

SLM CORP  
Form 10-Q  
August 09, 2006

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, 2006 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.)*

**12061 Bluemont Way, Reston, Virginia**

*(Address of principal executive offices)*

**20190**

*(Zip Code)*

**(703) 810-3000**

*(Registrant's telephone number, including area code)*

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 July 31, 2006
Voting common stock, \$.20 par value	410,037,287 shares



## GLOSSARY

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

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

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

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

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

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

Our Core Earnings performance measures are the primary financial performance measures used by management to evaluate performance and to allocate resources. Accordingly, financial information is reported to management on a Core Earnings basis by reportable segment, as these are the measures used regularly by our chief operating decision maker. Our Core Earnings performance measures are used in developing our financial plans and tracking results, and also in establishing corporate performance targets and determining incentive compensation. Management believes this information provides additional insight into the financial performance of the Company s core business activities. Our Core Earnings

performance measures are not defined terms within GAAP and may not be comparable to similarly titled measures reported by other companies. Core Earnings net income reflects only current period adjustments to GAAP net income. Accordingly, the Company's Core Earnings presentation does not represent another comprehensive basis of accounting.

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

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

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

**ED** The U.S. Department of Education.

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

**Exceptional Performer ( EP ) Designation** The EP designation is determined by ED in recognition of a servicer meeting certain performance standards set by ED in servicing FFELP loans. Upon receiving the EP designation, the EP servicer receives 100 percent reimbursement on default claims (99 percent reimbursement on default claims filed after July 1, 2006) on federally guaranteed student loans for all loans serviced for a period of at least 270 days before the date of default and will no longer be subject to the two percent Risk Sharing (see definition below) on these loans. The EP servicer is entitled to receive this benefit as long as it remains in compliance with the required servicing standards, which are assessed on an annual and quarterly basis through compliance audits and other criteria. The annual assessment is in part based upon subjective factors which alone may form the basis for an ED determination to withdraw the designation. If the designation is withdrawn, the two percent Risk Sharing may be applied retroactively to the date of the occurrence that resulted in noncompliance.

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

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

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

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

**Floor Income** FFELP student loans originated prior to July 1, 2006 earn interest at the higher of a floating rate based on the Special Allowance Payment or SAP formula (see definition below) set by ED and the borrower rate, which is fixed over a period of time. We generally finance our student loan portfolio with floating rate debt over all interest rate levels. In low and/or declining interest rate environments, when the fixed borrower rate is higher than the rate produced by the SAP formula, our student loans earn at a fixed rate while the interest on our floating rate debt continues to decline. In these interest rate environments, we earn additional spread income that we refer to as Floor Income. Depending on the type of the student loan and when it was originated, the borrower rate is either fixed to term or is reset to a

market rate each July 1. As a result, for loans where the borrower rate is fixed to term, we may earn Floor Income for an extended period of time, and for those loans where the borrower interest rate is reset annually on July 1, we may earn Floor Income to the next reset date.

The following example shows the mechanics of Floor Income for a typical fixed rate Consolidation Loan originated between July 1, 2005 and June 30, 2006 (with a commercial paper-based SAP spread of 2.64 percent):

Fixed Borrower Rate:	5.375%
SAP Spread over Commercial Paper Rate:	(2.640)%
Floor Strike Rate <sup>(1)</sup>	2.735%

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

Based on this example, if the quarterly average commercial paper rate is over 2.735 percent, the holder of the student loan will earn at a floating rate based on the SAP formula, which in this example is a fixed spread to commercial paper of 2.64 percent. On the other hand, if the quarterly average commercial paper rate is below 2.735 percent, the SAP formula will produce a rate below the fixed borrower rate of 5.375 percent and the loan holder earns at the borrower rate of 5.375 percent. The difference between the fixed borrower rate and the lender's expected yield based on the SAP formula is referred to as Floor Income. Our student loan assets are generally funded with floating rate debt, so when student loans are earning at the fixed borrower rate, decreases in interest rates may increase Floor Income.

***Graphic Depiction of Floor Income:***

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

amount of Floor Income we will earn over the period of the contract. Floor Income Contracts are not considered effective hedges under Statement of Financial Accounting Standards ( SFAS ) No. 133, Accounting for Derivative Instruments and Hedging Activities, and each quarter we must record the change in fair value of these contracts through income.

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

**HEA** The Higher Education Act of 1965, as amended.

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

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

**Preferred Lender List** To streamline the student loan process, most higher education institutions select a small number of lenders to recommend to their students and parents. This recommended list is referred to as the Preferred Lender List.

**Private Education Loans** Education loans to students or parents of students that are not guaranteed or reinsured under the FFELP or any other federal student loan program. Private Education Loans include loans for traditional higher education, undergraduate and graduate degrees, and for alternative education, such as career training, private kindergarten through secondary education schools and tutorial schools. Traditional higher education loans have repayment terms similar to FFELP loans, whereby repayments begin after the borrower leaves school. Repayment for alternative education or career training loans generally begins immediately.

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

**Reconciliation Legislation** The Higher Education Reconciliation Act of 2005, which reauthorized the student loan programs of the HEA and generally becomes effective as of July 1, 2006. See MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS RECENT DEVELOPMENTS Reauthorization.

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

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

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

are not subject to Risk Sharing for claims filed through July 1, 2006, and are subject to one-percent Risk Sharing for claims filed after July 1, 2006.

**Special Allowance Payment ( SAP )** FFELP student loans originated prior to July 1, 2006 generally earn interest at the greater of the borrower rate or a floating rate determined by reference to the average of the applicable floating rates (91-day Treasury bill rate or commercial paper) in a calendar quarter, plus a fixed spread that is dependent upon when the loan was originated and the loan's repayment status. If the resulting floating rate exceeds the borrower rate, ED pays the difference directly to us. This payment is referred to as the Special Allowance Payment or SAP and the formula used to determine the floating rate is the SAP formula. We refer to the fixed spread to the underlying index as the SAP spread. SAP are available on variable rate PLUS Loans and SLS Loans only if the variable rate, which is reset annually, exceeds the applicable maximum borrower rate. Effective for SAP made after April 1, 2006, this limitation on SAP for PLUS loans made on and after January 1, 2000 is repealed.

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

**Variable Rate Floor Income** For FFELP Stafford student loans originated prior to July 1, 2006 whose borrower interest rate resets annually on July 1, we may earn Floor Income or Embedded Floor Income (see definitions above) based on a calculation of the difference between the borrower rate and the then current interest rate. We refer to this as Variable Rate Floor Income because Floor Income is earned only through the next reset date.

**Wind-Down** The dissolution of the GSE under the terms of the Privatization Act (see definitions above).



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**FORM 10-Q**  
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**June 30, 2006**

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

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

	June 30, 2006	December 31, 2005
	(Unaudited)	
<b>Assets</b>		
FFELP Stafford and Other Student Loans (net of allowance for losses of \$6,890 and \$6,311, respectively)	\$ 21,390,845	\$ 19,988,116
Consolidation Loans (net of allowance for losses of \$10,090 and \$8,639, respectively)	54,054,932	54,858,676
Private Education Loans (net of allowance for losses of \$251,582 and \$204,112, respectively)	6,832,843	7,756,770
Other loans (net of allowance for losses of \$15,190 and \$16,180, respectively)	1,050,632	1,137,987
<b>Investments</b>		
Available-for-sale	2,674,799	2,095,191
Other	142,047	273,808
Total investments	2,816,846	2,368,999
Cash and cash equivalents	3,387,616	2,498,655
Restricted cash and investments	3,489,542	3,300,102
Retained Interest in off-balance sheet securitized loans	3,151,855	2,406,222
Goodwill and acquired intangible assets, net	1,080,703	1,105,104
Other assets	4,650,851	3,918,053
<b>Total assets</b>	<b>\$ 101,906,665</b>	<b>\$ 99,338,684</b>
<b>Liabilities</b>		
Short-term borrowings	\$ 3,801,266	\$ 3,809,655
Long-term borrowings	90,506,785	88,119,090
Other liabilities	3,229,477	3,609,332
<b>Total liabilities</b>	<b>97,537,528</b>	<b>95,538,077</b>
<b>Commitments and contingencies</b>		
Minority interest in subsidiaries	9,369	9,182
<b>Stockholders equity</b>		
Preferred stock, par value \$.20 per share, 20,000 shares authorized; Series A: 3,300 and 3,300 shares issued, respectively, at stated value of \$50 per share; Series B: 4,000 and 4,000 shares issued, respectively, at stated value of \$100 per share	565,000	565,000
	86,151	85,297

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Common stock, par value \$.20 per share, 1,125,000 shares authorized; 430,753 and 426,484 shares issued, respectively		
Additional paid-in capital	2,440,565	2,233,647
Accumulated other comprehensive income (net of tax of \$196,601 and \$197,834, respectively)	370,204	367,910
Retained earnings	1,775,948	1,111,743
Stockholders' equity before treasury stock	5,237,868	4,363,597
Common stock held in treasury at cost: 19,078 and 13,347 shares, respectively	878,100	572,172
Total stockholders' equity	4,359,768	3,791,425
Total liabilities and stockholders' equity	\$ 101,906,665	\$ 99,338,684

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>Interest income:</b>				
FFELP Stafford and Other Student Loans	\$ 337,090	\$ 238,510	\$ 635,590	\$ 429,243
Consolidation Loans	841,591	554,429	1,662,926	1,062,850
Private Education Loans	233,696	126,809	475,049	256,425
Other loans	23,541	20,046	46,848	40,199
Cash and investments	124,954	54,245	220,764	116,294
<b>Total interest income</b>	<b>1,560,872</b>	<b>994,039</b>	<b>3,041,177</b>	<b>1,905,011</b>
<b>Interest expense:</b>				
Short-term debt	55,523	48,012	104,758	78,218
Long-term debt	1,148,544	616,239	2,192,093	1,150,245
<b>Total interest expense</b>	<b>1,204,067</b>	<b>664,251</b>	<b>2,296,851</b>	<b>1,228,463</b>
Net interest income	356,805	329,788	744,326	676,548
Less: provisions for losses	67,396	78,948	127,715	125,471
Net interest income after provisions for losses	289,409	250,840	616,611	551,077
<b>Other income:</b>				
Gains on student loan securitizations	671,262	262,001	701,285	311,895
Servicing and securitization revenue	82,842	149,931	181,773	292,892
Gains (losses) on derivative and hedging activities, net	122,719	(105,940)	35,980	(140,191)
Guarantor servicing fees	33,256	25,686	60,163	58,226
Debt management fees	90,161	82,589	181,773	168,341
Collections revenue	67,357	41,881	124,038	76,764
Other	66,557	55,748	134,985	118,067
<b>Total other income</b>	<b>1,134,154</b>	<b>511,896</b>	<b>1,419,997</b>	<b>885,994</b>
<b>Operating expenses:</b>				
Salaries and benefits	168,727	151,336	344,067	298,268
Other	147,875	136,077	295,844	251,436
<b>Total operating expenses</b>	<b>316,602</b>	<b>287,413</b>	<b>639,911</b>	<b>549,704</b>
Income before income taxes and minority interest in net earnings of subsidiaries	1,106,961	475,323	1,396,697	887,367
Income taxes	381,828	176,573	518,873	363,039

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Income before minority interest in net earnings of subsidiaries	725,133	298,750	877,824	524,328
Minority interest in net earnings of subsidiaries	1,355	2,235	2,445	4,429
<b>Net income</b>	<b>723,778</b>	<b>296,515</b>	<b>875,379</b>	<b>519,899</b>
Preferred stock dividends	8,787	3,908	17,088	6,783
Net income attributable to common stock	\$ 714,991	\$ 292,607	\$ 858,291	\$ 513,116
Basic earnings per common share	\$ 1.74	\$ .70	\$ 2.08	\$ 1.22
Average common shares outstanding	410,957	419,497	411,811	420,206
Diluted earnings per common share	\$ 1.52	\$ .66	\$ 1.96	\$ 1.15
Average common and common equivalent shares outstanding	454,314	461,900	453,803	462,454
Dividends per common share	\$ .25	\$ .22	\$ .47	\$ .41

See accompanying notes to consolidated financial statements.

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

Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive	Retained Earnings	Treasury Stock
	Issued	Treasury	Outstanding				Income (Loss)		
3,300,000	484,917,447	(62,936,107)	421,981,340	\$ 165,000	\$ 96,984	\$ 1,969,881	\$ 374,574	\$ 2,662,316	\$(2,203,773)
								296,515	
								87,529	
								11,018	
									(92,193)
									(2,875)
									(995)

		1,788,696	8,711	1,797,407		357	57,781			440
	4,000,000			400,000						
							(2,962)		(38)	
							10,976			
			(3,347,272)	(3,347,272)						(162,500)
nt										(3,807)
s			(257,237)	(257,237)						(12,490)
5	7,300,000	486,706,143	(66,531,905)	420,174,238	\$ 565,000	\$ 97,341	\$ 2,035,676	\$ 473,121	\$ 2,862,730	\$(2,382,130)
	7,300,000	429,329,362	(16,599,155)	412,730,207	\$ 565,000	\$ 85,866	\$ 2,364,252	\$ 328,496	\$ 1,163,570	\$ (752,256)
ve									723,778	
ve										
,									38,138	
									3,570	

ve

(102,613)

(2,875)

(5,750)

1,424,153

7,747

1,431,900

285

65,253

407

e

162

(162)

f

10,898

(2,086,571)

(2,086,571)

(114,219)

nt

7,887

s

(400,509)

(400,509)

(19,919)

7,300,000

430,753,515

(19,078,488)

411,675,027

\$ 565,000

\$ 86,151

\$ 2,440,565

\$ 370,204

\$ 1,775,948

\$ (878,100)



See accompanying notes to consolidated financial statements.

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

Preferred Stock Shares	Common Stock Shares			Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated	Retained Earnings	Treasury Stock
	Issued	Treasury	Outstanding				Other Comprehensive Income (Loss)		
3,300,000	483,266,408	(59,634,019)	423,632,389	\$ 165,000	\$ 96,654	\$ 1,905,460	\$ 440,672	\$ 2,521,740	\$(2,027,222)
								519,899	
								30,744	
								1,705	
									(172,126)
								(5,750)	
								(995)	

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	3,439,735	64,997	3,504,732		687	110,860				3,275
4,000,000			400,000							
							(2,962)		(38)	
										22,318
		(6,469,653)	(6,469,653)							(320,086)
										(13,830)
		(493,230)	(493,230)							(24,267)
7,300,000	486,706,143	(66,531,905)	420,174,238	\$ 565,000	\$ 97,341	\$ 2,035,676	\$ 473,121	\$ 2,862,730		\$(2,382,130)
7,300,000	426,483,527	(13,346,717)	413,136,810	\$ 565,000	\$ 85,297	\$ 2,233,647	\$ 367,910	\$ 1,111,743		\$(572,172)
									875,379	
									(6,812)	
									9,101	

5

(194,086)

(5,750)

(11,017)

4,269,988

53,749

4,323,737

854

168,638

2,975

321

(321)

37,959

(4,534,403)

(4,534,403)

(248,213)

7,081

nt											
s		(1,251,117)	(1,251,117)								(67,771)
6	7,300,000	430,753,515	(19,078,488)	411,675,027	\$ 565,000	\$ 86,151	\$ 2,440,565	\$ 370,204	\$ 1,775,948	\$	(878,100)

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30,	
	2006	2005
	(Unaudited)	(Unaudited)
<b>Operating activities</b>		
Net income	\$ 875,379	\$ 519,899
Adjustments to reconcile net income to net cash used in operating activities:		
Gains on student loan securitizations	(701,285)	(311,895)
Unrealized (gains)/losses on derivative and hedging activities, excluding equity forwards	(208,045)	(174,737)
Unrealized (gains)/losses on derivative and hedging activities equity forwards	82,693	98,235
Provisions for losses	127,715	125,471
Minority interest, net	(3,408)	(4,763)
Mortgage loans originated	(718,223)	(798,044)
Proceeds from sales of mortgage loans	719,490	730,936
(Increase) in restricted cash	(441,551)	(319,396)
(Increase) in accrued interest receivable	(473,161)	(321,428)
Increase in accrued interest payable	102,612	5,936
Adjustment for non-cash (income)/loss related to Retained Interest	144,020	24,769
(Increase) decrease in other assets, goodwill and acquired intangible assets, net	(224,208)	313,547
(Decrease) increase in other liabilities	(264,168)	716,397
<b>Total adjustments</b>	<b>(1,857,519)</b>	<b>85,028</b>
<b>Net cash (used in) provided by operating activities</b>	<b>(982,140)</b>	<b>604,927</b>
<b>Investing activities</b>		
Student loans acquired	(15,981,396)	(14,976,607)
Loans purchased from securitized trusts (primarily loan consolidations)	(3,451,932)	(4,252,382)
Reduction of student loans:		
Installment payments	4,620,579	2,722,009
Claims and resales	589,069	527,901
Proceeds from securitization of student loans treated as sales	14,439,628	9,045,932
Proceeds from sales of student loans	91,050	17,572
Other loans originated	(516,283)	(199,270)
Other loans repaid	602,757	351,106
Purchases of available-for-sale securities	(31,972,221)	(35,376,983)
Proceeds from sales of available-for-sale securities	3,252	983,469
Proceeds from maturities of available-for-sale securities	31,575,939	35,291,350
Purchases of held-to-maturity and other securities	(339,187)	(229,716)
Proceeds from maturities of held-to-maturity securities and other securities	461,372	340,058
Return of investment from Retained Interest	55,688	117,487

Net cash provided by (used in) investing activities	178,315	(5,638,074)
<b>Financing activities</b>		
Short-term borrowings issued	15,355,095	37,970,620
Short-term borrowings repaid	(15,358,062)	(37,947,271)
Long-term borrowings issued	4,696,532	3,271,567
Long-term borrowings repaid	(3,647,340)	(2,935,640)
Borrowings collateralized by loans in trust issued	3,091,347	2,287,461
Borrowings collateralized by loans in trust activity	(2,114,262)	19,694
Tax benefit from the exercise of stock-based awards	23,846	
Common stock issued	172,467	114,822
Common stock repurchased	(315,984)	(344,353)
Common dividends paid	(194,086)	(172,126)
Preferred stock issued		397,000
Preferred dividends paid	(16,767)	(6,745)
Net cash provided by financing activities	1,692,786	2,655,029
Net increase (decrease) in cash and cash equivalents	888,961	(2,378,118)
Cash and cash equivalents at beginning of period	2,498,655	3,395,487
<b>Cash and cash equivalents at end of period</b>	<b>\$ 3,387,616</b>	<b>\$ 1,017,369</b>
Cash disbursements made for:		
Interest	\$ 2,066,876	\$ 1,039,093
Income taxes	\$ 570,492	\$ 87,373

See accompanying notes to consolidated financial statements.

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Information at June 30, 2006 and for the three and six months ended**  
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**1. Significant Accounting Policies**

***Basis of Presentation***

The accompanying unaudited, consolidated financial statements of SLM Corporation (the Company) have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods have been included. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results for the year ending December 31, 2006. The consolidated balance sheet at December 31, 2005, as presented, was derived from the audited financial statements included in the Company's Annual Report on Form 10-K for the period ended December 31, 2005. These unaudited financial statements should be read in conjunction with the audited financial statements and related notes included in the Company's 2005 Annual Report on Form 10-K.

***Reclassifications***

Certain reclassifications have been made to the balances as of and for the three and six months ended June 30, 2005 to be consistent with classifications adopted for 2006.

***Recently Issued Accounting Pronouncements***

**Accounting for Uncertainty in Income Taxes**

In July 2006, the Financial Accounting Standards Board (the FASB) issued Financial Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes, which amends Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. This statement will be effective for the Company beginning January 1, 2007.

This interpretation:

Changes historical methods of recording the impact to the financial statements of uncertain tax positions from a model based upon probable liabilities to be owed, to a model based upon the tax benefit most likely to be sustained.

Prescribes a threshold for the financial statement recognition of tax positions taken or expected to be taken in a tax return, based upon whether it is more likely than not that a tax position will be sustained upon examination.

Provides rules on the measurement in the financial statements of tax positions that meet this recognition threshold, requiring that the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement to be recorded.

Provides guidance on the financial statement treatment of changes in the assessment of an uncertain tax position, as well as accounting for such changes in interim periods.

Requires new disclosures regarding uncertain tax positions.



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**1. Significant Accounting Policies (Continued)**

The Company is currently evaluating this interpretation to assess its impact on the Company's financial statements.

**Accounting for Servicing of Financial Assets**

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

This statement:

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

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

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

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

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

The Company expects that the adoption of SFAS No. 156 will not have a material impact on the Company's financial statements.

**Accounting for Certain Hybrid Financial Instruments**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging

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**1. Significant Accounting Policies (Continued)**

Activities, and SFAS No. 140. This statement will be effective for the Company beginning January 1, 2007.

This statement:

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

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

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

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

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

The Company expects that the adoption of SFAS No. 155 will not have a material impact on the Company's financial statements.

***Accounting for Loans Held for Investment and Loans Held for Sale***

If the Company has the ability and intent to hold loans for the foreseeable future, such loans are held for investment and therefore carried at amortized cost. Any loans held for sale are carried at the lower of cost or fair value. The Company actively securitizes loans but securitization is viewed as one of many different sources of financing. At the time of a funding need, the most advantageous funding source is identified and, if that source is the securitization program, loans are selected based on the required characteristics to structure the desired transaction (i.e., type of loan, mix of interim vs. repayment status, credit rating, maturity dates, etc.). The Company structures securitizations to obtain the most favorable financing terms and as a result, due to some of the structuring terms, certain transactions qualify for sale treatment under SFAS No. 140 while others do not qualify for sale treatment and are recorded as financings. Because the Company does not securitize all loans and not all securitizations qualify as sales, only when the Company has selected the loans to securitize and such transaction qualifies as a sale under SFAS No. 140 has the Company made a decision to sell loans. At such time, selected loans are transferred into the held-for-sale classification and carried at the lower of cost or fair value. If the Company will recognize a gain related to the impending securitization, no allowance is needed to adjust the loans below their respective cost basis. Historically, all of the Company's off-balance sheet securitizations to date have resulted in a gain on sale.

***Accounting for Stock-Based Compensation***

On January 1, 2006, the Company adopted SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation, using the modified prospective transition method. Generally, the approach in SFAS No. 123(R) is similar to the approach described in

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**1. Significant Accounting Policies (Continued)**

SFAS No. 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Prior to January 1, 2006, the Company accounted for its stock option plans using the intrinsic value method of accounting provided under Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, and therefore no related compensation expense was recorded for awards granted with no intrinsic value. Accordingly, for periods prior to January 1, 2006, share-based compensation was included as a pro forma disclosure in the financial statement footnotes.

Using the modified prospective transition method of SFAS No. 123(R), the Company's compensation cost in the first half of 2006 includes: 1) compensation cost related to the remaining unvested portion of all share-based payments granted prior to January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and 2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

As a result of adopting SFAS No. 123(R), the Company's earnings before income taxes for the three and six months ended June 30, 2006 were \$15 million and \$32 million lower, respectively, than if it had continued to account for stock-based compensation under APB No. 25, and net earnings were \$9 million and \$20 million lower, respectively.

SFAS No. 123(R) requires that the excess (i.e., windfall) tax benefits from tax deductions on the exercise of share-based payments exceeding the deferred tax assets from the cumulative compensation cost previously recognized be classified as cash inflows from financing activities in the consolidated statement of cash flows. Prior to the adoption of SFAS No. 123(R), the Company presented all excess tax benefits resulting from the exercise of share-based payments as operating cash flows. The excess tax benefit for the three and six months ended June 30, 2006 was \$7 million and \$24 million, respectively.

The following table provides pro forma net income and earnings per share had the Company applied the fair value method of SFAS No. 123(R) for the three and six months ended June 30, 2005.

	<b>Three Months Ended June 30, 2005</b>	<b>Six Months Ended June 30, 2005</b>
<b>Net income:</b>		
Reported net income	\$ 292,607	\$ 513,116
Less: Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(7,633)	(17,413)
Pro forma net income	\$ 284,974	\$ 495,703
<b>Earnings per common share:</b>		
Reported basic earnings per common share	\$ .70	\$ 1.22
Pro forma basic earnings per common share	\$ .68	\$ 1.18

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Reported diluted earnings per common share	\$	.66	\$	1.15
Pro forma diluted earnings per common share	\$	.64	\$	1.11

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**2. Allowance for Student Loan Losses**

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

The following table summarizes changes in the allowance for student loan losses for both the Private Education Loan and federally insured student loan portfolios for the three and six months ended June 30, 2006 and 2005.

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Balance at beginning of period</b>	\$ 247,677	\$ 197,729	\$ 219,062	\$ 179,664
Provisions for student loan losses	64,817	75,373	122,616	118,517
Charge-offs	(36,765)	(38,303)	(70,153)	(68,290)
Recoveries	6,040	4,605	12,429	9,513
Net charge-offs	(30,725)	(33,698)	(57,724)	(58,777)
Balance before reductions for student loan sales and securitizations	281,769	239,404	283,954	239,404
Reductions for student loan sales and securitizations	(13,207)	(5,886)	(15,392)	(5,886)
<b>Balance at end of period</b>	<b>\$ 268,562</b>	<b>\$ 233,518</b>	<b>\$ 268,562</b>	<b>\$ 233,518</b>

In addition to the provisions for student loan losses, provisions for losses on other Company loans totaled \$3 million and \$4 million for the three months ended June 30, 2006 and 2005, respectively and \$5 million and \$7 million for the six months ended June 30, 2006 and 2005, respectively.

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**2. Allowance for Student Loan Losses (Continued)**

The following table summarizes changes in the allowance for student loan losses for Private Education Loans for the three and six months ended June 30, 2006 and 2005.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>(Dollars in millions)</b>				
Allowance at beginning of period	\$ 232	\$ 191	\$ 204	\$ 172
Provision for Private Education Loan losses	62	36	116	79
Change in estimate		40		40
Total provision	62	76	116	119
Charge-offs	(36)	(38)	(69)	(66)
Recoveries	6	5	13	9
Net charge-offs	(30)	(33)	(56)	(57)
Balance before securitization of Private Education Loans	264	234	264	234
Reduction for securitization of Private Education Loans	(12)	(6)	(12)	(6)
Allowance at end of period	\$ 252	\$ 228	\$ 252	\$ 228
Net charge-offs as a percentage of average loans in repayment (annualized)	3.13%	4.33%	3.05%	3.86%
Allowance as a percentage of the ending total loan balance	3.55%	3.61%	3.55%	3.61%
Allowance as a percentage of ending loans in repayment	6.66%	7.41%	6.66%	7.41%
Allowance coverage of net charge-offs (annualized)	2.09	1.73	2.22	2.00
Average total loans	\$ 7,961	\$ 6,376	\$ 8,485	\$ 6,321
Ending total loans	\$ 7,085	\$ 6,325	\$ 7,085	\$ 6,325
Average loans in repayment	\$ 3,838	\$ 3,042	\$ 3,720	\$ 2,960
Ending loans in repayment	\$ 3,777	\$ 3,078	\$ 3,777	\$ 3,078

**SLM CORPORATION**  
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**2. Allowance for Student Loan Losses (Continued)****Delinquencies**

The table below presents the Company's Private Education Loan delinquency trends as of June 30, 2006 and 2005. Delinquencies have the potential to adversely impact earnings if the account charges off and results in increased servicing and collection costs.

	<b>June 30,</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
<b>(Dollars in millions)</b>				
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 3,305		\$ 3,307	
Loans in forbearance <sup>(2)</sup>	299		190	
Loans in repayment and percentage of each status:				
Loans current	3,353	88.8%	2,756	89.5%
Loans delinquent 31-60 days <sup>(3)</sup>	176	4.7	133	4.4
Loans delinquent 61-90 days <sup>(3)</sup>	100	2.6	69	2.2
Loans delinquent greater than 90 days <sup>(3)</sup>	148	3.9	120	3.9
 Total Private Education Loans in repayment	 3,777	 100%	 3,078	 100%
Total Private Education Loans, gross	7,381		6,575	
Private Education Loan unamortized discount	(296)		(250)	
Total Private Education Loans	7,085		6,325	
Private Education Loan allowance for losses	(252)		(228)	
Private Education Loans, net	\$ 6,833		\$ 6,097	
 Percentage of Private Education Loans in repayment	 51.2%		 46.8%	
Delinquencies as a percentage of Private Education Loans in repayment	11.2%		10.5%	

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

(2)

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Loans for borrowers who have requested extension of grace period or who have temporarily ceased making full payments due to hardship or other factors, consistent with the established loan program servicing policies and procedures.

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

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**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
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**3. Goodwill and Acquired Intangible Assets**

Intangible assets include the following:

	<b>Average Amortization Period</b>	<b>As of June 30, 2006</b>		
		<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>(Dollars in millions)</b>				
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	\$ 256	\$ (90)	\$ 166
Tax exempt bond funding <sup>(1)</sup>	10 years	67	(32)	35
Software and technology	7 years	80	(56)	24
Non-compete agreements	2 years	11	(9)	2
 Total		 414	 (187)	 227
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	78		78
 Total acquired intangible assets		 \$ 492	 \$ (187)	 \$ 305

	<b>Average Amortization Period</b>	<b>As of December 31, 2005</b>		
		<b>Gross</b>	<b>Accumulated Amortization</b>	<b>Net</b>
<b>(Dollars in millions)</b>				
Intangible assets subject to amortization:				
Customer, services, and lending relationships	12 years	\$ 256	\$ (76)	\$ 180
Tax exempt bond funding <sup>(1)</sup>	10 years	67	(25)	42
Software and technology	7 years	80	(51)	29
Non-compete agreements	2 years	11	(8)	3
 Total		 414	 (160)	 254
Intangible assets not subject to amortization:				
Trade name and trademark	Indefinite	78		78
 Total acquired intangible assets		 \$ 492	 \$ (160)	 \$ 332

(1) In connection with the Company's 2004 acquisition of Southwest Student Services Corporation, the Company assumed certain tax exempt bonds that enable the Company to earn a 9.5 percent Special Allowance Payment ( SAP ) rate on student loans funded by those bonds in these trusts. If a student loan is removed from the trust such that it is no longer funded by the bonds, it ceases earning the 9.5 percent SAP.

The Company recorded amortization and impairments of \$18 million and \$16 million for the three months ended June 30, 2006 and 2005, respectively, and \$32 million and \$29 million for the six months ended June 30, 2006 and 2005, respectively.

**SLM CORPORATION**  
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**3. Goodwill and Acquired Intangible Assets (Continued)**

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

	December 31, 2005	Adjustments	June 30, 2006
<b>(Dollars in millions)</b>			
Lending	\$ 410	\$ (4)	\$ 406
Debt Management Operations	299	7	306
Corporate and Other	64		64
Total	\$ 773	\$ 3	\$ 776

Acquisitions are accounted for under the purchase method of accounting as defined in SFAS No. 141, Business Combinations. The Company allocates the purchase price to the fair value of the acquired tangible assets, liabilities and identifiable intangible assets as of the acquisition date as determined by an independent appraiser. Goodwill associated with the Company's acquisitions is reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets, addressed further in Note 2, Significant Accounting Policies, within the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**4. Student Loan Securitization*****Securitization Activity***

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

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**4. Student Loan Securitization (Continued)**

The following table summarizes the Company's securitization activity for the three and six months ended June 30, 2006 and 2005. Those securitizations listed as sales are off-balance sheet transactions and those listed as financings remain on balance sheet.

**Three Months Ended June 30,**

	2006				2005			
	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
<b>(Dollars in millions)</b>								
FFELP Stafford/ PLUS loans		\$	\$	%		\$	\$	%
Consolidation Loans	1	2,500	23	.9	2	4,011	31	.8
Private Education Loans	2	4,000	648	16.2	1	1,505	231	15.3
Total securitizations sales	3	6,500	\$ 671	10.3%	3	5,516	\$ 262	4.7%
Consolidation Loans <sup>(1)</sup>	1	3,001			1	2,226		
Total securitizations financings	1	3,001			1	2,226		
Total securitizations	4	\$ 9,501			4	\$ 7,742		

**Six Months Ended June 30,**

	2006				2005			
	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %	No. of Transactions	Loan Amount Securitized	Pre-Tax Gain	Gain %
<b>(Dollars in millions)</b>								

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FFELP Stafford/ PLUS loans	2	\$ 5,004	\$ 17	.3%	2	\$ 3,530	\$ 50	1.4%
Consolidation Loans	2	5,502	36	.7	2	4,011	31	.8
Private Education Loans	2	4,000	648	16.2	1	1,505	231	15.3
Total securitizations sales	6	14,506	\$ 701	4.8%	5	9,046	\$ 312	3.4%
Consolidation Loans <sup>(1)</sup>	1	3,001			1	2,226		
Total securitizations financings	1	3,001			1	2,226		
Total securitizations	7	\$ 17,507			6	\$ 11,272		

<sup>(1)</sup> In certain Consolidation Loan securitization structures, the Company holds certain rights that can affect the remarketing of certain bonds such that these securitizations did not qualify as qualifying special purpose entities ( QSPEs ). Accordingly, they are accounted for on-balance sheet as variable interest entities ( VIEs ).

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**4. Student Loan Securitization (Continued)**

Key economic assumptions used in estimating the fair value of Residual Interests at the date of securitization resulting from the student loan securitization sale transactions completed during the three and six months ended June 30, 2006 and 2005 were as follows:

**Three Months Ended June 30,**

	2006			2005		
	FFELP Stafford <sup>(1)</sup>	Consolidation Loans	Private Education Loans	FFELP Stafford <sup>(1)</sup>	Consolidation Loans	Private Education Loans
Prepayment speed (annual rate) <sup>(2)</sup>		6%	4%		6%	4%
Weighted average life		8.5 yrs.	9.4 yrs.		7.9 yrs.	9.0 yrs.
Expected credit losses (% of principal securitized)		.27%	4.79%		%	4.38%
Residual cash flows discounted at (weighted average)		10.8%	13.0%		10.1%	12.4%

**Six Months Ended June 30,**

	2006			2005		
	FFELP Stafford	Consolidation Loans	Private Education Loans	FFELP Stafford	Consolidation Loans	Private Education Loans
Prepayment speed (annual rate) <sup>(2)</sup>	*	6%	4%	**	6%	4%
Weighted average life	3.7 yrs.	8.3 yrs.	9.4 yrs.	4.0 yrs.	7.9 yrs.	9.0 yrs.
Expected credit losses (% of principal securitized)	.15%	.27%	4.79%	%	%	4.38%
Residual cash flows discounted at (weighted average)	12.4%	10.6%	13.0%	12%	10.1%	12.4%

<sup>(1)</sup> No securitizations qualified for sale treatment in the period.

- (2) The prepayment assumptions include the impact of projected defaults. Previous disclosures for Private Education Loans excluded projected default assumptions.
- \* 20 percent for 2006, 15 percent for 2007 and 10 percent thereafter.
  - \*\* 20 percent for 2005, 15 percent for 2006 and 6 percent thereafter.

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**4. Student Loan Securitization (Continued)*****Retained Interest in Securitized Receivables***

The following tables summarize the fair value of the Company's Residual Interests, included in the Company's Retained Interest (and the assumptions used to value such Residual Interests), along with the underlying off-balance sheet student loans that relate to those securitizations in transactions that were treated as sales as of June 30, 2006 and December 31, 2005.

(Dollars in millions)	As of June 30, 2006			
	FFELP Stafford and PLUS	Consolidation Loan Trusts <sup>(1)</sup>	Private Education Loan Trusts	Total
Fair value of Residual Interests <sup>(2)</sup>	\$ 773	\$ 524	\$ 1,855	\$ 3,152
Underlying securitized loan balance <sup>(3)</sup>	20,224	14,746	12,556	47,526
Weighted average life	2.5 yrs.	8.1 yrs.	8.4 yrs	
Prepayment speed (annual rate) <sup>(4)</sup>	10%-40% <sup>(5)</sup>	6%	4%	
Expected credit losses (% of student loan principal)	.07%	.07%	4.73%	
Residual cash flows discount rate	13.0%	11.1%	13.1%	

(Dollars in millions)	As of December 31, 2005			
	FFELP Stafford and PLUS	Consolidation Loan Trusts <sup>(1)</sup>	Private Education Loan Trusts	Total
Fair value of Residual Interests <sup>(2)</sup>	\$ 773	\$ 483	\$ 1,150	\$ 2,406
Underlying securitized loan balance <sup>(3)</sup>	20,372	10,272	8,946	39,590
Weighted average life	2.7 yrs.	8.0 yrs.	7.8 yrs	
Prepayment speed (annual rate) <sup>(4)</sup>	10%-20% <sup>(5)</sup>	6%	4%	
Expected credit losses (% of student loan principal)	.14%	.23%	4.74%	
Residual cash flows discount rate	12.3%	10.3%	12.4%	

<sup>(1)</sup> Includes \$115 million and \$235 million related to the fair value of the Embedded Floor Income as of June 30, 2006 and December 31, 2005, respectively. The decrease in the fair value of the Embedded Floor Income is primarily due to rising interest rates during the period.



- (2) At June 30, 2006 and December 31, 2005, the Company had unrealized gains (pre-tax) in accumulated other comprehensive income of \$401 million and \$370 million, respectively, that related to the Retained Interests.
- (3) In addition to student loans in off-balance sheet trusts, the Company had \$41.3 billion and \$40.9 billion of securitized student loans outstanding (face amount) as of June 30, 2006 and December 31, 2005, respectively, in on-balance sheet securitization trusts.
- (4) The prepayment speed assumptions include the impact of projected defaults. Previous disclosures for Private Education Loans excluded projected default assumptions.
- (5) 40% for the third quarter of 2006, 30% for the fourth quarter of 2006, 15% for 2007 and 10% thereafter for June 30, 2006 valuations and 20% for 2006, 15% for 2007 and 10% thereafter for December 31, 2005 valuations. The Company recorded \$91 million and \$15 million of impairment related to the Retained Interests for the three months ended June 30, 2006 and 2005, respectively and \$143 million and \$24 million of impairment related to the Retained Interests for the six months ended June 30, 2006 and 2005, respectively. Both the 2006 and 2005 impairment charges were primarily the result of FFELP Stafford

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**4. Student Loan Securitization (Continued)**

loans prepaying faster than projected through loan consolidation (\$92 million and \$20 million for the six months ended June 30, 2006 and 2005, respectively) and also reflected decreases in value related to the Floor Income component of the Company's Retained Interest primarily due to the increases in interest rates during the period (\$51 million and \$4 million for the six months ended June 30, 2006 and 2005, respectively). The impairment for the six months ended June 30, 2006 also reflects the increase in the Company's CPR assumption for the remainder of 2006 from 20 percent to 40 percent for the third quarter and 30 percent for the fourth quarter, to account for the surge in Consolidation Loan applications received in the second quarter that will be processed in the third and fourth quarters of 2006. The level and timing of Consolidation Loan activity is highly volatile, and in response the Company continues to revise its estimates of the effects of Consolidation Loan activity on the Company's Retained Interests and it may result in additional impairment recorded in future periods if Consolidation Loan activity remains higher than projected.

The table below shows the Company's off-balance sheet Private Education Loan delinquency trends as of June 30, 2006 and 2005.

	<b>June 30,</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Balance</b>	<b>%</b>	<b>Balance</b>	<b>%</b>
<b>(Dollars in millions)</b>				
Loans in-school/grace/deferment <sup>(1)</sup>	\$ 6,074		\$ 3,308	
Loans in forbearance <sup>(2)</sup>	751		400	
Loans in repayment and percentage of each status:				
Loans current	5,483	95.7%	3,749	95.5%
Loans delinquent 31-60 days <sup>(3)</sup>	151	2.6	96	2.4
Loans delinquent 61-90 days <sup>(3)</sup>	50	.9	35	1.0
Loans delinquent greater than 90 days <sup>(3)</sup>	47	.8	46	1.1
 Total off-balance sheet Private Education Loans in repayment	 5,731	 100%	 3,926	 100%
 Total off-balance sheet Private Education Loans, gross	 \$ 12,556		 \$ 7,634	

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

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

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

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**SLM CORPORATION**  
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**5. Derivative Financial Instruments****Summary of Derivative Financial Statement Impact**

The following tables summarize the fair values and notional amounts or number of contracts of all derivative instruments at June 30, 2006 and December 31, 2005 and their impact on other comprehensive income and earnings for the three and six months ended June 30, 2006 and 2005. At June 30, 2006 and December 31, 2005, \$686 million and \$666 million (fair value), respectively, of available-for-sale investment securities and \$356 million and \$249 million, respectively, of cash were pledged as collateral against these derivative instruments.

	Cash Flow		Fair Value		Trading		Total	
	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005	June 30, 2006	December 31, 2005
<b>(Dollars in millions)</b>								
<b>Fair Values</b>								
Interest rate swaps	\$ 5	\$ 5	\$ (737)	\$ (347)	\$ (115)	\$ (48)	\$ (847)	\$ (390)
Floor/ Cap contracts					(141)	(371)	(141)	(371)
Futures					(1)	(1)	(1)	(1)
Equity forwards					20	67	20	67
Cross currency interest rate swaps			677	(148)			677	(148)
<b>Total</b>	<b>\$ 5</b>	<b>\$ 5</b>	<b>\$ (60)</b>	<b>\$ (495)</b>	<b>\$ (237)</b>	<b>\$ (353)</b>	<b>\$ (292)</b>	<b>\$ (843)</b>

**(Dollars in billions)****Notional Values**

Interest rate swaps	\$ 2.6	\$ 1.2	\$ 15.2	\$ 14.6	\$ 156.1	\$ 125.4	\$ 173.9	\$ 141.2
Floor/ Cap contracts					38.6	41.8	38.6	41.8
Futures	.1	.1			.6	.6	.7	.7
Cross currency interest rate swaps			20.1	18.6			20.1	18.6
Other <sup>(1)</sup>					2.0	2.0	2.0	2.0
<b>Total</b>	<b>\$ 2.7</b>	<b>\$ 1.3</b>	<b>\$ 35.3</b>	<b>\$ 33.2</b>	<b>\$ 197.3</b>	<b>\$ 169.8</b>	<b>\$ 235.3</b>	<b>\$ 204.3</b>

**(Shares in millions)****Contracts**

Equity forwards					45.9	42.7	45.9	42.7
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<sup>(1)</sup> Other consists of an embedded derivative bifurcated from the convertible debenture issuance that relates primarily to certain contingent interest and conversion features of the debt. The embedded derivative has had a *de minimis* fair value since inception.



**SLM CORPORATION**  
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**5. Derivative Financial Instruments (Continued)**

	<b>Three Months Ended June 30,</b>							
	<b>Cash Flow</b>		<b>Fair Value</b>		<b>Trading</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>(Dollars in millions)</b>								
<b><i>Changes to accumulated other comprehensive income, net of tax</i></b>								
Change in fair value to cash flow hedges	\$	\$ 3	\$	\$	\$	\$	\$	\$ 3
Amortization of effective hedges and transition adjustment <sup>(1)</sup>		4		8				4 8
Change in accumulated other comprehensive income, net	\$ 4	\$ 11	\$	\$	\$	\$	\$ 4	\$ 11
<b><i>Earnings Summary</i></b>								
Amortization of closed futures contracts gains/losses in interest expense <sup>(2)</sup>	\$ (5)	\$ (11)	\$	\$	\$	\$	\$ (5)	\$ (11)
Gains (losses) on derivative and hedging activities Realized <sup>(3)</sup>					(41)	(94)	(41)	(94)
Gains (losses) on derivative and hedging activities Unrealized <sup>(4)</sup>			21		143	(12)	164	(12)
Total earnings impact	\$ (5)	\$ (11)	\$ 21	\$	\$ 102	\$ (106)	\$ 118	\$ (117)

	<b>Six Months Ended June 30,</b>							
	<b>Cash Flow</b>		<b>Fair Value</b>		<b>Trading</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>(Dollars in millions)</b>								
<b><i>Changes to accumulated other comprehensive income, net of tax</i></b>								
Change in fair value to cash flow hedges	\$ 2	\$ (13)	\$	\$	\$	\$	\$ 2	\$ (13)
Amortization of effective hedges and transition adjustment <sup>(1)</sup>		7		15			7	15

Change in accumulated other comprehensive income, net	\$ 9	\$ 2	\$	\$	\$	\$	\$ 9	\$ 2
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**Earnings Summary**

Amortization of closed futures contracts gains/losses in interest expense <sup>(2)</sup>	\$ (11)	\$ (23)	\$	\$	\$	\$	\$ (11)	\$ (23)
Gains (losses) on derivative and hedging activities Realized <sup>(3)</sup>					(89)	(216)	(89)	(216)
Gains (losses) on derivative and hedging activities Unrealized <sup>(4)</sup>			43	(12)	82	88	125	76
<b>Total earnings impact</b>	<b>\$ (11)</b>	<b>\$ (23)</b>	<b>\$ 43</b>	<b>\$ (12)</b>	<b>\$ (7)</b>	<b>\$ (128)</b>	<b>\$ 25</b>	<b>\$ (163)</b>

(1) The Company expects to amortize \$7 million of after-tax net losses from accumulated other comprehensive income to earnings during the next 12 months related to closed futures contracts that were hedging the forecasted issuance of debt instruments that are outstanding as of June 30, 2006.

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

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

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

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**6. Stockholders Equity**

The following table summarizes the Company's common share repurchases, issuances and equity forward activity for the three and six months ended June 30, 2006 and 2005.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>(Shares in millions)</b>				
<b>Common shares repurchased:</b>				
Equity forwards	2.1	3.3	4.5	6.4
Benefit plans <sup>(1)</sup>	.4	.3	1.3	.6
<b>Total shares repurchased</b>	<b>2.5</b>	<b>3.6</b>	<b>5.8</b>	<b>7.0</b>
<b>Average purchase price per share</b>	<b>\$ 53.93</b>	<b>\$ 48.55</b>	<b>\$ 54.62</b>	<b>\$ 49.46</b>
Common shares issued	1.4	1.8	4.3	3.5
<b>Equity forward contracts:</b>				
Outstanding at beginning of period	42.7	46.6	42.7	42.8
New contracts	5.3	8.4	7.7	15.3
Exercises	(2.1)	(3.3)	(4.5)	(6.4)
<b>Outstanding at end of period</b>	<b>45.9</b>	<b>51.7</b>	<b>45.9</b>	<b>51.7</b>
Authority remaining at end of period to repurchase or enter into equity forwards	10.9	20.5	10.9	20.5

<sup>(1)</sup> Includes shares withheld from stock option exercises and vesting of performance stock to satisfy minimum statutory tax withholding obligations and shares tendered by employees to satisfy option exercise costs.

As of June 30, 2006, the expiration dates and purchase prices for outstanding equity forward contracts were as follows:

<b>Year of Maturity (Contracts in millions of shares)</b>	<b>Outstanding Contracts</b>	<b>Range of Purchase Prices</b>	<b>Average Purchase Price</b>
2007	.8	\$54.74	\$ 54.74
2008	7.3	54.74	54.74



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2009	14.7	54.74	54.74
2010	15.0	54.74	54.74
2011	8.1	\$51.86	\$53.76
	45.9		\$ 54.44

The closing price of the Company's common stock on June 30, 2006 was \$52.92.

***Accumulated Other Comprehensive Income***

Accumulated other comprehensive income includes the after-tax change in unrealized gains and losses on available-for-sale investments, unrealized gains and losses on derivatives qualifying as cash flow hedges,

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**6. Stockholders Equity (Continued)**

and the minimum pension liability adjustment. The following table presents the cumulative balances of the components of other comprehensive income as of June 30, 2006 and 2005.

	<b>June 30,</b>	
	<b>2006</b>	<b>2005</b>
Net unrealized gains (losses) on investments <sup>(1)</sup>	\$ 375,503	\$ 498,118
Net unrealized gains (losses) on derivatives <sup>(2)</sup>	(3,459)	(23,953)
Minimum pension liability adjustment <sup>(3)</sup>	(1,840)	(1,044)
Total accumulated other comprehensive income	\$ 370,204	\$ 473,121

<sup>(1)</sup> Net of tax expense of \$199,569 and \$268,902 as of June 30, 2006 and 2005, respectively.

<sup>(2)</sup> Net of tax benefit of \$1,977 and \$10,952 as of June 30, 2006 and 2005, respectively.

<sup>(3)</sup> Net of tax benefit of \$991 and \$562 as of June 30, 2006 and 2005, respectively.

**7. Earnings per Common Share**

Basic earnings per common share ( basic EPS ) is calculated using the weighted average number of shares of common stock outstanding during each period. Diluted earnings per common share ( diluted EPS ) reflect the potential dilutive effect of (i) additional common shares that are issuable upon exercise of outstanding stock options, nonvested deferred compensation deemed to be invested in common stock, nonvested restricted stock, restricted stock units, and the outstanding commitment to issue shares under the Employee Stock Purchase Plan ( ESPP ), determined by the treasury stock method, (ii) the assumed conversion of convertible debentures ( Co-Cos ), determined by the if-converted method, and (iii) equity forwards, determined by the reverse treasury stock method. Equity forwards are potentially dilutive to EPS when the Company's average stock price is lower than the equity forward's strike price.

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**7. Earnings per Common Share (Continued)**

A reconciliation of the numerators and denominators of the basic and diluted EPS calculations is as follows for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Numerator:</b>				
Net income attributable to common stock	\$ 714,991	\$ 292,607	\$ 858,291	\$ 513,116
Adjusted for debt expense of Co-Cos, net of taxes	16,460	10,297	31,277	18,916
Adjusted for non-taxable unrealized gains on equity forwards <sup>(1)</sup>	(39,717)			
Net income attributable to common stock, adjusted	\$ 691,734	\$ 302,904	\$ 889,568	\$ 532,032
<b>Denominator: (shares in thousands)</b>				
Weighted average shares used to compute basic EPS	410,957	419,497	411,811	420,206
Effect of dilutive securities:				
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, ESPP, and equity forwards	13,045	12,091	11,680	11,936
Dilutive effect of Co-Cos	30,312	30,312	30,312	30,312
Dilutive potential common shares <sup>(2)</sup>	43,357	42,403	41,992	42,248
Weighted average shares used to compute diluted EPS	454,314	461,900	453,803	462,454
<b>Net earnings per share:</b>				
Basic EPS	\$ 1.74	\$ .70	\$ 2.08	\$ 1.22
Dilutive effect of stock options, nonvested deferred compensation, nonvested restricted stock, restricted stock units, ESPP, and equity forwards	(.05)	(.02)	(.05)	(.03)
Dilutive effect of Co-Cos	(.08)	(.02)	(.07)	(.04)
Dilutive effect of non-taxable unrealized gains on equity forwards <sup>(1)</sup>	(.09)			
Diluted EPS	\$ 1.52	\$ .66	\$ 1.96	\$ 1.15

(1)

SFAS No. 128, Earnings per Share, and the additional guidance provided by EITF Topic No. D-72, Effect of Contracts That May Be Settled in Stock or Cash on the Computation of Diluted Earnings per Share, require both the denominator and the numerator to be adjusted in calculating the potential impact of the Company's equity forward contracts on diluted EPS. Under this guidance, when certain conditions are satisfied, the impact of the equity forwards is dilutive. Specifically, the impact is dilutive when: (1) the average share price is lower than the respective strike prices on the Company's equity forward contracts,

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**7. Earnings per Common Share (Continued)**

and (2) the Company recognized a gain on derivative and hedging activities related to its equity forward contracts. These conditions occurred during the three months ended June 30, 2006. At the time of the Company's second quarter 2006 press release (the "Press Release") filed on Form 8-K on July 20, 2006, the Company adjusted only the denominator in calculating the effects of its equity forward contracts. The diluted EPS of \$1.52 in the table above reflects the effects of adjusting both the numerator and denominator and corrects the information previously reported in the Company's Press Release. This guidance does not affect the Company's net income for the quarter and does not require the Company to adjust its diluted EPS for the six months ended June 30, 2006 or any prior period.

<sup>(2)</sup> For the three months ended June 30, 2006 and 2005, stock options and equity forwards of approximately 8 million shares and 14 million shares, respectively, and for the six months ended June 30, 2006 and 2005, stock options and equity forwards of approximately 12 million shares and 19 million shares, respectively, were outstanding but not included in the computation of diluted earnings per share because they were antidilutive.

**8. Stock-Based Compensation Plans**

The Company has various stock-based compensation programs, which include stock options, restricted stock units, restricted stock, performance stock, and the ESPP.

The SLM Corporation Incentive Plan (the "Incentive Plan") was approved by shareholders in 2004 and amended in 2005. A total of 17.2 million shares are authorized to be issued from this plan. Upon approval of the Incentive Plan, the Company discontinued the Employee Stock Option Plan (the "ESOP") and Management Incentive Plan (the "MIP"). Shares available for future issuance under the ESOP and MIP were canceled; however, terms of outstanding grants remain unchanged. Awards under the Incentive Plan may be in the form of stock, stock options, performance stock, restricted stock and restricted stock units. Stock-based compensation is also granted to non-employee directors of the Company under the shareholder-approved Directors Stock Plan. A total of 9.3 million shares are authorized to be issued from this plan and awards may be in the form of stock options and stock. The Company's non-employee directors are considered employees under the provisions of SFAS No. 123(R). The shares issued under the Incentive Plan, the Directors Stock Plan and the ESPP may be either shares reacquired by the Company or shares that are authorized but unissued.

An amount equal to the dividends payable on the Company's common stock ("dividend equivalents") is credited on full value stock-based compensation awards, which are nonvested performance stock, nonvested restricted stock and restricted stock units, and on share amounts credited under deferred compensation arrangements. Dividend equivalents are not credited on stock option awards.

The total stock-based compensation cost recognized in the consolidated statements of income for the three and six months ended June 30, 2006 was \$18 million and \$39 million, respectively. The related income tax benefit for the three and six months ended June 30, 2006 was \$6 million and \$14 million, respectively. As of June 30, 2006, there was \$75 million of total unrecognized compensation cost related to stock-based compensation programs. That cost is expected to be recognized over a weighted average period of 2.0 years.

***Stock Options***

Under the Incentive Plan, ESOP and MIP, the maximum term for stock options is 10 years and the exercise price must be equal to or greater than the market price of SLM common stock on the date of grant. Stock options granted to officers and management employees under the plans generally vest upon the Company's common stock price reaching a closing price equal to or greater than 20 percent above the fair market value of the common stock on the date of grant for five days, but no earlier than 12 months

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**8. Stock-Based Compensation Plans (Continued)**

from the grant date. Stock options granted to members of executive management have included more difficult price vesting targets and are more fully disclosed in Exhibits 10.13, 10.14 and 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005. In any event, all options vest upon the eighth anniversary of their grant date. Options granted to rank-and-file employees are time-vested with the grants vesting one-half in 18 months from their grant date and the second one-half vesting 36 months from their grant date.

Under the Directors Stock Plan, the maximum term for stock options is 10 years and the exercise price must be equal to or greater than the market price of the Company's common stock on the date of grant. Stock options granted to directors are generally subject to the following vesting schedule: all options vest upon the Company's common stock price reaching a closing price equal to or greater than 20 percent above the fair market value of the common stock on the date of grant for five days or the director's election to the Board, whichever occurs later. In any event, all options vest upon the fifth anniversary of their grant date.

The fair values of the options granted in the three and six months ended June 30, 2006 and 2005 were estimated as of the date of grant using a Black-Scholes option pricing model with the following weighted average assumptions.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Risk free interest rate	4.96%	3.77%	4.48%	3.86%
Expected volatility	19.86%	21.64%	20.64%	22.62%
Expected dividend rate	1.66%	1.73%	1.58%	1.55%
Expected life of the option	3 years	5 years	3 years	5 years

The expected life of the options is based on observed historical exercise patterns. Groups of employees that have received similar option grant terms were considered separately for valuation purposes. The expected volatility is based on implied volatility from publicly-traded options on the Company's stock at the date of grant and historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury spot rate consistent with the expected term of the option. The dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant.

As of June 30, 2006, there was \$51 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a weighted average period of 1.8 years.

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**8. Stock-Based Compensation Plans (Continued)**

The following table summarizes stock option activity for the six months ended June 30, 2006.

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2005	41,484,567	\$ 34.52		
Granted direct options	3,999,475	55.81		
Granted replacement options	92,849	55.38		
Exercised	(3,705,892)	30.93		
Canceled	(734,975)	49.40		
Outstanding at June 30, 2006	41,136,024	\$ 36.70	6.81 yrs	\$ 667 million
Exercisable at June 30, 2006	27,742,789	\$ 29.98	5.81 yrs	\$ 636 million

The weighted average fair value of options granted was \$9.29 and \$10.39 for the three months ended June 30, 2006 and 2005, respectively, and \$10.22 and \$11.57 for the six months ended June 30, 2006 and 2005, respectively. The total intrinsic value of options exercised was \$26 million and \$28 million for the three months ended June 30, 2006 and 2005, respectively, and \$88 million and \$55 million for the six months ended June 30, 2006 and 2005, respectively.

Cash received from option exercises was \$39 million and \$51 million for the three months ended June 30, 2006 and 2005, respectively, and \$88 million and \$93 million for the six months ended June 30, 2006 and 2005, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$11 million and \$10 million, respectively, for the three months ended June 30, 2006 and 2005, and \$30 million and \$21 million, respectively, for the six months ended June 30, 2006 and 2005.

**Restricted Stock**

Restricted stock granted under the Incentive Plan may vest no sooner than three years from grant date or may vest ratably over three years. Performance stock granted must vest over a minimum of a 12-month performance period. Performance criteria may include the achievement of any of several financial and business goals, such as Core Earnings diluted EPS, loan volume, market share, overhead or other expense reduction, or Core Earnings net income.

In accordance with SFAS No. 123(R), the fair value of restricted stock awards is estimated on the date of grant based on the market price of the stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. As of June 30, 2006, there was \$13 million of unrecognized compensation cost related to restricted stock, which is expected to be recognized over a weighted average period of 2.7 years.

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**8. Stock-Based Compensation Plans (Continued)**

The following table summarizes restricted stock activity for the six months ended June 30, 2006.

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Nonvested at December 31, 2005	357,444	\$ 44.34
Granted	163,398	55.82
Vested	(56,035)	37.83
Canceled	(35,167)	42.44
Nonvested at June 30, 2006	429,640	\$ 49.71

The total fair value of shares that vested during the three months ended June 30, 2006 was \$.1 million. There were no shares that vested in the year-ago period. The total fair value of shares that vested during the six months ended June 30, 2006 and 2005 was \$2 million and \$4 million, respectively.

**Restricted Stock Units**

The Company has granted restricted stock units ( RSUs ) to certain executive management employees. RSUs are subject to continued employment and generally vest over two to five years. Conversion of vested RSUs to common stock is deferred until the employees' retirement or termination of employment. The fair value of each grant is estimated on the date of grant based on the market price of the stock and is amortized to compensation expense on a straight-line basis over the related vesting periods. As of June 30, 2006, there was \$10 million of unrecognized compensation cost related to RSUs, which is expected to be recognized over a weighted average period of 2.1 years.

The following table summarizes RSU activity for the six months ended June 30, 2006.

	<b>Number of RSUs</b>	<b>Weighted Average Grant Date Fair Value</b>
Outstanding at December 31, 2005	840,000	\$ 34.81
Granted	100,000	55.82
Vested		
Canceled		
Converted to common stock	(300,000)	31.93
Outstanding at June 30, 2006	640,000	\$ 39.45

There were 28,326 dividend equivalents on outstanding RSUs at June 30, 2006.



The total fair value of RSUs that vested during the six months ended June 30, 2005 was \$10 million. The total intrinsic value of RSUs converted to common stock during the six months ended June 30, 2006 was \$10 million. There were no RSUs converted to common stock in the year-ago period.

***Employee Stock Purchase Plan***

Employees may purchase shares of the Company's common stock under the ESPP at the end of a 24-month period at a price equal to the share price at the beginning of the 24-month period, less

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**8. Stock-Based Compensation Plans (Continued)**

15 percent, up to a maximum purchase price of \$10,000 plus accrued interest. There are four ESPP offerings a year, one per quarter, and the purchase price for each offering is determined at the beginning of the offering period. The total number of shares which may be sold pursuant to the plan may not exceed 7.6 million shares, of which 1.3 million shares remained available at June 30, 2006.

The fair values of the stock purchase rights of the ESPP offerings in the three and six months ended June 30, 2006 were calculated using a Black-Scholes option pricing model with the following weighted average assumptions.

	<b>Three Months Ended June 30, 2006</b>	<b>Six Months Ended June 30, 2006</b>
Risk free interest rate	4.98%	4.75%
Expected volatility	19.39%	19.61%
Expected dividend rate	1.90%	1.72%
Expected life	2 years	2 years

The expected volatility is based on implied volatility from publicly-traded options on the Company's stock at the date of grant and historical volatility of the Company's stock. The risk-free interest rate is based on the U.S. Treasury spot rate consistent with the expected term. The dividend yield is based on the projected annual dividend payment per share, divided by the stock price at the date of grant.

The weighted average fair values of the stock purchase rights of the ESPP offerings in the three and six months ended June 30, 2006 were \$11.62 and \$12.07, respectively. The fair value is amortized to compensation cost on a straight-line basis over a two-year vesting period. As of June 30, 2006, there was \$2 million of unrecognized compensation cost related to ESPP, which is expected to be recognized over a weighted average period of 1.2 years.

During the three and six months ended June 30, 2006, 26,825 shares and 68,696 shares, respectively, of the Company's common stock were purchased by plan participants.

**9. Pension Plans****Components of Net Periodic Pension Cost**

Net periodic pension cost included the following components:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Service cost – benefits earned during the period	\$ 2,073	\$ 2,473	\$ 4,146	\$ 4,946
Interest cost on project benefit obligations	2,862	2,806	5,724	5,612
Expected return on plan assets	(4,069)	(4,108)	(8,138)	(8,217)
Net amortization and deferral	122	(30)	244	(59)
<b>Total net periodic pension cost</b>	<b>\$ 988</b>	<b>\$ 1,141</b>	<b>\$ 1,976</b>	<b>\$ 2,282</b>

**Employer Contributions**

The Company previously disclosed in its financial statements for the year ended December 31, 2005 that it did not expect to contribute to its qualified pension plan (the Qualified Plan ) in 2006. As of June 30, 2006, the Company had made no contributions to its Qualified Plan.

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**9. Pension Plans (Continued)**

**10. Contingencies**

The Company was named as a defendant in a putative class action lawsuit brought by three Wisconsin residents on December 20, 2001 in the Superior Court for the District of Columbia. The lawsuit sought to bring a nationwide class action on behalf of all borrowers who allegedly paid undisclosed improper and excessive late fees over the past three years. The plaintiffs sought damages of \$1,500 per violation plus punitive damages and claimed that the class consisted of two million borrowers. In addition, the plaintiffs alleged that the Company charged excessive interest by capitalizing interest quarterly in violation of the promissory note. On February 27, 2003, the Superior Court granted the Company's motion to dismiss the complaint in its entirety. On March 4, 2004, the District of Columbia Court of Appeals affirmed the Superior Court's decision granting the Company's motion to dismiss the complaint, but granted plaintiffs leave to re-plead the first count, which alleged violations of the D.C. Consumer Protection Procedures Act. On September 15, 2004, the plaintiffs filed an amended class action complaint. On October 15, 2004, the Company filed a motion to dismiss the amended complaint with the Superior Court for failure to state a claim and non-compliance with the Court of Appeals' ruling. On December 27, 2004, the Superior Court granted the Company's motion to dismiss the plaintiffs' amended complaint. Plaintiffs appealed the Superior Court's dismissal order to the Court of Appeals. On June 8, 2006, the Court of Appeals issued an opinion reversing the order of the trial court dismissing the amended complaint. The Court of Appeals did not address the merits of the complaint but concluded that the trial court improperly relied upon facts extrinsic to the complaint. The Company does not believe that it is reasonably likely that a nationwide class will be certified. The Court of Appeals noted in its decision that the plaintiffs failed to file a motion for class certification within the time required by the District of Columbia rules.

The Company is also subject to various claims, lawsuits and other actions that arise in the normal course of business. Most of these matters are claims by borrowers disputing the manner in which their loans have been processed or the accuracy of the Company's reports to credit bureaus. In addition, the collections subsidiaries in the Company's debt management operation group are occasionally named in individual plaintiff or class action lawsuits in which the plaintiffs allege that the Company has violated a federal or state law in the process of collecting their account. Management believes that these claims, lawsuits and other actions will not have a material adverse effect on its business, financial condition or results of operations.

**11. Segment Reporting**

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

The management reporting process measures the performance of the Company's operating segments based on the management structure of the Company as well as the methodology used by management to evaluate performance and allocate resources. Management, including the Company's chief operating decision

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**11. Segment Reporting (Continued)**

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

The Company's principal operations are located in the United States, and its results of operations and long-lived assets in geographic regions outside of the United States are not significant. In the Lending segment, no individual customer accounted for more than 10 percent of its total revenue during the six months ended June 30, 2006 and 2005. United Student Aid Funds, Inc. (USA Funds) is the Company's largest customer in both the DMO and Corporate and Other segments. During the six months ending June 30, 2006 and 2005, it accounted for 38 percent and 42 percent, respectively, of the aggregate revenues generated by the Company's DMO and Corporate and Other segments. No other customers accounted for more than 10 percent of total revenues in those segments for the years mentioned.

***Lending***

In the Company's Lending business segment, the Company originates and acquires both federally guaranteed student loans, which are administered by the U.S. Department of Education (ED), and Private Education Loans, which are not federally guaranteed. Private Education Loans are primarily used by borrowers to supplement FFELP loans to meet the rising cost of education. The Company manages student loans for approximately 10 million customers; its Managed student loan portfolio totaled \$130.1 billion at June 30, 2006, of which \$111.1 billion or 85 percent are federally insured. In addition to education lending, the Company also originates mortgage and consumer loans with the intent of selling the majority of such loans. During the six months ended June 30, 2006, the Company originated \$905 million in mortgage and consumer loans of which \$718 million pertained to mortgages in the held for sale portfolio. The Company's mortgage and consumer loan portfolio totaled \$670 million at June 30, 2006.

In addition to its federally insured FFELP products, the Company originates and acquires Private Education Loans which consist of two general types: (1) those that are designed to bridge the gap between the cost of higher education and the amount financed through either capped federally insured loans or the borrowers' resources, and (2) those that are used to meet the needs of students in alternative learning programs such as career training, distance learning and lifelong learning programs. Most higher education Private Education Loans are made in conjunction with a FFELP Stafford loan and as such are marketed through the same channel as FFELP loans by the same sales force. Unlike FFELP loans, Private Education Loans are subject to the full credit risk of the borrower. The Company manages this additional

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**11. Segment Reporting (Continued)**

risk through industry-tested loan underwriting standards and a combination of higher interest rates and loan origination fees that compensate the Company for the higher risk.

***DMO***

The Company provides a wide range of accounts receivable and collections services through six operating units that comprise its DMO operating segment. These services include defaulted student loan portfolio management services, contingency collections services for student loans and other asset classes, student loan default aversion services, and accounts receivable management and collection for purchased portfolios of receivables that have been charged off by their original creditors, as well as sub-performing and nonperforming mortgage loans. The Company's DMO operating segment primarily serves the student loan marketplace through a broad array of default management services on a contingency fee or other pay-for-performance basis to 12 FFELP guarantors and for campus-based programs.

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

***Corporate and Other***

The Company's Corporate and Other business segment includes the aggregate activity of its smaller operating segments, including its Guarantor Servicing and Loan Servicing business segments, other products and services as well as corporate overhead.

In the Guarantor Servicing operating segment, the Company provides a full complement of administrative services to FFELP guarantors including guarantee issuance, account maintenance, and guarantee fulfillment. In the Loan Servicing operating segment, the Company provides a full complement of activities required to service student loans on behalf of lenders who are unrelated to the Company. Such servicing activities generally commence once a loan has been fully disbursed and include sending out payment coupons to borrowers, processing borrower payments, originating and disbursing Consolidation Loans on behalf of the lender, and other administrative activities required by ED. The Company's other products and services include comprehensive financing and loan delivery solutions that it provides to college financial aid offices and students to streamline the financial aid process. Corporate overhead includes all of the typical headquarter functions such as executive management, accounting and finance, human resources and marketing.

***Measure of Profitability***

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

"Core Earnings" performance measures are the primary financial performance measures used by management to develop the Company's financial plans, track results, and establish corporate performance targets and incentive compensation. Management believes this information provides additional insight into

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**11. Segment Reporting (Continued)**

the financial performance of the core business activities of its operating segments. Accordingly, the tables presented below reflect Core Earnings operating measures reviewed and utilized by management to manage the business. Reconciliations of the Core Earnings segment totals to the Company's consolidated operating results in accordance with GAAP are also included in the tables below.

*Segment Results and Reconciliations to GAAP***Three Months Ended June 30, 2006**

	Lending	DMO	Corporate and Other	Total Core Earnings	Adjustments <sup>(3)</sup>	Total GAAP
<b>(Dollars in millions)</b>						
<b>Interest income:</b>						
FFELP Stafford and Other Student Loans	\$ 719	\$	\$	\$ 719	\$ (382)	\$ 337
Consolidation Loans	1,114			1,114	(273)	841
Private Education Loans	485			485	(251)	234
Other loans	24			24		24
Cash and investments	170		1	171	(46)	125
<b>Total interest income</b>	<b>2,512</b>		<b>1</b>	<b>2,513</b>	<b>(952)</b>	<b>1,561</b>
<b>Total interest expense</b>	<b>1,904</b>	<b>5</b>	<b>1</b>	<b>1,910</b>	<b>(706)</b>	<b>1,204</b>
<b>Net interest income</b>	<b>608</b>	<b>(5)</b>		<b>603</b>	<b>(246)</b>	<b>357</b>
Less: provisions for losses	60			60	8	68
<b>Net interest income after provisions for losses</b>	<b>548</b>	<b>(5)</b>		<b>543</b>	<b>(254)</b>	<b>289</b>
Fee income		90	33	123		123
Collections revenue		67		67		67
Other income	51		24	75	869	944
Operating expenses <sup>(1)</sup>	163	85	50	298	18	316
<b>Income before income taxes and minority interest in net earnings of subsidiaries</b>	<b>436</b>	<b>67</b>	<b>7</b>	<b>510</b>	<b>597</b>	<b>1,107</b>
Income tax expense <sup>(2)</sup>	161	26	2	189	193	382
Minority interest in net earnings of subsidiaries		1		1		1
<b>Net income</b>	<b>\$ 275</b>	<b>\$ 40</b>	<b>\$ 5</b>	<b>\$ 320</b>	<b>\$ 404</b>	<b>\$ 724</b>

- (1) Operating expenses for the Lending, DMO, and Corporate and Other Business segments include \$8 million, \$2 million, and \$4 million, respectively, of stock-based compensation expense due to the implementation of SFAS No. 123(R) in the first quarter of 2006.
- (2) Income taxes are based on a percentage of net income (loss) before tax for the individual reportable segment.
- (3) Core Earnings adjustments to GAAP:

**Three Months Ended June 30, 2006**

	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Amortization of Acquired Intangibles	Total
<b>(Dollars in millions)</b>					
Net interest income	\$ (236)	\$ 42	\$ (52)	\$	\$ (246)
Less: provisions for losses	8				8
Net interest income after provisions for losses	(244)	42	(52)		(254)
Fee income					
Collections revenue					
Other income	746	123			869
Operating expenses				18	18
Total pre-tax Core Earnings adjustments to GAAP	\$ 502	\$ 165	\$ (52)	\$ (18)	597
Income tax expense					193
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					\$ 404



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**11. Segment Reporting (Continued)****Three Months Ended June 30, 2005**

	Lending	DMO	Corporate and Other	Total Core Earnings	Adjustments <sup>(3)</sup>	Total GAAP
<b>(Dollars in millions)</b>						
Interest income:						
FFELP Stafford and Other Student Loans	\$ 582	\$	\$	\$ 582	\$ (343)	\$ 239
Consolidation Loans	667			667	(113)	554
Private Education Loans	247			247	(120)	127
Other loans	20			20		20
Cash and investments	77		1	78	(24)	54
<b>Total interest income</b>	<b>1,593</b>		<b>1</b>	<b>1,594</b>	<b>(600)</b>	<b>994</b>
<b>Total interest expense</b>	<b>1,073</b>	<b>4</b>	<b>1</b>	<b>1,078</b>	<b>(414)</b>	<b>664</b>
<b>Net interest income</b>	<b>520</b>	<b>(4)</b>		<b>516</b>	<b>(186)</b>	<b>330</b>
Less: provisions for losses	14			14	65	79
<b>Net interest income after provisions for losses</b>	<b>506</b>	<b>(4)</b>		<b>502</b>	<b>(251)</b>	<b>251</b>
Fee income		82	26	108		108
Collections revenue		42		42		42
Other income	36		29	65	297	362
Operating expenses <sup>(1)</sup>	141	67	63	271	17	288
<b>Income (loss) before income taxes and minority interest in net earnings of subsidiaries</b>	<b>401</b>	<b>53</b>	<b>(8)</b>	<b>446</b>	<b>29</b>	<b>475</b>
Income tax expense (benefit) <sup>(2)</sup>	148	20	(3)	165	11	176
Minority interest in net earnings of subsidiaries	1	1		2		2
<b>Net income (loss)</b>	<b>\$ 252</b>	<b>\$ 32</b>	<b>\$ (5)</b>	<b>\$ 279</b>	<b>\$ 18</b>	<b>\$ 297</b>

<sup>(1)</sup> Income taxes are based on a percentage of net income (loss) before tax for the individual reportable segment.

(2) In the first quarter of 2006, the Company changed its method for allocating certain overhead and other expenses between its business segments. Balances for the three months ending June 30, 2005 have been updated to reflect the new allocation methodology.

(3) Core Earnings adjustments to GAAP:

**Three Months Ended June 30, 2005**

(Dollars in millions)	Net impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Amortization of Acquired Intangibles	Total
Net interest income	\$ (230)	\$ 95	\$ (51)	\$	\$ (186)
Less: provisions for losses	65				65
Net interest income after provisions for losses	(295)	95	(51)		(251)
Fee income					
Collections revenue					
Other income	403	(106)			297
Operating expenses	1			16	17
Total pre-tax Core Earnings adjustments to GAAP	\$ 107	\$ (11)	\$ (51)	\$ (16)	29
Income tax expense					11
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					\$ 18

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**11. Segment Reporting (Continued)****Six Months Ended June 30, 2006**

(Dollars in millions)	Lending	DMO	Corporate and Other	Total Core Earnings	Adjustments <sup>(3)</sup>	Total GAAP
<b>Interest income:</b>						
FFELP Stafford and Other Student Loans	\$ 1,369	\$	\$	\$ 1,369	\$ (734)	\$ 635
Consolidation Loans	2,142			2,142	(479)	1,663
Private Education Loans	914			914	(439)	475
Other loans	47			47		47
Cash and investments	300		2	302	(81)	221
<b>Total interest income</b>	<b>4,772</b>		<b>2</b>	<b>4,774</b>	<b>(1,733)</b>	<b>3,041</b>
<b>Total interest expense</b>	<b>3,562</b>	<b>11</b>	<b>3</b>	<b>3,576</b>	<b>(1,280)</b>	<b>2,296</b>
<b>Net interest income</b>	<b>1,210</b>	<b>(11)</b>	<b>(1)</b>	<b>1,198</b>	<b>(453)</b>	<b>745</b>
Less: provisions for losses	135			135	(7)	128
<b>Net interest income after provisions for losses</b>	<b>1,075</b>	<b>(11)</b>	<b>(1)</b>	<b>1,063</b>	<b>(446)</b>	<b>617</b>
Fee income		182	60	242		242
Collections revenue		124		124		124
Other income	92		55	147	907	1,054
Operating expenses <sup>(1)</sup>	324	175	109	608	32	640
<b>Income before income taxes and minority interest in net earnings of subsidiaries</b>	<b>843</b>	<b>120</b>	<b>5</b>	<b>968</b>	<b>429</b>	<b>1,397</b>
Income tax expense <sup>(2)</sup>	312	44	2	358	161	519
<b>Minority interest in net earnings of subsidiaries</b>		<b>3</b>		<b>3</b>		<b>3</b>
<b>Net income</b>	<b>\$ 531</b>	<b>\$ 73</b>	<b>\$ 3</b>	<b>\$ 607</b>	<b>\$ 268</b>	<b>\$ 875</b>

<sup>(1)</sup> Operating expenses for the Lending, DMO, and Corporate and Other Business segments include \$18 million, \$5 million, and \$9 million, respectively, of stock-based compensation expense due to the implementation of

SFAS No. 123(R) in the first quarter of 2006.

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

(3) Core Earnings adjustments to GAAP:

**Six Months Ended June 30, 2006**

(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Amortization of Acquired Intangibles	Total
Net interest income	\$ (438)	\$ 90	\$ (105)	\$	\$ (453)
Less: provisions for losses	(7)				(7)
Net interest income after provisions for losses	(431)	90	(105)		(446)
Fee income					
Collections revenue					
Other income	871	36			907
Operating expenses				32	32
Total pre-tax Core Earnings adjustments to GAAP	\$ 440	\$ 126	\$ (105)	\$ (32)	429
Income tax expense					161
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					\$ 268

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Information at June 30, 2006 and for the three and six months ended**  
**June 30, 2006 and 2005 is unaudited)**  
**(Dollars in thousands, except per share amounts, unless otherwise noted)**

**11. Segment Reporting (Continued)****Six Months Ended June 30, 2005**

(Dollars in millions)	Lending	DMO	Corporate and Other	Total Core Earnings	Adjustments <sup>(3)</sup>	Total GAAP
<b>Interest income:</b>						
FFELP Stafford and Other Student Loans	\$ 1,092	\$	\$	\$ 1,092	\$ (663)	\$ 429
Consolidation Loans	1,248			1,248	(185)	1,063
Private Education Loans	474			474	(217)	257
Other loans	40			40		40
Cash and investments	156		2	158	(42)	116
<b>Total interest income</b>	<b>3,010</b>		<b>2</b>	<b>3,012</b>	<b>(1,107)</b>	<b>1,905</b>
<b>Total interest expense</b>	<b>1,991</b>	<b>8</b>	<b>3</b>	<b>2,002</b>	<b>(774)</b>	<b>1,228</b>
<b>Net interest income</b>	<b>1,019</b>	<b>(8)</b>	<b>(1)</b>	<b>1,010</b>	<b>(333)</b>	<b>677</b>
Less: provisions for losses	69			69	57	126
<b>Net interest income after provisions for losses</b>	<b>950</b>	<b>(8)</b>	<b>(1)</b>	<b>941</b>	<b>(390)</b>	<b>551</b>
Fee income		168	58	226		226
Collections revenue		77		77		77
Other income	72		61	133	450	583
Operating expenses <sup>(1)</sup>	275	132	114	521	29	550
<b>Income before income taxes and minority interest in net earnings of subsidiaries</b>	<b>747</b>	<b>105</b>	<b>4</b>	<b>856</b>	<b>31</b>	<b>887</b>
Income tax expense <sup>(2)</sup>	277	39	1	317	46	363
Minority interest in net earnings of subsidiaries	2	2		4		4
<b>Net income</b>	<b>\$ 468</b>	<b>\$ 64</b>	<b>\$ 3</b>	<b>\$ 535</b>	<b>\$ (15)</b>	<b>\$ 520</b>

<sup>(1)</sup> Income taxes are based on a percentage of net income (loss) before tax for the individual reportable segment.

(2) In the first quarter of 2006, the Company changed its method for allocating certain overhead and other expenses between its business segments. Balances for the six months ending June 30, 2005 have been updated to reflect the new allocation methodology.

(3) Core Earnings adjustments to GAAP:

**Six Months Ended June 30, 2005**

(Dollars in millions)	Net Impact of Securitization Accounting	Net Impact of Derivative Accounting	Net Impact of Floor Income	Amortization of Acquired Intangibles	Total
Net interest income	\$ (458)	\$ 219	\$ (94)	\$	\$ (333)
Less: provisions for losses	57				57
Net interest income after provisions for losses	(515)	219	(94)		(390)
Fee income					
Collections revenue					
Other income	590	(140)			450
Operating expenses				29	29
Total pre-tax Core Earnings adjustments to GAAP	\$ 75	\$ 79	\$ (94)	\$ (29)	31
Income tax expense					46
Minority interest in net earnings of subsidiaries					
Total Core Earnings adjustments to GAAP					\$ (15)

**SLM CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**(Information at June 30, 2006 and for the three and six months ended**  
**June 30, 2006 and 2005 is unaudited)**  
**(Dollars in thousands, except per share amounts, unless otherwise noted)**

**11. Segment Reporting (Continued)****Summary of Core Earnings Adjustments to GAAP**

The adjustments required to reconcile from the Company's Core Earnings results to its GAAP results of operations relate to differing treatments for securitization transactions, derivatives, Floor Income related to the Company's student loans, and certain other items that management does not consider in evaluating the Company's operating results. The following table reflects aggregate adjustments associated with these areas for the three and six months ended June 30, 2006 and 2005.

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Core Earnings adjustments to GAAP:</b>				
Net impact of securitization accounting <sup>(1)</sup>	\$ 502	\$ 107	\$ 440	\$ 75
Net impact of derivative accounting <sup>(2)</sup>	165	(11)	126	79
Net impact of Floor Income <sup>(3)</sup>	(52)	(51)	(105)	(94)
Amortization of acquired intangibles <sup>(4)</sup>	(18)	(16)	(32)	(29)
Net tax effect <sup>(5)</sup>	(193)	(11)	(161)	(46)
<b>Total Core Earnings adjustments to GAAP</b>	<b>\$ 404</b>	<b>\$ 18</b>	<b>\$ 268</b>	<b>\$ (15)</b>

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

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

(3)

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

- (4) **Other items:** The Company excludes goodwill impairment and amortization of acquired intangibles.
- (5) Such tax effect is based upon the Company's Core Earnings effective tax rate for the year. The net tax effect results primarily from the exclusion of the permanent income tax impact of the equity forward contracts.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Three and six months ended June 30, 2006 and 2005**

**(Dollars in millions, except per share amounts, unless otherwise noted)**

**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

This quarterly report contains forward-looking statements and information that are based on management's current expectations as of the date of this document. When used in this report, the words "anticipate," "believe," "estimate," "intend" and "expect" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are subject to risks, uncertainties, assumptions and other factors that may cause the actual results to be materially different from those reflected in such forward-looking statements. These factors include, among others, changes in the terms of student loans and the educational credit marketplace arising from the implementation of applicable laws and regulations and from changes in these laws and regulations, which may reduce the volume, average term and yields on student loans under the Federal Family Education Loan Program ("FFELP") or result in loans being originated or refinanced under non-FFELP programs or may affect the terms upon which banks and others agree to sell FFELP loans to SLM Corporation, more commonly known as Sallie Mae, and its subsidiaries (collectively, "the Company"). In addition, a larger than expected increase in third party consolidations of our FFELP loans could materially adversely affect our results of operations. The Company could also be affected by changes in the demand for educational financing or in financing preferences of lenders, educational institutions, students and their families; incorrect estimates or assumptions by management in connection with the preparation of our consolidated financial statements; changes in the composition of our Managed FFELP and Private Education Loan portfolios; a significant decrease in our common stock price, which may result in counterparties terminating equity forward positions with us, which, in turn, could have a materially dilutive effect on our common stock; changes in the general interest rate environment and in the securitization markets for education loans, which may increase the costs or limit the availability of financings necessary to initiate, purchase or carry education loans; losses from loan defaults; changes in prepayment rates and credit spreads; and changes in the demand for debt management services and new laws or changes in existing laws that govern debt management services.

**OVERVIEW**

We are the largest source of funding, delivery and servicing support for education loans in the United States. Our primary business is to originate, acquire and hold both federally guaranteed student loans and Private Education Loans, which are not federally guaranteed. The primary source of our earnings is from net interest income earned on those student loans as well as gains on the sales of such loans in securitization transactions. We also earn fees for pre-default and post-default receivables management services on student loans, such that we are engaged in every phase of the student loan life cycle from originating and servicing student loans to default prevention and ultimately the collection on defaulted student loans. In addition, we provide a wide range of other financial services, processing capabilities and information technology to meet the needs of educational institutions, lenders, students and their families, and guarantee agencies. SLM Corporation, more commonly known as Sallie Mae, is a holding company that operates through a number of subsidiaries and references in this report to the "Company" refer to SLM Corporation and its subsidiaries.

We have used both internal growth and strategic acquisitions to attain our leadership position in the education finance marketplace. Our sales force, which delivers our products on campuses across the country, is the largest in the student loan industry. The core of our marketing strategy is to promote our on-campus brands, which generate student loan originations through our Preferred Channel. Loans generated through our Preferred Channel are more profitable than loans acquired through other acquisition

channels because we own them earlier in the student loan s life and generally incur lower costs to acquire such loans. We have built brand leadership among the Sallie Mae name, the brands of our subsidiaries and those of our lender partners. These sales and marketing efforts are supported by the largest and most diversified servicing capabilities in the industry, providing an unmatched array of servicing capability to financial aid offices.

In recent years we have diversified our business through the acquisition of several companies that provide default management and loan collections services, all of which are combined in our Debt Management Operations ( DMO ) business segment. Our capabilities now include a full range of accounts receivable management services to a number of different industries. The DMO business segment has been expanding rapidly such that revenue grew 25 percent in the six months ended June 30, 2006, compared to the same period in 2005, and we now employ approximately 4,000 people in this segment.

We manage our business through two primary operating segments: the Lending operating segment and the DMO operating segment. Accordingly, the results of operations of the Company s Lending and DMO segments are presented separately below under BUSINESS SEGMENTS. These operating segments are considered reportable segments under the Financial Accounting Standards Board s ( FASB ) Statement of Financial Accounting Standards ( SFAS ) No. 131,

Disclosures about Segments of an Enterprise and Related Information, based on quantitative thresholds applied to the Company s financial statements.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

A discussion of the Company s critical accounting policies, which include premiums, discounts and Borrower Benefits, securitization accounting and Retained Interests, provisions for loan losses, derivative accounting and the effects of Consolidation Loan activity on estimates, can be found in the Company s Annual Report on Form 10-K for the year ended December 31, 2005. There have been no material changes to these policies during the second quarter of 2006.

## SELECTED FINANCIAL DATA

## Condensed Statements of Income

	Three Months Ended June 30,		Increase (Decrease)		Six Months Ended June 30,		Increase (Decrease)	
	2006	2005	\$	%	2006	2005	\$	%
Net interest income	\$ 357	\$ 330	\$ 27	8%	\$ 745	\$ 677	\$ 68	10%
Less: provisions for losses	68	79	(11)	(14)	128	126	2	2
Net interest income after provisions for losses	289	251	38	15	617	551	66	12
Gains on student loan securitizations	671	262	409	156	701	312	389	125
Servicing and securitization revenue	83	150	(67)	(45)	182	293	(111)	(38)
Gains (losses) on derivative and hedging activities, net	123	(106)	229	216	36	(140)	176	126
Guarantor servicing fees	33	26	7	27	60	58	2	3
Debt management fees	90	82	8	10	182	168	14	8
Collections revenue	67	42	25	60	124	77	47	61
Other income	67	56	11	20	135	118	17	14
Operating expenses	316	288	28	10	640	550	90	16
Income taxes	382	176	206	117	519	363	156	43
Minority interest in net earnings of subsidiaries	1	2	(1)	(50)	3	4	(1)	(25)
<b>Net income</b>	<b>724</b>	<b>297</b>	<b>427</b>	<b>144</b>	<b>875</b>	<b>520</b>	<b>355</b>	<b>68</b>
Preferred stock dividends	9	4	5	125	17	7	10	143
Net income attributable to common stock	\$ 715	\$ 293	\$ 422	144%	\$ 858	\$ 513	\$ 345	67%
<b>Basic earnings per common share</b>	<b>\$ 1.74</b>	<b>\$ .70</b>	<b>\$ 1.04</b>	<b>149%</b>	<b>\$ 2.08</b>	<b>\$ 1.22</b>	<b>\$ .86</b>	<b>70%</b>
<b>Diluted earnings per common share</b>	<b>\$ 1.52</b>	<b>\$ .66</b>	<b>\$ .86</b>	<b>130%</b>	<b>\$ 1.96</b>	<b>\$ 1.15</b>	<b>\$ .81</b>	<b>70%</b>
Dividends per common share	\$ .25	\$ .22	\$ .03	14%	\$ .47	\$ .41	\$ .06	15%

**Condensed Balance Sheets**

	June 30, 2006	December 31, 2005	Increase (Decrease)	
			\$	%
<b>Assets</b>				
FFELP Stafford and Other Student Loans, net	\$ 21,391	\$ 19,988	\$ 1,403	7%
Consolidation Loans, net	54,055	54,859	(804)	(1)
Private Education Loans, net	6,833	7,757	(924)	(12)
Other loans, net	1,051	1,138	(87)	(8)
Cash and investments	6,204	4,868	1,336	27
Restricted cash and investments	3,489	3,300	189	6
Retained Interest in off-balance sheet securitized loans	3,152	2,406	746	31
Goodwill and acquired intangible assets, net	1,081	1,105	(24)	(2)
Other assets	4,651	3,918	733	19
<b>Total assets</b>	<b>\$ 101,907</b>	<b>\$ 99,339</b>	<b>\$ 2,568</b>	<b>3%</b>
<b>Liabilities and Stockholders Equity</b>				
Short-term borrowings	\$ 3,801	\$ 3,810	\$ (9)	%
Long-term borrowings	90,507	88,119	2,388	3
Other liabilities	3,230	3,609	(379)	(11)
<b>Total liabilities</b>	<b>97,538</b>	<b>95,538</b>	<b>2,000</b>	<b>2</b>
Minority interest in subsidiaries	9	9		
Stockholders equity before treasury stock	5,238	4,364	874	20
Common stock held in treasury at cost	878	572	306	53
<b>Total stockholders equity</b>	<b>4,360</b>	<b>3,792</b>	<b>568</b>	<b>15</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 101,907</b>	<b>\$ 99,339</b>	<b>\$ 2,568</b>	<b>3%</b>

**RESULTS OF OPERATIONS****CONSOLIDATED EARNINGS SUMMARY****Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005**

For the three months ended June 30, 2006, net income of \$724 million (\$1.52 diluted earnings per share) was a 144 percent increase from net income of \$297 million for the three months ended June 30, 2005. Second quarter 2006 pre-tax income of \$1.1 billion was a 133 percent increase from \$475 million earned in the second quarter of 2005. The larger percentage increase in year-over-year, after-tax net income versus pre-tax net income is driven by the permanent impact of excluding non-taxable gains and losses on equity forward contracts in the Company's stock from taxable income. This resulted in a decrease of the effective tax rate from 37 percent in the second quarter of 2005 to 35 percent in the second quarter of 2006. Under SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, we are required to mark the equity forward contracts to market each quarter and recognize the change in their value in income. Conversely, these unrealized gains and losses are not

recognized on a tax basis. In the second quarter of 2006, the unrealized gains on our outstanding equity forward contracts were \$39 million versus unrealized gains of \$10 million in the second quarter of 2005, both of which were caused by an increase in the Company's stock price over each period.

There were several factors that contributed to the increase in the pre-tax results of the second quarter of 2006 versus the year-ago quarter, the two largest of which were a \$229 million increase in the net gain

on derivative and hedging activities, and an increase in securitization gains of \$409 million. The increase in net gains and losses on derivative and hedging activities primarily relates to an unrealized gain for the second quarter of 2006 versus an unrealized loss in the year-ago quarter on Floor Income Contracts. The unrealized gain in the second quarter of 2006 was due to rising forward interest rates. In the year-ago quarter, forward interest rates fell resulting in an unrealized loss. Securitization gains in the second quarter of 2006 of \$671 million were largely driven by the two Private Education Loan securitizations totaling \$4.0 billion of student loans. In the second quarter of 2005, there was only one Private Education Loan securitization totaling \$1.5 billion of student loans.

We incurred impairment losses in the second quarter of 2006 to our Retained Interests in securitizations of \$91 million versus \$15 million in the year-ago quarter. The 2006 losses were primarily the result of the combined high level of Consolidation Loan activity and the impairment of Embedded Floor Income as a result of higher interest rates. The increase in year-over-year impairment losses was the major driver of the \$67 million decrease in servicing and securitization revenue.

Net interest income increased by \$27 million or 8 percent year-over-year due to the 18 percent increase in average interest earning assets, offset by a 15 basis point decrease in the net interest margin. The year-over-year decrease in the net interest margin is due to the build-up in funding in anticipation of record Consolidation Loan activity as borrowers locked in lower rates before the interest rate reset on FFELP Stafford Loans. The net interest margin was also negatively impacted by a 4 basis point decrease in the on-balance sheet student loan spread, which was primarily due to lower Floor Income.

In the second quarter of 2006, fee and other income and collections revenue totaled \$257 million, an increase of 25 percent over the year-ago quarter. This increase was primarily driven by the \$25 million or 60 percent increase in collections revenue.

Our Managed student loan portfolio grew by \$13.6 billion, from \$116.5 billion at June 30, 2005 to \$130.1 billion at June 30, 2006. This growth was fueled by the acquisition of \$7.9 billion of student loans, including \$1.7 billion in Private Education Loans, in the quarter ended June 30, 2006, versus \$7.8 billion acquired in the year-ago quarter, of which \$1.3 billion were Private Education Loans. In the quarter ended June 30, 2006, we originated \$3.2 billion of student loans through our Preferred Channel, an increase of 14 percent over the \$2.8 billion originated in the year-ago quarter.

#### **Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005**

For the six months ended June 30, 2006, our net income increased by 68 percent to \$875 million (\$1.96 diluted earnings per share) from net income of \$520 million (\$1.15 diluted earnings per share) in 2005. Pre-tax income for the six months ended June 30, 2006 increased by 57 percent to \$1.4 billion versus \$887 million in the first six months of 2005. The larger percentage increase in year-over-year net income versus pre-tax income is primarily due to the decrease in the effective tax rate from 41 percent in the six months ended June 30, 2005 to 37 percent in the six months ended June 30, 2006, caused by the decrease in unrealized losses on equity forward contracts as described above. In the six months ended June 30, 2006, we recognized unrealized losses on our outstanding equity forward contracts of \$83 million versus unrealized losses of \$98 million in the first six months of 2005.

The increase in pre-tax income is primarily due to a \$389 million increase in securitization gains in the six months ended June 30, 2006. The securitization gains in the first half of 2006 were primarily driven by the two second quarter Private Education Loan securitizations referenced above. In the year-ago period, there was only one Private Education Loan securitization that had a pre-tax gain of \$231 million or 15 percent of the amount securitized.

The year-over-year results were negatively impacted by impairments of our Retained Interests in securitizations of \$143 million in the first half of 2006 versus \$24 million in the first half of 2005. These impairments were the primary reason for the \$111 million year-over-year decrease in servicing and securitization revenue.

The \$176 million increase in the gain on derivative and hedging activities primarily relates to unrealized and realized gains and losses on derivatives that do not receive hedge accounting treatment. For the six months ended June 30, 2006, realized losses decreased by \$127 million versus the first six months of 2005. The majority of these losses related to net settlements on Floor Income Contracts, which were offset by Floor Income earned on student loans. Unrealized derivative gains are primarily due to the effect of higher forward interest rates on the liability for outstanding Floor Income Contracts. Forward interest rates increased during the first half of both 2006 and 2005; however, during the first half of 2006, the increase in forward interest rates was greater, resulting in greater unrealized gains for the first half of 2006. These gains were partially offset by unrealized losses on basis swaps economically hedging our inflation-indexed debt.

Our Managed student loan portfolio grew by \$13.6 billion, from \$116.5 billion at June 30, 2005 to \$130.1 billion at June 30, 2006. This growth was fueled by the acquisition of \$16.5 billion of student loans, including \$3.6 billion in Private Education Loans, in the six months ended June 30, 2006, a 7 percent increase over the \$15.3 billion acquired in the year-ago period, of which \$2.6 billion were Private Education Loans. In the six months ended June 30, 2006, we originated \$10.8 billion of student loans through our Preferred Channel, an increase of 13 percent over the \$9.5 billion originated in the year-ago period.

#### NET INTEREST INCOME

Net interest income, including interest income and interest expense, is derived primarily from our portfolio of student loans that remain on-balance sheet and to a lesser extent from other loans, cash and investments. The Taxable Equivalent Net Interest Income analysis below is designed to facilitate a comparison of non-taxable asset yields to taxable yields on a similar basis. Additional information regarding the return on our student loan portfolio is set forth under Student Loan Spread *Student Loan Spread Analysis On-Balance Sheet*. Information regarding the provisions for losses is included in Note 3 to the consolidated financial statements, Allowance for Student Loan Losses.

#### *Taxable Equivalent Net Interest Income*

The amounts in the following table are adjusted for the impact of certain tax-exempt and tax-advantaged investments based on the marginal federal corporate tax rate of 35 percent.

	Three Months		Increase		Six Months		Increase	
	Ended		(Decrease)		Ended June 30,		(Decrease)	
	2006	2005	\$	%	2006	2005	\$	%
<b>Interest income:</b>								
Student loans	\$ 1,412	\$ 920	\$ 492	53%	\$ 2,773	\$ 1,749	\$ 1,024	59%
Other loans	24	20	4	20	47	40	7	18
Cash and investments	125	54	71	131	221	116	105	91
Taxable equivalent adjustment	1	1			1	2	(1)	(50)
Total taxable equivalent interest income	1,562	995	567	57	3,042	1,907	1,135	60
Interest expense	1,204	664	540	81	2,296	1,228	1,068	87
Taxable equivalent net interest income	\$ 358	\$ 331	\$ 27	8%	\$ 746	\$ 679	\$ 67	10%





**Average Balance Sheets**

The following table reflects the rates earned on interest earning assets and paid on interest bearing liabilities for the three and six months ended June 30, 2006 and 2005. This table reflects the net interest margin for the entire Company on a consolidated basis.

	<b>Three Months Ended June 30,</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Balance</b>	<b>Rate</b>	<b>Balance</b>	<b>Rate</b>
<b>Average Assets</b>				
FFELP Stafford and Other Student Loans	\$ 20,562	6.58%	\$ 20,673	4.63%
Consolidation Loans	52,201	6.47	43,531	5.11
Private Education Loans	7,961	11.77	6,376	7.98
Other loans	1,090	8.72	1,051	7.83
Cash and investments	8,867	5.67	5,206	4.24
<b>Total interest earning assets</b>	<b>90,681</b>	<b>6.91%</b>	<b>76,837</b>	<b>5.20%</b>
Non-interest earning assets	8,648		6,627	
<b>Total assets</b>	<b>\$ 99,329</b>		<b>\$ 83,464</b>	
<b>Average Liabilities and Stockholders Equity</b>				
Short-term borrowings	\$ 4,393	5.07%	\$ 5,308	3.63%
Long-term borrowings	87,364	5.27	71,673	3.45
<b>Total interest bearing liabilities</b>	<b>91,757</b>	<b>5.26%</b>	<b>76,981</b>	<b>3.46%</b>
Non-interest bearing liabilities	3,501		3,309	
Stockholders equity	4,071		3,174	
<b>Total liabilities and stockholders equity</b>	<b>\$ 99,329</b>		<b>\$ 83,464</b>	
<b>Net interest margin</b>		<b>1.58%</b>		<b>1.73%</b>

	<b>Six Months Ended June 30,</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Balance</b>	<b>Rate</b>	<b>Balance</b>	<b>Rate</b>
<b>Average Assets</b>				
FFELP Stafford and Other Student Loans	\$ 20,045	6.39%	\$ 19,604	4.42%
Consolidation Loans	53,251	6.30	43,204	4.96
Private Education Loans	8,485	11.29	6,321	8.18

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Other loans	1,131	8.42	1,074	7.74
Cash and investments	7,959	5.61	6,473	3.65
<b>Total interest earning assets</b>	<b>90,871</b>	<b>6.75%</b>	<b>76,676</b>	<b>5.02%</b>
Non-interest earning assets	8,307		6,507	
<b>Total assets</b>	<b>\$ 99,178</b>		<b>\$ 83,183</b>	
<b>Average Liabilities and Stockholders Equity</b>				
Short-term borrowings	\$ 4,284	4.93%	\$ 4,388	3.59%
Long-term borrowings	87,346	5.06	72,461	3.20
<b>Total interest bearing liabilities</b>	<b>91,630</b>	<b>5.05%</b>	<b>76,849</b>	<b>3.22%</b>
Non-interest bearing liabilities	3,600		3,267	
Stockholders equity	3,948		3,067	
<b>Total liabilities and stockholders equity</b>	<b>\$ 99,178</b>		<b>\$ 83,183</b>	
<b>Net interest margin</b>		<b>1.65%</b>		<b>1.78%</b>

**Rate/ Volume Analysis**

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

	Taxable Equivalent Increase (Decrease)	Increase (Decrease) Attributable to Change in	
		Rate	Volume
<b>Three months ended June 30, 2006 vs. three months ended June 30, 2005</b>			
Taxable equivalent interest income	\$ 567	\$ 386	\$ 181
Interest expense	540	413	127
Taxable equivalent net interest income	\$ 27	\$ (27)	\$ 54

	Taxable Equivalent Increase (Decrease)	Increase (Decrease) Attributable to Change in	
		Rate	Volume
<b>Six months ended June 30, 2006 vs. six months ended June 30, 2005</b>			
Taxable equivalent interest income	\$ 1,135	\$ 761	\$ 374
Interest expense	1,068	834	234
Taxable equivalent net interest income	\$ 67	\$ (73)	\$ 140

The decrease in the net interest margin for both the three and six months ended June 30, 2006 versus the year-ago periods is primarily due to fluctuations in the student loan spread as discussed under *Student Loan Spread Student Loan Spread Analysis On-Balance Sheet*, and to the build-up of funding in anticipation of record Consolidation Loan activity as at the end of the second quarter, borrowers locked in lower interest rates before the July 1 reset on FFELP Stafford loans.

**Student Loans**

For both federally insured and Private Education Loans, we account for premiums paid, discounts received and certain origination costs incurred on the origination and acquisition of student loans in accordance with SFAS No. 91,

Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases. The unamortized portion of the premiums and discounts is included in the carrying value of the student loan on the consolidated balance sheet. We recognize income on our student loan portfolio based on the expected yield of the student loan after giving effect to the amortization of purchase premiums and the accretion of student loan discounts, as well as interest rate reductions and rebates expected to be earned through Borrower Benefits programs. Discounts on Private Education Loans are deferred and accreted to income over the lives of the student loans. In the table below, this accretion of discounts is netted with the amortization of the premiums.

**Student Loan Spread**

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

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

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

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

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

funding and hedging costs.

The student loan spread is highly susceptible to liquidity, funding and interest rate risk. These risks are discussed separately in our 2005 Annual Report on Form 10-K at LIQUIDITY AND CAPITAL RESOURCES and in the RISK FACTORS discussion.

***Student Loan Spread Analysis On-Balance Sheet***

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

<b>Three Months</b>		<b>Six Months</b>	
<b>Ended</b>		<b>Ended</b>	
<b>June 30,</b>		<b>June 30,</b>	
<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>

**On-Balance Sheet**

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