SLM CORP
Form 10-Q
May 12, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2014

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 *(State or other jurisdiction of* *incorporation or organization)*	**52-2013874** *(I.R.S. Employer* *Identification No.)*
300 Continental Drive, Newark, Delaware *(Address of principal executive offices)*	**19713** *(Zip Code)*

(302) 283-8000

(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 þ 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 þ	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 þ No ¨

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

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

Class	**Outstanding at April 30, 2014**
Common Stock, $0.20 par value	422,781,435 shares

Table of Contents

EXPLANATORY NOTE

On April 30, 2014, SLM Corporation (Sallie Mae , SLM , the Company , we , our , or us) completed its plan to separate into two distinct publicly-traded entities an education loan management, servicing and asset recovery business, Navient Corporation (Navient), and a consumer banking business, SLM. The separation of Navient from SLM Corporation was preceded by an internal corporate reorganization, which was the first step to separate the education loan management, servicing and asset recovery business from the consumer banking business. As a result of a holding company merger under Section 251(g) of the Delaware General Corporation Law (DGCL), which is referred to herein as the SLM Merger, all of the shares of then existing SLM Corporation s common stock were converted, on a 1-to-1 basis, into shares of common stock of New BLC Corporation, a newly formed company that was a subsidiary of then existing SLM Corporation, and, pursuant to the SLM Merger, New BLC Corporation replaced then existing SLM Corporation as the publicly-traded registrant and changed its name to SLM Corporation. As part of the internal corporate reorganization, the assets and liabilities associated with the education loan management, servicing and asset recovery business were transferred to Navient, and those assets and liabilities associated with the consumer banking business remained with or were transferred to the newly constituted SLM. Immediately after the internal corporate reorganization, SLM owned all of the issued and outstanding shares of Navient common stock, which it distributed on April 30, 2014 to the stockholders of record on April 22, 2014 of then existing SLM Corporation. The internal reorganization and the distribution are sometimes collectively referred to herein as the Spin-Off and SLM Corporation as it existed prior to completion of the Spin-Off is sometimes referred to herein as Existing SLM. SLM Corporation as it now exists after the Spin-Off is referred to herein as Sallie Mae, the Company, SLM, we, our or us. Upon completion of the internal reorganiz Existing SLM became a limited liability company wholly-owned by Navient and changed its name to Navient, LLC. For further information regarding the Spin-Off, risk factors of Sallie Mae related to the Spin-Off and the business to be conducted by Sallie Mae after the Spin-Off, please see our 2013 Form 10-K filed with the SEC on February 19, 2014 and our Form 8-K filed with the SEC on December 20, 2013. For further information regarding Navient, risk factors of Navient related to the Spin-Off and the business to be conducted by Navient after the Spin-Off, please see the registration statement on Form 10, as amended, filed by Navient with the SEC on April 10, 2014 and declared effective on April 14, 2014, which can be accessed through the SEC s website at *www.sec.gov/edgar*.

Given the Spin-Off occurred in the second quarter of 2014, this Quarterly Report on Form 10-Q for the three months ended March 31, 2014 relates to Existing SLM and contains consolidated financial information of Existing SLM prior to the Spin-Off, including the financial results of the education loan management, servicing and asset recovery business (i.e., Navient). On May 6, 2014, Sallie Mae filed a Current Report on Form 8-K providing pro forma unaudited condensed consolidated financial information of stand-alone Sallie Mae and its subsidiaries for the three months ended March 31, 2014, as adjusted to give effect to the Spin-Off of Navient. Additionally, that Current Report on Form 8-K contained historical carve-out audited financial statements of Sallie Mae and its subsidiaries on a stand-alone basis for each of the three years ended December 31, 2013, December 31, 2012 and December 31, 2011, as adjusted for the effects of the Spin-Off. Sallie Mae s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2014 and Sallie Mae s future financial reports to be filed with the SEC will be prepared on the same stand-alone basis as the historical audited financial statements contained in this Current Report on Form 8-K.

Capitalized terms used herein and not otherwise defined have the meanings ascribed to such terms in our 2013 Form 10-K.

Table of Contents

SLM CORPORATION

Table of Contents

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SLM CORPORATION

CONSOLIDATED BALANCE SHEETS

(In millions, except share and per share amounts)

(Unaudited)

	March 31, 2014	December 31, 2013
Assets		
FFELP Loans (net of allowance for losses of $107 and $119, respectively)	$ 102,635	$ 104,588
Private Education Loans (net of allowance for losses of $2,059 and $2,097 respectively)	38,157	37,512
Investments		
Available-for-sale	135	109
Other	652	783
Total investments	787	892
Cash and cash equivalents	3,742	5,190
Restricted cash and investments	3,794	3,650
Goodwill and acquired intangible assets, net	421	424
Other assets	6,936	7,287
Total assets	$ 156,472	$ 159,543
Liabilities		
Short-term borrowings	$ 11,626	$ 13,795
Long-term borrowings	136,177	136,648
Other liabilities	3,071	3,458
Total liabilities	150,874	153,901
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: 549 million and 545 million shares issued, respectively	110	109
Additional paid-in capital	4,461	4,399
Accumulated other comprehensive income (loss) (net of tax (expense) benefit of $(4) and $(7), respectively)	7	13
Retained earnings	2,733	2,584
Total SLM Corporation stockholders equity before treasury stock	7,876	7,670

Less: Common stock held in treasury at cost: 127 million and 116 million shares, respectively	(2,283)	(2,033)
Total SLM Corporation stockholders equity	5,593	5,637
Noncontrolling interest	5	5
Total equity	5,598	5,642
Total liabilities and equity	$ 156,472	$ 159,543

Supplemental information assets and liabilities of consolidated variable interest entities:

	March 31, 2014	December 31, 2013
FFELP Loans	$ 97,380	$ 99,254
Private Education Loans	25,139	25,530
Restricted cash and investments	3,618	3,395
Other assets	2,163	2,322
Short-term borrowings	1,694	3,655
Long-term borrowings	115,533	115,538
Net assets of consolidated variable interest entities	$ 11,073	$ 11,308

See accompanying notes to consolidated financial statements.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Interest income:		
FFELP Loans	$ 646	$ 735
Private Education Loans	644	623
Other loans	3	3
Cash and investments	3	5
Total interest income	1,296	1,366
Total interest expense	530	571
Net interest income	766	795
Less: provisions for loan losses	185	241
Net interest income after provisions for loan losses	581	554
Other income (loss):		
Gains on sales of loans and investments		55
Losses on derivative and hedging activities, net	(8)	(31)
Servicing revenue	61	70
Contingency revenue	111	99
Gains on debt repurchases		23
Other	6	34
Total other income (loss)	170	250
Expenses:		
Salaries and benefits	142	125
Other operating expenses	224	110
Total operating expenses	366	235
Goodwill and acquired intangible asset impairment and amortization expense	4	3
Restructuring and other reorganization expenses	26	10
Total expenses	396	248
Income from continuing operations, before income tax expense	355	556
Income tax expense	136	211

Net income from continuing operations	219	345
Income from discontinued operations, net of tax expense		1
Net income	219	346
Less: net loss attributable to noncontrolling interest		
Net income attributable to SLM Corporation	219	346
Preferred stock dividends	5	5
Net income attributable to SLM Corporation common stock	$ 214	$ 341
Basic earnings per common share attributable to SLM Corporation:		
Continuing operations	$ .50	$ .76
Discontinued operations		
Total	$ .50	$ .76
Average common shares outstanding	427	451
Diluted earnings per common share attributable to SLM Corporation:		
Continuing operations	$ .49	$ .74
Discontinued operations		
Total	$ .49	$ .74
Average common and common equivalent shares outstanding	435	458
Dividends per common share attributable to SLM Corporation	$ .15	$ .15

See accompanying notes to consolidated financial statements.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended March 31, 2014	2013
Net income	$ 219	$ 346
Other comprehensive income (loss):		
Unrealized gains (losses) on derivatives:		
Unrealized hedging gains (losses) on derivatives	(11)	1
Reclassification adjustments for derivative losses included in net income (interest expense)	3	3
Total unrealized gains (losses) on derivatives	(8)	4
Unrealized gains (losses) on investments		(1)
Income tax (expense) benefit	2	(1)
Other comprehensive income (loss), net of tax	(6)	2
Total comprehensive income	$ 213	$ 348

See accompanying notes to consolidated financial statements.

3

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

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

(Unaudited)

	Preferred Stock Shares	Common Stock Shares Issued	Treasury	Outstanding	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total Stockholders Equity	Noncontrolling Interest	Total Equity
Balance at December 31, 2012	7,300,000	535,507,965	(82,910,021)	452,597,944	$ 565	$ 107	$ 4,237	$ (6)	$ 1,451	$ (1,294)	$ 5,060	$ 6	$ 5,066
Comprehensive income:													
Net income (loss)									346		346		346
Other comprehensive income, net of tax								2			2		2
Total comprehensive income											348		348
Cash dividends:													
Common stock ($.15 per share)									(68)		(68)		(68)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.49 per share)									(2)		(2)		(2)
Dividend equivalent units related to employee stock-based compensation plans									(1)		(1)		(1)
Issuance of common shares		4,157,795		4,157,795		1	33				34		34
Tax benefit related to employee stock-based compensation plans							2				2		2
							19				19		19

Stock-based compensation expense													
Common stock repurchased			(10,220,804)	(10,220,804)						(199)	(199)		(199)
Shares repurchased related to employee stock-based compensation plans			(2,324,575)	(2,324,575)						(42)	(42)		(42)
Balance at March 31, 2013	7,300,000	539,665,760	(95,455,400)	444,210,360	$ 565	$ 108	$ 4,291	$ (4)	$ 1,723	$ (1,535)	$ 5,148	$ 6	$ 5,154
Balance at December 31, 2013	7,300,000	545,210,941	(116,262,066)	428,948,875	$ 565	$ 109	$ 4,399	$ 13	$ 2,584	$ (2,033)	$ 5,637	$ 5	$ 5,642
Comprehensive income:													
Net income (loss)									219		219		219
Other comprehensive income, net of tax								(6)			(6)		(6)
Total comprehensive income											213		213
Cash dividends:													
Common stock ($.15 per share)									(64)		(64)		(64)
Preferred stock, series A ($.87 per share)									(3)		(3)		(3)
Preferred stock, series B ($.49 per share)									(2)		(2)		(2)
Dividend equivalent units related to employee stock-based compensation plans									(1)		(1)		(1)
Issuance of common shares		4,238,182		4,238,182		1	33				34		34
Tax benefit related to employee stock-based compensation plans							11				11		11
Stock-based compensation expense							18				18		18
Common stock repurchased			(8,368,300)	(8,368,300)						(200)	(200)		(200)
Shares repurchased related to employee stock-based compensation plans			(2,115,470)	(2,115,470)						(50)	(50)		(50)

Balance at March 31, 2014	7,300,000	549,449,123	(126,745,836)	422,703,287	$ 565	$ 110	$ 4,461	$ 7	$ 2,733	$ (2,283)	$ 5,593	$ 5	$ 5,598

See accompanying notes to consolidated financial statements.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in millions)

(Unaudited)

	Three Months Ended March 31, 2014	2013
Operating activities		
Net income	$ 219	$ 346
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax		(1)
Gains on loans and investments, net		(55)
Gains on debt repurchases		(23)
Goodwill and acquired intangible asset impairment and amortization expense	4	3
Stock-based compensation expense	18	19
Unrealized gains on derivative and hedging activities	(181)	(138)
Provisions for loan losses	185	241
Decrease (increase) in restricted cash other	5	(15)
Decrease in accrued interest receivable	109	19
(Decrease) increase in accrued interest payable	(69)	2
Decrease in other assets	257	291
Increase (decrease) in other liabilities	11	(158)
Cash provided by operating activities continuing operations	558	531
Cash (used in) operating activities discontinued operations		(2)
Total net cash provided by operating activities	558	529
Investing activities		
Student loans acquired and originated	(1,975)	(1,559)
Reduction of student loans:		
Installment payments, claims and other	3,090	3,349
Proceeds from sales of student loans		226
Other investing activities, net	119	65
Purchases of available-for-sale securities	(25)	(14)
Proceeds from maturities of available-for-sale securities	2	9
Purchases of held-to-maturity and other securities	(65)	(93)
Proceeds from sales and maturities of held-to-maturity and other securities	67	94
(Increase) decrease in restricted cash variable interest entities	(221)	107
Total net cash provided by investing activities	992	2,184
Financing activities		
Borrowings collateralized by loans in trust issued	2,649	2,588
Borrowings collateralized by loans in trust repaid	(2,834)	(3,182)
Asset-backed commercial paper conduits, net	(1,918)	427

ED Conduit Program facility, net				(2,583)
Other long-term borrowings issued		834		1,489
Other long-term borrowings repaid		(1,535)		(1,433)
Other financing activities, net		(11)		(358)
Retail and other deposits, net		86		396
Common stock repurchased		(200)		(199)
Common stock dividends paid		(64)		(68)
Preferred stock dividends paid		(5)		(5)
Net cash used in financing activities		(2,998)		(2,928)
Net decrease in cash and cash equivalents		(1,448)		(215)
Cash and cash equivalents at beginning of period		5,190		3,900
Cash and cash equivalents at end of period	$	3,742	$	3,685
Cash disbursements made (refunds received) for:				
Interest	$	519	$	568
Income taxes paid	$	38	$	15
Income taxes received	$	(1)	$	(1)
Noncash activity:				
Investing activity Student loans and other assets removed related to sale of Residual Interest in securitization	$		$	(3,665)
Financing activity Borrowings removed related to sale of Residual Interest in securitization	$		$	(3,681)

See accompanying notes to consolidated financial statements.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information at March 31, 2014 and for the three months ended

March 31, 2014 and 2013 is unaudited)

1. Organization and Business

On May 29, 2013, the board of directors of our predecessor registrant (Existing SLM) first announced its intent to separate into two distinct publicly traded entities a loan management, servicing and asset recovery business and a consumer banking business. The loan management, servicing and asset recovery business, Navient Corporation (Navient), would be comprised primarily of Existing SLM s portfolios of education loans not currently held in Sallie Mae Bank, as well as servicing and asset recovery activities on these loans and loans held by third parties. The consumer banking business would be comprised primarily of Sallie Mae Bank and its Private Education Loan origination business, the Private Education Loans it holds and a related servicing business, and will be a consumer banking franchise with expertise in helping families save, plan and pay for college.

On April 8, 2014, Existing SLM approved the distribution of all of the issued and outstanding shares of Navient common stock on the basis of one share of Navient common stock for each share of Existing SLM common stock issued and outstanding as of the close of business on April 22, 2014, the record date for the distribution. The distribution occurred on April 30, 2014. The separation of Navient from the Company was preceded by an internal corporate reorganization, which was the first step to separate the consumer banking business and the education loan management, servicing and asset recovery business. As a result of a holding company merger under Section 251(g) of the Delaware General Corporation Law (DGCL), which is referred to herein as the SLM Merger and was effective on April 29, 2014, New BLC Corporation (SLM BankCo) replaced Existing SLM as the parent holding company of Sallie Mae. In accordance with Section 251(g) of the Delaware General Corporation Law, by action of the Existing SLM board of directors and without a shareholder vote, Existing SLM was merged into Navient, LLC, a wholly-owned subsidiary of SLM BankCo, with Navient, LLC surviving (Existing SLM SurvivorCo). Immediately following the effective time of the Merger, SLM BankCo changed its name to SLM Corporation and became the successor registrant to Existing SLM (SLM , the Company, we, our or us). Following the SLM Merger and as part of the internal corporate reorganization, the assets and liabilities associate with the education loan management, servicing and asset recovery business were transferred to Navient, and those assets and liabilities associated with the consumer banking business remained with, or were transferred to, SLM. The internal reorganization and the distribution of Navient common stock are sometimes collectively referred to herein as the Spin-Off. The Spin-Off is intended to be tax-free to stockholders of SLM. For further information on the Spin-Off, please refer to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the 2013 Form 10-K).

Due to the relative significance of Navient to Existing SLM, among other factors, for financial reporting purposes Navient is treated as the accounting spinnor and therefore is the accounting successor to Existing SLM, notwithstanding the legal form of the separation and distribution. As a result, the historical financial statements of Existing SLM are the historical financial statements of Navient. Navient will show the distribution of the approximate $1.7 billion of consumer banking business net assets as of the distribution date.

Shortly after the completion of the Spin-Off, SLM issued audited consolidated financial statements on a stand-alone basis for SLM and its subsidiaries for each of the three years ended December 31, 2013. These carve-out financial statements were presented on a basis of accounting that reflects a change in reporting entity. They reflected the results of the consumer banking business and did not include Navient s results. As previously

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Organization and Business (Continued)

discussed, the historical financial statements of Existing SLM prior to the Spin-Off have become the historical financial statements of Navient. As a result, the presentation of the financial results of the business and operations of SLM, for periods arising after the completion of the Spin-Off will be substantially different from the presentation of Existing SLM s financial results in its prior filings with the Securities and Exchange Commission (the SEC). To provide additional information to SLM s investors regarding the anticipated impact of the Spin-Off, Existing SLM (our predecessor registrant) included certain unaudited pro forma financial information in the 2013 Form 10-K, on a carve-out stand-alone basis as of and for the year ended December 31, 2013, to provide some reference for SLM s expected reissued historical financial statements post Spin-Off and future manner of presentation of its financial condition and results of operations. For further information regarding SLM s historical carve-out financial statements, please refer to our Form 8-K filed on May 6, 2014. SLM will report its results on the basis of the historical carve-out financial statements beginning with its Form 10-Q for the quarter ended June 30, 2014.

2. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited, consolidated financial statements of Existing SLM 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 Existing SLM and its majority-owned and controlled subsidiaries and those Variable Interest Entities (VIEs) for which we are the primary beneficiary, after eliminating the effects of intercompany accounts and transactions. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results for the year ending December 31, 2014 or for any other period.

Consolidation

In first-quarter 2013, Existing SLM sold the Residual Interest in a FFELP Loan securitization trust to a third party. Navient will continue to service the student loans in the trust under existing agreements. Prior to the sale of the Residual Interest, Existing SLM had consolidated the trust as a VIE 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 Interest we are no longer the residual holder, thus we determined we no longer met criterion (2) above and deconsolidated the trust. As a result of this transaction we removed trust assets of $3.8 billion and the related liabilities of $3.7 billion from the balance sheet and recorded a $55 million gain as part of gains on sales of loans and investments.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Significant Accounting Policies (Continued)

Reclassifications

Certain reclassifications have been made to the balances as of and for the three months ended March 31, 2013 to be consistent with classifications adopted for 2014, and had no effect on net income, total assets, or total liabilities.

3. 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.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

Allowance for Loan Losses Metrics

(Dollars in millions)	Three Months Ended March 31, 2014 FFELP Loans	Private Education Loans	Other Loans	Total
Allowance for Loan Losses				
Beginning balance	$ 119	$ 2,097	$ 28	$ 2,244
Total provision	10	175		185
Charge-offs[1]	(22)	(218)	(1)	(241)
Reclassification of interest reserve[2]		5		5
Ending balance	$ 107	$ 2,059	$ 27	$ 2,193
Allowance:				
Ending balance: individually evaluated for impairment	$	$ 1,081	$ 20	$ 1,101
Ending balance: collectively evaluated for impairment	$ 107	$ 978	$ 7	$ 1,092
Loans:				
Ending balance: individually evaluated for impairment	$	$ 9,590	$ 44	$ 9,634
Ending balance: collectively evaluated for impairment	$ 101,727	$ 31,307	$ 79	$ 133,113
Charge-offs as a percentage of average loans in repayment (annualized)	.12%	2.82%	3.62%	
Charge-offs as a percentage of average loans in repayment and forbearance (annualized)	.10%	2.72%	3.62%	
Allowance as a percentage of the ending total loan balance	.10%	5.03%	21.80%	
Allowance as a percentage of the ending loans in repayment	.15%	6.58%	21.80%	
Allowance coverage of charge-offs (annualized)	1.2	2.3	5.9	
Ending total loans[3]	$ 101,727	$ 40,897	$ 123	
Average loans in repayment	$ 73,496	$ 31,416	$ 126	
Ending loans in repayment	$ 73,061	$ 31,309	$ 123	

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

Charged-Off Private Education Loans for further discussion.

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

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

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

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

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

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

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

10

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. 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			
	March 31, 2014		December 31, 2013	
(Dollars in millions)	Balance[3]	% of Balance	Balance[3]	% of Balance
Credit Quality Indicators				
School Type/FICO Scores:				
Traditional	$ 36,822	93%	$ 36,140	93%
Non-Traditional[1]	2,778	7	2,860	7
Total	$ 39,600	100%	$ 39,000	100%
Cosigners:				
With cosigner	$ 27,084	68%	$ 26,321	67%
Without cosigner	12,516	32	12,679	33
Total	$ 39,600	100%	$ 39,000	100%
Seasoning[2]:				
1-12 payments	$ 5,305	13%	$ 5,171	14%
13-24 payments	5,282	13	5,511	14
25-36 payments	5,186	13	5,506	14
37-48 payments	5,038	13	5,103	13
More than 48 payments	11,714	30	11,181	29
Not yet in repayment	7,075	18	6,528	16
Total	$ 39,600	100%	$ 39,000	100%

(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.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

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

	FFELP Loan Delinquencies			
	March 31, 2014		December 31, 2013	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 13,016		$ 13,678	
Loans in forbearance[2]	15,650		13,490	
Loans in repayment and percentage of each status:				
Loans current	62,721	85.9%	63,330	82.8%
Loans delinquent 31-60 days[3]	3,059	4.2	3,746	4.9
Loans delinquent 61-90 days[3]	1,784	2.4	2,207	2.9
Loans delinquent greater than 90 days[3]	5,497	7.5	7,221	9.4
Total FFELP Loans in repayment	73,061	100%	76,504	100%
Total FFELP Loans, gross	101,727		103,672	
FFELP Loan unamortized premium	1,015		1,035	
Total FFELP Loans	102,742		104,707	
FFELP Loan allowance for losses	(107)		(119)	
FFELP Loans, net	$ 102,635		$ 104,588	
Percentage of FFELP Loans in repayment		71.8%		73.8%
Delinquencies as a percentage of FFELP Loans in repayment		14.2%		17.2%
FFELP Loans in forbearance as a percentage of loans in repayment and forbearance		17.6%		15.0%

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

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

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

	Private Education Traditional Loan Delinquencies			
	March 31, 2014		December 31, 2013	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 6,637		$ 6,088	
Loans in forbearance[2]	1,069		969	
Loans in repayment and percentage of each status:				
Loans current	27,364	94.0%	26,977	92.8%
Loans delinquent 31-60 days[3]	550	1.9	674	2.3
Loans delinquent 61-90 days[3]	353	1.2	420	1.4
Loans delinquent greater than 90 days[3]	849	2.9	1,012	3.5
Total traditional loans in repayment	29,116	100%	29,083	100%
Total traditional loans, gross	36,822		36,140	
Traditional loans unamortized discount	(609)		(629)	
Total traditional loans	36,213		35,511	
Traditional loans receivable for partially charged-off loans	795		799	
Traditional loans allowance for losses	(1,583)		(1,592)	
Traditional loans, net	$ 35,425		$ 34,718	
Percentage of traditional loans in repayment		79.1%		80.5%
Delinquencies as a percentage of traditional loans in repayment		6.0%		7.2%
Loans in forbearance as a percentage of loans in repayment and forbearance		3.5%		3.2%

(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.

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

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

	Private Education Non-Traditional Loan Delinquencies			
	March 31, 2014		December 31, 2013	
(Dollars in millions)	Balance	%	Balance	%
Loans in-school/grace/deferment[1]	$ 438		$ 440	
Loans in forbearance[2]	147		133	
Loans in repayment and percentage of each status:				
Loans current	1,792	81.7%	1,791	78.3%
Loans delinquent 31-60 days[3]	105	4.8	128	5.6
Loans delinquent 61-90 days[3]	77	3.5	93	4.1
Loans delinquent greater than 90 days[3]	219	10.0	275	12.0
Total non-traditional loans in repayment	2,193	100%	2,287	100%
Total non-traditional loans, gross	2,778		2,860	
Non-traditional loans unamortized discount	(72)		(75)	
Total non-traditional loans	2,706		2,785	
Non-traditional loans receivable for partially charged-off loans	502		514	
Non-traditional loans allowance for losses	(476)		(505)	
Non-traditional loans, net	$ 2,732		$ 2,794	
Percentage of non-traditional loans in repayment		79.0%		80.0%
Delinquencies as a percentage of non-traditional loans in repayment		18.3%		21.7%
Loans in forbearance as a percentage of loans in repayment and forbearance		6.3%		5.5%

(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.

(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

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 2013 for which we have previously charged off estimated

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

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 $334 million and $209 million in the allowance for Private Education Loan losses at March 31, 2014 and 2013, 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.

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Receivable at beginning of period	$ 1,313	$ 1,347
Expected future recoveries of current period defaults[1]	71	78
Recoveries[2]	(61)	(68)
Charge-offs[3]	(26)	(18)
Receivable at end of period	1,297	1,339
Allowance for estimated recovery shortfalls[4]	(334)	(209)
Net receivable at end of period	$ 963	$ 1,130

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

(2) Current period cash recoveries.

(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 March 31, 2014 and 2013, 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 a forbearance of greater than three months, an interest rate reduction or an extended repayment plan are classified as TDRs. Approximately 46 percent and 45 percent of the loans granted forbearance have qualified as a TDR loan at March 31, 2014 and December 31, 2013, respectively. The unpaid principal balance of TDR loans that were in an interest rate reduction plan as of March 31, 2014 and December 31, 2013 was $1.7 billion and $1.5 billion, respectively.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Allowance for Loan Losses (Continued)

At March 31, 2014 and December 31, 2013, 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.

			TDR Loans	
(Dollars in millions)		**Recorded Investment[1]**	**Unpaid Principal Balance**	**Related Allowance**
March 31, 2014				
Private Education Loans	Traditional	$ 7,800	$ 7,856	$ 852
Private Education Loans	Non-Traditional	1,441	1,439	229
Total		$ 9,241	$ 9,295	$ 1,081
December 31, 2013				
Private Education Loans	Traditional	$ 7,515	$ 7,559	$ 812
Private Education Loans	Non-Traditional	1,434	1,427	236
Total		$ 8,949	$ 8,986	$ 1,048

(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.

		Three Months Ended March 31,			
		2014		2013	
(Dollars in millions)		**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
Private Education Loans	Traditional	$ 7,631	$ 118	$ 6,185	$ 96
Private Education Loans	Non-Traditional	1,434	29	1,315	27
Total		$ 9,065	$ 147	$ 7,500	$ 123

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. 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			
	March 31, 2014		December 31, 2013	
(Dollars in millions)	Balance	%	Balance	%
Loans in deferment[(1)]	$ 997		$ 913	
Loans in forbearance[(2)]	786		740	
Loans in repayment and percentage of each status:				
Loans current	6,045	80.5%	5,613	76.5%
Loans delinquent 31-60 days[(3)]	413	5.5	469	6.4
Loans delinquent 61-90 days[(3)]	286	3.8	330	4.5
Loans delinquent greater than 90 days[(3)]	768	10.2	921	12.6
Total TDR loans in repayment	7,512	100%	7,333	100%
Total TDR loans, gross	$ 9,295		$ 8,986	

(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 the loans, e.g. residency periods for medical students or a grace period for bar exam preparation.

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

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

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.

	Three Months Ended March 31,					
	2014			2013		
(Dollars in millions)	Modified Loans[(1)]	Charge-Offs[(2)]	Payment Default	Modified Loans[(1)]	Charge-Offs[(2)]	Payment Default

Private Education Loans	Traditional	$ 466	$ 100	$ 119	$ 545	$ 97	$ 216
Private Education Loans	Non-Traditional	57	34	29	90	34	57
Total		$ 523	$ 134	$ 148	$ 635	$ 131	$ 273

(1) Represents period ending balance of loans that have been modified during the period and resulted in a TDR.

(2) Represents loans that charged off that were classified as TDRs.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. 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		
(Dollars in millions)		**Total**	**Greater Than 90 Days Past Due**	**Allowance for Uncollectible Interest**
March 31, 2014				
Private Education Loans	Traditional	$ 939	$ 29	$ 41
Private Education Loans	Non-Traditional	85	11	18
Total		$ 1,024	$ 40	$ 59
December 31, 2013				
Private Education Loans	Traditional	$ 926	$ 35	$ 46
Private Education Loans	Non-Traditional	97	13	20
Total		$ 1,023	$ 48	$ 66

4. Borrowings

The following table summarizes our borrowings.

	March 31, 2014			December 31, 2013		
(Dollars in millions)	**Short Term**	**Long Term**	**Total**	**Short Term**	**Long Term**	**Total**
Unsecured borrowings:						
Senior unsecured debt	$ 1,046	$ 16,836	$ 17,882	$ 2,213	$ 16,056	$ 18,269
Bank deposits	5,964	2,755	8,719	6,133	2,807	8,940
Other[(1)]	684		684	691		691
Total unsecured borrowings	7,694	19,591	27,285	9,037	18,863	27,900

Secured borrowings:						
FFELP Loan securitizations		90,608	90,608		90,756	90,756
Private Education Loan securitizations		18,861	18,861		18,835	18,835
FFELP Loans other facilities	3,919	4,400	8,319	4,715	5,311	10,026
Private Education Loans other facilities		597	597		843	843
Total secured borrowings	3,919	114,466	118,385	4,715	115,745	120,460
Total before hedge accounting adjustments	11,613	134,057	145,670	13,752	134,608	148,360
Hedge accounting adjustments	13	2,120	2,133	43	2,040	2,083
Total	$ 11,626	$ 136,177	$ 147,803	$ 13,795	$ 136,648	$ 150,443

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

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Borrowings (Continued)

Variable Interest Entities

We consolidate the following financing VIEs as of March 31, 2014 and December 31, 2013, as we are the primary beneficiary. As a result, these VIEs are accounted for as secured borrowings.

	March 31, 2014						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings VIEs:							
FFELP Loan securitizations	$	$ 90,608	$ 90,608	$ 91,299	$ 3,055	$ 700	$ 95,054
Private Education Loan securitizations		18,861	18,861	23,880	390	428	24,698
FFELP Loans other facilities	1,694	4,137	5,831	6,081	157	73	6,311
Private Education Loans other facilities		597	597	1,259	16	24	1,299
Total before hedge accounting adjustments	1,694	114,203	115,897	122,519	3,618	1,225	127,362
Hedge accounting adjustments		1,330	1,330			938	938
Total	$ 1,694	$ 115,533	$ 117,227	$ 122,519	$ 3,618	$ 2,163	$ 128,300

	December 31, 2013						
	Debt Outstanding			Carrying Amount of Assets Securing Debt Outstanding			
(Dollars in millions)	Short Term	Long Term	Total	Loans	Cash	Other Assets	Total
Secured Borrowings VIEs:							
FFELP Loan securitizations	$	$ 90,756	$ 90,756	$ 91,535	$ 2,913	$ 683	$ 95,131
Private Education Loan securitizations		18,835	18,835	23,947	338	540	24,825
FFELP Loans other facilities	3,655	3,791	7,446	7,719	128	91	7,938
Private Education Loans other facilities		843	843	1,583	16	30	1,629
Total before hedge accounting adjustments	3,655	114,225	117,880	124,784	3,395	1,344	129,523
Hedge accounting adjustments		1,313	1,313			978	978
Total	$ 3,655	$ 115,538	$ 119,193	$ 124,784	$ 3,395	$ 2,322	$ 130,501

19

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative Financial Instruments

Our risk management strategy and use of and accounting for derivatives have not materially changed from that discussed in our 2013 Form 10-K. Please refer to Note 7 Derivative Financial Instruments in our 2013 Form 10-K for a full discussion.

Summary of Derivative Financial Statement Impact

The following tables summarize the fair values and notional amounts of all derivative instruments at March 31, 2014 and December 31, 2013, and their impact on other comprehensive income and earnings for the three months ended March 31, 2014 and 2013.

Impact of Derivatives on Consolidated Balance Sheet

(Dollars in millions)	Hedged Risk Exposure	Cash Flow Mar. 31, 2014	Cash Flow Dec. 31, 2013	Fair Value Mar. 31, 2014	Fair Value Dec. 31, 2013	Trading Mar. 31, 2014	Trading Dec. 31, 2013	Total Mar. 31, 2014	Total Dec. 31, 2013
Fair Values[1]									
Derivative Assets:									
Interest rate swaps	Interest rate	$ 16	$ 24	$ 753	$ 738	$ 47	$ 61	$ 816	$ 823
Cross-currency interest rate swaps	Foreign currency & interest rate			1,118	1,185			1,118	1,185
Other[2]	Interest rate					1	2	1	2
Total derivative assets[3]		16	24	1,871	1,923	48	63	1,935	2,010
Derivative Liabilities:									
Interest rate swaps	Interest rate			(110)	(149)	(180)	(215)	(290)	(364)
Floor Income Contracts	Interest rate					(1,206)	(1,384)	(1,206)	(1,384)
Cross-currency interest rate swaps	Foreign currency & interest rate			(142)	(155)	(25)	(31)	(167)	(186)
Other[2]	Interest rate					(4)	(23)	(4)	(23)
Total derivative liabilities[3]				(252)	(304)	(1,415)	(1,653)	(1,667)	(1,957)
Net total derivatives		$ 16	$ 24	$ 1,619	$ 1,619	$ (1,367)	$ (1,590)	$ 268	$ 53

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

(2)

Other includes embedded derivatives bifurcated from securitization debt as well as derivatives related to our Total Return Swap Facility and back-to-back private credit floors.

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

	Other Assets		Other Liabilities	
(Dollar in millions)	**March 31, 2014**	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Gross position	$ 1,935	$ 2,010	$ (1,667)	$ (1,957)
Impact of master netting agreements	(342)	(386)	342	386
Derivative values with impact of master netting agreements (as carried on balance sheet)	1,593	1,624	(1,325)	(1,571)
Cash collateral (held) pledged	(683)	(687)	645	777
Net position	$ 910	$ 937	$ (680)	$ (794)

20

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative Financial Instruments (Continued)

The above fair values include adjustments for counterparty credit risk both for when we are exposed to the counterparty, net of collateral postings, and when the counterparty is exposed to us, net of collateral postings. The net adjustments decreased the overall net asset positions at March 31, 2014 and December 31, 2013 by $87 million and $91 million, respectively. In addition, the above fair values reflect adjustments for illiquid derivatives as indicated by a wide bid/ask spread in the interest rate indices to which the derivatives are indexed. These adjustments decreased the overall net asset positions at March 31, 2014 and December 31, 2013 by $82 million and $84 million, respectively.

	Cash Flow		Fair Value		Trading		Total	
(Dollars in billions)	**Mar. 31, 2014**	**Dec. 31, 2013**	**Mar. 31, 2014**	**Dec. 31, 2013**	**Mar. 31, 2014**	**Dec. 31, 2013**	**Mar. 31, 2014**	**Dec. 31, 2013**
Notional Values:								
Interest rate swaps	$ .7	$ .7	$ 17.2	$ 16.0	$ 46.3	$ 46.3	$ 64.2	$ 63.0
Floor Income Contracts					27.2	31.8	27.2	31.8
Cross-currency interest rate swaps			10.7	11.1	.4	.3	11.1	11.4
Other[(1)]					3.8	3.9	3.8	3.9
Total derivatives	$ .7	$ .7	$ 27.9	$ 27.1	$ 77.7	$ 82.3	$ 106.3	$ 110.1

(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.

21

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative Financial Instruments (Continued)

Impact of Derivatives on Consolidated Statements of Income

	Three Months Ended March 31,							
	Unrealized Gain (Loss) on Derivatives[1][2]		Realized Gain (Loss) on Derivatives[3]		Unrealized Gain (Loss) on Hedged Item[1]		Total Gain (Loss)	
(Dollars in millions)	2014	2013	2014	2013	2014	2013	2014	2013
Fair Value Hedges:								
Interest rate swaps	$ 53	$ (172)	$ 100	$ 109	$ (53)	$ 195	$ 100	$ 132
Cross-currency interest rate swaps	(53)	(556)	22	21	7	552	(24)	17
Total fair value derivatives		(728)	122	130	(46)	747	76	149
Cash Flow Hedges:								
Interest rate swaps			(3)	(3)			(3)	(3)
Total cash flow derivatives			(3)	(3)			(3)	(3)
Trading:								
Interest rate swaps	19	(19)	12	24			31	5
Floor Income Contracts	181	189	(198)	(213)			(17)	(24)
Cross-currency interest rate swaps	7	(47)	(1)	20			6	(27)
Other	19	(4)	(1)				18	(4)
Total trading derivatives	226	119	(188)	(169)			38	(50)
Total	226	(609)	(69)	(42)	(46)	747	111	96
Less: realized gains (losses) recorded in interest expense			119	127			119	127
Gains (losses) on derivative and hedging activities, net	$ 226	$ (609)	$ (188)	$ (169)	$ (46)	$ 747	$ (8)	$ (31)

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

(2) Represents ineffectiveness related to cash flow hedges.

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

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Derivative Financial Instruments (Continued)

Collateral

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

(Dollars in millions)	March 31, 2014	December 31, 2013
Collateral held:		
Cash (obligation to return cash collateral is recorded in short-term borrowings)[1]	$ 683	$ 687
Securities at fair value on-balance sheet securitization derivatives (not recorded in financial statements)[2]	633	629
Total collateral held	$ 1,316	$ 1,316
Derivative asset at fair value including accrued interest	$ 1,824	$ 1,878
Collateral pledged to others:		
Cash (right to receive return of cash collateral is recorded in investments)	$ 645	$ 777
Total collateral pledged	$ 645	$ 777
Derivative liability at fair value including accrued interest and premium receivable	$ 769	$ 948

(1) At March 31, 2014 and December 31, 2013, $0 and $0 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 $581 million with our counterparties. Further downgrades would not result in any additional collateral requirements, except to increase the frequency of collateral calls. Two counterparties have the right to terminate the contracts based on our recent unsecured credit rating downgrades. We currently have a liability position with these derivative counterparties (including accrued interest and net of premiums receivable) of $133 million and have posted $118 million of collateral to these counterparties. If these two counterparties exercised their right to terminate, we would be required to deliver additional assets of $15 million to settle the contracts. Trust related derivatives do not contain credit contingent features related to our or the trusts credit ratings.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Other Assets

The following table provides the detail of our other assets.

	March 31, 2014		December 31, 2013	
(Dollars in millions)	Ending Balance	% of Balance	Ending Balance	% of Balance
Accrued interest receivable, net	$ 2,052	30%	$ 2,161	30%
Derivatives at fair value	1,593	23	1,624	22
Income tax asset, net current and deferred	1,212	17	1,299	18
Accounts receivable	810	12	881	12
Benefit and insurance-related investments	480	7	477	7
Fixed assets, net	244	4	237	3
Other loans, net	96	1	101	1
Other	449	6	507	7
Total	$ 6,936	100%	$ 7,287	100%

7. Stockholders Equity

The following table summarizes our common share repurchases and issuances.

	Three Months Ended March 31,	
	2014	2013
Common shares repurchased(1)	8,368,300	10,220,804
Average purchase price per share(2)	$ 23.89	$ 19.49
Shares repurchased related to employee stock-based compensation plans(3)	2,115,470	2,324,575
Average purchase price per share	$ 23.56	$ 18.11
Common shares issued(4)	4,238,182	4,157,795

(1) Common shares purchased under our share repurchase program, of which $0 million remained available as of March 31, 2014.

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

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

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

The closing price of our common stock on March 31, 2014 was $24.48.

Dividend and Share Repurchase Program

In the first-quarter 2014, we paid a common stock dividend of $0.15 per common share. Post Spin-Off we do not anticipate continuing to pay dividends on our common stock.

In the first-quarter 2014, we repurchased 8 million shares of common stock for $200 million, fully utilizing the Company s July 2013 share repurchase program authorization. In 2013, we repurchased 27 million shares for an aggregate purchase price of $600 million.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Earnings per Common Share

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

(In millions, except per share data)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013
Numerator:		
Net income attributable to SLM Corporation	$ 219	$ 346
Preferred stock dividends	5	5
Net income attributable to SLM Corporation common stock	$ 214	$ 341
Denominator:		
Weighted average shares used to compute basic EPS	427	451
Effect of dilutive securities:		
Dilutive effect of stock options, non-vested restricted stock, restricted stock units and Employee Stock Purchase Plan (ESPP)[1]	8	7
Dilutive potential common shares[2]	8	7
Weighted average shares used to compute diluted EPS	435	458
Basic earnings (loss) per common share attributable to SLM Corporation:		
Continuing operations	$ .50	$ .76
Discontinued operations		
Total	$ .50	$ .76
Diluted earnings (loss) per common share attributable to SLM Corporation:		
Continuing operations	$ .49	$ .74
Discontinued operations		
Total	$ .49	$ .74

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

(2) For the three months ended March 31, 2014 and 2013, securities covering approximately 3 million and 5 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were anti-dilutive.

9. 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 12 Fair Value Measurements in our 2013 Form 10-K for a full discussion.

Table of Contents

The information and financial reports contained in this Quarterly Report on Form 10-Q do not reflect the subsequent Spin-Off of Navient on April 30, 2014. Carved out audited consolidated financial statements on a stand-alone basis for each of the three years ended December 31, 2013, 2012 and 2011, as well as certain unaudited pro forma condensed financial and statistical information of Sallie Mae and its subsidiaries effective March 31, 2014 are contained in the Company s Current Report on Form 8-K filed with the SEC on May 6, 2014.

SLM CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Fair Value Measurements (Continued)

During the three months ended March 31, 2014, there were no significant transfers of financial instruments between levels, or changes in our methodology or assumptions used to value our financial instruments.

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

	Fair Value Measurements on a Recurring Basis							
	March 31, 2014				December 31, 2013			
(Dollars in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets								
Available-for-sale investments:								
Agency residential mortgage-backed securities	$	$ 129	$	$ 129	$	$ 102	$	$ 102
Guaranteed investment contracts								
Other		6		6		7		7
Total available-for-sale investments		135		135		109		109
Derivative instruments:(1)								
Interest rate swaps		784	32	816		785	38	823
Cross-currency interest rate swaps		1	1,117					