

SLM CORP
Form 10-Q
July 20, 2016

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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

For the transition period from _____ to _____

Commission File Number: 001-13251

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

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

300 Continental Drive, Newark, Delaware 19713
(Address of principal executive offices) (Zip Code)
(302) 451-0200

(Registrant's telephone number, including area code)
(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 No

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

Large accelerated filer Accelerated filer

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Class	Outstanding at June 30, 2016
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Common Stock, \$0.20 par value	428,077,791 shares
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SLM CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
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SLM CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)
(Unaudited)

	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 1,042,915	\$ 2,416,219
Available-for-sale investments at fair value (cost of \$203,480 and \$196,402, respectively)	206,785	195,391
Loans held for investment (net of allowance for losses of \$144,925 and \$112,507, respectively)	13,245,426	11,630,591
Restricted cash and investments	34,297	27,980
Other interest-earning assets	53,555	54,845
Accrued interest receivable	719,875	564,496
Premises and equipment, net	86,512	81,273
Tax indemnification receivable	160,325	186,076
Other assets	80,239	57,227
Total assets	\$ 15,629,929	\$ 15,214,098
Liabilities		
Deposits	\$ 11,900,083	\$ 11,487,707
Short-term borrowings	—	500,175
Long-term borrowings	1,038,029	579,101
Income taxes payable, net	79,904	166,662
Upromise related liabilities	260,127	275,384
Other liabilities	154,875	108,746
Total liabilities	13,433,018	13,117,775
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	165,000	165,000
Series B: 4 million and 4 million shares issued, respectively, at stated value of \$100 per share	400,000	400,000
Common stock, par value \$0.20 per share, 1.125 billion shares authorized: 433.9 million and 430.7 million shares issued, respectively	86,769	86,136
Additional paid-in capital	1,149,783	1,135,860
Accumulated other comprehensive loss (net of tax benefit of \$20,944 and \$9,949, respectively)	(33,853)	(16,059)
Retained earnings	478,947	366,609
Total SLM Corporation stockholders' equity before treasury stock	2,246,646	2,137,546
Less: Common stock held in treasury at cost: 5.8 million and 4.4 million shares, respectively	(49,735)	(41,223)
Total equity	2,196,911	2,096,323

Total liabilities and equity	\$ 15,629,929	\$ 15,214,098
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See accompanying notes to consolidated financial statements.

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SLM CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Interest income:				
Loans	\$251,675	\$195,287	\$496,905	\$393,143
Investments	2,371	2,386	4,962	5,106
Cash and cash equivalents	1,195	801	2,829	1,581
Total interest income	255,241	198,474	504,696	399,830
Interest expense:				
Deposits	35,409	29,482	69,423	59,052
Interest expense on short-term borrowings	2,060	735	4,223	1,567
Interest expense on long-term borrowings	5,006	—	8,421	—
Total interest expense	42,475	30,217	82,067	60,619
Net interest income	212,766	168,257	422,629	339,211
Less: provisions for credit losses	41,793	15,558	74,395	32,176
Net interest income after provisions for credit losses	170,973	152,699	348,234	307,035
Non-interest income:				
Gains on sales of loans, net	—	76,874	—	76,874
Gains on derivatives and hedging activities, net	2,142	1,602	1,788	4,894
Other	13,683	10,912	34,711	18,919
Total non-interest income	15,825	89,388	36,499	100,687
Expenses:				
Compensation and benefits	44,570	38,572	94,779	79,775
Other operating expenses	50,207	51,227	92,883	91,211
Total operating expenses	94,777	89,799	187,662	170,986
Acquired intangible asset amortization expense	261	370	521	740
Restructuring and other reorganization expenses	—	744	—	5,401
Total expenses	95,038	90,913	188,183	177,127
Income before income tax expense	91,760	151,174	196,550	230,595
Income tax expense	34,555	60,158	73,430	91,880
Net income	57,205	91,016	123,120	138,715
Preferred stock dividends	5,243	4,870	10,382	9,693
Net income attributable to SLM Corporation common stock	\$51,962	\$86,146	\$112,738	\$129,022
Basic earnings per common share attributable to SLM Corporation	\$0.12	\$0.20	\$0.26	\$0.30
Average common shares outstanding	427,942	425,688	427,526	425,061
Diluted earnings per common share attributable to SLM Corporation	\$0.12	\$0.20	\$0.26	\$0.30
Average common and common equivalent shares outstanding	431,796	432,742	431,349	432,523

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net income	\$57,205	\$91,016	\$123,120	\$138,715
Other comprehensive income (loss):				
Unrealized gains (losses) on investments	1,293	(3,180)	4,317	(2,507)
Unrealized (losses) gains on cash flow hedges	(8,732)	18,156	(33,106)	2,467
Total unrealized (losses) gains	(7,439)	14,976	(28,789)	(40)
Income tax benefit (expense)	2,855	(5,840)	10,995	(15)
Other comprehensive (loss) income, net of tax benefit (expense)	(4,584)	9,136	(17,794)	(55)
Total comprehensive income	\$52,621	\$100,152	\$105,326	\$138,660

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares				Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated		Total
	Preferred Stock Shares	Issued	Treasury	Outstanding				Other Comprehensive Income (Loss)	Retained Earnings	
Balance at December 31, 2014	7,300,000	424,804,125	(1,365,277)	423,438,848	\$ 565,000	\$ 84,961	\$ 1,090,511	\$(11,393)	\$ 113,066	\$ (
Net income	—	—	—	—	—	—	—	—	138,715	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(55)	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A (\$.87 per share)	—	—	—	—	—	—	—	—	(5,750)	—
Preferred Stock, series B (\$.50 per share)	—	—	—	—	—	—	—	—	(3,943)	—
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	1,121	—	(1,121)	—
Issuance of common shares	—	5,208,074	—	5,208,074	—	1,042	12,307	—	—	—
Tax benefit related to employee stock-based compensation	—	—	—	—	—	—	5,774	—	—	—
Stock-based compensation expense	—	—	—	—	—	—	11,210	—	—	—
	—	—	(2,764,093)	(2,764,093)	—	—	—	—	—	(2

Shares
 repurchased
 related to
 employee
 stock-based
 compensation
 plans

Balance at June 30, 2015	7,300,000	430,012,199	(4,129,370)	425,882,829	\$565,000	\$86,003	\$1,120,923	\$(11,448)	\$240,967	\$(
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See accompanying notes to consolidated financial statements.

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

	Common Stock Shares				Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Preferred Stock Shares	Issued	Treasury	Outstanding						
Balance at December 31, 2015	7,300,000	430,677,434	(4,374,190)	426,303,244	\$565,000	\$86,136	\$1,135,860	\$(16,059)	\$366,609	\$
Net income	—	—	—	—	—	—	—	—	123,120	—
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(17,794)	—	—
Total comprehensive income	—	—	—	—	—	—	—	—	—	—
Cash dividends:										
Preferred Stock, series A (\$0.87 per share)	—	—	—	—	—	—	—	—	(5,750)	—
Preferred Stock, series B (\$0.60 per share)	—	—	—	—	—	—	—	—	(4,632)	—
Dividend equivalent units related to employee stock-based compensation plans	—	—	—	—	—	—	400	—	(400)	—
Issuance of common shares	—	3,166,474	—	3,166,474	—	633	3,224	—	—	—
Tax benefit related to employee stock-based compensation	—	—	—	—	—	—	(2,249)	—	—	—
	—	—	—	—	—	—	12,548	—	—	—

Stock-based compensation expense										
Shares repurchased related to employee stock-based compensation plans			(1,391,927)	(1,391,927)	—	—	—	—	—	(
Balance at June 30, 2016	7,300,000	433,843,908	(5,766,117)	428,077,791	\$ 565,000	\$ 86,769	\$ 1,149,783	\$(33,853)	\$ 478,947	\$

See accompanying notes to consolidated financial statements.

SLM CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
Operating activities		
Net income	\$ 123,120	\$ 138,715
Adjustments to reconcile net income to net cash used in operating activities:		
Provisions for credit losses	74,395	32,176
Income tax expense	73,430	91,880
Amortization of brokered deposit placement fee	5,179	5,352
Amortization of ABCP Facility upfront fee	502	1,202
Amortization of deferred loan origination costs and fees, net	2,720	1,558
Net amortization of discount on investments	793	883
Interest income on tax indemnification receivable	(4,066)	(3,507)
Depreciation of premises and equipment	2,295	3,436
Amortization of acquired intangibles	261	740
Stock-based compensation expense	12,548	11,210
Unrealized gains on derivative and hedging activities, net	(835)	(3,219)
Gains on sale of loans, net	—	(76,874)
Other adjustments to net income, net	1,101	—
Changes in operating assets and liabilities:		
Net decrease in loans held for sale	—	55
Origination of loans held for sale	—	(55)
Increase in accrued interest receivable	(277,582)	(191,011)
Decrease in restricted cash and investments - other	2,053	631
Decrease in other interest-earning assets	1,290	21,392
Decrease in tax indemnification receivable	29,816	14,908
Increase in other assets	(14,591)	(25,214)
Decrease in income tax payable, net	(149,193)	(97,545)
Increase (decrease) in accrued interest payable	2,924	(352)
Decrease in payable due to entity that is a subsidiary of Navient	(808)	(6,542)
Increase (decrease) in other liabilities	7,976	(3,707)
Total adjustments	(229,792)	(222,603)
Total net cash used in operating activities	(106,672)	(83,888)
Investing activities		
Loans acquired and originated	(2,234,556)	(2,070,373)
Net proceeds from sales of loans held for investment	5,736	785,481
Proceeds from claim payments	33,892	67,769
Net decrease in loans held for investment	624,040	445,610
Increase in restricted cash and investments - variable interest entities	(8,369)	—
Purchases of available-for-sale securities	(23,362)	(26,237)
Proceeds from sales and maturities of available-for-sale securities	15,492	17,936
Total net cash used in investing activities	(1,587,127)	(779,814)
Financing activities		

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Brokered deposit placement fee	(2,875) —
Net increase (decrease) in certificates of deposit	56,272	(140,693)
Net increase (decrease) increase in other deposits	322,959	(72,499)
Issuance costs for collateralized borrowings	(386) —
Borrowings collateralized by loans in securitization trusts - issued	499,393	—
Borrowings collateralized by loans in securitization trusts - repaid	(40,618) —

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Borrowings under ABCP Facility	26,325	—
Repayment of borrowings under ABCP Facility	(526,500)	—
Fees paid on ABCP Facility	(1,444)	(104)
Excess tax (expense) benefit from the exercise of stock-based awards	(2,249)	5,774
Preferred stock dividends paid	(10,382)	(9,693)
Net cash provided by (used in) financing activities	320,495	(217,215)
Net decrease in cash and cash equivalents	(1,373,304)	(1,080,917)
Cash and cash equivalents at beginning of period	2,416,219	2,359,780
Cash and cash equivalents at end of period	\$1,042,915	\$1,278,863
Cash disbursements made for:		
Interest	\$75,165	\$52,789
Income taxes paid	\$149,173	\$91,552
Income taxes received	\$(86)	\$(80)
See accompanying notes to consolidated financial statements.		

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SLM CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, unless otherwise noted)

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of SLM Corporation (“Sallie Mae,” “SLM,” the “Company,” “we,” or “us”) 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 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 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 six months ended June 30, 2016 are not necessarily indicative of the results for the year ending December 31, 2016 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, 2015 (the “2015 Form 10-K”).

Consolidation

The consolidated financial statements include the accounts of the Company and its majority-owned and controlled subsidiaries after eliminating the effects of intercompany accounts and transactions.

We consolidate any variable interest entity (“VIE”) where we have determined we are the primary beneficiary. The primary beneficiary is the entity which has both: (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance and (2) the obligation to absorb losses or receive benefits of the entity that could potentially be significant to the VIE.

Recently Issued but Not Yet Adopted Accounting Pronouncements

On February 25, 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, “Leases,” a comprehensive new lease standard which will supersede previous lease guidance. The standard requires a lessee to recognize in its balance sheet assets and liabilities related to long-term leases that were classified as operating leases under previous guidance. An asset will be recognized related to the right to use the underlying asset and a liability will be recognized related to the obligation to make lease payments over the term of the lease. The standard also requires expanded disclosures surrounding leases. The standard is effective for fiscal periods beginning after December 15, 2018, and requires modified retrospective adoption, with early adoption permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements and related disclosures.

On March 30, 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting,” which amends the current stock compensation guidance. The amendments simplify the accounting for the taxes related to stock based compensation, including adjustments to how excess tax benefits and a company’s payments for tax withholdings should be classified. The standard is effective for fiscal periods beginning after December 15, 2016, with early adoption permitted. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

On June 16, 2016, the FASB issued ASU No. 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which requires measurement and recognition of expected credit losses for financial assets held. Under this standard, we will be required to hold an allowance equal to the expected life-of-loan

losses on our loan portfolio. The standard is effective for fiscal periods beginning after December 15, 2019. While we are currently evaluating the impact of our pending adoption of this standard on our consolidated financial statements, we do expect the adoption to have a material impact on our financial statements.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment

Loans Held for Investment consist of Private Education Loans and FFELP Loans. We use “Private Education Loans” to mean education loans to students or their families that are not made, insured or guaranteed by any state or federal government. Private Education Loans do not include loans insured or guaranteed under the previously existing Federal Family Education Loan Program (“FFELP”).

Our Private Education Loans are made largely to bridge the gap between the cost of higher education and the amount funded through financial aid, government loans and customers’ resources. Private Education Loans bear the full credit risk of the customer. We manage this risk through risk-performance underwriting strategies and qualified cosigners. Private Education Loans generally carry a variable rate indexed to LIBOR. As of June 30, 2016, 81 percent of all of our Private Education Loans were indexed to LIBOR. We provide incentives for customers to include a cosigner on the loan, and the vast majority of loans in our portfolio are cosigned. We also provide total cost incentives for customers to make payments while in school.

FFELP Loans are insured as to their principal and accrued interest in the event of default subject to a Risk Sharing level based on the date of loan disbursement. These insurance obligations are supported by contractual rights against the United States. For loans disbursed on or after July 1, 2006, we receive 97 percent reimbursement on all qualifying claims. For loans disbursed after October 1, 1993, and before July 1, 2006, we receive 98 percent reimbursement on all qualifying claims. For loans disbursed prior to October 1, 1993, we receive 100 percent reimbursement on all qualifying claims.

Loans held for investment are summarized as follows:

	June 30, 2016	December 31, 2015
Private Education Loans	\$12,290,709	\$10,596,437
Deferred origination costs	35,212	27,884
Allowance for loan losses	(142,628)	(108,816)
Total Private Education Loans, net	12,183,293	10,515,505
FFELP Loans	1,061,517	1,115,663
Unamortized acquisition costs, net	2,913	3,114
Allowance for loan losses	(2,297)	(3,691)
Total FFELP Loans, net	1,062,133	1,115,086
Loans held for investment, net	\$13,245,426	\$11,630,591

The estimated weighted average life of education loans in our portfolio was approximately 6.0 years and 6.2 years at June 30, 2016 and December 31, 2015, respectively.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

2. Loans Held for Investment (Continued)

The average balance and the respective weighted average interest rates of education loans in our portfolio are summarized as follows:

	Three Months Ended			Six Months Ended				
	June 30, 2016	2015		June 30, 2016	2015			
	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate	Average Balance	Weighted Average Interest Rate
Private Education Loans	\$12,217,890	7.98 %	\$9,361,711	7.96 %	\$12,017,799	8.00 %	\$9,407,888	8.01 %
FFELP Loans	1,076,419	3.48	1,194,309	3.22	1,089,836	3.45	1,214,384	3.20
Total portfolio	\$13,294,309		\$10,556,020		\$13,107,635		\$10,622,272	

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in thousands, unless otherwise noted)

3. Allowance for Loan Losses

Our provision for loan losses represents the periodic expense of maintaining an allowance sufficient to absorb incurred probable losses in the held-for-investment loan portfolios. The evaluation of the allowance for loan losses is inherently subjective, as it requires material estimates that may be susceptible to significant changes. We believe the allowance for loan losses is appropriate to cover probable losses incurred in the loan portfolios.

Allowance for Loan Losses Metrics

	Allowance for Loan Losses		
	Three Months Ended June 30, 2016		
	FFELP Loans	Private Education Loans	Total
Allowance for Loan Losses			
Beginning balance	\$3,629	\$ 122,620	\$ 126,249
Total provision	(985)	42,362	41,377
Net charge-offs:			
Charge-offs	(347)	(23,903)	(24,250)
Recoveries	—		