made for:		
Interest	$ 4,966,249	$ 3,117,085
Income taxes	$ 704,206	$ 574,220

See accompanying notes to consolidated financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2007 are not necessarily indicative of the results for the year ending December 31, 2007. The consolidated balance sheet at December 31, 2006, as presented, was derived from the audited financial statements included in the Company s Annual Report on Form 10-K for the period ended December 31, 2006. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company s 2006 Annual Report on Form 10-K.

Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2006 to be consistent with classifications adopted for 2007.

Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited)

The Company restated its 2006 quarterly consolidated statements of cash flows as more fully described within the Company s 2006 Annual Report on Form 10-K at Note 2, Significant Accounting Policies *Statement of Cash Flows* Restatement of the Consolidated Statements of Cash Flows and Note 21, Restatement of Quarterly Consolidated Statements of Cash Flows (unaudited). The restatements solely affected the classification of items in operating, investing and financing activities, and had no impact on the net increase (decrease) in cash and cash equivalents set forth in the consolidated statements of cash flows for any of the previously reported periods. The restatements did not affect the Company s consolidated balance sheets, consolidated statements of income or consolidated statements of changes in stockholders equity. Accordingly, the Company s historical revenues, net income, earnings per share, total assets and total stockholders equity remain unchanged.

Recently Issued Accounting Pronouncements

The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115. This statement permits entities an irrevocable election to measure many financial instruments and certain other items at fair value, on an instrument-by-instrument basis. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring derivative instruments and the hedged assets and liabilities differently, without having to apply complex hedge accounting provisions. Most recognized financial assets and liabilities are eligible items for the measurement option established by the

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

statement. There are a few exceptions, including an investment in a subsidiary or an interest in a variable interest entity that is required to be consolidated, certain obligations related to post-employment benefits, assets or liabilities recognized under leases, various deposits and financial instruments classified as shareholders equity. An entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each reporting date. The Company is currently evaluating the impact of this standard on its financial statements. The statement will be effective beginning January 1, 2008.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. This statement defines fair value, establishes a framework for measuring fair value within GAAP, and expands disclosures about fair value measurements. This statement applies to other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not change which types of instruments are carried at fair value, but rather establishes the framework for measuring fair value. The Company is currently evaluating the potential impact of SFAS No. 157 on its financial statements.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets, which amends SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This statement was effective for the Company beginning January 1, 2007.

This statement:

Requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset as the result of (i) a transfer of the servicer s financial assets that meet the requirement for sale accounting; (ii) a transfer of the servicer s financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale or trading securities in accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities ; or (iii) an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates.

Requires all separately recognized servicing assets or liabilities to be initially measured at fair value, if practicable.

Permits an entity to either (i) amortize servicing assets or liabilities in proportion to and over the period of estimated net servicing income or loss and assess servicing assets or liabilities for impairment or increased obligation based on fair value at each reporting date (amortization method); or (ii) measure servicing assets or liabilities at fair value at each reporting date and report changes in fair value in earnings in the period in which the changes occur (fair value measurement method). The method must be chosen for each separately recognized class of servicing asset or liability.

At its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under SFAS No. 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity s exposure to changes in fair value of servicing assets or liabilities that a servicer elects to subsequently measure at fair value.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

Requires separate presentation of servicing assets and liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and liabilities.

The adoption of SFAS No. 156 did not have a material impact on the Company s financial statements as the Company did not elect to carry its servicing rights at fair value through earnings.

Accounting for Certain Hybrid Financial Instruments

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 140. This statement was effective for the Company beginning January 1, 2007.

This statement:

Requires that all interests in securitized financial assets be evaluated to determine if the interests are free standing derivatives or if the interests contain an embedded derivative;

Clarifies which interest-only strips and principal-only strips are exempt from the requirements of SFAS No. 133;

Clarifies that the concentrations of credit risk in the form of subordination are not an embedded derivative;

Allows a hybrid financial instrument containing an embedded derivative that would have required bifurcation under SFAS No. 133 to be measured at fair value as one instrument on a case by case basis; and

Amends SFAS Statement No. 140 to eliminate the prohibition of a qualifying special purpose entity from holding a derivative financial instrument that pertains to beneficial interests other than another derivative financial instrument.

In January 2007, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, Implementation Issues No. B39, Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor (Amended), and No. B40, Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets. The guidance clarifies various aspects of SFAS No. 155 and will require the Company to either (1) separately record embedded derivatives that may reside in the Company s Residual Interest and on-balance sheet securitization debt, or (2) if embedded derivatives exist that require bifurcation, record the entire Residual Interest at fair value with changes in the fair value of the Company s Residual Interest and on-balance sheet securitization debt in their entirety. This standard is prospectively applied in 2007 for new securitizations and does not apply to the Company s existing Residual Interest or on-balance sheet securitization debt that settled prior to 2007.

If material embedded derivatives exist within the Residual Interest that require bifurcation, the Company will most likely elect to carry the entire Residual Interest at fair value with subsequent changes in fair value recorded in earnings. This election could have a material impact on earnings, as prior to the adoption of SFAS No. 155, changes in the fair value of these Residual Interests would have been recorded through other comprehensive income (except for impairment which is recorded through income). In the first quarter of 2007, the Company elected this option related to the Private Education Loan securitization which settled in the first quarter of 2007 and as a result, has recorded related unrealized gains/losses through earnings that, prior to the

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

1. Significant Accounting Policies (Continued)

adoption of SFAS No. 155, would have been recorded through other comprehensive income (except for any impairment required to be recognized).

The Company has concluded, based on its current securitization deal structures, that its on-balance sheet securitization debt will not be materially impacted upon the adoption of SFAS No. 155 as embedded derivatives will not have a material value. Accordingly, there was no impact for the nine months ended September 30, 2007, as it relates to on-balance sheet securitization debt.

2. Allowance for Student Loan Losses

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

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 451,987	$ 268,562	$ 328,661	$ 219,062
Provisions for student loan losses	137,220	61,864	429,386	184,480
Charge-offs	(86,440)	(37,954)	(264,745)	(108,107)
Recoveries	8,685	5,652	23,301	18,081
Net charge-offs	(77,755)	(32,302)	(241,444)	(90,026)
Balance before reductions for student loan sales and securitizations	511,452	298,124	516,603	313,516
Adjustments for student loan sales and securitizations	112	(4,781)	(5,039)	(20,173)
Balance at end of period	$ 511,564	$ 293,343	$ 511,564	$ 293,343

The following table summarizes the total provisions for loan losses for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Private Education Loans	$ 99,687	$ 58,549	$ 380,093	$ 175,133
FFELP Stafford and Other Student Loans	37,533	3,315	49,293	9,347
Mortgage and consumer loans	5,380	5,378	11,744	10,477
Total provisions for loan losses	$ 142,600	$ 67,242	$ 441,130	$ 194,957

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

2. Allowance for Student Loan Losses (Continued)

The third quarter 2007 FFELP provision included a cumulative $30 million adjustment of non-recurring provision expense for student loans related to the repeal of the Exceptional Performer program (and the resulting increase in the Company s Risk Sharing allowance) due to the passage of the College Cost Reduction and Access Act of 2007 on September 27, 2007.

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three and nine months ended September 30, 2007 and 2006. The provision for the nine months ended September 30, 2007, included an update to the Company s projected default rates reflecting an increased gross charge-off expectation which was somewhat offset by an increase in expected life-of-loan recoveries.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Balance at beginning of period	$ 427,904	$ 251,582	$ 308,346	$ 204,112
Provision for Private Education Loan losses	99,687	58,549	380,093	175,133
Charge-offs	(82,176)	(36,845)	(251,860)	(105,564)
Recoveries	8,685	5,652	23,301	18,081
Net charge-offs	(73,491)	(31,193)	(228,559)	(87,483)
Balance before securitization of Private Education Loans	454,100	278,938	459,880	291,762
Reduction for securitization of Private Education Loans		(3,964)	(5,780)	(16,788)
Balance at end of period	$ 454,100	$ 274,974	$ 454,100	$ 274,974
Net charge-offs as a percentage of average loans in repayment (annualized)	5.12%	3.19%	5.69%	3.06%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.61%	2.95%	5.18%	2.82%
Allowance as a percentage of the ending total loan balance	3.21%	3.24%	3.21%	3.24%
Allowance as a percentage of ending loans in repayment	7.70%	6.91%	7.70%	6.91%

Allowance coverage of net charge-offs (annualized)	1.56	2.22	1.49	2.35
Average total loans	$ 12,705,773	$ 8,078,690	$ 11,663,982	$ 8,348,271
Ending total loans	$ 14,129,671	$ 8,497,374	$ 14,129,671	$ 8,497,374
Average loans in repayment	$ 5,696,049	$ 3,878,857	$ 5,373,462	$ 3,821,361
Ending loans in repayment	$ 5,895,619	$ 3,980,466	$ 5,895,619	$ 3,980,466

SLM CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended
September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)**

2. Allowance for Student Loan Losses (Continued)

Delinquencies

The table below presents the Company s Private Education Loan delinquency trends as of September 30, 2007, December 31, 2006, and September 30, 2006. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

(Dollars in millions)	September 30, 2007 Balance	%	December 31, 2006 Balance	%	September 30, 2006 Balance	%
Loans in-school/grace/deferment[1]	$ 7,966		$ 5,218		$ 4,497	
Loans in forbearance[2]	701		359		341	
Loans in repayment and percentage of each status:						
Loans current	5,186	88.0%	4,214	86.9%	3,462	87.0%
Loans delinquent 31-60 days[3]	275	4.7	250	5.1	209	5.3
Loans delinquent 61-90 days[3]	156	2.6	132	2.7	121	3.0
Loans delinquent greater than 90 days[3]	279	4.7	255	5.3	188	4.7
Total Private Education Loans in repayment	5,896	100%	4,851	100%	3,980	100%
Total Private Education Loans, gross	14,563		10,428		8,818	
Private Education Loan unamortized discount	(433)		(365)		(321)	
Total Private Education Loans	14,130		10,063		8,497	
Private Education Loan allowance for losses	(454)		(308)		(275)	
Private Education Loans, net	$ 13,676		$ 9,755		$ 8,222	
Percentage of Private Education Loans in repayment	40.5%		46.5%		45.1%	
Delinquencies as a percentage of Private Education Loans in repayment	12.0%		13.1%		13.0%	

Loans in forbearance as a percentage of loans in repayment and forbearance	10.6%	6.9%	7.9%

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

(2) Loans for borrowers who have 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 the established loan program servicing procedures and policies.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Goodwill and Acquired Intangible Assets

Intangible assets include the following:

(Dollars in millions)	Average Amortization Period	As of September 30, 2007 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 379	$ (147)	$ 232
Tax exempt bond funding	10 years			
Software and technology	7 years	95	(74)	21
Non-compete agreements	2 years	12	(10)	2
Total		486	(231)	255
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	115		115
Total acquired intangible assets		$ 601	$ (231)	$ 370

(Dollars in millions)	Average Amortization Period	As of December 31, 2006 Gross	Accumulated Amortization	Net
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	$ 367	$ (115)	$ 252
Tax exempt bond funding	10 years	46	(37)	9
Software and technology	7 years	94	(62)	32
Non-compete agreements	2 years	12	(9)	3
Total		519	(223)	296
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	106		106
Total acquired intangible assets		$ 625	$ (223)	$ 402

The Company recorded intangible impairment and amortization of acquired intangibles totaling $19 million and $37 million for the three months ended September 30, 2007 and 2006, respectively, and $59 million and $68 million for the nine months ended September 30, 2007 and 2006, respectively. The Company will continue to amortize its intangible assets with definite useful lives over their remaining estimated useful lives.

A summary of changes in the Company s goodwill by reportable segment (see Note 11, Segment Reporting) is as follows:

(Dollars in millions)	December 31, 2006	Adjustments	September 30, 2007
Lending	$ 406	$ 1	$ 407
Asset Performance Group	349	28	377
Corporate and Other	215	(15)	200
Total	$ 970	$ 14	$ 984

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

3. Goodwill and Acquired Intangible Assets (Continued)

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company s acquisitions is reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, and is addressed further in Note 2, Significant Accounting Policies, within the Company s 2006 Annual Report on Form 10-K.

4. Student Loan Securitization

Securitization Activity

The Company securitizes its student loan assets and for transactions qualifying as sales, retains a Residual Interest and servicing rights (as the Company retains the servicing responsibilities), all of which are referred to as the Company s Retained Interest in off-balance sheet securitized loans. The Residual Interest is the right to receive cash flows from the student loans and reserve accounts in excess of the amounts needed to pay servicing, derivative costs (if any), other fees, and the principal and interest on the bonds backed by the student loans. The investors of the securitization trusts have no recourse to the Company s other assets should there be a failure of the trusts to pay when due.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Student Loan Securitization (Continued)

The following table summarizes the Company s securitization activity for the three and nine months ended September 30, 2007 and 2006. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on-balance sheet.

	Three Months Ended September 30,							
	2007				2006			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain%**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain%**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%		$	$	%
FFELP Consolidation Loans					2	4,001	19	.5
Private Education Loans					1	1,088	182	16.7
Total securitizations sales			$	%	3	5,089	$ 201	4.0%
Securitization financings:								
FFELP Stafford/PLUS Loans(1)								
FFELP Consolidation Loans(1)	1	2,493			1	3,001		
Total securitizations financings	1	2,493			1	3,001		
Total securitizations	1	$ 2,493			4	$ 8,090		

	Nine Months Ended September 30,							
	2007				2006			
(Dollars in millions)	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain%**	**No. of Transactions**	**Loan Amount Securitized**	**Pre-Tax Gain**	**Gain%**
Securitizations sales:								
FFELP Stafford/PLUS loans		$	$	%	2	$ 5,004	$ 17	.3%
FFELP Consolidation Loans					4	9,503	55	.6

Private Education Loans	1		2,000		367	18.4	3		5,088		830	16.3
Total securitizations sales	1		2,000	$	367	18.4%	9		19,595	$	902	4.6%
Securitization financings:												
FFELP Stafford/PLUS Loans[1]	2		7,004									
FFELP Consolidation Loans[1]	3		11,480				2		6,002			
Total securitizations financings	5		18,484				2		6,002			
Total securitizations	6	$	20,484				11	$	25,597			

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Student Loan Securitization (Continued)

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and nine months ended September 30, 2007 and 2006 were as follows:

	Three Months Ended September 30,					
	2007			2006		
	FFELP Stafford(1)	FFELP Consolidation Loans(1)	Private Education Loans(1)	FFELP Stafford(1)	FFELP Consolidation Loans	Private Education Loans
Prepayment speed (annual rate)(2)					6%	4%
Interim status						
Repayment status						
Life of loan repayment status						
Weighted average life					7.9 yrs.	9.2 yrs.
Expected credit losses (% of principal securitized)					.09%	4.75%
Residual cash flows discounted at (weighted average)					11.0%	12.7%

	Nine Months Ended September 30,					
	2007			2006		
	FFELP Stafford(1)	FFELP Consolidation Loans(1)	Private Education Loans	FFELP Stafford	FFELP Consolidation Loans	Private Education Loans
Prepayment speed (annual rate)(2)				*	6%	4%
Interim status			0%			
Repayment status			4-7%			
Life of loan repayment status			6%			
Weighted average life			9.4 yrs.	3.7 yrs.	8.2 yrs.	9.4 yrs.
Expected credit losses (% of principal securitized)			4.69%	.15%	.19%	4.79%
Residual cash flows discounted at (weighted			12.5%	12.4%	10.8%	12.9%

average)

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

(2) Effective December 31, 2006, the Company implemented Constant Prepayment Rates (CPR) curves for Residual Interest valuations that are based on the number of months since entering repayment that better reflect the CPR as the loan seasons. Under this methodology, a different CPR is applied to each year of a loan s seasoning. Previously, the Company applied a CPR that was based on a static life of loan assumption, irrespective of seasoning, or, in the case of FFELP Stafford and PLUS loans, the Company used a vector approach in applying the CPR. The repayment status CPR depends on the number of months since first entering repayment or as the loans seasons through the portfolio. Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

* CPR of 20 percent for 2006, 15 percent for 2007 and 10 percent thereafter.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Student Loan Securitization (Continued)

Retained Interest in Securitized Receivables

The following tables summarize the fair value of the Company s Residual Interests, included in the Company s Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of September 30, 2007 and December 31, 2006.

	As of September 30, 2007			
(Dollars in millions)	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts[5]	Total
Fair value of Residual Interests[2]	$ 472	$ 688	$ 2,079	$ 3,239
Underlying securitized loan balance[3]	10,010	16,216	14,281	40,507
Weighted average life	2.9 yrs.	7.4 yrs.	7.1 yrs.	
Prepayment speed (annual rate)[4]				
Interim status	0%	N/A	0%	
Repayment status	3-38%	3-8%	1-30%	
Life of loan repayment status	21%	6%	9%	
Expected credit losses (% of student loan principal)	.11%	.15%	4.46%	
Residual cash flows discount rate	12.1%	10.4%	12.5%	

	As of December 31, 2006			
(Dollars in millions)	FFELP Stafford and PLUS	Consolidation Loan Trusts[1]	Private Education Loan Trusts	Total
Fair value of Residual Interests[2]	$ 701	$ 676	$ 1,965	$ 3,342
Underlying securitized loan balance[3]	14,794	17,817	13,222	45,833
Weighted average life	2.9 yrs.	7.3 yrs.	7.2 yrs.	
Prepayment speed (annual rate)				

Interim status	0%	N/A	0%
Repayment status	0-43%	3-9%	4-7%
Life of loan repayment status	24%	6%	6%
Expected credit losses (% of student loan principal)	.06%	.07%	4.36%
Residual cash flows discount rate	12.6%	10.5%	12.6%

(1) Includes $167 million and $151 million related to the fair value of the Embedded Floor Income as of September 30, 2007 and December 31, 2006, respectively. Changes in the fair value of the Embedded Floor Income are primarily due to changes in the interest rates and the paydown of the underlying loans.

(2) At September 30, 2007 and December 31, 2006, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of $281 million and $389 million, respectively, that related to the Retained Interests.

(3) In addition to student loans in off-balance sheet trusts, the Company had $61.9 billion and $48.6 billion of securitized student loans outstanding (face amount) as of September 30, 2007 and December 31, 2006, respectively, in on-balance sheet securitization trusts.

(4) Effective December 31, 2006, the Company implemented CPR curves for Residual Interest valuations that are based on seasoning (the number of months since entering repayment). Under this methodology, a different CPR is applied to each year of a loan s seasoning. Previously, the Company applied a CPR that was based on a static life of loan assumption, and, in the case of FFELP Stafford and PLUS loans, the Company applied a vector approach, irrespective of seasoning. Repayment status CPR used is based on the number of months since first entering repayment (seasoning). Life of loan CPR is related to repayment status only and does not include the impact of the loan while in interim status. The CPR assumption used for all periods includes the impact of projected defaults.

(5) As discussed in Note 1, Significant Accounting Policies Accounting for Certain Hybrid Financial Instruments the Company adopted SFAS No. 155, Accounting for Certain Hybrid Financial Instruments effective January 1, 2007. As a result, the Company elected to carry the Residual Interest on the Private Education Loan securitization which settled in the first quarter of 2007 at fair value with subsequent changes in fair value recorded in earnings. The fair value of this Residual Interest at September 30, 2007 was $382 million inclusive of a net $5 million fair value gain adjustment recorded since settlement.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Student Loan Securitization (Continued)

The Company recorded impairments to the Retained Interests of $90 million and $4 million, respectively, for the three months ended September 30, 2007 and 2006, and $137 million and $148 million, respectively, for the nine months ended September 30, 2007 and 2006. The impairment charges were the result of FFELP loans prepaying faster than projected through loan consolidations ($31 million and $4 million for the three months ended September 30, 2007 and 2006, respectively, and $54 million and $97 million for the nine months ended September 30, 2007 and 2006, respectively), impairment to the Floor Income component of the Company s Retained Interest due to increases in interest rates during the period ($0 million for both the three months ended September 30, 2007 and 2006, respectively, and $24 million and $51 million for the nine months ended September 30, 2007 and 2006, respectively), and an increase in prepayments and acceleration of defaults related to Private Education Loans ($59 million for the three and nine months ended September 30, 2007).

As of September 30, 2007 the Company updated the following assumptions used to calculate the fair value of the Residual Interests: (1) the prepayment assumption related to Private Education Loans was increased from 6 percent to 9 percent to account for the Company s continued expectation of increased consolidation activity, (2) the expected credit losses assumed for the FFELP loans have been increased to account for the Company s higher percentage of Risk Sharing resulting from the new legislation; and (3) the timing of expected defaults of Private Education Loans was accelerated based on the most current information the Company has observed. The overall expectation of Private Education Loan defaults did not materially change; however, acceleration of the timing has the effect of decreasing the value of the Company s Residual Interests. The changes in these assumptions related to the Company s Private Education Loan Residual Interests and FFELP Residual Interests resulted in a $196 million and $11 million reduction in fair value, respectively. The Company also assessed the appropriateness of the current risk premium which is added to the risk free rate for the purpose of arriving at a discount rate in light of the current economic and credit uncertainty that exists in the market. This discount rate is applied to the projected cash flows to arrive at a fair value representative of the current economic conditions. The Company concluded that the current risk premium is appropriate as it takes into account the current level of cash flow uncertainty and lack of liquidity that may exist with the Residual Interests.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

4. Student Loan Securitization (Continued)

The table below shows the Company s off-balance sheet Private Education Loan delinquency trends as of September 30, 2007, December 31, 2006 and September 30, 2006.

	September 30, 2007		December 31, 2006		September 30, 2006	
(Dollars in millions)	**Balance**	**%**	**Balance**	**%**	**Balance**	**%**
Loans in-school/grace/deferment[1]	$ 6,126		$ 5,608		$ 6,861	
Loans in forbearance[2]	1,251		822		901	
Loans in repayment and percentage of each status:						
Loans current	6,524	94.5%	6,419	94.5%	5,281	94.3%
Loans delinquent 31-60 days[3]	192	2.8	222	3.3	164	2.9
Loans delinquent 61-90 days[3]	71	1.0	60	.9	68	1.2
Loans delinquent greater than 90 days[3]	116	1.7	91	1.3	90	1.6
Total off-balance sheet Private Education Loans in repayment	6,903	100%	6,792	100%	5,603	100%
Total off-balance sheet Private Education Loans, gross	$ 14,280		$ 13,222		$ 13,365	

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

(2) Loans for borrowers who have 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 the established loan program servicing procedures and programs.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Derivative Financial Instruments

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at September 30, 2007 and December 31, 2006 and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2007 and 2006. At September 30, 2007 and December 31, 2006, $11 million (none of which is in restricted cash and investments on the balance sheet) and $418 million (of which $53 million is in restricted cash and investments on the balance sheet) fair value, respectively, of available-for-sale investment securities and $445 million and $28 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006	Sept. 30, 2007	December 31, 2006
Fair Values[1]								
Interest rate swaps	$ (11)	$ (9)	$ (235)	$ (355)	$ 40	$ (111)	$ (206)	$ (475)
Floor/Cap contracts					(296)	(200)	(296)	(200)
Futures								
Equity forwards					(101)	(213)	(101)	(213)
Cross currency interest rate swaps			3,273	1,440			3,273	1,440
Total	$ (11)	$ (9)	$ 3,038	$ 1,085	$ (357)	$ (524)	$ 2,670	$ 552
(Dollars in billions)								
Notional Values								
Interest rate swaps	$ 1.9	$ 2.1	$ 15.6	$ 15.6	$ 193.4	$ 162.0	$ 210.9	$ 179.7
Floor/Cap contracts					39.9	21.5	39.9	21.5
Futures		.1			.6	.6	.6	.7
Cross currency interest rate swaps			23.8	23.0	.1		23.9	23.0
Other[2]					.5	2.0	.5	2.0
Total	$ 1.9	$ 2.2	$ 39.4	$ 38.6	$ 234.5	$ 186.1	$ 275.8	$ 226.9
(Shares in millions)								
Contracts								
Equity forwards					48.2	48.2	48.2	48.2

(1) Fair values reported are exclusive of collateral held and/or pledged.

(2) Other includes embedded derivatives bifurcated from newly issued on-balance sheet securitization debt, as a result of adopting SFAS No. 155 (see Note 1, Significant Accounting Policies Accounting for Certain Hybrid Financial Instruments). In addition, for December 31, 2006, other consisted of an embedded derivative ($2 billion notional) bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. All of the embedded derivatives have had a de minimis fair value since bifurcation.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Derivative Financial Instruments (Continued)

	Three Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ (7)	$ (11)	$	$	$	$	$ (7)	$ (11)
Amortization of effective hedges(1)		4						4
Change in accumulated other comprehensive income, net	$ (7)	$ (7)	$	$	$	$	$ (7)	$ (7)
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense(2)	$	$ (6)	$	$	$	$	$	$ (6)
Gains (losses) on derivative and hedging activities Realized(3)					(33)	(18)	(33)	(18)
Gains (losses) on derivative and hedging activities Unrealized(4)			22	(20)	(476)	(93)	(454)	(113)
Total earnings impact	$	$ (6)	$ 22	$ (20)	$ (509)	$ (111)	$ (487)	$ (137)

	Nine Months Ended September 30,							
	Cash Flow		Fair Value		Trading		Total	
(Dollars in millions)	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Changes to accumulated other comprehensive income, net of tax								
Change in fair value to cash flow hedges	$ (1)	$ (9)	$	$	$	$	$ (1)	$ (9)
Amortization of effective hedges(1)	1	11					1	11

Change in accumulated other comprehensive income, net	$	$ 2	$	$	$	$	$	$ 2
Earnings Summary								
Amortization of closed futures contracts gains/losses in interest expense[2]	$ (2)	$ (17)	$	$	$	$	$ (2)	$ (17)
Gains (losses) on derivative and hedging activities Realized[3]					(79)	(107)	(79)	(107)
Gains (losses) on derivative and hedging activities Unrealized[4]			38	23	18	(11)	56	12
Total earnings impact	$ (2)	$ (17)	$ 38	$ 23	$ (61)	$ (118)	$ (25)	$ (112)

(1) The Company expects to amortize $.1 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that were outstanding as of September 30, 2007.

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

(3) Includes net settlement income/expense related to trading derivatives and realized gains and losses related to derivative dispositions.

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

5. Derivative Financial Instruments (Continued)

Previously, the Company hedged the full fair value of certain fixed rate U.S. dollar denominated unsecured debt for SFAS No. 133 hedge accounting purposes. The widening of the Company s credit spreads due to the Merger announcement (see Note 12, Merger Related Developments) resulted in certain hedge relationships no longer qualifying for hedge accounting as full fair value hedges. Those relationships, which no longer qualified for hedge accounting as full fair value hedges, were terminated and re-designated as hedges of changes in fair value due to changes in benchmark interest rates only, in the second quarter of 2007. The basis adjustment related to the hedged items as of the termination date is being amortized over the remaining life of the hedged items.

6. Stockholders Equity

The following table summarizes the Company s common share repurchases, issuances and equity forward activity for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Shares in millions)	**2007**	**2006**	**2007**	**2006**
Common shares repurchased:				
Open market		2.2		2.2
Equity forwards		.9		5.4
Benefit plans[1]	2.1	.1	3.1	1.4
Total shares repurchased	2.1	3.2	3.1	9.0
Average purchase price per share	$ 48.47	$ 48.76	$ 46.35	$ 52.55
Common shares issued	3.6	.8	6.6	5.2
Equity forward contracts:				
Outstanding at beginning of period	48.2	45.9	48.2	42.7
New contracts		3.2		10.9
Exercises		(.9)		(5.4)
Outstanding at end of period	48.2	48.2	48.2	48.2
	15.7	5.7	15.7	5.7

Authority remaining at end of period to repurchase or enter into equity forwards

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Stockholders Equity (Continued)

As of September 30, 2007, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

Year of Maturity	Outstanding Contracts (in millions of shares)	Range of Purchase Prices		Weighted Average Purchase Price
2008	7.3	$43.50 - $44.00	$	43.80
2009	14.7	46.00 - 54.74		53.66
2010	15.0	54.74		54.74
2011	9.1	49.75 - 53.76		51.91
2012	2.1	46.30 - 46.70		46.40
	48.2		$	51.86

The closing price of the Company s common stock on September 30, 2007 was $49.67. Should the market value of the Company s stock fall below certain initial trigger prices, the counterparty to the contract has a right to terminate the contract and settle all or a portion at the original contract price. For equity forward contracts outstanding at September 30, 2007, these initial trigger prices range from $23.93 per share to $30.11 per share.

Depending on market conditions and the economic terms negotiated with counterparties, the Company may enter into agreements to terminate certain of its equity forward purchase contracts. The Company anticipates that, if it were to enter into any such terminations, these contracts would likely be settled using the net cash settlement method. At any time, the Company may also repurchase shares in the open market, enter into new equity forward positions or utilize other programs that have similar economic results in connection with its share repurchase program.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

6. Stockholders Equity (Continued)

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives qualifying as cash flow hedges, and the defined benefit pension plans adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of September 30, 2007, December 31, 2006 and September 30, 2006.

	September 30, 2007	December 31, 2006	September 30, 2006
Net unrealized gains (losses) on investments[1]	$ 237,349	$ 340,363	$ 473,671
Net unrealized gains (losses) on derivatives[2]	(7,879)	(7,570)	(11,304)
Defined benefit pension plans:			
Net prior service cost	(23)	(24)	
Net gain	15,905	16,342	
Total defined benefit pension plans[3]	15,882	16,318	
Minimum pension liability adjustment[4]			(1,840)
Total accumulated other comprehensive income	$ 245,352	$ 349,111	$ 460,527

(1) Net of tax expense of $123,928, $179,244 and $251,941 as of September 30, 2007, December 31, 2006 and September 30, 2006, respectively.

(2) Net of tax benefit of $4,436, $4,347 and $6,512 as of September 30, 2007, December 31, 2006 and September 30, 2006, respectively.

(3) Net of tax expense of $9,224 and $8,787 as of September 30, 2007 and December 31, 2006, respectively.

(4) Net of tax benefit of $991 as of September 30, 2006.

SLM CORPORATION

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended
September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)**

7. Earnings (Loss) per Common Share

Basic earnings (loss) per common share (EPS) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Numerator:				
Net income (loss) attributable to common stock	$ (353,034)	$ 254,251	$ 711,341	$ 1,112,542
Adjusted for debt expense of convertible debentures (Co-Cos), net of taxes(1)		17,962		49,239
Adjusted for non-taxable unrealized gains on equity forwards(2)		(707)		(3,528)
Net income (loss) attributable to common stock, adjusted	$ (353,034)	$ 271,506	$ 711,341	$ 1,158,253
Denominator ***(shares in thousands):***				
Weighted average shares used to compute basic EPS	412,944	410,034	411,958	411,212
Effect of dilutive securities:				
Dilutive effect of Co-Cos		30,312		30,312
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, Employee Stock Purchase Plan (ESPP) and equity forwards(3)(4)		9,495	8,347	10,488
Dilutive potential common shares(5)		39,807	8,347	40,800
Weighted average shares used to compute diluted EPS	412,944	449,841	420,305	452,012
Net earnings (loss) per share:				
Basic earnings (loss) per common share	$ (.85)	$ .62	$ 1.73	$ 2.71
Dilutive effect of Co-Cos(1)				(.07)
Dilutive effect of equity forwards(2)(4)		(.01)		(.01)
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and ESPP(3)		(.01)	(.04)	(.07)

Diluted earnings (loss) per common share	$ (.85)	$ .60	$ 1.69	$ 2.56

(1) Emerging Issues Task Force (EITF) Issue No. 04-8, The Effect of Contingently Convertible Debt on Diluted Earnings per Share, requires the shares underlying Co-Cos to be included in diluted EPS computations regardless of whether the market price trigger or the conversion price has been met, using the if-converted method. On July 25, 2007, the Co-Cos were called at par.

(2) SFAS No. 128, Earnings per Share, and the additional guidance provided by EITF Topic No. D-72, Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share, require both the denominator and the numerator to be adjusted in calculating the potential impact of the Company s equity forward contracts on diluted EPS. Under this guidance, the impact can be dilutive when: (1) the average share price during the period is lower than the respective strike prices on the Company s equity forward contracts, and (2) the Company recorded an unrealized gain or loss on derivative and hedging activities related to its equity forward contracts.

(3) Reflects the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

(4) Reflects the potential dilutive effect of equity forward contracts, determined by the reverse treasury stock method.

(5) For the three months ended September 30, 2007 and 2006, stock options and equity forwards of approximately 59 million shares and 60 million shares, respectively, and for the nine months ended September 30, 2007 and 2006, stock options and equity forwards of approximately 60 million shares and 54 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

8. Pension Plans

Components of Net Periodic Pension Cost

Net periodic pension cost included the following components:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Service cost benefits earned during the period	$ 1,775	$ 2,072	$ 5,325	$ 6,218
Interest cost on projected benefit obligations	3,083	2,862	9,251	8,586
Expected return on plan assets	(4,493)	(4,070)	(13,481)	(12,208)
Net amortization and deferral	(180)	123	(539)	367
Total net periodic pension cost	$ 185	$ 987	$ 556	$ 2,963

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it did not expect to contribute to its qualified pension plan (the Qualified Plan) in 2007. As of September 30, 2007, the Company had made no contributions to its Qualified Plan.

9. Income Taxes

The following table summarizes the Company s unrecognized tax benefits:

	As of January 1, 2007
Gross amount of unrecognized tax benefits	$ 113,334
Total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate	38,325
Total amount of interest and penalties recognized in the statement of operations and the statement of financial position	16,418

The Company adopted the provisions of the FASB s Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN No. 48, the Company recognized a $6 million increase in its liability for unrecognized tax benefits, which was accounted for as a reduction to the

January 1, 2007 balance of retained earnings. In addition, unrecognized tax benefits of $3 million are currently treated as a pending refund claim, reducing the above balance of total unrecognized tax benefits that if recognized would affect the effective tax rate.

In the first and second quarters of 2007, the Company adjusted its federal unrecognized tax benefits to reflect the outcome of several issues that were addressed with the IRS as a part of the 2003-2004 exam cycle, primarily regarding the timing of recognition of certain income and deduction items. Several other less significant amounts of uncertain tax benefits were also added during these quarters and the third quarter of 2007. In total, as of September 30, 2007, the Company has gross unrecognized tax benefits of $189 million, unrecognized tax benefits that, if recognized, would impact the effective tax rate of $43 million, as well as total interest and penalties recognized in the statements of operations and financial position of $19 million.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

9. Income Taxes (Continued)

Reasonably Possible Significant Increases/Decreases within Twelve Months

U.S. Federal Tax Uncertainties

The IRS issued a Revenue Agent s Report (RAR) during the second quarter of 2007 concluding the primary exam of the Company s 2003 and 2004 U.S. federal tax returns. However, the exam of these years remains open pending the conclusion of the separate IRS audit of an entity in which the Company is an investor (any results of which are not expected to have a material impact on the Company s unrecognized tax benefit amounts). In addition, during the third quarter of 2007, the Company filed an administrative-level appeal related to one unagreed item originating from the Company s 2004 U.S. federal tax return. An estimate of the range of the possible change to the balance of the Company s unrecognized tax benefits that may result from resolution of the remaining unagreed item cannot at this time be made, pending further development of the appeals process.

In addition, the IRS is beginning the examination of the Company s 2005 and 2006 federal income tax returns. It is reasonably possible that issues that arise during the exam may create the need for an increase in unrecognized tax benefits. Until the exam proceeds further, an estimate of any such amounts cannot currently be made.

Other Tax Uncertainties

In the event that the Company is not contacted for exam by additional tax authorities by the end of 2007, it is reasonably possible that there will be a decrease in the Company s unrecognized tax position liability, due to the tolling of various statute of limitations periods. When considering both tax and interest amounts, such change could be approximately $5 million to $7 million.

Tax Years Remaining Subject to Exam

The Company or one of its subsidiaries files income tax returns at the U.S. federal level, in most U.S. states, and various foreign jurisdictions. U.S. federal income tax returns filed for years prior to 2003 have been audited and are now resolved. As shown in the table below, the Company s primary operating subsidiary has been audited by the listed states through the year shown, again with all issues resolved. Other combinations of subsidiaries, tax years, and jurisdictions remain open for review, subject to statute of limitations periods (typically 3 to 4 prior years).

State	**Year audited through**
Florida	2000
Indiana	2000
Pennsylvania	2000
California	2002

Missouri	2003
New York	2003
Texas	2004

The Company recognizes interest accrued related to unrecognized tax benefits in income tax expense and penalties in operating expenses.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

10. Contingencies

On October 8, 2007, the Company filed a lawsuit in the Delaware Court of Chancery against the Buyer Group seeking a declaration that the Buyer Group repudiated the Merger Agreement, that no Material Adverse Effect (as defined in the Merger Agreement) has occurred and that the Company may terminate the agreement and collect the $900 million termination fee (see Note 12, Merger-Related Developments).

On April 6, 2007, the Company was served with a putative class action suit by several borrowers in federal court in California. The complaint, which was amended on April 12, 2007, alleges violations of California Business & Professions Code 17200, breach of contract, breach of covenant of good faith and fair dealing, violation of consumer legal remedies act and unjust enrichment. The complaint challenges the Company s FFELP billing practices as they relate to use of the simple daily interest method for calculating interest. On June 19, 2007, the Company filed a Motion to Dismiss the amended complaint. On September 14, 2007, the court entered an order denying Sallie Mae s Motion to Dismiss. The court did not comment on the merits of the allegations or the plaintiffs case but instead merely determined that the allegations stated a claim sufficient under the Federal Rules of Civil Procedure. On September 17, 2007, the court entered a scheduling order that set July 8, 2008, as the start date for the trial. Discovery has commenced and is scheduled to continue through May 30, 2008. The Company believes these allegations lack merit and will continue to vigorously defend itself in this case. The Company filed an answer on September 28, 2007, denying any liability.

On January 25, 2007, the Attorney General of Illinois filed a lawsuit against one of the Company s subsidiaries, Arrow Financial Services, LLC (AFS), in the Circuit Court of Cook County, Illinois alleging that AFS violated the Illinois Consumer Fraud and Deceptive Practices Act and the federal Fair Debt Collections Practices Act. The lawsuit seeks to enjoin AFS from violating the Illinois Consumer Fraud and Deceptive Practices Act and from engaging in debt management and collection services in or from the State of Illinois. The lawsuit also seeks to rescind certain agreements to pay back debt between AFS and Illinois consumers, to pay restitution to all consumers who have been harmed by AFS s alleged unlawful practices, to impose a statutory civil penalty of $50,000 and to impose a civil penalty of $50,000 per violation ($60,000 per violation if the consumer is 65 years of age or older). The lawsuit alleges that as of January 25, 2007, 660 complaints against AFS have been filed with the Office of the Illinois Attorney General since 1999 and over 800 complaints have been filed with the Better Business Bureau. As of September 30, 2007, the Company owned 88 percent of the membership interests in AFS Holdings, LLC, the parent company of AFS. Management cannot predict the outcome of this lawsuit or its effect on the Company s financial position or results of operations.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of the Company s reports to credit bureaus. In addition, the collections subsidiaries in the Company s asset performance group are routinely named in individual plaintiff or class action lawsuits in which the plaintiffs allege that the Company has violated a federal or state law in the process of collecting their accounts. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations. Finally, from time to time, the Company receives information and document requests from state attorneys general and Congressional committees concerning certain of its business practices. The Company s practice has been and continues to be to cooperate with the state attorneys general and Congressional committees and to be responsive to any such requests.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting

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

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

The Company s principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than 10 percent of its total revenue during the three months ended September 30, 2007 and 2006. United Student Aid Funds, Inc. (USA Funds) is the Company s largest customer in both the APG and Corporate and Other segments. During the nine months ended September 30, 2007 and 2006, it accounted for 24 percent and 32 percent, respectively, of the aggregate revenues generated by the Company s APG and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for these reporting periods.

Lending

In the Company s Lending operating segment, the Company originates and acquires both federally guaranteed student loans, which are administered by the U.S. Department of Education (ED), and Private Education Loans, which are not federally guaranteed. Private Education Loans are primarily used by borrowers to supplement FFELP loans to meet the rising cost of education. The Company manages student loans for

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

nearly 10 million student and parent customers; its Managed student loan portfolio totaled $160 billion at September 30, 2007, of which $132 billion or 83 percent are federally insured. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. During the nine months ended September 30, 2007, the Company originated $769 million in mortgage and consumer loans of which $528 million were mortgages held for sale. The Company s mortgage and consumer loan portfolio totaled $578 million at September 30, 2007.

In addition to its federally insured FFELP products, the Company originates and acquires Private Education Loans which consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers resources, and (2) those that are used to meet the needs of students who attend non-Title IV eligible institutions where FFELP loans are not available (such as career training, distance learning and lifelong learning programs). Most higher education Private Education Loans are made in conjunction with a FFELP Stafford loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional risk through loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

Asset Performance Group (APG)

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

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

Corporate and Other

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

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

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

Company markets and administers saving-for-college plans and also provides administration services for college savings plans.

Corporate overhead includes all of the typical headquarter functions such as executive management, accounting and finance, human resources and marketing.

Measure of Profitability

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

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

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

Segment Results and Reconciliations to GAAP

	Three Months Ended September 30, 2007					
(Dollars in millions)	**Lending**	**APG**	**Corporate and Other**	**Total Core Earnings**	**Adjustments[3]**	**Total GAAP**
Interest income:						
FFELP Stafford and Other Student Loans	$ 729	$	$	$ 729	$ (183)	$ 546
FFELP Consolidation Loans	1,445			1,445	(300)	1,145
Private Education Loans	753			753	(360)	393
Other loans	26			26		26
Cash and investments	251		6	257	(46)	211
Total interest income	3,204		6	3,210	(889)	2,321
Total interest expense	2,534	7	5	2,546	(667)	1,879
Net interest income (loss)	670	(7)	1	664	(222)	442
Less: provisions for loan losses	200			200	(57)	143
Net interest income (loss) after provisions for loan losses	470	(7)	1	464	(165)	299
Fee income		76	46	122		122
Collections revenue		53		53		53
Other income	46		63	109	(486)	(377)
Total other income	46	129	109	284	(486)	(202)
Operating expenses[1]	164	94	79	337	19	356
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	352	28	31	411	(670)	(259)
Income tax expense (benefit)[2]	130	11	11	152	(67)	85
Minority interest in net earnings of subsidiaries						

Net income (loss)	$ 222	$ 17	$ 20	$ 259	$ (603)	$ (344)

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $4 million, $2 million, and $2 million, respectively, of stock option compensation expense.

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

(3) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2007				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (215)	$ 33	$ (40)	$	$ (222)
Less: provisions for loan losses	(57)				(57)
Net interest income (loss) after provisions for loan losses	(158)	33	(40)		(165)
Fee income					
Collections revenue					
Other income (loss)	1	(487)			(486)
Total other income (loss)	1	(487)			(486)
Operating expenses				19	19
Total pre-tax Core Earnings adjustments to GAAP	$ (157)	$ (454)	$ (40)	$ (19)	(670)
Income tax benefit					(67)
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (603)

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

	Three Months Ended September 30, 2006					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[3]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 702	$	$	$ 702	$ (337)	$ 365
FFELP Consolidation Loans	1,242			1,242	(326)	916
Private Education Loans	558			558	(303)	255
Other loans	24			24		24
Cash and investments	207		3	210	(69)	141
Total interest income	2,733		3	2,736	(1,035)	1,701
Total interest expense	2,124	6	4	2,134	(771)	1,363
Net interest income (loss)	609	(6)	(1)	602	(264)	338
Less: provisions for loan losses	80			80	(13)	67
Net interest income (loss) after provisions for loan losses	529	(6)	(1)	522	(251)	271
Fee income		122	39	161		161
Collections revenue		58		58		58
Other income	46		41	87	245	332
Total other income	46	180	80	306	245	551
Operating expenses[1]	156	91	70	317	37	354
Income (loss) before income taxes and minority interest in net earnings of subsidiaries	419	83	9	511	(43)	468
Income tax expense[2]	155	31	3	189	15	204
Minority interest in net earnings of subsidiaries		1		1		1
Net income (loss)	$ 264	$ 51	$ 6	$ 321	$ (58)	$ 263

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $8 million, $4 million, and $4 million, respectively, of stock option compensation expense.

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

(3) Core Earnings adjustments to GAAP:

	Three Months Ended September 30, 2006				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (229)	$ 18	$ (53)	$	$ (264)
Less: provisions for loan losses	(13)				(13)
Net interest income (loss) after provisions for loan losses	(216)	18	(53)		(251)
Fee income					
Collections revenue					
Other income	376	(131)			245
Total other income (loss)	376	(131)			245
Operating expenses				37	37
Total pre-tax Core Earnings adjustments to GAAP	$ 160	$ (113)	$ (53)	$ (37)	(43)
Income tax expense					15
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ (58)

38

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

	Nine Months Ended September 30, 2007					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[3]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 2,143	$	$	$ 2,143	$ (635)	$ 1,508
FFELP Consolidation Loans	4,167			4,167	(920)	3,247
Private Education Loans	2,104			2,104	(1,043)	1,061
Other loans	80			80		80
Cash and investments	595		15	610	(143)	467
Total interest income	9,089		15	9,104	(2,741)	6,363
Total interest expense	7,125	20	16	7,161	(2,052)	5,109
Net interest income (loss)	1,964	(20)	(1)	1,943	(689)	1,254
Less: provisions for loan losses	644		1	645	(204)	441
Net interest income (loss) after provisions for loan losses	1,320	(20)	(2)	1,298	(485)	813
Fee income		244	115	359		359
Collections revenue		196		196		196
Other income	150		162	312	671	983
Total other income	150	440	277	867	671	1,538
Operating expenses[1]	517	284	251	1,052	59	1,111
Income before income taxes and minority interest in net earnings of subsidiaries	953	136	24	1,113	127	1,240
Income tax expense[2]	352	51	9	412	87	499
Minority interest in net earnings of subsidiaries		2		2		2
Net income	$ 601	$ 83	$ 15	$ 699	$ 40	$ 739

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $26 million, $9 million, and $12 million, respectively, of stock option compensation expense.

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

(3) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2007				
(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Net Impact of Acquired Intangibles	Total
Net interest income (loss)	$ (649)	$ 79	$ (119)	$	$ (689)
Less: provisions for loan losses	(204)				(204)
Net interest income (loss) after provisions for loan losses	(445)	79	(119)		(485)
Fee income					
Collections revenue					
Other income	694	(23)			671
Total other income (loss)	694	(23)			671
Operating expenses				59	59
Total pre-tax Core Earnings adjustments to GAAP	$ 249	$ 56	$ (119)	$ (59)	127
Income tax expense					87
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ 40

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

	Nine Months Ended September 30, 2006					
(Dollars in millions)	Lending	APG	Corporate and Other	Total Core Earnings	Adjustments[3]	Total GAAP
Interest income:						
FFELP Stafford and Other Student Loans	$ 2,070	$	$	$ 2,070	$ (1,070)	$ 1,000
FFELP Consolidation Loans	3,385			3,385	(806)	2,579
Private Education Loans	1,472			1,472	(742)	730
Other loans	71			71		71
Cash and investments	507		5	512	(150)	362
Total interest income	7,505		5	7,510	(2,768)	4,742
Total interest expense	5,687	17	6	5,710	(2,050)	3,660
Net interest income (loss)	1,818	(17)	(1)	1,800	(718)	1,082
Less: provisions for loan losses	215			215	(20)	195
Net interest income (loss) after provisions for loan losses	1,603	(17)	(1)	1,585	(698)	887
Fee income		304	99	403		403
Collections revenue		182		182		182
Other income	138		95	233	1,153	1,386
Total other income	138	486	194	818	1,153	1,971
Operating expenses[1]	481	266	178	925	68	993
Income before income taxes and minority interest in net earnings of subsidiaries	1,260	203	15	1,478	387	1,865
Income tax expense[2]	466	75	6	547	175	722
Minority interest in net earnings of subsidiaries		4		4		4
Net income	$ 794	$ 124	$ 9	$ 927	$ 212	$ 1,139

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $26 million, $9 million, and $13 million, respectively, of stock option compensation expense.

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

(3) Core Earnings adjustments to GAAP:

	Nine Months Ended September 30, 2006				
(Dollars in millions)	**Net Impact of Securitization Accounting**	**Net Impact of Derivative Accounting**	**Net Impact of Floor Income**	**Net Impact of Acquired Intangibles**	**Total**
Net interest income (loss)	$ (668)	$ 108	$ (158)	$	$ (718)
Less: provisions for loan losses	(20)				(20)
Net interest income (loss) after provisions for loan losses	(648)	108	(158)		(698)
Fee income					
Collections revenue					
Other income	1,248	(95)			1,153
Total other income (loss)	1,248	(95)			1,153
Operating expenses				68	68
Total pre-tax Core Earnings adjustments to GAAP	$ 600	$ 13	$ (158)	$ (68)	387
Income tax expense					175
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					$ 212

40

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

11. Segment Reporting (Continued)

Summary of Core Earnings Adjustments to GAAP

The adjustments required to reconcile from the Company s Core Earnings results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income related to the Company s student loans, and certain other items that management does not consider in evaluating the Company s operating results. The following table reflects aggregate adjustments associated with these areas for the three and nine months ended September 30, 2007 and 2006.

(Dollars in millions)	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Core Earnings adjustments to GAAP:				
Net impact of securitization accounting[1]	$ (157)	$ 160	$ 249	$ 600
Net impact of derivative accounting[2]	(454)	(113)	56	13
Net impact of Floor Income[3]	(40)	(53)	(119)	(158)
Net impact of acquired intangibles[4]	(19)	(37)	(59)	(68)
Net tax effect[5]	67	(15)	(87)	(175)
Total Core Earnings adjustments to GAAP	$ (603)	$ (58)	$ 40	$ 212

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

(2) **Derivative accounting:** Core Earnings net income excludes periodic unrealized gains and losses arising primarily in the Company s Lending operating segment, and to a lesser degree in the Company s Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for hedge treatment under GAAP. Under the Company s Core Earnings presentation, the Company recognizes the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged

item s life. Core Earnings net income also excludes the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through GAAP net income.

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

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

(5) **Net Tax Effect:** Such tax effect is based upon the Company s Core Earnings effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

12. Merger-Related Developments

On April 16, 2007, the Company announced that the Buyer Group signed the Merger Agreement to acquire the Company for approximately $25.3 billion or $60.00 per share of common stock. Under the terms of the Merger Agreement, J.C. Flowers & Co. and certain other private equity investors, including Friedman Fleischer & Lowe, would, upon consummation, invest approximately $4.4 billion and own 50.2 percent, and Bank of America (NYSE: BAC) and JPMorgan Chase (NYSE: JPM) each would, upon consummation, invest approximately $2.2 billion and each would own 24.9 percent of the surviving entity. The remainder of the purchase price is expected to be funded by debt. The Company s independent board members unanimously approved the agreement and recommended that its shareholders approve the agreement. The Company s shareholders approved the Merger Agreement at a special meeting of shareholders held on August 15, 2007. (See also Merger Agreement filed with the SEC on the Company s Current Report on Form 8-K, dated April 18, 2007.) Pursuant to the Merger Agreement, the Company was not permitted to pay dividends on its common stock prior to the consummation of the proposed transaction. This restriction has been terminated. See below.

The termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, was granted on June 18, 2007. On June 1, 2007, the Buyer Group filed with the Federal Deposit Insurance Corporation (FDIC) its Interagency Notice of Change in Control with respect to the Sallie Mae Bank. As of the date of this Report, the FDIC has not acted on that notice.

On July 11, 2007, the Company announced that the Buyer Group informed the Company that it believed that legislative proposals then pending before the U.S. House of Representatives and U.S. Senate could result in a failure of the conditions to the closing of the Merger to be satisfied.

On September 26, 2007, J.C. Flowers & Co., on behalf of itself and the Buyer Group, asserted that the Buyer Group believed that the conditions to closing under the Merger Agreement, if the closing were to occur on that day, would not be satisfied as a result of changes in the legislative and economic environment. On October 2, 2007, the Buyer Group again asserted that it believed that, if the conditions to the closing of the Merger were required to be measured on that day, the conditions to the Buyer Group s obligation to close would not be satisfied, asserted that a Material Adverse Effect (as defined in the Merger Agreement) had occurred and made a proposal to acquire the Company at a significantly lower price and upon substantially different terms instead of honoring its obligations under the Merger Agreement. On October 3, 2007, the Company notified the Buyer Group that all conditions to closing of the Merger had been satisfied, and set November 5, 2007 as the closing date of the Merger. In response, the Buyer Group sent a letter to the Company on October 8, 2007 asserting that the conditions to closing of the Merger had not been satisfied because of, among other things, the alleged occurrence of a Material Adverse Effect under the terms of the Merger Agreement.

On October 8, 2007, the Company filed a lawsuit in the Delaware Court of Chancery against the Buyer Group, which includes J.C. Flowers & Co., JPMorgan Chase, and Bank of America. The lawsuit seeks a declaration that the Buyer Group repudiated the Merger Agreement, that no Material Adverse Effect has occurred and that the Company may terminate the agreement and collect the $900 million termination fee. On October 12, 2007, the Company requested an expedited trial. On October 15, 2007, the Buyer Group filed an answer and counterclaims and filed a response opposing the Company s request for an expedited trial. On October 22, 2007, the Court held a scheduling conference to set a schedule for trial. Pursuant to the Court s directions at the scheduling conference, effective October 23, 2007, the Buyer Group waived the Company s obligation under the Merger Agreement to comply with, among other things, the covenants that limited the conduct of the Company s business. The Company and Buyer Group have since served discovery requests on

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

12. Merger-Related Developments (Continued)

each other. Under guidance from the Delaware Court of Chancery at a scheduling hearing on November 5, 2007, the Company has elected to pursue an expedited decision on its October 19, 2007 motion for partial judgment on the pleadings. Specifically, the Company is seeking an expedited ruling that its interpretation of the Merger Agreement as it pertains to a Material Adverse Effect is the correct interpretation. The effect of this election will be that trial is expected to commence on an undetermined date after Thanksgiving 2008, rather than in mid-July 2008.

Financing Considerations if the Merger Closes

Under the terms of the Merger Agreement, the Company would continue to have publicly traded debt securities and as a result would continue comprehensive financial reporting about its business, financial condition and results of operations. Bank of America and JPMorgan Chase have committed to provide debt financing for the transaction and to provide additional liquidity to the Company prior to and after the closing date, subject to customary terms and conditions.

The Company s existing unsecured debt will remain outstanding if the Merger is consummated, and such outstanding debt will not be equally and ratably secured with the new acquisition-related debt. The acquisition financing is expected to be structured with the intent to accommodate the repayment of any outstanding unsecured debt as it matures. If the Merger closes, the Company expects it to have no material impact on the Company s outstanding asset-backed debt and expects to remain an active participant in the asset-backed securities market.

Financing Considerations if the Merger does not Close

On April 16, 2007, after the Company announced the transaction, Moody s Investor Services, Standard & Poor s and Fitch Ratings placed the long-term and short-term ratings on the Company s senior unsecured debt under review for possible downgrade, and secondary market credit spreads on the Company s outstanding senior unsecured bonds widened significantly. These factors limited the Company s access to new sources of senior unsecured funds at borrowing costs comparable to those available before the announcement. On June 1, 2007, Standard & Poor s downgraded the Company s senior unsecured debt rating to BBB+ from A. On July 2, 2007, Fitch Ratings downgraded the Company s long-term issuer default rating (IDR) and senior unsecured debt rating to BBB from A+. On August 1 2007, Moody s downgraded the Company s corporate credit rating to Baa1 from A2. In the near term, the Compa does not expect to rely on the unsecured debt market as a source of liquidity due to the high cost and restrictive covenants likely to be associated with such financing. As a result, student loan asset-backed securities financings are expected to be its primary source of cost-effective financing for the immediate future.

On April 30, 2007, Bank of America and JPMorgan Chase provided the Company with new aggregate $30 billion asset-backed commercial paper conduit facilities (collectively, the Interim ABCP Facility). Generally, the Interim ABCP Facility effectively terminates on the earliest of (1) the Merger closing (2) 90 calendar days after the date of termination of the Merger Agreement or (3) 90 calendar days after February 15, 2008. If the Merger Agreement is terminated or the Merger does not close, the Company s liquidity could be materially adversely affected as a result of the prospective termination of the Company s Interim ABCP Facility. The Company is in substantive discussions with various financing sources concerning the replacement of the Interim ABCP Facility, should it be necessary, and believes that this source of liquidity can be replaced in a timely manner. In addition, any new issuance of unsecured debt will likely be subject to much wider spreads and more restrictive terms than the Company has historically experienced. The Company

Table of Contents

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Information at September 30, 2007 and for the three and nine months ended September 30, 2007 and 2006 is unaudited)
(Dollars in thousands, except per share amounts, unless otherwise noted)

12. Merger-Related Developments (Continued)

expects to remain an active participant in the asset-backed securities market if the Merger Agreement is terminated or the Merger does not close.

Accounting Considerations Related to the Transaction

If the Merger is consummated, the transaction would be accounted for in accordance with SFAS No. 141, Business Combinations. The fair values of the tangible assets and liabilities and the intangible assets acquired by the Buyer Group, as well as the related goodwill associated with the transaction would be pushed down to the Company. Thus, all of the Company s assets and liabilities would have a new basis of accounting and therefore previous unamortized premiums, discounts and reserves related to those assets and liabilities would be written-off upon closing. The excess of the purchase price over the estimated fair value of the identifiable assets and liabilities would be recognized as goodwill. Since the Company would be the acquired enterprise, expenses incurred in connection with the transaction would be expensed as incurred. Transaction fees that are contingent upon the closing would be recognized if the transaction closes. Transaction fees that are not contingent on the closing would be expensed as incurred, and included in operating expense. These expenses totaled $42 million for the nine months ended September 30, 2007. If the transaction closes, vesting would accelerate on all stock-based compensation awards, and as a result, all deferred compensation related to those awards would be expensed.

Table of Contents

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS Three and nine months ended September 30, 2007 and 2006 (Dollars in millions, except per share amounts, unless otherwise noted)

FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This quarterly report contains forward-looking statements and information that are based on management s current expectations as of the date of this document. When used in this report, the words anticipate, believe, estimate, intend and expect and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement (the Merger Agreement) for the buyer group (the Buyer Group) led by J.C. Flowers & Co. (J.C. Flowers), Bank of America (NYSE:BAC) and JPMorgan Chase (NYSE:JPM) to acquire (the Merger) SLM Corporation, more commonly known as Sallie Mae, and its subsidiaries (collectively, the Company); the outcome of any legal proceedings that may be instituted by us or against us and others relating to the Merger Agreement; the inability to complete the Merger due to the failure to obtain shareholder approval or the failure to satisfy other conditions to completion of the Merger; the failure to obtain the necessary debt financing arrangements set forth in commitment letters received in connection with the Merger; the effect of the announcement of the Merger on our customer relationships, operating results and business generally; the amount of the costs, fees, expenses and charges related to the Merger and the actual terms of certain financings that will be obtained for the Merger; the impact of the substantial indebtedness incurred to finance the consummation of the Merger; increased costs, fees, expenses or other charges related to the interim asset-backed commercial paper facilities extended by Bank of America and JPMorgan Chase for use during the period between executing the Merger Agreement and the closing of the Merger, including any potential foreclosure on the student loans under those facilities following their termination; if the Merger Agreement is terminated, increased financing costs and more limited liquidity; changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations, which may reduce the volume, average term and yields on student loans under the Federal Family Education Loan Program (FFELP) or result in loans being originated or refinanced under non-FFELP programs or may affect the terms upon which banks and others agree to sell FFELP loans to the Company. In addition, a larger than expected increase in third party consolidations of our FFELP loans could materially adversely affect our results of operations. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; a significant decrease in our common stock price, which may result in counterparties terminating equity forward positions with us, which, in turn, could have a materially dilutive effect on our common stock; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; changes in projections of losses from loan defaults; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services. The Company does not undertake any obligation to update or revise these forward-looking statements to conform the statement to actual results or changes in the Company s expectations.

OVERVIEW

We are the largest source of funding, delivery and servicing support for education loans in the United States. Our primary business is to originate, acquire and hold both federally guaranteed student loans and Private Education Loans, which are not federally guaranteed or privately insured. The primary source of our earnings is from net interest income earned on those student loans as well as gains on the sales of such loans in off-balance sheet securitization transactions. We also earn fees for pre-default and post-default receivables management services on student loans, such that we are engaged in every phase of the student loan life cycle from originating and servicing student loans to default prevention and ultimately the collection on defaulted student loans. Through recent acquisitions, we have expanded our receivables management services to a number of different asset classes outside of student loans. SLM Corporation, more commonly known as Sallie Mae, is a holding company that operates through a number of subsidiaries. References in this report to the Company refer to SLM Corporation and its subsidiaries.

We have used both internal growth and strategic acquisitions to attain our leadership position in the education finance marketplace. Our sales force, which delivers our products on campuses across the country, is the largest in the student loan industry. The core of our marketing strategy is to promote our on-campus brands, which generate student loan originations through our Preferred Channel. Loans generated through our Preferred Channel are more profitable than loans acquired through other acquisition channels because we own them earlier in the student loan s life and generally incur lower costs to acquire such loans. We have built brand leadership through the Sallie Mae name, the brands of our subsidiaries and those of our lender partners. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry, providing an unmatched array of services to borrowers. In recent years, borrowers have been consolidating their FFELP Stafford loans into FFELP Consolidation Loans in much greater numbers such that FFELP Consolidation Loans now constitute 55 percent of our Managed loan portfolio. FFELP Consolidation Loans are marketed directly to consumers and we believe they will continue to be an important loan acquisition channel. We continue to expand our offerings in the Private Education Loan marketplace that we market both on campus and direct-to-consumers.

We have expanded into a number of fee-based businesses, most notably, our Asset Performance Group (APG), formerly known as Debt Management Operations (DMO), business. Our APG business provides a wide range of accounts receivable and collections services including student loan default aversion services, defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, and accounts receivable management and collection for purchased portfolios of receivables that are delinquent or have been charged off by their original creditors as well as sub-performing and non-performing mortgage loans. In the purchased receivables business, we focus on a variety of consumer debt types with emphasis on charged off credit card receivables and distressed mortgage receivables. We purchase these portfolios at a discount to their face value, and then use both our internal collection operations coupled with third party collection agencies to maximize the recovery on these receivables.

We manage our business through two primary operating segments: the Lending operating segment and the APG operating segment. Accordingly, the results of operations of the Company s Lending and APG segments are presented separately below under BUSINESS SEGMENTS. These operating segments are considered reportable segments under the Financial Accounting Standards Board s (FASB) Statement of Financial Accounting Standards (SFAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, based on quantitative thresholds applied to the Company s financial statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

A discussion of the Company s critical accounting policies, which include premiums, discounts and Borrower Benefits, securitization accounting and Retained Interests, provisions for loan losses, derivative accounting and the effects of Consolidation Loan activity on estimates, can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. There have been no material changes to these policies during the third quarter of 2007.

Table of Contents

SELECTED FINANCIAL DATA

Condensed Statements of Income

	Three Months Ended September 30,		Increase (Decrease)		Nine Months Ended September 30,		Increase (Decrease)	
	2007	2006	$	%	2007	2006	$	%
Net interest income	$ 442	$ 338	$ 104	31%	$ 1,254	$ 1,082	$ 172	16%
Less: provisions for loan losses	143	67	76	113	441	195	246	126
Net interest income after provisions for loan losses	299	271	28	10	813	887	(74)	(8)
Gains on student loan securitizations		201	(201)	(100)	367	902	(535)	(59)
Servicing and securitization revenue	29	187	(158)	(84)	414	369	45	12
Losses on loans and securities, net	(25)	(13)	(12)	(92)	(67)	(25)	(42)	(168)
Gains (losses) on derivative and hedging activities, net	(487)	(131)	(356)	(272)	(23)	(95)	72	76
Guarantor servicing fees	46	39	7	18	115	99	16	16
Debt management fees	76	122	(46)	(38)	244	304	(60)	(20)
Collections revenue	53	58	(5)	(9)	196	182	14	8
Other income	106	88	18	20	292	235	57	24
Operating expenses	356	354	2	1	1,111	993	118	12
Pre-tax income (loss)	(259)	468	(727)	(155)	1,240	1,865	(625)	(34)
Income taxes	85	204	(119)	(58)	499	722	(223)	(31)
Minority interest in net earnings of subsidiaries		1	(1)	(100)	2	4	(2)	(50)
Net income (loss)	(344)	263	(607)	(231)	739	1,139	(400)	(35)
Preferred stock dividends	9	9			28	26	2	8
Net income (loss) attributable to common stock	$ (353)	$ 254	$ (607)	(231)%	$ 711	$ 1,113	$ (402)	(36)%
Basic earnings (loss) per common share	$ (.85)	$ .62	$ (1.47)	(237)%	$ 1.73	$ 2.71	$ (.98)	(36)%
	$ (.85)	$ .60	$ (1.45)	(242)%	$ 1.69	$ 2.56	$ (.87)	(34)%

Diluted earnings (loss) per common share								
Dividends per common share	$	$ .25	$ (.25)	(100)%	$ .25	$ .72	$ (.47)	(65)%

Table of Contents

Condensed Balance Sheets

	September 30, 2007	December 31, 2006	Increase (Decrease) $	%
Assets				
FFELP Stafford and Other Student Loans, net	$ 34,108	$ 24,841	$ 9,267	37%
FFELP Consolidation Loans, net	71,371	61,324	10,047	16
Private Education Loans, net	13,676	9,755	3,921	40
Other loans, net	1,193	1,309	(116)	(9)
Cash and investments	12,040	5,185	6,855	132
Restricted cash and investments	4,999	3,423	1,576	46
Retained Interest in off-balance sheet securitized loans	3,239	3,341	(102)	(3)
Goodwill and acquired intangible assets, net	1,354	1,372	(18)	(1)
Other assets	8,835	5,586	3,249	58
Total assets	$ 150,815	$ 116,136	$ 34,679	30%
Liabilities and Stockholders Equity				
Short-term borrowings	$ 33,008	$ 3,528	$ 29,480	836%
Long-term borrowings	108,861	104,559	4,302	4
Other liabilities	3,934	3,680	254	7
Total liabilities	145,803	111,767	34,036	30
Minority interest in subsidiaries	10	9	1	11
Stockholders equity before treasury stock	6,184	5,401	783	14
Common stock held in treasury	1,182	1,041	141	14
Total stockholders equity	5,002	4,360	642	15
Total liabilities and stockholders equity	$ 150,815	$ 116,136	$ 34,679	30%

RESULTS OF OPERATIONS

Consolidated Earnings Summary

Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006

For the three months ended September 30, 2007, our net loss was $344 million, or $.85 diluted loss per share, compared to net income of $263 million, or $.60 diluted earnings per share, for the three months ended September 30, 2006. The effective tax rate in those periods was (33) percent and 43 percent, respectively. The movement in the effective tax rate was primarily driven by the permanent tax impact of excluding non-taxable gains and losses on our equity forward contracts which are marked to market through earnings under the FASB s SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. Pre-tax income decreased by $727 million versus the year-ago quarter, primarily due to a $356 million increase in net losses on derivative and hedging activities, which was comprised primarily of unrealized losses on our equity forward contracts. Gains (losses) on derivative and hedging activities were ($487) million in the third quarter of 2007 compared to ($131) million in the year-ago quarter.

In the third quarter of 2007, we did not complete an off-balance sheet securitization and as a result we did not recognize any securitization gains compared to a $201 million pre-tax securitization gain recognized in the year-ago quarter. In the third quarter of 2007, servicing and securitization income was $29 million, a $158 million decrease over the year-ago quarter. This decrease was primarily due to an $86 million increase in impairment losses and to a $62 million increase in the unrealized fair value loss adjustment related to a portion of our Retained Interests, as discussed above. Both of these changes were primarily a result of FFELP Stafford consolidation activity, Private Education Loan consolidation activity and the timing of expected default activity.

Net interest income after provisions for loan losses increased by $28 million versus the third quarter of 2006. The increase was due to the $103 million increase in net interest income, offset by a $76 million increase in the provisions for loan losses. The increase in net interest income was primarily due to an increase of $35 billion in the average balance of on-balance sheet interest earning assets, offset by a decrease in the student loan spread, including the impact of Wholesale Consolidation Loans (see NET INTEREST INCOME Student Loan Spread Analysis *On-Balance Sheet*). The provisions for Private Education Loan losses and FFELP loan losses increased by $42 million and $34 million, respectively, versus the year-ago quarter. The increase in the provision for Private Education Loan losses was primarily due to a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operational challenges encountered from a call center move (see LENDING SEGMENT Allowance for Private Education Loan Losses). The increase in the provision for FFELP loan losses was primarily due to the repeal of the Exceptional Performer program due to the passage of the College Cost Reduction and Access Act of 2007 on September 27, 2007, which resulted in a higher Risk Sharing percentage for the Company (see RECENT DEVELOPMENTS Other Developments *Exceptional Performer*).

Fee and other income and collections revenue decreased $26 million from $307 million in the third quarter of 2006 to $281 million in the third quarter of 2007. This decrease was primarily due to legislative changes in the federal regulations governing the rehabilitated FFELP loan policy in the third quarter of 2006 that resulted in a one-time acceleration of revenue recognized in the third quarter of 2006. Operating expenses of $356 million for the third quarter of 2007 remained relatively consistent compared to $354 million for the third quarter of 2006.

Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006

For the nine months ended September 30, 2007, our net income decreased by 35 percent to $739 million ($1.69 diluted earnings per share) from net income of $1.1 billion ($2.56 diluted earnings per share) in the year-ago period. The effective tax rate in those periods was 40 percent and 39 percent, respectively. Pre-tax income decreased by $625 million versus the nine months ended September 30, 2006, primarily due to a $535 million decrease in gains on student loan securitizations. The securitization gains in the first nine months of 2007 were the result of one Private Education Loan securitization that had a pre-tax gain of $367 million or 18.4 percent of the amount securitized. In the year-ago period, there were three Private Education Loan securitizations that had total pre-tax gains of $830 million or 16.3 percent of the amount securitized.

In the first nine months of 2007, servicing and securitization income was $414 million, a $45 million increase over the nine months ended September 30, 2006. This increase can primarily be attributed to the increase of higher yielding Private Education Loan Residual Interests as a percentage of the total Residual Interest.

For the nine months ended September 30, 2007, net losses on derivative and hedging activities were $23 million, a decrease of $72 million from the net losses of $95 million in the year-ago period. The change in net losses was not caused by any significant changes of specific derivative and hedging relationships, but was generally due to changes in the fair value of derivatives that were non-qualifying hedges.

Net interest income after provisions for loan losses decreased by $74 million versus the nine months ended September 30, 2006. The decrease was due to the year-over-year increase in the provision for loan losses of $246 million, which offset the year-over-year $172 million increase in net interest income. The increase in net interest income was primarily due to an increase of $28 billion in the average balance of on-balance sheet interest earning assets offset by a decrease in the student loan spread, including the impact of Wholesale Consolidation Loans (see NET INTEREST INCOME Student Loan Spread Analysis *On-Balance Sheet*). The provisions for Private Education Loan losses and FFELP loan losses increased by $205 million and $40 million, respectively. The increase in the provision for Private Education Loan losses was primarily due to a further seasoning and mix of the portfolio and an increase in delinquencies and charge-offs related in part to operational challenges encountered from a call center move (see LENDING SEGMENT Allowance for Private Education Loan Losses). The increase in the provision for FFELP loan losses was primarily due to the repeal of the Exceptional Performer program as discussed above (see RECENT DEVELOPMENTS Other Developments *Exceptional Performer*).

Fee and other income and collections revenue increased $27 million from $820 million for the nine months ended September 30, 2006 to $847 million for the nine months ended September 30, 2007. Operating expenses increased by $117 million year-over-year. This increase in operating expenses was primarily due to $42 million in Merger-related expenses incurred in 2007 and Upromise costs of $65 million in 2007 versus $8 million in 2006 due to the Upromise acquisition occurring in August 2006.

NET INTEREST INCOME

Average Balance Sheets

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the three and nine months ended September 30, 2007 and 2006. This table reflects the net interest margin for the entire Company on a consolidated basis.

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007		2006		2007		2006	
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Average Assets								
FFELP Stafford and Other Student Loans	$ 32,576	6.64%	$ 21,194	6.83%	$ 30,106	6.70%	$ 20,433	6.54%
FFELP Consolidation Loans	69,289	6.56	54,968	6.61	66,590	6.52	53,829	6.41
Private Education Loans	12,706	12.26	8,079	12.51	11,664	12.16	8,348	11.69
Other loans	1,192	8.65	1,133	8.59	1,272	8.46	1,132	8.44
Cash and investments	14,625	5.73	9,915	5.65	10,861	5.75	8,618	5.61
Total interest earning assets	130,388	7.06%	95,289	7.08%	120,493	7.06%	92,360	6.86%
Non-interest earning assets	9,928		8,707		9,612		8,442	
Total assets	$ 140,316		$ 103,996		$ 130,105		$ 100,802	
Average Liabilities and Stockholders Equity								
Short-term borrowings	$ 21,052	6.06%	$ 3,994	5.70%	$ 9,894	6.16%	$ 4,186	5.18%
Long-term borrowings	109,887	5.63	91,668	5.65	111,082	5.60	88,803	5.27
Total interest bearing liabilities	130,939	5.70%	95,662	5.65%	120,976	5.65%	92,989	5.26%

Non-interest bearing liabilities	4,315		4,110		4,301		3,772	
Stockholders equity	5,062		4,224		4,828		4,041	
Total liabilities and stockholders equity	$ 140,316		$ 103,996		$ 130,105		$ 100,802	
Net interest margin		1.34%		1.41%		1.39%		1.57%

50

Table of Contents

Rate/Volume Analysis

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

	Increase (Decrease)	Increase (Decrease) Attributable to Change in Rate	Volume
Three months ended September 30, 2007 vs. three months ended September 30, 2006			
Interest income	$ 620	$ (29)	$ 649
Interest expense	517	12	505
Net interest income	$ 103	$ (41)	$ 144
Nine months ended September 30, 2007 vs. nine months ended September 30, 2006			
Interest income	$ 1,621	$ 142	$ 1,479
Interest expense	1,449	350	1,099
Net interest income	$ 172	$ (208)	$ 380

The changes in net interest income are primarily due to fluctuations in the student loan spread discussed below, as well as the growth of our student loan portfolio and the level of cash and investments we may hold on our balance sheet for liquidity purposes. In connection with the Merger Agreement, we increased our liquidity portfolio to higher than historical levels. The liquidity portfolio has a negative net interest margin, so the increase in this portfolio reduced net interest income by approximately $8 million for the third quarter of 2007. See also Student Loans Student Loan Spread *Student Loan Spread Analysis On-Balance Sheet*.

Student Loans

For both federally insured student loans and Private Education Loans, we account for premiums paid, discounts received and certain origination costs incurred on the origination and acquisition of student loans in accordance with SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. The unamortized and unaccreted portion of the premiums and discounts, respectively, is included in the carrying value of the student loan on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield of the student loan after giving effect to the amortization of purchase premiums and the accretion of student loan discounts, as well as interest rate reductions and rebates expected to be earned through Borrower Benefits programs. Discounts on Private Education Loans are deferred and accreted to income over the lives of the student loans. In the table below, this accretion of discounts is netted with the amortization of the premiums.

Student Loan Spread

An important performance measure closely monitored by management is the student loan spread. The student loan spread is the difference between the income earned on the student loan assets and the interest paid on the debt funding those assets. A number of factors can affect the overall student loan spread such as:

- the mix of student loans in the portfolio, with FFELP Consolidation Loans having the lowest spread and Private Education Loans having the highest spread;

- the premiums paid, borrower fees charged and capitalized costs incurred to acquire student loans which impact the spread through subsequent amortization;

- the type and level of Borrower Benefits programs for which the student loans are eligible;

the level of Floor Income and, when considering the Core Earnings spread, the amount of Floor Income-eligible loans that have been hedged through Floor Income Contracts; and

funding and hedging costs.

The student loan spread is highly susceptible to liquidity, funding and interest rate risk. These risks are discussed separately in our 2006 Annual Report on Form 10-K at LIQUIDITY AND CAPITAL RESOURCES and in the RISK FACTORS discussion.

Student Loan Spread Analysis On-Balance Sheet

The following table analyzes the reported earnings from student loans on-balance sheet, before provision and before the effect of Wholesale Consolidation Loans. For an analysis of our student loan spread for the entire portfolio of Managed student loans on a similar basis to the on-balance sheet analysis, see LENDING BUSINESS SEGMENT Student Loan Spread Analysis Core Earnings Basis.

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
On-Balance Sheet				
Student loan yield, before Floor Income	8.13%	8.17%	8.12%	7.86%
Gross Floor Income	.04	.02	.03	.04
Consolidation Loan Rebate Fees	(.60)	(.67)	(.61)	(.67)
Borrower Benefits	(.11)	(.13)	(.12)	(.12)
Premium and discount amortization	(.15)	(.15)	(.16)	(.14)
Student loan net yield	7.31	7.24	7.26	6.97
Student loan cost of funds	(5.62)	(5.64)	(5.59)	(5.25)
Student loan spread, before Interim ABCP Facility fees(1)(2)	1.69	1.60	1.67	1.72
Interim ABCP Facility fees(2)	(.06)		(.04)	
Student loan spread(1)(3)	1.63%	1.60%	1.63%	1.72%
Average Balances				
On-balance sheet student loans(1)	$ 106,825	$ 83,909	$ 101,891	$ 82,498

(1) Excludes the effect of the Wholesale Consolidation Loan portfolio on the student loan spread and average balances.
(2) The Interim ABCP Facility fees are the commitment and liquidity fees that related to a new financing facility in connection with the Merger. See Note 12, Merger-Related Developments to the consolidated financial statements.

1.53%	1.59%	1.54%	1.72%

(3) Student loan spread including the effect of Wholesale Consolidation Loans

The table above shows the various items that impact our student loan spread. Gross Floor Income is impacted by the level of interest rates, and the percentage of the FFELP portfolio eligible to earn Floor Income. The spread impact from Consolidation Loan Rebate Fees fluctuates as a function of the percentage of FFELP Consolidation Loans on our balance sheet. Borrower Benefits are generally impacted by the amount of Borrower Benefits being offered as well as the payment behavior of the underlying loans. Premium and discount amortization is generally impacted by the prices we pay for loans and amounts capitalized related to such purchases or originations. Premium and discount amortization is also impacted by prepayment behavior of the underlying loans.

In the second half of 2006, we implemented a new loan acquisition strategy under which we began purchasing FFELP Consolidation Loans outside of our normal origination channels, primarily via the spot market. We refer to this volume as our Wholesale Consolidation Channel. FFELP Consolidation Loans acquired through this channel are considered incremental volume to our core acquisition channels, which are focused on the retail marketplace with an emphasis on our internal brand strategy. Wholesale Consolidation Loans generally command significantly higher premiums than our originated FFELP Consolidation Loans, and as a result, Wholesale Consolidation Loans have lower spreads. Since Wholesale Consolidation Loans are acquired outside of our core loan acquisition channels and have different yields and return expectations than the rest of our FFELP Consolidation Loan portfolio, we have excluded the impact of the Wholesale Consolidation Loan volume from the student loan spread analysis to provide more meaningful period-over-period comparisons on the performance of our student loan portfolio.

FEDERAL AND STATE TAXES

The Company is subject to federal and state income taxes. Our effective tax rate for the three months ended September 30, 2007 was (33) percent versus 43 percent for the three months ended September 30, 2006 and for the nine months ended September 30, 2007 was 40 percent versus 39 percent for the nine months ended September 30, 2006. The effective tax rate reflects the permanent impact of the exclusion of the gains or losses on equity forward contracts recognized under SFAS No. 150.

BUSINESS SEGMENTS

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

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

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

Core Earnings are the primary financial performance measures used by management to develop the Company s financial plans, track results, and establish corporate performance targets and incentive compensation. While Core Earnings are not a substitute for reported results under GAAP, the Company relies on Core Earnings in operating its business because Core Earnings permit management to make meaningful period-to-period comparisons of the operational and performance indicators that are most closely assessed by

Table of Contents

management. Management believes this information provides additional insight into the financial performance of the core business activities of our operating segments. Accordingly, the tables presented below reflect Core Earnings which is reviewed and utilized by management to manage the business for each of the Company s reportable segments. A further discussion regarding Core Earnings is included under Limitations of Core Earnings and Pre-tax Difference between Core Earnings and GAAP by Business Segment.

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

	Three Months Ended September 30, 2007		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 729	$	$
FFELP Consolidation Loans	1,445		
Private Education Loans	753		
Other loans	26		
Cash and investments	251		6
Total interest income	3,204		6
Total interest expense	2,534	7	5
Net interest income (loss)	670	(7)	1
Less: provisions for loan losses	200		
Net interest income (loss) after provisions for loan losses	470	(7)	1
Fee income		76	46
Collections revenue		53	
Other income	46		63
Total other income	46	129	109
Operating expenses(1)	164	94	79
Income before income taxes and minority interest in net earnings of subsidiaries	352	28	31
Income tax expense(2)	130	11	11
Minority interest in net earnings of subsidiaries			
Core Earnings net income	$ 222	$ 17	$ 20

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $4 million, $2 million, and $2 million, respectively, of stock option compensation expense.

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

Table of Contents

	Three Months Ended September 30, 2006		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 702	$	$
FFELP Consolidation Loans	1,242		
Private Education Loans	558		
Other loans	24		
Cash and investments	207		3
Total interest income	2,733		3
Total interest expense	2,124	6	4
Net interest income (loss)	609	(6)	(1)
Less: provisions for loan losses	80		
Net interest income (loss) after provisions for loan losses	529	(6)	(1)
Fee income		122	39
Collections revenue		58	
Other income	46		41
Total other income	46	180	80
Operating expenses[1]	156	91	70
Income before income taxes and minority interest in net earnings of subsidiaries	419	83	9
Income tax expense[2]	155	31	3
Minority interest in net earnings of subsidiaries		1	
Core Earnings net income	$ 264	$ 51	$ 6

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $8 million, $4 million, and $4 million, respectively, of stock option compensation expense.

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

	Nine Months Ended September 30, 2007		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,143	$	$
FFELP Consolidation Loans	4,167		
Private Education Loans	2,104		
Other loans	80		
Cash and investments	595		15
Total interest income	9,089		15
Total interest expense	7,125	20	16
Net interest income (loss)	1,964	(20)	(1)
Less: provisions for loan losses	644		1
Net interest income (loss) after provisions for loan losses	1,320	(20)	(2)
Fee income		244	115
Collections revenue		196	
Other income	150		162
Total other income	150	440	277
Operating expenses(1)	517	284	251
Income before income taxes and minority interest in net earnings of subsidiaries	953	136	24
Income tax expense(2)	352	51	9
Minority interest in net earnings of subsidiaries		2	
Core Earnings net income	$ 601	$ 83	$ 15

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $26 million, $9 million, and $12 million, respectively, of stock option compensation expense.

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

Table of Contents

	Nine Months Ended September 30, 2006		
	Lending	APG	Corporate and Other
Interest income:			
FFELP Stafford and Other Student Loans	$ 2,070	$	$
FFELP Consolidation Loans	3,385		
Private Education Loans	1,472		
Other loans	71		
Cash and investments	507		5
Total interest income	7,505		5
Total interest expense	5,687	17	6
Net interest income (loss)	1,818	(17)	(1)
Less: provisions for loan losses	215		
Net interest income (loss) after provisions for loan losses	1,603	(17)	(1)
Fee income		304	99
Collections revenue		182	
Other income	138		95
Total other income	138	486	194
Operating expenses(1)	481	266	178
Income before income taxes and minority interest in net earnings of subsidiaries	1,260	203	15
Income tax expense(2)	466	75	6
Minority interest in net earnings of subsidiaries		4	
Core Earnings net income	$ 794	$ 124	$ 9

(1) Operating expenses for the Lending, APG, and Corporate and Other reportable segments include $26 million, $9 million, and $13 million, respectively, of stock option compensation expense.

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

Limitations of Core Earnings

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, management believes that Core Earnings are an important additional tool for providing a more complete understanding of the Company s results of operations. Nevertheless, Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, as stated above, unlike financial accounting, there is no comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Unlike GAAP, Core

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

Other limitations arise from the specific adjustments that management makes to GAAP results to derive Core Earnings results. For example, in reversing the unrealized gains and losses that result from SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, on derivatives that do not

Table of Contents

qualify for hedge treatment, as well as on derivatives that do qualify but are in part ineffective because they are not perfect hedges, we focus on the long-term economic effectiveness of those instruments relative to the underlying hedged item and isolate the effects of interest rate volatility, changing credit spreads and changes in our stock price on the fair value of such instruments during the period. Under GAAP, the effects of these factors on the fair value of the derivative instruments (but not on the underlying hedged item) tend to show more volatility in the short term. While our presentation of our results on a Core Earnings basis provides important information regarding the performance of our Managed portfolio, a limitation of this presentation is that we are presenting the ongoing spread income on loans that have been sold to a trust managed by us. While we believe that our Core Earnings presentation presents the economic substance of our Managed loan portfolio, it understates earnings volatility from securitization gains. Our Core Earnings results exclude certain Floor Income, which is real cash income, from our reported results and therefore may understate earnings in certain periods. Management s financial planning and valuation of operating results, however, does not take into account Floor Income because of its inherent uncertainty, except when it is economically hedged through Floor Income Contracts.

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

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

	Three Months Ended September 30,					
	2007			2006		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other
Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ (157)	$	$	$ 160	$	$
Net impact of derivative accounting	4		(458)	(14)		(99)
Net impact of Floor Income	(40)			(53)		
Amortization of acquired intangibles	(5)	(5)	(9)	(30)	(5)	(2)
Total Core Earnings adjustments to GAAP	$ (198)	$ (5)	$ (467)	$ 63	$ (5)	$ (101)

	Nine Months Ended September 30,					
	2007			2006		
	Lending	APG	Corporate and Other	Lending	APG	Corporate and Other

Core Earnings adjustments to GAAP:						
Net impact of securitization accounting	$ 249	$	$	$ 600	$	$
Net impact of derivative accounting	130		(74)	195		(182)
Net impact of Floor Income	(119)			(158)		
Amortization of acquired intangibles	(23)	(14)	(22)	(51)	(13)	(4)
Total Core Earnings adjustments to GAAP	$ 237	$ (14)	$ (96)	$ 586	$ (13)	$ (186)

1) **Securitization:** Under GAAP, certain securitization transactions in our Lending operating segment are accounted for as sales of assets. Under the Company s Core Earnings presentation for the Lending

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

The following table summarizes the securitization adjustments in our Lending operating segment for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Core Earnings securitization adjustments:				
Net interest income on securitized loans, after provisions for loan losses	$ (158)	$ (216)	$ (445)	$ (647)
Gains on student loan securitizations		201	367	902
Servicing and securitization revenue	29	187	414	369
Intercompany transactions with off-balance sheet trusts	(28)	(12)	(87)	(24)
Total Core Earnings securitization adjustments	$ (157)	$ 160	$ 249	$ 600

2) **Derivative Accounting:** Core Earnings net income excludes periodic unrealized gains and losses arising primarily in our Lending operating segment, and to a lesser degree in our Corporate and Other reportable segment, that are caused primarily by the one-sided mark-to-market derivative valuations prescribed by SFAS No. 133 on derivatives that do not qualify for hedge treatment under GAAP. Under the Company s Core Earnings presentation, we recognize the economic effect of these hedges, which generally results in any cash paid or received being recognized ratably as an expense or revenue over the hedged item s life. Core Earnings also excludes the gain or loss on equity forward contracts that under SFAS No. 133, are required to be accounted for as derivatives and are marked-to-market through earnings.

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

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness under SFAS No. 133. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the paydown of principal of the student loans underlying the Floor

Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Under SFAS No. 133, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio, including our Retained Interests, earning Floor Income but that offsetting change in value is not recognized under SFAS No. 133. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can

Table of Contents

have on Floor Income for that period. Prior to SFAS No. 133, we accounted for Floor Income Contracts as hedges and amortized the upfront cash compensation ratably over the lives of the contracts.

Basis swaps are used to convert floating rate debt from one interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to change the index of our floating rate debt to better match the cash flows of our student loan assets that are primarily indexed to a commercial paper, Prime or Treasury bill index. In addition, we use basis swaps to convert debt indexed to the Consumer Price Index (CPI) to 3-month LIBOR debt. SFAS No. 133 requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk, however they do not meet this effectiveness test because our FFELP student loans can earn at either a variable or a fixed interest rate depending on market interest rates. We also have basis swaps that do not meet the SFAS No. 133 effectiveness test that economically hedge off-balance sheet instruments. As a result, under GAAP these swaps are recorded at fair value with changes in fair value reflected in the income statement.

Under SFAS No. 150, equity forward contracts that allow a net settlement option either in cash or the Company s stock are required to be accounted for as derivatives in accordance with SFAS No. 133. As a result, we account for our equity forward contracts as derivatives in accordance with SFAS No. 133 and mark them to market through earnings. They do not qualify as effective SFAS No. 133 hedges, as a requirement to achieve hedge accounting is the hedged item must impact net income and the settlement of these contracts through the purchase of our own stock does not impact net income.

The table below quantifies the adjustments for derivative accounting under SFAS No. 133 on our net income for the three and nine months ended September 30, 2007 and 2006 when compared with the accounting principles employed in all years prior to the SFAS No. 133 implementation.

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	**2006**	**2007**	**2006**
Core Earnings derivative adjustments:				
Gains (losses) on derivative and hedging activities, net, included in other income[1]	$ (487)	$ (131)	$ (23)	$ (95)
Less: Realized losses on derivative and hedging activities, net[1]	33	18	79	107
Unrealized gains (losses) on derivative and hedging activities, net[1]	(454)	(113)	56	12
Other pre-SFAS No. 133 accounting adjustments				1
Total net impact of SFAS No. 133 derivative accounting	$ (454)	$ (113)	$ 56	$ 13

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

Table of Contents

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

SFAS No. 133 requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities) that do not qualify as hedges under SFAS No. 133 to be recorded in a separate income statement line item below net interest income. The table below summarizes the realized losses on derivative and hedging activities, and where they are reclassified to on a Core Earnings basis for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Reclassification of realized losses on derivative and hedging activities:				
Net settlement expense on Floor Income Contracts reclassified to net interest income	$ (14)	$ (8)	$ (31)	$ (41)
Net settlement expense on interest rate swaps reclassified to net interest income	(19)	(10)	(48)	(66)
Total reclassifications of realized losses on derivative and hedging activities	(33)	(18)	(79)	(107)
Add: Unrealized gains (losses) on derivative and hedging activities, net[1]	(454)	(113)	56	12
Gains (losses) on derivative and hedging activities, net	$ (487)	$ (131)	$ (23)	$ (95)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Floor Income Contracts	$ (149)	$ (90)	$ (63)	$ 142
Equity forward contracts	(458)	(99)	(74)	(182)
Basis swaps	132	98	154	30
Other	21	(22)	39	22

Total unrealized gains (losses) on derivative and hedging activities, net	$ (454)	$ (113)	$ 56	$ 12

Unrealized gains and losses on Floor Income Contracts are primarily caused by changes in interest rates. In general, an increase in interest rates results in an unrealized gain and vice versa. Unrealized gains and losses on equity forward contracts fluctuate with changes in the Company s stock price. Unrealized gains and losses on basis swaps result from changes in the spread between indices, and differences in the repricing frequency of the pay and receive legs of the basis swaps.

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

Table of Contents

The following table summarizes the Floor Income adjustments in our Lending operating segment for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	**2006**	**2007**	**2006**
Core Earnings Floor Income adjustments:				
Floor Income earned on Managed loans, net of payments on Floor Income Contracts	$	$	$	$
Amortization of net premiums on Floor Income Contracts and futures in net interest income	(40)	(53)	(119)	(158)
Total Core Earnings Floor Income adjustments	$ (40)	$ (53)	$ (119)	$ (158)

4) **Acquired Intangibles:** We exclude goodwill and intangible impairment and amortization of acquired intangibles. These amounts totaled $19 million and $37 million, respectively, for the three months ended September 30, 2007 and 2006, and $59 million and $68 million, respectively, for the nine months ended September 30, 2007 and 2006, respectively.

Table of Contents

LENDING BUSINESS SEGMENT

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

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

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	% Increase (Decrease) 2007 vs. 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006	% Increase (Decrease) 2007 vs. 2006
Core Earnings interest income:						
FFELP Stafford and Other Student Loans	$ 729	$ 702	4%	$ 2,143	$ 2,070	4%
FFELP Consolidation Loans	1,445	1,242	16	4,167	3,385	23
Private Education Loans	753	558	35	2,104	1,472	43
Other loans	26	24	8	80	71	13
Cash and investments	251	207	21	595	507	17
Total Core Earnings interest income	3,204	2,733	17	9,089	7,505	21
Total Core Earnings interest expense	2,534	2,124	19	7,125	5,687	25
Net Core Earnings interest income	670	609	10	1,964	1,818	8
Less: provisions for loan losses	200	80	150	644	215	200
Net Core Earnings interest income after provisions for loan losses	470	529	(11)	1,320	1,603	(18)
Other income	46	46		150	138	9
Operating expenses	164	156	5	517	481	7
Income before income taxes and minority interest in net earnings of subsidiaries	352	419	(16)	953	1,260	(24)
Income tax expense	130	155	(16)	352	466	(24)
Core Earnings net income	$ 222	$ 264	(16)%	$ 601	$ 794	(24)%

Table of Contents

Summary of our Managed Student Loan Portfolio

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

Ending Balances, net

	September 30, 2007				
	FFELP Stafford and Other[(1)]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet:					
In-school	$ 14,114	$	$ 14,114	$ 6,219	$ 20,333
Grace and repayment	19,154	70,082	89,236	8,344	97,580
Total on-balance sheet, gross	33,268	70,082	103,350	14,563	117,913
On-balance sheet unamortized premium/(discount)	871	1,316	2,187	(433)	1,754
On-balance sheet allowance for losses	(31)	(27)	(58)	(454)	(512)
Total on-balance sheet, net	34,108	71,371	105,479	13,676	119,155
Off-balance sheet:					
In-school	1,197		1,197	3,446	4,643
Grace and repayment	8,814	16,216	25,030	10,834	35,864
Total off-balance sheet, gross	10,011	16,216	26,227	14,280	40,507
Off-balance sheet unamortized premium/(discount)	167	488	655	(338)	317
Off-balance sheet allowance for losses	(16)	(5)	(21)	(199)	(220)
Total off-balance sheet, net	10,162	16,699	26,861	13,743	40,604
Total Managed	$ 44,270	$ 88,070	$ 132,340	$ 27,419	$ 159,759
% of on-balance sheet FFELP	32%	68%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	55%	83%	17%	100%

	December 31, 2006			
	FFELP	FFELP Consolidation		Private Education

	Stafford and Other[1]	Loans	Total FFELP	Loans	Total
On-balance sheet:					
In-school	$ 9,745	$	$ 9,745	$ 4,353	$ 14,098
Grace and repayment	14,530	60,348	74,878	6,075	80,953
Total on-balance sheet, gross	24,275	60,348	84,623	10,428	95,051
On-balance sheet unamortized premium/(discount)	575	988	1,563	(365)	1,198
On-balance sheet allowance for losses	(9)	(12)	(21)	(308)	(329)
Total on-balance sheet, net	24,841	61,324	86,165	9,755	95,920
Off-balance sheet:					
In-school	2,047		2,047	3,892	5,939
Grace and repayment	12,747	17,817	30,564	9,330	39,894
Total off-balance sheet, gross	14,794	17,817	32,611	13,222	45,833
Off-balance sheet unamortized premium/(discount)	244	497	741	(303)	438
Off-balance sheet allowance for losses	(10)	(3)	(13)	(86)	(99)
Total off-balance sheet, net	15,028	18,311	33,339	12,833	46,172
Total Managed	$ 39,869	$ 79,635	$ 119,504	$ 22,588	$ 142,092
% of on-balance sheet FFELP	29%	71%	100%		
% of Managed FFELP	33%	67%	100%		
% of total	28%	56%	84%	16%	100%

(1) FFELP category is primarily Stafford loans, but also includes federally insured PLUS and HEAL loans.

Table of Contents

Average Balances:

	Three Months Ended September 30, 2007				
	FFELP Stafford and Other[(1)]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 32,576	$ 69,289	$ 101,865	$ 12,706	$ 114,571
Off-balance sheet	10,667	16,881	27,548	13,978	41,526
Total Managed	$ 43,243	$ 86,170	$ 129,413	$ 26,684	$ 156,097
% of on-balance sheet FFELP	32%	68%	100%		
% of Managed FFELP	33%	67%	100%		
% of Total	28%	55%	83%	17%	100%

	Three Months Ended September 30, 2006				
	FFELP Stafford and Other[(1)]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 21,194	$ 54,968	$ 76,162	$ 8,079	$ 84,241
Off-balance sheet	18,558	17,538	36,096	12,130	48,226
Total Managed	$ 39,752	$ 72,506	$ 112,258	$ 20,209	$ 132,467
% of on-balance sheet FFELP	28%	72%	100%		
% of Managed FFELP	35%	65%	100%		
% of Total	30%	55%	85%	15%	100%

	Nine Months Ended September 30, 2007				
	FFELP Stafford and Other[(1)]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 30,106	$ 66,590	$ 96,696	$ 11,664	$ 108,360
Off-balance sheet	12,134	17,415	29,549	13,646	43,195
Total Managed	$ 42,240	$ 84,005	$ 126,245	$ 25,310	$ 151,555

% of on-balance sheet FFELP	31%	69%	100%		
% of Managed FFELP	33%	67%	100%		
% of Total	28%	55%	83%	17%	100%

	Nine Months Ended September 30, 2006				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Private Education Loans	Total
On-balance sheet	$ 20,432	$ 53,830	$ 74,262	$ 8,348	$ 82,610
Off-balance sheet	20,791	14,706	35,497	10,530	46,027
Total Managed	$ 41,223	$ 68,536	$ 109,759	$ 18,878	$ 128,637
% of on-balance sheet FFELP	28%	72%	100%		
% of Managed FFELP	38%	62%	100%		
% of Total	32%	53%	85%	15%	100%

(1) FFELP category is primarily Stafford loans, but also includes federally insured PLUS and HEAL loans.

Net Interest Income

The changes in net interest income are primarily due to fluctuations in the student loan spread discussed below, as well as the growth of our student loan portfolio and the level of cash and investments we may hold on our balance sheet for liquidity purposes. In connection with the Merger Agreement, we increased our liquidity portfolio to higher than historical levels. The liquidity portfolio has a negative net interest margin, so the increase in this portfolio reduced net interest income by $8 million for the third quarter of 2007.

Student Loan Spread Analysis Core Earnings Basis

The following table analyzes the earnings from our portfolio of Managed student loans on a Core Earnings basis (see BUSINESS SEGMENTS Pre-tax Differences between Core Earnings and GAAP). The Core Earnings Basis student loan spread analysis presentation and certain components used in the calculation differ from the on-balance sheet student loan spread analysis presentation. The Core Earnings basis presentation, when compared to our on-balance sheet presentation, is different in that it:

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

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

- excludes unhedged Floor Income earned on the Managed student loan portfolio; and

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

As discussed above, these differences result in the Core Earnings basis student loan spread not being a GAAP-basis presentation. Management relies on this measure to manage our Lending business segment. Specifically, management uses the Core Earnings basis student loan spread to evaluate the overall economic effect that certain factors have on our student loans either on-balance sheet or off-balance sheet. These factors include the overall mix of student loans in our portfolio, acquisition costs, Borrower Benefits program costs, Floor Income and funding and hedging costs. Management believes that it is important to evaluate all of these factors on a Managed Basis to gain additional information about the economic effect of these factors on our student loans under management. Management believes that this additional information assists us in making strategic decisions about the Company s business model for the Lending business segment, including among other factors, how we acquire or originate student loans, how we fund acquisitions and originations, what Borrower Benefits we offer and what type of loans we purchase or originate. While management believes that the Core Earnings basis student loan spread is an important tool for evaluating the Company s performance for the reasons described above, it is subject to certain general and specific limitations that investors should carefully consider. See BUSINESS SEGMENTS Limitations of Core Earnings. One specific limitation is that the Core Earnings basis student loan spread includes the spread on loans that we have sold to securitization trusts.

Table of Contents

The following table reflects the Core Earnings basis student loan spreads before provision and before the effect of Wholesale Consolidation Loans (except as otherwise noted).

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Core Earnings basis student loan yield	8.31%	8.33%	8.31%	7.99%
Consolidation Loan Rebate Fees	(.54)	(.56)	(.55)	(.55)
Borrower Benefits	(.10)	(.11)	(.11)	(.08)
Premium and discount amortization	(.15)	(.16)	(.16)	(.16)
Core Earnings basis student loan net yield	7.52	7.50	7.49	7.20
Core Earnings basis student loan cost of funds	(5.71)	(5.70)	(5.68)	(5.36)
Core Earnings basis student loan spread, before Interim ABCP Facility fees(1)(2)	1.81	1.80	1.81	1.84
Interim ABCP Facility fees(2)	(.04)		(.03)	
Core Earnings basis student loan spread(1)(3)	**1.77%**	**1.80%**	**1.78%**	**1.84%**
Core Earnings basis student loan spreads by product:				
FFELP Loan Spread, before Interim ABCP Facility fees(1)(2)	1.02%	1.17%	1.06%	1.28%
Private Education Loan Spread, before Interim ABCP Facility fees(2)	5.43	5.25	5.33	5.08
Private Education Loan Spread, after provision and before Interim ABCP Facility fees(2)	3.29	3.83	2.33	3.70
Average Balances:				
On-balance sheet student loans(1)	$ 106,825	$ 83,909	$ 101,891	$ 82,498
Off-balance sheet student loans	41,526	48,226	43,195	46,055
Managed student loans	$ 148,351	$ 132,135	$ 145,086	$ 128,553

(1) Excludes the effect of the Wholesale Consolidation Loan portfolio on the student loan spread and average balances.

(2) The Interim ABCP Facility fees are the commitment and liquidity fees that related to a new financing facility in connection with the Merger. See Note 12, Merger-Related Developments to the consolidated financial statements.

(3)

Core Earnings basis student loan spread including the effect of	1.69%	1.79%	1.71%	1.84%

Wholesale Consolidation Loans

The Company s Core Earnings basis student loan spread before Interim ABCP Facility fees and the impact of Wholesale Consolidation Loans remained relatively consistent over all periods presented above. The primary drivers of changes in the spread are changes in portfolio composition, Borrower Benefits, premium amortization, and cost of funds. The FFELP loan spread declined over all periods presented above as the mix of the FFELP portfolio shifted toward the lower yielding Consolidation Loan product. The Private Education Loan spreads before provision continued to increase due primarily to a change in the mix of the portfolio to more direct-to-consumer loans (Tuition Answer[SM] loans). The changes in the Private Education Loan spreads after provision for all periods was primarily due to the timing and amount of provision associated with our allowance for Private Education Loan Losses as discussed below in Private Education Loans Allowance for Private Education Loan Losses.

Table of Contents

The following table presents a projection of the average Managed balance of FFELP Consolidation Loans for which its Fixed Rate Floor Income has already been economically hedged through Floor Income Contracts for the period October 1, 2007 to June 30, 2010. These loans are both on-balance sheet and off-balance sheet and the related hedges do not qualify under SFAS No. 133 accounting as effective hedges.

(Dollars in billions)	October 1, 2007 to December 31, 2007	2008	2009	2010
Average balance of FFELP Consolidation Loans whose Floor Income is economically hedged (Managed Basis)	$ 16	$ 15	$ 10	$ 2

Private Education Loans

All Private Education Loans are initially acquired on-balance sheet. In securitizations of Private Education Loans that are treated as sales, the loans are no longer owned by us, and they are accounted for off-balance sheet. For our Managed Basis presentation in the table below, when Private Education Loans are sold to securitization trusts, we reduce the on-balance sheet allowance for loan losses for amounts previously provided and then re-establish the allowance for these loans in the off-balance sheet section. The total allowance of both on-balance sheet and off-balance sheet loan losses results in the Managed Basis allowance for loan losses. The off- balance sheet allowance is lower than the on-balance sheet allowance when measured as a percentage of ending loans in repayment because of the different mix of loans on-balance sheet and off-balance sheet.

When Private Education Loans in our securitized trusts that settled before September 30, 2005, become 180 days delinquent, we typically exercise our contingent call option to repurchase these loans at par value out of the trust and record a loss (which is reflected in losses on loans and securities, net in the income statement) for the difference in the par value paid and the fair market value of the loan at the time of purchase. If these loans reach the 212-day delinquency, a charge-off for the remaining balance of the loan is triggered. On a Managed Basis, the losses recorded under GAAP for loans repurchased at day 180 are reversed and the full amount is charged off in the month in which the loan is 212 days delinquent. We do not hold the contingent call option for all trusts settled after September 30, 2005 and as such, the loans are charged off in these trusts.

Table of Contents

Activity in the Allowance for Private Education Loan Losses

The provision for student loan losses represents the periodic expense of maintaining an allowance sufficient to absorb losses, net of recoveries, inherent in the portfolio of Private Education Loans.

The following table summarizes changes in the allowance for Private Education Loan losses for the three and nine months ended September 30, 2007 and 2006.

	Activity in Allowance for Private Education Loan Losses					
	On-Balance Sheet Three Months Ended		**Off-Balance Sheet Three Months Ended**		**Managed Basis Three Months Ended**	
	September 30, 2007	**September 30, 2006**	**September 30, 2007**	**September 30, 2006**	**September 30, 2007**	**September 30, 2006**
Allowance at beginning of period	$ 428	$ 252	$ 183	$ 92	$ 611	$ 344
Provision for Private Education Loan losses	100	58	44	14	144	72
Charge-offs	(82)	(37)	(28)	(10)	(110)	(47)
Recoveries	8	6			8	6
Net charge-offs	(74)	(31)	(28)	(10)	(102)	(41)
Balance before securitization of Private Education Loans	454	279	199	96	653	375
Reduction for securitization of Private Education Loans		(4)		4		
Allowance at end of period	$ 454	$ 275	$ 199	$ 100	$ 653	$ 375
Net charge-offs as a percentage of average loans in repayment (annualized)	5.12%	3.19%	1.60%	.68%	3.16%	1.70%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	4.61%	2.95%	1.38%	.59%	2.78%	1.52%
Allowance as a percentage of the ending total loan balance	3.21%	3.24%	1.43%	.77%	2.33%	1.74%

Allowance as a percentage of ending loans in repayment	7.70%	6.91%	2.88%	1.79%	5.10%	3.92%
Average coverage of net charge-offs (annualized)	1.56	2.22	1.74	2.62	1.61	2.32
Average total loans	$ 12,706	$ 8,079	$ 13,978	$ 12,130	$ 26,684	$ 20,209
Ending total loans	$ 14,130	$ 8,497	$ 13,942	$ 13,079	$ 28,072	$ 21,576
Average loans in repayment	$ 5,696	$ 3,879	$ 7,124	$ 5,667	$ 12,820	$ 9,546
Ending loans in repayment	$ 5,896	$ 3,980	$ 6,903	$ 5,603	$ 12,799	$ 9,583

Table of Contents

	Activity in Allowance for Private Education Loan Losses					
	On-Balance Sheet		Off-Balance Sheet		Managed Basis	
	Nine Months Ended		Nine Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Allowance at beginning of period	$ 308	$ 204	$ 86	$ 78	$ 394	$ 282
Provision for Private Education Loan losses	380	175	186	19	566	194
Charge-offs	(251)	(105)	(79)	(14)	(330)	(119)
Recoveries	23	18			23	18
Net charge-offs	(228)	(87)	(79)	(14)	(307)	(101)
Balance before securitization of Private Education Loans	460	292	193	83	653	375
Reduction for securitization of Private Education Loans	(6)	(17)	6	17		
Allowance at end of period	$ 454	$ 275	$ 199	$ 100	$ 653	$ 375
Net charge-offs as a percentage of average loans in repayment (annualized)	5.69%	3.06%	1.53%	.36%	3.36%	1.51%
Net charge-offs as a percentage of average loans in repayment and forbearance (annualized)	5.18%	2.82%	1.33%	.31%	2.98%	1.35%
Allowance as a percentage of the ending total loan balance	3.21%	3.24%	1.43%	.77%	2.33%	1.74%
Allowance as a percentage of ending loans in repayment	7.70%	6.91%	2.88%	1.79%	5.10%	3.92%
Average coverage of net charge-offs (annualized)	1.49	2.35	1.89	5.44	1.59	2.77
Average total loans	$ 11,664	$ 8,348	$ 13,646	$ 10,530	$ 25,310	$ 18,878
Ending total loans	$ 14,130	$ 8,497	$ 13,942	$ 13,079	$ 28,072	$ 21,576
Average loans in repayment	$ 5,373	$ 3,821	$ 6,848	$ 5,127	$ 12,221	$ 8,948
Ending loans in repayment	$ 5,896	$ 3,980	$ 6,903	$ 5,603	$ 12,799	$ 9,583

Toward the end of 2006 and through mid-2007, we experienced lower pre-default collections, resulting in increased levels of charge-off activity in our Private Education Loan portfolio. As this portfolio seasons and due to shifts in its mix and certain economic factors, we expected and have seen charge-off rates increase from the historically low levels experienced in prior years. Additionally, the increase was significantly impacted by other factors. In the second half of 2006, we relocated responsibility for certain Private Education Loan collections from our Nevada call center to a new call center in Indiana. This transfer presented us with unexpected operational challenges that resulted in lower collections that have negatively impacted the Private Education Loan portfolio. In addition, in late 2006, APG also revised certain procedures, including its use of forbearance, to better optimize our long-term collection strategies. These developments have resulted in increased later stage delinquency levels and associated higher charge-offs.

We have been aggressively remediating these issues, including transferring experienced collection personnel to the new call center and conducting extensive training and monitoring. Beginning in mid-2007, APG also instituted more precise analytic collection strategies and new systematic enhancements to better manage the challenges posed by the volume, seasoning and shift in the portfolio mix. Due to the remedial actions in place, we anticipate the negative trends caused by the operational difficulties will improve over the remainder of 2007 and 2008.

Table of Contents

The anticipated level of delinquency and net charge-offs into 2008 is reflected in higher loss provision for the nine months ended September 30, 2007. The higher provisioning occurred predominantly in the first and second quarters of 2007 using increased projected default rates which stabilized in the third quarter of 2007. Through our status-based allowance methodology, the provision is correlated to both the current level of delinquency in the portfolio and the expected rate of charge-off associated with each repayment status category. The gross charge-off rates are reduced by the expected life-of-loan recoveries anticipated on the charged-off portfolio to arrive at a net charge-off expectation.

Delinquencies

The tables below present our Private Education Loan delinquency trends as of September 30, 2007 and 2006. Delinquencies have the potential to adversely impact earnings through increased servicing and collection costs in the event the delinquent accounts charge off.

	On-Balance Sheet Private Education Loan Delinquencies			
	September 30, 2007		September 30, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 7,966		$ 4,497	
Loans in forbearance[2]	701		341	
Loans in repayment and percentage of each status:				
Loans current	5,186	88.0%	3,462	87.0%
Loans delinquent 31-60 days[3]	275	4.7	209	5.3
Loans delinquent 61-90 days[3]	156	2.6	121	3.0
Loans delinquent greater than 90 days[3]	279	4.7	188	4.7
Total Private Education Loans in repayment	5,896	100%	3,980	100%
Total Private Education Loans, gross	14,563		8,818	
Private Education Loan unamortized discount	(433)		(321)	
Total Private Education Loans	14,130		8,497	
Private Education Loan allowance for losses	(454)		(275)	
Private Education Loans, net	$ 13,676		$ 8,222	
Percentage of Private Education Loans in repayment		40.5%		45.1%
Delinquencies as a percentage of Private Education Loans in repayment		12.0%		13.0%
Loans in forbearance as a percentage of loans in repayment and forbearance		10.6%		7.9%

(1)

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

(2) Loans for borrowers 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 the established loan program servicing policies and procedures.

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

Table of Contents

	Off-Balance Sheet Private Education Loan Delinquencies			
	September 30, 2007		September 30, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	$ 6,126		$ 6,861	
Loans in forbearance(2)	1,251		901	
Loans in repayment and percentage of each status:				
Loans current	6,524	94.5%	5,281	94.3%
Loans delinquent 31-60 days(3)	192	2.8	164	2.9
Loans delinquent 61-90 days(3)	71	1.0	68	1.2
Loans delinquent greater than 90 days(3)	116	1.7	90	1.6
Total Private Education Loans in repayment	6,903	100%	5,603	100%
Total Private Education Loans, gross	14,280		13,365	
Private Education Loan unamortized discount	(338)		(286)	
Total Private Education Loans	13,942		13,079	
Private Education Loan allowance for losses	(199)		(100)	
Private Education Loans, net	$ 13,743		$ 12,979	
Percentage of Private Education Loans in repayment		48.3%		41.9%
Delinquencies as a percentage of Private Education Loans in repayment		5.5%		5.7%
Loans in forbearance as a percentage of loans in repayment and forbearance		15.3%		13.9%

	Managed Basis Private Education Loan Delinquencies			
	September 30, 2007		September 30, 2006	
	Balance	%	Balance	%
Loans in-school/grace/deferment(1)	$ 14,092		$ 11,358	
Loans in forbearance(2)	1,952		1,242	
Loans in repayment and percentage of each status:				
Loans current	11,710	91.5%	8,743	91.2%
Loans delinquent 31-60 days(3)	467	3.6	373	3.9
Loans delinquent 61-90 days(3)	227	1.8	189	2.0
Loans delinquent greater than 90 days(3)	395	3.1	278	2.9

Total Private Education Loans in repayment	12,799	100%	9,583	100%
Total Private Education Loans, gross	28,843		22,183	
Private Education Loan unamortized discount	(771)		(607)	
Total Private Education Loans	28,072		21,576	
Private Education Loan allowance for losses	(653)		(375)	
Private Education Loans, net	$ 27,419		$ 21,201	
Percentage of Private Education Loans in repayment		44.4%		43.2%
Delinquencies as a percentage of Private Education Loans in repayment		8.5%		8.8%
Loans in forbearance as a percentage of loans in repayment and forbearance		13.2%		11.5%

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

(2) Loans for borrowers 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 the established loan program servicing policies and procedures.

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

Forbearance Managed Basis Private Education Loans

Private Education Loans are made to parent and student borrowers in accordance with our underwriting policies. These loans generally supplement federally guaranteed student loans, which are subject to federal lending caps. Private Education Loans are not federally guaranteed nor insured against any loss of principal or interest. Traditional student borrowers use the proceeds of these loans to obtain higher education, which increases the likelihood of obtaining employment at higher income levels than would be available without the additional education. As a result, the borrowers repayment capability improves between the time the loan is made and the time they enter the post-education work force. We generally allow the loan repayment period on traditional higher education Private Education Loans to begin six months after the borrower leaves school (consistent with our federally regulated FFELP loans). This provides the borrower time after graduation to obtain a job to service the debt. For borrowers that need more time or experience other hardships, we permit additional delays in payment or partial payments (both referred to as forbearances) when we believe additional time will improve the borrower s ability to repay the loan. Forbearance is also granted to borrowers who may experience temporary hardship after entering repayment, when we believe that it will increase the likelihood of ultimate collection of the loan. Such forbearance is granted within established policies that include limits on the number of forbearance months granted consecutively and limits on the total number of forbearance months granted over the life of the loan. In some instances of forbearance, we require good-faith payments or continuing partial payments. Exceptions to forbearance policies are permitted in limited circumstances and only when such exceptions are judged to increase the likelihood of ultimate collection of the loan.

Forbearance does not grant any reduction in the total repayment obligation (principal or interest) but does allow for the temporary cessation of borrower payments (on a prospective and/or retroactive basis) or a reduction in monthly payments for an agreed period of time. The forbearance period extends the original term of the loan. While the loan is in forbearance, interest continues to accrue and is capitalized as principal upon the loan re-entering repayment status. Loans exiting forbearance into repayment status are considered current regardless of their previous delinquency status.

Forbearance is used most heavily immediately after the loan enters repayment. As a result, forbearance levels are impacted by the timing of loans entering repayment and are generally at higher levels in the first quarter. As indicated in the tables below that show the composition and status of the Managed Private Education Loan portfolio by number of months aged from the first date of repayment, the percentage of loans in forbearance decreases the longer the loans have been in repayment. At September 30, 2007, loans in forbearance as a percentage of loans in repayment and forbearance are 16.9 percent for loans that have been in repayment one to twenty-four months. The percentage drops to 5.0 percent for loans that have been in repayment more than 48 months. Approximately 77 percent of our Managed Private Education Loans in forbearance have been in repayment less than 24 months. These borrowers are essentially extending their grace period as they transition to the workforce. Forbearance continues to be a positive collection tool for the Private Education Loans as we believe it can provide the borrower with sufficient time to obtain employment and income to support his or her obligation. Forbearance policies were tightened in late 2006 and no additional policy changes have taken place to date. The increase in use of forbearance is attributed to improved borrower contact procedures and current economic conditions. Loans in forbearance are reserved commensurate with the default expectation of this specific loan status.

Table of Contents

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

September 30, 2007	1 to 24 Months	25 to 48 Months	More than 48 Months	After Sept. 30, 2007[(1)]	Total
	Months Since Entering Repayment				
Loans in-school/grace/deferment	$	$	$	$ 14,092	$ 14,092
Loans in forbearance	1,496	339	117		1,952
Loans in repayment current	6,733	2,916	2,061		11,710
Loans in repayment delinquent 31-60 days	269	126	72		467
Loans in repayment delinquent 61-90 days	145	53	29		227
Loans in repayment delinquent greater than 90 days	215	115	65		395
Total	$ 8,858	$ 3,549	$ 2,344	$ 14,092	$ 28,843
Unamortized discount					(771)
Allowance for loan losses					(653)
Total Managed Private Education Loans, net					$ 27,419
Loans in forbearance as a percentage of loans in repayment and forbearance	16.9%	9.6%	5.0%	%	13.2%

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

September 30, 2006	1 to 24 Months	25 to 48 Months	More than 48 Months	After Sept. 30, 2006[(1)]	Total
	Months Since Entering Repayment				
Loans in-school/grace/deferment	$	$	$	$ 11,358	$ 11,358
Loans in forbearance	956	203	83		1,242
Loans in repayment current	5,055	2,050	1,638		8,743
Loans in repayment delinquent 31-60 days	208	94	71		373
Loans in repayment delinquent 61-90 days	120	41	28		189
Loans in repayment delinquent greater than 90 days	156	77	45		278

Total	$ 6,495	$ 2,465	$ 1,865	$ 11,358	$ 22,183
Unamortized discount					(607)
Allowance for loan losses					(375)
Total Managed Private Education Loans, net					$ 21,201
Loans in forbearance as a percentage of loans in repayment and forbearance	14.7%	8.2%	4.5%	%	11.5%

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

The table below stratifies the portfolio of loans in forbearance by the cumulative number of months the borrower has used forbearance as of the dates indicated. As detailed in the table below, 6 percent of loans currently in forbearance have deferred their loan repayment more than 24 months, which is 1 percent lower versus the year-ago quarter.

	September 30, 2007		September 30, 2006	
Cumulative number of months borrower has used forbearance	**Forbearance Balance**	**% of Total**	**Forbearance Balance**	**% of Total**
Up to 12 months	$ 1,373	70%	$ 902	72%
13 to 24 months	473	24	259	21
More than 24 months	106	6	81	7
Total	$ 1,952	100%	$ 1,242	100%

Table of Contents

Total Provisions for Loan Losses

The following tables summarize the total loan provisions on both an on-balance sheet basis and a Managed Basis for the three and nine months ended September 30, 2007 and 2006.

Total on-balance sheet loan provisions

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Private Education Loans	$ 100	$ 58	$ 380	$ 175
FFELP Stafford and Other Student Loans	38	3	49	9
Mortgage and consumer loans	5	6	12	11
Total on-balance sheet provisions for loan losses	$ 143	$ 67	$ 441	$ 195

Total Managed Basis loan provisions

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Private Education Loans	$ 144	$ 72	$ 566	$ 194
FFELP Stafford and Other Student Loans	51	2	69	12
Mortgage and consumer loans	5	6	9	9
Total Managed Basis provisions for loan losses	$ 200	$ 80	$ 644	$ 215

The third quarter 2007 FFELP provision included cumulative adjustments of non-recurring provision expense of $30 million and $44 million for on-balance sheet and Managed student loans, respectively, related to the repeal of the Exceptional Performer program (and the resulting increase in our Risk Sharing allowance) due to the passage of the College Cost Reduction and Access Act of 2007 on September 27, 2007 (see RECENT DEVELOPMENTS Other Developments *Exceptional Performer*).

Total Loan Net Charge-offs

The following tables summarize the net charge-offs for all loan types on both an on-balance sheet basis and a Managed Basis for the three and nine months ended September 30, 2007 and 2006. The majority of Private Education Loan charge-offs occur on-balance sheet due to the contingent call feature in off-balance sheet securitization trusts that settled before September 30, 2005, which is discussed in more detail at LENDING BUSINESS SEGMENT Private Education Loans.

Total on-balance sheet loan net charge-offs

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Private Education Loans	$ 74	$ 31	$ 228	$ 87
FFELP Stafford and Other Student Loans	4	1	13	3
Mortgage and consumer loans	3	1	7	4
Total on-balance sheet loan net charge-offs	$ 81	$ 33	$ 248	$ 94

Table of Contents

Total Managed loan net charge-offs

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Private Education Loans	$ 102	$ 41	$ 307	$ 101
FFELP Stafford and Other Student Loans	7	1	24	3
Mortgage and consumer loans	3	1	7	4
Total Managed loan net charge-offs	$ 112	$ 43	$ 338	$ 108

The increase in net charge-offs on FFELP Stafford and Other student loans for the nine months ended September 30, 2007 versus the year-ago period was the result of a legislative change in 2006 which lowered the federal guaranty on claims filed to 99 percent from 100 percent. See LENDING BUSINESS SEGMENT Allowance for Private Education Loan Losses for a discussion of net charge-offs related to our Private Education Loans.

Student Loan Premiums as a Percentage of Principal

The following table presents student loan premiums paid as a percentage of the principal balance of student loans acquired for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30, 2007 Volume	Rate	2006 Volume	Rate	Nine Months Ended September 30, 2007 Volume	Rate	2006 Volume	Rate
Student loan premiums paid:								
Sallie Mae brands	$ 5,468	1.38%	$ 4,393	1.05%	$ 12,364	1.41%	$ 9,368	.81%
Lender partners	2,373	2.69	2,361	1.83	8,132	2.86	10,178	1.81
Total Preferred Channel	7,841	1.78	6,754	1.32	20,496	1.98	19,546	1.33
Other purchases[1]	1,062	4.77	2,183	4.05	6,252	5.24	2,851	3.95
Total base purchases	8,903	2.13	8,937	1.99	26,748	2.75	22,397	1.66
Consolidation originations	821	2.54	1,682	2.22	2,008	2.58	3,432	2.44
Total	$ 9,724	2.17%	$ 10,619	2.03%	$ 28,756	2.73%	$ 25,829	1.77%

(1) Primarily includes spot purchases (including Wholesale Consolidation Loans), other commitment clients, and subsidiary acquisitions.

The increase in premiums paid as a percentage of principal balance for Sallie Mae brands over the prior year is primarily due to the increase in loans where we pay the origination fee and/or federal guaranty fee on behalf of borrowers, a practice we call zero-fee lending. Premiums paid on Lender partners volume were similarly impacted by zero-fee lending. The borrower origination fee will be gradually phased out by the Reconciliation Legislation from 2007 to 2010.

The Other purchases category includes the acquisition of Wholesale Consolidation Loans which totaled $950 million at a rate of 4.77 percent for the three months ended September 30, 2007. At September 30, 2007, Wholesale Consolidation Loans totaled $8.2 billion.

We include in Consolidation originations the 50 basis point Consolidation Loan origination fee paid on each FFELP Stafford loan that we consolidate, including loans that are already in our portfolio. The consolidation originations premium paid percentage is calculated on only consolidation volume that is incremental to our portfolio. This percentage is largely driven by the mix of FFELP Stafford loans consolidated in this quarter.

Table of Contents

Student Loan Acquisitions

The following tables summarize the components of our student loan acquisition activity for the three and nine months ended September 30, 2007 and 2006.

	Three Months Ended September 30, 2007		
	FFELP	Private	Total
Preferred Channel	$ 5,080	$ 2,761	$ 7,841
Wholesale Consolidations	950		950
Other commitment clients	29	53	82
Spot purchases	30		30
Consolidations from third parties	755	66	821
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	796	140	936
Capitalized interest, premiums and discounts	536	76	612
Total on-balance sheet student loan acquisitions	8,176	3,096	11,272
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(796)	(140)	(936)
Capitalized interest, premiums and discounts off-balance sheet securitized trusts	115	118	233
Total Managed student loan acquisitions	$ 7,495	$ 3,074	$ 10,569

	Three Months Ended September 30, 2006		
	FFELP	Private	Total
Preferred Channel	$ 4,146	$ 2,608	$ 6,754
Other commitment clients	195	61	256
Spot purchases	1,927		1,927
Consolidations from third parties	1,648	34	1,682
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	2,377	74	2,451
Capitalized interest, premiums and discounts	448	22	470
Total on-balance sheet student loan acquisitions	10,741	2,799	13,540
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(2,377)	(74)	(2,451)
Capitalized interest, premiums and discounts off-balance sheet securitized trusts	151	79	230
Total Managed student loan acquisitions	$ 8,515	$ 2,804	$ 11,319

	Nine Months Ended September 30, 2007		
	FFELP	Private	Total
Preferred Channel	$ 14,193	$ 6,303	$ 20,496
Wholesale Consolidations	4,937		4,937
Other commitment clients	223	57	280
Spot purchases	1,035		1,035
Consolidations from third parties	1,834	174	2,008
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	3,541	441	3,982
Capitalized interest, premiums and discounts	1,692	227	1,919
Total on-balance sheet student loan acquisitions	27,455	7,202	34,657
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(3,541)	(441)	(3,982)
Capitalized interest, premiums and discounts off-balance sheet securitized trusts	396	416	812
Total Managed student loan acquisitions	$ 24,310	$ 7,177	$ 31,487

	Nine Months Ended September 30, 2006		
	FFELP	Private	Total
Preferred Channel	$ 13,557	$ 5,989	$ 19,546
Other commitment clients	397	64	461
Spot purchases	2,390		2,390
Consolidations from third parties	3,389	43	3,432
Acquisitions from off-balance sheet securitized trusts, primarily consolidations	5,813	90	5,903
Capitalized interest, premiums and discounts	1,170	74	1,244
Total on-balance sheet student loan acquisitions	26,716	6,260	32,976
Consolidations to SLM Corporation from off-balance sheet securitized trusts	(5,813)	(90)	(5,903)
Capitalized interest, premiums and discounts off-balance sheet securitized trusts	475	256	731
Total Managed student loan acquisitions	$ 21,378	$ 6,426	$ 27,804

As shown in the above tables, off-balance sheet FFELP Stafford loans that consolidate with us become an on-balance sheet interest earning asset. This activity results in impairments of our Retained Interests in securitizations, but this is offset by an increase in on-balance sheet interest earning assets, for which we do not record an offsetting gain.

The following table includes on-balance sheet asset information for our Lending business segment.

	September 30, 2007	December 31, 2006
FFELP Stafford and Other Student Loans, net	$ 34,108	$ 24,841
FFELP Consolidation Loans, net	71,371	61,324
Private Education Loans, net	13,676	9,755
Other loans, net	1,193	1,309
Investments[1]	16,801	8,175
Retained Interest in off-balance sheet securitized loans	3,239	3,341
Other[2]	7,460	4,859
Total assets	$ 147,848	$ 113,604

(1) Investments include cash and cash equivalents, investments, restricted cash and investments, leveraged leases, and municipal bonds.

(2) Other assets include accrued interest receivable, goodwill and acquired intangible assets, and other non-interest earning assets.

Preferred Channel Originations

We originated $8.9 billion in student loan volume through our Preferred Channel in the quarter ended September 30, 2007 versus $7.8 billion in the quarter ended September 30, 2006.

For the quarter ended September 30, 2007, our internal lending brands grew 25 percent over the year-ago quarter, and comprised 65 percent of our Preferred Channel Originations, up from 59 percent in the year-ago quarter. Our internal lending brands combined with our other lender partners comprised 93 percent of our Preferred Channel Originations for the current quarter, versus 87 percent for the year-ago quarter; together these two segments of our Preferred Channel grew 20 percent over the year-ago quarter.

Table of Contents

The following tables further itemize our Preferred Channel Originations by type of loan and source.

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Preferred Channel Originations — Type of Loan				
Stafford	$ 4,977	$ 4,257	$ 11,703	$ 10,559
PLUS	820	856	1,944	2,087
GradPLUS	262	144	479	144
Total FFELP	6,059	5,257	14,126	12,790
Private Education Loans	2,793	2,574	6,331	5,829
Total	$ 8,852	$ 7,831	$ 20,457	$ 18,619

	Three Months Ended September 30, 2007 FFELP	2006 FFELP	Increase (Decrease) $	%	Nine Months Ended September 30, 2007 FFELP	2006 FFELP	Increase (Decrease) $	%
FFELP Preferred Channel Originations — Source								
Internal lending brands	$ 3,201	$ 2,402	$ 799	33%	$ 7,236	$ 5,257	$ 1,979	38%
Other lender partners	2,255	1,962	293	15	5,146	4,685	461	10
Total before JPMorgan Chase	5,456	4,364	1,092	25	12,382	9,942	2,440	25
JPMorgan Chase	603	893	(290)	(32)	1,744	2,848	(1,104)	(39)
Total	$ 6,059	$ 5,257	$ 802	15%	$ 14,126	$ 12,790	$ 1,336	10%

	Three Months Ended September 30, 2007 Private	2006 Private	Increase (Decrease) $	%	Nine Months Ended September 30, 2007 Private	2006 Private	Increase (Decrease) $	%

Private Preferred Channel Originations Source								
Internal lending brands	$ 2,560	$ 2,223	$ 337	15%	$ 5,769	$ 4,680	$ 1,089	23%
Other lender partners	190	262	(72)	(27)	433	763	(330)	(43)
Total before JPMorgan Chase	2,750	2,485	265	11	6,202	5,443	759	14
JPMorgan Chase	43	89	(46)	(52)	129	386	(257)	(67)
Total	$ 2,793	$ 2,574	$ 219	9%	$ 6,331	$ 5,829	$ 502	9%

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2007 Total	2006 Total	Increase (Decrease) $	%	2007 Total	2006 Total	Increase (Decrease) $	%
Total Preferred Channel Originations Source								
Internal lending brands	$ 5,761	$ 4,625	$ 1,136	25%	$ 13,005	$ 9,937	$ 3,068	31%
Other lender partners	2,445	2,224	221	10	5,579	5,448	131	2
Total before JPMorgan Chase	8,206	6,849	1,357	20	18,584	15,385	3,199	21
JPMorgan Chase	646	982	(336)	(34)	1,873	3,234	(1,361)	(42)
Total	$ 8,852	$ 7,831	$ 1,021	13%	$ 20,457	$ 18,619	$ 1,838	10%

Student Loan Activity

The following tables summarize the activity in our on-balance sheet, off-balance sheet and Managed portfolios of FFELP student loans and Private Education Loans and highlight the effects of Consolidation Loan activity on our FFELP portfolios.

	On-Balance Sheet Three Months Ended September 30, 2007				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 31,503	$ 68,109	$ 99,612	$ 11,014	$ 110,626
Net consolidations:					
Incremental consolidations from third parties		755	755	66	821
Consolidations to third parties	(663)	(228)	(891)	(12)	(903)
Net consolidations	(663)	527	(136)	54	(82)
Acquisitions	5,344	1,281	6,625	2,889	9,514
Net acquisitions	4,681	1,808	6,489	2,943	9,432
Internal consolidations(2)	(1,647)	2,293	646	130	776
Off-balance sheet securitizations					
Repayments/claims/resales/other	(429)	(839)	(1,268)	(411)	(1,679)
Ending balance	$ 34,108	$ 71,371	$ 105,479	$ 13,676	$ 119,155

	Off-Balance Sheet Three Months Ended September 30, 2007				
	FFELP Stafford and Other(1)	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 11,362	$ 17,167	$ 28,529	$ 14,048	$ 42,577
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(211)	(54)	(265)	(29)	(294)

Net consolidations	(211)	(54)	(265)	(29)	(294)
Acquisitions	63	52	115	119	234
Net acquisitions	(148)	(2)	(150)	90	(60)
Internal consolidations[2]	(461)	(185)	(646)	(130)	(776)
Off-balance sheet securitizations					
Repayments/claims/resales/other	(591)	(281)	(872)	(265)	(1,137)
Ending balance	$ 10,162	$ 16,699	$ 26,861	$ 13,743	$ 40,604

Managed Portfolio
Three Months Ended September 30, 2007

	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 42,865	$ 85,276	$ 128,141	$ 25,062	$ 153,203
Net consolidations:					
Incremental consolidations from third parties		755	755	66	821
Consolidations to third parties	(874)	(282)	(1,156)	(41)	(1,197)
Net consolidations	(874)	473	(401)	25	(376)
Acquisitions	5,407	1,333	6,740	3,008	9,748
Net acquisitions	4,533	1,806	6,339	3,033	9,372
Internal consolidations[2]	(2,108)	2,108			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(1,020)	(1,120)	(2,140)	(676)	(2,816)
Ending balance	$ 44,270	$ 88,070	$ 132,340	$ 27,419	$ 159,759
Total Managed Acquisitions[3]	$ 5,407	$ 2,088	$ 7,495	$ 3,074	$ 10,569

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

Table of Contents

	On-Balance Sheet Three Months Ended September 30, 2006				
	FFELP Stafford and Other(1)	Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 21,391	$ 54,055	$ 75,446	$ 6,833	$ 82,279
Net consolidations:					
Incremental consolidations from third parties		1,648	1,648	34	1,682
Consolidations to third parties	(729)	(367)	(1,096)	(4)	(1,100)
Net consolidations	(729)	1,281	552	30	582
Acquisitions	5,014	1,702	6,716	2,691	9,407
Net acquisitions	4,285	2,983	7,268	2,721	9,989
Internal consolidations(2)	(2,397)	4,813	2,416	83	2,499
Off-balance sheet securitizations		(4,066)	(4,066)	(1,008)	(5,074)
Repayments/claims/resales/other	(665)	(583)	(1,248)	(407)	(1,655)
Ending balance	$ 22,614	$ 57,202	$ 79,816	$ 8,222	$ 88,038

	Off-Balance Sheet Three Months Ended September 30, 2006				
	FFELP Stafford and Other(1)	Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 20,535	$ 15,140	$ 35,675	$ 12,190	$ 47,865
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(726)	(119)	(845)	(11)	(856)
Net consolidations	(726)	(119)	(845)	(11)	(856)
Acquisitions	96	55	151	79	230
Net acquisitions	(630)	(64)	(694)	68	(626)
Internal consolidations(2)	(2,185)	(231)	(2,416)	(83)	(2,499)
Off-balance sheet securitizations		4,066	4,066	1,008	5,074
Repayments/claims/resales/other	(547)	(166)	(713)	(204)	(917)

Ending balance	$ 17,173	$ 18,745	$ 35,918	$ 12,979	$ 48,897

Managed Portfolio Three Months Ended September 30, 2006					
	FFELP Stafford and Other(1)	**Consolidation Loans**	**Total FFELP**	**Total Private Education Loans**	**Total Managed Basis Portfolio**
Beginning balance	$ 41,926	$ 69,195	$ 111,121	$ 19,023	$ 130,144
Net consolidations:					
Incremental consolidations from third parties		1,648	1,648	34	1,682
Consolidations to third parties	(1,455)	(486)	(1,941)	(15)	(1,956)
Net consolidations	(1,455)	1,162	(293)	19	(274)
Acquisitions	5,110	1,757	6,867	2,770	9,637
Net acquisitions	3,655	2,919	6,574	2,789	9,363
Internal consolidations(2)	(4,582)	4,582			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(1,212)	(749)	(1,961)	(611)	(2,572)
Ending balance	$ 39,787	$ 75,947	$ 115,734	$ 21,201	$ 136,935
Total Managed Acquisitions(3)	$ 5,110	$ 3,405	$ 8,515	$ 2,804	$ 11,319

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

	On-Balance Sheet Nine Months Ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio
Beginning balance	$ 24,841	$ 61,324	$ 86,165	$ 9,755	$ 95,920
Net consolidations:					
Incremental consolidations from third parties		1,834	1,834	174	2,008
Consolidations to third parties	(1,943)	(673)	(2,616)	(29)	(2,645)
Net consolidations	(1,943)	1,161	(782)	145	(637)
Acquisitions	16,103	5,977	22,080	6,586	28,666
Net acquisitions	14,160	7,138	21,298	6,731	28,029
Internal consolidations[2]	(3,788)	5,803	2,015	399	2,414
Off-balance sheet securitizations				(1,871)	(1,871)
Repayments/claims/resales/other	(1,105)	(2,894)	(3,999)	(1,338)	(5,337)
Ending balance	$ 34,108	$ 71,371	$ 105,479	$ 13,676	$ 119,155

	Off-Balance Sheet Nine Months Ended September 30, 2007				
	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 15,028	$ 18,311	$ 33,339	$ 12,833	$ 46,172
Net consolidations:					
Incremental consolidations from third parties					
Consolidations to third parties	(831)	(181)	(1,012)	(65)	(1,077)
Net consolidations	(831)	(181)	(1,012)	(65)	(1,077)
Acquisitions	237	159	396	417	813
Net acquisitions	(594)	(22)	(616)	352	(264)
Internal consolidations[2]	(1,332)	(683)	(2,015)	(399)	(2,414)
Off-balance sheet securitizations				1,871	1,871

Repayments/claims/resales/other	(2,940)	(907)	(3,847)	(914)	(4,761)
Ending balance	$ 10,162	$ 16,699	$ 26,861	$ 13,743	$ 40,604

Managed Portfolio
Nine Months Ended September 30, 2007

	FFELP Stafford and Other[1]	FFELP Consolidation Loans	Total FFELP	Total Private Education Loans	Total Managed Basis Portfolio
Beginning balance	$ 39,869	$ 79,635	$ 119,504	$ 22,588	$ 142,092
Net consolidations:					
Incremental consolidations from third parties		1,834	1,834	174	2,008
Consolidations to third parties	(2,774)	(854)	(3,628)	(94)	(3,722)
Net consolidations	(2,774)	980	(1,794)	80	(1,714)
Acquisitions	16,340	6,136	22,476	7,003	29,479
Net acquisitions	13,566	7,116	20,682	7,083	27,765
Internal consolidations[2]	(5,120)	5,120			
Off-balance sheet securitizations					
Repayments/claims/resales/other	(4,045)	(3,801)	(7,846)	(2,252)	(10,098)
Ending balance	$ 44,270	$ 88,070	$ 132,340	$ 27,419	$ 159,759
Total Managed Acquisitions[3]	$ 16,340	$ 7,970	$ 24,310	$ 7,177	$ 31,487

(1) FFELP category is primarily Stafford loans and also includes PLUS and HEAL loans.

(2) Represents loans that we either own on-balance sheet or loans that we consolidated from our off-balance sheet securitization trusts.

(3) The Total Managed Acquisitions line includes incremental consolidations from third parties and acquisitions.

Table of Contents

	On-Balance Sheet Nine Months Ended September 30, 2006				
	FFELP Stafford and Other[(1)]	Consolidation Loans	Total FFELP	Total Private Education Loans	Total On-Balance Sheet Portfolio-
Beginning balance	$ 19,988	$ 54,859	$ 74,847	$ 7,757	$ 82,604
Net consolidations:					
Incremental consolidations from third parties		3,389	3,389	43	3,432
Consolidations to third parties	(1,422)	(1,775)	(3,197)	(11)	(3,208)
Net consolidations	(1,422)	1,614	192	32	224
Acquisitions	15,114	2,401	17,515	6,127	23,642
Net acquisitions	13,692	4,015	17,707	6,159	23,866
Internal consolidations[(2)]	(4,772)	9,914	5,142	203	5,345
Off-balance sheet securitizations	(5,034)	(9,638)	(14,672)	(4,737)	(19,409)
Repayments/claims/resales/other	(1,260)	(1,948)	(3,208)	(1,160)	(4,368)
Ending balance	$ 22,614	$ 57,202	$ 79,816	$ 8,222	$ 88,038

	Off-Balance Sheet Nine Months Ended September 30, 2006				
	FFELP Stafford and Other[(1)]	Consolidation Loans	Total FFELP	Total Private Education Loans	Total Off-Balance Sheet Portfolio
Beginning balance	$ 20,670	$ 10,575	$ 31,245		