# UNITED STATES 

# SECURITIES AND EXCHANGE COMMISSION 

Washington, D.C. 20549

## Form 10-Q

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

For the quarterly period ended September 30, 2013
or

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

## SLM Corporation

\author{

Delaware <br> 52-2013874 <br> (State or other jurisdiction of <br> (I.R.S. Employer <br> incorporation or organization) <br> Identification No.) <br> | 300 Continental Drive, Newark, Delaware | 19713 |
| :---: | :---: |
| (Address of principal executive offices) | (Zip Code) | <br> (302) 283-8000 <br> (Registrant $s$ telephone number, including area code) <br> (Former name, former address and former fiscal year, if changed since last report)

}

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 x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule $12 b-2$ of the Exchange Act. (Check one):
Large accelerated filer $\mathrm{x} \quad$ Accelerated filer
Non-accelerated filer .. (Do not check if a smaller reporting company) Smaller reporting company Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No *

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

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

## Class

Common Stock, $\$ 0.20$ par value

Outstanding at September 30, 2013
436,264,071 shares

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## SLM CORPORATION

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## SLM CORPORATION

## CONSOLIDATED BALANCE SHEETS

## (In millions, except share and per share amounts)

## (Unaudited)

|  | $\begin{gathered} \text { September 30, } \\ 2013 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Assets |  |  |  |  |
| FFELP Loans (net of allowance for losses of \$130 and \$159, respectively) | \$ | 106,350 | \$ | 125,612 |
| Private Education Loans (net of allowance for losses of \$2,144 and \$2,171 respectively) |  | 37,752 |  | 36,934 |
| Investments |  |  |  |  |
| Available-for-sale |  | 85 |  | 72 |
| Other |  | 911 |  | 1,010 |
| Total investments |  | 996 |  | 1,082 |
| Cash and cash equivalents |  | 4,329 |  | 3,900 |
| Restricted cash and investments |  | 4,287 |  | 5,011 |
| Goodwill and acquired intangible assets, net |  | 436 |  | 448 |
| Other assets |  | 7,420 |  | 8,273 |
| Total assets | \$ | 161,570 | \$ | 181,260 |
| Liabilities |  |  |  |  |
| Short-term borrowings | \$ | 15,572 | \$ | 19,856 |
| Long-term borrowings |  | 136,944 |  | 152,401 |
| Other liabilities |  | 3,422 |  | 3,937 |
| Total liabilities |  | 155,938 |  | 176,194 |
| Commitments and contingencies |  |  |  |  |
| Equity |  |  |  |  |
| Preferred stock, par value $\$ 0.20$ per share, 20 million shares authorized |  |  |  |  |
| Series A: 3.3 million and 3.3 million shares issued, respectively, at stated value of \$50 per share |  | 165 |  | 165 |
| Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share |  | 400 |  | 400 |
| Common stock, par value $\$ 0.20$ per share, 1.125 billion shares authorized: 544 million and 536 million shares issued, respectively |  | 109 |  | 107 |
| Additional paid-in capital |  | 4,373 |  | 4,237 |
| Accumulated other comprehensive income (loss) (net of tax (expense) benefit of \$(5) and \$3, respectively) |  | 8 |  | (6) |
| Retained earnings |  | 2,385 |  | 1,451 |
| Total SLM Corporation stockholders equity before treasury stock |  | 7,440 |  | 6,354 |
| Less: Common stock held in treasury at cost: 108 million and 83 million shares, respectively |  | $(1,813)$ |  | $(1,294)$ |
| Total SLM Corporation stockholders equity |  | 5,627 |  | 5,060 |
| Noncontrolling interest |  | 5 |  | 6 |
| Total equity |  | 5,632 |  | 5,066 |

Supplemental information assets and liabilities of consolidated variable interest entities:

|  | $\begin{gathered} \text { September 30, } \\ 2013 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| FFELP Loans | \$ | 101,627 | \$ | 121,059 |
| Private Education Loans |  | 26,018 |  | 26,072 |
| Restricted cash and investments |  | 4,044 |  | 4,826 |
| Other assets |  | 2,380 |  | 2,312 |
| Short-term borrowings |  | 4,678 |  | 9,551 |
| Long-term borrowings |  | 116,968 |  | 131,518 |
| Net assets of consolidated variable interest entities | \$ | 12,423 | \$ | 13,200 |

See accompanying notes to consolidated financial statements.

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## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF INCOME

## (In millions, except per share amounts)

## (Unaudited)

|  | $\begin{array}{cc} \text { Three Months Ended } \\ \text { September } & \text { 30, } \\ 2013 & 2012 \end{array}$ |  | Nine Months Ended September 30, <br> 2013 <br> 2012 |  |
| :---: | :---: | :---: | :---: | :---: |
| Interest income: |  |  |  |  |
| FFELP Loans | \$ 698 | \$ 840 | \$ 2,138 | \$ 2,459 |
| Private Education Loans | 635 | 615 | 1,884 | 1,856 |
| Other loans | 3 | 4 | 9 | 13 |
| Cash and investments | 4 | 5 | 13 | 16 |
| Total interest income | 1,340 | 1,464 | 4,044 | 4,344 |
| Total interest expense | 541 | 645 | 1,666 | 1,968 |
| Net interest income | 799 | 819 | 2,378 | 2,376 |
| Less: provisions for loan losses | 207 | 270 | 649 | 766 |
| Net interest income after provisions for loan losses | 592 | 549 | 1,729 | 1,610 |


| Other income (loss): |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Gains on sales of loans and investments |  |  | 307 | 1 |
| Losses on derivative and hedging activities, net | (127) | (233) | (140) | (600) |
| Servicing revenue | 83 | 71 | 223 | 212 |
| Contingency revenue | 104 | 85 | 312 | 261 |
| Gains on debt repurchases |  | 44 | 42 | 102 |
| Other | 9 | 2 | 66 | 39 |
| Total other income (loss) | 69 | (31) | 810 | 15 |
| Expenses: |  |  |  |  |
| Salaries and benefits | 128 | 113 | 380 | 343 |
| Other operating expenses | 129 | 107 | 357 | 329 |
| Total operating expenses | 257 | 220 | 737 | 672 |
| Goodwill and acquired intangible asset impairment and amortization expense | 4 | 5 | 10 | 13 |
| Restructuring and other reorganization expenses | 12 | 2 | 46 | 9 |
| Total expenses | 273 | 227 | 793 | 694 |
| Income from continuing operations, before income tax expense | 388 | 291 | 1,746 | 931 |
| Income tax expense | 136 | 104 | 645 | 340 |
| Net income from continuing operations | 252 | 187 | 1,101 | 591 |
| Income (loss) from discontinued operations, net of tax expense (benefit) | 8 |  | 47 | (2) |
| Net income | 260 | 187 | 1,148 | 589 |
| Less: net loss attributable to noncontrolling interest |  | (1) | (1) | (2) |
| Net income attributable to SLM Corporation | 260 | 188 | 1,149 | 591 |
| Preferred stock dividends | 5 | 5 | 15 | 15 |


| Net income attributable to SLM Corporation common stock | \$ | 255 | \$ | 183 | \$ 1,134 |  | \$ 576 |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Basic earnings per common share attributable to SLM Corporation: |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | . 56 | \$ | . 39 | \$ | 2.46 | \$ | 1.19 |
| Discontinued operations |  | . 02 |  |  |  | . 10 |  |  |
| Total | \$ | . 58 | \$ | . 39 | \$ | 2.56 | \$ | 1.19 |
| Average common shares outstanding |  | 436 |  | 464 |  | 442 |  | 483 |
| Diluted earnings per common share attributable to SLM Corporation: |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | . 55 | \$ | . 39 | \$ | 2.42 | \$ | 1.18 |
| Discontinued operations |  | . 02 |  |  |  | . 10 |  |  |
| Total | \$ | . 57 | \$ | . 39 | \$ | 2.52 | \$ | 1.18 |
| Average common and common equivalent shares outstanding |  | 445 |  | 471 |  | 450 |  | 490 |
| Dividends per common share attributable to SLM Corporation | \$ | . 15 | \$ | . 125 | \$ | . 45 | \$ | . 375 |

See accompanying notes to consolidated financial statements.

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## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

## (In millions)

## (Unaudited)



See accompanying notes to consolidated financial statements.

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## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

## (Unaudited)




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## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

## (Unaudited)



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| stock-based <br> compensation <br> plans |  |  |  |  |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  |  |  |  |  |  |

See accompanying notes to consolidated financial statements.

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## SLM CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## (Dollars in millions)

## (Unaudited)

|  | Nine Months Ended September 30, 2013 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| Operating activities |  |  |  |  |
| Net income | \$ | 1,148 | \$ | 589 |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |  |  |  |
| (Income) loss from discontinued operations, net of tax |  | (47) |  | 2 |
| Gains on sales of loans and investments |  | (307) |  | (1) |
| Gains on debt repurchases |  | (42) |  | (102) |
| Goodwill and acquired intangible asset impairment and amortization expense |  | 10 |  | 13 |
| Stock-based compensation expense |  | 37 |  | 41 |
| Unrealized (gains) losses on derivative and hedging activities |  | (384) |  | 51 |
| Provisions for loan losses |  | 649 |  | 766 |
| (Increase) decrease in restricted cash other |  | (3) |  | 5 |
| (Increase) decrease in accrued interest receivable |  | (74) |  | 204 |
| Decrease in accrued interest payable |  | (61) |  | (55) |
| Decrease in other assets |  | 545 |  | 403 |
| (Decrease) increase in other liabilities |  | (85) |  | 31 |
| Cash provided by operating activities continuing operations |  | 1,386 |  | 1,947 |
| Cash provided by (used in) operating activities discontinued operations |  | 46 |  | (5) |
| Total net cash provided by operating activities |  | 1,432 |  | 1,942 |
| Investing activities |  |  |  |  |
| Student loans acquired and originated |  | $(3,689)$ |  | $(5,497)$ |
| Reduction of student loans: |  |  |  |  |
| Installment payments, claims and other |  | 9,159 |  | 14,167 |
| Proceeds from sales of student loans |  | 707 |  | 428 |
| Other investing activities, net |  | 56 |  | (101) |
| Purchases of available-for-sale securities |  | (44) |  | (39) |
| Proceeds from maturities of available-for-sale securities |  | 28 |  | 56 |
| Purchases of other securities |  | (288) |  | (182) |
| Proceeds from maturities of other securities |  | 289 |  | 161 |
| Decrease (increase) in restricted cash variable interest entities |  | 422 |  | (609) |
| Total net cash provided by investing activities |  | 6,640 |  | 8,384 |
| Financing activities |  |  |  |  |
| Borrowings collateralized by loans in trust issued |  | 8,542 |  | 10,004 |
| Borrowings collateralized by loans in trust repaid |  | $(10,815)$ |  | $(11,565)$ |
| Asset-backed commercial paper conduits, net |  | 4,341 |  | 140 |
| ED Conduit Program facility, net |  | $(9,551)$ |  | $(8,960)$ |
| Other short-term borrowings issued |  |  |  | 23 |
| Other short-term borrowings repaid |  |  |  | (122) |
| Other long-term borrowings issued |  | 2,712 |  | 3,769 |
| Other long-term borrowings repaid |  | $(2,343)$ |  | $(2,952)$ |
| Other financing activities, net |  | (782) |  | 224 |
| Retail and other deposits, net |  | 867 |  | 327 |

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| Common stock repurchased | (400) |  | (730) |  |
| :---: | :---: | :---: | :---: | :---: |
| Common stock dividends paid |  | (199) |  | (180) |
| Preferred stock dividends paid |  | (15) |  | (15) |
| Net cash used in financing activities |  | $(7,643)$ |  | $(10,037)$ |
| Net increase in cash and cash equivalents |  | 429 |  | 289 |
| Cash and cash equivalents at beginning of period |  | 3,900 |  | 2,794 |
| Cash and cash equivalents at end of period | \$ | 4,329 | \$ | 3,083 |
| Supplemental disclosures of cash flow information: |  |  |  |  |
| Cash disbursements made (refunds received) for: |  |  |  |  |
| Interest | \$ | 1,646 | \$ | 1,913 |
| Income taxes paid | \$ | 520 | \$ | 416 |
| Income taxes received | \$ | (19) | \$ | (5) |
| Noncash activity: |  |  |  |  |
| Investing activity Student loans and other assets acquired | \$ |  | \$ | 402 |
| Student loans and other assets removed related to sale of Residual Interest in securitization |  | $(11,802)$ | \$ |  |
| Financing activity Borrowings assumed in acquisition of student loans and other assets | \$ |  | \$ | 425 |
| Borrowings removed related to sale of Residual Interest in securitization |  | $(12,084)$ | \$ |  |

See accompanying notes to consolidated financial statements.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## (Information at September 30, 2013 and for the three and nine months ended

September 30, 2013 and 2012 is unaudited)

## 1. Significant Accounting Policies <br> Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (we, us, our, or the Company ) have been prepared in accordance with generally accepted accounting principles in the United States of America ( GAAP ) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. The consolidated financial statements include the accounts of SLM Corporation and its majority-owned and controlled subsidiaries and those Variable Interest Entities (VIEs ) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013 or for any other period. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K ). Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.

## Consolidation

In the first six months of 2013, we sold Residual Interests in FFELP Loan securitization trusts to third parties. We will continue to service the student loans in the trusts under existing agreements. Prior to the sale of the Residual Interests, we had consolidated the trusts as VIEs because we had met the two criteria for consolidation. We had determined we were the primary beneficiary because (1) as servicer to the trust we had the power to direct the activities of the VIE that most significantly affected its economic performance and (2) as the residual holder of the trust, we had an obligation to absorb losses or receive benefits of the trust that could potentially be significant. Upon the sale of the Residual Interests we are no longer the residual holder, thus we determined we no longer met criterion (2) above and deconsolidated the trusts. As a result of these transactions, we removed securitization trust assets of $\$ 12.5$ billion and the related liabilities of $\$ 12.1$ billion from the balance sheet and recorded a $\$ 312$ million gain as part of gains on sales of loans and investments for the nine months ended September 30, 2013.

## Reclassifications

Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

## Recently Adopted Accounting Standards

## Accumulated Other Comprehensive Income

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses

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

## Allowance for Loan Losses Metrics

| (Dollars in millions) | FFELP Loans |  | Three Months Ended September 30, 2013 <br> Private Education Other <br> Loans Loans |  |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for Loan Losses |  |  |  |  |  |  |  |  |
| Beginning balance | \$ | 133 | \$ | 2,149 | \$ | 35 | \$ | 2,317 |
| Total provision |  | 12 |  | 195 |  |  |  | 207 |
| Charge-offs ${ }^{(1)}$ |  | (15) |  | (205) |  | (3) |  | (223) |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  |  | 5 |  |  |  | 5 |
| Ending balance | \$ | 130 | \$ | 2,144 | \$ | 32 | \$ | 2,306 |
| Allowance: |  |  |  |  |  |  |  |  |
| Ending balance: individually evaluated for impairment | \$ |  | \$ | 1,091 | \$ | 24 | \$ | 1,115 |
| Ending balance: collectively evaluated for impairment | \$ | 130 | \$ | 1,053 | \$ | 8 | \$ | 1,191 |
| Loans: |  |  |  |  |  |  |  |  |
| Ending balance: individually evaluated for impairment | \$ |  | \$ | 8,982 | \$ | 49 | \$ | 9,031 |
| Ending balance: collectively evaluated for impairment |  | 105,422 | \$ | 31,640 | \$ | 91 |  | 37,153 |
| Charge-offs as a percentage of average loans in repayment (annualized) |  | .08\% |  | 2.57\% |  | 7.70\% |  |  |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) |  | .06\% |  | 2.48\% |  | 7.70\% |  |  |
| Allowance as a percentage of the ending total loan balance |  | .12\% |  | 5.28\% |  | 2.90\% |  |  |
| Allowance as a percentage of the ending loans in repayment |  | .17\% |  | 6.77\% |  | 2.90\% |  |  |
| Allowance coverage of charge-offs (annualized) |  | 2.2 |  | 2.6 |  | 2.8 |  |  |
| Ending total loans ${ }^{(3)}$ |  | 105,422 | \$ | 40,622 | \$ |  |  |  |
| Average loans in repayment | \$ | 78,012 | \$ | 31,630 | \$ |  |  |  |
| Ending loans in repayment | \$ | 77,618 | \$ | 31,651 | \$ | 140 |  |  |

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(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.
(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan sprincipal balance.
(3) Ending total loans for Private Education Loans includes the receivable for partially charged-off loans.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

| (Dollars in millions) | FFELP Loans |  | Three Months Ended September 30, 2012 <br> Private Education Other Loans Loans |  |  |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for Loan Losses |  |  |  |  |  |  |  |  |
| Beginning balance | \$ | 173 | \$ | 2,186 | \$ | 59 | \$ | 2,418 |
| Total provision |  | 18 |  | 252 |  |  |  | 270 |
| Charge-offs ${ }^{(1)}$ |  | (23) |  | (250) |  | (6) |  | (279) |
| Student loan sales |  | (2) |  |  |  |  |  | (2) |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  |  | 8 |  |  |  | 8 |
| Ending balance | \$ | 166 | \$ | 2,196 | \$ | 53 | \$ | 2,415 |

Allowance:


[^0](2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

| (Dollars in millions) |  | ELP Loans | Nine Pri | ths Ended Education ans | ber | $\mathbf{3 0 , 2 0 1}$ <br> her <br> ans |  | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for Loan Losses |  |  |  |  |  |  |  |  |
| Beginning balance | \$ | 159 | \$ | 2,171 | \$ | 47 | \$ | 2,377 |
| Total provision |  | 42 |  | 607 |  |  |  | 649 |
| Charge-offs ${ }^{(1)}$ |  | (57) |  | (649) |  | (15) |  | (721) |
| Student loan sales |  | (14) |  |  |  |  |  | (14) |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  |  | 15 |  |  |  | 15 |
| Ending balance | \$ | 130 | \$ | 2,144 | \$ | 32 | \$ | 2,306 |
| Allowance: |  |  |  |  |  |  |  |  |
| Ending balance: individually evaluated for impairment | \$ |  | \$ | 1,091 | \$ |  | \$ | 1,115 |
| Ending balance: collectively evaluated for impairment | \$ | 130 | \$ | 1,053 | \$ | 8 | \$ | 1,191 |
| Loans: |  |  |  |  |  |  |  |  |
| Ending balance: individually evaluated for impairment | \$ |  | \$ | 8,982 | \$ | 49 | \$ | 9,031 |
| Ending balance: collectively evaluated for impairment |  | 105,422 | \$ | 31,640 | \$ |  |  | 37,153 |
| Charge-offs as a percentage of average loans in repayment (annualized) |  | .09\% |  | 2.74\% |  | 2.14\% |  |  |
| Charge-offs as a percentage of average loans in repayment and forbearance (annualized) |  | .08\% |  | 2.65\% |  | 2.14\% |  |  |
| Allowance as a percentage of the ending total loan balance |  | .12\% |  | 5.28\% |  | 2.90\% |  |  |
| Allowance as a percentage of the ending loans in repayment |  | .17\% |  | 6.77\% |  | 2.90\% |  |  |
| Allowance coverage of charge-offs (annualized) |  | 1.7 |  | 2.5 |  | 1.6 |  |  |
| Ending total loans ${ }^{(3)}$ |  | 105,422 | \$ | 40,622 | \$ |  |  |  |
| Average loans in repayment | \$ | 82,196 | \$ | 31,631 | \$ |  |  |  |
| Ending loans in repayment |  | 77,618 | \$ | 31,651 |  |  |  |  |

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.
(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

| (Dollars in millions) | FFELP Loans |  | Pri | ss Ended ducation ns | er | 3, 201 |  | otal |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Allowance for Loan Losses |  |  |  |  |  |  |  |  |
| Beginning balance | \$ | 187 | \$ | 2,171 | \$ | 69 | \$ | 2,427 |
| Total provision |  | 54 |  | 712 |  |  |  | 766 |
| Charge-offs ${ }^{(1)}$ |  | (68) |  | (709) |  | (16) |  | (793) |
| Student loan sales |  | (7) |  |  |  |  |  | (7) |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  |  | 22 |  |  |  | 22 |
| Ending balance | \$ | 166 | \$ | 2,196 | \$ | 53 | \$ | 2,415 |

Allowance:

(1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.
(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

## Key Credit Quality Indicators

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

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

Private Education Loans
Credit Quality Indicators

| (Dollars in millions) | September 30, 2013 |  | December 31, 2012 |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Balance ${ }^{(3)}$ | \% of Balance | Balance ${ }^{(3)}$ | \% of Balance |
| Credit Quality Indicators |  |  |  |  |
| School Type/FICO Scores: |  |  |  |  |
| Traditional | \$ 36,353 | 93\% | \$ 35,347 | 92\% |
| Non-Traditional ${ }^{(1)}$ | 2,947 | 7 | 3,207 | 8 |
| Total | \$ 39,300 | 100\% | \$ 38,554 | 100\% |
| Cosigners: |  |  |  |  |
| With cosigner | \$ 26,277 | 67\% | \$ 24,907 | 65\% |
| Without cosigner | 13,023 | 33 | 13,647 | 35 |
| Total | \$ 39,300 | 100\% | \$ 38,554 | 100\% |
| Seasoning ${ }^{(2)}$ : |  |  |  |  |
| 1-12 payments | \$ 5,855 | 15\% | \$ 7,371 | 19\% |
| 13-24 payments | 5,765 | 15 | 6,137 | 16 |
| 25-36 payments | 6,227 | 16 | 6,037 | 16 |
| 37-48 payments | 4,871 | 12 | 4,780 | 12 |
| More than 48 payments | 10,041 | 25 | 8,325 | 22 |
| Not yet in repayment | 6,541 | 17 | 5,904 | 15 |
| Total | \$ 39,300 | 100\% | \$ 38,554 | 100\% |

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(1) Defined as loans to customers attending for-profit schools (with a FICO score of less than 670 at origination) and customers attending not-for-profit schools (with a FICO score of less than 640 at origination).
(2) Number of months in active repayment for which a scheduled payment was due.
(3) Balance represents gross Private Education Loans.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

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

| (Dollars in millions) | FFELP Loan Delinquencies |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | September 30,2013 |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
|  | Balance | \% | Balance | \% |
| Loans in-school/grace/deferment ${ }^{(1)}$ | \$ 14,613 |  | \$ 17,702 |  |
| Loans in forbearance ${ }^{(2)}$ | 13,191 |  | 15,902 |  |
| Loans in repayment and percentage of each status: |  |  |  |  |
| Loans current | 64,144 | 82.6\% | 75,499 | 83.2\% |
| Loans delinquent 31-60 days ${ }^{(3)}$ | 3,798 | 4.9 | 4,710 | 5.2 |
| Loans delinquent 61-90 days ${ }^{(3)}$ | 2,734 | 3.5 | 2,788 | 3.1 |
| Loans delinquent greater than 90 days ${ }^{(3)}$ | 6,942 | 9.0 | 7,734 | 8.5 |
| Total FFELP Loans in repayment | 77,618 | 100\% | 90,731 | 100\% |
| Total FFELP Loans, gross | 105,422 |  | 124,335 |  |
| FFELP Loan unamortized premium | 1,058 |  | 1,436 |  |
| Total FFELP Loans | 106,480 |  | 125,771 |  |
| FFELP Loan allowance for losses | (130) |  | (159) |  |
| FFELP Loans, net | \$ 106,350 |  | \$ 125,612 |  |
| Percentage of FFELP Loans in repayment |  | 73.6\% |  | 73.0\% |
| Delinquencies as a percentage of FFELP Loans in repayment |  | 17.4\% |  | 16.8\% |
| FFELP Loans in forbearance as a percentage of loans in repayment and forbearance |  | 14.5\% |  | 14.9\% |

[^1][^2]
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(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)



[^3] payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.

[^4]
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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

|  | Private Education Non-Traditional Loan Delinquencies |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | $\begin{gathered} \text { September 30, } \\ 2013 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
| (Dollars in millions) | Balance | \% | Balance | \% |
| Loans in-school/grace/deferment ${ }^{(1)}$ | \$ 429 |  | \$ 483 |  |
| Loans in forbearance ${ }^{(2)}$ | 137 |  | 140 |  |
| Loans in repayment and percentage of each status: |  |  |  |  |
| Loans current | 1,841 | 77.3\% | 1,978 | 76.5\% |
| Loans delinquent 31-60 days ${ }^{(3)}$ | 154 | 6.5 | 175 | 6.8 |
| Loans delinquent 61-90 days ${ }^{(3)}$ | 122 | 5.1 | 106 | 4.1 |
| Loans delinquent greater than 90 days ${ }^{(3)}$ | 264 | 11.1 | 325 | 12.6 |
| Total non-traditional loans in repayment | 2,381 | 100\% | 2,584 | 100\% |
| Total non-traditional loans, gross | 2,947 |  | 3,207 |  |
| Non-traditional loans unamortized discount | (76) |  | (83) |  |
| Total non-traditional loans | 2,871 |  | 3,124 |  |
| Non-traditional loans receivable for partially charged-off loans | 524 |  | 550 |  |
| Non-traditional loans allowance for losses | (533) |  | (534) |  |
| Non-traditional loans, net | \$ 2,862 |  | \$ 3,140 |  |
| Percentage of non-traditional loans in repayment |  | 80.8\% |  | 80.6\% |
| Delinquencies as a percentage of non-traditional loans in repayment |  | 22.7\% |  | 23.4\% |
| Loans in forbearance as a percentage of loans in repayment and forbearance |  | 5.4\% |  | 5.1\% |

(1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.
(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full
payments due to hardship or other factors, consistent with established loan program servicing policies and procedures. payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.
(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

Receivable for Partially Charged-Off Private Education Loans

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At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. Our allowance for loan losses takes into account these potential recovery uncertainties. In the third quarter of

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

2013 we increased our allowance related to these potential recovery shortfalls by approximately $\$ 112$ million. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was $\$ 329$ million and $\$ 187$ million in allowance for Private Education Loan losses at September 30, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans.

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

| (Dollars in millions) | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 | 2013 | 2012 |
| Receivable at beginning of period | \$ 1,334 | \$ 1,277 | \$ 1,347 | \$ 1,241 |
| Expected future recoveries of current period defaults ${ }^{(1)}$ | 68 | 86 | 216 | 237 |
| Recoveries ${ }^{(2)}$ | (55) | (45) | (177) | (139) |
| Charge-offs ${ }^{(3)}$ | (25) | (15) | (64) | (36) |
| Receivable at end of period | 1,322 | 1,303 | 1,322 | 1,303 |
| Allowance for estimated recovery shortfalls ${ }^{(4)}$ | (329) | (187) | (329) | (187) |
| Net receivable at end of period | \$ 993 | \$ 1,116 | \$ 993 | \$ 1,116 |

(1) Represents the difference between the loan balance and our estimate of the amount to be collected in the future.
(2) Current period cash collections.
(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in the Private Education Loan total charge-offs as reported in the Allowance for Loan Losses Metrics tables.
(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the $\$ 2.1$ billion and $\$ 2.2$ billion overall allowance for Private Education Loan losses as of September 30, 2013 and 2012, respectively.

## Troubled Debt Restructurings ( TDRs )

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

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repayment plan are classified as TDRs. Forbearance provides customers the ability to defer payments for a period of time, but does not result in the forgiveness of any principal or interest. While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. At September 30, 2013 and December 31, 2012, the percentage of loans granted forbearance that have migrated to a TDR classification due to the extension of the original forbearance period was 43 percent for each period. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of September 30, 2013 and December 31, 2012 was $\$ 1.5$ billion and $\$ 1.0$ billion, respectively.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

At September 30, 2013 and December 31, 2012, all of our TDR loans had a related allowance recorded. The following table provides the recorded investment, unpaid principal balance and related allowance for our TDR loans.

| (Dollars in millions) |  | Recorded <br> Investment ${ }^{(1)}$ |  | DR Loans Unpaid rincipal Balance |  | elated wance |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| September 30, 2013 |  |  |  |  |  |  |
| Private Education Loans | Traditional | \$ 7,251 |  | 7,307 | \$ | 830 |
| Private Education Loans | Non-Traditional | 1,423 |  | 1,424 |  | 261 |
| Total |  | \$ 8,674 |  | 8,731 | \$ | 1,091 |
| December 31, 2012 |  |  |  |  |  |  |
| Private Education Loans | Traditional | \$ 5,999 |  | 6,074 | \$ | 844 |
| Private Education Loans | Non-Traditional | 1,295 |  | 1,303 |  | 282 |
| Total |  | \$ 7,294 |  | 7,377 | \$ | 1,126 |

${ }^{(1)}$ The recorded investment is equal to the unpaid principal balance and accrued interest receivable net of unamortized deferred fees and costs. The following table provides the average recorded investment and interest income recognized for our TDR loans.


## Nine Months Ended September 30,

2013
(Dollars in millions)

|  | Average <br> Recorded <br> Investment | Interest <br> Income <br> Recognized | Average <br> Recorded <br> Investment | Interest <br> Income <br> Recognized |  |  |
| :--- | :--- | :---: | :---: | :---: | :---: | :---: |
| Private Education Loans | Traditional | $\$ 6,768$ | $\$$ | 304 | $\$ 5,010$ | $\$$ |

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

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

|  | TDR Loan Delinquencies |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: |
|  | September 30, <br> 2013 |  | December 31, 2012 <br> Balance | $\%$ |

(1) Deferment includes loans for customers who have returned to school and are not currently required to make payments on their loans.
(2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.
(3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

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


| Total | $\$$ | 745 | $\$$ | 120 | $\$$ | 216 | $\$ 674$ | $\$$ | 133 | $\$$ | 429 |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |


|  |  |  |  |  | Mo | ths | d Septen |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) |  | Modified <br> Loans ${ }^{(1)}$ |  | $\begin{aligned} & \mathbf{2 0 1 3} \\ & \text { arge- } \\ & \text { ffs }^{(2)} \end{aligned}$ |  | nent | Modified <br> Loans ${ }^{(1)}$ |  |  |  | ayment Default |
| Private Education Loans | Traditional | \$ 1,686 | \$ | 269 | \$ | 547 | \$ 1,783 | \$ | 244 |  | 1,111 |
| Private Education Loans | Non-Traditional | 259 |  | 97 |  | 150 | 346 |  | 99 |  | 350 |
| Total |  | \$ 1,945 | \$ | 366 | \$ | 697 | \$ 2,129 | \$ | 343 | \$ | 1,461 |

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 2. Allowance for Loan Losses (Continued)

## Accrued Interest Receivable

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

|  |  | Accrued Interest Receivable |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | $\begin{aligned} & \text { Greater Than } \\ & \text { 90 Days } \\ & \text { Past Due } \end{aligned}$ |  | Allowance for Uncollectible Interest |  |
| (Dollars in millions) Total Past Due Interest <br> September 30, 2013   |  |  |  |  |  |  |  |
| Private Education Loans | Traditional |  | 940 | \$ | 33 | \$ | 46 |
| Private Education Loans | Non-Traditional |  | 97 |  | 13 |  | 21 |
| Total |  | \$ 1,037 |  | \$ | 46 | \$ | 67 |
| December 31, 2012 |  |  |  |  |  |  |  |
| Private Education Loans | Traditional |  | 798 | \$ | 39 | \$ | 45 |
| Private Education Loans | Non-Traditional |  | 106 |  | 16 |  | 22 |
| Total |  |  | 904 | \$ | 55 | \$ | 67 |

## 3. Borrowings

The following table summarizes our borrowings.

| (Dollars in millions) | September 30, 2013 |  |  |  |  |  | December 31, 2012 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Term |  | Long <br> Term |  | Total |  | Short Term |  | Long Term |  | Total |  |
| Unsecured borrowings: |  |  |  |  |  |  |  |  |  |  |  |  |
| Senior unsecured debt | \$ | 3,201 | \$ | 15,509 | \$ | 18,710 | \$ | 2,319 | \$ | 15,446 | \$ | 17,765 |
| Bank deposits |  | 5,732 |  | 1,896 |  | 7,628 |  | 4,226 |  | 3,088 |  | 7,314 |
| Other ${ }^{(1)}$ |  | 806 |  |  |  | 806 |  | 1,609 |  |  |  | 1,609 |
| Total unsecured borrowings |  | 9,739 |  | 17,405 |  | 27,144 |  | 8,154 |  | 18,534 |  | 26,688 |
| Secured borrowings: |  |  |  |  |  |  |  |  |  |  |  |  |
| FFELP Loan securitizations |  |  |  | 91,690 |  | 91,690 |  |  |  | 105,525 |  | 105,525 |

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| Private Education Loan securitizations |  | 19,434 | 19,434 |  | 19,656 | 19,656 |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| FFELP Loans other facilities | 5,794 | 5,394 | 11,188 | 11,651 | 4,827 | 16,478 |
| Private Education Loans other facilities |  | 878 | 878 |  | 1,070 | 1,070 |
|  |  |  |  |  |  |  |
| Total secured borrowings | 5,794 | 117,396 | 123,190 | 11,651 | 131,078 | 142,729 |
|  |  |  |  |  |  |  |
| Total before hedge accounting adjustments | 15,533 | 134,801 | 150,334 | 19,805 | 149,612 | 169,417 |
| Hedge accounting adjustments | 39 | 2,143 | 2,182 | 51 | 2,789 | 2,840 |
| Total |  |  |  |  |  |  |

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Borrowings (Continued)

## Secured Borrowings

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

| (Dollars in millions) | September 30, 2013 |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Debt Outstanding |  |  | Carrying Amount of Assets Securing Debt Outstanding |  |  |  |  |
|  | Short Term | Long <br> Term | Total | Loans | Cash |  | Assets | Total |
| Secured Borrowings VIEs: |  |  |  |  |  |  |  |  |
| FFELP Loan securitizations | \$ | \$ 91,690 | \$ 91,690 | \$ 92,865 | \$ 3,538 | \$ | 715 | \$ 97,118 |
| Private Education Loan securitizations |  | 19,434 | 19,434 | 24,413 | 337 |  | 575 | 25,325 |
| FFELP Loans other facilities | 4,678 | 3,777 | 8,455 | 8,762 | 151 |  | 108 | 9,021 |
| Private Education Loans other facilities |  | 878 | 878 | 1,605 | 18 |  | 31 | 1,654 |
| Total before hedge accounting adjustments | 4,678 | 115,779 | 120,457 | 127,645 | 4,044 |  | 1,429 | 133,118 |
| Hedge accounting adjustments |  | 1,189 | 1,189 |  |  |  | 951 | 951 |
| Total | \$ 4,678 | \$ 116,968 | \$ 121,646 | \$ 127,645 | \$ 4,044 | \$ | 2,380 | \$ 134,069 |



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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Borrowings (Continued)

## Securitizations

The following table summarizes the securitization transactions that occurred during the year ended December 31, 2012 and the nine months ended September 30, 2013.

| (Dollars in millions) |  |  | AAA-rated bonds |  |
| :---: | :---: | :---: | :---: | :---: |
|  | Date Issued | Total Issued | Weighted Average Interest Rate | Weighted Average Life |
| FFELP: |  |  |  |  |
| 2012-1 | January 2012 | \$ 765 | 1 month LIBOR plus 0.91\% | 4.6 years |
| 2012-2 | March 2012 | 824 | 1 month LIBOR plus 0.70\% | 4.7 years |
| 2012-3 | May 2012 | 1,252 | 1 month LIBOR plus 0.65\% | 4.6 years |
| 2012-4 | June 2012 | 1,491 ${ }^{(1)}$ | 1 month LIBOR plus $1.10 \%$ | 8.2 years |
| 2011-3 | July 2012 | 24 | N/A (Retained B Notes sold) |  |
| 2012-4 | July 2012 | 45 | N/A (Retained B Notes sold) |  |
| 2012-5 | July 2012 | 1,252 | 1 month LIBOR plus 0.67\% | 4.5 years |
| 2012-6 | September 2012 | 1,249 | 1 month LIBOR plus $0.62 \%$ | 4.6 years |
| 2012-7 | November 2012 | 1,251 | 1 month LIBOR plus 0.55\% | 4.5 years |
| 2012-8 | December 2012 | 1,527 | 1 month LIBOR plus 0.90\% | 7.8 years |
| Total bonds issued in 2012 |  | \$ 9,680 |  |  |
| Total loan amount securitized in 2012 |  | \$ 9,565 |  |  |
| 2013-1 | February 2013 | \$ 1,249 | 1 month LIBOR plus 0.46\% | 4.3 years |
| 2013-2 | April 2013 | 1,246 | 1 month LIBOR plus 0.45\% | 4.4 years |
| 2013-3 | June 2013 | 1,246 | 1 month LIBOR plus 0.54\% | 4.5 years |
| 2013-4 | August 2013 | 747 | 1 month LIBOR plus 0.55\% | 4.4 years |
| 2013-5 | September 2013 | 996 | 1 month LIBOR plus 0.64\% | 4.6 years |

Total bonds issued in nine months ended September 30,
2013

Total loan amount securitized in nine months ended
September 30, 2013
\$ 5,496

## Private Education:

| 2012-A | February 2012 | $\$ 547$ | 1 month LIBOR plus 2.17\% | 3.0 years |
| :--- | ---: | ---: | ---: | ---: | ---: |
| 2012-B | April 2012 | 891 | 1 month LIBOR plus $2.12 \%$ | 2.9 years |
| 2012-C | May 2012 | 1,135 | 1 month LIBOR plus $1.77 \%$ | 2.6 years |


| 2012-D | July 2012 | 640 | 1 month LIBOR plus $1.69 \%$ | 2.5 years |
| :---: | :---: | :---: | :---: | :---: |
| 2012-E | October 2012 | 976 | 1 month LIBOR plus $1.22 \%$ | 2.6 years |
| Total bonds issued in 2012 |  | \$4,189 |  |  |
| Total loan amount securitized in 2012 |  | \$ 5,557 |  |  |
| 2013-R1 | January 2013 | \$ 254 | 1 month LIBOR plus $1.75 \%$ | 6.3 years |
| 2013-A | March 2013 | 1,108 | 1 month LIBOR plus $0.81 \%$ | 2.6 years |
| 2013-B | May 2013 | 1,135 | 1 month LIBOR plus 0.89\% | 2.7 years |
| 2013-C | September 2013 | 624 | 1 month LIBOR plus $1.21 \%$ | 3.1 years |
| Total bonds issued in nine months ended September 30, 2013 |  | \$ 3,121 |  |  |

Total loan amount securitized in nine months ended September 30, 2013
(1) Total size excludes subordinated tranche that was retained at issuance totaling $\$ 45$ million.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 3. Borrowings (Continued)

## 2013 Sales of FFELP Securitization Trust Residual Interests

On February 13, 2013, we sold the Residual Interest in a FFELP Loan securitization trust to a third party. We will continue to service the student loans in the trust under existing agreements. The sale removed securitization trust assets of $\$ 3.82$ billion and related liabilities of $\$ 3.68$ billion from our balance sheet.

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

On June 13, 2013, we sold the three Residual Interests in FFELP Loan securitization trusts to a third party. We will continue to service the student loans in the trusts under existing agreements. The sale removed securitization trust assets of $\$ 6.60$ billion and related liabilities of $\$ 6.42$ billion from our balance sheet.

## Additional, Recent Borrowing-Related Transactions

## Senior Unsecured Debt

On January 28, 2013 and September 20, 2013, we issued $\$ 1.5$ billion and $\$ 1.25$ billion of senior unsecured bonds, respectively.

## FFELP ABCP Facility

On June 10, 2013, we closed on a new $\$ 6.8$ billion asset-backed commercial paper ( ABCP ) credit facility that matures in June 2014 to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the U.S. Department of Education s ( ED ) Conduit Program. The facility cannot be used to borrow any additional amounts. As a result, we ended our participation in the ED Conduit Program.

The cost of borrowing under the facility is the yield rate (either 30-day LIBOR daily average or commercial paper issuance cost) plus 0.50 percent, excluding up-front-commitment fees. Failure to pay off the facility on the maturity date would result in a 90 -day extension of the facility with the interest rate increasing from LIBOR plus 0.75 percent to LIBOR plus 1.50 percent over that period. If, at the end of that period the facility has not been repaid, a default rate of LIBOR plus 3.00 percent would be payable until either the notes are repaid in full or the collateral is foreclosed upon. This default rate would also be triggered by the occurrence of a termination event. The facility is subject to termination under certain circumstances. Our borrowings under the facility are non-recourse. As of September 30, 2013, there was $\$ 4.7$ billion outstanding under the facility. The book basis of the assets securing the facility as of September 30, 2013 was $\$ 4.9$ billion.

## Private Education Loan Facility

On July 17, 2013, we closed on a $\$ 1.1$ billion asset-backed borrowing facility that matures on August 15, 2015. The facility was used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, which occurred on August 15, 2013. The cost of borrowing under the facility is commercial paper issuance cost plus 0.75 percent, excluding up-front commitment fees. If outstanding borrowings under the facility exceed $\$ 825$ million after July 15,2014 and $\$ 550$ million after January 15,2015 , the cost of borrowing increases to commercial paper issuance cost plus 1.50 percent. Failure to pay off the facility on the maturity date would result in the interest rate increasing to LIBOR plus 3.00 percent until the notes are repaid in full or the collateral is foreclosed upon. Our borrowings under the facility are non-recourse. As of

September 30, 2013, there was $\$ 878$ million outstanding under the facility. The book basis of the assets securing the facility as of September 30, 2013 was $\$ 1.7$ billion.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Derivative Financial Instruments

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

## Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at September 30, 2013 and December 31, 2012, and their impact on other comprehensive income and earnings for the three and nine months ended September 30, 2013 and 2012.

## Impact of Derivatives on Consolidated Balance Sheet

| (Dollars in millions) | Hedged Risk Exposure | Cash Flow |  | Fair Value |  | Trading |  | Total |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | Dec. 31, 2012 |
| Fair Values ${ }^{(1)}$ |  |  |  |  |  |  |  |  |  |
| Derivative Assets: |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | Interest rate | \$ 16 | \$ | \$ 881 | \$ 1,396 | \$ 69 | \$ 150 | \$ 966 | \$ 1,546 |
| Cross-currency interest rate swaps | Foreign currency \& interest rate |  |  | 1,163 | 1,165 | 1 | 70 | 1,164 | 1,235 |
| Other ${ }^{(2)}$ | Interest rate |  |  |  |  | 3 | 4 | 3 | 4 |
| Total derivative assets ${ }^{(3)}$ |  | 16 |  | 2,044 | 2,561 | 73 | 224 | 2,133 | 2,785 |
| Derivative Liabilities: |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | Interest rate | (1) | (11) | (98) | (1) | (202) | (197) | (301) | (209) |
| Floor Income Contracts | Interest rate |  |  |  |  | $(1,564)$ | $(2,154)$ | $(1,564)$ | $(2,154)$ |
| Cross-currency interest rate swaps | Foreign currency \& interest rate |  |  | (175) | (136) | (7) |  | (182) | (136) |
| Other ${ }^{(2)}$ | Interest rate |  |  |  |  | (21) |  | (21) |  |
| Total derivative liabilities ${ }^{(3)}$ |  | (1) | (11) | (273) | (137) | $(1,794)$ | $(2,351)$ | $(2,068)$ | $(2,499)$ |
| Net total derivatives |  | \$ 15 | \$ (11) | \$ 1,771 | \$ 2,424 | \$ $(1,721)$ | \$ $(2,127)$ | \$ 65 | \$ 286 |

[^5]
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(3) The following table reconciles gross positions without the impact of master netting agreements to the balance sheet classification:

|  | Other Assets |  |  |  | Other Liabilities |
| :--- | :---: | :---: | :---: | :---: | :---: |
| December 31, |  |  |  |  |  |

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Derivative Financial Instruments (Continued)

The above fair values include adjustments for counterparty credit risk both for when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at September 30, 2013 and December 31, 2012 by $\$ 111$ million and $\$ 111$ million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at September 30, 2013 and December 31, 2012 by $\$ 89$ million and $\$ 107$ million, respectively.

|  | Cash Flow |  |  | Fair Value |  |  | Trading |  |  | Total |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in billions) | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ |  | Sept. 30, 2013 | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ |  | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ |  | $\begin{gathered} \text { Sept. 30, } \\ 2013 \end{gathered}$ |  | $\begin{gathered} \text { Dec. 31, } \\ 2012 \end{gathered}$ |  |
| Notional Values: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Interest rate swaps | \$ 0.5 | \$ | 0.7 | \$ 16.7 | \$ | 15.8 | \$ 48.0 | \$ | 56.9 | \$ | 65.2 | \$ | 73.4 |
| Floor Income Contracts |  |  |  |  |  |  | 31.8 |  | 51.6 |  | 31.8 |  | 51.6 |
| Cross-currency interest rate swaps |  |  |  | 11.7 |  | 13.7 | 0.3 |  | 0.3 |  | 12.0 |  | 14.0 |
| Other ${ }^{(1)}$ |  |  |  |  |  |  | 3.3 |  | 1.4 |  | 3.3 |  | 1.4 |
| Total derivatives | \$ 0.5 | \$ | 0.7 | \$ 28.4 | \$ | 29.5 | \$ 83.4 |  | 10.2 |  | 12.3 |  | 40.4 |

${ }^{(1)}$ Other includes embedded derivatives bifurcated from securitization debt, as well as derivatives related to our Total Return Swap Facility and back to back private credit floors.
Impact of Derivatives on Consolidated Statements of Income


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| Interest rate swaps | (8) |  | (6) | 21 | 24 |  |  | 13 | 18 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Floor Income Contracts | 115 |  | (12) | (201) | (206) |  |  | (86) | (218) |
| Cross-currency interest rate swaps | 3 |  | 14 |  | 2 |  |  | 3 | 16 |
| Other | (4) |  |  | (1) |  |  |  | (5) |  |
| Total trading derivatives | 106 |  | (4) | (181) | (180) |  |  | (75) | (184) |
| Total | 552 |  | 219 | (50) | (38) | (498) | (272) | 4 | (91) |
| Less: realized gains (losses) recorded in interest expense |  |  |  | 131 | 142 |  |  | 131 | 142 |
| Gains (losses) on derivative and hedging activities, net | \$ 552 | \$ | 219 | \$ (181) | \$ (180) | \$ (498) | \$ (272) | \$ (127) | \$ (233) |

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.
(2) Represents ineffectiveness related to cash flow hedges.
(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Derivative Financial Instruments (Continued)

| (Dollars in millions) | Nine Months Ended September 30, Unrealized |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | UnrealizedGain(Loss) onDerivatives ${ }^{(\mathbf{1})(\mathbf{2})}$ |  | Realized Gain (Loss) on Derivatives ${ }^{(3)}$ |  | Gain (Loss) on Hedged Item ${ }^{(1)}$ |  | Total Gain (Loss) |  |
|  | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Fair Value Hedges: |  |  |  |  |  |  |  |  |
| Interest rate swaps | \$ (613) | \$ 66 | \$ 317 | \$ 339 | \$ 671 | \$ (98) | \$ 375 | \$ 307 |
| Cross-currency interest rate swaps | (40) | (260) | 76 | 139 | (58) | 126 | (22) | 5 |
| Total fair value derivatives | (653) | (194) | 393 | 478 | 613 | 28 | 353 | 312 |
| Cash Flow Hedges: |  |  |  |  |  |  |  |  |
| Interest rate swaps |  | (1) | (6) | (21) |  |  | (6) | (22) |
| Total cash flow derivatives |  | (1) | (6) | (21) |  |  | (6) | (22) |
| Trading: |  |  |  |  |  |  |  |  |
| Interest rate swaps | (85) | (55) | 58 | 91 |  |  | (27) | 36 |
| Floor Income Contracts | 601 | 174 | (612) | (643) |  |  | (11) | (469) |
| Cross-currency interest rate swaps | (76) | (9) | 31 | 5 |  |  | (45) | (4) |
| Other | (16) | 5 | (1) | (1) |  |  | (17) | 4 |
| Total trading derivatives | 424 | 115 | (524) | (548) |  |  | (100) | (433) |
| Total | (229) | (80) | (137) | (91) | 613 | 28 | 247 | (143) |
| Less: realized gains (losses) recorded in interest expense |  |  | 387 | 457 |  |  | 387 | 457 |
| Gains (losses) on derivative and hedging activities, net | \$ (229) | \$ (80) | \$ (524) | \$ (548) | \$ 613 | \$ 28 | \$ (140) | \$ (600) |

(1) Recorded in Gains (losses) on derivative and hedging activities, net in the consolidated statements of income.
(2) Represents ineffectiveness related to cash flow hedges.
(3) For fair value and cash flow hedges, recorded in interest expense. For trading derivatives, recorded in Gains (losses) on derivative and hedging activities, net.

## Collateral

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

## (Dollars in millions)

|  | $\underset{2013}{ } \begin{gathered}\text { September 30, }\end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Collateral held: |  |  |  |  |
| Cash (obligation to return cash collateral is recorded in short-term borrowings) ${ }^{(1)}$ | \$ | 804 | \$ | 1,423 |
| Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements) ${ }^{(2)}$ |  | 555 |  | 613 |
| Total collateral held | \$ | 1,359 | \$ | 2,036 |
| Derivative asset at fair value including accrued interest | \$ | 1,946 | \$ | 2,570 |
| Collateral pledged to others: |  |  |  |  |
| Cash (right to receive return of cash collateral is recorded in investments) | \$ | 872 | \$ | 973 |
| Total collateral pledged | \$ | 872 | \$ | 973 |
| Derivative liability at fair value including accrued interest and premium receivable | \$ | 1,072 | \$ | 1,204 |

(1) At September 30, 2013 and December 31, 2012, $\$ 0$ and $\$ 9$ million, respectively, were held in restricted cash accounts.
(2) The trusts do not have the ability to sell or re-pledge securities they hold as collateral.

Our corporate derivatives contain credit contingent features. At our current unsecured credit rating, we have fully collateralized our corporate derivative liability position (including accrued interest and net of premiums receivable) of $\$ 883$ million with our counterparties. Further downgrades would not result in any additional

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 4. Derivative Financial Instruments (Continued)

collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts with further downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $\$ 203$ million and have posted $\$ 196$ million of collateral to these counterparties. If the credit contingent feature was triggered for these two counterparties and the counterparties exercised their right to terminate, we would be required to deliver additional assets of $\$ 7$ million to settle the contracts. Trust related derivatives do not contain credit contingent features related to our or the trusts credit ratings.

## 5. Other Assets

The following table provides the detail of our other assets.

| (Dollars in millions) | September 30, 2013 |  | December 31, 2012 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | Ending Balance | $\%$ of Balance |  | Ending Balance | $\%$ of Balance |
| Accrued interest receivable, net | \$ 2,167 | 29\% |  | 2,147 | 26\% |
| Derivatives at fair value | 1,729 | 23 |  | 2,241 | 27 |
| Income tax asset, net current and deferred | 1,344 | 18 |  | 1,478 | 18 |
| Accounts receivable | 873 | 12 |  | 1,111 | 13 |
| Benefit and insurance-related investments | 477 | 6 |  | 474 | 6 |
| Fixed assets, net | 240 | 3 |  | 215 | 3 |
| Other loans, net | 108 | 1 |  | 137 | 2 |
| Other | 482 | 8 |  | 470 | 5 |
| Total | \$7,420 | 100\% |  | \$ 8,273 | 100\% |

The Derivatives at fair value line in the above table represents the fair value of our derivatives in a gain position by counterparty, exclusive of accrued interest and collateral. At September 30, 2013 and December 31, 2012, these balances included $\$ 1.8$ billion and $\$ 2.4$ billion, respectively, of cross-currency interest rate swaps and interest rate swaps designated as fair value hedges that were offset by an increase in interest-bearing liabilities related to the hedged debt. As of September 30, 2013 and December 31, 2012, the cumulative mark-to-market adjustment to the hedged debt was $\$(2.2)$ billion and $\$(2.8)$ billion, respectively.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stockholders Equity

The following table summarizes our common share repurchases and issuances.

|  | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 |  | 2012 |  | 2013 |  | 2012 |
| Common shares repurchased ${ }^{(1)}$ |  |  | 7,643,999 |  | 19,316,948 |  | 48,184,145 |
| Average purchase price per share ${ }^{(2)}$ | \$ | \$ | 15.81 | \$ | 20.72 | \$ | 15.16 |
| Shares repurchased related to employee stock-based compensation plans ${ }^{(3)}$ | 251,570 |  | 1,253,922 |  | 5,616,933 |  | 3,660,554 |
| Average purchase price per share | \$ 24.73 | \$ | 16.13 | \$ | 21.23 | \$ | 15.56 |
| Common shares issued ${ }^{(4)}$ | 326,789 |  | 1,654,506 |  | 8,600,008 |  | 5,252,158 |

(1) Common shares purchased under our share repurchase program, of which $\$ 400$ million remained available as of September 30, 2013.
(2) Average purchase price per share includes purchase commission costs.
(3) Comprises shares withheld from stock option exercises and vesting of restricted stock for employees tax withholding obligations and shares tendered by employees to satisfy option exercise costs.
(4) Common shares issued under our various compensation and benefit plans.

The closing price of our common stock on September 30, 2013 was $\$ 24.90$.

## Dividend and Share Repurchase Program

In the third quarter 2013, we paid a common stock dividend of $\$ 0.15$ per common share.
In July 2013, the Company authorized $\$ 400$ million to be utilized in a new common share repurchase program that does not have an expiration date. There were no share repurchases in the third-quarter 2013. We repurchased an aggregate of 19 million shares for $\$ 400$ million in the six months ended June 30, 2013, fully utilizing the Company s February 2013 share repurchase program.

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Earnings per Common Share

Basic earnings per common share ( EPS ) are calculated using the weighted average number of shares of common stock outstanding during each period. A reconciliation of the numerators and denominators of the basic and diluted EPS calculations follows.

| (In millions, except per share data) | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 |  | 2013 | 2012 |  |
| Numerator: |  |  |  |  |  |  |
| Net income attributable to SLM Corporation | \$ 260 | \$ | 188 | \$ 1,149 | \$ | 591 |
| Preferred stock dividends | 5 |  | 5 | 15 |  | 15 |
| Net income attributable to SLM Corporation common stock | \$ 255 | \$ | 183 | \$ 1,134 | \$ | 576 |
| Denominator: |  |  |  |  |  |  |
| Weighted average shares used to compute basic EPS | 436 |  | 464 | 442 |  | 483 |
| Effect of dilutive securities: |  |  |  |  |  |  |
| Dilutive effect of stock options, non-vested deferred compensation and restricted stock, restricted stock units and Employee Stock Purchase Plan ( ESPP ${ }^{\left.1{ }^{1}\right)}$ | 9 |  | 7 | 8 |  | 7 |
| Dilutive potential common shares ${ }^{(2)}$ | 9 |  | 7 | 8 |  | 7 |
| Weighted average shares used to compute diluted EPS | 445 |  | 471 | 450 |  | 490 |
| Basic earnings (loss) per common share attributable to SLM Corporation: |  |  |  |  |  |  |
| Continuing operations | \$ . 56 | \$ | . 39 | \$ 2.46 | \$ | 1.19 |
| Discontinued operations | . 02 |  |  | . 10 |  |  |
| Total | \$ . 58 | \$ | . 39 | \$ 2.56 | \$ | 1.19 |
| Diluted earnings (loss) per common share attributable to SLM Corporation: |  |  |  |  |  |  |
| Continuing operations | \$ . 55 | \$ | . 39 | \$ 2.42 | \$ | 1.18 |
| Discontinued operations | . 02 |  |  | . 10 |  |  |
| Total | \$ . 57 | \$ | . 39 | \$ 2.52 | \$ | 1.18 |

[^6]
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(2) For the three months ended September 30, 2013 and 2012, securities covering approximately 3 million and 10 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive. For the nine months ended September 30, 2013 and 2012, securities covering approximately 4 million and 13 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

## 8. Fair Value Measurements

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

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

During the three and nine months ended September 30, 2013, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (Continued)

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

| (Dollars in millions) | Fair Value Measurements on a Recurring BasisDepember 31, 2012 |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Level 1 Level 2 |  | Level 3 | Total | Level 1 | Level 2 | Level 3 | Total |
| Assets |  |  |  |  |  |  |  |  |
| Available-for-sale investments: |  |  |  |  |  |  |  |  |
| Agency residential mortgage-backed securities | \$ | \$ 77 | \$ | \$ 77 | \$ | \$ 63 | \$ | \$ 63 |
| Guaranteed investment contracts |  | 8 |  | 8 |  | 9 |  | 9 |
| Other |  | 8 |  | 8 |  | 9 |  | 9 |
| Total available-for-sale investments |  | 93 |  | 93 |  | 81 |  | 81 |
| Derivative instruments: ${ }^{(1)}$ |  |  |  |  |  |  |  |  |
| Interest rate swaps |  | 917 | 49 | 966 |  | 1,444 | 102 | 1,546 |
| Cross-currency interest rate swaps |  | 32 | 1,132 | 1,164 |  | 48 | 1,187 | 1,235 |
| Other |  |  | 3 | 3 |  |  | 4 | 4 |
| Total derivative assets ${ }^{(3)}$ |  | 949 | 1,184 | 2,133 |  | 1,492 | 1,293 | 2,785 |
| Total | \$ | \$ 1,042 | \$ 1,184 | \$ 2,226 | \$ | \$ 1,573 | \$ 1,293 | \$ 2,866 |
| Liabilities ${ }^{(2)}$ |  |  |  |  |  |  |  |  |
| Derivative instruments ${ }^{(1)}$ |  |  |  |  |  |  |  |  |
| Interest rate swaps | \$ | \$ (164) | \$ (137) | \$ (301) | \$ | \$ (34) | \$ (175) | \$ (209) |
| Floor Income Contracts |  | $(1,564)$ |  | $(1,564)$ |  | $(2,154)$ |  | $(2,154)$ |
| Cross-currency interest rate swaps |  | (11) | (171) | (182) |  | (2) | (134) | (136) |
| Other |  |  | (21) | (21) |  |  |  |  |
| Total derivative liabilities ${ }^{(3)}$ |  | $(1,739)$ | (329) | $(2,068)$ |  | $(2,190)$ | (309) | $(2,499)$ |
| Total | \$ | \$ $(1,739)$ | \$ (329) | \$ $(2,068)$ | \$ | \$ $(2,190)$ | \$ (309) | \$ $(2,499)$ |

[^7][^8]
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(3) See Note 4 Derivative Financial Instruments for a reconciliation of gross positions without the impact of master netting agreements to the balance sheet classification.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (Continued)

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


| (Dollars in millions) | Nine Months Ended September 30, |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 |  |  |  |  |  |  | 2012 |  |  |  |  |  |  |
|  | Derivative instruments |  |  |  |  |  |  | Derivative instruments |  |  |  |  |  |  |
|  | Cross |  |  |  |  |  |  | Cross |  |  |  |  |  |  |
|  | Currency |  |  |  |  | Total |  |  | Currency |  |  |  | Total |  |
|  | Interest Rate Swaps |  | terest Swaps |  | ther |  | ative <br> ments | Interes ate Swa |  | rest <br> Swaps | Ot |  |  | vative <br> uments |
| Balance, beginning of period | \$ (73) | \$ | 1,053 | \$ | 4 | \$ | 984 | \$ (40) | \$ | 1,021 | \$ | 1 | \$ | 982 |
| Total gains/(losses) (realized and |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Included in earnings ${ }^{(1)}$ | 6 |  |  |  | (18) |  | (12) | (3) |  | (73) |  | 4 |  | (72) |
| Included in other comprehensive income |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Settlements | (21) |  | (92) |  | (4) |  | (117) | (25) |  | (105) |  |  |  | (130) |
| Transfers in and/or out of level 3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Balance, end of period | \$ (88) | \$ | 961 | \$ | (18) | \$ | 855 | \$ (68) | \$ | 843 | \$ | 5 | \$ | 780 |
|  | \$ (3) | \$ | 45 |  | (16) | \$ | 26 | \$ (26) | \$ | (178) | \$ | 5 | \$ | (199) |

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Change in unrealized gains/(losses) relating
to instruments still held at the reporting
date ${ }^{(2)}$
(1) Included in earnings is comprised of the following amounts recorded in the specified line item in the consolidated statements of income:

|  | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | 2013 |  | 12 | 2013 |  | 012 |
| Gains (losses) on derivative and hedging activities, net | \$ 480 | \$ | 245 | \$ (73) | \$ | (172) |
| Interest expense | 24 |  | 25 | 61 |  | 100 |
| Total | \$ 504 | \$ | 270 | \$ (12) | \$ | (72) |

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (Continued)

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

| (Dollars in millions) | Fair Value at September 30, 2013 |  | Valuation Technique | Input | Range <br> (Weighted Average) |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Derivatives |  |  |  |  |  |
| Consumer Price Index/ LIBOR basis swaps |  |  |  | Bid/ask adjustment | 0.05\% 0.05\% |
|  | \$ | 41 | Discounted cash flow | to discount rate | (0.05\%) |
| Prime/LIBOR basis swaps |  | (129) | Discounted cash flow | Constant prepayment rate | 4.3\% |
|  |  |  |  |  | 0.08\% 0.08\% |
|  |  |  |  | Bid/ask adjustment to discount rate | (0.08\%) |
| Cross-currency interest rate swaps |  | 961 | Discounted cash flow | Constant prepayment rate | 2.6\% |
| Other |  | (18) |  |  |  |
| Total |  | 855 |  |  |  |

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

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

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

Cross-currency interest rate swaps The unobservable inputs used in these valuations are constant prepayment rates of the underlying securitization trust the swap references. A decrease in this input will result in a longer weighted average life of the swap. All else equal in a typical currency market, this will result in a decrease to the valuation due to the delay in the cash flows of the currency

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exchanges as well as diminished liquidity in the forward exchange markets as you increase the term. The opposite is true for an increase in the input.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (Continued)

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

| (Dollars in millions) | September 30, 2013 |  |  |  | December 31, 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Fair <br> Value | Carrying Value | Difference |  | Fair Value | Carrying Value |  |  |
| Earning assets |  |  |  |  |  |  | Difference |  |
| FFELP Loans | \$ 105,809 | \$ 106,350 | \$ | (541) | \$ 125,042 | \$ 125,612 | \$ | (570) |
| Private Education Loans | 37,625 | 37,752 |  | (127) | 36,081 | 36,934 |  | (853) |
| Cash and investments ${ }^{(1)}$ | 9,612 | 9,612 |  |  | 9,994 | 9,994 |  |  |
| Total earning assets | 153,046 | 153,714 |  | (668) | 171,117 | 172,540 |  | $(1,423)$ |
| Interest-bearing liabilities |  |  |  |  |  |  |  |  |
| Short-term borrowings | 15,588 | 15,572 |  | (16) | 19,861 | 19,856 |  | (5) |
| Long-term borrowings | 133,102 | 136,944 |  | 3,842 | 146,210 | 152,401 |  | 6,191 |
| Total interest-bearing liabilities | 148,690 | 152,516 |  | 3,826 | 166,071 | 172,257 |  | 6,186 |
| Derivative financial instruments |  |  |  |  |  |  |  |  |
| Floor Income Contracts | $(1,564)$ | $(1,564)$ |  |  | $(2,154)$ | $(2,154)$ |  |  |
| Interest rate swaps | 665 | 665 |  |  | 1,337 | 1,337 |  |  |
| Cross-currency interest rate swaps | 982 | 982 |  |  | 1,099 | 1,099 |  |  |
| Other | (18) | (18) |  |  | 4 | 4 |  |  |
| Excess of net asset fair value over carrying value |  |  | \$ | 3,158 |  |  | \$ | 4,763 |

(1) Cash and investments includes available-for-sale investments that consist of investments that are primarily agency securities whose cost basis is $\$ 94$ million and $\$ 78$ million at September 30, 2013 and December 31, 2012, respectively, versus a fair value of $\$ 93$ million and $\$ 81$ million at September 30, 2013 and December 31, 2012, respectively.
The following includes a discussion of financial instruments whose fair value is included for disclosure purposes only in the table above along with their level in the fair value hierarchy.

## Student Loans

## FFELP Loans

Fair values for FFELP Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, cost of funds, capital levels, and expected Repayment Borrower Benefits to be earned. In addition, the Floor Income component of our FFELP Loan portfolio is valued with

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option models using both observable market inputs and internally developed inputs. A number of significant inputs into the models are internally derived and not observable to market participants. While the resulting fair value can be validated against market transactions where we are a participant, these markets are not considered active. As such, these are level 3 valuations.

## Private Education Loans

Fair values for Private Education Loans were determined by modeling loan cash flows using stated terms of the loans and internally-developed assumptions. The significant assumptions used to determine fair value are prepayment speeds, default rates, recovery rates, cost of funds and capital levels. A number of significant inputs into the models are internally derived and not observable to market participants nor can the resulting fair values be validated against market transactions. As such, these are level 3 valuations.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 8. Fair Value Measurements (Continued)

## Cash and Investments (Including Restricted Cash and Investments )

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

## Borrowings

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

## 9. Commitments and Contingencies

At the time of this filing, Sallie Mae Bank (the Bank ) remains subject to a cease and desist order originally issued in August 2008 by the Federal Deposit Insurance Corporation ( FDIC ) and the Utah Department of Financial Institutions ( UDFI ). In July 2013, the FDIC notified the Bank that it plans to replace the existing cease and desist order with a new formal enforcement action that will more specifically address certain cited violations of Section 5 of the Federal Trade Commission Act, including with respect to the Servicemembers Civil Relief Act (SCRA ), and the Equal Credit Opportunity Act ( ECOA ) and its implementing regulation, Regulation B, which will likely include civil money penalties and restitution. The Bank has been notified by the UDFI that it does not intend to join the FDIC in issuing the new enforcement action.

With respect to the alleged civil violations of Section 5 of the Federal Trade Commission Act relating to the SCRA, we are also in discussions with the Department of Justice ( DOJ ), as the agency having primary authority for enforcement of SCRA matters, regarding settlement, remediation and a comprehensive restitution plan. In September 2013, we also received a Civil Investigative Demand from the Consumer Financial Protection Bureau ( CFPB ) as part of its separate investigation regarding allegations relating to our existing payment allocation practices and procedures, the same as those previously raised by the FDIC.

We have made and continue to make changes to the Bank s oversight of significant activities performed outside the Bank by Company affiliates and to our business practices in order to comply with all applicable laws and regulations and the terms of any cease and desist orders, including in connection with our pursuit of a strategic plan to separate our existing organization into two publicly traded companies. We are cooperating fully with the FDIC, DOJ and CFPB in response to their investigations and requests for information and are in active discussions with each with respect to any potential actions to be taken against us. We could be required to, or otherwise determine to, make further changes to the business practices and products of the Bank and our other affiliates to respond to regulatory concerns. At the time of the filing, it is not possible to estimate a range of potential exposure, if any, to amounts that may be payable or costs that must be incurred to comply with the terms of any order.

In the ordinary course of business, we and our subsidiaries are defendants in or parties to pending and threatened legal actions and proceedings including actions brought on behalf of various classes of claimants. These actions and proceedings may be based on alleged violations of consumer protection, securities,

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 9. Commitments and Contingencies (Continued)

employment and other laws. In certain of these actions and proceedings, claims for substantial monetary damage are asserted against us and our subsidiaries.

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

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

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

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

## 10. Segment Reporting

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

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

|  | September 30, <br> (Dollars in millions) | December 31, <br> $\mathbf{2 0 1 2}$ |  |
| :--- | :---: | :---: | :---: |
| Private Education Loans, net | $\$$ | 37,752 | $\$$ |
| Cash and investments ${ }^{(1)}$ | 2,268 | 36,934 |  |
| Other | 3,599 | 2,731 |  |
| Total assets | $\$$ | 43,619 | $\$ 2,275$ |

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(1) Includes restricted cash and investments.

## Business Services Segment

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

On September 25, 2013, we announced the sale of our 529 college savings plan administration business. Upon the transaction s closing, which is anticipated to occur in the fourth-quarter 2013, we will recognize a gain of approximately $\$ 0.14$ per diluted share. Due to the pending sale, the results of this business were moved to discontinued operations for all periods presented.

At September 30, 2013 and December 31, 2012, the Business Services segment had total assets of $\$ 826$ million and $\$ 867$ million, respectively.

## FFELP Loans Segment

Our FFELP Loans segment consists of our \$106.3 billion FFELP Loan portfolio at September 30, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

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

| (Dollars in millions) | $\begin{gathered} \text { September 30, } \\ 2013 \end{gathered}$ |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  |
| :---: | :---: | :---: | :---: | :---: |
| FFELP Loans, net | \$ | 106,350 | \$ | 125,612 |
| Cash and investments ${ }^{(1)}$ |  | 5,025 |  | 5,766 |
| Other |  | 3,114 |  | 4,286 |
| Total assets | \$ | 114,489 | \$ | 135,664 |

(1) Includes restricted cash and investments.

## Other Segment

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

At September 30, 2013 and December 31, 2012, the Other segment had total assets of $\$ 2.6$ billion and $\$ 1.8$ billion, respectively.

## Measure of Profitability

The tables below include the condensed operating results for each of our reportable segments. Management, including the chief operating decision makers, evaluates the Company on certain performance measures that we refer to as Core Earnings performance measures for each operating segment. We use Core Earnings to manage each business segment because Core Earnings reflect adjustments to GAAP financial results for two items, discussed below, that create significant volatility mostly due to timing factors generally beyond the control of management. Accordingly, we believe that Core Earnings provide management with a useful basis from which to better evaluate results from ongoing operations against the business plan or against results from prior periods. Consequently, we disclose this information as we believe it provides investors with additional information regarding the operational and performance indicators that are most closely assessed by

## management.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

The two items adjusted for in our Core Earnings presentations are (1) our use of derivative instruments to hedge our economic risks that do not qualify for hedge accounting treatment or do qualify for hedge accounting treatment but result in ineffectiveness and (2) the accounting for goodwill and acquired intangible assets. The tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage the business. Reconciliation of the Core Earnings segment totals to our consolidated operating results in accordance with GAAP is also included in the tables below.

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

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

## Segment Results and Reconciliations to GAAP

| (Dollars in millions) | Three Months Ended September 30, 2013 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Business Lending Services |  | FFELP <br> Loans |  | Other | Eliminations ${ }^{(1)}$ | Total Core Earning |  | Adjustments |  |  |  |  |  | $\begin{aligned} & \text { Total } \\ & \text { GAAP } \end{aligned}$ |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 635 | \$ | \$ | 574 | \$ | \$ | \$ | 1,209 | \$ | 201 | \$ | (77) | \$ | 124 | \$ 1,333 |
| Other loans |  |  |  |  | 3 |  |  | 3 |  |  |  |  |  |  | 3 |
| Cash and investments | 1 | 1 |  | 2 | 1 | (1) |  | 4 |  |  |  |  |  |  | 4 |
| Total interest income | 636 | 1 |  | 576 | 4 | (1) |  | 1,216 |  | 201 |  | (77) |  | 124 | 1,340 |
| Total interest expense | 203 |  |  | 313 | 13 | (1) |  | 528 |  | 12 |  | $1{ }^{(4)}$ |  | 13 | 541 |
| Net interest income (loss) | 433 | 1 |  | 263 | (9) |  |  | 688 |  | 189 |  | (78) |  | 111 | 799 |
| Less: provisions for loan losses | 195 |  |  | 12 |  |  |  | 207 |  |  |  |  |  |  | 207 |
| Net interest income (loss) after provisions for loan losses | 238 | 1 |  | 251 | (9) |  |  | 481 |  | 189 |  | (78) |  | 111 | 592 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Servicing revenue | 11 | 174 |  | 21 |  | (123) |  | 83 |  |  |  |  |  |  | 83 |
| Contingency revenue |  | 104 |  |  |  |  |  | 104 |  |  |  |  |  |  | 104 |
| Gains on debt repurchases |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other income (loss) |  | 6 |  |  | 6 |  |  | 12 |  | (189) |  | 59(5) |  | (130) | (118) |
| Total other income (loss) | 11 | 284 |  | 21 | 6 | (123) |  | 199 |  | (189) |  | 59 |  | (130) | 69 |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 85 | 103 |  | 129 | 4 | (123) |  | 198 |  |  |  |  |  |  | 198 |
| Overhead expenses |  |  |  |  | 59 |  |  | 59 |  |  |  |  |  |  | 59 |
| Operating expenses | 85 | 103 |  | 129 | 63 | (123) |  | 257 |  |  |  |  |  |  | 257 |
| Goodwill and acquired <br> intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Restructuring and other reorganization expenses |  |  |  |  | 12 |  |  | 12 |  |  |  |  |  |  | 12 |
| Total expenses | 85 | 103 |  | 129 | 75 | (123) |  | 269 |  |  |  | 4 |  | 4 | 273 |
| Income (loss) from continuing <br> operations, before income tax expense <br> $\begin{array}{llllll}\text { (benefit) } & 164 & 182 & 143 & \text { (78) }\end{array}$ <br> (23) <br> (23) 388 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income tax expense (benefit) ${ }^{(3)}$ | 59 | 66 |  | 51 | (28) |  |  | 148 |  |  |  | (12) |  | (12) | 136 |

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| Net income (loss) from continuing operations | 105 |  | 116 |  | 92 | (50) |  |  | 263 |  |  | (11) |  | (11) |  | 252 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income from discontinued operations, net of tax expense |  |  | 8 |  |  |  |  |  | 8 |  |  |  |  |  |  | 8 |
| Net income (loss) | 105 |  | 124 |  | 92 | (50) |  |  | 271 |  |  | (11) |  | (11) |  | 260 |
| Less: net loss attributable to noncontrolling interest |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) attributable to SLM Corporation | \$ 105 | \$ | 124 | \$ | 92 | \$ (50) | \$ | \$ | 271 | \$ | \$ | (11) | \$ | (11) | \$ | 260 |

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

|  | Three Months Ended September 30, 2013 |  |  |
| :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting | $\begin{aligned} & \text { Net Impact of } \\ & \text { Goodwill and } \\ & \text { Acquired Intangibles } \end{aligned}$ | Total |
| Net interest income after provisions for loan losses | \$ 111 | \$ | \$ 111 |
| Total other loss | (130) |  | (130) |
| Goodwill and acquired intangible asset impairment and amortization |  | 4 | 4 |
| Core Earnings adjustments to GAAP | \$ (19) | \$ (4) | (23) |
| Income tax benefit |  |  | (12) |
| Net loss |  |  | \$ (11) |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$(4)$ million of other derivative accounting adjustments.
(5) Represents the $\$ 62$ million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $\$(4)$ million of other derivative accounting adjustments.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

| (Dollars in millions) | Three Months Ended September 30, 2012 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Business <br> Lending Services |  | FFELP <br> Loans | Other | Eliminations ${ }^{(1)}$ | Total Core EarningRe |  | Adjustments Additions/ |  |  |  | Total djustments ${ }^{(2)}$ |  | $\begin{aligned} & \text { Total } \\ & \text { GAAP } \end{aligned}$ |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 615 | \$ | \$ 712 | \$ | \$ | \$ | 1,327 | \$ | 206 | \$ | (78) | \$ | 128 | \$ 1,455 |
| Other loans |  |  |  | 4 |  |  | 4 |  |  |  |  |  |  | 4 |
| Cash and investments | 2 | 2 | 3 |  | (2) |  | 5 |  |  |  |  |  |  | 5 |
| Total interest income | 617 | 2 | 715 | 4 | (2) |  | 1,336 |  | 206 |  | (78) |  | 128 | 1,464 |
| Total interest expense | 209 |  | 399 | 12 | (2) |  | 618 |  | 26 |  | $1{ }^{(4)}$ |  | 27 | 645 |
| Net interest income (loss) | 408 | 2 | 316 | (8) |  |  | 718 |  | 180 |  | (79) |  | 101 | 819 |
| Less: provisions for loan losses | 252 |  | 18 |  |  |  | 270 |  |  |  |  |  |  | 270 |
| Net interest income (loss) after provisions for loan losses | 156 | 2 | 298 | (8) |  |  | 448 |  | 180 |  | (79) |  | 101 | 549 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Servicing revenue | 12 | 201 | 22 |  | (164) |  | 71 |  |  |  |  |  |  | 71 |
| Contingency revenue |  | 85 |  |  |  |  | 85 |  |  |  |  |  |  | 85 |
| Gains on debt repurchases |  |  |  | 44 |  |  | 44 |  |  |  |  |  |  | 44 |
| Other income (loss) |  | 7 |  | 3 |  |  | 10 |  | (180) |  | $(61)^{(5)}$ |  | (241) | (231) |
| Total other income (loss) | 12 | 293 | 22 | 47 | (164) |  | 210 |  | (180) |  | (61) |  | (241) | (31) |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 68 | 88 | 171 | 3 | (164) |  | 166 |  |  |  |  |  |  | 166 |
| Overhead expenses |  |  |  | 54 |  |  | 54 |  |  |  |  |  |  | 54 |
| Operating expenses | 68 | 88 | 171 | 57 | (164) |  | 220 |  |  |  |  |  |  | 220 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  | 5 |  | 5 | 5 |
| Restructuring and other reorganization expenses | 1 |  |  | 1 |  |  | 2 |  |  |  |  |  |  | 2 |
| Total expenses | 69 | 88 | 171 | 58 | (164) |  | 222 |  |  |  | 5 |  | 5 | 227 |
| Income (loss) from continuing operations, before income tax <br> expense (benefit) $\quad 99 \quad 207 \quad 149 \quad 436$ <br> (145) <br> (145) <br> 291 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income tax expense (benefit) ${ }^{(3)}$ | 36 | 76 | 55 | (7) |  |  | 160 |  |  |  | (56) |  | (56) | 104 |
| Net income (loss) from continuing operations | 63 | 131 | 94 | (12) |  |  | 276 |  |  |  | (89) |  | (89) | 187 |
| Income (loss) from discontinued operations, net of tax expense (benefit) | (1) | 1 |  |  |  |  |  |  |  |  |  |  |  |  |

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| Net income (loss) | 62 |  | 132 |  | 94 | (12) |  |  | 276 |  |  | (89) |  | (89) |  | 187 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Less: net loss attributable to noncontrolling interest |  |  | (1) |  |  |  |  |  | (1) |  |  |  |  |  |  | (1) |
| Net income (loss) attributable to SLM Corporation | \$ 62 | \$ | 133 | \$ | 94 | \$ (12) | \$ | \$ | 277 | \$ | \$ | (89) | \$ | (89) | \$ | 188 |

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

Three Months Ended September 30, 2012

| (Dollars in millions) | Net Impact of Derivative Accounting | $\begin{gathered} \text { Net Impact of } \\ \text { Goodwill and } \\ \text { Acquired Intangibles } \end{gathered}$ | Total |
| :---: | :---: | :---: | :---: |
| Net interest income after provisions for loan losses | \$ 101 | \$ | \$ 101 |
| Total other loss | (241) |  | (241) |
| Goodwill and acquired intangible asset impairment and amortization |  | 5 | 5 |
| Core Earnings adjustments to GAAP | \$ (140) | \$ (5) | (145) |
| Income tax benefit |  |  | (56) |
| Net loss |  |  | \$ (89) |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$(9)$ million of other derivative accounting adjustments.
(5) Represents the $\$(53)$ million of unrealized gains (losses) on derivative and hedging activities, net as well as the remaining portion of the $\$(9)$ million of other derivative accounting adjustments.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

| (Dollars in millions) | Consumer Lending | Business Services | FFELP <br> Loans | Nin Other | Eliminations Months End (1) | Ea | Septemb <br> Total <br> Core <br> rningec | r 3 | ificati |  | justment tions/ actions) |  | tal ments ${ }^{(2)}$ | $\begin{aligned} & \text { Total } \\ & \text { GAAP } \end{aligned}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 1,884 | \$ | \$ 1,755 | \$ | \$ | \$ | 3,639 | \$ | 612 | \$ | (229) | \$ | 383 | \$ 4,022 |
| Other loans |  |  |  | 9 |  |  | 9 |  |  |  |  |  |  | 9 |
| Cash and investments | 5 | 4 | 5 | 3 | (4) |  | 13 |  |  |  |  |  |  | 13 |
| Total interest income | 1,889 | 4 | 1,760 | 12 | (4) |  | 3,661 |  | 612 |  | (229) |  | 383 | 4,044 |
| Total interest expense | 613 |  | 978 | 36 | (4) |  | 1,623 |  | 44 |  | $(1)^{(4)}$ |  | 43 | 1,666 |
| Net interest income (loss) | 1,276 | 4 | 782 | (24) |  |  | 2,038 |  | 568 |  | (228) |  | 340 | 2,378 |
| Less: provisions for loan losses | 607 |  | 42 |  |  |  | 649 |  |  |  |  |  |  | 649 |
| Net interest income (loss) after provisions for loan losses | 669 | 4 | 740 | (24) |  |  | 1,389 |  | 568 |  | (228) |  | 340 | 1,729 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains (losses) on sales of loans and investments |  |  | 312 | (5) |  |  | 307 |  |  |  |  |  |  | 307 |
| Servicing revenue | 31 | 541 | 60 |  | (409) |  | 223 |  |  |  |  |  |  | 223 |
| Contingency revenue |  | 312 |  |  |  |  | 312 |  |  |  |  |  |  | 312 |
| Gains on debt repurchases |  |  |  | 48 |  |  | 48 |  | (6) |  |  |  | (6) | 42 |
| Other income (loss) |  | 20 |  | 6 |  |  | 26 |  | (562) |  | 462(5) |  | (100) | (74) |
| Total other income (loss) | 31 | 873 | 372 | 49 | (409) |  | 916 |  | (568) |  | 462 |  | (106) | 810 |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 228 | 299 | 430 | 9 | (409) |  | 557 |  |  |  |  |  |  | 557 |
| Overhead expenses |  |  |  | 180 |  |  | 180 |  |  |  |  |  |  | 180 |
| Operating expenses | 228 | 299 | 430 | 189 | (409) |  | 737 |  |  |  |  |  |  | 737 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  | 10 |  | 10 | 10 |
| Restructuring and other reorganization expenses | 2 | 1 |  | 43 |  |  | 46 |  |  |  |  |  |  | 46 |
| Total expenses | 230 | 300 | 430 | 232 | (409) |  | 783 |  |  |  | 10 |  | 10 | 793 |
| Income (loss) from continuing operations, before income tax |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Income tax expense (benefit) ${ }^{(3)}$ | 171 | 211 | 249 | (75) |  |  | 556 |  |  |  | 89 |  | 89 | 645 |
| Net income (loss) from continuing operations | 299 | 366 | 433 | (132) |  |  | 966 |  |  |  | 135 |  | 135 | 1,101 |
| Income (loss) from discontinued operations, net of tax expense (benefit) | (1) | 49 |  |  |  |  | 48 |  |  |  | (1) |  | (1) | 47 |

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| Net income (loss) |  | 298 |  | 415 |  | 433 | (132) |  |  | 1,014 |  |  | 134 |  | 134 | 1,148 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Less: net loss attributable to noncontrolling interest |  |  |  | (1) |  |  |  |  |  | (1) |  |  |  |  |  | (1) |
| Net income (loss) attributable to SLM Corporation | \$ | 298 | \$ | 416 | \$ | 433 | \$ (132) | \$ | \$ | 1,015 | \$ | \$ | 134 | \$ | 134 | \$ 1,149 |

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

|  | Nine Months Ended September 30, 2013 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting | Acq | of <br> nd <br> gibles | Total |
| Net interest income after provisions for loan losses | \$ 340 | \$ |  | \$ 340 |
| Total other loss | (106) |  |  | (106) |
| Goodwill and acquired intangible asset impairment and amortization |  |  | 10 | 10 |
| Core Earnings adjustments to GAAP | \$ 234 | \$ | (10) | 224 |
| Income tax expense |  |  |  | 89 |
| Loss from discontinued operations, net of tax benefit |  |  |  | (1) |
| Net income |  |  |  | \$ 134 |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$ 41$ million of other derivative accounting adjustments.
(5) Represents the $\$ 422$ million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $\$ 41$ million of other derivative accounting adjustments.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

| (Dollars in millions) | Consumer Lending | Business Services | FFELP <br> Loans | Ni Other | ine Months End Eliminations ${ }^{(1)}$ | Ea | Septem <br> Total <br> Core <br> arning | ass | $30,2012$ <br> ificati |  | justment itions/ actions) |  | tal <br> nents ${ }^{(2)}$ | Total GAAP |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 1,856 | \$ | \$ 2,090 | \$ | \$ | \$ | 3,946 | \$ | 643 | \$ | (274) | \$ | 369 | \$ 4,315 |
| Other loans |  |  |  | 13 |  |  | 13 |  |  |  |  |  |  | 13 |
| Cash and investments | 6 | 5 | 10 |  | (5) |  | 16 |  |  |  |  |  |  | 16 |
| Total interest income | 1,862 | 5 | 2,100 | 13 | (5) |  | 3,975 |  | 643 |  | (274) |  | 369 | 4,344 |
| Total interest expense | 616 |  | 1,233 | 26 | (5) |  | 1,870 |  | 95 |  | $3{ }^{(4)}$ |  | 98 | 1,968 |
| Net interest income (loss) | 1,246 | 5 | 867 | (13) |  |  | 2,105 |  | 548 |  | (277) |  | 271 | 2,376 |
| Less: provisions for loan losses | 712 |  | 54 |  |  |  | 766 |  |  |  |  |  |  | 766 |
| Net interest income (loss) after provisions for loan losses | 534 | 5 | 813 | (13) |  |  | 1,339 |  | 548 |  | (277) |  | 271 | 1,610 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  | 1 |  |  | 1 |  |  |  |  |  |  | 1 |
| Servicing revenue | 36 | 619 | 68 | 1 | (512) |  | 212 |  |  |  |  |  |  | 212 |
| Contingency revenue |  | 261 |  |  |  |  | 261 |  |  |  |  |  |  | 261 |
| Gains on debt repurchases |  |  |  | 102 |  |  | 102 |  |  |  |  |  |  | 102 |
| Other income (loss) |  | 25 |  | 9 |  |  | 34 |  | (548) |  | $(47)^{(5)}$ |  | (595) | (561) |
| Total other income (loss) | 36 | 905 | 68 | 113 | (512) |  | 610 |  | (548) |  | (47) |  | (595) | 15 |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 199 | 269 | 537 | 10 | (512) |  | 503 |  |  |  |  |  |  | 503 |
| Overhead expenses |  |  |  | 169 |  |  | 169 |  |  |  |  |  |  | 169 |
| Goodwill and acquired intangible |  |  |  |  |  |  |  |  |  |  |  |  |  | 672 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  | 13 |  | 13 | 13 |
| Restructuring and other reorganization expenses | 3 | 2 |  | 4 |  |  | 9 |  |  |  |  |  |  | 9 |
| Total expenses | 202 | 271 | 537 | 183 | (512) |  | 681 |  |  |  | 13 |  | 13 | 694 |


| Income (loss) from continuing operations, before income tax expense (benefit) | 368 | 639 | 344 | (83) | 1,268 | (337) | (337) | 931 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income tax expense (benefit) ${ }^{(3)}$ | 134 | 234 | 126 | (29) | 465 | (125) | (125) | 340 |
| Net income (loss) from continuing operations | 234 | 405 | 218 | (54) | 803 | (212) | (212) | 591 |
| Loss from discontinued operations, net of tax benefit | (1) |  |  |  | (1) | (1) | (1) | (2) |

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| Net income (loss) |  | 233 |  | 405 |  | 218 | (54) |  |  | 802 |  |  | (213) |  | (213) |  | 589 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Less: net loss attributable to noncontrolling interest |  |  |  | (2) |  |  |  |  |  | (2) |  |  |  |  |  |  | (2) |
| Net income (loss) attributable to SLM Corporation | \$ | 233 | \$ | 407 | \$ | 218 | \$ (54) | \$ | \$ | 804 | \$ | \$ | (213) | \$ | (213) | \$ | 591 |

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

|  | Nine Months Ended September 30, 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting | Acqu | of nd gibles | Total |
| Net interest income after provisions for loan losses | \$ 271 | \$ |  | \$ 271 |
| Total other loss | (595) |  |  | (595) |
| Goodwill and acquired intangible asset impairment and amortization |  |  | 13 | 13 |
| Core Earnings adjustments to GAAP | \$ (324) | \$ | (13) | (337) |
| Income tax benefit |  |  |  | (125) |
| Loss from discontinued operations, net of tax benefit |  |  |  | (1) |
| Net loss |  |  |  | \$ (213) |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$ 2$ million of other derivative accounting adjustments.
(5) Represents the $\$(52)$ million of unrealized gains (losses) on derivative and hedging activities, net as well as the remaining portion of the $\$ 2$ million of other derivative accounting adjustments.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 10. Segment Reporting (Continued)

## Summary of Core Earnings Adjustments to GAAP

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

| (Dollars in millions) | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 |  | 2013 | 2012 |  |
| Core Earnings adjustments to GAAP: |  |  |  |  |  |  |
| Net impact of derivative accounting ${ }^{(1)}$ | \$ (19) | \$ | (140) | \$ 234 | \$ | (324) |
| Net impact of goodwill and acquired intangibles assets ${ }^{(2)}$ | (4) |  | (5) | (10) |  | (13) |
| Net tax effect ${ }^{(3)}$ | 12 |  | 56 | (89) |  | 125 |
| Net effect from discontinued operations |  |  |  | (1) |  | (1) |
| Total Core Earnings adjustments to GAAP | \$ (11) | \$ | (89) | \$ 134 |  | (213) |

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

## 11. Discontinued Operations

In the second quarter of 2013, we sold our Campus Solutions business and recorded an after-tax gain of $\$ 38$ million. This business provided processing capabilities to educational institutions. The Campus Solutions business comprises operations and cash flows that can be clearly distinguished operationally and for financial reporting purposes from the rest of the Company and we will have no continuing involvement. As a result, our Campus Solutions business is presented in discontinued operations for the current and prior periods.

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On September 25, 2013, we announced the sale of our 529 college savings plan administration business. Upon the transaction s closing, which is anticipated to occur in the fourth-quarter 2013, we will recognize a gain of approximately $\$ 0.14$ per diluted share. Due to the pending sale, the results of this business were moved to discontinued operations for all periods presented.

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## SLM CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 11. Discontinued Operations (Continued)

The following table summarizes the discontinued operations.

| (Dollars in millions) | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Operations: |  |  |  |  |  |  |  |
| Income (loss) from discontinued operations before income taxes | \$ | 1 | \$ |  | 36 |  | (3) |
| Income tax benefit |  | (7) |  |  | (11) |  | (1) |
| Income (loss) from discontinued operations, net of taxes | \$ | 8 | \$ |  | 47 | \$ |  |

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

The following discussion and analysis should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included in the 2012 Form 10-K.

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

Definitions for certain capitalized terms used in this document can be found in the 2012 Form 10-K.
Certain reclassifications have been made to the balances as of and for the three and nine months ended September 30, 2012 to be consistent with classifications adopted for 2013, and had no effect on net income, total assets, or total liabilities.

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

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## Selected Financial Information and Ratios


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

## Overview

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

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

We monitor and assess our ongoing operations and results based on the following four reportable segments:
(1) Consumer Lending, (2) Business Services, (3) FFELP Loans and (4) Other.

## Consumer Lending Segment

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

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## Business Services Segment

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

## FFELP Loans Segment

Our FFELP Loans segment consists of our \$106.3 billion FFELP Loan portfolio at September 30, 2013 and underlying debt and capital funding these loans. FFELP Loans are no longer originated but we continue to seek to acquire FFELP Loan portfolios to leverage our servicing scale to generate incremental earnings and cash flow. This segment is expected to generate significant amounts of cash as the FFELP portfolio amortizes.

## Other

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

## Recent Developments

## Strategic Plan to Create Separate Education Loan Management and Consumer Banking Companies

On May 29, 2013, our Board of Directors authorized a plan to pursue the separation of the Company s existing businesses into two, separate, publicly traded entities an education loan management business and a consumer banking business.

The separation transaction will be effected as a pro-rata dividend of shares of the education loan management business to our shareholders. Upon consummation of the separation, the education loan management business will become a separate public company and will trade under a new stock ticker symbol. The consumer banking business will retain the stock ticker symbol SLM and will operate under the Sallie Mae brand.

The completion of the separation will be subject to certain customary conditions, including final approval by the Company s Board of Directors, confirmation of the tax-free nature of the separation transaction and the effectiveness of a registration statement that will be filed with the SEC. The contemplated separation and distribution will not require a shareholder vote. Subject to the satisfaction of all necessary conditions, including the conditions described above, the separation is currently anticipated to occur in the first half of 2014; however, there can be no assurance that the separation and distribution will ultimately occur.

## Sale of 529 College Savings Plan Administration Business

On September 25, 2013, we announced the sale of our 529 college savings plan administration business. Upon the transaction sclosing, which is anticipated to occur in the fourth-quarter 2013, we will recognize a gain of approximately $\$ 0.14$ per diluted share. Due to the pending sale, the results of this business were moved to discontinued operations for all periods presented.

## Key Financial Measures

Our operating results are primarily driven by net interest income from our student loan portfolios (which include financing costs), provision for loan losses, the revenues and expenses generated by our service businesses, and gains and losses on loan sales and debt repurchases. We manage and assess the performance of each business segment separately as each is focused on different customers and each derives its revenue from different activities and services. A brief summary of our key financial measures (net interest income; provisions

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for loan losses; charge-offs and delinquencies; servicing and contingency revenues; other income (loss); operating expenses; and Core Earnings ) can be found in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K.

## Third-Quarter 2013 Summary of Results

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

Third-quarter 2013 GAAP net income was $\$ 260$ million ( $\$ .57$ diluted earnings per share), versus net income of $\$ 188$ million ( $\$ 0.39$ diluted earnings per share) in the third-quarter 2012. The changes in GAAP net income are driven by the same types of Core Earnings items discussed below as well as changes in mark-to-market unrealized gains and losses on derivative contracts and amortization and impairment of goodwill and intangible assets that are recognized in GAAP but not in Core Earnings results. Third-quarter 2013 results included $\$ 19$ million of losses from derivative accounting treatment that are excluded from Core Earnings results, compared with losses of $\$ 140$ million in the year-ago period.

Core Earnings for the quarter were $\$ 271$ million ( $\$ .60$ diluted earnings per share), compared with $\$ 277$ million ( $\$ 0.58$ diluted earnings per share) in the year-ago period. The increase in third-quarter 2013 core diluted earnings per share was primarily the result of a $\$ 63$ million decline in the provision for loan losses, a $\$ 31$ million increase in servicing and contingency revenue, as well as fewer common shares outstanding. These items more than offset lower debt repurchase gains of $\$ 44$ million, a decrease in net interest income before provision for loan losses of $\$ 30$ million (primarily as a result of the sales of residual interests in FFELP loan securitization trusts), higher operating expenses of $\$ 37$ million (in part due to higher servicing and contingency volumes) and higher restructuring and other reorganization expenses of $\$ 10$ million.

During the first nine months of 2013, we:
issued $\$ 5.5$ billion of FFELP asset-backed securities (ABS ), $\$ 3.1$ billion of Private Education Loan ABS and $\$ 2.8$ billion of unsecured bonds;
closed on a new $\$ 6.8$ billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans;
closed on a new $\$ 1.1$ billion asset-backed borrowing facility that matures in August 2015, which was used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS.
repurchased $\$ 997$ million of debt and realized Core Earnings gains of $\$ 48$ million, compared with $\$ 520$ million of debt repurchased and $\$ 102$ million of gains in the first nine months of 2012;
repurchased 19 million common shares for $\$ 400$ million on the open market, fully utilizing our February 2013 share repurchase program authorization;
authorized $\$ 400$ million in July 2013 to be utilized in a new common share repurchase program; and
sold Residual Interests in FFELP Loan securitization trusts to third parties. We will continue to service the student loans in the trusts under existing agreements. The sales removed securitization trust assets of $\$ 12.5$ billion and related liabilities of $\$ 12.1$ billion from our balance sheet.

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sold our Campus Solutions business for an after-tax gain of $\$ 38$ million.
announced the pending sale of our 529 college savings plan administration business in September 2013; upon the transaction s closing, which is anticipated to occur in the fourth-quarter 2013, we expect to recognize a gain of approximately $\$ 0.14$ per diluted share.

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## 2013 Management Objectives

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

## Prudently Grow Consumer Lending Segment Assets and Revenues

We will continue to pursue managed growth in our Private Education Loan portfolio in 2013 by leveraging our Sallie Mae and Upromise brand while sustaining the credit quality of, and percentage of cosigners for, new originations. We are currently targeting $\$ 3.8$ billion in new loan originations for 2013, compared with $\$ 3.3$ billion in 2012. We will also continue to help our customers manage their borrowings and succeed in its payoff, which we expect will result in lower charge-offs and provision for loan losses. Originations were 11 percent higher in the third quarter of 2013 compared with the year-ago quarter. Charge-offs were 2.6 percent in the current quarter, down from 3.2 percent in the year-ago quarter. Provision for Private Education Loan losses decreased $\$ 57$ million from the year-ago quarter. Our quarterly charge-off rate in the third-quarter of 2013 was at the lowest level in five years.

## Maximize Cash Flows from FFELP Loans

In 2013, we will continue to purchase additional FFELP Loan portfolios. Through September 30, 2013, we sold our ownership interest in five of our FFELP Loan securitization trusts ( $\$ 12.5$ billion of securitization trust assets and $\$ 12.1$ billion of related liabilities). We will continue to explore alternative transactions and structures that can increase our ability to maximize the value of our ownership interests in these trusts and allow us to diversify our holdings while maintaining servicing fee income. We must also continue to reduce operating and overhead costs attributable to the maintenance and management of this segment. During the first nine months of 2013, we purchased $\$ 396$ million of FFELP Loans.

## Reduce Operating Expenses While Improving Efficiency and Customer Experience

For 2013, we will reduce unit costs, and balance our Private Education Loan growth and the challenge of increased regulatory oversight. We also plan to improve efficiency and customer experience by replacing certain of our legacy systems and making enhancements to our self-service platform and call centers (including improved call segmentation that routes an in-bound customer call directly to the appropriate agent who can answer the customer s inquiry). Third-quarter 2013 operating expenses were $\$ 257$ million compared with $\$ 220$ million in the year-ago quarter. The increase is primarily the result of increases in our third-party servicing and collections activities, increased Private Education Loan marketing activities, continued investments in technology, and an increase in pending litigation settlement expense. An example of becoming more efficient can be seen in our Consumer Lending segment; direct operating expenses as a percentage of revenues (revenues calculated as net interest income after provision plus total other income) were 34 percent and 40 percent in the three months ended September 30, 2013 and 2012, respectively, and 33 percent and 35 percent in the nine months ended September 30, 2013 and 2012, respectively.

## Maintain Our Financial Strength

In February 2013, we announced an increase in our quarterly common stock dividend to $\$ 0.15$ per share and a new $\$ 400$ million common share repurchase program. It is management s objective for 2013 to provide these shareholder distributions while ending 2013 with capital and reserve positions as strong as those with which we ended 2012. We repurchased an aggregate of 19 million shares for $\$ 400$ million in the six months ended June 30, 2013, fully utilizing the Company s February 2013 share repurchase program authorization. On July 16, 2013, we authorized $\$ 400$ million to be utilized in a new common share repurchase program that does not have an expiration date. There were no share repurchases during the third-quarter 2013. Additionally, on June 10, 2013,

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we closed on a new $\$ 6.8$ billion credit facility that matures in June 2014, to facilitate the term securitization of FFELP Loans. The facility was used in June 2013 to refinance all of the FFELP Loans previously financed through the ED Conduit Program. As a result, we ended our participation in the ED Conduit Program. On July 17, 2013, we closed on a $\$ 1.1$ billion asset-backed borrowing facility that matures on August 15,2015 . The facility was used to fund the call and redemption of our SLM 2009-D Private Education Loan Trust ABS, which occurred on August 15, 2013.

## Expand Bank Capabilities

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

## Results of Operations

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

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## GAAP Statements of Income (Unaudited)



Net income attributable to SLM Corporation common

| stock | \$ | 255 | \$ | 183 | \$ | 72 | 39\% |  | 1,134 | \$ | 576 | \$ 558 | 97\% |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Basic earnings per common share attributable to SLM Corporation: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Continuing operations | \$ | . 56 | \$ | . 39 | \$ | . 17 | 44\% | \$ | 2.46 | \$ | 1.19 | \$ 1.27 | 107\% |
| Discontinued operations |  | . 02 |  |  |  | . 02 | 100 |  | 10 |  |  | . 10 | 100 |
| Total | \$ | . 58 | \$ | . 39 | \$ | . 19 | 49\% | \$ | 2.56 | \$ | 1.19 | \$ 1.37 | 115\% |


| Diluted earnings per common share attributable to SLM Corporation: |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Continuing operations | \$ | . 55 | \$ | . 39 | \$ | . 16 | 41\% | \$ | 2.42 | \$ | 1.18 | \$ 1.24 | 105\% |
| Discontinued operations |  | . 02 |  |  |  | . 02 | 100 |  | . 10 |  |  | . 10 | 100 |
| Total | \$ | . 57 | \$ | . 39 | \$ | . 18 | 46\% | \$ | 2.52 | \$ | 1.18 | \$ 1.34 | 114\% |
| Dividends per common share attributable to SLM Corporation | \$ | . 15 | \$ | . 125 | \$ | . 025 | 20\% | \$ | . 45 | \$ | . 375 | \$ . 075 | 20\% |

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## Consolidated Earnings Summary GAAP-basis

## Three Months Ended September 30, 2013 Compared with Three Months Ended September 30, 2012

For the three months ended September 30, 2013, net income was $\$ 260$ million, or $\$ 0.57$ diluted earnings per common share, compared with net income of $\$ 188$ million, or $\$ 0.39$ diluted earnings per common share, for the three months ended September 30, 2012. The increase in net income was primarily due to a $\$ 106$ million decrease in net losses on derivative and hedging activities, a $\$ 63$ million decline in the provision for loan losses, and a $\$ 31$ million increase in servicing and contingency revenue, which more than offset a $\$ 44$ million decline in debt repurchase gains, higher operating expenses of $\$ 37$ million, a $\$ 20$ million decline in net interest income and higher restructuring and other reorganization expenses of $\$ 10$ million.

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

Net interest income decreased by $\$ 20$ million in the current quarter compared with the prior-year quarter primarily due to a reduction in FFELP net interest income from a $\$ 22$ billion decline in average FFELP Loans outstanding in part due to the sale of Residual Interests in FFELP Loan securitization trusts in the first half of 2013. There were approximately $\$ 12$ billion of FFELP Loans in these trusts.

Provisions for loan losses declined $\$ 63$ million compared with the year-ago quarter primarily as a result of the overall improvement in Private Education Loans credit quality, delinquency and charge-off trends leading to decreases in expected future charge-offs.

Losses on derivative and hedging activities, net, resulted in a net loss of $\$ 127$ million in the current quarter compared with a net loss of $\$ 233$ million in the year-ago period. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Servicing and contingency revenue increased $\$ 31$ million primarily from an increase in the number of accounts serviced and in collection volumes in third-quarter 2013.

Gains on debt repurchases decreased $\$ 44$ million from third-quarter 2012 as we did not repurchase any debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Operating expenses increased $\$ 37$ million primarily as a result of increases in our third-party servicing and collections activities, continued investments in technology, increased Private Education Loan marketing and an increase in pending litigation settlement expense.

Restructuring and other reorganization expenses were $\$ 12$ million compared with $\$ 2$ million in the year-ago quarter. For third-quarter 2013, these consisted of expenses primarily related to third-party costs incurred in connection with the Company s previously announced plan to separate its existing organization into two, separate, publicly traded companies. The $\$ 2$ million of expenses in third-quarter 2012 related to restructuring expenses.
There were no share repurchases during the third-quarter 2013. Primarily as a result of common share repurchases in previous quarters, our average outstanding diluted shares decreased by 26 million shares from the year-ago quarter.

Nine Months Ended September 30, 2013 Compared with Nine Months Ended September 30, 2012

For the nine months ended September 30, 2013, net income was $\$ 1.1$ billion, or $\$ 2.52$ diluted earnings per common share, compared with net income of $\$ 591$ million, or $\$ 1.18$ diluted earnings per common share, for the

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nine months ended September 30, 2012. The increase in net income was primarily due to a $\$ 460$ million decrease in net losses on derivative and hedging activities, a $\$ 306$ million increase in net gains on sales of loans and investments, a $\$ 117$ million decrease in provisions for loan losses, a $\$ 49$ million after-tax increase in income from discontinued operations and a $\$ 62$ million increase in servicing and contingency revenue, which were partially offset by $\$ 60$ million of lower gains on debt repurchases, higher operating expenses of $\$ 65$ million and higher restructuring and other reorganization expenses of $\$ 37$ million.

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

Net interest income increased by $\$ 2$ million primarily due to a $\$ 50$ million acceleration of non-cash premium expense recorded in the first half of 2012 related to ED s consolidation of $\$ 5.2$ billion of loans under the Special Direct Consolidation Loan (SDCL ) initiative that ended June 30, 2012. Offsetting this increase was a $\$ 19.5$ billion decline in average FFELP Loans outstanding in part due to the sale of Residual Interests in FFELP Loan securitization trusts in the first half of 2013. There were approximately $\$ 12$ billion of FFELP Loans in these trusts.

Provisions for loan losses declined $\$ 117$ million primarily as a result of the overall improvement in Private Education Loans credit quality, delinquency and charge-off trends leading to decreases in expected future charge-offs.

Gains on sales of loans and investments increased by $\$ 306$ million as a result of $\$ 312$ million in gains on the sales of the Residual Interests in FFELP Loan securitization trusts in 2013. See Business Segment Earnings Summary Core Earnings Basis FFELP Loans Segment for further discussion.

Losses on derivative and hedging activities, net, resulted in a net loss of $\$ 140$ million in the current nine-month period compared with a net loss of $\$ 600$ million in the year-ago period. The primary factors affecting the change were interest rate and foreign currency fluctuations, which primarily affected the valuations of our Floor Income Contracts, basis swaps and foreign currency hedges during each period. Valuations of derivative instruments vary based upon many factors including changes in interest rates, credit risk, foreign currency fluctuations and other market factors. As a result, net gains and losses on derivative and hedging activities may continue to vary significantly in future periods.

Servicing and contingency revenue increased $\$ 62$ million primarily from an increase in the number of accounts serviced and collection volumes in the nine months ended September 30, 2013 compared with the prior-year period.

Gains on debt repurchases decreased $\$ 60$ million as we repurchased less debt in the current period. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

Operating expenses increased $\$ 65$ million primarily as a result of increases in our third-party servicing and collections activities, investments in technology, increased Private Education Loan marketing and an increase in pending litigation settlement expense.

Restructuring and other reorganization expenses were $\$ 46$ million compared with $\$ 9$ million in the year-ago period. For 2013, these consisted of $\$ 24$ million primarily related to third-party costs incurred in connection with the Company s previously announced plan to separate its existing organization into two, separate, publicly traded companies and $\$ 22$ million related to severance. The $\$ 9$ million of expenses in 2012 related to restructuring expenses.

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Income from discontinued operations increased $\$ 49$ million primarily as a result of the sale of our Campus Solutions business in the second quarter of 2013 which resulted in a $\$ 38$ million after-tax gain.

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We repurchased 19 million shares of our common stock for $\$ 400$ million during the nine months ended September 30, 2013, as part of a common share repurchase program. Primarily as a result of these common share repurchases, our average outstanding diluted shares decreased by 40 million shares from the year-ago period.

## Core Earnings Definition and Limitations

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

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

While GAAP provides a uniform, comprehensive basis of accounting, for the reasons described above, our Core Earnings basis of presentation does not. Core Earnings are subject to certain general and specific limitations that investors should carefully consider. For example, there is no comprehensive, authoritative guidance for management reporting. Our Core Earnings are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Accordingly, our Core Earnings presentation does not represent a comprehensive basis of accounting. Investors, therefore, may not be able to compare our performance with that of other financial services companies based upon Core Earnings. Core Earnings results are only meant to supplement GAAP results by providing additional information regarding the operational and performance indicators that are most closely used by management, our board of directors, rating agencies, lenders and investors to assess performance.

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

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

| (Dollars in millions) | Three Months Ended September 30, 2013 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Business Lending Services |  | FFELP <br> Loans |  | Other | Eliminations ${ }^{(1)}$ | Total Core Earning |  | lassificatic |  | Adjustment Additions/ (hsbtractions) |  | $\begin{gathered} \text { Total } \\ \text { Idjustments }{ }^{(2)} \end{gathered}$ |  | $\begin{aligned} & \text { Total } \\ & \text { GAAP } \end{aligned}$ |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 635 | \$ | \$ | 574 | \$ | \$ | \$ | 1,209 | \$ | 201 | \$ | (77) | \$ | 124 | \$ 1,333 |
| Other loans |  |  |  |  | 3 |  |  | 3 |  |  |  |  |  |  | 3 |
| Cash and investments | 1 | 1 |  | 2 | 1 | (1) |  | 4 |  |  |  |  |  |  | 4 |
| Total interest income | 636 | 1 |  | 576 | 4 | (1) |  | 1,216 |  | 201 |  | (77) |  | 124 | 1,340 |
| Total interest expense | 203 |  |  | 313 | 13 | (1) |  | 528 |  | 12 |  | $1{ }^{(4)}$ |  | 13 | 541 |
| Net interest income (loss) | 433 | 1 |  | 263 | (9) |  |  | 688 |  | 189 |  | (78) |  | 111 | 799 |
| Less: provisions for loan losses | 195 |  |  | 12 |  |  |  | 207 |  |  |  |  |  |  | 207 |
| Net interest income (loss) after provisions for loan losses | 238 | 1 |  | 251 | (9) |  |  | 481 |  | 189 |  | (78) |  | 111 | 592 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Servicing revenue | 11 | 174 |  | 21 |  | (123) |  | 83 |  |  |  |  |  |  | 83 |
| Contingency revenue |  | 104 |  |  |  |  |  | 104 |  |  |  |  |  |  | 104 |
| Gains on debt repurchases |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Other income (loss) |  | 6 |  |  | 6 |  |  | 12 |  | (189) |  | $59{ }^{(5)}$ |  | (130) | (118) |
| Total other income (loss) | 11 | 284 |  | 21 | 6 | (123) |  | 199 |  | (189) |  | 59 |  | (130) | 69 |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 85 | 103 |  | 129 | 4 | (123) |  | 198 |  |  |  |  |  |  | 198 |
| Overhead expenses |  |  |  |  | 59 |  |  | 59 |  |  |  |  |  |  | 59 |
| Operating expenses | 85 | 103 |  | 129 | 63 | (123) |  | 257 |  |  |  |  |  |  | 257 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  |  | 4 |  | 4 | 4 |
| Restructuring and other reorganization expenses |  |  |  |  | 12 |  |  | 12 |  |  |  |  |  |  | 12 |
| Total expenses | 85 | 103 |  | 129 | 75 | (123) |  | 269 |  |  |  | 4 |  | 4 | 273 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 164 | 182 |  | 143 | (78) |  |  | 411 |  |  |  | (23) |  | (23) | 388 |
| Income tax expense (benefit) ${ }^{(3)}$ | 59 | 66 |  | 51 | (28) |  |  | 148 |  |  |  | (12) |  | (12) | 136 |
| Net income (loss) from continuing operations | 105 | 116 |  | 92 | (50) |  |  | 263 |  |  |  | (11) |  | (11) | 252 |
| Income from discontinued operations, net of tax expense |  | 8 |  |  |  |  |  | 8 |  |  |  |  |  |  | 8 |
| Net income (loss) | 105 | 124 |  | 92 | (50) |  |  | 271 |  |  |  | (11) |  | (11) | 260 |
| Less: net loss attributable to noncontrolling interest |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) attributable to SLM Corporation | \$ 105 | \$ 124 | \$ | 92 | \$ (50) | \$ | \$ | 271 | \$ |  | \$ | (11) | \$ | (11) | \$ 260 |

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

|  | Three Months Ended September 30, 2013 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting | Acq | of d gibles | Total |
| Net interest income after provisions for loan losses | \$ 111 | \$ |  | \$ 111 |
| Total other loss | (130) |  |  | (130) |
| Goodwill and acquired intangible asset impairment and amortization |  |  | 4 | 4 |
| Core Earnings adjustments to GAAP | \$ (19) | \$ | (4) | (23) |
| Income tax benefit |  |  |  | (12) |
| Net loss |  |  |  | \$ (11) |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$(4)$ million of other derivative accounting adjustments.
(5) Represents the $\$ 62$ million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $\$(4)$ million of other derivative accounting adjustments.

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| (Dollars in millions) | Three Months Ended September 30, 2012 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Business Lending Services |  | FFELP <br> Loans | Other | Eliminations ${ }^{(1)}$ | Total Core Earning |  | AdjustmentsAdditions/sificati(Gisbtractions) |  |  |  | Total Adjustments ${ }^{(2)}$ |  | Total GAAP |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 615 | \$ | \$ 712 | \$ | \$ | \$ | 1,327 | \$ | 206 | \$ | (78) | \$ | 128 | \$ 1,455 |
| Other loans |  |  |  | 4 |  |  | 4 |  |  |  |  |  |  | 4 |
| Cash and investments | 2 | 2 | 3 |  | (2) |  | 5 |  |  |  |  |  |  | 5 |
| Total interest income | 617 | 2 | 715 | 4 | (2) |  | 1,336 |  | 206 |  | (78) |  | 128 | 1,464 |
| Total interest expense | 209 |  | 399 | 12 | (2) |  | 618 |  | 26 |  | $1{ }^{(4)}$ |  | 27 | 645 |
| Net interest income (loss) | 408 | 2 | 316 | (8) |  |  | 718 |  | 180 |  | (79) |  | 101 | 819 |
| Less: provisions for loan losses | 252 |  | 18 |  |  |  | 270 |  |  |  |  |  |  | 270 |
| Net interest income (loss) after provisions for loan losses | 156 | 2 | 298 | (8) |  |  | 448 |  | 180 |  | (79) |  | 101 | 549 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Servicing revenue | 12 | 201 | 22 |  | (164) |  | 71 |  |  |  |  |  |  | 71 |
| Contingency revenue |  | 85 |  |  |  |  | 85 |  |  |  |  |  |  | 85 |
| Gains on debt repurchases |  |  |  | 44 |  |  | 44 |  |  |  |  |  |  | 44 |
| Other income (loss) |  | 7 |  | 3 |  |  | 10 |  | (180) |  | $(61)^{(5)}$ |  | (241) | (231) |
| Total other income (loss) | 12 | 293 | 22 | 47 | (164) |  | 210 |  | (180) |  | (61) |  | (241) | (31) |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 68 | 88 | 171 | 3 | (164) |  | 166 |  |  |  |  |  |  | 166 |
| Overhead expenses |  |  |  | 54 |  |  | 54 |  |  |  |  |  |  | 54 |
| Operating expenses | 68 | 88 | 171 | 57 | (164) |  | 220 |  |  |  |  |  |  | 220 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  | 5 |  | 5 | 5 |
| Restructuring and other reorganization expenses | 1 |  |  | 1 |  |  | 2 |  |  |  |  |  |  | 2 |
| Total expenses | 69 | 88 | 171 | 58 | (164) |  | 222 |  |  |  | 5 |  | 5 | 227 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 99 | 207 | 149 | (19) |  |  | 436 |  |  |  | (145) |  | (145) | 291 |
| Income tax expense (benefit) ${ }^{(3)}$ | 36 | 76 | 55 | (7) |  |  | 160 |  |  |  | (56) |  | (56) | 104 |
| Net income (loss) from continuing operations | 63 | 131 | 94 | (12) |  |  | 276 |  |  |  | (89) |  | (89) | 187 |
| Income (loss) from discontinued operations, net of tax expense (benefit) | (1) | 1 |  |  |  |  |  |  |  |  |  |  |  |  |
| Net income (loss) | 62 | 132 | 94 | (12) |  |  | 276 |  |  |  | (89) |  | (89) | 187 |
| Less: net loss attributable to noncontrolling interest |  | (1) |  |  |  |  | (1) |  |  |  |  |  |  | (1) |
| Net income (loss) attributable to SLM Corporation | \$ 62 | \$ 133 | \$ 94 | \$ (12) | \$ | \$ | 277 | \$ |  | \$ | (89) | \$ | (89) | \$ 188 |

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(2) Core Earnings adjustments to GAAP:

Three Months Ended September 30, 2012

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$(9)$ million of other derivative accounting adjustments.
(5) Represents the $\$(53)$ million of unrealized gains (losses) on derivative and hedging activities, net as well as the remaining portion of the $\$(9)$ million of other derivative accounting adjustments.

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(2) Core Earnings adjustments to GAAP:

|  | Nine Months Ended September 30, 2013 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting |  | of <br> nd <br> gibles | Total |
| Net interest income after provisions for loan losses | \$ 340 | \$ |  | \$ 340 |
| Total other loss | (106) |  |  | (106) |
| Goodwill and acquired intangible asset impairment and amortization |  |  | 10 | 10 |
| Core Earnings adjustments to GAAP | \$ 234 | \$ | (10) | 224 |
| Income tax expense |  |  |  | 89 |
| Loss from discontinued operations, net of tax benefit |  |  |  | (1) |
| Net income |  |  |  | \$ 134 |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$ 41$ million of other derivative accounting adjustments.
(5) Represents the $\$ 422$ million of unrealized gains on derivative and hedging activities, net as well as the remaining portion of the $\$ 41$ million of other derivative accounting adjustments.

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| (Dollars in millions) | Nine Months Ended September 30, 2012 |  |  |  |  |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Consumer Lending | Business Services | FFELP <br> Loans | Other | Eliminations ${ }^{(1)}$ | Total Core Earning |  |  | sificatio |  | justment itions/ actions) | Total <br> Adjustments ${ }^{(2)}$ |  | $\begin{aligned} & \text { Total } \\ & \text { GAAP } \end{aligned}$ |
| Interest income: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Student loans | \$ 1,856 | \$ | \$ 2,090 | \$ | \$ | \$ | 3,946 | \$ | 643 | \$ | (274) | \$ | 369 | \$ 4,315 |
| Other loans |  |  |  | 13 |  |  | 13 |  |  |  |  |  |  | 13 |
| Cash and investments | 6 | 5 | 10 |  | (5) |  | 16 |  |  |  |  |  |  | 16 |
| Total interest income | 1,862 | 5 | 2,100 | 13 | (5) |  | 3,975 |  | 643 |  | (274) |  | 369 | 4,344 |
| Total interest expense | 616 |  | 1,233 | 26 | (5) |  | 1,870 |  | 95 |  | $3^{(4)}$ |  | 98 | 1,968 |
| Net interest income (loss) | 1,246 | 5 | 867 | (13) |  |  | 2,105 |  | 548 |  | (277) |  | 271 | 2,376 |
| Less: provisions for loan losses | 712 |  | 54 |  |  |  | 766 |  |  |  |  |  |  | 766 |
| Net interest income (loss) after provisions for loan losses | 534 | 5 | 813 | (13) |  |  | 1,339 |  | 548 |  | (277) |  | 271 | 1,610 |
| Other income (loss): |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Gains on sales of loans and investments |  |  |  | 1 |  |  | 1 |  |  |  |  |  |  | 1 |
| Servicing revenue | 36 | 619 | 68 | 1 | (512) |  | 212 |  |  |  |  |  |  | 212 |
| Contingency revenue |  | 261 |  |  |  |  | 261 |  |  |  |  |  |  | 261 |
| Gains on debt repurchases |  |  |  | 102 |  |  | 102 |  |  |  |  |  |  | 102 |
| Other income (loss) |  | 25 |  | 9 |  |  | 34 |  | (548) |  | $(47)^{(5)}$ |  | (595) | (561) |
| Total other income (loss) | 36 | 905 | 68 | 113 | (512) |  | 610 |  | (548) |  | (47) |  | (595) | 15 |
| Expenses: |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Direct operating expenses | 199 | 269 | 537 | 10 | (512) |  | 503 |  |  |  |  |  |  | 503 |
| Overhead expenses |  |  |  | 169 |  |  | 169 |  |  |  |  |  |  | 169 |
| Operating expenses | 199 | 269 | 537 | 179 | (512) |  | 672 |  |  |  |  |  |  | 672 |
| Goodwill and acquired intangible asset impairment and amortization |  |  |  |  |  |  |  |  |  |  | 13 |  | 13 | 13 |
| Restructuring and other reorganization expenses | 3 | 2 |  | 4 |  |  | 9 |  |  |  |  |  |  | 9 |
| Total expenses | 202 | 271 | 537 | 183 | (512) |  | 681 |  |  |  | 13 |  | 13 | 694 |
| Income (loss) from continuing operations, before income tax expense (benefit) | 368 | 639 | 344 | (83) |  |  | 1,268 |  |  |  | (337) |  | (337) | 931 |
| Income tax expense (benefit) ${ }^{(3)}$ | 134 | 234 | 126 | (29) |  |  | 465 |  |  |  | (125) |  | (125) | 340 |
| Net income (loss) from continuing operations | 234 | 405 | 218 | (54) |  |  | 803 |  |  |  | (212) |  | (212) | 591 |
| Loss from discontinued operations, net of tax benefit | (1) |  |  |  |  |  | (1) |  |  |  | (1) |  | (1) | (2) |
| Net income (loss) | 233 | 405 | 218 | (54) |  |  | 802 |  |  |  | (213) |  | (213) | 589 |
| Less: net loss attributable to noncontrolling interest |  | (2) |  |  |  |  | (2) |  |  |  |  |  |  | (2) |
| Net income (loss) attributable to SLM Corporation | \$ 233 | \$ 407 | \$ 218 | \$ (54) | \$ | \$ | 804 | \$ |  | \$ | (213) | \$ | (213) | \$ 591 |

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(2) Core Earnings adjustments to GAAP:

|  | Nine Months Ended September 30, 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | Net Impact of Derivative Accounting | Acq | of nd gibles | Total |
| Net interest income after provisions for loan losses | \$ 271 | \$ |  | \$ 271 |
| Total other loss | (595) |  |  | (595) |
| Goodwill and acquired intangible asset impairment and amortization |  |  | 13 | 13 |
| Core Earnings adjustments to GAAP | \$ (324) | \$ | (13) | (337) |
| Income tax benefit |  |  |  | (125) |
| Loss from discontinued operations, net of tax benefit |  |  |  | (1) |
| Net loss |  |  |  | \$ (213) |

(3) Income taxes are based on a percentage of net income before tax for the individual reportable segment.
(4) Represents a portion of the $\$ 2$ million of other derivative accounting adjustments.
(5) Represents the $\$(52)$ million of unrealized gains (losses) on derivative and hedging activities, net as well as the remaining portion of the $\$ 2$ million of other derivative accounting adjustments.

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## Differences between Core Earnings and GAAP

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

| (Dollars in millions) | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 | 2013 | 2012 |
| Core Earnings adjustments to GAAP: |  |  |  |  |
| Net impact of derivative accounting | \$ (19) | \$ (140) | \$ 234 | \$ (324) |
| Net impact of goodwill and acquired intangible assets | (4) | (5) | (10) | (13) |
| Net income tax effect | 12 | 56 | (89) | 125 |
| Net effect from discontinued operations |  |  | (1) | (1) |
| Total Core Earnings adjustments to GAAP | \$ (11) | \$ (89) | \$ 134 | \$ (213) |

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

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

Our Floor Income Contracts are written options that must meet more stringent requirements than other hedging relationships to achieve hedge effectiveness. Specifically, our Floor Income Contracts do not qualify for hedge accounting treatment because the pay down of principal of the student loans underlying the Floor Income embedded in those student loans does not exactly match the change in the notional amount of our written Floor Income Contracts. Additionally, the term, the interest rate index, and the interest rate index reset frequency of the Floor Income Contract can be different than that of the student loans. Under derivative accounting treatment, the upfront payment is deemed a liability and changes in fair value are recorded through income throughout the life of the contract. The change in the value of Floor Income Contracts is primarily caused by changing interest rates that cause the amount of Floor Income earned on the underlying student loans and paid to the counterparties to vary. This is economically offset by the change in value of the student loan portfolio earning Floor Income but that offsetting change in value is not recognized. We believe the Floor Income Contracts are economic hedges because they effectively fix the amount of Floor Income earned over the contract period, thus eliminating the timing and uncertainty that changes in interest rates can have on Floor Income for that period. Therefore, for

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

Basis swaps are used to convert floating rate debt from one floating interest rate index to another to better match the interest rate characteristics of the assets financed by that debt. We primarily use basis swaps to hedge our student loan assets that are primarily indexed to LIBOR, Prime or Treasury bill index (for $\$ 128$ billion of our FFELP assets as of April 1, 2012, we elected to change the index from commercial paper to LIBOR). In addition, we use basis swaps to convert debt indexed to the Consumer Price Index to three-month LIBOR debt. The accounting for derivatives requires that when using basis swaps, the change in the cash flows of the hedge effectively offset both the change in the cash flows of the asset and the change in the cash flows of the liability. Our basis swaps hedge variable interest rate risk; however, they generally do not meet this effectiveness test because the index of the swap does not exactly match the index of the hedged assets as required for hedge accounting treatment. Additionally, some of our FFELP Loans can earn at either a variable or a fixed interest rate depending on market interest rates and therefore swaps economically hedging these FFELP Loans do not meet the criteria for hedge accounting treatment. As a result, under GAAP, these swaps are recorded at fair value with changes in fair value reflected currently in the income statement.

The table below quantifies the adjustments for derivative accounting between GAAP and Core Earnings net income.

| (Dollars in millions) | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 | 2013 | 2012 |
| Core Earnings derivative adjustments: |  |  |  |  |
| Gains (losses) on derivative and hedging activities, net, included in other income | \$ (127) | \$ (233) | \$ (140) | \$ (600) |
| Plus: Realized losses on derivative and hedging activities, net ${ }^{(1)}$ | 189 | 180 | 562 | 548 |
| Unrealized gains on derivative and hedging activities, net ${ }^{(2)}$ | 62 | (53) | 422 | (52) |
| Amortization of net premiums on Floor Income Contracts in net interest income for Core Earnings | (77) | (78) | (229) | (274) |
| Other derivative accounting adjustments ${ }^{(3)}$ | (4) | (9) | 41 | 2 |
| Total net impact of derivative accounting ${ }^{(4)}$ | \$ (19) | \$ (140) | \$ 234 | \$ (324) |

(1) See Reclassification of Realized Gains (Losses) on Derivative and Hedging Activities below for a detailed breakdown of the components of realized losses on derivative and hedging activities.
(2) Unrealized gains on derivative and hedging activities, net comprises the following unrealized mark-to-market gains (losses):

| (Dollars in millions) | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 | 2013 |  | 2012 |
| Floor Income Contracts | \$ 115 | \$ (12) | \$ 601 |  | 174 |
| Basis swaps | 5 | (7) | (13) |  | (55) |
| Foreign currency hedges | (45) | (22) | (145) |  | (144) |
| Other | (13) | (12) | (21) |  | (27) |
| Total unrealized gains on derivative and hedging activities, net | \$ 62 | \$ (53) | \$ 422 |  | (52) |

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(3) Other derivative accounting adjustments consist of adjustments related to: (1) foreign currency denominated debt that is adjusted to spot foreign exchange rates for GAAP where such adjustment are reversed for Core Earnings and (2) certain terminated derivatives that did not receive hedge accounting treatment under GAAP but were economic hedges under Core Earnings and, as a result, such gains or losses amortized into Core Earnings over the life of the hedged item.
(4) Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income and positive amounts are added to Core Earnings net income to arrive at GAAP net income.

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

Derivative accounting requires net settlement income/expense on derivatives and realized gains/losses related to derivative dispositions (collectively referred to as realized gains (losses) on derivative and hedging activities ) that do not qualify as hedges to be recorded in a separate income statement line item below net interest income. Under our Core Earnings presentation, these gains and losses are reclassified to the income statement line item of the economically hedged item. For our Core Earnings net interest margin, this would primarily include:
(a) reclassifying the net settlement amounts related to our Floor Income Contracts to student loan interest income and (b) reclassifying the net settlement amounts related to certain of our basis swaps to debt interest expense. The table below summarizes the realized losses on derivative and hedging activities and the associated reclassification on a Core Earnings basis.

| (Dollars in millions) | Three Months Ended September 30, <br> 2013 <br> 2012 |  | Nine Months Ended September 30, 2013 $\qquad$ |  |
| :---: | :---: | :---: | :---: | :---: |
| Reclassification of realized gains (losses) on derivative and hedging activities: |  |  |  |  |
| Net settlement expense on Floor Income Contracts reclassified to net interest income | \$ (201) | \$ (206) | \$ (612) | \$ (643) |
| Net settlement income on interest rate swaps reclassified to net interest income | 12 | 26 | 44 | 95 |
| Net realized gains on terminated derivative contracts reclassified to other income |  |  | 6 |  |
| Total reclassifications of realized losses on derivative and hedging activities | \$ (189) | \$ (180) | \$ (562) | \$ (548) |

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

As of September 30, 2013, derivative accounting has reduced GAAP equity by approximately $\$ 936$ million as a result of cumulative net unrealized losses (after tax) recognized under GAAP, but not in Core Earnings. The following table rolls forward the cumulative impact to GAAP equity due to these unrealized after tax net losses related to derivative accounting.

|  | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | 2013 |  |  | 2013 |  |  |
| Beginning impact of derivative accounting on GAAP equity | \$ (923) | \$ | $(1,098)$ | \$ $(1,080)$ | \$ | (977) |
| Net impact of net unrealized gains (losses) under derivative accounting ${ }^{(1)}$ | (13) |  | (85) | 144 |  | (206) |
| Ending impact of derivative accounting on GAAP equity | \$ (936) | \$ | $(1,183)$ | \$ (936) |  | (1,183) |

[^12]$\left.\begin{array}{lcccc} & \begin{array}{c}\text { Three Months Ended } \\ \text { September 30, }\end{array} & \begin{array}{c}\text { Nine Months Ended } \\ \text { September 30, }\end{array} \\ \text { 2012 } \\ \text { (Dollars in millions) }\end{array}\right)$

Net impact of net unrealized gains (losses) under derivative $\begin{array}{llllll}\text { accounting } & \$(13) & \$ \quad(85) & \$ 144\end{array}$
(a) See Core Earnings derivative adjustments table above.

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Net Floor premiums received on Floor Income Contracts that have not been amortized into Core Earnings as of the respective year-ends are presented in the table below. These net premiums will be recognized in Core Earnings in future periods and are presented net of tax. As of September 30, 2013, the remaining amortization term of the net floor premiums was approximately 2.75 years for existing contracts.
Historically, we have sold Floor Income Contracts on a periodic basis and depending upon market conditions and pricing, we may enter into additional Floor Income Contracts in the future. The balance of unamortized Floor Income Contracts will increase as we sell new contracts and decline due to the amortization of existing contracts.

|  | September 30, |  |
| :--- | :---: | :---: |
| (Dollars in millions) | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 2}$ |
| Unamortized net Floor premiums (net of tax) | $\$(403)$ | $\$(600)$ |

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

|  | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) |  |  |  | 2013 |  | 2012 |
| Core Earnings goodwill and acquired intangible asset adjustmefits | \$ (4) | \$ | (5) | \$ (10) |  | (13) |

[^13]
## Consumer Lending Segment

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

| (Dollars in millions) | Three Months Ended September 30, |  | $\begin{gathered} \text { \% Increase } \\ \text { (Decrease) } \\ 2013 \text { vs. } 2012 \end{gathered}$ | Nine Months Ended September 30, |  | \% Increase <br> (Decrease) <br> 2013 vs. 2012 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 |  | 2013 | 2012 |  |
| Core Earnings interest income: |  |  |  |  |  |  |
| Private Education Loans | \$ 635 | \$ 615 | 3\% | \$ 1,884 | \$ 1,856 | 2\% |
| Cash and investments | 1 | 2 | (50) | 5 | 6 | (17) |
| Total Core Earnings interest income | 636 | 617 | 3 | 1,889 | 1,862 | 1 |
| Total Core Earnings interest expense | 203 | 209 | (3) | 613 | 616 |  |
| Net Core Earnings interest income | 433 | 408 | 6 | 1,276 | 1,246 | 2 |
| Less: provision for loan losses | 195 | 252 | (23) | 607 | 712 | (15) |
| Net Core Earnings interest income after $\begin{array}{llllll}\text { provision for loan losses } & 238 & 156 & 53 & 669 & 534\end{array}$ |  |  |  |  |  |  |
| Servicing revenue | 11 | 12 | (8) | 31 | 36 | (14) |
| Direct operating expenses | 85 | 68 | 25 | 228 | 199 | 15 |
| Restructuring and other reorganization expenses |  | 1 | (100) | 2 | 3 | (33) |
| Total expenses | 85 | 69 | 23 | 230 | 202 | 14 |

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| Income from continuing operations, before income tax expense | 164 |  | 99 | 66 |  | 470 |  | 368 | 28 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Income tax expense | 59 |  | 36 | 64 |  | 171 |  | 134 | 28 |
| Net income from continuing operations | 105 |  | 63 | 67 |  | 299 |  | 234 | 28 |
| Loss from discontinued operations, net of tax benefit |  |  | (1) | (100) |  | (1) |  | (1) |  |
| Core Earnings | \$ 105 | \$ | 62 | 69\% | \$ | 298 | \$ | 233 | 28\% |

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Quarterly core earnings were $\$ 105$ million, compared with $\$ 62$ million in the year-ago quarter. The increase is primarily the result of a $\$ 57$ million decrease in the provision for Private Education Loan losses.

Third-quarter 2013 Private Education Loan portfolio results vs. third-quarter 2012 included:

Loan originations of $\$ 1.5$ billion, up 11 percent.

Delinquencies of 90 days or more of 3.8 percent of loans in repayment, down from 5.3 percent.

Loans in forbearance of 3.4 percent of loans in repayment and forbearance, up from 3.2 percent.

Annualized charge-off rate of 2.6 percent of average loans in repayment, down from 3.2 percent.

Provision for Private Education Loan losses of $\$ 195$ million, down from $\$ 252$ million.

Core net interest margin, before loan loss provision, of 4.24 percent, up from 4.05 percent.

The portfolio balance, net of loan loss allowance, totaled $\$ 37.8$ billion, a $\$ 651$ million increase over the year-ago quarter.

## Consumer Lending Net Interest Margin

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

|  | Three Months Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
| Core Earnings basis | $\begin{aligned} & 2013 \\ & 6.42 \% \end{aligned}$ | 2012 |  |  |
| Discount amortization | . 19 | . 17 | . 21 | . 22 |
| Core Earnings basis Private Education Loan net yield | 6.61 | 6.52 | 6.59 | 6.60 |
| Core Earnings basis Private Education Loan cost of funds | (2.01) | (2.08) | (2.02) | (2.05) |
| Core Earnings basis Private Education Loan spread | 4.60 | 4.44 | 4.57 | 4.55 |
| Core Earnings basis other interest-earning asset spread impact | (.36) | (.39) | (.40) | (.40) |
| Core Earnings basis Consumer Lending net interest margin | 4.24\% | 4.05\% | 4.17\% | 4.15\% |
| Core Earnings basis Consumer Lending net interest margin | 4.24\% | 4.05\% | 4.17\% | 4.15\% |
| Adjustment for GAAP accounting treatment ${ }^{(2)}$ | (.03) | (.08) | (.04) | (.11) |
| GAAP basis Consumer Lending net interest margin ${ }^{(1)}$ | 4.21\% | 3.97\% | 4.13\% | 4.04\% |

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

|  | Three Months Ended |  | Nine Months Ended |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | $\begin{gathered} \text { Septe } \\ 2013 \end{gathered}$ | er 30, 2012 | $\underset{2013}{\text { Sep }}$ | er 30, 2012 |
| Private Education Loans | \$ 38,102 | \$ 37,545 | \$ 38,220 | \$ 37,612 |
| Other interest-earning assets | 2,385 | 2,436 | 2,660 | 2,436 |
| Total Consumer Lending Core Earnings basis interest-earning assets | \$ 40,487 | \$ 39,981 | \$ 40,880 | \$ 40,048 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income and other derivative accounting adjustments. For further discussion of these adjustments, see section titled Core Earnings Definition and Limitations Difference between Core Earnings and GAAP above.

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

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

|  | Three Months Ended <br> September 30, |  | Nine Months Ended <br> September 30, |  |
| :--- | :---: | :---: | :---: | :---: |
| (Dollars in millions) | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 2}$ |
| Private Education Loan provision for loan losses | $\$ 195$ | $\$ 252$ | $\$ 607$ | $\$ 712$ |
| Private Education Loan charge-offs | 205 | 250 | 649 | 709 |

In establishing the allowance for Private Education Loan losses as of September 30, 2013, we considered several factors with respect to our Private Education Loan portfolio. In particular, we continue to see improvement in credit quality and continuing positive delinquency and charge-off trends in connection with this portfolio. Improving credit quality is seen in higher FICO scores and cosigner rates as well as a more seasoned portfolio. Total loans delinquent (as a percentage of loans in repayment) have decreased to 8.8 percent from 10.0 percent in the year-ago quarter. Loans greater than 90 days delinquent (as a percentage of loans in repayment) have decreased to 3.8 percent from 5.3 percent in the year-ago quarter. The charge-off rate decreased to 2.6 percent from 3.2 percent in the year-ago quarter. Loans in forbearance (as a percentage of loans in repayment and forbearance) increased to 3.4 percent from 3.2 percent in the year-ago quarter.

Total loans delinquent, however, increased to 8.8 percent from 7.7 percent in the prior quarter. Our collections and servicing personnel invested significant time this quarter answering customer questions, routing payments and addressing other issues resulting from the transition of our Private Education Loan portfolio to a new loan servicing platform. We are increasing our communication efforts with our customers to ensure a smooth transition. Based on the information we have, we do not believe this increase is indicative of future performance trends of these loans.

Apart from these overall improvements in credit quality, delinquency trends and charge-off trends that had the effect of reducing the provision for loan loss in the third quarter of 2013, Private Education Loans that have defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue to not do so. Our allowance for loan losses takes into account these potential recovery uncertainties. In the third quarter of 2013 we increased our allowance related to these potential recovery shortfalls by approximately $\$ 112$ million. See Financial Condition Consumer Lending Portfolio Performance Receivable for Partially Charged-Off Private Education Loans for further discussion.

The Private Education Loan provision for loan losses was $\$ 195$ million in the third quarter of 2013, down $\$ 57$ million from the third quarter of 2012, and $\$ 607$ million for the first nine months of 2013 , down $\$ 105$ million from the year-ago period. The decline in both periods was a result of the overall improvement in credit quality and performance trends discussed above, leading to decreases in expected future charge-offs. This overall decrease in expected future charge-offs is the net effect of a decrease in expected future defaults less a smaller decrease in what we expect to recover on such defaults.

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

## Operating Expenses Consumer Lending Segment

Operating expenses for our Consumer Lending segment include costs incurred to originate Private Education Loans and to service and collect on our Private Education Loan portfolio. The increase in operating expenses in the quarter ended September 30, 2013 compared with the year-ago quarter was primarily the result of increased loan marketing activities and collection costs as well as continued investments in technology and an increase in pending

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litigation settlement expense. Direct operating expenses as a percentage of revenues (revenues calculated as net interest income after provision plus total other income) were 34 percent and 40 percent in the quarters ended September 30, 2013 and 2012, respectively, and 33 percent and 35 percent in the nine months ended September 30, 2013 and 2012, respectively.

## Business Services Segment

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

| (Dollars in millions) | $\begin{gathered} \text { Three Months Ended } \\ \text { September 30, } \\ 2013 \quad 2012 \end{gathered}$ |  |  | \% Increase <br> (Decrease) <br> 2013 vs. 2012 | Nine Months Ended September 30, <br> 20132012 |  |  | \% Increase <br> (Decrease) <br> 2013 vs. 2012 |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net interest income | \$ | \$ | 2 | (50)\% | \$ 4 | \$ | 5 | (20)\% |
| Servicing revenue: |  |  |  |  |  |  |  |  |
| Intercompany loan servicing | 123 |  | 164 | (25) | 409 |  | 512 | (20) |
| Third-party loan servicing | 40 |  | 26 | 54 | 101 |  | 74 | 36 |
| Guarantor servicing | 10 |  | 11 | (9) | 29 |  | 33 | (12) |
| Other servicing | 1 |  |  | 100 | 2 |  |  | 100 |
| Total servicing revenue | 174 |  | 201 | (13) | 541 |  | 619 | (13) |
| Contingency revenue | 104 |  | 85 | 22 | 312 |  | 261 | 20 |
| Other Business Services revenue | 6 |  | 7 | (14) | 20 |  | 25 | (20) |
| Total other income | 284 |  | 293 | (3) | 873 |  | 905 | (4) |
| Direct operating expenses | 103 |  | 88 | 17 | 299 |  | 269 | 11 |
| Restructuring and other reorganization expenses |  |  |  |  | 1 |  | 2 | (50) |
| Total expenses | 103 |  | 88 | 17 | 300 |  | 271 | 11 |
| Income from continuing operations, before income tax expense | 182 |  | 207 | (12) | 577 |  | 639 | (10) |
| Income tax expense | 66 |  | 76 | (13) | 211 |  | 234 | (10) |
| Net income from continuing operations | 116 |  | 131 | (11) | 366 |  | 405 | (10) |
| Income from discontinued operations, net of tax expense | 8 |  | 1 | 700 | 49 |  |  | 100 |
| Core Earnings | 124 |  | 132 | (6) | 415 |  | 405 | 2 |
| Less: net loss attributable to noncontrolling interest |  |  | (1) | (100) | (1) |  | (2) | (50) |
| Core Earnings attributable to SLM Corporation | \$ 124 | \$ | 133 | (7)\% | \$ 416 | \$ | 407 | 2\% |

Core Earnings were $\$ 124$ million in the third quarter of 2013, compared with $\$ 133$ million in the year-ago quarter. The decrease was primarily the result of a lower outstanding principal balance in the underlying FFELP portfolio serviced.

Our Business Services segment includes intercompany loan servicing fees from servicing the FFELP Loans in our FFELP Loans segment. The average balance of this portfolio was $\$ 106$ billion and $\$ 129$ billion for the quarters ended September 30, 2013 and 2012, respectively, and $\$ 115$ billion and $\$ 132$ billion for the nine months ended September 30, 2013 and 2012, respectively. The decline in average balance of FFELP loans outstanding along with the related intercompany loan servicing revenue from the year-ago period is primarily the result of normal amortization of the portfolio as well as the sale of approximately $\$ 12$ billion of securitized FFELP loans in the first half of 2013.

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We are servicing approximately 5.7 million accounts under the ED Servicing Contract as of September 30, 2013, compared with 5.2 million and 4.1 million accounts serviced at June 30, 2013 and September 30, 2012, respectively. Third-party loan servicing fees in the quarters ended September 30, 2013 and 2012 included $\$ 29$ million and $\$ 23$ million, respectively, of servicing revenue related to the ED Servicing Contract. The increase in ED loan servicing fees for both the quarter and nine-month periods was driven by the increase in the number of accounts serviced.

Third-party loan servicing income increased $\$ 14$ million from the year-ago quarter and $\$ 27$ million for the first nine months compared with the prior-year period primarily due to the increase in ED servicing revenue (discussed above) as well as a result of the sale of Residual Interests in FFELP Loan securitization trusts in 2013. (See FFELP Loans Segment for further discussion.) When we sold the Residual Interests, we retained the right to service the loans in the trusts. As such, servicing income that had previously been recorded as intercompany loan servicing is now recognized as third-party loan servicing income.

At September 30, 2013, we serviced approximately $\$ 301$ billion principal balance of student loans compared with approximately $\$ 252$ billion serviced at December 31, 2012. The increase in the principal balance serviced in 2013 was primarily due to the growth in the ED serviced accounts discussed above.

Our contingency revenue consists of fees we receive for collections of delinquent debt on behalf of third-party clients performed on a contingent basis. Contingency revenue increased $\$ 19$ million in the current quarter compared with the year-ago quarter and $\$ 51$ million for the first nine months of 2013 compared with the prior-year period as a result of the higher volume of collections.

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

| (Dollars in millions) | September 30, 2013 |  | $\begin{gathered} \text { December 31, } \\ 2012 \end{gathered}$ |  | $\underset{2012}{\text { September 30, }}$ |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Contingent collections receivables: |  |  |  |  |  |  |
| Student loans | \$ | 12,852 | \$ | 13,189 | \$ | 11,866 |
| Other |  | 2,357 |  | 2,139 |  | 2,018 |
| Total | \$ | 15,209 | \$ | 15,328 | \$ | 13,884 |

In the second quarter of 2013, we sold our Campus Solutions business and recorded an after-tax gain of $\$ 38$ million. The results related to this business for all periods presented have been reclassified as discontinued operations and are shown on an after-tax basis. In addition, on September 25, 2013, we announced the sale of our 529 college savings plan administration business. This sale is expected to close in the fourth quarter of 2013, at which time we expect to recognize a gain of $\$ 0.14$ per diluted share. As a result of this pending sale, the results of this business were moved to discontinued operations for all periods presented.

Revenues related to services performed on FFELP Loans accounted for 76 percent and 82 percent, respectively, of total segment revenues for the quarters ended September 30, 2013 and 2012 and 78 percent and 82 percent, respectively, of total segment revenues for the nine months ended September 30, 2013 and 2012.

## Operating Expenses Business Services Segment

Operating expenses for our Business Services segment primarily include costs incurred to service our FFELP Loan portfolio, third-party servicing and collection costs, and other operating costs. The increase in operating expenses in the quarter ended September 30, 2013 compared with the year-ago quarter was primarily the result of an increase in our third-party servicing and collection activities as well as continued investments in technology.

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## FFELP Loans Segment

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

| (Dollars in millions) | Three Months Ended September 30, 2013 2012 |  |  | $\begin{gathered} \text { \% Increase } \\ \text { (Decrease) } \\ 2013 \text { vs. } 2012 \end{gathered}$ | Nine Months Ended September 30, 2013 2012 |  |  | $\begin{gathered} \text { \% Increase } \\ \text { (Decrease) } \\ 2013 \text { vs. } 2012 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Core Earnings interest income: |  |  |  |  |  |  |  |  |
| FFELP Loans | \$ 574 | \$ | 712 | (19)\% | \$ 1,755 | \$ | 2,090 | (16)\% |
| Cash and investments | 2 |  | 3 | (33) | 5 |  | 10 | (50) |
| Total Core Earnings interest income | 576 |  | 715 | (19) | 1,760 |  | 2,100 | (16) |
| Total Core Earnings interest expense | 313 |  | 399 | (22) | 978 |  | 1,233 | (21) |
| Net Core Earnings interest income | 263 |  | 316 | (17) | 782 |  | 867 | (10) |
| Less: provision for loan losses | 12 |  | 18 | (33) | 42 |  | 54 | (22) |
| Net Core Earnings interest income after provision for loan losses | 251 |  | 298 | (16) | 740 |  | 813 | (9) |
| Gains on sales of loans and investments |  |  |  |  | 312 |  |  | 100 |
| Servicing revenue | 21 |  | 22 | (5) | 60 |  | 68 | (12) |
| Total other income | 21 |  | 22 | (5) | 372 |  | 68 | 447 |
| Direct operating expenses | 129 |  | 171 | (25) | 430 |  | 537 | (20) |
| Restructuring and other reorganization expenses |  |  |  |  |  |  |  |  |
| Total expenses | 129 |  | 171 | (25) | 430 |  | 537 | (20) |
| Income from continuing operations, before income tax expense | 143 |  | 149 | (4) | 682 |  | 344 | 98 |
| Income tax expense | 51 |  | 55 | (7) | 249 |  | 126 | 98 |
| Core Earnings | \$ 92 | \$ | 94 | (2)\% | \$ 433 | \$ | 218 | 99\% |

Core Earnings from the FFELP Loans segment were $\$ 92$ million in the third quarter of 2013, compared with $\$ 94$ million in the year-ago quarter. Key financial measures include:

Net interest margin of .93 percent in the third quarter of 2013 compared with .92 percent in the year-ago quarter (see FFELP Loan Net Interest Margin for a further discussion of this increase).

The provision for loan losses of $\$ 12$ million in the third quarter of 2013 decreased from $\$ 18$ million in the year-ago quarter.

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## FFELP Loan Net Interest Margin

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

|  | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2013 | 2012 | 2013 | 2012 |
| Core Earnings basis FFELP Loan yield | 2.60\% | 2.65\% | 2.60\% | 2.65\% |
| Hedged Floor Income | . 28 | . 24 | . 27 | . 27 |
| Unhedged Floor Income | . 10 | . 13 | . 09 | . 10 |
| Consolidation Loan Rebate Fees | (.64) | (.66) | (.66) | (.66) |
| Repayment Borrower Benefits | (.11) | (.11) | (.11) | (.12) |
| Premium amortization | (.11) | (.07) | (.14) | (.16) |
| Core Earnings basis FFELP Loan net yield | 2.12 | 2.18 | 2.05 | 2.08 |
| Core Earnings basis FFELP Loan cost of funds | (1.09) | (1.13) | (1.07) | (1.15) |
| Core Earnings basis FFELP Loan spread | 1.03 | 1.05 | . 98 | . 93 |
| Core Earnings basis other interest-earning asset spread impact | (.10) | (.13) | (.11) | (.11) |
| Core Earnings basis FFELP Loan net interest margin | .93\% | .92\% | .87\% | .82\% |


| Core Earnings basis FFELP Loan net interest margin | $.93 \%$ | $.92 \%$ | $.87 \%$ | $.82 \%$ |
| :---: | :---: | :---: | :---: | :---: | :---: |
| Adjustment for GAAP accounting treatment ${ }^{(2)}$ | .41 | .32 | .40 | .30 |
|  |  |  |  |  |
| GAAP-basis FFELP Loan net interest margin ${ }^{(1)}$ | $1.34 \%$ | $1.24 \%$ | $1.27 \%$ | $1.12 \%$ |

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

|  | Three Months Ended September 30, |  | Nine Months Ended September 30, |  |
| :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | 2013 | 2012 | 2013 | 2012 |
| FFELP Loans | \$ 107,483 | \$ 129,621 | \$ 114,387 | \$ 133,887 |
| Other interest-earning assets | 4,751 | 7,601 | 5,187 | 6,776 |
| Total FFELP Core Earnings basis interest-earning assets | \$ 112,234 | \$ 137,222 | \$ 119,574 | \$ 140,663 |

(2) Represents the reclassification of periodic interest accruals on derivative contracts from net interest income to other income, the reversal of the amortization of premiums received on Floor Income Contracts, and other derivative accounting adjustments. For further discussion of these adjustments, see section titled Core Earnings Definition and Limitations Difference between Core Earnings and GAAP above. As of September 30, 2013, our FFELP Loan portfolio totaled approximately $\$ 106.3$ billion, comprised of $\$ 40.8$ billion of FFELP Stafford and $\$ 65.5$ billion of FFELP Consolidation Loans. The weighted-average life of these portfolios is 4.9 years and 9.4 years, respectively, assuming a Constant Prepayment Rate ( CPR ) of 4 percent and 3 percent, respectively.

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## Floor Income

The following table analyzes the ability of the FFELP Loans in our portfolio to earn Floor Income after September 30, 2013 and 2012, based on interest rates as of those dates.


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

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

| (Dollars in billions) <br> Average balance of FFELP Consolidation Loans whose Floor Income is <br> economically hedged | October 1, 2013 to <br> December 31, 2013 | $\mathbf{2 0 1 4}$ | $\mathbf{2 0 1 5}$ | $\mathbf{2 0 1 6}$ |
| :--- | :---: | :---: | :---: | :---: | :---: |

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

The following table summarizes the total FFELP Loan provision for loan losses and charge-offs for the three and nine months September 30, 2013 and 2012.

|  | Three Months Ended <br> September 30, | Nine Months Ended <br> September 30, |  |
| :--- | :---: | :---: | :---: |
| (Dollars in millions) | $\mathbf{2 0 1 3}$ | $\mathbf{2 0 1 2}$ | $\mathbf{2 0 1 3}$ |

The increase in gains on sales of loans and investments for the nine months ended September 30, 2013 from the nine months ended September 30, 2012, was the result of $\$ 312$ million in gains from the sale of Residual Interests in FFELP Loan securitization trusts in 2013.

We will continue to service the student loans in the trusts that were sold under existing agreements. The sales removed securitization trust assets of $\$ 12.5$ billion and related liabilities of $\$ 12.1$ billion from the balance sheet during the nine months ended September 30, 2013.

Operating Expenses FFELP Loans

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

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is presented as an intercompany charge from the Business Services segment who services the loans), the fees we pay for third-party loan servicing and costs incurred to acquire loans. The intercompany revenue charged by the Business Services segment and included in those amounts was $\$ 123$ million and $\$ 164$ million for the quarters ended September 30, 2013 and 2012, respectively, and $\$ 409$ million and $\$ 512$ million for the nine months ended September 30, 2013 and 2012, respectively. These amounts exceed the actual cost of servicing the loans. Operating expenses were 48 basis points and 53 basis points of average FFELP Loans in the quarters ended September 30, 2013 and 2012, respectively, and 50 basis points and 54 basis points of average FFELP Loans in the nine months ended September 30, 2013 and 2012, respectively. The decline in operating expenses from the prior-year quarter was primarily the result of the reduction in the average outstanding balance of our FFELP Loan portfolio.

## Other Segment

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

| (Dollars in millions) | Three Months Ended September 30, 2013 2012 |  | $\begin{gathered} \text { \% Increase } \\ \text { (Decrease) } \\ 2013 \text { vs. } 2012 \end{gathered}$ | Nine Months Ended September 30, 2013 2012 |  | $\begin{gathered} \text { \% Increase } \\ \text { (Decrease) } \\ 2013 \text { vs. } 2012 \end{gathered}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Net interest loss after provision for loan losses |  |  | 13\% | \$ (24) | \$ (13) | 85\% |
| Gains (losses) on sales of loans and investments |  |  |  | (5) | 1 | (600) |
| Gains on debt repurchases |  | 44 | (100) | 48 | 102 | (53) |
| Other | 6 | 3 | 100 | 6 | 10 | (40) |
| Total other income | 6 | 47 | (87) | 49 | 113 | (57) |
| Direct operating expenses | 4 | 3 | 33 | 9 | 10 | (10) |
| Overhead expenses: |  |  |  |  |  |  |
| Corporate overhead | 27 | 27 |  | 90 | 89 | 1 |
| Unallocated information technology costs | 32 | 27 | 19 | 90 | 80 | 13 |
| Total overhead expenses | 59 | 54 | 9 | 180 | 169 | 7 |
| Total operating expenses | 63 | 57 | 11 | 189 | 179 | 6 |
| Restructuring and other reorganization expenses | 12 | 1 | 1,100 | 43 | 4 | 975 |
| Total expenses | 75 | 58 | 29 | 232 | 183 | 27 |
| Loss before income tax benefit | (78) | (19) | 311 | (207) | (83) | 149 |
| Income tax benefit | (28) | (7) | 300 | (75) | (29) | 159 |
| Core Earnings (loss) | \$ (50) | \$ (12) | 317\% | \$ (132) | \$ (54) | 144\% |

## Net Interest Loss after Provision for Loan Losses

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

## Gains on Debt Repurchases

We repurchased $\$ 0$ and $\$ 230$ million face amount of our debt for the quarters ended September 30, 2013 and 2012, respectively and $\$ 997$ million and $\$ 520$ million face amount of our debt for the nine months ended September 30, 2013 and 2012, respectively. Debt repurchase activity will fluctuate based on market fundamentals and our liability management strategy.

## Overhead

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

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technology costs are related to infrastructure and operations. The increase in overhead for the nine months ended September 30, 2013 compared with the year-ago period was primarily the result of a non-recurring $\$ 10$ million pension termination gain in the first nine months of 2012.

## Restructuring and Other Reorganization Expenses

Restructuring and other reorganization expenses for the quarter ended September 30, 2013 were $\$ 12$ million compared with $\$ 1$ million in the year-ago quarter. For the quarter ended September 30, 2013, these consisted of expenses primarily related to third-party costs incurred in connection with the Company s previously announced plan to separate its existing organization into two, separate, publicly traded companies.

For the nine months ended September 30, 2013, restructuring and other reorganization expenses were $\$ 43$ million compared with $\$ 4$ million in the year-ago period. For the nine months ended September 30, 2013, these consisted of $\$ 24$ million of expenses related to third-party costs incurred in connection with the Company s previously announced plan to separate its existing organization into two, separate publicly traded companies and $\$ 19$ million related to severance. The $\$ 4$ million of expenses in the nine months ended September 30, 2012 was related to restructuring expenses.

## Financial Condition

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

## Average Balance Sheets GAAP

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

| (Dollars in millions) | Three Months Ended September 30, 2013 <br> 2012 |  |  |  | Nine Months Ended September 30, 2013 <br> 2012 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | Balance | Rate | Balance | Rate | Balance | Rate | Balance | Rate |
| Average Assets |  |  |  |  |  |  |  |  |
| FFELP Loans | \$ 107,483 | 2.58\% | \$ 129,621 | 2.58\% | \$ 114,387 | 2.50\% | \$ 133,887 | 2.45\% |
| Private Education Loans | 38,102 | 6.61 | 37,545 | 6.52 | 38,220 | 6.59 | 37,612 | 6.59 |
| Other loans | 113 | 10.39 | 173 | 9.20 | 123 | 9.77 | 180 | 9.40 |
| Cash and investments | 8,721 | . 17 | 11,578 | . 19 | 9,327 | . 18 | 10,340 | . 21 |
| Total interest-earning assets | 154,419 | 3.44\% | 178,917 | 3.26\% | 162,057 | 3.34\% | 182,019 | 3.19\% |
| Non-interest-earning assets | 4,356 |  | 4,842 |  | 4,402 |  | 4,802 |  |
| Total assets | \$ 158,775 |  | \$ 183,759 |  | \$ 166,459 |  | \$ 186,821 |  |
| Average Liabilities and Equity |  |  |  |  |  |  |  |  |
| Short-term borrowings | \$ 16,365 | 1.01\% | \$ 22,935 | .85\% | \$ 17,509 | 1.01\% | \$ 26,070 | .89\% |
| Long-term borrowings | 133,542 | 1.48 | 152,013 | 1.56 | 140,181 | 1.46 | 151,865 | 1.58 |
| Total interest-bearing liabilities | 149,907 | 1.43\% | 174,948 | 1.47\% | 157,690 | 1.41\% | 177,935 | 1.48\% |
| Non-interest-bearing liabilities | 3,315 |  | 3,938 |  | 3,458 |  | 3,896 |  |
| Equity | 5,553 |  | 4,873 |  | 5,311 |  | 4,990 |  |
| Total liabilities and equity | \$ 158,775 |  | \$ 183,759 |  | \$ 166,459 |  | \$ 186,821 |  |
| Net interest margin |  | 2.05\% |  | 1.82\% |  | 1.96\% |  | 1.74\% |

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## Rate/Volume Analysis GAAP

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

| (Dollars in millions) | Increase (Decrease) |  | Change Due To ${ }^{(1)}$ |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  | Rate |  | Volume |
| Three Months Ended September 30, 2013 vs. 2012 |  |  |  |  |  |
| Interest income | \$ | (124) | \$ 81 |  | (205) |
| Interest expense |  | (104) | (15) |  | (89) |
| Net interest income | \$ | (20) | \$ 97 |  | (117) |
| Nine Months Ended September 30, 2013 vs. 2012 |  |  |  |  |  |
| Interest income | \$ | (300) | \$ 195 |  | (495) |
| Interest expense |  | (302) | (84) |  | (218) |
| Net interest income | \$ | 2 | \$ 280 |  | (278) |

[^14]
## Summary of our Student Loan Portfolio

Ending Student Loan Balances, net

|  |  |  | September 30, 2013 |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | FFELP Stafford and Other | FFELP <br> Consolidation Loans | Total <br> FFELP <br> Loans | Private Education Loans | Total Portfolio |
| Total student loan portfolio: |  |  |  |  |  |
| In-school ${ }^{(1)}$ | \$ 844 | \$ | \$ 844 | \$ 2,540 | \$ 3,384 |
| Grace, repayment and other ${ }^{(2)}$ | 39,425 | 65,153 | 104,578 | 36,760 | 141,338 |
| Total, gross | 40,269 | 65,153 | 105,422 | 39,300 | 144,722 |
| Unamortized premium/(discount) | 618 | 440 | 1,058 | (726) | 332 |
| Receivable for partially charged-off loans |  |  |  | 1,322 | 1,322 |
| Allowance for loan losses | (82) | (48) | (130) | $(2,144)$ | $(2,274)$ |
| Total student loan portfolio | \$ 40,805 | \$ 65,545 | \$ 106,350 | \$ 37,752 | \$ 144,102 |
| \% of total FFELP | 38\% | 62\% | 100\% |  |  |
| \% of total | 28\% | 46\% | 74\% | 26\% | 100\% |
|  | December 31, 2012 |  |  |  |  |
|  | FFELP Stafford and Other | FFELP <br> Consolidation Loans | Total FFELP <br> Loans | Private <br> Education Loans | Total Portfolio |
| Total student loan portfolio: |  |  |  |  |  |

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

(1) Loans for customers still attending school and are not yet required to make payments on the loan.
(2) Includes loans in deferment or forbearance.

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Average Student Loan Balances (net of unamortized premium/discount)

\left.|  | Three Months Ended September 30, 2013 |  |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Private |  |  |  |  |  |  |$\right]$


\left.|  |  | Three Months Ended September 30, 2012 |  |  |  |  |
| :--- | :---: | :---: | :---: | :---: | :---: | :---: |
| Private |  |  |  |  |  |  |$\right]$


| (Dollars in millions) | Nine Months Ended September 30, 2013 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | FFELP Stafford and Other | FFELP Consolidation Loans |  | Total <br> FFELP <br> Loans | Private <br> Education Loans | Total Portfolio |
| Total | \$ 42,552 | \$ | 71,835 | \$ 114,387 | \$ 38,220 | \$ 152,607 |
| \% of FFELP | 37\% |  | 63\% | 100\% |  |  |
| \% of total | 28\% |  | 47\% | 75\% | 25\% | 100\% |


|  | Nine Months Ended September 30, 2012 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | FFELP Stafford and Other |  | FELP olidation oans | Total <br> FFELP <br> Loans |  | Private Education Loans | Total Portfolio |
| Total | \$ 48,526 | \$ | 85,361 | \$ 133,887 |  | 37,612 | \$ 171,499 |
| \% of FFELP | 36\% |  | 64\% | 100\% |  |  |  |
| \% of total | 28\% |  | 50\% | 78\% |  | 22\% | 100\% |

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Student Loan Activity

| (Dollars in millions) | Three Months Ended September 30, 2013 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | FFELP Stafford and Other | FFELP Consolidation Loans |  | Total <br> FFELP <br> Loans | Total Private Education Loans |  | Total <br> Portfolio |
| Beginning balance | \$ 41,874 | \$ | 66,617 | \$ 108,491 | \$ | 37,116 | \$ 145,607 |
| Acquisitions and originations | 57 |  | 54 | 111 |  | 1,498 | 1,609 |
| Capitalized interest and premium/discount amortization | 294 |  | 277 | 571 |  | 112 | 683 |
| Consolidations to third parties | (382) |  | (254) | (636) |  | (19) | (655) |
| Sales |  |  |  |  |  |  |  |
| Repayments and other | $(1,038)$ |  | $(1,149)$ | $(2,187)$ |  | (955) | $(3,142)$ |
| Ending balance | \$ 40,805 | \$ | 65,545 | \$ 106,350 | \$ | 37,752 | \$ 144,102 |


| (Dollars in millions) | Three Months Ended September 30, 2012 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | FFELP <br> Stafford and Other | FFELP Consolidation Loans |  | Total <br> FFELP <br> Loans | Total Private Education Loans |  | Total Portfolio |
| Beginning balance | \$ 48,113 | \$ | 84,720 | \$ 132,833 | \$ | 36,454 | \$ 169,287 |
| Acquisitions and originations | 225 |  | 63 | 288 |  | 1,384 | 1,672 |
| Capitalized interest and premium/discount amortization | 335 |  | 371 | 706 |  | 193 | 899 |
| Consolidations to third parties | $(2,071)$ |  | $(1,276)$ | $(3,347)$ |  | (13) | $(3,360)$ |
| Sales | (144) |  |  | (144) |  |  | (144) |
| Repayments and other | $(1,180)$ |  | $(1,409)$ | $(2,589)$ |  | (917) | $(3,506)$ |
| Ending balance | \$ 45,278 | \$ | 82,469 | \$ 127,747 | \$ | 37,101 | \$ 164,848 |


|  | Nine Months Ended September 30, 2013 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | FFELP Stafford and Other |  | FELP olidation Loans | Total FFELP Loans |  | Private ucation Loans | Total <br> Portfolio |
| Beginning balance | \$ 44,289 | \$ | 81,323 | \$ 125,612 | \$ | 36,934 | \$ 162,546 |
| Acquisitions and originations | 215 |  | 181 | 396 |  | 3,293 | 3,689 |
| Capitalized interest and premium/discount amortization | 874 |  | 862 | 1,736 |  | 522 | 2,258 |
| Consolidations to third parties | $(1,205)$ |  | (764) | $(1,969)$ |  | (68) | $(2,037)$ |
| Sales ${ }^{(1)}$ | (102) |  | $(12,147)$ | $(12,249)$ |  |  | $(12,249)$ |
| Repayments and other | $(3,266)$ |  | $(3,910)$ | $(7,176)$ |  | $(2,929)$ | $(10,105)$ |
| Ending balance | \$ 40,805 | \$ | 65,545 | \$ 106,350 | \$ | 37,752 | \$ 144,102 |


|  | Nine Months Ended September 30, 2012 |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | FFELP Stafford and Other |  | ELP <br> lidation Loans | Total FFELP Loans |  | Private ucation Loans | Total Portfolio |
| Beginning balance | \$ 50,440 | \$ | 87,690 | \$ 138,130 | \$ | 36,290 | \$ 174,420 |
| Acquisitions and originations | 2,375 |  | 636 | 3,011 |  | 2,876 | 5,887 |
| Capitalized interest and premium/discount amortization | 980 |  | 1,118 | 2,098 |  | 701 | 2,799 |

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| Consolidations to third parties | $(4,501)$ | $(2,536)$ | $(7,037)$ |  | $(55)$ | $(4,092)$ |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| Sales | $(428)$ |  | $(428)$ | $(428)$ |  |  |
| Repayments and other | $(3,588)$ | $(4,439)$ | $(8,027)$ | $(2,711)$ | $(10,738)$ |  |
|  |  |  |  |  |  |  |
| Ending balance | $\$ 45,278$ | $\$$ | 82,469 | $\$ 127,747$ | $\$$ | 37,101 |

(1) Includes $\$ 12.0$ billion of student loans in connection with the sale of Residual Interests in FFELP Loan securitization trusts.

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Student Loan Allowance for Loan Losses Activity

| (Dollars in millions) | Three Months Ended September 30, |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | FFELP <br> Loans | 2013 |  |  |  | FFELP <br> Loans | 2012 <br> Private Education Loans |  | $\begin{gathered} \text { Total } \\ \text { Portfolio } \end{gathered}$ |  |
|  |  | Private Education Loans |  | Total <br> Portfolio |  |  |  |  |  |  |
| Beginning balance | \$ 133 | \$ | 2,149 |  | 2,282 | \$ 173 | \$ | 2,186 |  | 2,359 |
| Less: |  |  |  |  |  |  |  |  |  |  |
| Charge-offs ${ }^{(1)}$ | (15) |  | (205) |  | (220) | (23) |  | (250) |  | (273) |
| Student loan sales |  |  |  |  |  | (2) |  |  |  | (2) |
| Plus: |  |  |  |  |  |  |  |  |  |  |
| Provision for loan losses | 12 |  | 195 |  | 207 | 18 |  | 252 |  | 270 |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  | 5 |  | 5 |  |  | 8 |  | 8 |
| Ending balance | \$ 130 | \$ | 2,144 | \$ | 2,274 | \$ 166 | \$ | 2,196 | \$ | 2,362 |
| Troubled debt restructuring ${ }^{(3)}$ | \$ | \$ | 8,674 | \$ | 8,674 | \$ | \$ | 6,897 |  | 6,897 |


|  | Nine Months Ended September 30, |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  | FFELP <br> Loans | 2013 |  |  |  | FFELP <br> Loans | 2012 <br> Private Education Loans |  | Total Portfolio |  |
|  |  | Private Education Loans |  | $\begin{gathered} \text { Total } \\ \text { Portfolio } \end{gathered}$ |  |  |  |  |  |  |
| Beginning balance | \$ 159 | \$ | 2,171 |  | 2,330 | \$ 187 | \$ | 2,171 | \$ | 2,358 |
| Less: |  |  |  |  |  |  |  |  |  |  |
| Charge-offs ${ }^{(1)}$ | (57) |  | (649) |  | (706) | (68) |  | (709) |  | (777) |
| Student loan sales | (14) |  |  |  | (14) | (7) |  |  |  | (7) |
| Plus: |  |  |  |  |  |  |  |  |  |  |
| Provision for loan losses | 42 |  | 607 |  | 649 | 54 |  | 712 |  | 766 |
| Reclassification of interest reserve ${ }^{(2)}$ |  |  | 15 |  | 15 |  |  | 22 |  | 22 |
| Ending balance | \$ 130 | \$ | 2,144 | \$ | 2,274 | \$ 166 | \$ | 2,196 | \$ | 2,362 |
| Troubled debt restructuring ${ }^{(3)}$ | \$ | \$ | 8,674 |  | 8,674 | \$ | \$ | 6,897 | \$ | 6,897 |

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

[^15](3) Represents the recorded investment of loans classified as troubled debt restructuring.

Private Education Loan Originations
The following table summarizes our Private Education Loan originations.

| (Dollars in millions) | Three Months Ended September 30, 2013 $\qquad$ |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  | 2013 |  | 2012 |
| Smart Option interest only) | \$ 361 | \$ | 351 | \$ 811 | \$ | 809 |
| Smart Option fixed pay ${ }^{(1)}$ | 481 |  | 428 | 1,026 |  | 845 |
| Smart Option deferred ${ }^{\text {d }}$ | 643 |  | 555 | 1,378 |  | 1,108 |
| Other | 13 |  | 15 | 62 |  | 69 |
| Total Private Education Loan originations | \$ 1,498 | \$ | 1,349 | \$ 3,277 | \$ | 2,831 |

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

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## Consumer Lending Portfolio Performance

## Private Education Loan Delinquencies and Forbearance

The table below presents our Private Education Loan delinquency trends.

| (Dollars in millions) | Private Education Loan Delinquencies September 30, |  |  |  |
| :---: | :---: | :---: | :---: | :---: |
|  | 2013 |  | 2012 |  |
|  | Balance | \% | Balance | \% |
| Loans in-school/grace/deferment ${ }^{(1)}$ | \$ 6,541 |  | \$ 6,800 |  |
| Loans in forbearance ${ }^{(2)}$ | 1,108 |  | 1,036 |  |
| Loans in repayment and percentage of each status: |  |  |  |  |
| Loans current | 28,856 | 91.2\% | 27,886 | 90.0\% |
| Loans delinquent 31-60 days ${ }^{(3)}$ | 966 | 3.0 | 954 | 3.1 |
| Loans delinquent 61-90 days ${ }^{(3)}$ | 641 | 2.0 | 504 | 1.6 |
| Loans delinquent greater than 90 days ${ }^{(3)}$ | 1,188 | 3.8 | 1,628 | 5.3 |
| Total Private Education Loans in repayment | 31,651 | 100\% | 30,972 | 100\% |
| Total Private Education Loans, gross | 39,300 |  | 38,808 |  |
| Private Education Loan unamortized discount | (726) |  | (814) |  |
| Total Private Education Loans | 38,574 |  | 37,994 |  |
| Private Education Loan receivable for partially charged-off loans | 1,322 |  | 1,303 |  |
| Private Education Loan allowance for losses | $(2,144)$ |  | $(2,196)$ |  |
| Private Education Loans, net | \$ 37,752 |  | \$ 37,101 |  |
| Percentage of Private Education Loans in repayment |  | 80.5\% |  | 79.8\% |
| Delinquencies as a percentage of Private Education Loans in repayment |  | 8.8\% |  | 10.0\% |
| Loans in forbearance as a percentage of loans in repayment and forbearance |  | 3.4\% |  | 3.2\% |
| Loans in repayment greater than 12 months as a percentage of loans in repayment ${ }^{(4)}$ |  | 83.2\% |  | 77.1\% |

[^16][^17](3) The period of delinquency is based on the number of days scheduled payments are contractually past due.
(4) Based on number of months in an active repayment status for which a scheduled monthly payment was due.

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## Allowance for Private Education Loan Losses

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

(1) Charge-offs are reported net of expected recoveries. The expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.
(2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan sprincipal balance.
(3) Ending total loans represents gross Private Education Loans, plus the receivable for partially charged-off loans.

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

| (Dollars in millions) | September 30, 2013Non- |  |  |  |  |  | September 30, 2012 <br> Non- |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
|  |  |  |  |  |  |  | Traditional |  | Traditional |  | Total |  |
| Ending total loans ${ }^{(1)}$ |  | 37,151 | \$ | 3,471 |  | 40,622 |  | 36,250 | \$ | 3,861 |  | ,111 |
| Ending loans in repayment |  | 29,270 |  | 2,381 |  | 31,651 |  | 28,356 |  | 2,616 |  | ,972 |
| Private Education Loan allowance for losses |  | 1,611 |  | 533 |  | 2,144 |  | 1,634 |  | 562 |  | 2,196 |
| Charge-offs as a percentage of average loans in repayment (annualized) |  | 2.1\% |  | 8.8\% |  | 2.6\% |  | 2.6\% |  | 10.5\% |  | 3.2\% |
| Allowance as a percentage of ending total loan balance |  | 4.3\% |  | 15.4\% |  | 5.3\% |  | 4.5\% |  | 14.6\% |  | 5.5\% |
| Allowance as a percentage of ending loans in repayment |  | 5.5\% |  | 22.4\% |  | 6.8\% |  | 5.8\% |  | 21.5\% |  | 7.1\% |
| Average coverage of charge-offs (annualized) |  | 2.7 |  | 2.5 |  | 2.6 |  | 2.3 |  | 2.0 |  | 2.2 |
| Delinquencies as a percentage of Private Education Loans in repayment |  | 7.7\% |  | 22.7\% |  | 8.8\% |  | 8.6\% |  | 25.1\% |  | 10.0\% |
| Delinquencies greater than 90 days as a percentage of Private |  |  |  |  |  |  |  |  |  |  |  |  |
| Education Loans in repayment |  | 3.2\% |  | 11.1\% |  | 3.8\% |  | 4.4\% |  | 14.6\% |  | 5.3\% |
| Loans in forbearance as a percentage of loans in repayment and forbearance |  | 3.2\% |  | 5.4\% |  | 3.4\% |  | 3.1\% |  | 5.0\% |  | 3.2\% |
| Loans that entered repayment during the period ${ }^{(2)}$ | \$ | 1,009 | \$ | 13 | \$ | 1,022 | \$ | 884 | \$ | 23 | \$ | 907 |
| Percentage of Private Education Loans with a cosigner |  | 70\% |  | 31\% |  | 67\% |  | 67\% |  | 30\% |  | 64\% |
| Average FICO at origination |  | 729 |  | 625 |  | 722 |  | 727 |  | 624 |  | 719 |

(1) Ending total loans represent gross Private Education Loans, plus the receivable for partially charged-off loans.
(2) Includes loans that are required to make a payment for the first time.

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

## Receivable for Partially Charged-Off Private Education Loans

At the end of each month, for loans that are 212 days past due, we charge off the estimated loss of a defaulted loan balance. Actual recoveries are applied against the remaining loan balance that was not charged off. We refer to this remaining loan balance as the receivable for partially charged-off loans. If actual periodic recoveries are less than expected, the difference is immediately charged off through the allowance for loan losses with an offsetting reduction in the receivable for partially charged-off Private Education Loans. If actual periodic recoveries are greater than expected, they will be reflected as a recovery through the allowance for Private Education Loan losses once the cumulative recovery amount exceeds the cumulative amount originally expected to be recovered. Private Education Loans which defaulted between 2008 and 2012 for which we have previously charged off estimated losses have, to varying degrees, not met our post-default recovery expectations to date and may continue not to do so. According to our policy, we have been charging off these periodic shortfalls in expected recoveries against our allowance for Private Education Loan losses and the related receivable for partially charged-off Private Education Loans and we will continue to do so. There was $\$ 329$ million and $\$ 187$ million in allowance for Private Education Loan losses at September 30, 2013 and 2012, respectively, providing for possible additional future charge-offs related to the receivable for partially charged-off Private Education Loans (see Consumer Lending Segment Private Education Loan Provision for Loan Losses and Charge-Offs for a further discussion).

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

|  | Three Months Ended September 30, |  |  | Nine Months Ended September 30, |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| (Dollars in millions) | 2013 |  | 2012 |  |  |  |
| Receivable at beginning of period | \$ 1,334 | \$ | 1,277 | \$ 1,347 | \$ | 1,241 |
| Expected future recoveries of current period defaults ${ }^{(1)}$ | 68 |  | 86 | 216 |  | 237 |
| Recoveries ${ }^{(2)}$ | (55) |  | (45) | (177) |  | (139) |
| Charge-offs ${ }^{(3)}$ | (25) |  | (15) | (64) |  | (36) |
| Receivable at end of period | 1,322 |  | 1,303 | 1,322 |  | 1,303 |
| Allowance for estimated recovery shortfalls ${ }^{(4)}$ | (329) |  | (187) | (329) |  | (187) |
| Net receivable at end of period | \$ 993 | \$ | 1,116 | \$ 993 | \$ | 1,116 |

(1) Represents the difference between the defaulted loan balance and our estimate of the amount to be collected in the future.
(2) Current period cash collections.
(3) Represents the current period recovery shortfall the difference between what was expected to be collected and what was actually collected. These amounts are included in total charge-offs as reported in the Allowance for Private Education Loan Losses table.
(4) The allowance for estimated recovery shortfalls of the receivable for partially charged-off Private Education Loans is a component of the $\$ 2.1$ billion and $\$ 2.2$ billion overall allowance for Private Education Loan losses as of September 30, 2013 and 2012, respectively.
Use of Forbearance as a Private Education Loan Collection Tool
Forbearance involves granting the customer a temporary cessation of payments (or temporary acceptance of smaller than scheduled payments) for a specified period of time. Using forbearance extends the original term of the loan. Forbearance does not grant any reduction in the total repayment obligation (principal or interest). While in forbearance status, interest continues to accrue and is capitalized to principal when the loan re-enters repayment status. Our forbearance policies include limits on the number of forbearance months granted consecutively and the total number of forbearance months granted over the life of the loan. In some instances, we require good-faith payments before granting forbearance. Exceptions to forbearance policies are permitted when such exceptions are judged to increase the likelihood of collection of the loan. Forbearance as a collection tool is used most effectively when applied based on a customer s unique situation, including historical information and judgments. We leverage updated customer information and other decision support tools to best determine who will be granted forbearance based on our expectations as to a customer $s$ ability and willingness to repay their obligation. This strategy is aimed at mitigating the overall risk of the portfolio as well as encouraging cash resolution of delinquent loans.

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

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

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The table below reflects the historical effectiveness of using forbearance. Our experience has shown that three years after being granted forbearance for the first time, 66 percent of the loans are current, paid in full, or receiving an in-school grace or deferment, and 20 percent have defaulted. The default experience associated with loans which utilize forbearance is considered in our allowance for loan losses. The number of loans in a forbearance status as a percentage of loans in repayment and forbearance increased to 3.4 percent in the third quarter of 2013 compared

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with 3.2 percent in the year-ago quarter. As of September 30, 2013, one percent of loans in current status were delinquent as of the end of the prior month, but were granted a forbearance that made them current as of September 30, 2013 (customers made payments on approximately 29 percent of these loans as a prerequisite to being granted forbearance).

Tracking by First Time in Forbearance Compared to All Loans Entering Repayment

Portfolio data through September 30, 2013

|  | Status distribution $\mathbf{3 6}$ months after being granted forbearance for the first time | Status distribution 36 months after entering repayment (all loans) | Status distribution 36 months after entering repayment for loans never entering forbearance |
| :---: | :---: | :---: | :---: |
| In-school/grace/deferment | 9.6\% | 9.0\% | 5.4\% |
| Current | 51.0 | 59.5 | 67.3 |
| Delinquent 31-60 days | 3.1 | 2.0 | 0.4 |
| Delinquent 61-90 days | 1.9 | 1.1 | 0.1 |
| Delinquent greater than 90 days | 4.7 | 2.7 | 0.3 |
| Forbearance | 3.9 | 3.0 |  |
| Defaulted | 20.2 | 11.5 | 7.5 |
| Paid | 5.6 | 11.2 | 19.0 |
| Total | 100\% | 100\% | 100\% |

The tables below show the composition and status of the Private Education Loan portfolio aged by number of months in active repayment status (months for which a scheduled monthly payment was due). As indicated in the tables, the percentage of loans in forbearance status decreases the longer the loans have been in active repayment status. At September 30, 2013, loans in forbearance status as a percentage of loans in repayment and forbearance were 6.2 percent for loans that have been in active repayment status for less than 25 months. The percentage drops to 1.4 percent for loans that have been in active repayment status for more than 48 months. Approximately 65 percent of our Private Education Loans in forbearance status has been in active repayment status less than 25 months.
(Dollars in millions) Monthly Scheduled Payments Due

| September 30, 2013 | 0 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | Not Yet in <br> Repayment | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Loans in-school/grace/deferment | \$ | \$ | \$ | \$ | \$ | \$ 6,541 | \$ 6,541 |
| Loans in forbearance | 529 | 187 | 157 | 97 | 138 |  | 1,108 |
| Loans in repayment current | 4,482 | 4,987 | 5,568 | 4,424 | 9,395 |  | 28,856 |
| Loans in repayment delinquent 31-60 days | 247 | 193 | 180 | 134 | 212 |  | 966 |
| Loans in repayment delinquent 61-90 days | 214 | 131 | 109 | 77 | 110 |  | 641 |
| Loans in repayment delinquent greater than 90 days | 383 | 267 | 213 | 139 | 186 |  | 1,188 |
| Total | \$ 5,855 | \$ 5,765 | \$ 6,227 | \$4,871 | \$ 10,041 | \$ 6,541 | 39,300 |
| Unamortized discount |  |  |  |  |  |  | (726) |
| Receivable for partially charged-off loans |  |  |  |  |  |  | 1,322 |
| Allowance for loan losses |  |  |  |  |  |  | $(2,144)$ |
| Total Private Education Loans, net |  |  |  |  |  |  | \$ 37,752 |

Loans in forbearance as a percentage of loans in repayment and forbearance
$9.0 \% \quad 3.2 \%$
$2.5 \%$
2.0\%
$1.4 \%$
$\% \quad 3.4 \%$

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## (Dollars in millions)

## Monthly Scheduled Payments Due

| September 30, 2012 | 1 to 12 | 13 to 24 | 25 to 36 | 37 to 48 | More than 48 | Not Yet in <br> Repayment | Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Loans in-school/grace/deferment | \$ | \$ | \$ | \$ | \$ | \$ 6,800 | \$ 6,800 |
| Loans in forbearance | 588 | 169 | 122 | 65 | 92 |  | 1,036 |
| Loans in repayment current | 5,697 | 6,078 | 5,115 | 3,913 | 7,083 |  | 27,886 |
| Loans in repayment delinquent 31-60 days | 341 | 198 | 165 | 104 | 146 |  |  |


[^0]:    (1) Charge-offs are reported net of expected recoveries. For Private Education Loans, the expected recovery amount is transferred to the receivable for partially charged-off loan balance. Charge-offs include charge-offs against the receivable for partially charged-off loans which represents the difference between what was expected to be collected and any shortfalls in what was actually collected in the period. See Receivable for Partially Charged-Off Private Education Loans for further discussion.

[^1]:    (1) Loans for customers who may still be attending school or engaging in other permitted educational activities and are not required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation, as well as loans for customers who have requested and qualify for other permitted program deferments such as military, unemployment, or economic hardships.

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

[^3]:    (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not required to make

[^4]:    (3) The period of delinquency is based on the number of days scheduled payments are contractually past due.

[^5]:    (1) Fair values reported are exclusive of collateral held and pledged and accrued interest. Assets and liabilities are presented without consideration of master netting agreements. Derivatives are carried on the balance sheet based on net position by counterparty under master netting agreements, and classified in other assets or other liabilities depending on whether in a net receivable or payable position.
    (2) Other includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility and back-to-back private credit floors.

[^6]:    (1) Includes the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options, non-vested deferred compensation and restricted stock, restricted stock units, and the outstanding commitment to issue shares under the ESPP, determined by the treasury stock method.

[^7]:    (1) Fair value of derivative instruments excludes accrued interest and the value of collateral.

[^8]:    (2) Borrowings which are the hedged items in a fair value hedge relationship and which are adjusted for changes in value due to benchmark interest rates only are not carried at full fair value and are not reflected in this table.

[^9]:    (1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

[^10]:    (1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

[^11]:    (1) The eliminations in servicing revenue and direct operating expense represent the elimination of intercompany servicing revenue where the Business Services segment performs the loan servicing function for the FFELP Loans segment.

[^12]:    (1) Net impact of net unrealized gains (losses) under derivative accounting is composed of the following:

[^13]:    (1) Negative amounts are subtracted from Core Earnings net income to arrive at GAAP net income. Business Segment Earnings Summary Core Earnings Basis

[^14]:    (1) Changes in income and expense due to both rate and volume have been allocated in proportion to the relationship of the absolute dollar amounts of the change in each. The changes in income and expense are calculated independently for each line in the table. The totals for the rate and volume columns are not the sum of the individual lines.

[^15]:    (2) Represents the additional allowance related to the amount of uncollectible interest reserved within interest income that is transferred in the period to the allowance for loan losses when interest is capitalized to a loan s principal balance.

[^16]:    (1) Deferment includes customers who have returned to school or are engaged in other permitted educational activities and are not required to make payments on their loans, e.g., residency periods for medical students or a grace period for bar exam preparation.

[^17]:    (2) Loans for customers who have requested extension of grace period generally during employment transition or who have temporarily ceased making full payments due to hardship or other factors, consistent with established loan program servicing policies and procedures.

